COMMONWEALTH OF VIRGINIA
COUNTY OF HENRICO

Virgil R. Hazelett, P.E.
County Manager

March 23, 2010

The Honorable Board of Supervisors
County of Henrico
Virginia

Honorable Members of the Board:

I am pleased to submit to you the Proposed FY2010-11 Annual Fiscal Plan for the County of Henrico. Without question, this budget process has been the most difficult in my eighteen years as County Manager. The budget before you is balanced within existing tax rates, preserves the quality services the County's citizens expect, and continues the County's long history of avoiding staff layoffs.

We have been able to accomplish this in the midst of a "perfect storm" within our revenue streams. Our revenue projections for FY2010-11 reflect unprecedented declines in the area of real estate and State Aid. The future outlook for the health of State finances and the local economy causes great concern. While the national economy may be recovering from the recessionary environment of the past two plus years, the unfortunate truth is that the economic indicators that impact state and local government revenues are all lagging. In other words, while the economy may grow at the national level, it will take a number of months, possibly even years, before this translates into revenue growth locally. With these things in mind, I asked staff to look beyond the immediate year in order to ensure that the efforts the County has made to reduce expenditures in the coming fiscal year can be sustained in the years ahead. Within that context – while the FY2010-11 budget has presented a significant challenge in resource allocation – it is my belief that next year's FY2011-12 budget may prove to be equally, if not more demanding.

In developing the Proposed Budget, all County departmental operations and services have been meticulously reviewed and analyzed to identify additional efficiencies. With these increased efficiencies, and associated cost savings, this budget maintains all services. That being said, I must caution you that if local revenues sag further than anticipated or if the General Assembly reduces State Aid to localities further than this budget projects, service delivery in the future may be impacted.

Because of realized efficiencies, Henrico County is one of very few local governments in Virginia that has not proposed raising its tax rate, staff layoffs, or require furloughs in an effort to maintain a balanced budget in this very trying year. However, we have implemented a number of actions that are entirely unique for the County of Henrico. Specifically:

- Within the General Government budget, 101 vacant positions have been eliminated.

- The Proposed Budget for General Government is built on a turnover rate of 2.5 percent. This is the first time the County has "budgeted" anticipated turnover.

(804) 501-4206 PARHAM & HUNGARY SPRING ROADS/P.O. BOX 90775/HENRICO, VIRGINIA 23273-0775
FAX (804) 501-4162

- Operating reductions have been made across all General Government areas. This is the second consecutive year that across the board reductions have been made.

- Within the Education budget submitted by the Superintendent and approved by the School Board:

    - 123 positions will be eliminated through attrition.

    - The pupil-teacher ratio (PTR) for schools has been increased by 0.75.

    - Replacement of 16 buses is deferred for one year.

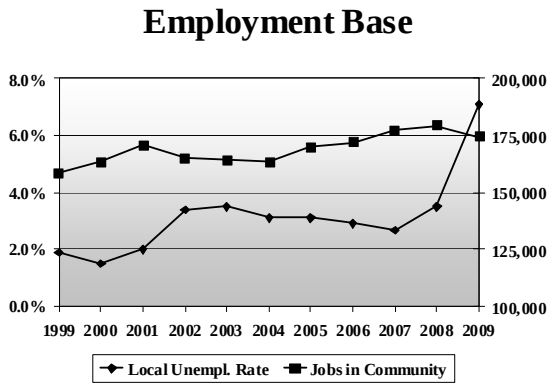
    - Operating costs within all Education cost centers have been reduced by 20.0 percent, across the board.

The Proposed Budget before you has utilized the most recent information we have in regards to both local and State revenues. In fact, the introduction of this budget was delayed to ensure that you were presented a budget built and balanced with the most recent revenue assumptions. It is my firm belief that presenting to you a budget balanced on unsupported assumptions and making difficult decisions based on those assumptions, would damage the credibility this County has worked so hard to achieve.

What follows is a discussion of the economic climate that we have weathered during the development of this budget, and the ensuing impact to revenue collections.

Lingering Effects of a Troubled Economy

The United States officially entered into a recession in December 2007. At this writing, it appears as if the nation has emerged from the recession, although the lagging indicators – unemployment, real estate, consumer spending, etc. – continue to show signs of economic distress. Unfortunately for the State and its localities, these lagging indicators are the primary drivers of revenue growth.

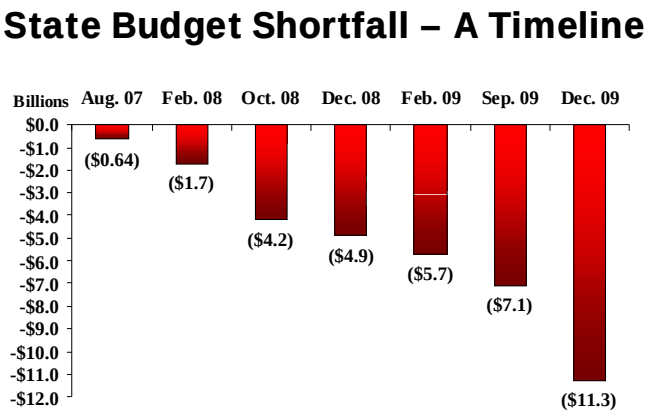


The most important economic indicator – the area that impacts virtually every facet of State and local revenues – is jobs. With the substantial loss of jobs on the State and local levels throughout this economic downturn, a number of revenues have been significantly impacted. The struggling residential and commercial real estate markets have impacted real estate tax revenues for localities and recordation tax revenues to the State. Local sales tax receipts have declined and the number of new vehicle purchases has fallen as consumers spent less on discretionary items. The State's largest revenue source is income tax receipts - corporate and individual – which are clearly impacted by job loss. While there are many macroeconomic factors influencing these economic indicators, the loss of jobs remains the central issue.

As of this writing, in the Metropolitan Richmond Area, over 14,100 jobs have been lost since January 2008, of which nearly two-thirds were in Henrico County. Included in that figure is the closing of Qimonda and the bankruptcies of LandAmerica and Circuit City. While the County's unemployment

rate has improved somewhat since its high of 7.6 percent in June 2009, it remains higher than the State's unemployment rate and more than twice levels seen just two years ago. Aggressive economic development efforts to attract new corporations into the County continue and are yielding results. These efforts are underway, with recent expansion announcements by Bank of America, the decision by Admiral Group Inc. to base its U.S. automobile insurance market efforts in Henrico, expansion of T-Mobile efforts in the County, as well as the Smurfit expansion in eastern Henrico County. While these are all positive signs for the County, it will likely take a number of years to achieve unemployment rates and job growth levels seen just two years ago. The County's ability to continue providing high quality services with a consistently low tax burden will continue to play a large role in the County's future economic development efforts.

State Revenues



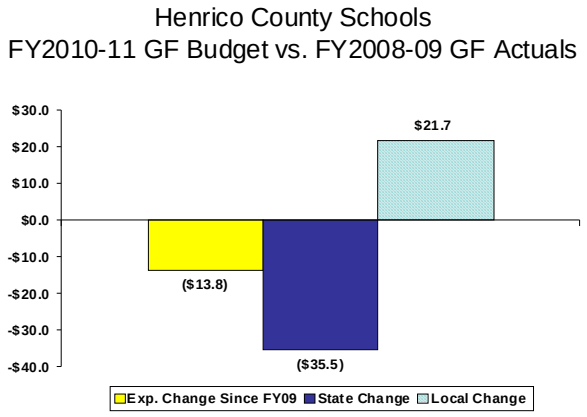
The State of Virginia's budgetary deficits have created a significant strain on local resources and they will continue to do so into the foreseeable future. While the headlines are new, the trend of downward revenue corrections and ensuing budget reductions has been a recurring theme throughout this economic downturn, as evidenced in the graph to the right. As of this writing, through FY2009-10, the General Assembly has made over $7.0 billion in expenditure cuts since FY2007-08 to offset budget shortfalls – much of which have been made on the backs of localities. These reductions have resulted in significant cost shifts from the State to localities. In fact, in the three-year period between FY2007-08 and FY2009-10, the State has reduced State Aid to Henrico County by more than $39.0 million. Of this $39.0 million reduction, over $30.0 million is attributed to State Aid for Education. General Government has been cut by approximately $9.1 million in the past three fiscal years.

In the coming 2010-2012 Biennial Budget, the State estimates an additional $4.2 billion budget shortfall, which will result in even greater cuts in State Aid to localities. In fact, overall State revenues in the General Fund alone are estimated to fall by $31.0 million or 10.1 percent in the FY2010-11 Proposed Budget as compared to the FY2009-10 Adopted Budget. As noted earlier, the majority of this reduction takes place in the area of Education. In the FY2010-11 Proposed Budget, State Aid for Education is projected to decline by $27.3 million or 12.1 percent from the FY2009-10 Adopted Budget. This is in spite of Education projecting the addition of 115 students in FY2010-11, and the opening of two new schools – Glen Allen High School and Holman Middle School – in September 2010. While State aid for Education has been reduced by $27.3 million, Education's budget is being reduced by only $21.8 million, as County aid for Education is proposed to increase by $5.5 million – in spite of a large reduction in overall local revenues.

In comparing FY2008-09 actual expenditures and revenues to the FY2010-11 Proposed Budget, in the area of Education, General Fund expenditures have declined by $13.8 million overall. In that time frame, State Aid for Education has been reduced by $35.5 million, while County funding for Education has increased $21.7 million. Put another way, Education's reduced expenditures of $13.8 million since FY2008-09 is entirely a result of reductions in State aid. The fact that the past two budgets have made that commitment to the County's Education system in this economic environment demonstrates the

steadfast commitment of the Board of Supervisors to ensuring that our quality Education programming is in fact – second to none.

In the FY2010-11 Proposed Budget, State Aid for General Government areas was reduced further by another 4.6 percent. In comparison to FY2008-09 actual revenues, FY2010-11 estimates reflect a reduction of $16.5 million in the two-year time frame, or an overall 17.8 percent reduction. Including aid for Education, overall State Aid has declined $51.9 million since FY2008-09, a reduction of 15.9 percent in just two years.



In the FY2009-10 Adopted Budget and FY2010-11 Proposed Budget, the following areas reflect reduced State Aid:

- Funding for Education
- Funding for Education infrastructure (elimination of Lottery funds for Capital Projects in FY2009-10)
- Constitutional Officers (All)
- Electoral Board
- House Bill #599 funds for Public Safety
- Mental Health
- Social Services
- Virginia Juvenile Community Crime Control Act (VJCCCA) Funds
- Funding for Roads Infrastructure (elimination of Gas Tax allocation for road construction from budget in FY2009-10 and in FY2010-11 – if construction funding is awarded, these funds will be appropriated via budget amendment)
- Victim/Witness
- Funding for Libraries
- Juvenile Detention including the James River Juvenile Detention Center
- Fire Program Funds

In fact, in looking at revenues from the State, there is no single area that has not been impacted. The State funding reductions will impact how Henrico County and other localities in Virginia operate for a number of years. However, the difference between Henrico's approach and that of other Virginia localities is reflective of Henrico's success in a multi-year budgeting approach which ensures actions taken in one budget do not prove detrimental to future budgets.

In programs where State funding has been reduced, the County has made a case by case examination before increasing local aid contributions. In many cases, local aid has increased. While I was extremely reluctant in increasing local support, many of the State's reductions leave us no choice on the local level. If the County were to pass on reductions in State Aid to the Sheriff's Office or to Police due to cuts in House Bill #599 funding, then significant public safety issues arise. In the area of Education, dollar-for-dollar reductions would have resulted in layoffs and devastation to the County's Education system, which is largely driven by personnel costs. Overall, I firmly believe that when the State chose to impose across the board reductions in areas such as our Constitutional Officers and House Bill #599 funding, it was done with the understanding that most localities would have to fund cost differentials.

While we have been successful in managing our resources with reduced State resources in the current year and in the Proposed Budget, the simple fact is that State Aid must increase in future budgets if service delivery is to remain at quality levels. The State provides over one-third of our General Fund resources, and reductions or even lack of growth to one-third of General Fund revenues cannot be sustained for an extended period of time – by any local government.

With the continued uncertainty in the economy and State funding, balancing this budget required us to make a number of revenue assumptions in this Proposed Budget. **This budget was prepared prior to the final budget estimates adopted by the General Assembly**. The following is an overview of fundamental decisions and assumptions made in this budget.

Revenue Assumptions

- The County continues to utilize the most up-to-date sales information in determining the assessed values of real estate and this continues to be the case as assessed values are based on sales information as of the end of calendar year 2009. Using the most recent sales data has resulted in an unprecedented **overall decrease in real estate market value of $2.7 billion, or 7.8 percent.** This marks the first time since 1942 - when the City annexed 47 percent of the County's tax base - that Henrico County's real estate valuation actually declined. While the residential real estate market continued to struggle, losing 5.5 percent in valuation, commercial real estate posted a decline in valuation of over 13.0 percent.

- As in the past, the revenue estimates in the Proposed Budget have been prepared with extreme caution. This is particularly the case for estimates of our elastic revenue sources such as Local Sales Tax, Business and Professional License Tax, Business Personal Property Tax, as well as fees received from new building permits. Currently, Local Sales Tax receipts are lagging those of last year by 4.8 percent, the smallest year-over-year decline in the Richmond region through seven months of collections. Individual personal property valuations and BPOL receipts are expected to remain flat, at best. Considering the magnitude of job loss in the County over the last two years, and the reduction in the commercial tax base, one would expect these elastic revenues to suffer much more than projected. However, the "Henrico, VA" initiative has, without a doubt, played a significant role in the County retaining much of these revenues, as the County's tax base becomes more defined. Projections indicate that the "Henrico, VA" initiative has benefited the County by as much as $8.0 million per annum. As always, these elastic revenues will continue to be monitored closely and adjustments will be made, if necessary.

- The ever-growing State budget shortfall and the inability of the State to meet its financial obligation to localities continue to be a serious concern. State aid estimates included in the Proposed Budget are based on the respective House of Delegates' and Senate's approved budgets. That being said, the County has taken a very cautious approach in estimating these revenues. If in fact projected State revenues do not materialize, a budget adjustment may be necessary. It is also important to note that the State anticipates the supplanting of millions of General Fund dollars in FY2010-11 with federal funding of varying sorts, an option that is suspect, at best. As noted earlier, it is imperative that the County take a multi-year approach to this budget, and there must be consideration that State revenues will be reduced further in FY2011-12 to make up for the loss of federal stimulus funds.

Finding Efficiencies in Expenditures: Doing More With Less

- Since October 2008, the County has been under a more restrictive "hiring freeze" in which only those positions deemed critical to the provision of existing service levels were approved for recruitment. This decision has proven critical in the current fiscal year in balancing expenditures

to mid-year reductions in State Aid to Henrico County, as well as significant reductions in local revenues. At this writing, the hiring freeze has generated in excess of 220 vacant positions across all General Government departments. To address the sharp declines in State and local revenues in this Proposed Budget, as well as prepare for possible further revenue reductions in the future, it is imperative that we recognize these personnel savings not just for this proposed budget, but also in FY2011-12 and beyond, if necessary. As such, I recommend that the County eliminate 101 of the County's vacant positions, across all funds. This decision has been a very difficult one to make, as every addition to the County's complement requires an exhaustive evaluation of the need for that position; therefore every position.

- All known fixed operational costs will be funded with current revenues and service delivery efforts will continue at high quality levels for all operational areas. To achieve this, all General Government departments were allocated a number of expenditure reductions in their respective operations. This required across-the-board reductions as well as department specific reductions to targeted line items. Due to concerted efforts by Information Technology staff, continued efficiencies in telecommunications costs have been realized. In fact, these efforts will save the County approximately $1.0 million annually. Also, the allocation for future replacement of equipment in the technology replacement fund is being reduced by 20.0 percent. This is based on the assumption that the majority of computer equipment can be replaced on a four- or five-year cycle as opposed to the previous three-year cycle standard. Travel and tuition costs have been withdrawn from all departmental budgets, with the exception of the budget for Countywide training programs allocated in Human Resources. Also, funding to outside agencies has been reduced by ten percent across the board.

- Gasoline and diesel costs have been reduced in this budget to bring cost estimates more in line with actual costs. The County continues its efforts to downsize the cylinder size for vehicles in the fleet. When a vehicle is scheduled for replacement, the use of the vehicle will be reviewed to determine if a smaller sized vehicle will meet the user's needs. As such, an eight-cylinder vehicle will be replaced with a six-cylinder vehicle and a six-cylinder vehicle will be replaced with a four-cylinder vehicle. Since FY2008-09, 54 vehicles that were ½ ton and below in size and scheduled for replacement were downsized. This trend will continue into FY2010-11 and beyond.

- Utility costs, such as electricity and natural gas costs, have also been reduced to more accurately reflect prior year expenditures. The County's Energy Reduction and Environmental Sustainability Program has yielded permanent cost savings in the County's utility costs. Both Schools and General Government have adopted a Leadership in Energy and Environmental Design (LEED) initiative for new facilities, which will conserve energy use in these buildings. Individual initiatives, such as the installation of LED traffic lights, the landfill gas-to-energy project, and Central Automotive Maintenance's efforts to utilize waste oil for heat, have all contributed to the overall success of Henrico's sustainability efforts. In fact, estimates indicate that these efforts have saved the County approximately 580 trillion British Thermal Units (BTU's) in energy consumption since the program began in FY2003-04. To continue our energy conservation efforts, a $2.8 million federal stimulus grant was awarded to the County in the current fiscal year and will be utilized with permanent cost savings as the basic premise.

- In February of this year, I established a committee - inclusive of all department heads and key officials - tasked with garnering ideas as to how the County can, as a whole, permanently operate more cost effectively. It is imperative that the County implement sustainable cost savings measures, as there is concern that revenues may not fully recover for a number of years. Sustainable cost savings ideas have been brought forth, and departments have begun to implement their own efforts to conserve costs. This effort will be ongoing throughout FY2010-11.

THE FY2010-11 PROPOSED ANNUAL FISCAL PLAN:

The total recommended Operating Budget for the General Fund is declining $31.1 million or 4.0 percent from the FY2009-10 adopted budget. Including all funds, the Operating Budget totals $1,023,173,782, which reflects a decrease of $35,440,919, or 3.3 percent. The total Proposed Budget is illustrated in the table that follows.

FY2010-11 Proposed Budget (Expenditures)
All Funds

General Fund:	FY2009-10 Approved	FY2010-11 Proposed	Dollar Change	Percent Change
General Government Admin.	$ 59,366,920	$ 55,916,358	$ (3,450,562)	(5.8)%
Judicial Administration	8,311,621	7,975,999	(335,622)	(4.0)%
Public Safety	157,800,222	154,575,794	(3,224,428)	(2.0)%
Public Works	35,935,899	35,855,526	(80,373)	(0.2)%
Health & Social Services	20,439,876	20,109,792	(330,084)	(1.6)%
Education	424,250,000	402,409,019	(21,840,981)	(5.1)%
Recreation, Parks & Culture	33,169,410	32,334,940	(834,470)	(2.5)%
Community Development	20,668,681	19,352,132	(1,316,549)	(6.4)%
Miscellaneous	12,256,941	12,528,007	271,066	2.2%
Total General Fund	**772,199,570**	**741,057,567**	**(31,142,003)**	**(4.0)%**
Special Revenue Fund	116,690,603	119,333,547	2,642,944	2.3%
Enterprise Funds	74,738,455	72,996,031	(1,742,424)	(2.3)%
Internal Service Funds	25,610,472	29,427,625	3,817,153	14.9%
Debt Service Fund	57,782,472	51,832,472	(5,950,000)	(10.3)%
Agency Fund	11,593,129	8,526,540	(3,066,589)	(26.5)%
Total Proposed Budget	**$1,058,614,701**	**$1,023,173,782**	**$ (35,440,919)**	**(3.3)%**

As you delve into each area in this budget, you will see that most departments, and most funds, reflect a reduction in overall expenditures. A number of reductions are solely a result of State funding reductions. Others, including most General Fund departments, are reflective of the overall revenue declines, inclusive of local and State revenue reductions. Other specific highlights of the FY2010-11 Proposed Budget include:

- The FY2010-11 Proposed Budget includes $11.5 million in funding associated with the opening of new facilities funded through the 2005 G.O. Bond Referendum, utilizing funding from the Revenue Stabilization Fund. The new facilities opening in FY2010-11 include Glen Allen High School (9th and 10th grades), Holman Middle School, an addition to Glen Allen Library, the rebuilding of Fire Station #8, the renovation and addition at Fire Station #12, and the Eastern Area Recreation Center.
- As per the 2005 G.O. Bond Referendum Funding Plan, twelve positions have been added to the General Government complement in FY2010-11, all of which are attributed to the opening of new facilities. Ten positions have been added to Recreation and Parks' complement associated with the new Eastern Area Recreation Center and two positions have been added to Police's complement reflecting two School Resource Officers for the two new schools opening in FY2010-11.

- The Proposed Budget before you does not include a merit or cost of living increase for General Government and Education employees. This was a very difficult decision as our employees

provide the highest level of services for our residents each and every day. However, this Proposed Budget will continue to fully fund the 5.0 percent employee share of Virginia Retirement System (VRS) contributions for new employees hired in FY2010-11, in spite of the adoption of legislation passed by the General Assembly (House Bill #1189) that allows localities the ability to pass up to 5.0 percent of the employee share to new employees hired after July 1, 2010. By continuing to fund this benefit for new hires in FY2010-11, the County will continue its competitiveness in hiring quality employees. Frankly, I don't know how the County can delineate and treat differently a firefighter, police officer, or teacher hired after July 1, 2010 from existing employees performing the same job. The County has funded the 5.0 percent employee share since FY1977-78, which was provided as a benefit to employees in lieu of a salary increase.

- The FY2010-11 Proposed Budget assumes the issuance of $77.5 million in General Obligation Bonds that were originally scheduled for FY2009-10. Incremental debt service costs associated with the issue of these bonds will impact the FY2011-12 budget. By delaying the issuance of these bonds in FY2009-10, the County avoided an estimated $8.5 million in new debt service costs in FY2010-11, a cost that would have placed additional strain on this Proposed Budget. In fact, debt service costs have been reduced by nearly $6.0 million in FY2010-11 due to two bond refundings in calendar year 2009 that generated significant savings.

- The Proposed Budget for Education includes a total General Fund appropriation of $402,409,019, 54.3 percent of the Proposed General Fund Budget. This amount represents an overall decrease of $21.8 million or 5.1 percent when compared to the FY2009-10 Approved Annual Fiscal Plan. However, it should be noted that Education will receive significant savings in their VRS costs due to reduced rates the General Assembly has adopted in FY2010-11. Excluding the impact of the VRS reduction, the budget for Education would decline by $8.5 million or 2.0 percent from FY2009-10 adopted budget levels. The Proposed Budget for Education includes $10.7 million in funding from the Revenue Stabilization Fund associated with the opening of two new schools in FY2010-11, Glen Allen High School and Holman Middle School. While the State is reducing revenues to Education by over $27.3 million in the Proposed Budget, the County is increasing the allocation to Schools by $5.5 million. The additional local funding being allocated for Education demonstrates the Board of Supervisors continued emphasis on ensuring that Education is a top funding priority on an annual basis.

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

GENERAL FUND

Revenues

The plan before you maintains our *conservative* approach in projecting available resources. While many entities take a year-by-year approach in budgeting, Henrico has and will continue to take a multi-year approach to allocating public resources, even as the majority of revenues have deteriorated in the past several years. That approach is a basic premise of our financial management. Total

estimated General Fund revenue for FY2010-11, prior to transfers to other funds, is $814,971,500, which represents a decrease of $51,677,000 or 6.0 percent when compared to the current fiscal year.

General Fund Revenues

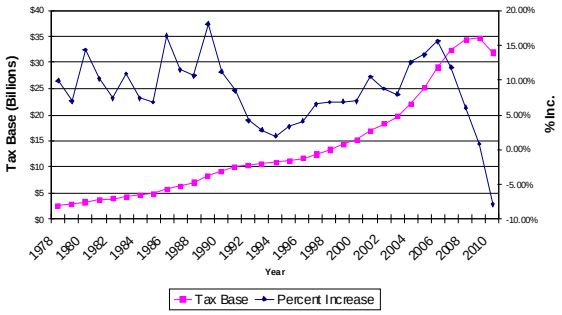
	FY2009-10 Original	FY2010-11 Estimated	Dollar Change	Percent Change
Local Revenues				
General Property Taxes	$ 409,500,000	$ 389,000,000	$ (20,500,000)	(5.0%)
Other Local Taxes	114,615,000	114,015,000	(600,000)	(0.5%)
Total Taxes	524,115,000	503,015,000	(21,100,000)	(4.0%)
Permits/Fees/Licenses	3,859,200	3,239,200	(620,000)	(16.1%)
Fines and Forfeitures	2,727,900	2,315,000	(412,900)	(15.1%)
Use of Money and Property	8,533,200	9,734,400	1,201,200	14.1%
Charges for Services	3,176,800	3,554,200	377,400	11.9%
Miscellaneous Revenues	45,000	45,000	-	0.0%
Recovered Costs	4,130,700	4,226,500	95,800	2.3%
Non-Revenue Receipts	2,765,000	2,645,000	(120,000)	(4.3%)
Total Other Local Revenue	25,237,800	25,759,300	521,500	2.1%
Total Local Revenues	**$ 549,352,800**	**$ 528,774,300**	**$ (20,578,500)**	**(3.7%)**
State/Federal Revenues				
State-Education	$ 226,476,000	$ 199,131,000	$ (27,345,000)	(12.1%)
State-Public Works	28,745,000	28,745,000	-	0.0%
State-General Government	51,139,500	47,461,000	(3,678,500)	(7.2%)
Total State Revenues	$ 306,360,500	$ 275,337,000	$ (31,023,500)	(10.1%)
Total Federal Revenues	$ 10,935,200	$ 10,860,200	$ (75,000)	(0.7%)
Total General Fund Revenues Prior to Transfer	**$ 866,648,500**	**$ 814,971,500**	**$ (51,677,000)**	**(6.0%)**
Transfers to Other Funds	(109,348,930)	(94,027,520)	15,321,410	(14.0%)
(To)/From Fund Balance (Cap.)	5,000,000	5,000,000	-	0.0%
From Fund Balance (Cap. Reserve)	9,150,000	3,565,242	(5,584,758)	(61.0%)
To Fund Balance (State Revenues)	-	-	-	0.0%
(To) Revenue Stabilization Fund	-	-	-	0.0%
From Revenue Stabilization Fund	750,000	11,548,345	10,798,345	1,439.8%
Total General Fund Revenues	**$ 772,199,570**	**$ 741,057,567**	**$ (31,142,003)**	**(4.0%)**

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

The General Property Tax category is anticipated to decrease by $20,500,000 or 5.0 percent when compared to the FY2009-10 Annual Fiscal Plan. In looking at the larger components, Current Real Estate Taxes are projected to decrease by $22,000,000 or 7.4 percent. This revenue projection assumes a continuation of the current Real Estate Tax Rate, $0.87/$100 of assessed valuation.

In CY2009, the assessed valuation of real property in the County will total $32.0 billion, which is an overall decline of $2.7 billion or 7.8 percent, and reflects the first year-over-year decline in real estate valuation since 1942. The graph to the right reflects just how far real estate valuation has been impacted by this economic downturn. Residential real estate valuation declined by $1.3 billion or 5.5 percent. Commercial real estate valuation declined by $1.4 billion or 13.0 percent, mostly due to the increasing number of vacant office space in the County. Finally, the significant reduction in commercial valuation resulted in a decrease in its percentage of the overall tax base from 31.1 percent in the prior year to 29.4 percent.

Tax Base Increase: 30 Year History



The annual assessment of real estate in the County reflects the most recent 2009 sales data of comparable properties. By using the most recent sales data in determining the assessed value of property, Henrico County has been able to capture the most current values for the real estate market. We pride ourselves on using the most recent sales data so our assessments are as accurate as possible and the decline in real estate values is indicative of the current market. The projection for real property tax revenue for FY2010-11 is $275.9 million.

Personal Property Tax revenues, which include PPTRA reimbursements from the State, are projected to remain at FY2009-10 adopted budget levels at $102,600,000. If the estimate is compared to actual FY2008-09 collections, the FY2010-11 estimate for Personal Property Tax revenues reflects a decrease of slightly over $300,000. As a result of the "Henrico, VA" initiative, business personal property tax collections are anticipated to remain steady. Also, it is unlikely that vehicle valuations will fall significantly, if at all, in calendar year 2010, after two years of declines. Again, this estimate is due to the uncertainty in the economy and the effect this may have on this revenue, which includes business as well as individual personal property. Total Personal Property estimates continue to be impacted by the reality that disbursements by the State to localities under the Personal Property Tax Relief Act (PPTRA) remain capped at $950.0 million.

The forecasts for our Other Local Tax Revenues for FY2010-11 reflects a slight net decrease of $600,000 or 0.5 percent, though the size of the decline might be misleading. The projection for Local Sales Tax receipts of $54,500,000 reflects a budgeted decrease of $2.6 million or 4.6 percent. This estimate nearly mirrors the 4.8 percent decline Henrico County has experienced through eight months of local sales tax collections in the current fiscal year as compared to the previous fiscal year. Business and Professional License Taxes (BPOL) collections are anticipated to remain constant with FY2009-10 adopted budget levels at $30,600,000.

The projection for all other locally generated revenues such as permits and fees, fines and forfeitures, interest earnings, charges for services, miscellaneous revenues and recovered costs totals $25,759,300. This total represents an increase of $521,500 when compared to the FY2009-10 Annual Fiscal Plan.

In the Proposed Budget, overall State revenues are estimated to fall by $31.0 million or 10.1 percent as compared to the FY2009-10 Adopted Budget. The majority of these reductions are reflected in projected State aid to Education, which is estimated to be reduced by $27.3 million in FY2010-11. The reductions in State revenue to localities include the supplanting of millions of dollars in General Fund

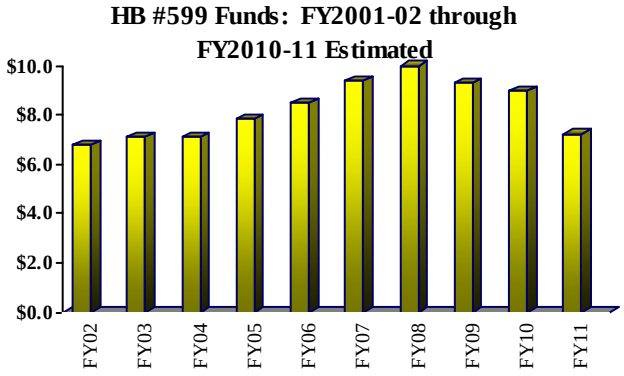
dollars with federal stimulus funding and cost shifts to localities, including funding for Education and Public Safety. With FY2010-11 being the last fiscal year the State has authorization to utilize federal stimulus funds, there is great concern with funding levels to localities in FY2011-12.

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

The first overall category, State revenues for Education is projected at $199,131,000 and reflects a decrease of $27.3 million or 12.1 percent when compared to the current fiscal year. It should be noted that at $199.1 million, the level of State aid for Education has reverted back to less than 2006-07 levels. Since FY2006-07, Education has added nearly 1,100 students, opened five new schools, and has increased General Fund and Debt Service expenditures for Education by $48.4 million (as compared to the FY2010-11 Proposed Budget). Clearly, it has required a demonstrable effort by the Board of Supervisors to provide Education with adequate local resources to continue the quality Education system County citizens expect. The concern going forward is that because the State has chosen to underfund its VRS obligations, the current budget allocation by the State may not be sustainable into future years.

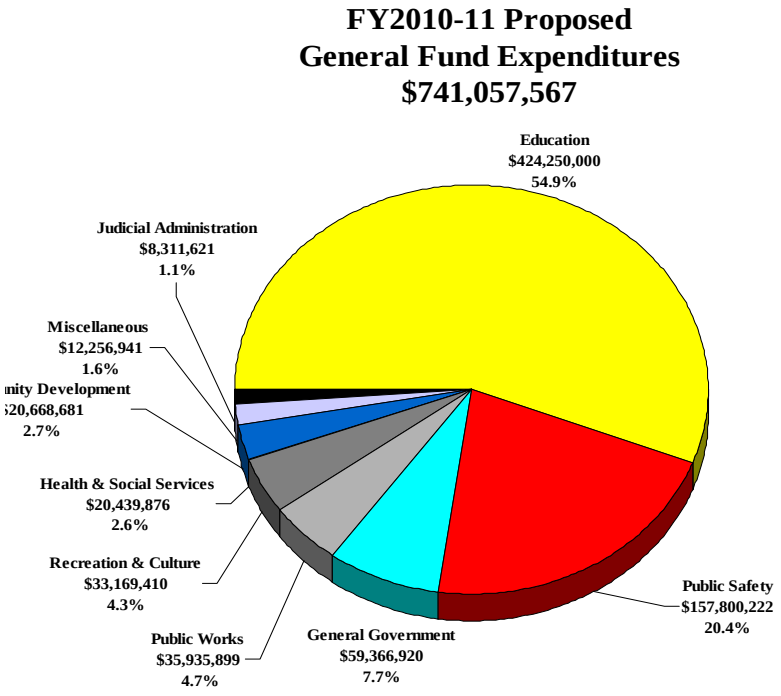
The second component is State Gasoline Tax revenues for Public Works, which is projected to remain flat with FY2009-10 estimates with a total allocation of $28,745,000. Since the current distribution structure began in 1986, the Gasoline Tax allocation to Henrico has been distributed between maintenance of current roads and construction costs in the Capital Budget. However, the amount of revenue collected from gasoline taxes statewide declined due to the conservation that began when the price of gas exceeded $3.75 per gallon. It remains uncertain if the Gasoline Tax allocation to Henrico will include funding for construction. If additional State Gasoline Taxes are allocated from the State above our projections, an amendment will be brought to you to add that revenue to the budget. This is the course of action that must be taken due to the unknowns that exists within the area of transportation in the State Budget.

State revenues for all other General Government totals $47,461,000, which is a projected decrease of $3.7 million. This estimate includes all anticipated reductions in allocations for Constitutional Officers, State Law Enforcement (House Bill #599), Social Services, and other areas that receive State funding allocations. More specifically, House Bill #599 funds are estimated at $7,250,000 in FY2010-11, a reduction of $1,750,000 or 19.4 percent from the current fiscal year budget. This marks the third consecutive year of reductions to this revenue source, as can be seen in the graph to the right. In FY2007-08, the County collected $10.1 million in House Bill #599 funding, and has since dropped 28.5 percent. The State's share of constitutional officers has declined $2.1 million or 13.4 percent in FY2010-11.



Projections for Federal Aid total $10,860,200 and reflect a slight reduction of $75,000 in FY2010-11. The majority of Federal Aid is allocated for Social Services programs and the projections were developed based on current information.

General Fund Expenditures



The total Proposed General Fund Budget for FY2010-11 is $741,057,567. General Government departmental highlights of the Proposed General Fund Budget are provided below. Specific details regarding each departmental budget may be found in the narratives included within this Proposed Budget document.

- The FY2010-11 Proposed Budget includes funding for two School Resource Officer positions (SRO's) in the Division of Police to support the new Glen Allen High School and Holman Middle School.

- The FY2010-11 Proposed Budget continues the Division of Police's assigned and take-home vehicle programs for sworn officers. The take-home vehicle program continues to include $2,574,800 for the replacement of 108 vehicles annually.

- The Division of Fire will continue its apparatus replacement plan at a cost of $1,500,000 in FY2010-11, and includes the acquisition of two engines and the re-chassis of two ambulances. The apparatus replacement program was initiated in FY1997-98 at a cost of $1,275,000 as a means of ensuring the Division maintains a planned and consistent replacement schedule for costly fire apparatus.

- Also included in the Division of Fire's FY2010-11 budget is operating costs associated with the rebuild of Fire Station #8 and the renovation and expansion of Fire Station #12.

- The budget for Libraries includes $327,120 in new operating costs associated with the renovation and addition at Glen Allen Library.

- In the area of Recreation and Parks, ten bond project positions have been added to the complement associated with the opening of the new Eastern Area Recreation Center.

- The General Services' and Recreation and Parks' budgets continue their respective maintenance programs. For General Services, the Building Maintenance Program continues their efforts in replacing worn carpet and painting General Government facilities. The Facility Rehabilitation and Equipment Replacement programs for Recreation and Parks remain fully funded.

- The FY2010-11 Proposed Budget continues the County's Real Estate Advantage Program to our senior citizens at its current levels.

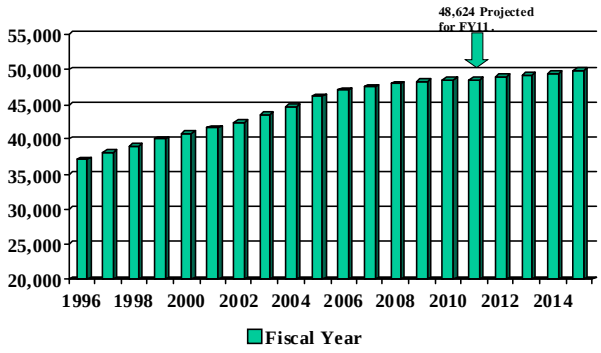
Education

The Proposed Budget includes a total General Fund appropriation of $402,409,019 for Education in FY2010-11. This amount represents a decrease of $21,840,981 or 5.1 percent as compared to the FY2009-10 Approved Annual Fiscal Plan. Of the $402,409,019, $202,803,019 (50.4 percent) will be provided from General Fund revenues and $199,606,000 (49.6 percent) comes directly from the State and Federal Governments to support Education. It must be noted that State Aid for Education is decreasing by $27.3 million and the additional local allocation for Henrico Public Schools is $5.5 million. Due to two bond refundings in calendar year 2009 and the delay in the issue of $77.5 million in G.O. Bonds in FY2009-10, local Education debt service expenditures will decline in FY2010-11 by $3.5 million to $36,522,774. In total, local support for the Education operating and debt service budgets is proposed at $239,325,793 for FY2010-11.

Education's FY2010-11 Budget for the Special Revenue Fund totals $55,648,334, which is a 2.8 percent increase over the FY2009-10 Approved Annual Fiscal Plan. This increase is due to the receipt of additional federal revenues in the area of Title I-A funding. In total, with all funds (General Fund, Special Revenue Fund and Debt Service Fund) included, the FY2010-11 Budget for Education totals $494,580,127, which is a decrease of $23,854,703 or 4.6 percent as compared to the FY2009-10 Approved Annual Fiscal Plan.

In the FY2010-11 budget, Education is increasing the average pupil-teacher-ratio (PTR) by 0.75. To achieve this PTR level, Education will eliminate approximately 98 teachers through attrition and leave three instructional positions vacant. Also included in the FY2010-11 budget is the elimination of approximately 22 Central Office positions, which will be reduced through attrition. Offsetting these position reductions are 60 new positions associated with the opening of Glen Allen High School and Holman Middle School. This proposed staffing level will change average class size in our elementary schools to 20.5:1, middle schools to 21.7:1, and high schools to 22.0:1. The graph on the previous page reflects a fifteen year history of actual student enrollment at the Henrico County Public Schools with the current projected enrollment for FY2010-11 as well as Education's projections for enrollment through FY2014-15.

Henrico County School Membership
FY1996-FY2015 Projected



FY11 reflects projected 9/30/10 ADM.

A total of $10,659,019 is recommended to fund operating costs associated with the two new schools, Glen Allen High School and Holman Middle School, that are scheduled to open in the Fall of 2010 (FY2010-11).

The School Resource Officer (SRO) Program, which is a joint effort with the Division of Police, assigns a Uniformed Police Office to each middle and high school in the County. A total of 27 Police Officers participate in the program, including requests for two new SRO's associated with the opening of Glen Allen High School and Holman Middle School. The School Resource Officer provides a safer environment to the students and staff of the schools while also providing a positive role model and adviser to the students.

The FY2010-11 Proposed Capital Budget for Education is $68,156,903, which includes $65,656,903 in G.O. Bond projects, including the final funding phase for Glen Allen High School, construction funding for the renovations of Varina High School, Brookland Middle School, and Johnson Elementary School, construction funding for a new West Area Elementary School, and planning funding for the renovation of Pinchbeck Elementary School. These funds also include $6,218,366 to establish an Education Bond Project Reserve to continue previously funded G.O. Bond projects that may be underfunded. The Proposed Capital Budget also includes the annual $2,500,000 General Fund allocation for roof replacements and mechanical improvements projects that continues the initiative that began in FY1998-99. This will be the thirteenth year of this initiative that has provided a total of $32.5 million for these critical maintenance needs.

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

SPECIAL REVENUE FUND

The Special Revenue Fund includes the Department of Public Utilities' Solid Waste and Street Light operations, the Henrico County Public Schools' Cafeteria Programs, and State and Federal grants for various educational and General Government programs including the Capital Area Training Consortium (CATC), the Community Corrections Services Program, Wireless E-911 communications, Virginia Juvenile Community Crime Control Act (VJCCCA), the Comprehensive Services Act (CSA), and Mental Health/Developmental Services/Substance Abuse. The Proposed Special Revenue Fund Budget for FY2010-11 totals $119,333,547, which represents an increase of $2,642,944 or 2.3 percent over the current fiscal year.

Of this increase, $126,466 reflects an increase in local resources. It should be noted that many of these grant funded programs rely on State Aid. As of this writing, the estimates provided are the best that can be developed in comparing the House and Senate versions of the State budget. It is possible that some

of these areas will require further downward adjustments once the State budget is settled. The components of the Special Revenue Fund are seen in the following chart:

FY2010-11 Proposed Special Revenue Fund Expenditures

Department	FY2009-10 Approved	FY2010-11 Proposed	Increase/ (Decrease)	Percent Change
CATC	3,666,521	4,471,854	805,333	22.0%
Commonwealth Attorney	835,304	854,593	19,289	2.3%
Community Corrections	1,741,679	1,732,867	(8,812)	(0.5%)
Comprehensive Services Act	8,564,611	8,969,465	404,854	4.7%
Education	54,130,040	55,648,334	1,518,294	2.8%
Mental Health	32,111,037	32,014,819	(96,218)	(0.3%)
Other	111,895	100,201	(11,694)	(10.5%)
Public Safety	1,410,225	1,422,483	12,258	0.9%
Public Works	897,000	897,000	0	0.0%
Solid Waste	12,064,068	12,166,612	102,544	0.8%
Street Lights	70,200	72,500	2,300	3.3%
USDA (Juv. Detention)	35,000	30,429	(4,571)	(13.1%)
VJCCCA	1,053,023	952,390	-100,633	(9.6%)
Total Special Revenue:	**116,690,603**	**119,333,547**	**2,642,944**	**2.3%**

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

- In the Capital Area Training Consortium (CATC) area, expenditures are increasing in FY2010-11 as it marks the first full-year of expenditures with the City of Richmond as a Consortium member, whereas the FY2009-10 budget reflected a partial year.

- In the area of Mental Health, allocations for operating expenditures are increasing by $587,045, more than offset by a reduction in personnel costs of $672,263. The increase in operating expenditures is driven by two factors. First, restricted state funding of $482,735 has been added to the budget to purchase medications for eligible consumers with mental illness due to the closing of the state community resource pharmacy as part of state budget reductions. Secondly, an increase of $226,376 in funding is included to serve the individuals with intellectual disabilities who are anticipated to graduate from high school and be in need of a day support program. Without the impact of the restricted pharmacy funds and day support services, operating expenditures decline $122,066, and overall expenditures decline by $805,329.

- In the area of State and federal Education grants, funding is increasing $1.5 million as a result of increased federal Title I-A funding. Continued, sustainable funding in this area remains a concern.

- Funding for the County's Virginia Juvenile Community Crime Control Act (VJCCCA) area has been reduced by $100,633 solely as a result of State funding reductions. The County's contribution for VJCCCA remains constant with current fiscal year funding.

ENTERPRISE FUNDS

Water and Sewer

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

The Proposed Budget includes revenue estimates based on a 5.0 percent increase for water and sewer rates. Also continuing in the Proposed Budget are water and sewer connection fee increases that were implemented on January 1, 2010.

The FY2010-11 Proposed Budget of $71,769,446 includes expenditures for personnel, operating, capital outlay and debt service. Overall, the Water and Sewer Proposed Operating Budget including debt service costs is projected to decrease by 2.4 percent, or $1,776,530. Nearly half of this decrease is the result of reductions in the personnel component, which includes the elimination of 13 vacant positions, as well as a reduction of $418,673 recognizing vacancy savings for all remaining positions. The operating component reflects an increase of $109,324, in spite of a $1.0 million increase for the purchase of water from the City of Richmond, an expense that now totals over $9.5 million.

Debt service expenditures of $14,783,503 represent a net decrease of $629,510 when compared to the current fiscal year. This decrease is the result of the refunding of $93.3 million in Water and Sewer revenue bonds - $70.4 million in January 2009 and $22.9 million in December 2009. Partially offsetting the savings realized from the bond refundings is new debt service costs associated with the issuance of $9.8 million in Recovery Zone Economic Development Bonds (RZEDBs) in December 2009. The debt service budget will fully fund requirements arising from the Water and Sewer Fund's outstanding debt, which on June 30, 2009 was $181.4 million.

In addition to the Proposed Operating Budget, the Water and Sewer Proposed Capital Budget (found within the Capital Budget component of this document) totals $36,629,912 for FY2010-11, all of which is funded with Water and Sewer revenues. In the Proposed Five Year Capital Improvement Program, requested capital infrastructure for the Water and Sewer Enterprise Fund totals $502,207,542 over five years. As an Enterprise Fund, revenues generated by this operation must support both the proposed operating expenditures as well as ensuring that Proposed Capital Budget expenditures over a multi-year period may be funded. It should be noted that the five-year Capital Improvement Program for the Water and Sewer fund represents 23.7 percent of the total County Five-Year Capital Improvement Program. However, when looking at the County's current FY2009-10 Operating Budget, the Water and Sewer fund represents 6.9 percent of recommended expenditures. The difference between the relative proportion required for Water and Sewer in the Capital Budget as opposed to the Operating Budget is indicative of the significant infrastructure maintenance and replacement requirements that are present in this operation.

Belmont Golf Course

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

The Proposed Budget for the Belmont Golf Course in FY2010-11 is $1,226,585, which represents an increase of 2.9 percent from the FY2009-10 Approved Budget. This budget includes $1,053,404 for the Golf Course operations, $150,681 for the Snack Bar, and $22,500 for payment on a loan from the General Fund.

The personnel component for the Golf Course operations and the Snack Bar increased by $4,631 or 0.8 percent due to rate adjustments for VRS. Operating expenditures are forecasted to increase by $34,271 or 6.3 percent while the capital outlay budget is expected to decrease by $4,796. The rehabilitation projects planned for FY2010-11 include drainage at the maintenance facility, replacing retaining walls, replacing decking, and the painting of railings. The snack bar plans to replace a microwave, two arm chairs, and a sandwich prep table.

The FY2010-11 Proposed Budget includes an increase of $1 for the Belmont Golf Course greens fees. While there was not an increase in FY2009-10, that was the first year without a fee increase since FY2004-05. The increase will assist with the increasing costs of managing and maintaining the Golf Course.

HEALTHCARE FUND

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

The Proposed FY2010-11 Budget for the Healthcare fund totals $85,155,906, which is an increase of $4,312,545 or 5.3 percent. Included in this figure is $60,712,884 in funding that is budgeted within individual County and Schools departments as the County's contributions for Healthcare for employees. The balance of funding, $24,443,022, is the employee and retiree payments for their portion of healthcare, as well as the use of $3.0 million from the Premium Stabilization Reserve, which was necessary to avoid a rate increase in calendar year 2010. The majority of the budget, $80,055,906 or 94.0 percent of the total Healthcare budget is allocated for payment of claims. The

remaining $5,100,000 or 6.0 percent is allocated for the payment of third party administrative fees, premium payments for excess risk insurance, and an actuarial study.

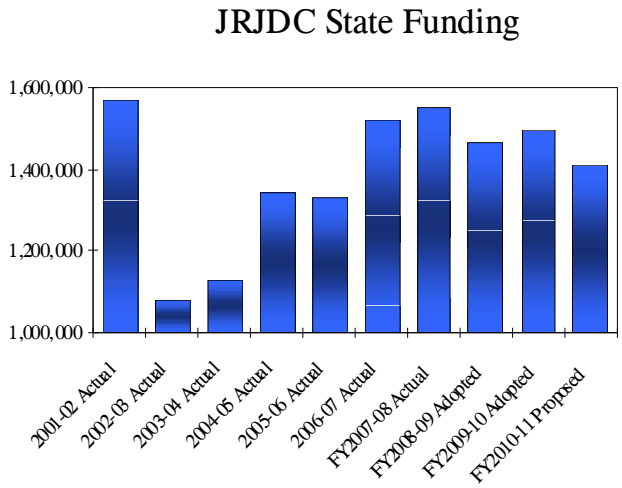
AGENCY FUND

The James River Juvenile Detention Commission (JRJDC) Agency Fund was created to account for expenditures of the James River Juvenile Detention Center. Henrico County, as the majority partner, serves as the fiscal agent for the James River Juvenile Detention Center Commission. Henrico's role as fiscal agent eliminates the need for the Commission to duplicate various administrative functions related to personnel matters, procurement and accounting activities, and budget responsibilities. The JRJDC Agency Fund accounts for the Commission's revenues from participating localities, and the operating and debt service expenditures.

The JRJDC Proposed Operating Budget (excluding debt service) totals $4,851,230 for FY2010-11. This is a decrease of $61,678 or 1.3 percent when compared to FY2009-10 Approved Budget. Debt service costs, paid entirely by Henrico County, are budgeted at $675,310.

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

State Aid for the Commission is estimated at $1,412,270 in the Proposed Budget. This figure represents a 7.3 percent decrease compared to the actual State funding received in FY2009-10 and is indicative of the State funding reductions that are seen in all areas of the County Budget that receive Aid from the Commonwealth. As can be seen on the accompanying graph, the level of State funding remains below what it was in FY2001-02 when the average daily population of the facility was 34, as compared to the average daily population of 57 in FY2008-09.



Total Henrico County funds for the Commission are budgeted at $3,281,789 in FY2010-11 and represents a decrease of $4,911.

DEBT SERVICE FUND

The County is projected to have total outstanding general debt of $465,370,000 as of June 30, 2010. The distribution of the debt is: $346,425,000 of General Obligation (GO) bonds ($239,541,815 for Schools and $106,883,185 for General Government), $26,215,000 of Industrial Development Authority (IDA) bonds for the regional jail project, $10,130,000 of IDA bonds for General Government projects, $79,130,000 of Virginia Public School Authority (VPSA) bonds, and $3,470,000 for the JRJDC, which is included in the total outstanding debt figure above as it is included in the bond rating agencies' calculations. It must be noted that of the $465,370,000 projected

June 30, 2010 outstanding debt, $318,671,815 or 68.5 percent is attributed to Education projects and $146,698,185 or 31.5 percent is attributed to General Government projects.

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

- The ratio of net bonded debt to total assessed value is a standard measure of the County's ability to meet interest and principal payments on its long-term debt. The County has a ratio of 1.27% in FY2009-10.

- The ratio of debt service to General Fund expenditures measures the percentage of the budget used to pay debt service and provides a measure of the annual demands placed on the Operating Budget by the County's long-term debt. This ratio is 6.96% in FY2009-10.

- Net bonded debt per capita is the amount of debt outstanding divided by the number of County resident. The amount of debt per capita in FY2009-10 is $1,508.

On March 8, 2005, the County voters approved a $349,300,000 General Obligation (GO) Bond Referendum. The referendum included projects for Schools, Fire, Public Library, Roads, and Recreation and Parks. Of the total $349,300,000 referendum approved by the voters, Education projects totaled $220,000,000 and General Government projects totaled $129,300,000. The funding for these projects is being phased in over a seven-year period with one G.O. Bond issue per year. With $77.5 million to be issued in FY2010-11, it should be noted that the County will have $69.0 million in remaining GO Bond authorization from the $349.3 million GO Bond Referendum approved in March 2005 for projects that include new School facilities as well as renovations and addition to existing School facilities, Fire Stations, Recreation facilities, and Libraries.

CAPITAL IMPROVEMENT PROGRAM

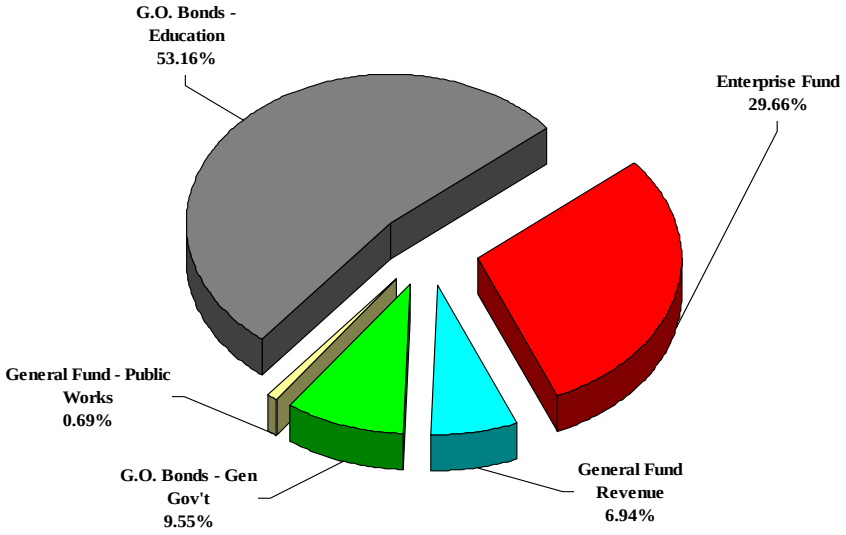
One of the County's financial priorities is met through the five-year Capital Improvement Program (CIP), which ensures that infrastructure improvements are planned thoroughly and that financing those improvements is done prudently. The CIP is a very valuable document because we must achieve a balance between available resources and competing priorities. The five-year CIP for FY2010-11 through FY2014-15 totals $2,122,093,322. This amount is indicative of the County's increasing infrastructure requirements and the demand that the Capital Budget will continue to place on resource allocation in the future. In order to provide a more accurate picture in this year's CIP, projects that do <u>not</u> have an identified and verified source of funding have been labeled "No Funding Source". Of the $2.1 billion projected over the next five years, $1.4 billion is identified as "No Funding Source". Projects recommended for funding in the first year of the CIP are included in the Proposed Capital Budget that follows.

Proposed FY2010-11 Capital Budget:

The Proposed Capital Budget for FY2010-11 totals $123,502,057 and is funded through a variety of revenue sources. Of this amount, $77.5 million represents General Obligation Bonds approved by the voters in March, 2005 that were originally slated for funding but delayed in FY2009-10. Not included in the FY2010-11 Proposed Capital Budget is State Transportation Funding (Gas Tax) for Public Works projects due to continued issues with State budget shortfalls and the uncertainty associated with that funding source. Since the amount of the County's Gas Tax allocation is unknown at this time, the prudent decision is to not propose any funding for Road projects that would utilize Gas Tax as a funding source. If the General Assembly approves a budget that includes funding for road projects, these projects will be appropriated via an amendment to the budget in FY2010-11.

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

FY2010-11 Proposed Capital Budget



Total Recommended Resources:	**$123,502,057**	**100.0%**

Highlights of the FY2010-11 Proposed Capital Budget are as follows:

The issuance of General Obligation (G.O.) Bonds - March 2005 will fund $11.8 million for General Government and $65.7 million for Education projects as authorized by the voters. The General Government 2005 G.O. Bond projects in the Capital Budget include the North Gayton Road Extension project, the construction of Fire Station #19, and planning and design costs associated with the new Varina Area Library. The Education 2005 G.O. Bond projects include funding for the construction of the new West Area Elementary School #9; the remaining allocation for the Central/West Area High School; planning and design costs for the renovation of Pinchbeck Elementary School, and renovations to Johnson Elementary School, Brookland Middle School, and Varina High School. In addition, $6,218,366 is being proposed within an Education Bond Project Reserve. The funding being allocated to the reserve was originally requested for projects that included only land, planning, and/or partial renovation costs within the $220,000,000 approved by the citizens on the March 2005 Referendum for Education projects. With identified funding

shortfalls in higher priority projects, the prudent decision is to propose putting these funds into a reserve for future allocation.

The Proposed FY2010-11 Capital Budget includes the use of $8,565,242 of General Fund revenues for various capital projects. These projects consist of $2,500,000 for roof replacements and mechanical improvements at Education facilities and $6,065,242 for General Government projects. The General Government projects include funding for the Human Services building HVAC replacement, renovation to the Magistrate's Office, replacement of various County generators, building maintenance area safety improvements, pavement rehabilitation projects, environmental fund projects, Recreation and Parks facility rehabilitation projects, historic facility rehabilitation projects, a master plan for land acquired adjacent to Belmont Golf Course, HVAC improvements to Cedar Hill House, technology upgrades, and continued improvements for the County's Geographical Information System. General Fund - Public Works revenue of $850,000 has been designated for various road improvement projects.

The remaining $36,629,912 of the FY2010-11 Proposed Capital Budget is designated for water and sewer projects, which are supported by forecasted revenues generated by the Water and Sewer Enterprise fund. Public Utilities has requested $10,125,000 for recurring water and sewer projects such as water and sewer line rehabilitation, capital project plan review, connections, extensions, preventive maintenance of various water and sewer pump stations, and various relocations, adjustments, and crossings projects. The remaining projects in this program area planned in FY2010-11 include the following: $9,170,100 for the Broadwater Area BWII Sewer Rehabilitation, $2,070,000 for the Route 33 to Lakeside Sewer Main, $4,200,000 for the Strawberry Hill Basin Sewer Rehabilitation, $879,750 for River Road Sewer Pump Station improvements, $203,172 for the River Road Basin Sewer Rehabilitation, $262,890 for the New Market Water Pressure Zone, and $1,200,000 for the Water Treatment Plant expansion. Additionally, the proposed budget includes $50,000 for roof replacements, $7,169,000 to provide emergency power at sewer pump stations, $300,000 for water meters, and $1,000,000 for various information technology projects.

G.F.O.A. DISTINGUISHED BUDGET AWARD

The Government Finance Officers Association (GFOA) of the United States and Canada, each year nationally recognizes budgets that meet certain rigorous standards. GFOA presented an Award for Distinguished Budget Presentation to the County of Henrico for its Annual Fiscal Plan for FY2009-10. In order to receive this award, a governmental unit must publish a budget document that meets stringent program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device. The award is valid for a period of one year only. After receiving the award for twenty consecutive years, we believe our current budget continues to conform to the program requirements, and we will be submitting it to GFOA to determine its eligibility for a twenty-first year.

SUMMARY

As stated in the introductory section of this letter, in spite of the significant reductions in Aid from the State, this plan balances the need for services, particularly in the areas of Education and Public Safety, within projected resources. These State funding reductions will impact how Henrico County and other localities in Virginia will operate for a number of years. However, due to the expenditure controls the Board has implemented since FY2001-02, Henrico County, unlike most Virginia localities, is <u>not</u> proposing balancing this budget with layoffs or furloughs of County

employees, reducing the services that they provide, or through tax increases on the property of County residents.

The County has been able to accomplish this because of multi-year budget planning and by consistently acting in a fiscally prudent manner. More specifically, there have been a number of efforts undertaken over the past 18 to 24 months that have provided the necessary efficiencies to balance this budget in these trying times, including the following:

- The County's restrictive hiring freeze, which has been in effect for nearly 18 months, has resulted in over 220 position vacancies on the General Government side. Of these more than 220 vacancies, this budget eliminates 101 of them, allowing the County permanent savings in the salaries and benefits that were previously budgeted. For the remaining vacant positions, as well as the recognition of future attrition, this budget assumes a 2.5 percent vacancy savings factor applied to remaining salary budgets.

- In calendar year 2009, the County took part in four individual bond refundings, including two that benefited the Water and Sewer Fund. These refundings have realized significant savings to the County's annual debt service payments throughout this difficult economic environment, including this Proposed Budget.

- Funding to outside agencies has generally been reduced by ten percent.

- In the past 18 months, the meticulous efforts of the County's Department of Information Technology in finding efficiencies in the County's telecommunications costs have yielded permanent savings approaching $1.0 million annually.

- The Proposed Budget identifies additional savings in the area of technology replacement, as the previous three-year replacement cycle standard has transitioned to at least a four- or five-year replacement cycle.

- Travel and tuition expenditures have been withdrawn from all departmental budgets, with the exception of Countywide training programs that are budgeted in Human Resources. Half of these funds remain in a central reserve for mandatory travel and training in FY2010-11.

- Gas and diesel costs, as well as utility costs (electricity, heating oil, etc.) have been reduced in the budget to more accurately reflect prior-year actual expenditures.

- A number of department specific reductions have been realized as well.

The expenditure efficiencies noted above have afforded the County the opportunity to <u>maintain our conservative approach in projecting available resources</u> in spite of the "perfect storm" we are experiencing in our revenue streams. While many entities and the Commonwealth of Virginia take a year-by-year approach in budgeting, Henrico has and will continue to take a multi-year approach to allocating public resources. While we have been successful in managing with reduced State resources in the current year and in the Proposed Budget, the simple fact is that State Aid must increase in future budgets if service delivery is to remain unaffected. The State provides over one-third of our General Fund resources and reductions or even lack of growth to one-third of General Fund revenues cannot be sustained for an extended period of time – by any local government without reductions in services.

I would like to thank the County staff for the many hours of hard work that went into the development of this budget. As always, the staff and I stand ready to assist you in making the best possible choices for the future of our community.

Respectfully submitted,

Virgil R. Hazelett, P.E.
County Manager

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COUNTY OF HENRICO, VIRGINIA