APPENDIX "F"

ECONOMIC OUTLOOK

National Economy

"After declining for a year and a half, economic activity in the United States turned up in the second half of 2009, supported by an improvement in financial conditions, stimulus from monetary and fiscal policies, and a recovery in foreign economies. These factors, along with increased business and household confidence, appear likely to boost spending and sustain the economic expansion. However, the pace of the recovery probably will be tempered by households' desire to rebuild wealth, still-tight credit conditions facing some borrowers, and, despite some tentative signs of stabilization, continued weakness in the labor markets." This was the introductory statement made by Ben Bernanke during testimony to Congress on February 24, 2010 as part of the Federal Reserve's Semiannual Monetary Policy Report to Congress. As Mr. Bernanke's statement implies, the U.S. economy did recognize some improvement in 2009, largely the result of stimulus funding and other programs, such as the Car Allowance Rebate System (CARS), colloquially known as "cash for clunkers", and the new and existing home-buyer tax credits that were introduced the prior year. The effects of these and other efforts continue to be realized into the first quarter of 2010. The Troubled Asset Relief Program (TARP), which was a component of the Emergency Economic Stabilization Act introduced in October 2008, consisted of $787 billion of taxpayer funded liquidity infused directly into the nation's largest financial institutions, while another economic stimulus measure, known as the American Recovery and Reinvestment Act of 2009, consisted of $825 billion in government spending, comprised of $550 billion intended to assist in job creation and economic growth, and $275 billion in tax relief to individuals and businesses. While some economic progress has been made since these measures were introduced, the economy is still very much in the process of recovering, and by most economists' estimates, will slowly recover for some time to come.

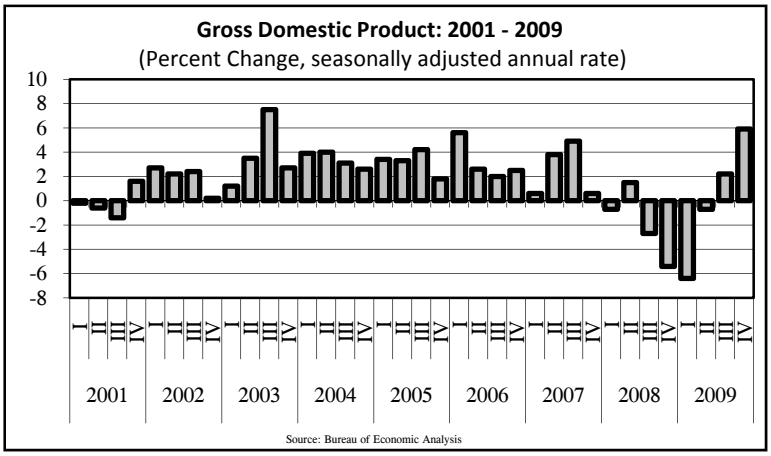
The United States technically entered a recession in December 2007, as defined by the National Bureau of Economic Research (NBER). Throughout 2008 and much of 2009, a number of efforts were made on the part of both the Federal Reserve and the Treasury Department to correct and/or mitigate any further deterioration in the financial markets and in the economy as a whole. While the recession has not officially been declared over by the NBER, some signs of improvement indicate that the recovery process has begun, and will slowly but surely gain momentum. National home sales also improved, mostly the result of an $8,000 first time homebuyer tax credit and $6,500 credit for existing homeowners. The U.S. also recognized a slight improvement in exports that was somewhat improved by the temporarily weakened dollar and a slight resurgence in domestic auto exports, while GDP grew at a 4.0 percent average in the third and fourth quarters of 2009. However, the sustainability of these fiscal remedies is still uncertain. While many of the financially assisted banks have recognized dramatic recoveries, smaller companies that rely on large banks to meet their short-term borrowing needs have found that their access to credit remains restricted. Similarly, access to credit for households has been constrained, despite lower mortgage rates. These newly established restrictive lending policies, stemming from increased market risk through high unemployment, poor housing statistics and general economic uncertainty have contributed to weakened loan demand throughout 2009 and into 2010. However, the Treasury Department has attempted to address this problem with its Term Asset-Backed Securities (ABS) Loan Facility (TALF), which was created to support the asset-backed securities market with $1 trillion in non-recourse loans for collateralized debt. Because the ABS market heavily influences consumer credit and Small Business Administration (SBA) guaranteed loans, continued disruption of the market can further obstruct the availability of credit to households and small businesses, which may perpetuate the weakening of the U.S. economy and slow the recovery effort. In recognition of the continuation of these extraordinary economic times, the Federal Open Market Committee (FOMC) has continued to maintain a federal funds rate in the target range of 0.0 to 0.25 percent, and has indicated that conditions may warrant these low rate levels for some time.

While the "Great Recession" has been the longest on record since the Great Depression of the 1930s, the unemployment rate, while high, has not achieved levels seen during more recent periods of significant economic hardship, such as those recognized during the 1981 – 1982 recession. During this period, unemployment peaked at 10.8 percent in the months of November and December 1982. However, it is widely believed that the current economic environment has impacted more jobs than in the recession of the early 1980's, if the number of discouraged workers and employees that have been forced to work in a part-time capacity were included in the calculation. As of February 2010, the unemployment rate stood at 10.0 percent. According to most academics and industry professionals alike, this recession has been particularly damaging because of its concentration in certain sectors of the economy, such as real estate, which has had corresponding, systemic implications throughout all interrelated sectors, including manufacturing, construction, and the financial institutions used to support consumption and investment. While the recession was largely caused by over-speculation in the real estate market, which subsequently influenced the financial sector, the effects of the recession have impacted the labor market, restricted credit, destroyed consumer confidence and severely limited household spending. These effects culminated in the economic devastation that has permeated nearly every facet of the U.S. and global economy.

While these are difficult times, and while the duration of our economic recovery remains uncertain, the same unifying idea that was expressed a year ago still holds true today. That is, that the economy *will* recover and that the strength of America's economic system, and the proactive measures it takes to ensure its global standing and continued leadership among the world's economic powers *is* certain. While these measures to stabilize, and perhaps, save our economy, have justifiably been met with some criticism, it is widely believed that some degree of government intervention was needed to avert the worst financial crisis in 80 years.

Economic Indicators

Most economists consider gross domestic product (GDP) as the best way to view the current condition of the national economy. It is important because GDP is considered as the broadest measure of economic performance as it monitors the final value of all goods and services produced within the United States. As seen in the graph to the right, the economy fell into a period of recession in 2001, as negative GDP growth occurred over the first three quarters of the year. From Q3 2001 through Q4 2007 the economy had seen positive growth in every quarter. Beginning in the second quarter of 2006, mostly due to weaknesses in the housing market, the economy began to transition from the rapid expansion experienced in the previous several years. This moderate growth trend continued into the first quarter of 2008, before posting its first negative showing since 2001, and falling sharply in the third and fourth quarters of 2008 and through the second quarter of 2009. GDP then experienced a rebound in the third and fourth quarters of 2009, with growth of 2.2 percent and 5.9 percent, respectively.

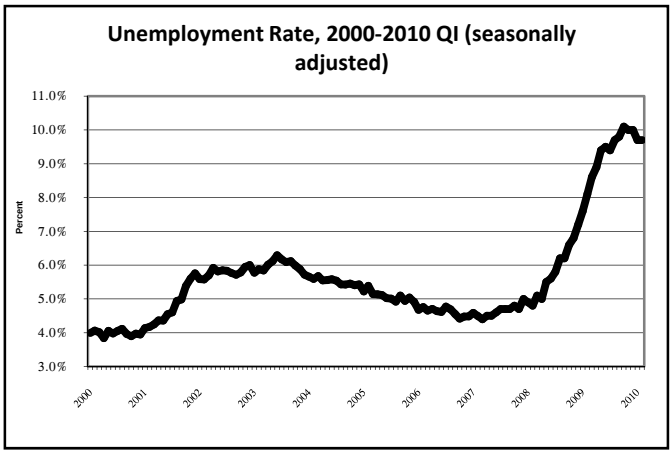


It is anticipated that gross domestic product will continue to slowly rebound in 2010 for several reasons, including stagnant unemployment figures and low capital investment by businesses; the still volatile residential and commercial real estate and manufacturing sectors; low consumer confidence; the inaccessibility of credit to consumers and small businesses; and the general timidity of investors and financial institutions.

Equity Market Growth:	DJIA	NASDAQ	S&P 500
Jan-Dec 2009	15.4%	39.0%	19.6%
Jan 2000 - Dec 2009	(8.18)%	(45.0)%	(23.3)%

Recent financial market statistics reflect an improving economy, though the indices are still far from January 2000 levels, and even further from levels seen during the peak of 2007. The year did see significant improvements as the Dow, NASDAQ and S&P 500 all registered positive yearly growth in 2009.

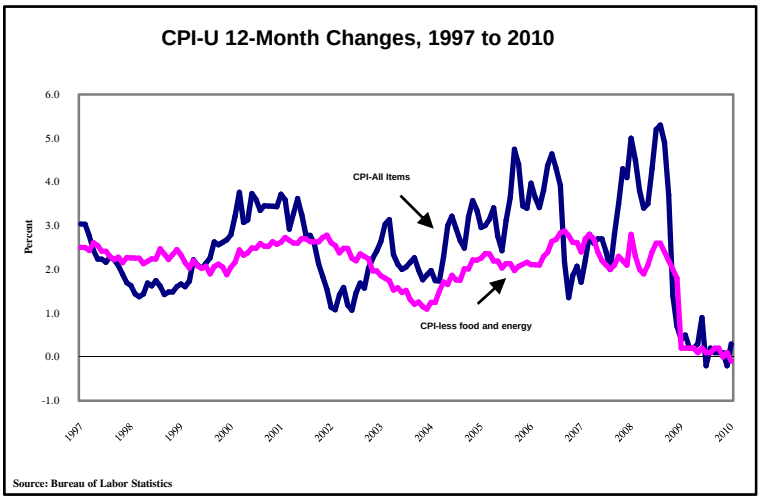
However, while investors are far from breaking even, the growth experienced during the year could be described as nothing less than bullish, and while some remain skeptical, many predict an extended rally that could potentially continue to regain some of the $11 trillion in stock market value lost since the recession began. After catastrophic losses caused by subprime mortgages precipitated into the global financial crisis, the market rebounded strongly in 2009, as indicated by the table above. Overall economic conditions, while slowly improving, were outpaced by resurgence in financial sector profitability, much of which was attributable to large scale government intervention.



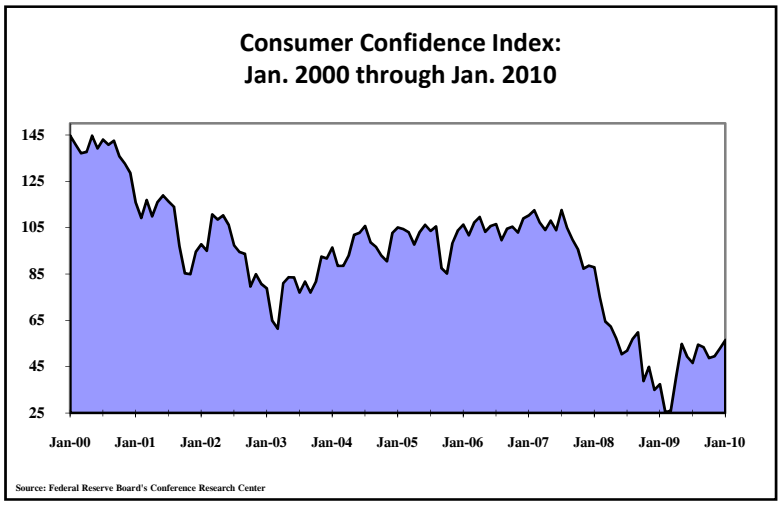
The labor market has suffered dramatically as a result of the current recession, with employers slashing payrolls throughout 2008 and 2009, and into the first quarter of 2010. From 2004 through the first quarter of 2007, the national unemployment rate had experienced a steady decline, reaching a low of 4.4 percent during this period. Unemployment rose to 5.0 percent by December 2007, beginning an upward trend as a result of job losses in manufacturing, construction, and retail, though these losses were partially offset by marginal job growth in the health care and food service industries. Throughout 2009 and into the first quarter of 2010, employers continued to slash jobs as a result of overall conditions in the economy, though job cuts have been waning relative to the volume of labor force shrinkage experienced in the several months prior. The unemployment rate currently stands at 10.0 percent and has hovered around this level for several months, partially due to the fact that the market is not only losing jobs, but the labor force is actually shrinking. Since the recession officially began in December 2007, an estimated 8.1 million jobs have been lost. While this number is shockingly high, the actual impact is understated when population growth is taken into consideration. The labor market should have naturally added some jobs relative to this growth from December 2007 to the present, even while jobs were being shed at the rate observed over this period, merely to keep up with the natural growth in population. However, this was not the case. Taking growth into consideration, the market would need to add approximately 10.5 million jobs to equal the pre-recession level of unemployment.

The Consumer Price Index (CPI-U) is an economic indicator most commonly referred to when measuring inflation in the United States. In the twelve months between January 2009 and January 2010, the percentage change in the CPI-U (not seasonally adjusted) declined from 0.4 percent to 0.3 percent, after dropping to -0.2 percent in the months of July and December 2009. Over the last 12 months (January – December) the index increased 2.6 percent. This increase is due primarily to a steady rise in the energy index, including gasoline, fuel oil and natural gas.

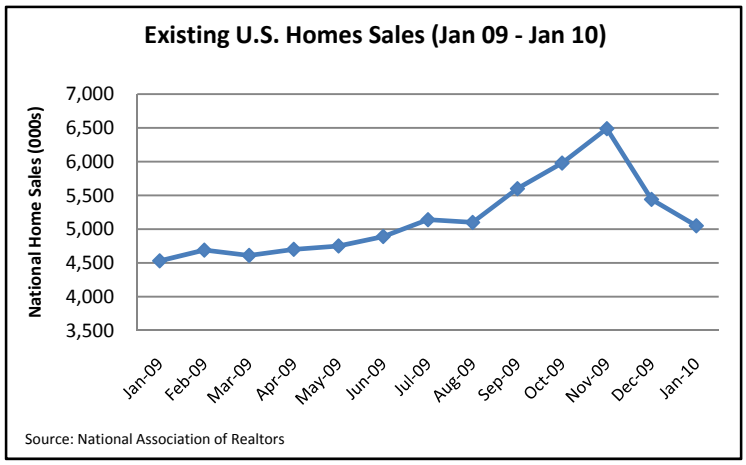
Core consumer price inflation, measured as CPI-U less food and energy, experienced similar, yet less dramatic volatility, rising 1.6 percent in January 2010. The deceleration experienced in the fourth quarter of 2008 and first quarter of 2009 was attributed somewhat to the drop in energy prices, which reduced costs of production, and, therefore, lessened one source of pressure on the prices of final goods and services. Energy prices, though, remained volatile, reflecting the continued political uncertainties in the Middle East, the fluctuating value of the dollar, as well as industry analysts' and investors' opinion on the economy and its impact on domestic fuel consumption. From April through September 2008, a surge in energy prices, particularly that of gasoline and diesel fuel, was experienced, with the per barrel price of oil reaching an all time high of $127. As a result, fuel prices began to rise, with the national per gallon pump price of gasoline averaging $4.05 by July 2008. However, as fuel prices began to moderate from late 2008 through the second quarter of 2009, the consumer price index recognized several consecutive months of declining growth, entering a deflationary period from a consumer goods cost perspective, relative to lowering crude oil prices. As the price per barrel of oil increased in the fourth quarter of 2009, and into the first quarter of 2010, the CPI-U began to increase relative to energy prices, with the CPI-U registering 1.8, 2.7 and 2.6 percentage point increases in November and December 2009, and January 2010, respectively. Correspondingly, gasoline prices have steadily increased throughout 2009 and into 2010, with the average national per gallon pump price in March 2010 registering at $2.72.



One of the most important economic indicators is the Consumer Confidence Index, as it measures the level of faith that consumers have in the current economy. The consumer market is especially important as it comprises more than two-thirds of the nation's economy. During times of economic downturn, Americans typically become less confident in the economy. As economic downturns become longer and consumers hear continued negative economic reports, the level of consumer confidence tends to decline. Conversely, confidence tends to increase with positive economic and political news, especially increases in employment levels. Beginning in late 2007 and lasting throughout the first quarter of 2010, consumer confidence has remained low. Even though the economic environment has improved modestly, individuals are still less likely to spend, and those who would like to spend have found their ability to do so hampered as a result of restricted access to credit. In February 2009, consumer confidence hit a historic low of 25.3, down from 37.4 the month prior, reflecting the increasingly pessimistic attitude toward the state of the economy that is widely shared among Americans.



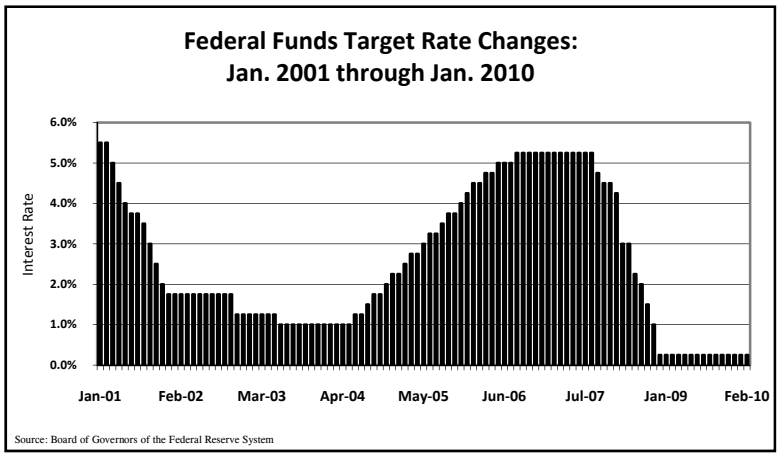
New and existing home sales, one of the principal drivers of consumer spending over the past several years, fell dramatically through 2008, and made some incremental improvement in 2009. Home sales activity temporarily increased month to month in the third and fourth quarters of 2009 as the homebuyer tax credits of $8,000 for new homebuyers, and $6,500 for existing homebuyers went into effect. Overall home sales increased by 11.5 percent from January 2009 to January 2010. As of this writing, the surplus of unsold homes on the national market represents a 7.8 month supply based on the current pace of sales. This is an 18.8 percent reduction in the national monthly supply from January 2009. Building permits and new residential construction, while falling dramatically throughout 2008, increased in 2009. Building permits issued in February 2010 totaled 612,000 nationally, 11.3 percent higher than the February 2009 figure of 550,000. New residential housing starts numbered 575,000 in February 2010, a slight increase over the February 2009 rate of 574,000.



In response to the current economic crisis, and in addressing the pivotal role the performance of the real estate market will play in the recovery effort, several initiatives were introduced by the federal government early in 2009 to assist existing and first time homebuyers. For example, the "American Recovery and Reinvestment Act of 2009" which was signed by the President on February 17, 2009, included refundable tax credits of up to $8,000, and reinstated the 2008 FHA, Fannie Mae and Freddie Mac loan limits for first time homebuyers. The tax credit, which was set to expire in December 2009, was extended through congressional approval in November 2009, to last through April 2010. While the homebuyer credits have been successful in spurring demand, it appears as though this has somewhat waned, as first quarter 2010 home sales recognized a setback from previous home sale estimates. For example, Fannie Mae cut its home sales forecast for 2010 after lower than expected sales volume in the first months of the year. The weakened demand resulted in a downward revised projection of 9 percent sales growth, down from the 12 percent previously forecasted. Sales activity, however, is expected to increase temporarily as a result of the scheduled April 2010 tax credit expiration. Any sustained real estate market recovery continues to depend mostly on national job creation.

The national median existing home price in January 2010 was $164,700, which equals the national median home price registered in January 2009, representing no year-over-year change. This is actually a dramatic improvement from last year's year-over-year assessment, which reflected a 15.5 percent reduction from February 2008. In addition to other factors, the previous adjustment in median sales price was partly attributable to the purchasing characteristics of first time homebuyers. Distressed sales, which typically sell for 20 percent below market price, have been sought after by first time buyers and represented approximately 45 percent of transactions in February 2009.

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



Despite its efforts to provide a balance between loosening a tight credit market, while also addressing the issue of inflation, the Fed had little choice but to continue to cut the Federal funds rate. By December 2008, the Fed had lowered the rate eight times, for a total of 325 basis points for the year, ending at a level of 0.00 – 0.25 percent, with the Fed at this time indicating that "economic conditions are likely to warrant exceptionally low levels of the federal funds rate for some time." The Fed funds rate has remained at this level since December 2008, and as of February 2010, represented over 13 months unchanged at effectively a 0.00 percent rate of interest. However, as previously mentioned, the access to credit for both businesses and individuals has remained restricted, despite the continuation of historically low interest rates.

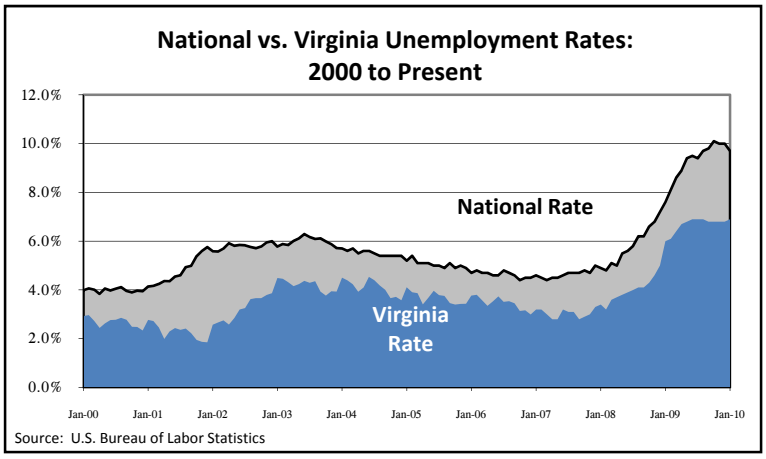
Virginia Economy

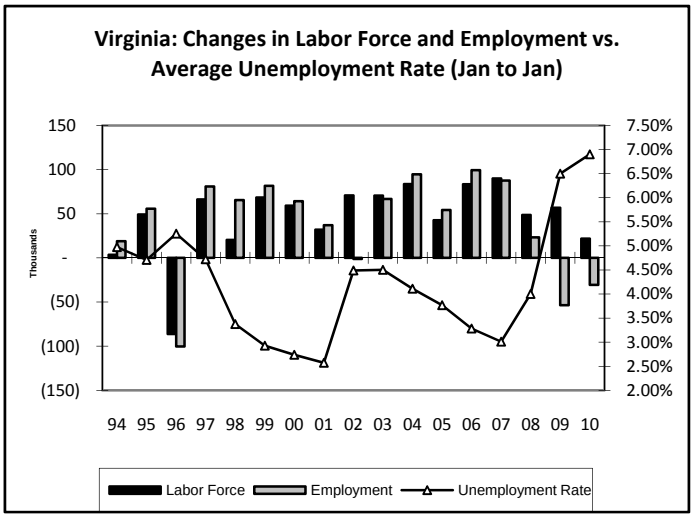
As the national economy has experienced booms and contractions over the years, the Virginia economy has largely followed the economic trends experienced by the United States. While the state economy generally tends to follow the lead of the nation, the Commonwealth does outperform the national economy in several economic indicators. Population growth and per capita income have both outpaced national levels. In addition, the Commonwealth of Virginia has experienced a lower unemployment rate than the majority of the country for many years. Other indicators, such as new business incorporations, new vehicle registrations, and manufacturing employment seem to mimic national trends.

According to the U.S. Census Bureau 2009 estimate, the population in the State of Virginia has grown by over 803,500 people since 2000, an increase of 11.4 percent, as it remains the twelfth most populous state in the country. During the same time period the national population increased by 8.8 percent. In addition, Virginia is also one of the most educated states in the U.S., with 33.6 percent of persons 25 years of age or older having a bachelor's degree or higher, ranking sixth among the states. Correspondingly, with a 2009 per capita personal income of $43,874 and an average annual salary of $45,531, Virginia ranks seventh and eleventh among the states, respectively in these categories. While the average salary in the U.S. fell by 2.6 percent from 2008 to 2009, the Virginia state average declined by only 0.5 percent, a comparison that reinforces Virginia's strong economic position in the U.S.

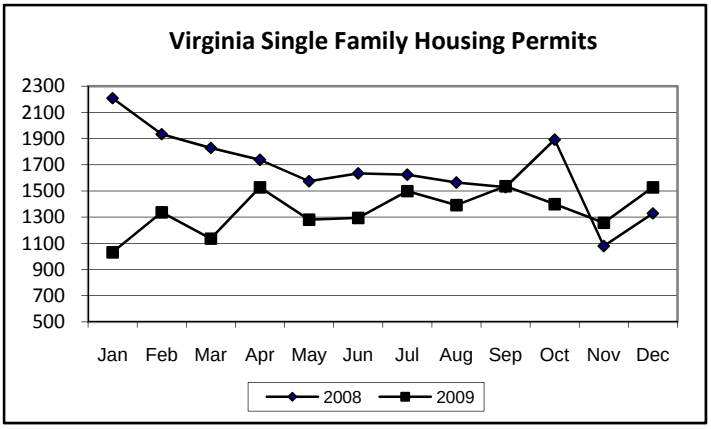
While the population of the Commonwealth was estimated at nearly 7.9 million as of July 1, 2009, the level of growth has recently been slower than that experienced in the first half of the decade. However, according to the Weldon Cooper Center at the University of Virginia, the rate of population growth is increasing in Virginia for the first time since the recession began in 2007, after having remained stagnant at less than one percent from 2007 through 2008, and rising to 1.1 percent in 2009. While the growth rate has yet to return to levels observed prior to the recession, higher future growth rates are anticipated. Virginia's population growth equation is comprised of two elements; natural increases, resulting from more births than deaths, and net in-migration, the net difference between individuals moving in and leaving the state. In recent years, these two figures as a percentage of the total population growth statistic have been relatively even. However, in the second half of the decade, the balance between these two contributing factors has grown less even, with natural increases exceeding migration into the state. According to demographer Mike Spar, "It is likely that economic conditions led to a reduction in migration to Virginia. Mobility is affected by a stagnant housing market and limited job prospects, conditions characterizing most of the nation the past several years."

From 2003 to 2007, national and state unemployment rates steadily decreased as the nation enjoyed a period of economic expansion. In 2007, when the economy began its downhill slide, unemployment rates began to rise, with the national rate spiking at 10.1 percent in October 2009, before moderating to 9.7 percent by January 2010. Despite exposure to the same economic obstacles experienced throughout the country, according to the U.S. Bureau of Labor Statistics, at 6.7 percent, Virginia had the 10th lowest unemployment rate average in the nation in 2009. The unemployment rate for the nation averaged 9.3 percent in 2009, indicating that even during times of economic difficulty, Virginia continues to fare better than most states in the U.S, as indicated in the above graph.





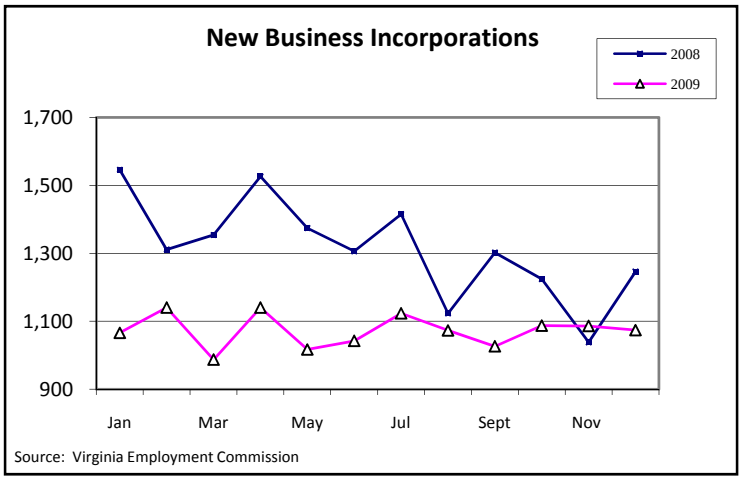
Typically, during periods of normal growth, the level of job growth throughout the state varies significantly by geographic area. The northern portion of the state, which offers the highest concentration of professional and business services, as well as technology and federal contracting jobs, accounts for more than one-half of the state's job growth. Industrial and manufacturing labor, which is concentrated in the southern portion of the state, accounts for the remainder of the state's job growth. In the national unemployment rankings, Northern Virginia is not treated as a separate area, but as part of the Washington,D.C./Virginia/Maryland/West Virginia metropolitan area. Employment in the Richmond Metropolitan Area, one of nine publishable metropolitan statistical areas in Virginia, was 594,933 in January 2010, which is down 1.2 percent or 7,200 jobs from January 2009. However, looking back over a two year period, regional employment is down 30,745 since January 2008, representing a 4.9 percent decline. Since the recession began, the area has experienced significant job loss due to business closings, particularly in the trade/transportation, manufacturing, and finance industries.



While population and unemployment are important indicators, other business economic indicators are vital in analyzing the performance of the Virginia economy. Since many other sectors of the economy feed off of new home construction, one significant indicator is the number of single family building permits issued. Following the national housing market trend, the number of single family building permits issued in Virginia in 2009 was well below levels seen in 2008. In 2009 there were 16,219 building permits issued, which

represents a decrease of 3,716, or 18.6 percent, from the 19,935 permits issued in 2008, despite the housing recovery efforts related to the Homebuyer Tax Credit, which was extended through April 2010. While there was a modest increase in home sales during 2009 attributable to the credit, it has been the observation of real estate agents and industry analysts that the credit is doing little to sustain upward sales momentum. Home prices have recently stabilized, but are still below their 2006 peak, and many existing homeowners currently owe more on their homes than what they're worth. In addition, since the efforts to modify loans that were facing foreclosure have been ineffective, there exists the potential for many new homes to be added to the already over-saturated inventory, which should act to depress prices, and further dissuade builders from obtaining permits given the supply and demand imbalance that will likely exist.

Virginia is a very attractive location for businesses as it features a low tax burden, business-friendly laws, and an aggressive economic development program. New business incorporations are one way in which the soundness of the state economy is measured. Due to the fact that the incorporation of a new business requires a large investment, this indicator is tied heavily to perceptions of the state of the economy. In 2008, 15,765 new businesses were incorporated, a 10.9 percent decrease from 2007. In 2009, 12,861 new businesses were incorporated, an 18.4 percent decrease from 2008 and 26.4 percent reduction from 2007. This continues a downward trend that began in late 2005 and has accelerated since the recession began in 2007. General economic uncertainty, compounded by historically low consumer confidence has strongly affected business growth, and correspondingly, the number of new business incorporations in the state.



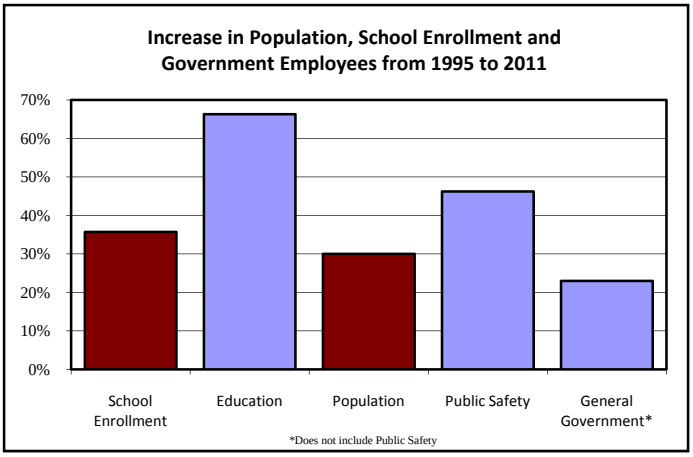
For the third straight year, automobile sales in Virginia decreased from the prior year's measures. According to the Virginia Employment Commissions' *Virginia Economic Indicators* publication for the fourth quarter of 2009, 328,467 vehicles were registered in the state during 2009, compared to 406,401 registered in 2008, a decrease of 77,934, or 19.2 percent. It is important to note that, prior to the recession, even during the periods in which auto registrations decreased in Virginia, the market had historically remained one of the strongest components of the economy. Low interest rates and other financing incentives supported strong sales in the years leading up to the nation's economic decline. However, the economic climate, fuel price volatility, and drastic changes in consumer behavior contributed to a precipitous decline in automobile sales throughout 2009, particularly of the larger vehicles manufactured by U.S. domestic auto makers. The domestic auto companies, many of whom have been significant beneficiaries of government funding, received approximately $85 billion in taxpayer supported loans which were deemed necessary for survival, and to avoid the potential loss of an estimated three million jobs. In addition, by many industry analyst estimates, 2009 was one of the worst years experienced in decades, with sales dropping among nearly all manufacturers, particularly the Big Three (Ford, General Motors and Chrysler) with annual sales falling 15 percent, 30 percent and 36 percent, respectively among the group.

Although some of the previously mentioned statistics show decline in selected areas, it is important to note that over the past several years, Virginia has continually maintained one of the strongest state economies in the country. Despite performing well relative to most of the states, Virginia was by no means immune to the economic difficulties experienced by the rest of the nation. Through 2009, there were approximately 126,000 jobs lost statewide, which represented 3.4 percent of non-farm employment. In fact, all employment sectors lost jobs, with the exception of private education and health services, which each recognized marginal gains of 2.1 and 4.2 percent respectively. The hardest hit areas included construction, which fell by 12.9 percent, retail trade, which fell by 4.9 percent and professional and business services, which fell by 2.9 percent. Again, while these losses are significant, they are lower than the U.S. average job loss of 4.3 percent over

the same period. In relation to reduced consumer confidence, consumer spending decreased in Virginia in 2009 in much the same way it did throughout the nation. Virginia taxable sales fell from approximately $90.1 billion in 2008, to $85.9 billion in 2009, a 4.7 percent decline. While estimated to have ended in July 2009 following a 3.5 percent 3rd Quarter rise in GDP, the recession that began in 2007 hasn't officially been declared over by the NBER, making it one of the longest recessions on record.

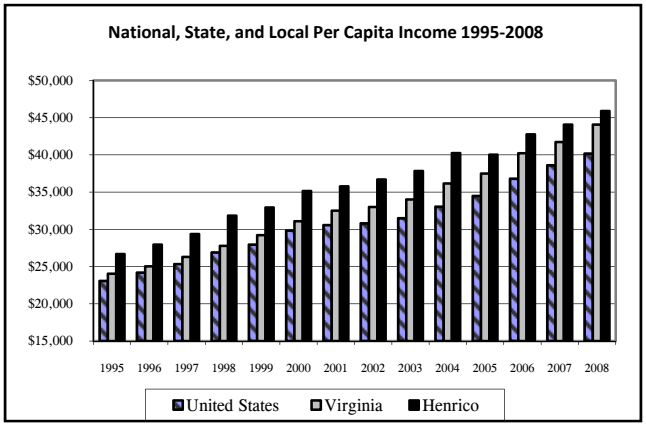
The depth and duration of our economic situation has adversely impacted Virginia's financial position. Governor McDonnell and legislators have struggled with declining revenues and reduced expenditures in order to close an $11.3 billion budget gap since this recession began. In fact, the 2010-2012 Biennial Budget returned state spending to 2006 levels. While the economy is recovering, nationally and in the Commonwealth of Virginia, it will be a long recovery consisting of sluggish output growth, further job loss and sustained unemployment. Analysts suggest that the Virginia economy may lose another 80,000 or more jobs in 2010, before stabilizing sometime in 2011. Personal income is expected to grow slowly, while wages and salaries will increase slightly by an estimated 0.4 percent in 2010, and 3.0 percent in 2011. Again, while Virginia's economic situation is dire, it is significantly better than in most areas of the country.

Local Economy



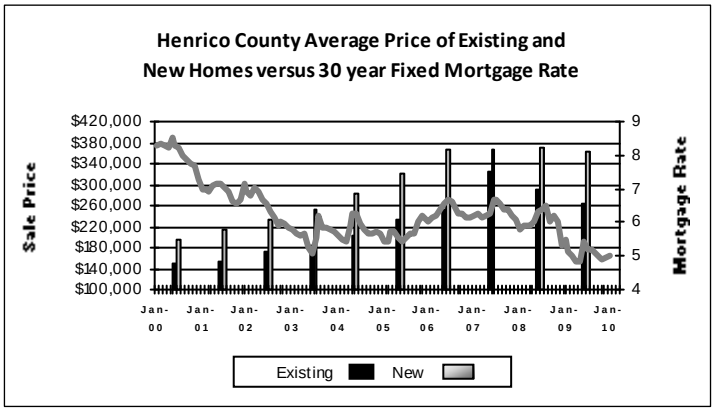
Over the past fifteen years, the Henrico County economy has become more diverse as the County has grown. Since 1995, the County's population has increased 30.0 percent. Rising from 239,683 to 311,692, Henrico is now the fourth most populous County in the Commonwealth. At the same time, the average daily student population attending Henrico County Public Schools has increased by 35.7 percent. In reaction to such growth trends, the County of Henrico has responded to the needs of the community by offering more services. As education and public safety are both high priorities for the County, these two areas have experienced the most employment growth. The education personnel complement increased by 64.4 percent since 1995 as the number of education facilities grew 27 percent over the same time period. This figure does not include additions or renovations to existing structures. Public Safety increased its personnel complement by 46.2 percent over the same period. A large portion of this increase is due to the additional personnel in the Sheriff's Office needed to staff the regional jail, which opened in 1996, as well as additional positions within the Division of Fire. It also should be noted that 177 positions have been added in the Division of Police over the same sixteen years. Since 1995, General Government (excluding Public Safety) experienced an increase in personnel of 22.9 percent. All increases in personnel and service levels were accomplished while real estate tax rates in Henrico decreased from $0.98 per $100 of assessed value to $0.87 per $100 of assessed value during this time period. In addition, Henrico citizens experienced increases in income larger than national and State averages. From 1995 to 2008, per capita income in Henrico has increased by $19,216, or 71.9 percent, to an average of $45,911. It should be noted that as of this writing, the 2008 County data is the most recent information released by the Bureau of Economic Analysis.

Recent conditions in the national and state economies have disrupted the County's economy, particularly with respect to business failures and employment. While typically the county's unemployment average falls well below that of state and federal figures, in March 2009, Henrico County registered a 7.1 percent unemployment rate, which slightly exceeded the state unemployment rate of 7.0 percent, the worst in 17 years. The County's unemployment rate remained higher than that of the state through January 2010, when the unemployment rate of 7.4 percent fell below that of the state's 7.6 percent. As of March 2010, the County's unemployment rate is 7.4 percent, while Virginia's remains at 7.6 percent. The national unemployment rate as of March 2010 was 9.7 percent.

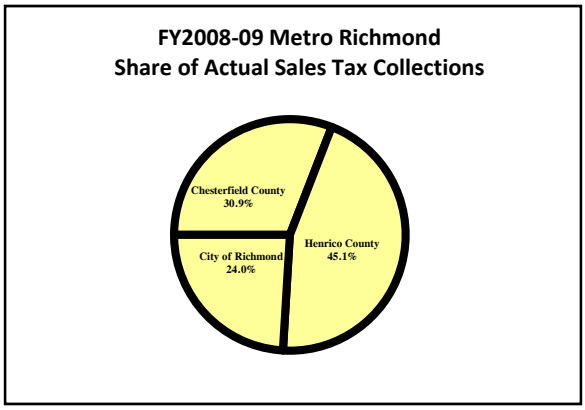


Between January 1, 2008 and January 2010, the County had lost over 8,500 jobs, some of which were the result of business closures and/or failures. Qimonda, the semi-conductor manufacturer that was once the County's top real estate and personal property tax payer, as well as its top consumer of water and sewer services, ceased operations in April 2009. During this two year period, the County also experienced the bankruptcies and closures of both Circuit City and Land America, resulting in a cumulative 4,500 jobs lost. While it will take many years to make up for the number of jobs lost over the last two years, there are several positive economic developments taking place in Henrico County, including recent expansions of Bank of America, T-Mobile and Smurfit Stone, as well as the decision by Admiral Group, Inc. to base its Elephant Auto Insurance business in Henrico County.

One of the most important economic indicators the County monitors is general property tax revenue. This revenue includes both current and delinquent real and personal property tax revenue. Property taxes generate the largest percentage of revenue for Henrico County, representing 47.7 percent of total General Fund operating revenue in the FY2010-11 budget. A large driver behind the growth in this revenue, historically, has been the strength seen in the County's real estate market, relative to the national market. The chart to the right illustrates the overall upward trend in the average sales price of new and existing homes in comparison to the decrease in fixed mortgage rates. However, in 2008, a result of the housing market crisis that was experienced nationwide was a corresponding drop in demand for housing in Henrico County, resulting in a higher monthly inventory, and stagnation in sales prices. Interest rates on 30 year fixed rate mortgages also fell significantly over this period, which facilitated some home buying and somewhat alleviated downward pressure on sales prices. The average 30 year fixed mortgage rate for 2009 was 5.04 percent, and was 5.03 percent in January 2010.

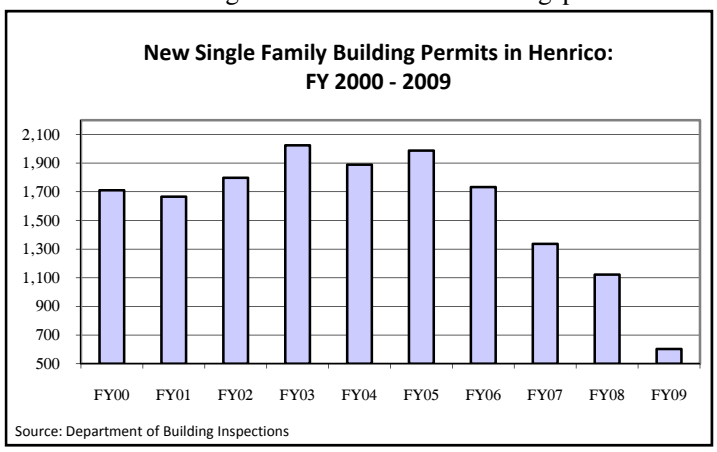


Another indicator the County monitors is local sales tax receipts compared to those collected in the Richmond Metropolitan Area. In actual dollars, Henrico's local sales tax receipts totaled $56.1 million in FY2008-09, representing a 2.2 percent drop from the prior fiscal year. Over the past fiscal year, Henrico County recorded a 45.1 percent share of the total local sales taxes collected in the Richmond area, compared to 30.9 in Chesterfield County, and 24.0 percent in Richmond City. While Henrico's sales tax collections decreased by 2.2 percent, its percentage share of regional sales *increased* by 0.8 percent, which is an indication of the strength of Henrico's local retail base.



Overall, the Richmond Metropolitan Area experienced a decrease of 3.8 percent, down from the previous year- over-year increase of approximately 1.0 percent. While there was a reduction in consumption related to the reduced level of sales revenue generated in the region, Henrico County's sales figures continued to out-perform other localities in the region. These statistics are a reflection of the quality and variety of Henrico County's local retail base, which is both an attractive option for local residents, as well as a shopping destination for consumers of neighboring localities and other non-residents.

Building permit fees are another important economic indicator that is carefully monitored by Henrico County. This revenue is considered to be elastic, meaning it will vary from year to year based on current economic conditions. A change in the number of building permits issued can be used as a source of information to predict the shape the economy will take in the future. Since FY2004-05, single family building permits in Henrico County have declined by 70.1 percent, through FY2008-09. Prior to the market cool down, Henrico County, like the rest of the U.S., experienced a boom in new home construction, due primarily to historically low interest rates. While Henrico County experienced significant growth in the number of single-family permits being issued over the five-year boom period between 2001 and 2005, the national growth pace was greater during this time period. Over this period, the national average annual increase for single-family permits issued was 6.9 percent, with an overall 31.7 percent growth comparing 2005 to 2001 levels. Henrico County, on the other hand, averaged an annual 5.2 percent increase for single-family permits issued during this time period, with an overall 21.1 percent increase between 2005 and 2001 levels. The number of single family building permits fell 25.5 percent in 2006-07, and 16.0 percent in FY2007-08. In FY2008-09, single family building permits fell 45.4 percent to only 622 permits for the fiscal year. The housing and credit crises have resulted in fewer home buyers, coupled with rising defaults, resulting in more properties continuing to be added to an already saturated housing market. While the federal government has made efforts to bolster the housing industry through its Homebuyer Tax Credit Program, many of the positive effects on housing demand, with respect to home building permits and new construction, have been eroded by increased foreclosures and an overabundance of existing inventory.



The County also monitors changes in the number of new and used automobile registrations. These registrations gauge the community's confidence in the local economy and determine the amount of its citizens' disposable income. In 2009, the County of Henrico reported 9,047 new and 43,631 used automobile registrations. These overall numbers mark a 9.3 percent decrease from those recorded in the previous year. For 2009, 34.8 percent of all car sales occurring in the Richmond Metropolitan Area occurred in Henrico County.

Conclusion

The downturn in the economy that began in late 2007 has continued throughout the first quarter of 2010. While some improvement has occurred in most sectors of the economy, the pace of recovery will be slow, and will continue to be hampered by a still weakened housing market, restrictive credit conditions, low consumer confidence and lagging employment growth. The measures recently implemented by the federal government to stimulate the economy have done some good, but the effects of these efforts may be temporary and prove to be inadequate to produce sustainable economic growth. The duration and full economic impact of the "Great Recession" continues to be unknown at this time. While the Federal funds rate has continued at a level between 0.00 - 0.25 percent, it was believed that these low rates would loosen the credit market, slowly alleviate consumer worry, increase borrowing and promote improved economic activity. While this

has not yet fully occurred, the continued low rates are one of the few measures that the Federal Reserve has to directly impact lending.

Consumer spending should continue to slowly improve throughout 2010, particularly purchases of consumer durables. However, sustained unemployment, increased personal savings rates, low consumer confidence, and declining net worth resulting from losses in the equity and housing markets will clearly have an impact on household spending decisions. In fact, a recent study conducted by the Associated Press asked economists whether this recession has created a "new frugality" among consumers, and two-thirds of respondents agreed that it had. During 2009, at the height of consumer worry, the savings rate hit 6.4 percent, remarkably higher than the sub-one percent savings level that existed prior to the recession. Into the first quarter of 2010, the savings rate had dropped to 3.1 percent, though clearly far from the near zero percent savings rate that would support a fast economic recovery, indicating that the pace of the economic rebound may prove to be even more sluggish than had previously been predicted.

While the national economy continues to move forward through a period of uncertainty, the County of Henrico has been affected by the economic troubles experienced throughout the nation. However, the County continues to respond better than national averages. While sales tax collections are slowing, registering 2.2 percent lower in 2009 than the year prior, they remain the strongest in the Metropolitan Richmond area. As the County of Henrico continues to operate within sound and conservative parameters, it is prepared to handle periodic fluctuations and uncertainties in the national, state and local economies, as well as the more severe economic conditions that we are faced with today.

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