APPENDIX "F"
FINANCIAL TRENDS MONITORING SYSTEM

Note to the reader:

The County of Henrico compiles the Financial Trend Monitoring System (Trends) annually as a means of reviewing historical financial and demographic data prior to composing the annual budget. In completing the Trends document, an extensive review of the County's financial history over the preceding eleven fiscal years is performed using a series of twenty-eight key economic, demographic, and budgetary factors. By reviewing historical actuals over an extensive period of time, long ago forgotten financial impacts may be reviewed for validity to current economic conditions and variables. This marks the twenty-fifth year of this financial trend analysis.

Completing the Trends document is one of the first steps in Henrico County's annual budgetary process. The findings that emerge from this review form the foundation on which budget recommendations are planned and created. The County Manager presents the final Trends Document to the Board of Supervisors prior to the recommended operating and capital budgets. This provides the Board the opportunity to undertake an extensive review of the data, allowing them to make the sort of informed and proactive decisions that have led to Henrico's premier reputation for planning and financial management.

The Trends document is included in the County's Approved Annual Fiscal Plan to provide the reader with a historical perspective, and thus a more full understanding of the economic, demographic and financial factors that have been accounted for in the process of approving this document.

What follows is a reproduction of the original Trends document that was presented by the County Manager to the Board of Supervisors on February 25, 2014.

THE FINANCIAL TREND MONITORING SYSTEM

Financial Condition

Financial condition is broadly defined as the ability of a locality to maintain existing service levels, withstand local and regional economic disruptions, and meet the demands of natural growth, decline, and change.

The ability to maintain existing service levels means more than the ability to pay for services currently being provided. It also means the ability to maintain programs in the future that are currently funded from external sources such as state or federal grants where the support is likely to diminish, and where the service cannot practically be eliminated when the funds do disappear. It also includes the ability to maintain capital facilities, such as roads and buildings, in a manner that would protect the initial investment in them and keep them in usable condition. Finally, it includes the ability to provide funds for future liabilities that may currently be unfunded, such as pension, employee leave, and debt commitments.

The ability to withstand local, regional, and national economic disruptions is also important because these disruptions may have a major impact on the businesses and individuals who live and work in the locality, and therefore impact the locality's ability to generate new local tax dollars.

This leads to the third component of the definition of financial condition, which is **the ability to meet the future demands of change**. As time passes, localities grow, shrink or stay the same size. Each condition has its own set of financial pressures. Growth, for example, can force a locality to rapidly assume new debt to finance roads and public facilities, or it can cause a sudden increase in the operating budget to provide necessary services. Shrinkage, on the other hand, leaves a locality with the same number of roads and public facilities to maintain but with fewer people to pay for them.

The Financial Trend Monitoring System

The Financial Trend Monitoring System (FTMS), adapted from the system developed by the International City/County Management Association (ICMA), "identifies the factors that affect financial condition and arranges them in a rational order so that they can be more easily analyzed and measured." It is a management tool that pulls together the pertinent information from the County's budgetary and financial reports, mixes it with the appropriate economic and demographic data, and creates a series of local government financial indicators that, when plotted over a period of time, can be used to monitor changes in financial condition. The financial indicators include such things as cash liquidity, level of business activities, changes in fund balance, and external revenue dependencies. This system can also assist the Board of Supervisors in setting long-range policy priorities and can provide a logical way of introducing long-range considerations into the annual budget process. The following discussion has been developed using the ICMA manual entitled Evaluating Financial Condition, A Handbook for Local Government.

The FTMS is built on twelve overall "factors" that represent the primary forces that influence financial condition (see Chart 1). These financial condition factors are then associated with twenty-eight "indicators" that measure different aspects of these factors. Once developed, these can be used to monitor changes in the factors, or more importantly, to monitor changes in financial condition. Each factor is classified as an environmental factor, an organizational factor or a financial factor.

The **environmental factors** affect a locality in two ways. First, they create demands. Second, they provide resources. Underlying an analysis of the effect the environmental factors have on financial condition is the question: “Do they provide enough resources to pay for the demands they make?"

The **organizational factors** are the responses the government makes to changes in the environmental factors. It may be assumed in theory that any government can remain in good financial condition if it makes the proper organizational response to adverse conditions by reducing services, increasing efficiency, raising taxes, or taking some other appropriate action. This assumes that public officials have enough notice of the problem, understand its nature and magnitude, know what to do and are willing to do it. Underlying an analysis of the effects the organizational factors have on financial condition is the question: "Do legislative policies and management practices provide the opportunity to make the appropriate response to changes in the environment?"

The **financial factors** reflect the condition of the government's internal finances. In some respects they are a result of the influence of the environmental and organizational factors. If the environment makes greater demands than resources provided and if the County is not effective in making a balanced response, the financial factors would eventually show signs of cash or budgetary problems. In analyzing the effect financial factors have on financial condition, the underlying question is: "Is government paying the full cost of operating without postponing costs to a future period when revenues may not be available to pay these costs?"

Financial Indicators

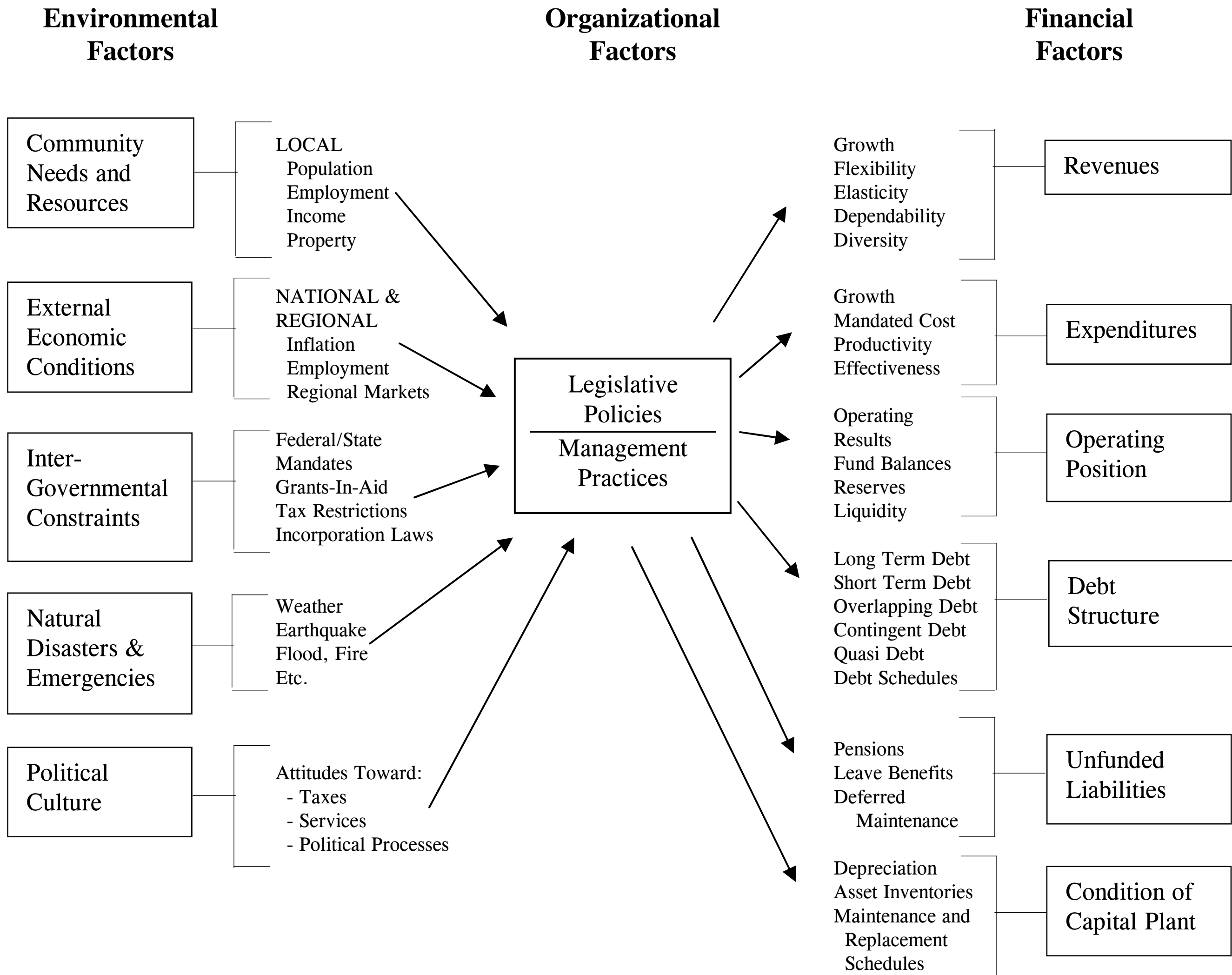
The financial indicators are the primary tools of the Financial Trend Monitoring System. They represent a way to quantify changes in the twelve factors. The chart on page 4 shows the twenty-eight indicators along with the factors with which they are associated. Many aspects of financial condition cannot be measured explicitly; however, by quantifying twenty-eight indicators and plotting them over a period of eleven years, decision makers can begin to monitor and evaluate the County's financial performance. The use of these indicators will not provide answers to why a problem is occurring or what the appropriate solution is, but it may provide the opportunity to make an informed management response.

How to Use This Document

Twenty-eight indicators have been selected for use in monitoring Henrico County's financial condition. They are displayed graphically on the following pages. These indicators were chosen based upon the availability of data and their appropriateness for Henrico County. The indicators selected are grouped by the seven financial factors as illustrated on page 4. The remainder of this document, in fact, is structured into seven sections, one for each of the seven factors. Appendix A provides the raw data used to develop the graphs. Appendix B provides a list of the Economic Data Sources used in the analysis.

Chart 1

Financial Condition Factors



Source: Evaluating Financial Condition, A Handbook for Local Government International City/County Management Association

FINANCIAL INDICATORS

(Those <u>underlined</u> denote warning trends)

REVENUES
- <u>Revenues Per Capita</u>
- <u>Intergovernmental Revenues</u>
- Elastic Operating Revenues
- <u>General Property Tax Revenues</u>
- Uncollected Current Property Taxes
- User Charge Coverage
- <u>Revenue Shortfalls</u>

EXPENDITURES
- <u>Expenditures Per Capita</u>
- Employees Per Capita
- <u>Fringe Benefits</u>

OPERATING POSITION
- <u>Operating Surpluses</u>
- <u>Enterprise Losses</u>
- <u>General Fund Unrestricted Balances</u>
- Liquidity

DEBT STRUCTURE
- Current Liabilities
- Long-Term Debt
- Debt Service

EMPLOYEE LEAVE
- Accumulated Vacation Leave

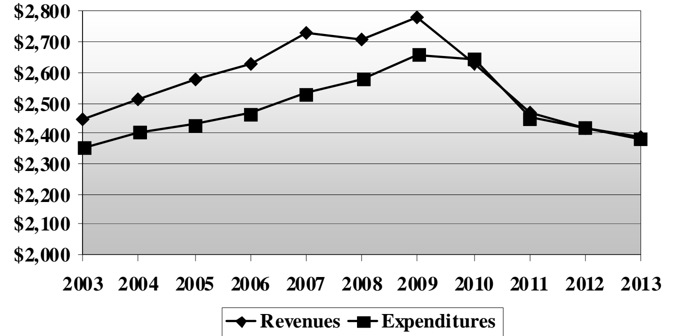
CONDITION OF CAPITAL PLANT
- <u>Level of Capital Outlay</u>
- Depreciation

COMMUNITY NEEDS & RESOURCES
- Population
- Per Capita Income
- <u>Public Assistance Recipients</u>
- <u>Real Property Values</u>
- <u>Residential Development</u>
- <u>Employment Base</u>
- Business Activity - <u>Local Retail Sales Tax Receipts</u> and Business License Tax Receipts
- Business Activity - Commercial Acres and Market Value of Business Property

WARNING TREND: Decreasing net operating revenues per capita (constant dollars). Increasing net operating expenditures per capita (constant dollars).

Formula:

$$\frac{\textit{Net Operating Revenues/Expenditures}}{\textit{Population}}$$



Revenues and Expenditures Per Capita:
These indicators depict how revenues and expenditures are changing relative to changes in the level of population and inflation. As the population increases, it might be expected that the need for services would increase proportionately; therefore, the level of per capita revenues should remain at least constant in real terms. If per capita revenues are decreasing, it could be expected that the locality would be unable to maintain existing service levels unless it were to find new revenue sources or ways to save money. Increasing per capita expenditures can indicate that the cost of providing services is greater than the community's ability to pay, especially if spending is increasing faster than the community's personal income or other relevant tax base.

Trends:
This indicator considers "Net Operating Revenues/Expenditures" to be revenues and expenditures (on a constant dollar basis) from the General, Special Revenue, and Debt Service funds. Because this indicator combines these operating funds, the representation is somewhat different than those made in the Annual Fiscal Plan, which is fund specific when examining revenue and expenditure growth. Before FY10, the County had seen one year of decrease in per capital revenues during the tracking of this indicator (FY08), which dates back to FY1982. However, since FY10 the County has experienced four consecutive years of declines. In FY10, per capita revenues (in constant dollars) declined 5.5 percent from the previous fiscal year to $2,627; in FY11 they dropped again to $2,464, a decline of 6.2 percent; they dropped for the third consecutive year in FY12, to $2,415, a decline of 2.0 percent; and in FY13 they again declined to $2,387, a drop of 1.1 percent. From FY09 (the indicator's peak) to FY13, per capita revenues (in constant dollars) have declined 14.1 percent. Viewed another way, FY13 per capita revenues (constant dollars) of $2,387 are less than those collected in FY03 – ten fiscal years ago.

Per capita expenditures (in constant dollars) increased from $2,222 to $2,659, or 13.0 percent from FY03 to FY09, before falling four consecutive fiscal years from FY10 to FY13 as a result of targeted expenditure reductions, described in greater detail below. In FY10, per capita expenditures (constant dollars) dropped 0.6 percent to $2,642, dropped another 7.2 percent in FY11, declined another 1.4 percent in FY12, and declined 1.6 percent FY13, the most recent fiscal year. From FY09 to FY13, per capita expenditures (constant dollars) have declined 10.5 percent. Similar to per capita revenues (constant dollars) as noted above, FY13 per capita expenditures (constant dollars) of $2,379 are also nearly equivalent to the same figure achieved in FY03. It should be noted that this decline in expenditures does not capture expenditures that have been "absorbed" during this most recent economic downturn through numerous recognized operating efficiencies. During this eleven-year period, the County's population increased by 15.8 percent.

In examining the data, a number of distinct trends are evident. First, from FY04 to FY07, the County's per capita revenues outpaced per capita expenditures. In looking back over this time period, economic prosperity resulted in healthy revenue growth, while the County's financial plans intentionally minimized incremental

expenditure growth. This is important in that expenditure controls have ensured the County's operating budgets did not outpace available resources. By minimizing incremental expenditures, the County was afforded the ability to forecast revenues conservatively. The benefits of this practice were realized in FY08, as County resources were able to keep pace with a number of significant fixed cost increases despite a slowing economy and accompanying slowing revenue growth. Per capita revenues (in constant dollars) in FY08 declined for the first time. On the expense side, fixed costs increased significantly, mostly due to soaring energy prices - notably the costs of gasoline, diesel fuel, electricity, and heating costs (natural gas).

From FY09 to FY13, revenues per capita dropped significantly due to the economic downturn, and expenditures per capita were reduced to accommodate the loss in revenue. In anticipation of a slow economic recovery, or economic "new normal," a number of expense reduction initiatives have been implemented that have allowed the County to reduce overall expenses by more than $115 million over the past four years, including the elimination, freezing, or unfunding of more than 640 positions Countywide.

In the most recent fiscal year, FY13, there once again were declines in both expenditures and revenues on a per capita basis and while per capita revenues exceeded expenditures, the County saw its smallest operating surplus since FY1982 at $336,000 and experienced an overall reduction in General Fund Balances of $24.1 million, which is the largest drop in fund balance since the tracking of indicators started. Per capita revenues decreased 1.2 percent in FY13 while per capita expenditures decreased 1.6 percent.

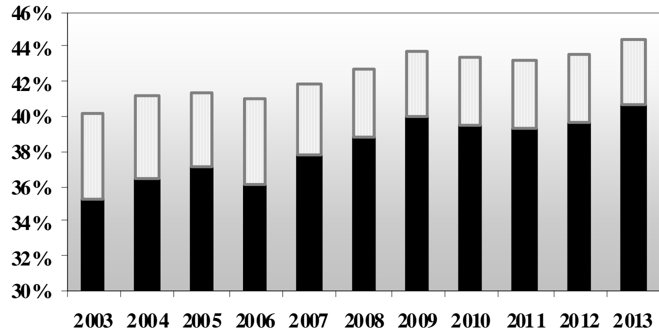
As the County slowly emerges from the depths of this past recessionary economic environment, pockets of positive local economic data provide a cautiously optimistic outlook in regards to the County's local revenue streams. While these "positives" are encouraging, there is continued concern regarding real estate tax revenue and aid from the Commonwealth of Virginia, which combined represent two thirds of the County's General Fund revenues These concerns are coupled with a number of additional fixed cost increases the County has absorbed over the past four fiscal years. Fixed cost increases coupled with little revenue growth requires further expenditure reductions. In response, a number of vacant positions have been unfunded or eliminated, across-the-board operating reductions were applied to all County agencies, and a number of other targeted expenditure reductions were implemented.

Some of the reductions that have been made over the past four fiscal years, such as the utilization of one-time resources to fund vehicle and technology replacements, have created a structural imbalance that, if left unaddressed, will not allow the County to provide the services its citizens have come to expect. The goal of the FY15 budget is to bring back fiscal structure by allocating ongoing resources to these areas that have been funded with one-time resources. While, as mentioned before, there are some positive signs within local revenues, real estate assessments are not expected to grow much past 3.0 percent and State revenues, outside of Education, will remain stagnant in the short term due to other funding priorities of the General Assembly. With revenue growth limited and restoring budgetary structure being paramount for the fiscal health of the County, a warning trend remains for this indicator.

WARNING TREND: Increasing amount of intergovernmental operating revenues as a percentage of gross operating revenues.

Formula:

$$\frac{\textit{Intergovernmental Operating Revenues}}{\textit{Gross Operating Revenues}}$$



Intergovernmental Revenues:
Intergovernmental revenues are those revenues received from other governmental entities. The sources of intergovernmental revenue in Henrico County include revenue from the Commonwealth of Virginia and the Federal Government. For example, in the General Fund the County receives a portion of the State Gasoline Tax revenue it generates for street maintenance and construction, as well as State and Federal revenue for schools, social services and a partial reimbursement from the State Compensation Board for salaries and office expenses for Constitutional Officers. In the Special Revenue Fund, the County receives State and Federal revenue for various grant programs for schools, mental health and public safety. Much of this intergovernmental revenue is restricted revenue, and therefore legally earmarked for a specific use as required by State and Federal law or grant requirements. Beginning in 1999, personal property tax payments paid by the State under the Personal Property Tax Relief Act (PPTRA) have been classified as intergovernmental revenues even though the assessment function is performed at the local level. In the graph above, PPTRA revenues appear as the top stacked bar.

An over dependence on intergovernmental revenues can have an adverse impact on financial condition. The "strings" that the external source attaches to these revenues may prove too costly, especially if these conditions are changed in the future after the locality has developed a dependence on the program. In addition, the external source may withdraw the funds and leave the locality with the dilemma of cutting programs or paying for them with General Fund resources.

Trends:
As the graph above indicates, Henrico County's intergovernmental revenues as a percentage of operating revenues have increased from 40.2 percent in FY03 to 44.5 percent in FY13, although as is described below, this increase is somewhat misleading. The peak in this indicator is FY13 and largely arises from additional State Aid for local education combined with reductions in local revenues, primarily real estate. As mentioned above, the State began reimbursing localities under the PPTRA in FY00. The graph above delineates between PPTRA reimbursements and all other intergovernmental revenues. The total bars reflect all intergovernmental revenues, while the lower stacked bars exclude the effects of PPTRA payments.

While intergovernmental revenue has increased substantially over the eleven year period examined, there are two distinct patterns that need to be noted, as the increase is largely misleading. In FY00, discretionary State lottery funds were made available for Education and totaled $5.0 million. Through FY09, Henrico used these funds exclusively for Education construction projects. This decision was based on the premise that, if in the future, the State reduced lottery funds for Education - the County's operating budget would not be impacted in a negative manner. As such, an operational dependence was not created for this revenue source. The significance of this decision was realized in FY10, as lottery funds were significantly reduced to $3.2 million from $5.7 million received the previous fiscal year. In FY11, the entire discretionary allocation of lottery funds was eliminated, as the State began utilizing lottery proceeds to supplant reductions to specific Education programs formerly funded

with General Fund dollars.

It should also be noted that in FY00, House Bill (HB) #599 funds for police were "unfrozen" from levels that had remained constant since FY92. In the eight years between FY92 and FY99, this revenue remained at a "frozen" level of $2.3 million per annum. The HB #599 payments were increased to $6.3 million in FY00 (based on the original HB #599 funding formula), thereby impacting this indicator. Henrico utilizes the HB #599 funds for operational enhancements and capital projects for police. Since FY08, when HB #599 funding to the County reached its peak of $10.1 million, the State cut this funding source by 20.6 percent through FY12, creating additional pressure on local revenues.

The second trend reflects the reclassification of prior local revenues as "state" revenues, and while overall State aid looks like it increased from FY06 through FY09, the increase is somewhat misleading. One example that depicts why these increases are misleading is **legislation that replaced four local revenue sources** with a monthly payment from the State Department of Taxation, known as HB #568 Communication Sales & Use Tax, which became effective January 1, 2007 and was supposed to be "revenue neutral." The following local revenue sources were replaced: Consumer Utility Tax, Cable TV Franchise Fee, Cellular Telephone Tax, and E-911 Tax. This legislation distributes funding using a formula that has impacted Henrico's receipts, and has not proved to be revenue neutral as assumed in the legislation. The State deducts an administrative fee from the revenue collections and redistributes the funding monthly to localities as a fixed percentage of State-wide collections, which was established by FY06 local collection levels. This is noted because it represents an example of the State's continued forays into issues of local taxing authority. This concern of State involvement in local revenues continues to be noted as a concern, as it is a significant wildcard in the County's multi-year financial planning efforts.

As mentioned, creating a dependency on a revenue source not controlled locally may create fiscal difficulties if that revenue source is altered. This is exactly what has occurred with the PPTRA revenue paid by the State. In FY00, the Virginia General Assembly made a commitment to reimburse localities for a State tax reduction of a local revenue source (individual personal property). Since FY00, the County of Henrico has built a dependency on this revenue source and the prior ten Trends documents have included a warning for this indicator. PPTRA payments since FY00 reflect the following:

Fiscal Year	PPTRA Payment
FY00	$4.3 million
FY01	$25.1 million
FY02	$33.9 million
FY03	$33.6 million
FY04	$34.1 million
FY05	$33.3 million
FY06	$42.1 million
FY07	$37.2 million
FY08 – FY13	$37.0 million

From FY01 through FY07, PPTRA payments constituted between 4.0 and 5.0 percent of all operating revenues received by the County. In each fiscal year from FY08 through FY13, PPTRA payments made up less than 4.0 percent of all operating revenues to the County.

In the 2004 session of the Virginia General Assembly, the legislature made a materially adverse change to PPTRA payments – effective for FY06. The legislature capped the State's PPTRA payments to localities at approximately $950.0 million and uses a pro-rata distribution mechanism for making these payments in the future. In essence, what that means is that Henrico's PPTRA reimbursements from the State will remain at a

level amount in the future, while the taxpayer portion will once again increase and the taxpayer will be required to pay more to the County. The State's promise of maintaining reimbursement levels at 70.0 percent for the County's taxpayers slipped to 58.0 percent in 2013. As noted earlier, the differential is paid by the County's taxpayers.

In December 2009, outgoing Governor Tim Kaine's 2010-2012 Proposed Budget recommended the elimination of the vehicle personal property tax altogether, including the State's PPTRA payments to localities as a means to offset the State's budget shortfall. Governor Kaine recommended a 1.0 percent income tax surcharge to be dedicated to localities to make up for the loss of revenue to localities from the elimination of vehicle personal property tax revenue. The bill was swiftly voted down by the House of Delegates due to its increasing of taxes; however, the subject will certainly arise again in the future due to the $950 million price tag to the State.

From FY08 through FY11, the State cut billions of dollars from its budgets, most of which resulted in reductions in State aid to localities. In fact, from FY08 through FY11, the State reduced aid to Henrico County by more than $46.0 million in the General Fund alone, most of which was targeted at State aid for Education. In addition, the County received more than $28 million in one-time ARRA – Federal Stimulus funds from the State from FY09 through FY11, used by the State to supplant payments to localities for Education, the Sheriff's Office, and Social Services to offset State General Fund reductions. FY11 was the last year that ARRA – Federal Stimulus funds could be utilized by the State, and in FY12, the State was forced to identify revenue increment to cover the loss of one-time funds.

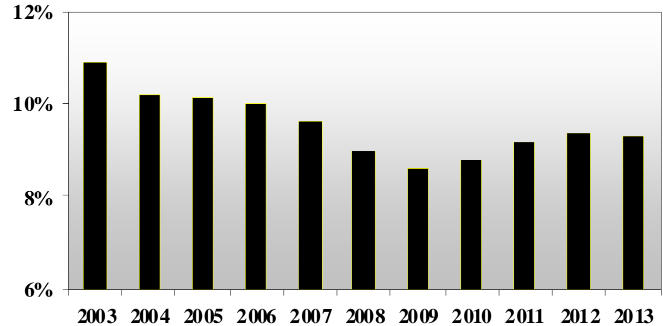
With the State's fiscal outlook improving slightly in FY12 and FY13, aid to localities has increased in both fiscal years, particularly in the area of Education – though levels of funding remain less than the County received in FY09. Additional revenue was identified by the General Assembly in FY14 and accounted for the bulk of the identified General Fund revenue increment in the FY14 budget. Currently, FY15 estimates are projected to increase, but the majority of this increased is earmarked for Public Works and Education. Public Works is estimated to receive approximately $10.0 million in additional Gasoline Tax revenues due to the transportation bill passed during the 2013 Legislative Session. Education is estimated to receive $6.5 million in additional State revenues based on rebenchmarking the Standards of Quality funding.

Local revenues are beginning to recover, but any gains in the near future will be modest at best. For this reason, the County's dependency on State revenues has never been greater. In fact, in the FY14 budget, this indicator is rising from 44.6 percent to 45.1 percent. It is anticipated this indicator will continue to remain uncomfortably high for the foreseeable future. Therefore, a warning trend continues.

WARNING TREND: Decreasing (or unplanned) amount of elastic operating revenues as a percentage of net operating revenues.

Formula:

$$\frac{\textit{Elastic Operating Revenues}}{\textit{Net Operating Revenues}}$$



Elastic Operating Revenues:
Elastic operating revenues are those that are highly responsive to changes in the economic base and inflation. The highly elastic revenue categories used for this indicator are: local sales and use taxes; business and professional license taxes; and structure and equipment permit fees. In the future if the Board of Supervisors approves it, this indicator will also include collections of the food and beverage tax, more commonly known as a "meals tax".

It is to a locality's advantage to have a balance between elastic and inelastic revenues to mitigate the effects of economic growth or decline. The relationship between elastic revenues and total receipts is largely driven by consumer consumption. During an economic downturn, elastic revenues are expected to decrease as a percentage of net operating revenues.

Trends:
The graph shown above indicates that the percentage of elastic tax revenues for Henrico County have decreased from a high of 10.9 percent of operating revenues in FY03 to a low of 8.6 percent in FY09. In this time period, there have only been three actual decreases in the amount of elastic tax revenues collected, in FY08, FY09, and FY10, as a result of the recent economic downturn. Elastic revenues, in total, increased 3.5 percent in FY11, 2.2 percent in FY12, and 1.1 percent in FY13 - one of the few positives in Henrico County's revenue picture.

As a result of economic expansion from FY93 through FY01, the Board of Supervisors implemented a Business and Professional License Tax (BPOL) reduction strategy as a means of encouraging more businesses to locate in Henrico County. That strategy was first implemented by the Board of Supervisors in January 1996 and was phased in over a period of years. By January 2000, this tax reduction strategy fully exempted the first $100,000 in gross receipts from taxation for County businesses and established a uniform maximum tax rate of $.20/$100 for County businesses. While the tax reduction did impact this indicator, it has had two beneficial impacts. First, due to the phase-in of the Board's BPOL tax reduction strategy, <u>Henrico reduced its operating reliance on these elastic revenues</u> prior to the actual recession of FY02. Second, <u>commercial taxpayers do not require the same service levels as residential taxpayers</u>, so a net benefit to the County's revenues has been achieved by attracting more businesses to Henrico.

A synopsis of these receipts is warranted. In FY03, the County's elastic revenues increased by 6.3 percent as the economy began improving from the recessionary environment of FY02. In FY04, these revenues increased by another 1.6 percent and FY05 actual receipts increased by 6.3 percent. FY06 data reflects receipts of $85.2 million, which is a 7.6 percent increase over FY05. FY07 data reflects receipts of $89.3 million which is a 4.8 percent increase over the prior fiscal year.

In correlation with the beginning of the most recent recessionary economic environment, FY08 receipts declined 1.9 percent to $87.6 million. This trend continued into FY09 with a 1.7 percent decrease from the previous fiscal year, and again in FY10 with a 2.2 percent reduction in collections. In the four years from FY07 to FY10, gross local sales & use tax receipts declined 5.4 percent, BPOL collections declined 12.4 percent, and structure and equipment permit revenues declined 53.4 percent. Due to significant declines in real estate tax collections and aid from the Commonwealth, elastic tax revenues, as a percentage of net operating revenues, have increased every year since FY09, from 8.6 percent in FY09 to 9.4 percent in FY12.

As noted above, FY11 elastic revenues increased 3.5 percent from the previous fiscal year, the first year-over-year growth since FY07. In fact, elastic revenues were one of the few bright spots in overall revenue collections for the fiscal year, resulting in an increase in this indicator to 9.2 percent. Specifically, gross sales and use tax receipts increased 4.7 percent; BPOL collections increased for the first time since FY07, albeit at less than one percent; and structure and equipment permit revenues increased 15.9 percent. Elastic revenue growth of 2.2 percent in FY12 is due to 3.7 percent growth in BPOL tax receipts, 1.0 percent growth in sales and use tax receipts, and 17.5 percent growth in structure and equipment permits. Elastic revenue collections in FY13 did reflect an increase, however at a lower percentage than the previous two years at 1.1 percent. This increase was the result of a 3.5 percent increase in BPOL tax receipts as sales and use tax and structure and equipment permit fees decreased from FY12 collections.

In looking at the time period examined, the overall trend reflects a reduction in operational reliance from these elastic revenue sources, despite overall growth in these revenues of 22.9 percent during the period. It should be noted the last three years, while not as high as the period from FY03 to FY07, the reliance on elastic revenues has increased as these revenues have been more positive than other local revenue areas, primarily real estate.

Another positive note, Henrico County ranked second among all localities in Virginia for total taxable sales in 2011, only behind the much larger Fairfax County. Refer to the chart below for comparisons to other localities.

2012 Virginia Taxable Sales

Total Taxable Sales are from February 1, 2012 to January 31, 2013

Rank	Locality	Total Taxable Sales	Population	Per Capita Sales
1	Fairfax County	14,110,999,526	1,112,325	12,686
2	Henrico County	5,041,671,069	314,881	16,011
3	Loudoun County	5,041,019,885	333,253	15,127
4	Virginia Beach City	4,946,894,714	447,489	11,055
5	Prince William County	4,882,471,729	421,164	11,593
6	Chesterfield County	3,712,873,126	322,388	11,517
7	Arlington County	3,274,035,005	220,565	14,844
8	Chesapeake City	3,068,371,746	228,210	13,445
9	Norfolk City	2,646,234,819	245,803	10,766
10	Richmond City	2,401,304,200	208,834	11,499

Looking to the near future, pockets of positive local economic information indicate a “bottom” has likely been reached, though a slow recovery is expected. In FY13 the County experienced continued growth in BPOL collections; two other elastic revenue sources (not considered in this indicator), personal property tax collections and hotel/motel tax collections, are both experiencing continued growth. And while not an elastic revenue, the real estate market saw some improvement as January 1, 2014 valuations reflect a 2.8 percent increase in the overall tax base. While this increase is modest, it is much more positive than the 0.2 percent increase in 2013 and the three consecutive fiscal years of declines before 2013.

Unfortunately, sales tax receipts stagnated in FY13 with a slight decline (0.1 percent) and FY14 collections through February, which reflect sales through December, are down 2.5 percent when compared to FY13. In addition to the struggles with sales and use tax collections, the General Assembly continues to look into reforming the BPOL tax through changing the basis of the tax from gross receipts to net income of the business. Despite a report by the Joint Legislative Audit and Review Commission (JLARC) outlining the negative impacts and administrative difficulties with this change, a bill was introduced in the House of Delegates during the 2014 Legislative Session to impose this change. While this bill did not pass, this continues to be a subject that must be monitored during General Assembly sessions.

On a final note, in November, 2013 the voters in Henrico County approved a referendum question granting the Board of Supervisors the authority to impose up to a 4.0 percent tax on prepared meals, more commonly referred to as the meals tax. It is projected this tax, if approved by the Board of Supervisors, would generate $18.0 million in revenue that, as told to the voters, would be dedicated to Henrico County Public Schools to fund their operational and capital infrastructure needs. This revenue source would likely be included in this indicator in future years.

While elastic revenues do not reflect the percentage they were during the early part of this review period, improvements in the local economy combined with the recent weakness in the real estate market helped to increase the reliance on elastic revenues. While there are some spots of concern, notably sales tax receipts and the General Assembly's forays into local taxing authority, improving signs in the local economy combined with the possibility of a new local revenue source that has outperformed other sectors of the economy mitigate any concerns at this point. As such, no warning trend is warranted for the indicator.

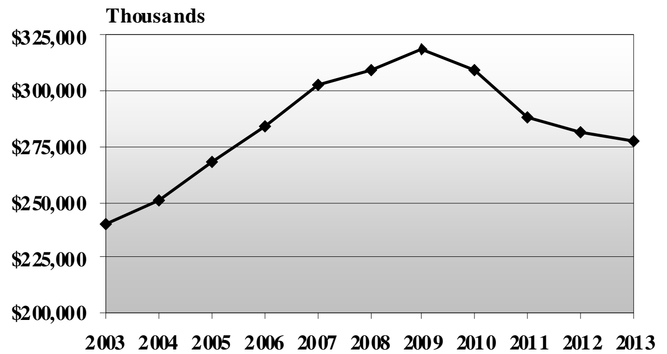
WARNING TREND: Decreasing or negative growth in general property tax revenues (constant dollars).

Formula:

Property Tax Revenues (Constant Dollars)

General Property Tax Revenue

(In Constant Dollars)



General Property Tax Revenues:
General property tax revenues in Henrico County include both current and delinquent real and personal property tax revenue levied and collected by the County. These revenues constitute Henrico County's largest local revenue category, representing 70.3 percent of total **local** operating revenue in Henrico County in FY13. It should be noted that beginning with FY99, the State's reimbursements of personal property tax revenues have been recorded as "intergovernmental" revenue. That is to say, the PPTRA revenue is not reflected on this indicator. This indicator does capture the "local" component of personal property – including the machinery and tools tax.

Trends:
Henrico County has experienced an overall healthy increase in general property tax revenues over the last eleven years. In unadjusted dollars, general property tax revenue has increased from $240.7 million in FY03 to $352.3 million in FY13. This represents an average annual increase of 4.2 percent in this eleven-year period.

Henrico's strong local economy and community of choice designation for new area residents and businesses have had a positive impact on the County's real property assessed valuations over the past eleven years. During this time period between CY03 and CY13, the County's unadjusted real estate tax base has increased by $11.2 billion. In this eleven year time period, it should also be noted that when looking at these property tax revenues and comparing them to total net revenues, a revealing pattern emerges. Beginning in 1999, personal property tax payments paid by the State under the Personal Property Tax Relief Act (PPTRA) have been classified as intergovernmental revenues even though the assessment function is performed at the local level. With the capping of PPTRA payments from the State beginning in FY06, property tax revenues as a percentage of net operating revenues increased from 36.9 percent in FY06 to 38.3 percent in FY10. This percentage dropped to 37.5 percent in FY11 and again to 36.9 percent in FY12 due to declines in real estate and personal property valuations. This percentage dropped to 36.5 percent in FY13, but this was due to growth in intergovernmental revenues while property tax revenues were stagnant.

Another observation from the graph worthy of discussion is the "leveling off" of general property tax revenue (in constant dollars) in FY08, the subsequent sharp uptick in FY09, and the sharp reductions from FY10 through FY12 with a less sharp reduction in FY13. In spite of the beginning of a recessionary economic environment, unadjusted property tax revenues actually increased a healthy 7.8 percent in FY08, though this growth was lower than growth experienced from FY05 to FY07 at 9.7 percent, 10.4 percent, and 9.3 percent, respectively. Also, inflation was registered at nearly 5.0 percent in FY08, easily the highest figure in the eleven year period examined, and impacting this indicator as calculations are in constant dollars.

Conversely, FY09 reflected a deflationary cycle, as unadjusted property tax revenues only increased 1.9 percent but in constant dollars property tax revenues increased 3.3 percent. Considering the depth of the recessionary

economic environment in FY09 – real estate valuations reflected, at the time, the lowest year-over-year increase on record, automobiles experienced valuation declines, and the largest property taxpayer in the County, Qimonda AG, closed its doors – it is quite an accomplishment that the County experienced an increase in property tax collections at all. In fact, the reason for this increase is twofold. First, tax increment financing associated with Short Pump Town Center, the most successful shopping center in the Metropolitan Richmond Area since it opened its doors in 2003, was completed with the final debt payment from the County during that year. As such, all County revenues associated with this development, including real estate tax and personal property tax revenues that previously were used to pay debt service, began depositing into County coffers in FY09. The second reason for the upswing in property tax collections in FY09 is the implementation of the "Henrico, VA" initiative, in which the majority of "Richmond, VA" addresses in Henrico County were changed to "Henrico, VA." This initiative was pursued because of revenue miscoding that misdirected millions of dollars in annual County revenue, including business personal property tax revenues, to the City of Richmond. Without the significant impact of Short Pump Town Center and the "Henrico, VA" initiative, the graph on the prior page would have shown a continued leveling off of general property tax revenue (in constant dollars) in FY09.

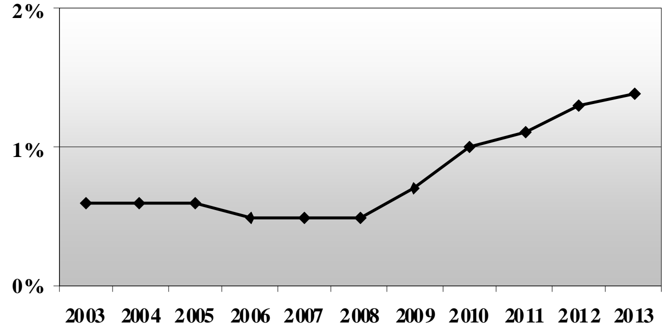
In FY10 and FY11, significant reductions in State aid to localities increased the reliance on property tax revenues. However, unadjusted property tax revenues dropped 2.0 percent in FY10, mostly due to real estate valuations declining 7.8 percent overall from January 1, 2009 through January 1, 2010. This reduction in real estate valuations, coupled with yet another overall decline in real estate valuations on January 1, 2011, resulted in unadjusted property tax revenues declining 3.8 percent in FY11. Further, January 1, 2012 real estate valuations reflected yet another decline in the overall real estate tax base of 3.3 percent, which had an adverse impact on property tax collections in FY12. After three consecutive years of overall valuation declines, January 1, 2013 values reflect a slight increase of 0.4 percent and overall valuation for January 1, 2014 reflect an increase of 2.8 percent.

Overall, the upward trend of the County's total tax base over this time period is a very positive trend. However, the number of properties that were foreclosed remains historically high, in combination with a historically high and continues to be a drag on the real estate tax base. As evidence by the 2.8 percent increase in property tax values, they are starting to rebound and show modest positive gains. However, all signs point to a very slow local economic recovery that continues to be fragile. As such, <u>a warning trend is noted for the foreseeable future</u>.

WARNING TREND: Increasing amount of current uncollected property taxes as a percentage of the current total property tax levy.

Formula:

$$\frac{\textit{Uncollected Current Property Taxes}}{\textit{Current Property Tax Levy}}$$



Uncollected Current Property Taxes:
Every year a certain percentage of current real and personal property taxes go uncollected because property owners are unable to pay them. As this percentage increases over time, it may be an indication of an overall decline in a locality's economic health. Bond rating agencies consider that a locality will normally be unable to collect between 2.0 to 3.0 percent of its property tax levy each year. If uncollected property taxes rise to more than 5.0 percent, rating agencies consider this to be a negative indicator that signals potential problems in the stability of the property tax base or is indicative of systemic problems with local tax collection efforts.

Trends:
As the graph above indicates, for this eleven-year period, Henrico County's percentage of current **uncollected** real and personal property taxes has ranged from 0.5 percent from FY06 through FY08, to 1.4 percent in the most recent fiscal year, FY13, the high point in the eleven years examined.

In looking at this indicator, a consistency in collections on the part of the County is depicted, as the range on the graph is within expected parameters. In the past several years, significant enhancements were made in the collection of delinquent real estate taxes. This, in part, can be attributed to Henrico's commitment to improving customer service by streamlining collection procedures and increasing payment options for County residents. In this time period, Henrico has implemented acceptance of payments by credit card over the telephone and via the internet, implemented acceptance of payments by debit and/or credit card in person, instituted a monthly debit program for personal and real property tax payments, continued to be more timely in collecting delinquent taxes and enhanced its collection processes. The results of these efforts can clearly be seen above. Between FY02 and FY05, this indicator measured at 0.6 percent before bottoming at 0.5 percent between FY06 and FY08. From FY09 to FY13, uncollected real and personal property taxes reflect the impacts of the recessionary economic environment and the toll it has had on the citizens of Henrico County and the local real estate market, as the percentage of current uncollected real and personal property taxes increased to 0.7 percent in FY09, 1.0 percent in FY10, 1.1 percent in FY11, 1.3 percent in FY12, and again to 1.4 percent in FY13. In 2008, the number of residential foreclosures increased 93.4 percent from 2007. In 2009, foreclosures increased another 37.6 percent, and in 2010 they increased yet another 50.8 percent. The numbers of foreclosures, while they have fallen by 24.0 percent from their peak in 2010, remain at historically elevated levels. With a growing number of homeowners in the County having trouble making their mortgage payments, an increase in uncollected tax payments is expected.

One ancillary fact that needs to be mentioned is that the County's top ten "Principal Taxpayers" continued to constitute a large percentage of the tax base in FY13, at 6.5 percent. This is an important note for this indicator due to the fact that collections of current taxes from the "Principle Taxpayers" of a locality are generally made in the year they are due.

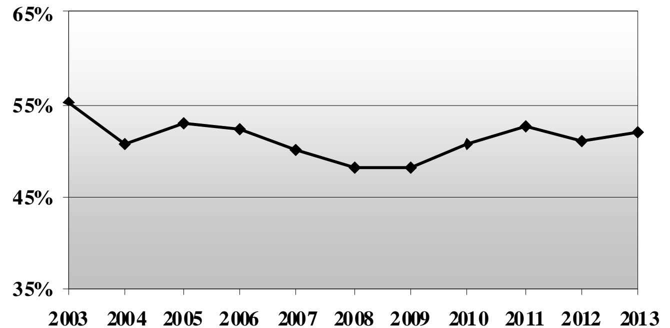
In looking at this indicator over the eleven-year time period, a peak is depicted in FY13. However, even at its peak, uncollected current property taxes as a percent of the total levy measured 1.4 percent, well below the 5.0 percent level that Bond Rating agencies consider negative.

Due to enhancements made in the collections area in the past several years, it is not anticipated that this indicator will reach the 5.0 percent threshold, though it could increase from current levels. Despite FY13 representing the fifth consecutive year this indicator has realized an increase, no long term warning trend is noted for this indicator. However, future increases in this indicator could warrant a change in this status.

WARNING TREND: Decreasing revenues from user charges as a percentage of total expenditures for providing related service.

Formula:

$$\frac{\textit{Revenues from User Charges}}{\textit{Expenditures for Related Services}}$$



User Charge Coverage:
User charge coverage refers to whether or not fees and charges cover the full cost of providing a service. Henrico County charges fees for the employee cafeteria, recreation activities, and building permits in the General Fund. In the Special Revenue Fund there are fees for the school cafeteria, mental health services, street lighting, and solid waste services. As coverage declines, the burden on other revenues to support these services increases. Inflation will erode the user charge coverage if not reviewed and amended periodically. Therefore, costs and fees should be reviewed frequently to ensure that the desired level of coverage is maintained.

Trends:
As shown in the graph, the user charge coverage for the County has measured less than 56.0 percent for this eleven-year period, with a low of 48.0 percent occurring in FY08, and a high of 55.3 percent occurring in FY03. The indicator measures user coverage of seven specific expenditure areas. These are: Building Inspections, Employee Cafeteria, Mental Health, Recreation, Street Lighting, School Cafeteria and Solid Waste.

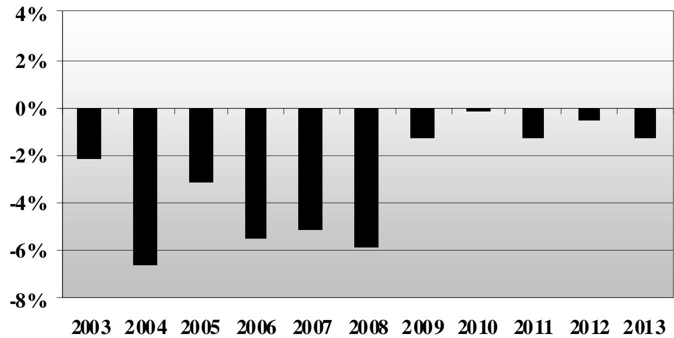
In looking at the larger operational components, the user charge coverage percentages for Building Inspections has typically been sufficient to cover the activities of that department. However, user charges as a percent of expenditures have fallen significantly in this economic downturn due to the significant drop in the number of permits issued in each fiscal year since FY07. In FY07, the user charge coverage percentage for Building Inspections was 99.9 percent, followed by 77.5 percent in FY08, 54.7 percent in FY09, and 48.5 percent in FY10. User charge coverage for Building Inspections increased to 54.1 percent in FY11, and again in FY12 to 65.1 percent, due to expenditure reductions made by the department and an increase in structure and equipment permit revenue collections in FY12. However, the user charge coverage for FY13 dropped to 61.2 percent because of a drop in permit fee collections. Mental Health's user charge coverage has actually increased over the eleven-year period from 35.3 percent to 42.3 percent due to third party fee payments made to that entity. The user charge coverage for Solid Waste has fluctuated, as in years where large capital expenditures are required for the landfill, operational revenues will not meet operational requirements. However, because Solid Waste has built up reserves for these occurrences, the operation has not been impacted in a negative manner. In looking at Recreation, the user charge coverage in this area has remained at approximately 5.0 percent throughout this time period. Also in this eleven-year time period, the School Cafeteria has typically generated sufficient revenues to cover operational requirements.

This indicator in the eleven-year period has averaged 51.2 percent. Excluding Recreation, the indicator has averaged 67.4 percent in the eleven-year period. As the local economy continues to slowly improve, associated revenues, particularly structure and equipment permit revenues, should improve as well. In addition, the FY14 budget included an increase in permit fees that also changed the fee structure to a flat fee system. The intent of the increase and structure change is to increase the coverage for the Building Inspections department. All departments Countywide continue to reduce expenditures by finding efficiencies in their respective operations. As such, no warning trend is noted for this indicator. The County will continue to maximize efforts to ensure coverage rates are appropriate to reduce reliance on other County revenues.

WARNING TREND: Increase in revenue shortfalls as a percentage of net operating revenues.

Formula:

$$\frac{\textit{Revenue Shortfalls}}{\textit{Net Operating Revenues}}$$



Revenue Shortfalls:
This financial indicator examines the differences between revenue estimates and revenues actually received. It includes revenues in the General, Special Revenue, and Debt Service funds. Major discrepancies in revenue estimates can be an indication of a declining economy, inefficient collection procedures, or inaccurate estimating techniques. On the graph above, the "0" represents the fiscal year budgeted estimates. A positive number reflects a revenue shortfall, while a negative number reflects a revenue surplus.

Trends:
The overall trend depicted above reveals that the County's revenues exceeded budget estimates for each of the eleven years analyzed.

In looking at this eleven-year period, this indicator peaked in FY04, when the budget to actual revenue variance reached 6.6 percent. The low points may be found in the four most recent fiscal years, FY09 through FY12, when the variances were 1.2 percent in FY09 and FY11, 0.2 percent in FY10 and 0.5 percent in FY12. In FY13, the variance crept back to 1.3 percent. While this is the fourth lowest amount in the eleven year period examined, it also is the largest revenue variance in the past 5 fiscal years. **In no case in this eleven-year time period did the County's actual revenues not meet budgeted estimates**.

Looking at the trend since FY02, the County's annual revenue variance has averaged 2.9 percent. The County of Henrico maintains a conservative posture when projecting revenues on an annual basis. In FY02 and FY03, the County experienced significant reductions in aid from the State of Virginia in a myriad of areas – the largest being Education. These reductions were the result of State budget shortfalls that came about due to the recession in 2001. By maintaining a conservative posture in the projection of revenues, the County was able to both weather the recession and maintain service levels in key areas, such as Education and Public Safety while continuing to expand needed infrastructure.

As noted earlier, the County's reliance on elastic revenues has decreased over the past eleven years and in the pages that follow, a depiction of the County's fund balance is positive. Because of the initiatives established by the Board of Supervisors over this time span - notably the capping of annual incremental expenditure growth and the decreasing reliance on elastic revenues - despite a struggling economy, the County has had the ability to continue to maintain a conservative revenue posture. In spite of the recessionary economic environment in FY08, the budget to actual revenue variance of 5.8 percent reflected the second highest level in this eleven-year period, only behind FY04, the first fiscal year after an economic recession. In FY09, with virtually every revenue source impacted by the recession, the variance between actual revenue collections and budget estimates narrowed significantly, as the revenue surplus of 1.2 percent reflects the third lowest surplus in the eleven-year period examined. Revenues contracted further in FY10, as the 0.2 percent revenue surplus reflects the lowest in the period examined. This surplus was achieved in spite of actual revenues (across the General Fund, Special Revenue Fund, and Debt Service Fund) declining $37.9 million in FY10 from the previous fiscal year.

Actual revenues declined another $16.1 million in FY11, yet the revenue surplus grew to 1.2 percent. In response to the revenue challenges, the County made a number of unprecedented budgetary decisions in FY11, including the elimination of 224 vacant positions (101 in General Government and 123 in Schools), implemented an anticipated "turnover rate," and made across-the-board budget reductions for the second consecutive fiscal year. These budgetary decisions were required to balance the budget, while maintaining the County's conservative approach to estimating revenues. In FY12, the revenue surplus dropped again, to 0.5 percent, mostly due to continued declines in real estate tax revenues and the significant decline in one-time Federal Stimulus – ARRA funding that had previously been utilized significantly by the State as a means of supplanting State General Fund support to localities. As revenues continue to grow slowly and fixed cost increases continue to increase, conservative revenue estimates have become more difficult to accomplish.

The FY13 budget development process began with a $53 million budget gap that had to be closed. In response, the County took unprecedented expenditure actions to reduce – namely utilizing a number of one-time resources to balance. These included the changing of the County's fund balance policy and using the increment to fund Police vehicles, Fire apparatus, and school buses, the utilization of $11.0 million in one-time resources to balance the budget for HCPS, and the use of Technology Replacement Fund balance for computer replacements. In addition to these unprecedented actions, the FY13 budget required revenue estimates that were more aggressive than the County is accustomed to. With that said, the County was able to achieve its highest revenue variance in five years at 1.3 percent, though it still was far less than the average of 4.7 percent in the first six years of this examination period.

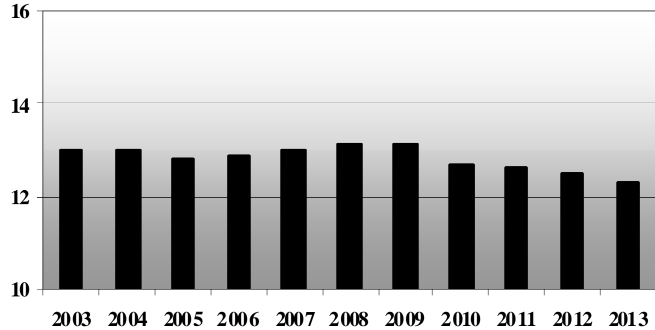
The FY14 budget was developed with aggressive revenue estimates for Henrico County, especially in the area of Education where every dollar that could be identified from the State was utilized to balance their budget. In addition to the aggressive estimates, which were required to close an $18.5 million budget gap, the use of one-time resources was continued though minimized. As of this writing, while there are some pockets of revenues that may miss estimates it is anticipated that Henrico will be able to once again exceed revenue estimates.

The development of the FY15 budget is proving difficult as the practices over the past two fiscal years must cease in order to maintain the County's fiscal house. Restoring this fiscal structure requires revenue growth in order to fund current operations with current revenues; therefore every source of revenue will have to be utilized. Until this fiscal structure can be reestablished, <u>a warning trend will continue</u>.

WARNING TREND: Increasing number of employees per capita.

Formula:

$$\frac{\text{Number of General Government Employees}}{\text{Population}}$$



Employees Per Capita:
Personnel costs reflect the major portion of a locality's operating budget, and plotting changes in the number of employees per capita is another way to measure changes in expenditures. An increase in employees per capita might indicate that expenditures are rising faster than revenues, or that the locality is becoming more labor intensive, or that personnel productivity is declining.

Trends:
The County's General Government personnel complement *(which does not include the personnel complement of the Henrico County Public Schools)* increased by 439 employees from FY03 to FY09, then dropping by 73 positions from FY10 to FY13. The graph above illustrates that the employees per 1,000 population generally measured around 13.0 employees per 1,000 population during the first seven years of the time period examined, with the peak at 13.1 in FY08 and FY09. Since FY09, this indicator has steadily dropped as the personnel complement decreased to 3,927 by FY11 and this indicator now measures 12.3, the lowest level in the eleven years examined.

The fiscal years FY06 through FY08 show slight annual increases in this indicator. In FY06, employees per 1,000 population increased to the average in this time period, 12.9. In FY07, this indicator increased to 13.0 employees, and FY08 reflected an increase to 13.1, the peak of this indicator, which remained consistent in FY09. In this time period, a number of new facilities approved in the March 2005 General Obligation Bond Referendum were fully staffed.

In October 2008, in response to a number of troubling economic indicators at that time, the County implemented a hiring freeze that impacted nearly all departments across the County. By FY10, the number of General Government vacant positions generated by the hiring freeze grew to more than 220. To assist in balancing the FY11 budget against significant revenue reductions, the County eliminated 101 of these vacant positions in FY10 and removed the funding for these positions in the FY11 budget. The result of this action is that the number of General Government employees per 1,000 population was reduced from 13.1 in FY09 to 12.7 in FY10, easily the largest year-over-year fluctuation in the time period examined. In the FY12 budget, 42 vacant positions were unfunded and removed from their respective departments to assist in balancing the budget. Of these 42 vacant positions, 21 were eliminated altogether, and the other 21 were placed into a hold complement, which continue to be counted in this indicator. With the elimination of 21 positions, this indicator dropped to 12.6 employees per 1,000 population. In FY12 and FY13, the number of positions remained constant to the number in FY11 at 3,927 positions, in spite of the increase in population. As such, the employees per capita indicator dropped again to 12.5 in FY12 and 12.3 in FY13. In fact, in order to find the last time Henrico had an employee to 1,000 population ratio as low as FY13 is FY1989.

The County's hiring freeze remains in place at this writing. The FY14 budget did not reduce the County's overall complement but instead took vacant positions from a myriad of departments to provide additional police

officers and a new fire medic unit. It is anticipated that this practice will become more common as revenues will have to be dedicated to restoring budgetary structure. In addition, the County estimates continued annual population growth going forward. As such, no warning trend is noted for this indicator.

Two notes are warranted for this indicator. First, the graph above does not exclude departments that offer specialized services not offered by most localities in the State. Henrico County is one of two Counties in the State that maintain their own roads, and the information above includes 254 employees in the Public Works department. This is because this trend analysis is not intended to be a comparable benchmark against other localities. Second, this indicator includes positions that are currently being held vacant as a result of the County's hiring freeze as well as positions that are in the County's hold complement, which is where vacant positions that are unfunded for budgetary reasons are held until a department can justify the need for a position. As of this writing, the County is holding 264 vacant positions, excluding the hold complement, which has 37 positions.

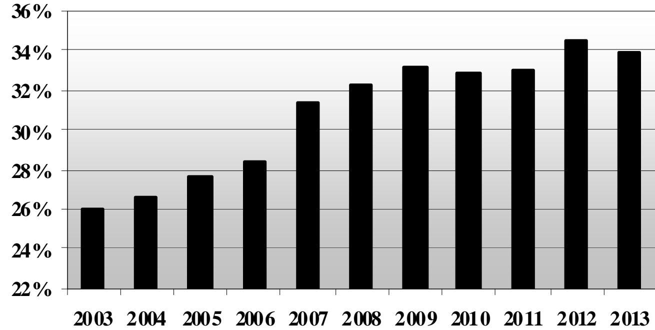
WARNING TREND: Increasing fringe benefit expenditures as a percentage of salaries and wages.

Formula:

$$\frac{\textit{Fringe Benefit Expenditures}}{\textit{Salaries and Wages}}$$

Fringe Benefits

(as a % of Salaries)



Fringe Benefits:
The fringe benefits measured on this indicator are: FICA Taxes, Payments to the Virginia Retirement System (VRS), Health Insurance, VRS Group Life Insurance, Unemployment costs and Worker's Compensation. The cost of these benefits is divided by the cost of salaries and wages paid in these years to obtain the percentages depicted on this chart. Charting these costs is valuable as they can inadvertently escalate and place a financial strain on a locality.

Trends:
The fringe benefits ratio has averaged 33.1 percent between FY02 and FY12. The high point reflected in this time frame is FY12, which measured 34.5 percent. Clearly, the trend for this indicator reflects significant annual increases in the prior eleven fiscal years, and this trend is anticipated to continue into the future.

Two years in the eleven years examined reflect net declines in this indicator – FY10 and FY13. In FY10, fringe benefits as a percent of salaries fell to 32.8 percent; however, this statistic is extremely misleading as healthcare costs increased, and all other fringe benefit rates remained consistent with FY09. The reason for this reduction is the result of a budget savings measure at the State level by the General Assembly in which the State deferred its fourth quarter VRS payment to the following fiscal year, which eliminated the fourth quarter employer share of the VRS payment for teachers across all localities as teachers' VRS costs are partially funded by the General Assembly. Further, in FY11, the General Assembly lowered the VRS teacher employer rate from 9.85 percent to 3.93 percent as a budget balancing decision. However, the General Government VRS rate increased, in addition to all other fringe benefit rates, and the fringe benefits ratio increased to 33.0 percent, the fourth highest rate in the time period examined. The full-year impact of the VRS rate increase from FY11 can be seen in FY12, as the indicator posted by far the highest level in the eleven years examined, at 34.5 percent. The long-term trend in this indicator is clearly upward and prospects for the future continue to remain negative. The two principal reasons for the increase are health care and Virginia Retirement System costs. Both of these costs fall largely outside of the direct control of the County, as free market forces, or the Virginia General Assembly dictate costs in both of these areas.

The second year in which this indicator reflects a decline from the previous year is the most recent year examined, FY13. This year, too, is extremely misleading as the General Assembly, as part of a series of reforms to increase the funding status of VRS while trying to mitigate future cost increases, forced localities to provide a 5.0 percent salary increase to its employees in exchange for the employees paying the 5.0 percent portion of their salary into VRS – a portion that localities, including Henrico, had provided as a benefit to employees. While this action helped to reduce this indicator, it did so at a cost of just under $6.0 million to the County's taxpayers while resulting in a net pay reduction to employees as they had to pay additional FICA taxes on the higher salary.

In looking at health care costs, the County's cost for providing health care *per employee* in FY03 was $3,409. By FY13, this cost had more than doubled to $6,919 *per employee*, or a change of 103.0 percent. In the FY14 budget, the cost of health care increased to $7,209 *per employee*. While the County cannot influence national

trends regarding the cost of health care insurance, Henrico has taken a very aggressive approach in cost-containment by transitioning health care to a self-insurance program, which went into effect January 1, 2008. 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 services.

The Patient Protection and Affordable Care Act (PPACA) was signed into law by President Obama on March 23, 2010. As part of this law, employers across the country are faced with a number of new regulations and taxes that will have a significant cost to most employers, including Henrico County. In fact, in April 2012, the County was notified that beginning on January 1, 2014, Henrico County must begin paying a "transitional reinsurance fee" that is currently estimated to cost $1.1 million. Further, Henrico County will have to reexamine the healthcare benefits it offers its employees to ensure that they aren't too "rich" and subject to additional tax penalties. Specific new regulations associated with the PPACA are communicated every week, and therefore, it is difficult to know the full impact of the PPACA on the County's healthcare costs.

The second cost that is outside of the County's control is the cost of Virginia Retirement System (VRS) and life insurance benefits. The past ten Trends documents have noted a concern regarding the rising costs related to VRS benefits. The concern is principally focused on one-time budget balancing actions of the Virginia General Assembly that reduce a State contribution rate for a finite period of time (to reduce immediate costs) and in later years, increase contribution rates as a result of segments of the system that are "under-funded." A recent example of the impact of these past actions occurred in the FY13 budget, where the VRS employer rate for teachers increased by 84.2% in *one year*.

A number of recent decisions and considerations by the General Assembly in regards to VRS are particularly troublesome. More specifically:

- ✓ In FY10, in an effort to conserve costs, the State made the decision to defer the entire fourth quarter VRS payment for all State supported groups to the following fiscal year, a move that saved the State $33.9 million. The first quarter payment of FY11 was truly the fourth quarter FY10 payment, and until the State is fiscally able to make five quarterly payments in one fiscal year, or substantially increase rates to make up for the lost contributions, these "savings" will essentially be a "skipped payment."

- ✓ In its 2010-2012 Biennial Budget, the General Assembly withheld $620 million in VRS payments in an effort to balance its budget, an action that will result in higher VRS rate increases in future budgets due to the need to repay these funds. In fact, the VRS teacher rates for FY13 reflect an increase of 1.43 percent of salaries (a cost of $4.1 million in and of itself) specifically tied to the repayment of this deferred payment, which will be applied to local VRS rates for the next ten years. This decision, coupled with an estimated unfunded liability approaching $20 billion, sparked increased interest from the General Assembly and the Governor in regards to long-term "fixes" to VRS. For example, in FY12, the General Assembly approved a mandated 5.0 percent employee contribution for all State employees and encouraged localities to follow suit.

- ✓ Two bills approved by the 2012 General Assembly addressing VRS costs will have profound effects on all localities in the Commonwealth of Virginia. Dissatisfied that few localities decided to mandate that employees pay the 5.0 percent employee contribution, Senate Bill 497 required that all local government and school divisions employees pay their 5.0 percent employee contribution, which most localities formerly paid on behalf of their employees. Further, Senate Bill 497 forced a 5.0 percent salary increase for these employees to partially offset the impact of this mandated VRS contribution. While employees

received the 5.0 percent salary increase, this action resulted in a net reduction in take-home pay for employees due to FICA taxes paid on the salary increase. Further, localities were forced to pick up the increased FICA and other variable rate benefit costs associated with the salary increase. The net cost of Senate Bill 497 to Henrico County was just under $6.0 million in FY13.

- ✓ Senate Bill 498, as approved by the 2012 General Assembly, mandates that all non-Public Safety employees that are not vested (those with less than five years) in VRS as of January 1, 2013, and all new employees hired after January 1, 2014, be placed into a "hybrid" retirement plan, consisting of both a defined benefit and defined contribution plan. The defined contribution component will require an employer match. Implementation of the hybrid retirement plan should mitigate cost increases slightly a number of years out. The impact will take years as 43.3 percent of the County's General Government complement consists of Public Safety employees immune from the hybrid plan. Senate Bill 498 also requires the State to phase-in a full funding approach to the VRS Board Certified Rate, which is rarely funded by the General Assembly. As a note, the State adopts the VRS rate for teachers each year, directly impacting every locality in the Commonwealth. Every two years, the required percentage funding of the VRS Board Certified Rate increases, and will ultimately require 100 percent funding. Senate Bill 498, while attempting to "right" years of underfunding of VRS by the Commonwealth, has guaranteed this indicator will increase substantially every year through FY19, when the VRS Board Certified Rate is fully funded. The impact of the VRS increase for FY15 for Schools is $6.5 million.

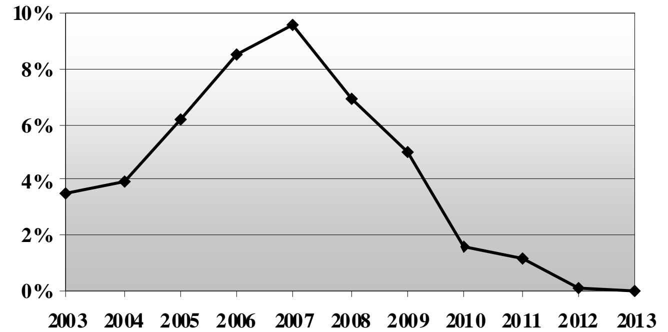
An additional cost that impacted this indicator is the VRS Life Insurance benefit for employees. This benefit was not funded by the State between FY02 and FY06 (and therefore – the County could not fund the local required amount). In FY07, the State re-instituted payment requirements, and in FY11, the County's cost in this area equated to approximately $1.3 million, after the State reduced the VRS Life rate from 0.79 percent to 0.28 percent of salaries in yet another effort to reduce expenditures. As a result of this significant reduction, the 2012 General Assembly increased the VRS Life rate from 0.28 percent to 1.19 percent of salaries, a one year increase of 425.0 percent.

Due to continued concern over cost increases for retirement benefits, a warning trend for this indicator continues.

WARNING TREND: Decreasing amount of General Fund operating surpluses as a percentage of net operating revenues.

Formula:

General Fund Operating Surpluses
Net Operating Revenues



Operating Surpluses:
An operating surplus occurs when current revenues exceed current expenditures. If the reverse is true, it means that at least during the current year, the locality is spending more than it receives. This can occur because of an emergency such as a natural catastrophe that requires a large immediate outlay. It can also occur as a result of a conscious policy to use surplus fund balances that have accumulated over the years. The existence of an operating deficit in any one-year may not be cause for concern, but frequent occurrences may indicate that current revenues are not supporting current expenditures and serious problems may lie ahead.

Trends:
The County of Henrico has produced an operating surplus for each of the eleven years presented. Due to the recessionary period and subsequent decline in the County's elastic revenue sources and State budget reductions, the operating surplus dropped to 3.5 percent in FY03. In FY04, the operating surplus improved to a level of 3.9 percent, although the effects of the State's recent budget reductions continued to be reflected in this lower than average operating surplus. In FY05, the operating surplus returned to historic post-recession averages and measured 6.2 percent, followed by an 8.5 percent in FY06. In FY07, with continued increases in the County's elastic tax revenues, the operating surplus reflected a variance of 9.6 percent, the highest surplus in this eleven-year period.

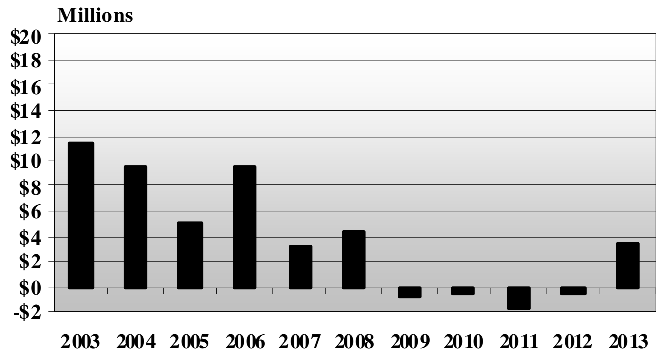
As clearly seen on the chart above, throughout the economic downturn, beginning in FY08 and continuing through the most recent fiscal year, FY13, the County's operating surpluses have consistently declined each year. In FY08, net operating revenue collection growth was at its lowest level since the last recessionary period of FY02 and FY03, though the operating surplus reflected a variance of 6.9 percent, well above the eleven-year average of 4.6 percent. In FY09, eighteen months into the worst recessionary economic environment since the Great Depression, the County achieved an operating surplus of 5.0 percent. In FY10 and FY11, the County achieved an operating surplus of 1.6 percent and 1.2 percent, respectively. In FY10, the General Fund achieved an operating surplus of $15.1 million and in FY11, the General Fund achieved an operating surplus of $11.8 million. Considering the environment in which these surpluses were achieved, and the fact that it was accomplished without raising taxes, laying off employees, or cutting service levels, the operating surpluses in these two fiscal years is considered in a very positive light.

However, as the economy continues to struggle and the County continues to be faced with fixed cost increases, closing budget gaps has become more and more challenging. This is reflected in the FY12 operating surplus of only $535,000, or 0.1 percent of net operating revenues as well as the FY13 operating surplus of $336,000. With the FY14 budget, the total expenditure reduction/absorption now exceeds $115 million with additional reductions likely in FY15. While there are positive signs in the economy, revenue growth is needed in order for fiscal structure to be reestablished and, until that point is reached a warning trend must be noted.

WARNING TREND: Consistent enterprise losses.

Formula:

Enterprise Profits or Losses in Constant Dollars



Enterprise Losses:
Enterprise losses are a highly visible type of operating deficit. They show potential problems because enterprise operations are expected to function as a "for profit" entity as opposed to a governmental "not for profit" entity. Managers of an enterprise program may raise rates and find that revenues actually decrease because users reduce their use of the service. Enterprises are typically subject to the laws of supply and demand; therefore, operating deficits are distinct indicators of emerging problems. On the graph to the right, the **negative numbers on the scale represent operating losses**. It should be noted that depreciation expenses are included in this analysis.

During the eleven-year period shown, Henrico County's enterprise operations have included Water and Sewer services, and the Belmont Golf Course.

Trends:
With the exception of the most recent trend of negative results, the overall trend shown above has reflected positive results. The Water and Sewer Fund consistently makes up more than 90.0 percent of the total net income or loss reported in the Enterprise Funds. However, clearly the indicator reflects a downward trend throughout the entire eleven-year period examined.

There are a number of factors impacting this indicator during this time frame. First, it should be noted that expenditures grew at increasing rates each year from FY03 (5.5 percent increase) through FY06 (9.1 percent increase). From FY07 through FY10, operating expenditure growth outpaced revenue growth in each fiscal year, mostly a result of the downturn in the economy which impacted revenue growth. As can be seen in the chart above, FY09 through FY12 all reflect operating revenues that were insufficient to cover operating expenditures. This is not indicating that the Water and Sewer Fund did not make an overall “profit” in these fiscal years. However, it does indicate that operating requirements from FY09 through FY12 required the use of revenue sources that are generally associated with infrastructure, not operations, such as water and sewer connection fees. FY13 saw a return to “profitability” as it was the first year since FY08 to post a positive result, though still lower than any point from FY03 to FY08. This was the result of a 2.0 percent increase in revenues collected as well as a 0.7 percent decrease in expenditures. It should be noted that depreciation expenditures are included in this analysis, which are simply an accounting entry and do not impact cash flow. To give insight into impact of depreciation expenses on this indicator, the depreciation expense (unadjusted) for the Water and Sewer Fund in FY11, the lowest level of this indicator in the eleven years examined, totaled $28.4 million. **Excluding depreciation expenditures, this indicator would reflect operating profits for all fiscal years examined in this analysis**.

Even with its operating “losses” posted in the last four fiscal years of this analysis, during this entire eleven-year period, the Water and Sewer Fund generated sufficient net revenues each year to exceed the coverage requirements under its Revenue Bond covenants. As a result of the consistent financial results experienced by the

Water and Sewer Fund, Fitch IBCA awarded Henrico County an "AAA" rating in 2001. In 2008, Standard & Poor's upgraded its rating to an "AAA" as well. To achieve one "AAA" bond rating is very rare for bonds issued by local Utility departments, and Henrico County's Water & Sewer Fund has two of them.

The Enterprise Funds' operating results displayed above also reflect the financial performance of the Belmont Golf Course. From FY02 to FY07, the Belmont Golf Course reported net operating losses of varying amounts. These losses were due to several factors. Rounds of play for each of these fiscal years were less than FY99 due to an increase in the number of golf courses in the area. Additionally, expenditures to correct turf damage and capital improvements were incurred in each of these years. In FY04, the Belmont Golf Course suffered significant damage as a result of *Hurricane Isabel*.

In FY08, the Belmont Golf Course posted its first positive operating result since FY99. In that fiscal year, the Belmont Golf Course implemented a number of business model changes that promoted finding efficiencies in its operations to allow for reduced expenditures and the ability to maximize revenues from every source. In spite of the operating "profit" in FY08, the FY08 Trends document noted the following observation:

"The current economic environment will likely take its toll on Belmont Golf Course and hinder revenue growth in the near future."

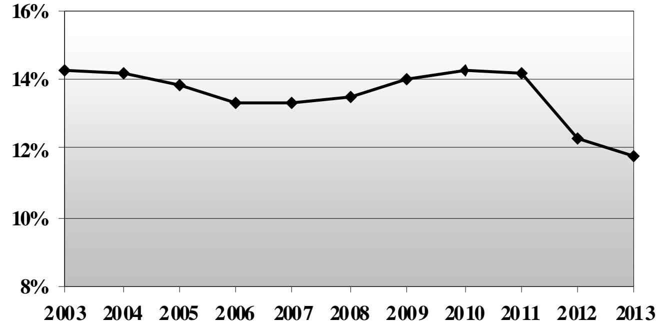
In FY09, the Belmont Golf Course experienced an 8.0 percent decline in the number of rounds of play as compared to FY08. The number of rounds played fell another 6.8 percent in FY10 and 0.9 percent in FY11. As such, the Golf Course posted net operating losses in these three fiscal years. Improvement in the economy in FY12 resulted in a 13.2 percent increase in the number of rounds of play, though a net operating loss was again reported. In FY13, rounds dropped 8.0 percent and, as of this writing, the number of rounds is estimated to remain level with FY13. While increases in the number of rounds would be desired, they are not anticipated in the near future.

To address this situation, a number of reforms to reduce costs at the golf course are required to entertain the idea of profitability. These reforms may require increases in greens fees as well since the number of rounds are not anticipated to reach a level to meet current expenditure levels. Until these reforms are implemented, a warning trend for the Golf Course *continues*.

WARNING TREND: Declining unrestricted General Fund Balance as a percentage of net operating revenues.

Formula:

$$\frac{\textit{Unrestricted General Fund Balance}}{\textit{Net Operating Revenues}}$$



General Fund Unrestricted Balance:
The level of a locality's unrestricted fund balance may determine its ability to withstand unexpected financial emergencies, which may result from natural disasters, revenue shortfalls, or steep rises in inflation. It also may determine a locality's ability to accumulate funds for large-scale one-time purchases without having to incur debt. *Note: This historical depiction is reflected differently than the percentages typically referred to in the Annual Fiscal Plan as "net operating revenues."* ***In the Trends document, this includes the General, Special Revenue and Debt Service Funds.*** *As such, the percentage reflected on this page is lower than what is reflected in the Annual Fiscal Plan, which reflects the General Fund Unrestricted balance as a percentage of General Fund expenditures.*

Trends:
Henrico County's unrestricted General Fund balance as a percentage of net operating revenues remained relatively static from FY03, where it was 14.3 percent, to FY11, where it was 14.2 percent, before dropping to 12.3 percent in FY12 and 11.8 percent in FY13. As noted above, the depiction of this indicator in the Trends document is different than the indicator reflected in the Annual Fiscal Plan. In FY06, the Board of Supervisors agreed with a policy recommendation to maintain the County's unassigned fund balance at a level of 18.0 percent of General Fund expenditures (again, different than the indicator reflected in this document). Effective June 30, 2012 (FY12), as part of the County's FY13 budget balancing efforts, a policy change was recommended to the Board to reduce the amount of unassigned fund balance maintained from 18.0 percent to 15.0 percent of General Fund expenditures in an effort to "free up" cash reserves to fund vehicle replacement in the capital budget for a maximum three-year period.

Looking at the trend, in FY03, the County's percentage of unrestricted fund balance increased to 14.3 percent, before leveling off in FY04 and remaining constant at 13.3 percent for FY06 and FY07. The County's percentage of unrestricted fund balance increased in each fiscal year from FY08 to FY10. In FY08, the indicator increased slightly to 13.5 percent, in FY09 it increased to 14.0 percent, and in FY10 the indicator increased to 14.3 percent. In FY11, the indicator dropped slightly to 14.2 percent. With the County's fund balance policy change effective FY12, the indicator dropped to 12.3 percent.

The overall trend is positive, especially considering that during FY03 and FY04, the County's revenues were impacted by State funding reductions, and the effects and after-effects of a national recession. Of even greater significance, the County's overall unrestricted fund balance grew by 8.3 percent from FY07 to FY11, amidst the worst economic environment since the Great Depression. Again, the decline in FY12 is associated with the County's policy change regarding unassigned fund balance while the decline in FY13 is the result of a drop in undesignated fund balance.

In FY04, the County of Henrico faced a significant natural disaster, *Hurricane Isabel*. In the aftermath of the storm, the County's Board of Supervisors was able to appropriate over $20.0 million for the massive cleanup that

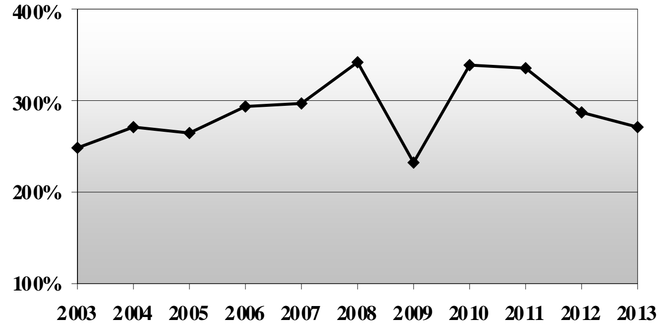
was required. In FY05, the County of Henrico was deluged with *Tropical Storm Gaston* and the Board again was able to quickly react to the damage to public facilities by appropriating $8.0 million. The fact that the County has a strong unrestricted fund balance ensures that in times of emergency, the County has the resources to react quickly and effectively to ensure that the service delivery our residents expect continues in the manner expected. Overall, the County's Unrestricted General Fund Balance reflects a positive trend since FY02 that places Henrico in a desirable position for a local government. Henrico County has been assigned an AAA/AAA/Aaa bond rating, making it one of 34 counties in the nation to hold such a rating. The maintenance of a healthy fund balance is a critical component examined by rating agencies when assigning bond ratings. Henrico has a long history of maintaining a healthy unrestricted General Fund balance and will continue to use prudence in safeguarding this resource.

As a result of the continued economic difficulties and correlated struggling revenue growth, in combination with consistent fixed cost increases, the County has been forced to cut expenditures – $115 million in four fiscal years – and become more aggressive in its revenue estimates. This effort was necessary to avoid tax rate increases, service delivery reductions, and layoffs. However, overall fund balance – both assigned and unassigned – has declined in each of the last four fiscal years, by a total of 21.8 percent in this timeframe. This is not necessarily reflected in this indicator, as assigned fund balance levels are not considered in this analysis. Assigned fund balance is critical as there are a number of critical annual appropriations that are made from these balances, including appropriations from the Risk Management Self-Insurance Reserve, funding for specific pay-as-you-go capital projects such as annual appropriations of building maintenance funding for both General Government and Education facilities, as well as the County's Revenue Stabilization Fund, which funds the first-year operating costs associated with new facilities. Though the intent of a number of these balances are for one-time purposes, annual appropriations of reserves from some of these "buckets" require additional funds to build the reserves back up for the following fiscal year. With unassigned fund balance levels currently calculated as a percentage of General Fund expenditures, when overall fund balance declines, the assigned fund balance levels are impacted on a greater scale. As such, there is concern that without adequate revenue growth or severe expenditure reductions, the County's fund balance levels will continue this trend. As such, a warning trend must be noted for this indicator.

WARNING TREND: Decreasing amount of cash and short-term investments as a percentage of current liabilities.

Formula:

$$\frac{\textit{Cash and Short-term Investments}}{\textit{Current Liabilities}}$$



Liquidity:
A good measure of a locality's short-run financial condition is its cash position. "Cash position" includes cash on hand and in the bank, as well as other assets that can be easily converted to cash, such as short-term investments. The level of this type of cash is referred to as liquidity. It measures a locality's ability to pay its short-term obligations.

Short-term obligations include accounts payable, the principal portion of long-term debt and other liabilities due within one year of the balance sheet date. The effect of insufficient liquidity is the inability to pay bills or insolvency. Declining liquidity may indicate that a locality has overextended itself.

Trends:
A liquidity ratio of greater than 1:1 (more than 100 percent) is referred to as a "current account surplus." Henrico County has been successful in achieving a current account surplus for the eleven-year period shown.

From the chart above, this indicator reflects a large "dip" downward in FY09. In that fiscal year total current liabilities increased by 58.1 percent, mostly in the area of "principle due in 12 months." It should be noted, however, that the spike in "principle due in 12 months" is misleading, as it mostly reflects two bond refundings in CY09. It is important to note that the County's bond refundings do not increase the County's outstanding long-term debt or the length of time to pay off the debt. "Principal due in 12 months" related to newly issued debt is minimal by comparison. In fact, ignoring the impact of the bond refundings in CY09 altogether, current liabilities only increase 13.6 percent instead of 58.1 percent, and the Liquidity indicator would reflect 323.2 percent in FY09, much higher than the recorded 232.2 percent. In FY10, this indicator increased to 339.4 percent and in FY11, the indicator dropped slightly to 335.2 percent. In FY12, the indicator dropped significantly to 288.2 percent, mostly due to the large debt issuance in that fiscal year, as the County combined two planned General Obligation debt issues into one as a result of the attractive interest rates at the time. This debt issuance finalized the County's March 2005 General Obligation Bond Referendum, and no new debt is planned in the immediate future. FY13 saw this indicator drop to 270.7 percent, indicative of a 6.2 percent decrease in cash on hand.

Over the past eleven years, the County has maintained an average liquidity ratio of 2.89:1, which is more than *twice* the defined "current account surplus" above. The low point in this indicator of 2.32:1 was experienced in FY09. By performing annual debt capacity reviews and by compiling a five-year Capital Improvement Program that encompasses all funds, and by ensuring that those capital projects which obtain funding are appropriately cross-walked to the annual operating budget, the County of Henrico will not incur liabilities at a rate that cannot be supported within established resources. Based on the overall stable trend of this indicator, no warning is warranted for this indicator.

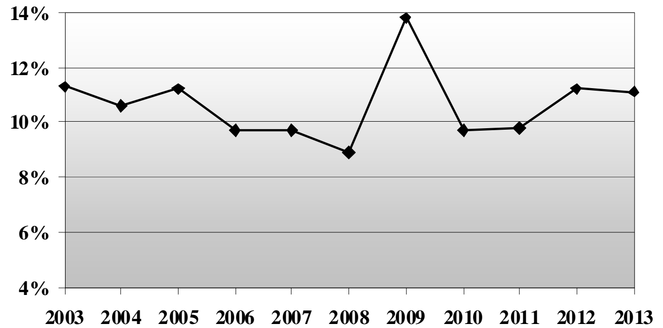
WARNING TREND: Increasing current liabilities at end of year as a percentage of net operating revenues.

Formula:

$$\frac{\textit{Current Liabilities}}{\textit{Net Operating Revenues}}$$

Current Liabilities

(as a % of Net Operating Revenues)



Current Liabilities:
Current liabilities include short-term debt, the current principal portion of long-term debt, accounts payable and other current liabilities due within one year of the balance sheet date. A major component of current liabilities may be short-term debt in the form of tax or bond anticipation notes. Although the use of short-term borrowing is an accepted way to handle erratic flows of revenues, an increasing amount of short-term debt outstanding at the end of successive years can indicate liquidity problems, deficit spending, or both.

Trends:
In the eleven-year trend depicted above the indicator has gone from a low of 8.9 percent in FY08, to a high of 13.8 percent in FY09. The level for FY09 is the highest in this eleven-year period for two overriding reasons. First, as noted in the "Liquidity" indicator narrative, total current liabilities increased 58.1 percent in FY09 as compared to the previous fiscal year. However, this increase is misleading, as it is mostly attributed to an increase in "principal due in 12 months" as a result of two significant bond refundings in CY09, with only minimal impact, by comparison, due to newly issued debt. This indicator fell to 9.7 percent in FY10, and increased slightly to 9.8 percent in FY11, which more closely reflects the average in this eleven-year period of 10.6 percent. The indicator increased to 11.2 percent in FY12 as a result of the County combining two years of planned General Obligation (G.O.) debt issues into one as a result of the attractive interest rates at the time. For the most recent year, this indicator fell to 10.9 percent.

There are two large components that make up this indicator, the first of which is recorded "accounts payable." The FY13 total for this liability measured $52.2 million, which reflects a decrease of 2.2 percent when compared to the FY12 totals. It is important to note that the accounts payable does fluctuate based on purchasing activity within the governmental unit. The second large component, "principal due in 12 months," reflected an increase of just under 4.2 percent in FY13.

In November 2000 the voters approved a $237.0 million G.O. Bond Referendum. In March of 2005, the voters approved a $349.3 million G.O. Bond Referendum. Both referenda included School, Fire, Roadway, Public Library, and Recreation and Parks projects. The County of Henrico chose to phase in this debt over a multi-year time period (both referenda assume the debt would be phased in over a seven-year time frame). By taking this approach, the County has been able to pay required debt service costs and ancillary operating expenses without negatively impacting its operating budget and this indicator is reflective of that planning.

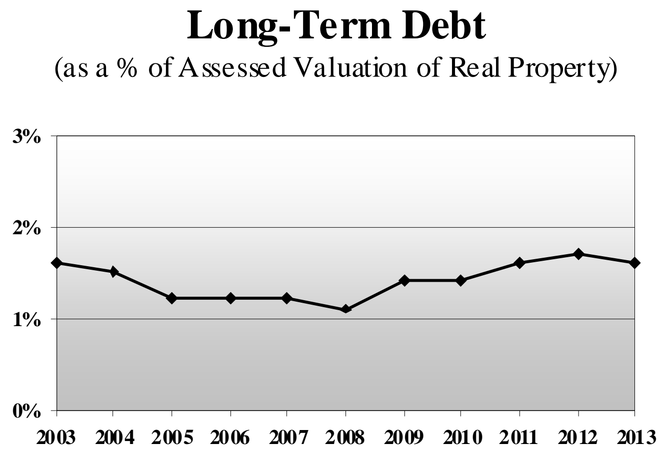
For this eleven-year period, this ratio has been between 8.9 percent and 13.8 percent of net operating revenues. Although the general trend over this time period is upward, the fact that the County has not experienced significant annual changes in this indicator, excluding the misleading increase in FY09, is reflective of the County's conservative financial management approach. Also, this consistency is reflective of the County's conservative debt management practices and successful long-term planning for infrastructure improvements. This indicator is very much aligned with the next two indicators: 1) long-term debt as a percentage of assessed

valuation and 2) debt service as a percentage of net operating revenues. For these reasons, no long term warning trend is noted.

WARNING TREND: Increasing amount of net direct long-term debt as a percentage of assessed valuation of real property.

Formula:

$$\frac{\textit{Net Direct Bonded Long-term Debt}}{\textit{Assessed Valuation of Real Property}}$$



Long-Term Debt:
A locality's ability to repay its debt is determined by comparing net direct long-term debt to assessed valuations. Net direct long-term debt is direct debt minus self-supporting debt such as revenue bonds or special assessment bonds, which have a repayment source separate from general tax revenues. An increase in net direct long-term debt as a percentage of real property valuation can indicate that a locality's ability to repay its obligations is diminishing.

Another way to monitor the growth in debt is to measure it on a per capita basis. As population increases, it would be expected that capital needs, and hence, long-term debt needs may increase. The underlying assumption is that a locality's revenue generating ability, and ability to repay debt, is directly related to its population level. The concern is that long-term debt should not exceed the locality's resources for paying the debt. If this occurs, the locality may have difficulty obtaining additional capital funds, may pay a higher rate of interest for them, and therefore may have difficulty in repaying existing debt.

Trends:
During the eleven-year period shown above, the long-term debt indicator reached a high point of 1.7 percent in FY12 due to the County combining two years of planned debt issuances into one, and declining real property valuations. The combined issuance in FY12 completed the County's March 2005 General Obligation Bond Referendum. Despite a slowdown in real property assessed valuation, the FY08 indicator of 1.1 percent reflected the low point in this eleven-year period.

In FY09, the indicator increased to 1.4 percent, due to a 27.1 percent increase in long-term debt, as the County issued $137.5 million in General Obligation and VPSA Bonds. In addition, in FY09 the County experienced growth in real estate valuations of only 0.7 percent. This combination caused a spike in this indicator in FY09. In FY10, this indicator remained constant at 1.4 percent; however this statistic is slightly misleading. The County delayed by one year the sale of $77.5 million in new debt originally scheduled for FY10 as a result of the economic downturn and its impact on revenue streams. With no new debt added in FY10, the County was able to reduce its long-term debt amount by 8.5 percent in one fiscal year. However, real estate valuations declined an unprecedented 7.8 percent on January 1, 2010. The significant reductions in long-term debt and real estate valuations offset each other and caused the indicator to remain constant. In FY11, the debt that was deferred in FY10 was issued, in the amount of $72.2 million, and real estate values declined yet again on January 1, 2011. As such, this indicator increased to 1.6 percent in FY11. For FY13, no new debt was issued as the County's March 2005 Referendum was completed in FY12, as noted above. Therefore, this indicator fell to 1.6 percent.

As seen above, Henrico County's percentage of net long-term debt to real property valuations has remained relatively stable. In FY01 and FY02, the County began phasing in debt associated with the General Obligation Bond Referendum approved by the voters in November 2000. As of the end of FY13, the County's net direct long-term debt was $492.0 million, which reflects a net decrease of $41.2 million when compared to FY12.

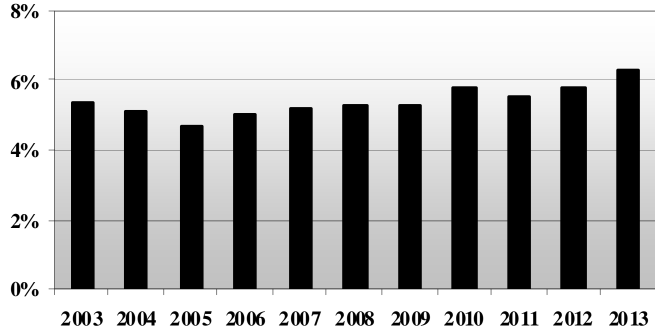
The County performs a debt affordability analysis (outside of the depiction in the Trends document) that calculates an indicator similar to the methodology employed above. In the debt affordability analysis, personal property is added to real property when determining "long-term debt as a percent of total assessed value." Adding the assessed value of personal property to real property lowers the percentage slightly, but this is the current methodology utilized by the Bond Rating Agencies for Virginia localities. The debt affordability analysis also calculates debt per capita and debt as a percentage of General Fund expenditures, which are two indicators used by the Bond Rating Agencies to determine a locality's ability to issue debt.

No long term warning trend is noted.

WARNING TREND: Increasing amount of net direct debt service as a percentage of net operating revenues.

Formula:

$$\frac{\textit{Debt Service}}{\textit{Net Operating Revenues}}$$



Debt Service:
Debt service is the amount of principal and interest that a locality must pay each year on net direct long-term debt, plus the interest it must pay on direct short-term debt. As debt service increases, it adds to a locality's obligations and reduces the locality's expenditure flexibility.

Debt service can be a major part of a locality's fixed costs, and its increase can indicate excessive debt and fiscal strain. If debt service on net direct debt exceeds 20.0 percent of operating revenues, it is considered a potential problem. Below 10.0 percent is the rate preferred by bond rating agencies. **It should be noted that "net operating revenues" used in this indicator include the General, Special Revenue and Debt Service Funds**. Debt service for this indicator includes principal and interest payments for General Obligation bonds, Virginia Public School Authority (VPSA) debt, Literary Loan debt, and Lease Revenue bonds including the Regional Jail. The indicator does not include Enterprise Fund debt.

Trends:
As shown in the graph above, the debt service percentage reached the high point of 6.3 percent the most recent year of FY13 and the low point of 4.7 percent may be found in the FY05 total. It is important to note that in this eleven-year time period, this indicator has fluctuated within a range of 1.6 percent.

This indicator will trigger a warning if the increase in debt service consistently exceeded the increase in net operating revenues. The issuance of debt normally results in a slight increase in this indicator, because in the year following the issuance of debt, the amount of debt service generally grows at a faster rate than operating revenues, however the consistency reflected above is indicative of the meticulous analysis that is performed before any debt issue is undertaken.

In November of 2000, the County's voters approved a $237.0 million General Obligation (G.O.) Bond Referendum and in the Spring of 2005, the County's voters approved a $349.3 million G.O. Bond Referendum. These referenda included School, Fire, Roadway, Public Library, and Recreation and Parks projects. The financial plan that coincided with the approval of these projects assumed that the County would issue this debt over a seven-year period for each of the approved referenda. In FY01, the County issued the first of these planned issues and that totaled $37.1 million. In FY02, the County issued $27.0 million in G.O. notes. In FY03, the County issued $51.8 million and in FY04, the County issued $38.9 million of G.O. bonds. In FY06, the County issued $77.8 million and in FY07, the County issued $71.9 million of G.O. notes. In FY08, the County issued $29.8 million in G.O. bonds and in FY09, the County issued $93.1 million in G.O. Bonds. Also in FY09, the County issued $44.4 million in VPSA Bonds for a number of Schools projects approved on the March 2005 referendum that required additional funding due to unanticipated increases in construction costs. The County delayed by one year the sale of $77.5 million in new debt originally scheduled for FY10 as a result of the economic downturn and its impact on revenue streams. In FY11 this G.O. debt was issued, in the amount of $72.2 million. In FY12, the final $66.1 million in new debt associated with the March 2005 G.O. Bond Referendum was issued.

There are important differences in this indicator and the “Long-Term Debt” indicator. The “Debt Service” indicator reflects the amount of principal and interest the County pays annually on its long-term debt as a percentage of operating revenues. The “Long-Term Debt” indicator reflects the County’s total outstanding debt as a percentage of assessed real estate valuation. The “Long-Term Debt” indicator graph reflects a sharp uptick in FY09 due to the large amount of debt issued in that fiscal year. However, that spike is not evident in the “Debt Service” indicator chart. This is due to the County’s two bond refundings in CY09 that achieved substantial debt service savings. The realized savings were mostly allocated in FY09 through FY11 to help the County offset anticipated revenue reductions as a result of the difficult economic environment. It should be noted that the County has taken part in two additional bond refundings, one in May 2010 and one in August 2011, that generated significant savings mostly targeted for FY11 through FY14.

In FY10, the “Debt Service” indicator increased to 5.8 percent in spite of debt service savings attributed to the bond refundings and not issuing any new long-term debt in this fiscal year. The reason for this increase is twofold. First, debt service costs increased from the previous year due to the first full-year payment of the 2008 VPSA issue. The FY09 debt service payment associated with this issue was only for six months of interest. Second, significant declines in State aid and real estate tax revenue in FY10 yielded a significant reduction in net operating revenues.

In FY11, the County issued $72.2 million in new debt, but the first principal payment wasn’t due until FY12, and only six months of interest was due in FY11, which resulted in a reduction in debt service payments in FY11 of $4.0 million as compared to FY10. In FY12, $66.1 million in new debt was issued. Although operating revenues experienced a slight increase, the Debt Service indicator increased to 5.8 percent, the highest point in the eleven year period examined, as noted above. As operating revenues continue to gradually trend upwards again, and no new debt is planned until at least FY15 (associated with a new radio communications system), this indicator should drop for at least the next two fiscal years. A new bond referendum isn’t likely until substantial recovery is evident in the economy. Therefore, no long term warning trend is noted.

One last note needs to be mentioned. This indicator is different than a similar indicator included in the annual debt affordability analysis – which is “debt service as a percentage of General Fund Expenditures.” However, this examination in the Trends document does cross-verify the results of the debt affordability analysis.

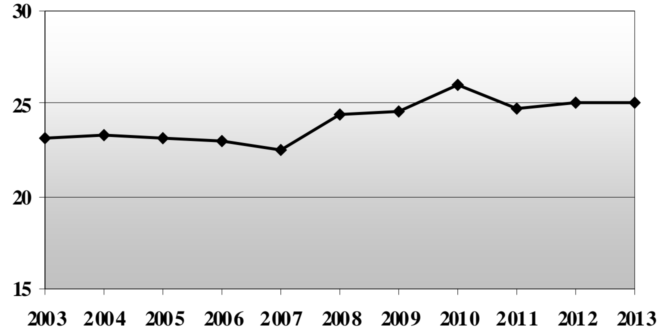
WARNING TREND: Increasing days of unused vacation leave per municipal employee.

Formula:

$$\frac{\textit{Total Days of Unused Vacation Leave}}{\textit{Number of General Government Employees}}$$

Accumulated Vacation Leave

(Days per Employee)



Accumulated Vacation Leave:
Localities usually allow their employees to accumulate some portion of unused vacation, which may be paid at termination or retirement. This expenditure is rarely funded while it is being accumulated although the costs of the benefit are covered through normal attrition. This is because of the fact that when an employee with many years of service is replaced, that employee is typically replaced with an employee with fewer or no years of service. The salary differential on a global basis is sufficient to pay for this benefit in any given fiscal year. While there is no fiscal impact that arises from this indicator, its inclusion is useful in depicting the overall vacation leave balances of the General Government workforce. Finally, it needs to be noted that vacation leave balances not utilized by the beginning of the new calendar year, are readjusted downward (that is, time is "lost"), so the number included within this indicator is simply a reflection of June 30 balances. Because this number is not on a calendar year basis, the indicator may slightly overstate the actual vacation leave balances (as it does not account for actual vacation leave not utilized).

Trends:
In terms of the overall trend, the accumulated vacation leave indicator has averaged 24.1 days during the eleven-year period. What can be seen throughout this time period is stability in this indicator as it has ranged from a low of 22.5 days in FY07 to the high point of 26.0 days in FY10.

In looking at the graph above, the indicator remains relatively flat until FY08. This is due to an adjustment of annual leave accrual rates and increased "carry-over" hours (less time "lost") for employees with fifteen or more years of service. FY10 experienced an unusual increase to 26.0 days of accumulated vacation leave per employee, mostly a result of the reduction in the number of General Government employees in that fiscal year. To assist in balancing the FY11 budget to significantly reduced revenues, the County eliminated 101 vacant General Government positions. In FY11, the indicator dropped to 24.7, mostly due to the County's hiring freeze yielding well over 200 positions throughout much of the fiscal year. In other words, while the positions were being counted in the General Government complement, there were no vacation days associated with them as they were unfilled. The indicator rose slightly in FY12 to 25.0 and remained relatively flat at 25.1 in FY13. In the entire eleven-year period, this indicator has fluctuated within a range of 3.5 days.

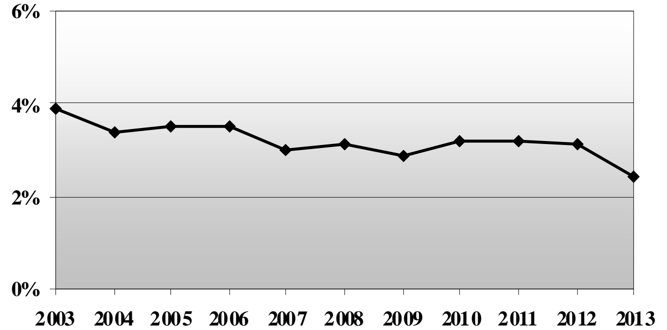
The overall slight upward movement since FY03 is also reflective of the County's workforce, which is aging to a certain extent and employees with more seniority earn more hours of vacation leave than less senior employees. Henrico County's vacation leave indicator will generally increase as the average length of employment of County employees' increases. The most recent information suggests the County has a workforce whose average age is 45. The average County employee has been with the County for nearly twelve years, which is the same as last year (Source: Human Resources Department). The average age is 4 years younger than when this information was presented in this document a year ago. This is the result of the Voluntary Retirement Incentive Program (VRIP), which the County offered as part of the FY13 budget in an effort to balance the budget and provide sustainable savings moving forward. In total, 98 General Government employees accepted this incentive.

<u>No warning trend is noted for this indicator</u>.

WARNING TREND: A decline in capital outlay in operating funds as a percentage of net operating expenditures.

Formula:

$$\frac{\textit{Capital Outlay from Operating Funds}}{\textit{Net Operating Expenditures}}$$



Level of Capital Outlay:
Capital outlay includes expenditures for equipment in the operating budget, such as vehicles or computers. It normally includes equipment that will last longer than one year. Capital outlay does not include capital improvement expenditures for construction of capital facilities such as streets, buildings, fire stations, or schools.

The purpose of capital outlay in the operating budget is to replace worn equipment or add new equipment. The level of capital outlay is a rough indicator of whether or not the stock of equipment is being maintained in good condition. However, this indicator does not reflect the cost of routine maintenance and repair. If this indicator is declining in the short run of one to three years, it could mean that a locality's needs have temporarily been satisfied, because most equipment lasts more than one year. If the decline persists over three or more years, it can be an indication that capital outlay needs are being deferred, resulting in the use of obsolete and inefficient equipment and the creation of a future unfunded liability.

Trends:
The eleven-year trend for this indicator depicts a range between 2.4 percent and 3.9 percent. While the first ten years reviewed is indicative of the consistency of meeting capital outlay requirements within the operating budget, the drop in FY13 is a result of the budget balancing maneuver. In FY02, this indicator reflected a total of 3.9 percent, while the FY12 total measures 3.1 percent. In fiscal years FY05 and FY06, the indicator remained constant at 3.5 percent and decreased by 0.5 percent to 3.0 in FY07. Although this percentage dropped in FY07, it is important to note that the indicator rebounded in FY08, showing a positive increase over the prior fiscal year. The County's level of capital outlay has averaged 3.2 percent of net operating expenditures throughout this eleven-year period.

In the recessionary economic environment of FY02 through FY04, in spite of a number of revenue challenges, particularly reductions in State aid, the County was able to maintain a stable level of capital outlay expenditures. This may be considered positive as the County was not forced to defer capital outlay expenditures in order to maintain a balanced budget. However, the current economic difficulties have presented much deeper revenue challenges than experienced in FY02 through FY04.

In FY09, the indicator fell to the lowest level in the eleven-year time frame at 2.9 percent. However, as in FY08, the indicator rebounded in FY10 to 3.2 percent and remained flat in FY11 in spite of across-the-board operating budget reductions in both fiscal years. It should be noted that in FY12, a third round of across-the-board budget reductions were implemented, yet the indicator remained relatively flat at 3.1 percent.

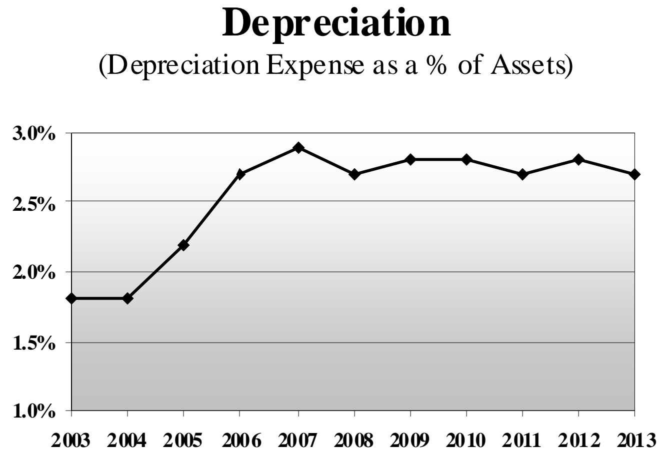
The FY13 budget included yet another round of reductions to all departments. One significant budgetary decision was to remove $6.6 million in capital outlay – for the purchase of replacement Police vehicles, replacement Fire apparatus, and replacement School buses – from the operating budget and fund with General Fund balance via the Capital Projects Fund. As projected in last year's document, this budgetary decision significantly reduced this indicator to bring it to 2.4 percent – the lowest level seen since FY1994 when this indicator was 1.7 percent. The FY14 budget development process included additional budgetary reductions with FY15 bringing more. At

this point, it is very likely that departments will have little choice but to consider capital outlay funding reductions to some degree, which could result in obsolete or inefficient equipment in the near future. As such, a warning trend is noted for this indicator.

WARNING TREND: Decreasing amount of depreciation expense as a percentage of total depreciable fixed assets for Enterprise Funds and Internal Service Funds.

Formula:

Depreciation Expense
Cost of Depreciable Fixed Assets



Depreciation:
Depreciation is the mechanism by which a cost is associated with the use of a fixed asset over its estimated useful life. Depreciation is recorded only in the Enterprise and Internal Service Funds.
Total depreciation expense typically remains a relatively stable proportion of the cost of the entity's fixed assets. The reason is that older assets, which are fully depreciated, are usually removed from service and newer assets take their place. If depreciation expenses start to decline as a proportion of the fixed asset cost, the assets on hand are probably being used beyond their estimated useful life.

Trends:
The chart above reflects two overall trends. First, with the implementation of GASB 34 in FY02, a change was required in the length of depreciation for Utilities infrastructure. The change increased the time for depreciating many of these assets and is based on an industry standard. (GASB 34 required standardization in many areas that encompass fixed assets of localities and one of the changes actually increased the term of depreciation for certain assets). Concurrent with this, the value of fixed assets arising from the County's Water Treatment Plant resulted in an increase in County "assets" of nearly $92.0 million over a two-year period, although that increase is really of a one-time nature. The drop in FY08 is a result of a change in the capitalization threshold for personal property (furniture, vehicles, and equipment/software) from $2,500 to $5,000. In FY09, depreciation expenditures as a percentage of depreciable fixed assets yielded 2.8 percent, a slight increase from the prior fiscal year indicator of 2.7 percent. This indicator has remained relatively constant at 2.8 percent in FY10, 2.7 percent in FY11, and 2.8 percent in FY12.

What this graph shows clearly, is that with the standardization in the recordation of fixed assets that is the result of GASB 34, this indicator now reflects a level that is slightly higher than that noted in the 1990's. This result was anticipated as assets of the Enterprise Fund continue to increase in value as the number of customers and the assets of the system continue to increase.

The absence of a truly downward trend suggests that the County's depreciable assets are not currently being used past their depreciable useful life.

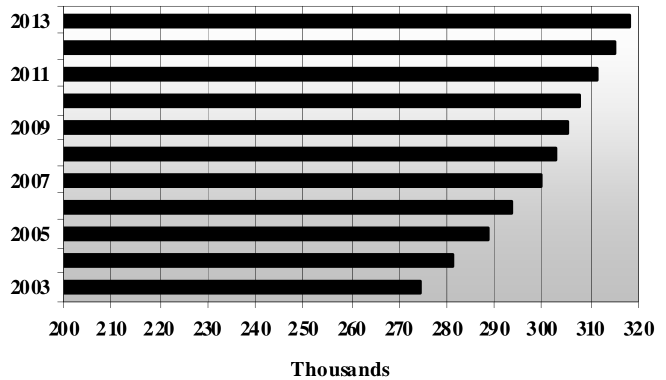
No warning trend is noted for this indicator.

WARNING TREND: A decreasing growth rate or a sudden increase in population.

Indicator:

Population of County Residents

Population:
Empirical evidence indicates that changes in population can have a direct effect on a locality's revenue because of the impact upon related issues, such as employment, income, and property value. A sudden increase in population can create immediate pressures for new capital outlays for infrastructure and for higher levels of service, particularly in the areas of Education, Public Safety and Recreation.



A locality faced with a declining population is rarely able to reduce expenditures in the same proportion as it is losing population. Many expenditures such as debt service, government mandates, and salaries are fixed and cannot effectively be reduced in the short run. In addition, because of the interrelationship between population levels and other economic and demographic factors, a decline in population tends to have a cumulative negative effect on revenues - the further the decline, the more adverse the effect on employment, income, housing and business activity.

Trends:
The County of Henrico has experienced a steady growth in population from 271,440 in FY02 to 315,157 in FY12, an increase of 16.1 percent in this eleven-year time span, or an annual average increase of 1.5 percent per year. As the County enters the sixth year of this most recent economic downturn, declining revenues have resulted in numerous expenditure reductions. Declining resources have made it exceedingly difficult for the County to keep pace with the increased demand for services from its rising population.

According to the 2000 United States Census, Henrico and Chesterfield were in competition for the largest population within the Central Virginia region with Henrico having a slightly higher total. According to the most recent 2010 United States Census, Chesterfield County grew at a faster pace over the past decade, as they now have a higher population than Henrico.

The population numbers for FY11 represent actual Census Data. All other years have been obtained from the Henrico County Department of Planning (see website: www.co.henrico.va.us).

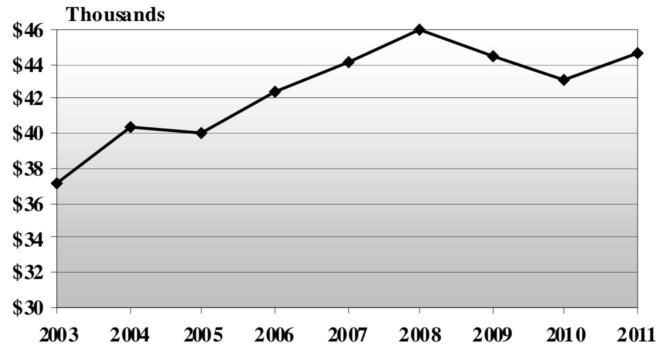
Henrico continues to prepare for expanded and enhanced services to serve an increasing population as evidenced by construction of new facilities for education and recreation, as well as additional roads, fire stations and libraries, and by continuing to maximize the use of technology to enhance productivity and thereby minimize requirements for additional personnel.

Due to consistent population growth, no warning trend is noted for this indicator. However, providing necessary services to this growing population remains a challenge as the County's largest local revenue source, real estate, continues to struggle. Further, when real estate values finally hit "bottom," it is projected that growth in this area will be significantly lower than levels experienced in the mid 2000's. The County must continue to evaluate its service delivery efforts and seek innovative solutions to provide these services at the lowest possible cost.

WARNING TREND: Decline in the level, or growth rate, of personal income per capita.

Indicator:

Per Capita Income
Source: Bureau of Economic Analysis



Per Capita Income:
Per capita income is one measure of a community's wealth. Credit rating agencies use per capita income as an important measure of a local government's ability to repay debt.

A decline in per capita income causes a drop in consumer purchasing power and can provide advance notice that businesses, especially in the retail sector, will suffer a decline that can ripple through the rest of the local economy. Changes in per capita income are especially important for communities that have little commercial or industrial tax base, because personal income is the primary source from which taxes can be paid.

Trends:
In the nine years depicted above, per capita income has increased by 20.2 percent from $37,059 in 2003 to the $44,529 reported for 2011. It should be noted that this indicator factors in increases to the County's population, which increased 13.4 percent between 2003 and 2011.

The per capita income statistics depicted above come from the United States Bureau of Economic Analysis. That source is based on income tax returns and therefore data is only available through the 2011 tax year.

From the recessionary period of the early 1990's through 2005, this indicator consistently increased. The 2004 data reveals that per capita income in Henrico County reached its highest growth rate in the nine-year period at 8.6 percent, which represents a dramatic increase from the previous calendar year. In 2005, however, this indicator leveled off and actually decreased by 0.5 percent from the previous year. In calendar year 2006, the increase was a healthy 6.1 percent, followed by an increase of 3.8 percent in 2007. Another healthy increase followed in 2008 at 4.2 percent, in spite of the recessionary economic environment present the entire year. With the bankruptcy of two Fortune 1000 companies in this economic downturn, LandAmerica Financial and Circuit City, as well as the insolvency of one of the largest employers in the County, Qimonda AG, a number of high paying jobs were lost in Henrico during the economic downturn. The results can be seen in this indicator in 2009, as per capita income dropped 3.2 percent, and again in 2010 as per capita income fell another 2.9 percent. As the economy started slowly turning around, 2011 saw an increase of 3.2 percent.

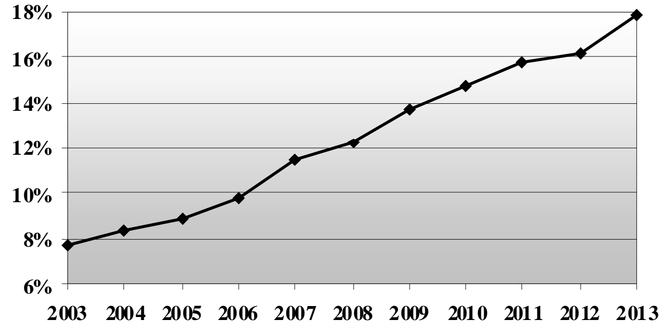
As jobs have started to matriculate back into the County, it is anticipated that this indicator will level off again. As such, no warning trend is noted for this indicator at this time.

It should be noted that while the County's population has increased by an annual average of 1.5 percent in the past eleven years, taxpayer returns from County residents reflect an average annual increase of 2.5 percent in the *nine* years reflected on the graph above.

WARNING TREND: Increasing number of public assistance recipients.

Formula:

$$\frac{\textit{Public Assistance Recipients}}{\textit{Total Population}}$$



Public Assistance Recipients:
This trend is closely associated with a decline in personal income. The indicator measures the number of public assistance recipients against the number of residential households in the County. An increase in the number of public assistance recipients can signal a future increase in the level and unit cost of services because of the relatively higher needs of low-income residents combined with their relative lack of personal wealth.

Trends:
The eleven-year trend for this indicator has increased dramatically in this time period, experiencing a low of 7.8 percent in FY03 and a high of 17.9 percent in FY13, the most recent fiscal year.

The number of public assistance recipients has been determined by obtaining the number of people per year in the County receiving at least one of the following three types of benefits: Aid to Families of Dependent Children (AFDC), Food Stamps, or Medicaid. On a national level, some of the corollary factors that could impact this ratio are limited availability of affordable housing and health care coverage, as well as, limited funds for public transportation.

The Medicaid population has increased dramatically over the past eleven years, which has driven the increase in the number of public assistance recipients. There are currently more than fifty different categories that qualify for Medicaid coverage. Henrico has an aging population that requires long-term nursing home care, which is very expensive for each recipient. The number of mental health patients has increased as well as the number of foster care children, which have also added to the Medicaid population. In addition, policy changes related to income increase every year, which impacts this indicator as well.

The recessionary economic environment, and the subsequent loss of jobs and personal income, has created more demand for public assistance. In fact, in Henrico County from July 2007 through June 2012, the Supplemental Nutrition Assistance Program (also recognized as the food stamp program) caseload increased 165.5 percent, the Temporary Assistance for Needy Families (TANF) caseload increased by 13.0 percent, and the number of individuals receiving Medicaid increased by 69.3 percent (Source: Henrico County Department of Social Services).

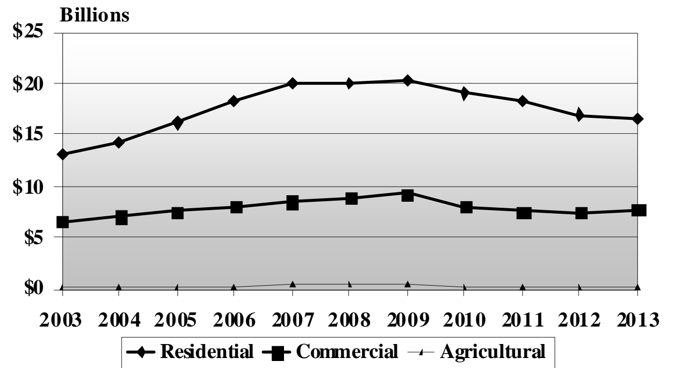
In addition, the Patient Protection and Affordable Care Act was signed into law by President Obama on March 23, 2010. In June 2012, the U.S. Supreme Court ruled that the federal government could not force states to expand their Medicaid programs by withholding federal funds to the existing Medicaid programs. Each state must now decide to either opt in or out of the federal expansion. Should the Commonwealth of Virginia decide to opt in to Medicaid expansion, it is estimated that as many as 425,000 additional people Statewide would be eligible for Medicaid benefits. In Henrico County, it is estimated that nearly 15,000 additional residents would qualify, which would more than double the existing population receiving Medicaid benefits in Henrico County. Clearly, this will have a significant impact on this trend. These are alarming trends for Henrico County, and clearly a warning trend continues for this indicator.

WARNING TREND: Declining or negative growth in market value of residential, commercial or agricultural property (constant dollars).

Formula:

Real Property Values (Constant Dollars)

Real Property Values:
Changes in real property values are important because most local governments depend on property taxes for a substantial portion of their revenues, and Henrico County is no exception. If a locality has a stable tax rate, the higher the aggregate property value, the higher the revenues generated. Localities experiencing rapid population and economic growth are also likely to experience growth in property values in the short-run. This is because in the short-run, the supply of housing is fixed and the increase in demand due to growth will force prices up.



The extent to which declining real property values affect a locality's revenues will depend on the locality's reliance on property tax revenue. The extent to which the decline will ripple through the local economy and affect other revenues is difficult to determine. However, all of the economic and demographic factors are closely related. Most probably, a decline in property values will not be a cause, but rather a symptom of other underlying problems.

Trends:
The above graph illustrates real property values in *constant* dollars for residential, commercial, and agricultural properties. As such, any increases in this indicator are reported after negating the "effect" of inflation. The increases in valuation reflected above have been mitigated by a reduction in the Real Estate Tax Rate in this period of time. Specifically, since CY00, the Real Estate Tax Rate has been reduced from $0.94/$100 to the current level of $0.87/$100 of assessed valuation. In looking at the historical Real Estate Tax rates for the County of Henrico, two facts are clearly evident. First, *stability* is clearly evident as the Real Estate Tax Rate was maintained at $0.98/$100 of assessed valuation for a period of *sixteen* consecutive years (CY80-CY95). The second trend that is evident is that since CY98, as property valuations have increased, the Board of Supervisors has mitigated these increases with prudent Real Estate Tax rate reductions that have been made without impacting the County's ability to meet debt obligations, capital infrastructure needs, and County operations, while also offering tax relief to County residents. This is a very difficult balancing act, but one that has been achieved because of the consistency of Board actions in establishing the Real Estate Tax rate on an annual basis.

In FY08, residential property values (in constant dollars) showed a slight decrease from the prior fiscal year, the first such decrease in this indicator since 1981, in spite of unadjusted residential property values increasing 4.7 percent. The property values noted in the graph are inflation adjusted (constant dollars), and in FY08 the consumer price index (CPI), commonly referred to when measuring inflation, yielded a 5.0 percent increase over the prior year, and as home prices began to stabilize after years of significant growth, prices did not increase at a comparable rate to inflation. In FY09, residential property values (in constant dollars) reflect a slight increase after the decline in FY08. The reasons for this increase are solely attributed to the deflationary environment in FY09, as the CPI posted a 1.4 percent decline from the inflated levels experienced in FY08. The market value of residential real estate actually slightly declined in FY09 by 0.3 percent. However, because of the decline in the CPI, the indicator reflects positive growth in real property values (in constant dollars).

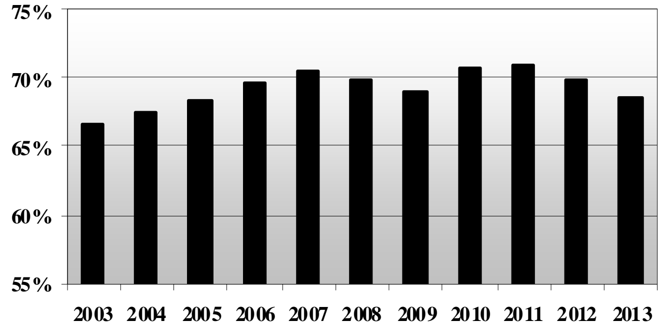
From FY10 through FY13, constant dollar residential property values declined 18.6 percent and constant dollar commercial property values declined 16.7 percent. Both residential and commercial property values, on a constant dollar basis, are below FY06 levels. In that same time period, the County lost $36.9 million in annual revenue from Real Estate Tax collections, particularly painful as this funding source represents one-third of the County's overall General Fund revenues. Residential foreclosures and increasing office space vacancies significantly impacted the local real estate market in this time period, and continue to remain at historically high levels. Until the County can bring back a substantial portion of the more than 8,500 jobs lost in this most recent recessionary economic environment, residential foreclosures will likely remain at high levels and commercial real estate, notably office space, will remain vacant. As such, a warning trend is noted for the immediate future.

In looking back at historical residential real estate price appreciation since the late 1800's, the average annual growth nearly always mirrors the annual inflation rate, as determined by the CPI. In fact, when adjusting real estate price appreciation by removing the inflation rate, and plotting these revised rates of appreciation on a line graph, the result is very close to a straight line with the exception of the "bubble" of the mid 2000's. When the real estate market finally stabilizes, it is very likely that real estate price appreciation will again begin to increase at a comparable rate to inflation levels – historically between 3.0 and 4.0 percent. As such, this indicator should reflect a "flattening out" effect long-term.

WARNING TREND: Increasing market value of residential development as a percentage of market value of total development.

Formula:

$$\frac{\textit{Market Value of Residential Development}}{\textit{Market Value of Total Development}}$$



Residential Development:
The net cost of servicing residential development is generally higher than the net cost of servicing commercial or industrial development. This is because residential development usually creates more expenditure demands (generally in the area of Education) than revenue receipts. The ideal condition would be to have sufficient commercial or industrial development to offset the costs of the residential development.

The location of new residential development is also important. Houses built on the outer fringe of a community can impose a far greater initial cost to local government than houses built within developed areas. This is because the locality must provide capital items such as streets, sewer lines, water mains, education facilities, and fire stations to service the new development. The extent to which new residential development affects the financial condition of a particular community will depend on the community's economy, tax structure, and expenditure profile. The County has determined that a 70.0 percent level of residential valuation is optimal.

Trends:
Residential development as a percentage of total property market value in Henrico County has ranged from a low of 66.7 percent in 2003, to a high of 71.0 percent in 2011. As reflected in the chart above, the indicator increased each year from 2003 to 2007, from 66.7 percent in 2003 to 70.6 percent in 2007. In 2008, the indicator fell below the benchmark of 70.0 percent to 69.8 percent and in 2009 dropped again to 69.1 percent. In 2010, the indicator rose to 70.8 percent, increased again in 2011 to 71.0 percent, before again falling below the 70.0 percent threshold, to 69.8 percent in 2012 and 68.6 in the most recent year, 2013.

Market value is slightly different from assessed value in that market value includes the value of land use properties that would be deducted when assessing the property for tax purposes. The County is required to report market value to the State. The indicator above does not reflect inflation-adjusted values.

From 2003 to 2007, increases in residential market values outpaced increases in the commercial segment of the market. As noted within the "Real Property Value" indicator, both the residential and commercial components of the Real Estate Tax base increased at rates that exceeded the rate of inflation. In this time period, the low interest rate environment spurred significant growth in residential real estate. Also, banks were lending funds to nearly any inquiring consumer, without regard to the borrower's ability to repay the loan. However, the factors that allowed the residential real estate market to thrive in this time span has been the driving factor behind the current struggles of the real estate market and the near collapse of the entire national financial sector. In 2008, increases in commercial values remained strong, but residential values began to show signs of slowing down, as reassessments increased only 2.6 percent in 2008. In total, residential market value increased 4.7 percent due to new construction, while total commercial market value increased 9.0 percent. As a result, the Residential Development indicator fell to 69.8 percent in 2008.

In 2009, the Residential Development indicator fell again, to 69.1 percent. As noted in the Real Property Value

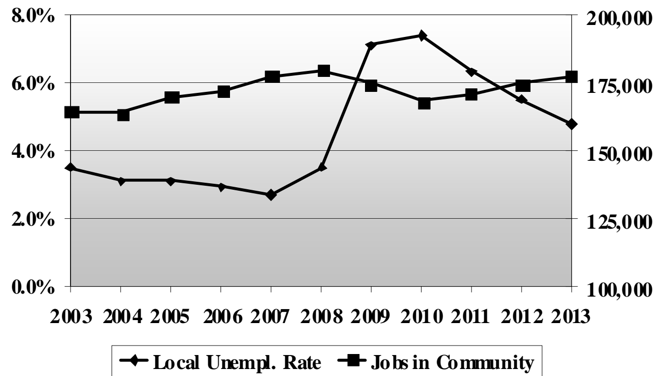
indicator narrative, residential real estate valuation actually declined by 0.3 percent in 2009, while commercial valuation increased over 3.1 percent. In 2010, because of sharp increases in vacant commercial real estate across the County, commercial valuations declined 13.0 percent as compared to a decline of 5.0 percent in residential real estate valuations. This large differential carried the Residential Development indicator to nearly 70.8 percent. Commercial valuations declined 1.5 percent in 2011, twice the decline of residential valuations that dropped 0.7 percent, increasing the indicator to 71.0 percent, the highest level in the eleven years examined. Slight improvement in the commercial real estate market in 2012 resulted in an overall increase of 0.7 percent in values, while residential real estate values dropped just under 5.0 percent. As such, the indicator fell back below the 70.0 percent threshold, to 69.8 percent.

Continued improvement in the commercial real estate market in 2013 resulted in an increase in commercial values that exceeded 4.0 percent due to tightening office vacancy rates and a growing trend of residents preferring apartments over single family homes. On the other hand, residential real estate values dropped 1.3 percent, the fifth consecutive year of declines. As a result of the large differential between residential valuation decline and commercial growth, this indicator dropped to 68.6 percent in 2013, the lowest level since 2004. Residential assessments in 2014 are anticipated to increase 2.8 percent, a sign the housing market is beginning to stabilize. However, until more evidence of stabilization is gathered, a warning trend will continue.

WARNING TREND: Increasing rate of local unemployment or a decline in number of jobs provided within the community.

Indicators:

Local Unemployment Rate and Number of Jobs within the Community



Employment Base:
Employment base considers both the unemployment rate and the number of jobs because they are closely related. This indicator is significant because it is directly related to the levels of business activity and personal income. Changes in the number of jobs provided by the community are a measure of and an influence on business activity. Changes in the rate of employment of the community's residents is related to fluctuations in personal income and, thus, is a measure of and an influence on the community's ability to support its local business sector.

If the employment base is growing, if its diversity provides a cushion against short-run economic fluctuations or a downturn in one sector, and if the employment base provides sufficient income to support the local business community, then it will have a positive influence on the locality's financial condition. A decline in employment base as measured by jobs or lack of employment can be an early warning sign of declining economic activity and thus, governmental revenues. The data source for this information is the Virginia Employment Commission.

Trends:
I. Unemployment:
Henrico County's unemployment rate, in the eleven-year period above, reflects a high of 7.4 percent in 2010, and a low of 2.7 percent for 2007. From 2003 to 2007, there is a distinct downward trend as the unemployment rate fell from 3.5 percent to the eleven year low of 2.7 percent. The second distinct trend began in 2008 as the unemployment rate shot up to 7.4 percent as a result of several business closing – most notably LandAmerica Financial, Circuit City, and Qimonda AG. Since 2010, the rate has steadily dropped as new jobs have steadily matriculated into Henrico County. In 2013, the rate crept down to 4.8 percent. While this rate is still high compared to Henrico's historical average of 3.5 percent dating back to 1988, the drop still represents great improvement compared to where the County was just a short time ago. Still, with the rate still elevated above where Henrico is used to seeing employment levels, a warning trend will continue, though it is not the concern it has been in recent years.

II. Number of Jobs:
From 2003 through 2008, the number of jobs in Henrico increased from 164,398 to a peak of 179,426. As a result of the economic downturn, by 2010, the number of jobs in Henrico declined to 168,142. Since 2010, the County has added back 9,398 jobs, and now totals 177,810, which is about the same number of jobs in 2007. In 2002, 2003, and 2004, the number of jobs reflected a decrease from the 170,793 level reported for 2001. The decrease can be attributed to the recession that encompassed 2002 and 2003. This recession led to a number of corporate layoffs in the Richmond Metropolitan Area. The recession also impacted the State of Virginia's budget and there were a number of State governmental jobs in this time period that were eliminated, downsized or privatized. In 2007, this indicator was impacted in a positive manner due to several large corporate entries into the Richmond Metropolitan Area as well as a number of new businesses that opened in Henrico. In 2008, the

number of jobs again increased.

As was the case in the last recessionary economic environment, 2009 and 2010 both reflected net declines in the number of jobs in Henrico County. In 2011, Henrico gained 2,439 jobs, reflecting growth of 1.5 percent from the previous year, and in 2012, Henrico added 4,047 jobs, growth of 2.3 percent. In the recession of 2002 and 2003, most of the jobs lost were due to corporate layoffs as a means to improve the company's bottom line. As the economy improved in the years that followed, these corporations began to hire once again, as evidenced by the annual job increases and declining unemployment rate from 2004 through 2008. Much different than the prior recession, in the most recent economic environment, the Metropolitan Richmond Area, notably Henrico County, lost a number of large, high-profile companies altogether, including two Fortune 1000 companies, Circuit City Stores and LandAmerica Financial, as well as the largest individual taxpayer in the County, Qimonda AG. In 2008, Circuit City Stores and Qimonda were the sixth and seventh largest employers in the County, respectively. With these companies no longer in existence, recovery will be much more difficult than after the recession of 2002 and 2003, as Circuit City, Qimonda, and LandAmerica Financial, as well as a number of other local businesses that have been forced to close their doors, cannot simply increase hiring when the economy shows signs of recovery. Because of the workforce size of the companies that the County has lost, to achieve substantial job growth in the County going forward will require the attraction of other large corporate entities. The recession claimed more than 14,000 jobs in the Metropolitan Richmond Area, with nearly two thirds of those in Henrico County.

A number of economic development announcements have been made recently, many of which will bring new jobs into the County. However, as noted above, it will take many years to make up for the 8,500 jobs Henrico lost in the most recent economic recession. As such, a warning trend continues to be noted for this indicator.

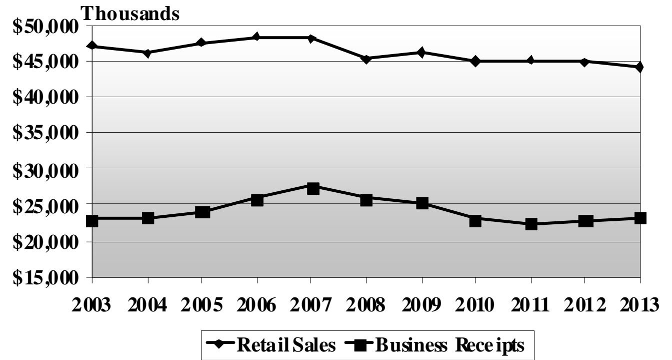
WARNING TREND: Decline in business activity as measured by retail sales and gross business receipts.

Indicators:

Local Retail Sales Tax and Business and Professional License (BPOL) Tax Receipts

Local Retail Sales and Business Receipts

(In Constant Dollars)



Local Sales Tax and Business and Professional License Tax (BPOL) Receipts: The level of business activity affects a locality's financial condition in two ways. First, it directly affects revenue yields as sales taxes and gross receipts taxes are products of business activity. Second, the effect of these indicators may be indirect to the extent that a change in business activity affects other demographic and economic areas such as employment base, personal income or property values. Changes in business activity also tend to be cumulative. A decline in business activity will tend to have a negative impact on employment base, personal income and/or commercial property values. This in turn can cause a decline in local revenues generated by businesses.

Trends:

I. Local Retail Sales Tax Receipts:

The above graph indicates that local sales tax receipts, in constant dollars, reflect a reduction from $47.1 million in FY03 to $43.9 million in FY13. The elasticity of this revenue stream is evidenced by the decline in FY08, which represents the beginning of the most recent recession. Prior to that, the more recent upward trends were marked by a healthy local and national economy as seen between 2004 and 2007.

In FY03, local sales tax receipts rebounded from the previous year, increasing by 7.1 percent representing the largest constant dollar increase since FY00. In FY04, inflation adjusted sales declined from $47.1 million to $45.6 million, decreasing by 2.4 percent from the previous fiscal year. This decline was driven by an increase in the inflation factor, which overshadowed the increase in local sales tax receipts. FY05 inflation adjusted sales of $47.4 million and the FY06 inflation adjusted sales of $48.2 million reflects increases of 3.2 percent and 1.7 percent, respectively. In FY07, inflation adjusted sales declined slightly from $48.2 to $48.0 million.

In FY08, inflation adjusted sales declined from $48.0 million to $45.1 million, a decrease of 6.0 percent from the prior fiscal year. This year-over-year decrease is by far the highest recorded in this eleven-year time period. The reasons for this decrease are twofold. First, as mentioned above, local sales tax collections are highly elastic and the recessionary economic environment present through much of FY08 hindered growth in this revenue source. It should be noted that real unadjusted local sales tax revenue declined 1.3 percent in FY08 from prior fiscal year collections. Second, like the Real Property Value indicator, the values noted in the graph are inflation adjusted (constant dollars), and in FY08 the consumer price index was measured at 5.0 percent, the largest such increase since 1989.

While the inflation factor negatively impacted inflation adjusted local sales tax collections in FY08, the reverse occurred in FY09. With the CPI actually *declining* in FY09, reflecting a period of deflation, inflation-adjusted sales tax collections posted a 2.1 percent growth. However, actual sales tax collections only increased by 0.7 percent in FY09. That being said, the fact that actual local sales tax collections grew in FY09, when all other elastic revenues were negatively impacted, should be considered a positive. The reason for this increase in FY09 is twofold. First, tax increment financing associated with Short Pump Town Center, the most successful shopping center in the Metropolitan Richmond Area since it opened its doors in 2003 and located in Henrico

County, received its final debt payment from the County. As such, all County revenues associated with this development, including local sales tax collections and BPOL receipts that previously were used to pay off debt, began depositing into County coffers in FY09. The second reason for the upswing in local sales tax collections in FY09 is the implementation of the "Henrico, VA" initiative, in which the majority of "Richmond, VA" addresses were changed to "Henrico, VA." This initiative was pursued because of revenue miscoding that misdirected millions of dollars in annual County revenue, including local sales tax collections and BPOL receipts, to the City of Richmond. Without the significant impact of Short Pump Town Center and the "Henrico, VA" initiative, the graph on the prior page would have shown a much less drastic increase, or perhaps even a decrease, in inflation adjusted retail sales in FY09.

With the economic struggles continuing into FY10, inflation-adjusted sales tax collections declined 2.6 percent to $44.9 million. However, like the recessionary economic environment in FY02, Henrico County's retail sales as a percentage of the total Richmond Metropolitan Area increased. In fact, from FY08 through FY12, Henrico increased its share of the total region's retail sales. Clearly, this can be attributed to the "Henrico, VA" initiative and the diversity of Henrico's retailers. In 2013, after beginning the year on pace to grow, sales tax receipts adjusted for inflation decreased to their lowest point in the examination period at $43.9 million. In addition, as of this writing, local sales and use tax collections are currently down 2.5 percent compared to where they were this time last year. While the County still maintains the lion's share of regional taxable sales, recent weakness in this area is beginning to become a concern. As such, a warning trend is noted.

II. Local Business and Professional License (BPOL) Tax Receipts:

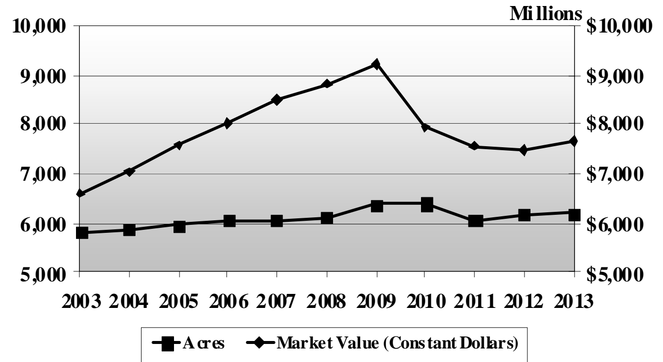
The graph for the eleven-year period shown on the preceding page indicates that from FY03 to FY07, local business license tax receipts, in constant dollars, were maintained at a level that kept up with inflationary changes. This is important because of the fact that between FY99 and FY00, the Henrico County Board of Supervisors phased in a tax reduction strategy (implemented in 1996), which reduced BPOL tax rates as a means of encouraging more businesses to locate in the County. The mostly positive trend in business and professional license tax receipts since this strategy was implemented strongly suggests that the tax reduction strategy was successful. FY05, FY06, and FY07 totals rebounded strongly from the recessionary period in 2002 and 2003, with constant dollar gains of 3.5 percent, 7.3 percent, and 6.3 percent, respectively.

Like local sales tax revenues, FY08 BPOL tax receipts (constant dollars) fell sharply due to the struggling economy and unusually high inflation. While this indicator reflects a significant decrease, real unadjusted BPOL tax revenue only reflected a slight decrease of 1.0 percent. It should be noted that in FY02, the beginning of the last economic recession, BPOL tax receipts declined 2.4 percent from the prior fiscal year, more than twice as high as in FY08. However, the recession present in FY02 was short lived, whereas the most recent recession lasted eighteen months (December 2007 through June 2009), the longest since the Great Depression, and the lingering effects of this most recent recession continue years after it officially ended. In FY09, inflation adjusted BPOL tax receipts declined by 1.8 percent and real unadjusted BPOL tax revenue declined by 3.2 percent. In FY10 inflation adjusted BPOL tax receipts declined by 9.5 percent, easily the largest decline in the eleven-year period examined, and real unadjusted BPOL tax revenue declined by 8.5 percent. In FY11 inflation adjusted BPOL tax receipts declined by 2.9 percent, but real unadjusted BPOL tax revenue increased slightly, by 0.8 percent. From FY09 to FY11, a number of businesses in the County were forced to close their doors. As new businesses have entered the County and join the existing diversified business community, BPOL tax receipts are again reflecting constant dollar growth after three years of declines, as adjusted BPOL tax revenue grew 2.3 percent in FY13. Unlike sales tax collections, no long-term warning trend is noted.

WARNING TREND: Decline in business activity as measured by commercial acres developed and market valuation of business property.

Indicators:

Number of Commercial Property Acres and Market Value of Business Property



Business Activity – Commercial Acres and Market Value of Business Property:
The level of business activity affects a locality's financial condition in two ways. First, it directly affects revenue yields to the extent that the number of business acres and value of business property may be considered products of business activity. Second, the effect of these indicators may be indirect to the extent that a change in business activity affects other demographic and economic areas such as employment base, personal income or property values. Changes in business activity also tend to be cumulative. A decline in business activity will tend to have a negative impact on employment base, personal income or property value. This in turn, can cause a decline in local revenues generated by businesses.

Trends:
I. Business Acres:
As shown in the graph above, business acreage steadily increased from 2003 to 2010, with 5,800 acres in 2003 to 6,393 in 2010. In 2011, business acreage dropped substantially to 6,064, but this is entirely due to a change in the calculation methodology for land use acreage by the Department of Planning, to be more compatible and consistent with the County's technological systems. The County, in fact, added 33 acres in 2011. Business acreage is defined as "*developed* commercial property for office and retail use." The data reveals that in the nine years from 2003 to 2010 and in 2012, the average annual increase in the number of business acres developed was 83.4. There were four years in which business acreage development exceeded this average. In 2003, the total acreage developed was 116 acres. In 2009, the total acreage developed was 253 acres, the largest annual increase in the eleven years examined, in spite of the slowing economy. A number of large commercial developments were completed in FY09, including 142 acres associated with a new shopping center, White Oak Village, and a number of businesses surrounding the mall. A number of new hotels were constructed in FY09 as well. In the most recent fiscal year, FY12, the total acreage developed was 125 acres, the second largest annual increase in the eleven years examined. This figure is encouraging after only 22 acres were developed in FY10 and only 33 acres were developed in FY11 during the recent economic downturn. The depth and length of the economic downturn impacted all real estate in FY10 and FY11, particularly commercial real estate, and commercial construction was virtually nonexistent as a number of existing properties remained vacant, particularly office space.

Commercial development and concentration is a key component to maintaining a low Real Estate Tax rate and ensuring that Henrico continues to increase the number of jobs in the community. The commercial component of the Real Estate Tax base is able to subsidize the costs incurred by residential development – particularly in the area of Education. Adjusting for FY11, the total increase of business acreage in this eleven-year period is 866.6 acres, reflecting growth of 15.2 percent.

II. Market Value of Business Property:
The eleven-year trend for this indicator, *in constant dollars*, has ranged from $6.6 billion in CY03 to $9.2 billion in CY09, before falling in each of the next three years, to $7.4 billion in CY12 before climbing in CY13 to $7.7

billion. The value of commercial properties is prone to devaluation when the supply of those properties is greater than the demand. Commercial valuations increased every year from FY01 to FY09. This increase occurred even during the recessionary period of CY02 and CY03 and the economic downturn in CY08 and CY09. However, entering the third year of the most recent recessionary economic environment, the supply of vacant office and retail space increased significantly due to a number of businesses closing their doors. The result was an overall reduction in the commercial tax base of more than 13.0 percent in FY10. Another decrease in the commercial tax base of 1.5 percent occurred in CY11 due to the continued elevated supply of vacant office space. In the most recent year, CY12, the commercial market improved slightly, and values increased 0.7 percent, though not enough to keep up with inflation, as reflected in the indicator above, which fell just under 1.0 percent in CY12. From CY10 to CY12, constant dollar commercial market values declined 18.9 percent.

Improvement in the commercial real estate market continued from January 2012 to January 2013, as commercial reassessments reflect an increase of $280 million or 3.0 percent from the prior year. This figure does not include new commercial growth, which is still being calculated at this writing. Looking into the future, commercial real estate will continue to rebound slowly as jobs continue to gradually matriculate back into the County after the substantial losses during the economic downturn. A full commercial real estate market recovery is likely a number of years away, though recent growth is encouraging. As such, the warning trend noted last year is lifted; however, the County remains cautious in the near term due to the likelihood that it will take a number of years to fully recover the losses of the past three years, which may impact this indicator negatively is values fail to keep up with inflation levels.

FINANCIAL INDICATORS DISPLAYED GRAPHICALLY

Description	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues Per Capita	2,441.6	2,513.9	2,573.8	2,628.1	2,731.1	2,711.0	2,780.5	2,627.3	2,464.0	2,414.9	2,387.3
Expenditures Per Capita	2,353.5	2,405.3	2,429.2	2,463.1	2,528.5	2,575.5	2,658.7	2,641.7	2,451.3	2,417.2	2,379.0
(In Constant Dollars)											
Intergovernmental Revenues (without PPTRA)	35.2%	36.5%	37.2%	36.2%	37.9%	38.9%	40.0%	39.5%	39.4%	39.7%	40.7%
Intergovernmental Revenues (PPTRA only)	5.0%	4.7%	4.2%	4.9%	4.0%	3.8%	3.7%	3.9%	3.9%	3.9%	3.8%
Elastic Tax Revenues	10.9%	10.2%	10.1%	10.0%	9.6%	9.0%	8.6%	8.8%	9.2%	9.4%	9.3%
(as a % of Net Operating Revenue)											
Property Tax Revenues	240,665	250,867	268,436	284,146	302,291	309,002	319,268	309,631	287,763	281,094	277,143
(In Constant Dollars)											
Uncollected Property Tax Revenues	0.6%	0.6%	0.6%	0.5%	0.5%	0.5%	0.7%	1.0%	1.1%	1.3%	1.4%
(as a % of Total Levy)											
User Charge Coverage	55.3%	50.6%	53.0%	52.4%	50.1%	48.0%	48.2%	50.6%	52.5%	51.0%	51.9%
(Revenues/Expenditures)											
Revenue Shortfalls	-2.1%	-6.6%	-3.1%	-5.4%	-5.1%	-5.8%	-1.2%	-0.2%	-1.2%	-0.5%	-1.3%
(as a % of Net Operating Revenue)											
Employees Per Capita	13.0	13.0	12.8	12.9	13.0	13.1	13.1	12.7	12.6	12.5	12.3
(Employees per thousand population)											
Fringe Benefits	26.1%	26.7%	27.6%	28.4%	31.3%	32.2%	33.1%	32.8%	33.0%	34.5%	33.9%
(as a % of Salaries)											
Operating Surpluses	3.5%	3.9%	6.2%	8.5%	9.6%	6.9%	5.0%	1.6%	1.2%	0.1%	0.0%
(as a % of Net Operating Revenue)											
Enterprise Losses (In Constant Dollars)	11.400	9.624	5.168	9.403	3.193	4.298	(0.735)	(0.608)	(1.691)	(0.529)	3.462
General Fund Balances	14.3%	14.2%	13.8%	13.3%	13.3%	13.5%	14.0%	14.3%	14.2%	12.3%	11.8%
(as a % of Net Operating Revenue)											
Liquidity	248.5%	271.1%	266.0%	294.9%	297.1%	342.2%	232.2%	339.4%	335.4%	288.2%	275.5%
(Cash & Investments as a % of Current Liabilities)											
Current Liabilities	11.3%	10.6%	11.2%	9.7%	9.7%	8.9%	13.8%	9.7%	9.8%	11.2%	10.9%
(as a % of Net Operating Revenue)											
Long Term Debt	1.6%	1.5%	1.2%	1.2%	1.2%	1.1%	1.4%	1.4%	1.6%	1.7%	1.6%
(as a % of Assessed Valuation)											
Debt Service	5.4%	5.1%	4.7%	5.0%	5.2%	5.3%	5.3%	5.8%	5.5%	5.8%	6.3%
(as a % of Net Operating Revenue)											
Accumulated Employee Leave Liability	23.1	23.3	23.2	23.0	22.5	24.5	24.6	26.0	24.7	25.0	25.1
(in Days)											
Level of Capital Outlay	3.9%	3.4%	3.5%	3.5%	3.0%	3.1%	2.9%	3.2%	3.2%	3.1%	2.4%
(as a % of Net Operating Expenditures)											

FINANCIAL INDICATORS DISPLAYED GRAPHICALLY

Description	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Depreciation	1.8%	1.8%	2.2%	2.7%	2.9%	2.7%	2.8%	2.8%	2.7%	2.8%	2.7%
(Depreciation Expense as a % of Assets)											
Population	274.847	281.069	288.735	293.382	299.443	302.518	305.580	307.832	311.726	315.157	318.158
Per Capita Income (restated)	37.059	40.246	40.036	42.459	44.079	45.911	44.423	43.151	44.529	N/A	N/A
Public Assistance Recipients	7.8%	8.4%	8.9%	9.8%	11.5%	12.2%	13.7%	14.7%	15.7%	16.1%	17.9%
(as a % of Total Population)											
	19.8015	21.5980	23.9280	26.5107	28.9016	29.1671	29.7871	27.1667	25.9807	24.7078	24.3671
Property Values	7.9711	9.0727	10.7879	10.7935	9.0189	0.9184	2.1257	-8.7969	-4.3656	-4.8994	-1.3789
(In Constant Dollars)											
Residential	13.035	14.352	16.100	18.192	20.071	20.021	20.246	18.958	18.172	16.985	16.478
Commercial	6.590	7.024	7.567	8.024	8.486	8.810	9.216	7.932	7.547	7.473	7.651
Agricultural	0.177	0.222	0.261	0.294	0.344	0.336	0.326	0.277	0.262	0.249	0.238
Residential Development (includes agric)	66.7%	67.5%	68.4%	69.7%	70.6%	69.8%	69.1%	70.8%	71.0%	69.8%	68.6%
(as a % of Total Property)											
Employment Base											
Local Unemployment Rate	0.0350	0.0310	0.0310	0.0290	0.0270	0.0350	0.0710	0.0740	0.0630	0.0550	0.0480
Jobs in Community	164,398	163,525	170,183	172,216	177,744	179,426	174,758	168,142	170,581	174,628	177,810
Business Activity - #1											
(In Constant Dollars)											
Retail Sales	47,095.81	45,945.28	47,424.09	48,214.66	48,016.59	45,120.86	46,081.45	44,877.06	45,043.73	44,759.30	43,940.10
Annual Business Receipts	23,013.36	23,282.04	24,093.83	25,848.93	27,478.75	25,899.16	25,420.41	23,015.63	22,354.70	22,803.96	23,319.41
Business Activity - #2											
Market Value of Business Property	6,589.69	7,024.10	7,566.71	8,024.31	8,486.15	8,809.68	9,215.64	7,931.72	7,546.52	7,473.38	7,651.46
Acres Devoted to Business	5,800.43	5,897.00	5,954.00	6,032.00	6,062.00	6,118.00	6,371.00	6,393.00	6,064.00	6,189.00	6,211.00

GENERAL FINANCIAL AND ECONOMIC DATA

Item	Description	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1.3	Cash & Short Term Investments	187,865	209,971	234,085	242,879	268,646	298,304	320,117	314,414	309,643	308,287	289,131
1.4	Accounts Payable	47,298	49,607	54,607	46,617	51,420	49,407	53,262	48,284	48,717	53,348	52,155
1.7	Principle due in 12 months	23,351	23,132	27,038	29,870	33,224	30,749	74,560	32,810	32,825	38,725	38,510
1.8	Other Current Liabilities	4,939	4,700	6,354	5,875	5,771	7,021	10,025	11,557	10,769	14,881	14,284
1.9	Total Current Liabilities	75,587	77,439	87,999	82,362	90,414	87,177	137,847	92,651	92,311	106,954	104,950
1.10	Net Direct Long Term Debt	314,423	329,992	306,861	357,638	399,683	396,269	503,505	460,535	499,930	533,180	492,025
1.12	Cost Depreciable Fixed Assets	831,112	880,456	922,326	957,377	982,096	1,015,665	1,051,575	1,080,905	1,109,368	1,124,786	1,143,806
1.13	Depreciation Expense	15,186	16,028	19,995	25,879	28,010	27,596	28,928	30,566	30,439	31,308	30,993
1.14	General Fund Operating Surplus	23,220	28,457	48,896	72,364	88,984	67,853	49,565	15,123	11,751	533	336
1.15	Enterprise Operating Results	11,400	9,939	5,472	10,386	3,622	5,120	(863)	(721)	(2,078)	(661)	4,400
1.16	General Fund Balances	126,950	140,670	161,517	199,079	207,453	239,708	252,549	246,603	230,524	221,639	197,540
1.17	General Fund Restricted Balances	31,298	36,718	53,132	85,442	84,029	107,615	113,094	109,831	96,798	104,751	83,364
1.18	General Fund Unrestricted Balances	95,652	103,952	108,385	113,637	123,424	132,093	139,455	136,771	133,727	116,888	114,175
1.19	Uncollected Property Taxes	1,553	1,678	2,037	1,638	1,901	2,035	2,700	3,604	3,737	4,604	5,025
1.20	Full Property Tax Levy	265,314	287,938	324,712	339,091	352,305	369,930	380,661	365,522	349,269	347,803	357,613
2.1	Property Tax Revenues	240,665	259,061	284,218	313,845	342,937	368,044	374,884	367,444	353,555	351,142	352,275
2.2	Committed User Charges	24,135	23,907	26,143	28,316	29,127	28,850	29,884	30,409	30,207	31,424	31,336
2.3	Uncommitted User Charges	8,961	9,646	9,744	9,988	6,745	2,845	2,846	3,261	3,321	3,152	3,323
2.4	Other Revenue greater than 5%	109,465	116,443	118,320	125,617	125,927	122,796	125,309	119,791	127,013	129,354	125,872
2.5	Other Revenue less than 5%	17,806	20,081	22,479	23,470	33,800	37,612	28,837	22,822	21,028	21,220	22,343
2.6	Total Local Operating Revenue	401,031	429,137	460,904	501,236	538,535	560,147	561,760	543,727	535,125	536,292	535,150
2.7	Intergovernmental Operating Revenue	270,034	300,535	325,935	350,394	389,249	416,686	435,925	416,038	408,589	414,459	430,280
2.7	Intergovernmental Operating Revenue (without PPTRA reimbursements)	236,387	266,444	292,612	308,263	352,028	379,686	398,923	379,036	371,587	377,457	393,278
2.10	Gross Operating Revenues	671,066	729,672	786,839	851,629	927,785	976,833	997,685	959,765	943,714	950,751	965,430
2.13	Net Operating Revenues	671,066	729,672	786,839	851,629	927,785	976,833	997,685	959,765	943,714	950,751	965,430
2.14	Restricted Operating Revenues	204,837	231,539	262,136	280,148	317,359	328,348	354,849	342,338	334,134	337,427	353,406
2.15	Elastic Operating Revenue	73,331	74,509	79,200	85,208	89,286	87,579	86,099	84,217	87,182	89,098	90,097
2.17	Net Operating Revenue Budgeted	657,000	681,735	762,685	806,056	880,557	920,221	986,094	957,860	932,150	946,188	953,214
3.1	Salaries and Wages	346,539	363,879	393,160	413,031	440,213	464,016	487,694	480,659	472,724	480,853	495,822
3.2	Fringe Benefits	90,538	97,282	108,505	117,379	137,938	149,220	161,362	157,582	156,088	165,696	167,899
3.3	Supplies	27,386	28,252	31,976	34,433	36,858	40,764	43,737	41,682	46,168	43,383	42,775
3.4	Services	78,659	94,074	93,720	88,068	109,413	117,670	107,968	120,657	113,118	109,529	105,315
3.5	Capital Outlay	25,398	23,678	25,788	28,075	25,447	28,322	27,403	31,049	29,983	29,924	23,210
3.6	Principal-Long term Debt	21,792	22,986	22,747	26,633	29,450	32,779	30,284	34,880	32,300	32,290	38,510
3.7	Interest-Long term Debt	14,439	13,961	14,466	15,598	18,588	18,900	22,339	21,191	19,722	23,035	22,393
3.8	Total Direct Debt	36,231	36,947	37,213	42,230	48,038	51,679	52,623	56,071	52,022	55,325	60,903
3.9	Other Expenditures	34,656	46,093	44,101	54,842	36,926	52,400	50,416	52,285	45,527	43,982	41,361
3.10	Internal Service Fund Transfers	7,441	7,930	8,173	20,083	24,113	23,917	22,764	25,058	23,195	22,949	24,815
3.11	Total Net Operating Expenditures	646,848	698,136	742,636	798,141	858,946	927,990	953,967	965,044	938,824	951,640	962,100
3.12	Number of General Government Employees	3,561	3,640	3,694	3,774	3,895	3,953	4,000	3,915	3,927	3,927	3,927
3.13	Unused Annual Leave (in days)	82,182	84,862	85,661	86,980	87,502	96,971	98,411	101,636	96,974	98,048	98,496
3.14	Unused Sick Leave (in days)	255,593	257,590	261,646	267,779	272,360	270,336	280,842	284,267	288,847	292,650	286,114
3.15	Expenditures Covered by Charges	43,674	47,267	49,296	54,040	58,176	60,157	61,944	60,144	57,538	61,630	60,360
7.1	Population (Calendar Year)	274,847	281,069	288,735	293,382	299,443	302,518	305,580	307,832	311,726	315,157	318,158

GENERAL FINANCIAL AND ECONOMIC DATA

Item	Description	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
7.3	Total Personal Income (Thous. of $)	10,065,647	11,106,399	11,234,015	12,125,029	12,758,972	13,437,921	#########	13,265,139	13,823,694	N/A	N/A
	Per Capita Income	37.059	40.246	40.036	42.459	44.079	45.911	44.423	43.151	44.529	N/A	N/A
7.4	Public Assistance Recipients	21,369	23,628	25,591	28,656	34,469	36,799	41,809	45,255	49,093	50,801	56,898
7.6	Market Value of Property (Mil. of $)	19,801	22,303	25,335	29,282	32,788	34,740	34,976	32,239	31,921	30,865	30,973
7.8	Market Value-Residential (Mil. of $)	13,035	14,821	17,047	20,093	22,770	23,847	23,772	22,497	22,327	21,218	20,945
7.9	Market Value-Commercial (Mil. of $)	6,590	7,254	8,012	8,863	9,627	10,493	10,821	9,413	9,272	9,336	9,726
7.10	Market Value-Agricultural (Mil. of $)	177	229	277	325	391	400	382	329	322	311	302
7.11	Residential Households (Calendar Year)	116,345	119,107	121,505	123,457	125,972	127,046	128,529	129,781	130,482	131,044	131,652
7.12	Vacancy Rates-Residential (Calendar Year)	1.4%	1.4%	1.5%	1.5%	1.6%	1.6%	1.6%	1.6%	2.5%	2.4%	2.0%
7.15	Local Unemployment Rate	3.5%	3.1%	3.1%	2.9%	2.7%	3.5%	7.1%	7.4%	6.3%	5.5%	4.8%
7.16	Jobs Within Community	164,398	163,525	170,183	172,216	177,744	179,426	174,758	168,142	170,581	174,628	177,810
7.17	Retail Sales (Thous. of $)	47,096	47,446	50,212	53,254	54,473	53,742	54,109	53,256	55,342	55,913	55,852
7.19	Annual Business Receipts (Thous. of $)	23,013	24,042	25,510	28,551	31,174	30,848	29,849	27,313	27,466	28,487	29,641
7.20	Business Acres (Calendar Year)	5,800	5,897	5,954	6,032	6,062	6,118	6,371	6,393	6,064	6,189	6,211
7.21	CPI	183.7	189.7	194.5	202.9	208.4	218.8	215.7	218.0	225.7	229.5	233.5
7.22	CPI-Index	1.0000	1.0327	1.0588	1.1045	1.1345	1.1911	1.1742	1.1867	1.2286	1.2492	1.2711

ECONOMIC DATA SOURCES

External Sources:

Bureau of Economic Analysis

Bureau of Labor Statistics

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Virginia Employment Commission

Evaluating Financial Condition,
A Handbook for Local Government
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Federal Reserve Bulletins

Periodicals:
  Richmond Times-Dispatch
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A Review of Richmond and Global Trends in Commercial Real Estate
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A Sampler of Economic and Demographic Characteristics for the Richmond-Petersburg Metropolitan Statistical Area
Published by the Richmond Regional Planning District Commission

U.S. Census Bureau

Virginia Economic Indicators
Virginia Employment Commission

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Internal Sources:

Department of Human Resources, Annual Reports

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Henrico County Approved Annual Fiscal Plans, FY02 – FY12

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