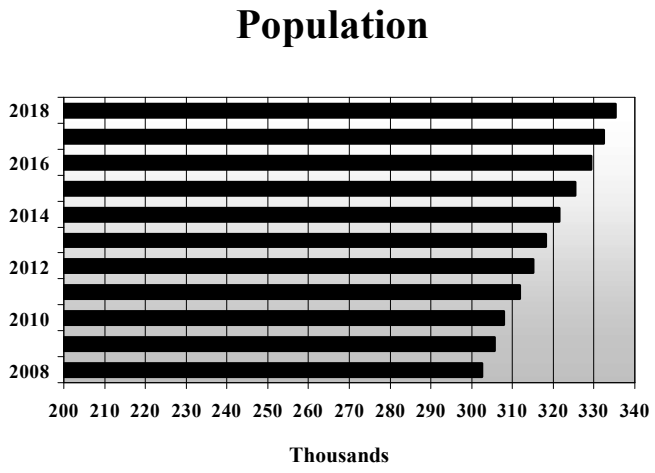
COMMUNITY NEEDS AND RESOURCES INDICATORS

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

Indicator:

Population of County Residents



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

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

Trends:
The County of Henrico has experienced a steady growth in population from 302,518 in FY08 to 335,283 in FY18, which represents an increase of 10.8 percent in this eleven-year time span, or an annual average increase of 1.0 percent per year. According to the 2000 United States Census, Henrico and Chesterfield were in competition for the largest population within the Central Virginia region with Henrico having a slightly higher total. According to the 2010 United States Census, Chesterfield County grew at a faster pace over the past decade, as they now have a higher population than Henrico.

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

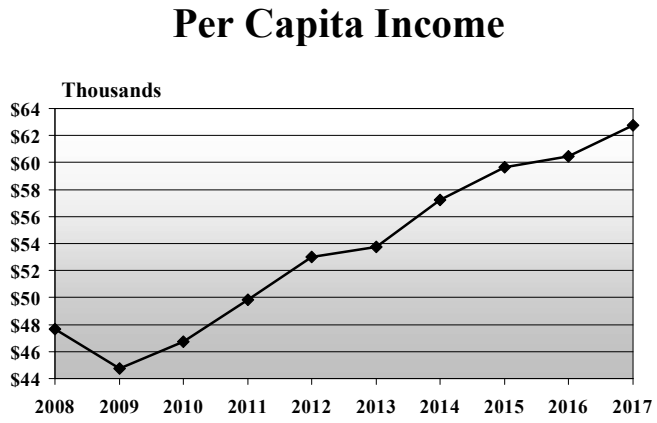
As noted throughout this document, local economic growth is steady and producing incremental revenue growth for the County. However, Henrico County must continue to focus on finding ways to provide efficient services to its growing population at the lowest possible cost.

Due to consistent population growth, no warning trend is noted for this indicator.

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

Indicator:

Per Capita Income
Source: Bureau of Economic Analysis



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

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

Trends:
In the ten years depicted above, per capita income has increased by 31.7 percent from $47,666 in 2008 to the $62,778 reported for 2017. It should be noted that this indicator factors in increases to the County's population, which increased 9.9 percent between 2008 and 2017.

The per capita income statistics depicted above come from the United States Bureau of Economic Analysis. That source is based on income tax returns and therefore data is only available through the 2017 tax year.

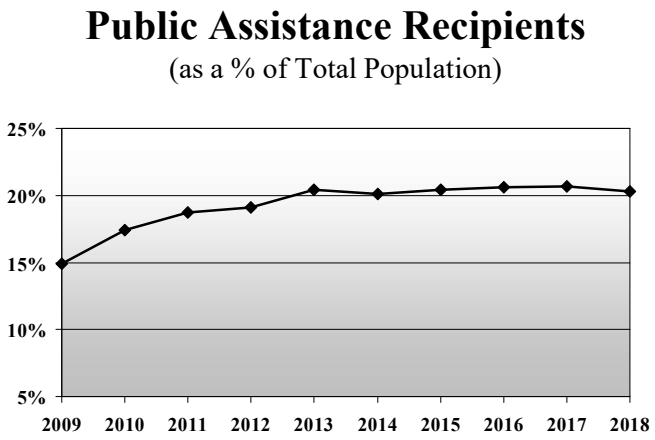
The economic downturn of the late 2000's featured the bankruptcy of two Fortune 1000 companies headquartered in Henrico County, LandAmerica Financial and Circuit City, as well as the insolvency of one of the largest employers in the County, Qimonda AG, a number of high paying jobs were lost in Henrico during the economic downturn. The results can be seen in this indicator in 2009, as per capita income dropped 6.1 percent. Since that time, per capita income has grown each year from 2010 through 2017 and experienced a total increase of 39.1 percent.

With robust economic development activity continuing in Henrico it is anticipated that this indicator will continue the trend of consistent gains into the immediate future. As such, no warning trend is noted for this indicator.

WARNING TREND: Increasing number of public assistance recipients.

Formula:

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



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

Trends:
This trend was restated with a new report from the Virginia Department of Social Services beginning with the 2016 Trends document. However, the data for this trend from this resource only goes back to 2009. Therefore, this document will only show a ten-year trend this year and will add data points in subsequent years.

The ten-year trend for this indicator features a series of sharp increases, from a 14.9 percent in FY09 to 20.4 percent in FY13, followed by a period of stability over the most recent five years. The number of public assistance recipients has been determined by obtaining the unduplicated number of people per year in the County receiving at least one of the following three types of benefits: Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance to Needy Families (TANF), or Medicaid. On a national level, some of the corollary factors that could impact this ratio are limited availability of affordable housing and health care coverage, as well as, limited funds for public transportation.

The Medicaid population has increased dramatically over the past eleven years, which has driven the increase in the number of public assistance recipients. There are currently more than fifty different categories that qualify for Medicaid coverage. Recently, the State Medicaid unit was dissolved and all cases statewide were sent back to their local jurisdictions. In addition, the state deployed CoverVirginia, which is a processing unit for the State. Citizens now have the ability to file on-line as well as telephonic. This has allowed for ease in applying for benefits. There has also been a simplification of verifications needed to process cases utilizing federal data matches and self-declaration.

Henrico has an aging population that requires long-term nursing home care, which is very expensive for each recipient. The number of mental health patients has increased as well as the number of foster care children, which have also added to the Medicaid population. In addition, policy changes related to income can impact this indicator.

In Henrico County, since 2010, the Supplemental Nutrition Assistance Program (SNAP) (also recognized as the food stamp program) caseload has increased by 9.0 percent. After going up sharply from FY10 to FY13, the number of Henrico SNAP cases has decreased for five consecutive years. The number of Medicaid cases has increased by 37.0 percent in the same timeframe (Source: Virginia Department of Social Services).

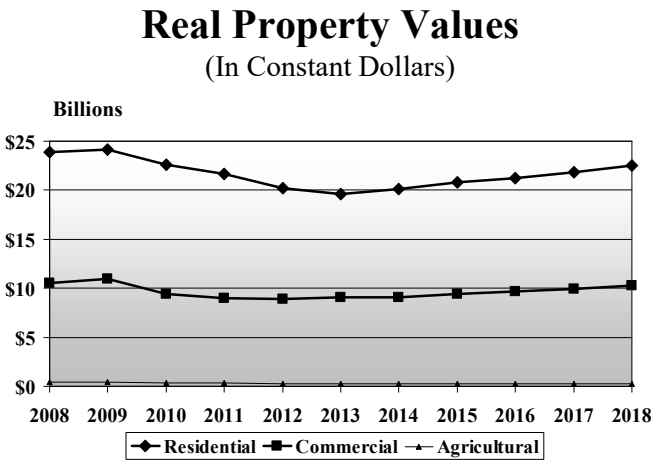
In 2018, the Commonwealth of Virginia decided to opt into Medicaid expansion under the provisions of the Patient Protection and Affordable Care Act of 2010. It is estimated that in Henrico County, 11,430 additional residents would qualify, which would be an increase of approximately 25.0 percent from the number of recipients currently eligible (Source: Henrico Department of Social Services).

Though the number of unduplicated has levelled off in recent years, it remains over 20.0 percent. Due to the high level of public assistance recipients over this time period, with more to be added as a result of the Commonwealth's adoption of Medicaid expansion, a warning trend should continue for this indicator.

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

Formula:

Real Property Values (Constant Dollars)



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

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

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

In looking at the more recent trends, from FY09 through FY13, constant dollar residential property values declined 18.6 percent while constant dollar commercial property values declined 18.9 percent from FY09 to FY12. Residential foreclosures and increasing office space vacancies significantly impacted the local real estate market during this time period. The County lost $36.9 million in annual revenue from Real Estate Tax collections at that time, which was particularly challenging as this funding source represents one-third of the County's overall General Fund revenues. This trend has been reversed with constant dollar residential property values increasing by 14.9 percent from FY13 to FY18 while constant dollar commercial property values experienced an increase of 15.0 percent from FY12 to FY18. While increases in this indicator have been steady for 5 and 6 years, respectively, it is important to note that both residential and commercial property values, on a constant dollar basis, remain below FY08 levels.

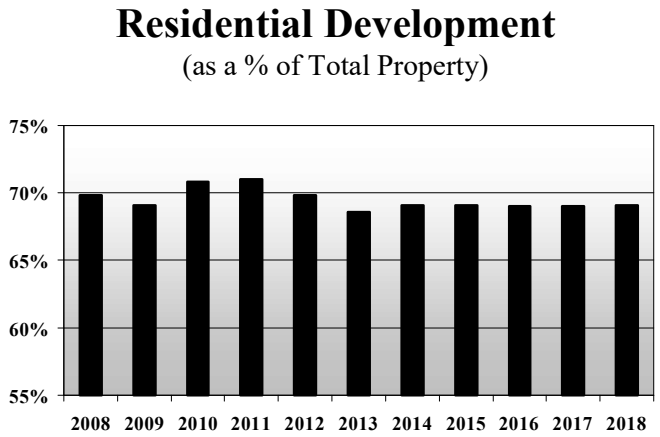
In looking back at historical residential real estate price appreciation since the late 1800's, the average annual growth nearly always mirrors the annual inflation rate, as determined by the CPI. In fact, when adjusting real estate price appreciation by removing the inflation rate, and plotting these revised rates of appreciation on a line graph, the result is very close to a straight line with the exception of the "bubble" of the mid 2000's. As the real

estate market continues to stabilize, it is anticipated that real estate price appreciation will increase at a comparable rate to inflation levels. As such, this indicator should reflect a "flattening out" effect long-term. As the County recently experienced its fifth consecutive year of growth in total constant-dollar real estate property values, with similar growth expected in the foreseeable future, a recovery to pre-recession levels is expected. Therefore, no warning trend is noted for this indicator at this time.

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

Formula:

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



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

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

Trends:
Residential development as a percentage of total property market value in Henrico County has ranged from a low of 68.6 percent in 2013, to a high of 71.0 percent in 2011. This indicator increased each year from 2002 to 2007, going from 66.3 percent in 2002 to 70.6 percent in 2007. In 2008, the indicator fell below the benchmark of 70.0 percent to 69.8 percent and in 2009 it dropped to 69.1 percent. In 2010, the indicator rose to 70.8 percent, increased again in 2011 to 71.0 percent, before again falling below the 70.0 percent threshold, to 69.8 percent in 2012 and 68.6 in 2013. In 2014, the indicator increased slightly to 69.1 percent and has remained within 0.1 of this level through 2018.

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

After the residential real estate boom from 2004 to 2007, in which increases in residential market values outpaced increases in the commercial segment of the market, in 2008, increases in commercial values remained strong, but residential values began to show signs of slowing down. As a result, the Residential Development indicator fell to 69.8 percent in 2008. In 2009, the Residential Development indicator fell again, to 69.1 percent, as residential real estate valuation declined by 0.3 percent and commercial values increased 3.1 percent. In 2010, because of sharp increases in vacant commercial real estate across the County, commercial valuations declined 13.0 percent as compared to a decline of 5.4 percent in residential real estate valuations. This large differential carried the Residential Development indicator to 70.8 percent. Commercial valuations declined 1.5 percent in 2011, twice the decline of residential valuations that dropped 0.8 percent, increasing the indicator to 71.0 percent, the highest level in the eleven years examined. Slight improvement in the commercial real estate market in 2012 resulted in an overall increase of 0.7 percent in values, while residential real estate values dropped just under 5.0 percent. As such, the indicator fell back below the 70.0 percent threshold, to 69.8 percent. In 2013, residential values declined 1.3 percent and commercial values grew more than 4.1 percent. The indicator increased in 2014 for the first time since 2008. This was caused by growth at 4.4 percent growth in residential assessments and 2.1 percent appreciation in, commercial values. Although the indicator has remained relatively flat since 2014, it is important

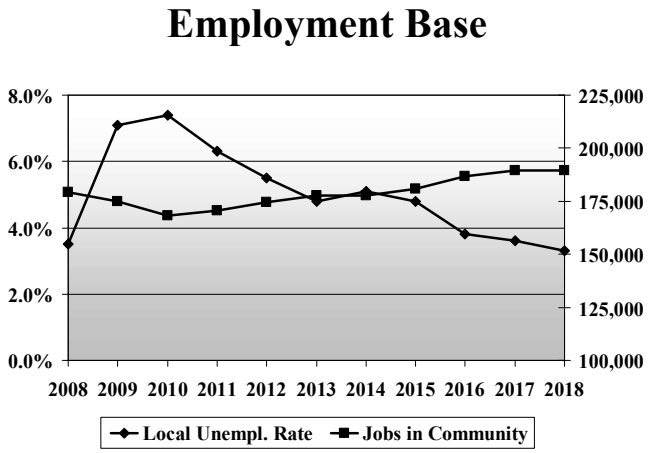
to note that both residential and commercial values experienced an increase as discussed in the Real Property Values trend.

As the overall real estate market improves and stabilization becomes more and more evident, there is enhanced confidence that growth will continue in both residential and commercial valuations going forward. As such, no warning trend is noted for this indicator at this time.

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

Indicators:

Local Unemployment Rate and Number of Jobs within the Community



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

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

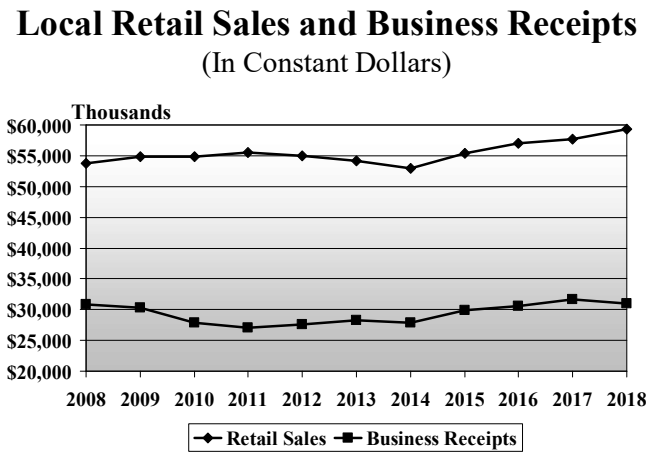
Trends:
I. Unemployment:
Henrico County's unemployment rate, in the eleven-year period above, showed a dramatic increase from 3.5 percent in 2008 to 7.4 percent in 2010. This mirrored a deep national economic recession. The effects were felt locally through several major business closings – most notably LandAmerica Financial, Circuit City, and Qimonda AG – as well as jobs lost in the construction and manufacturing sectors. Since 2010, the rate has steadily dropped as new jobs have consistently matriculated back into Henrico County. The unemployment rate of 2018 is 3.3 percent, which is the lowest point in this 11-year analysis. This rate is also below Henrico's historical average of 3.7 percent dating back to 1988, representing continued improvement from where the County was just a short time ago. With the overall downward trend since 2010, there is no warning trend for this indicator.

II. Number of Jobs:
From 2008 to 2010, the number of jobs in Henrico decreased by 11,284, or 6.3 percent. Since 2010, the County has added back 21,430 jobs, which is a 12.7 percent increase. With a clear upward trend in the number of jobs and an established pattern of economic development accomplishments, there is no warning trend for this indicator.

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

Indicators:

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



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

Trends:

I. Local Retail Sales Tax Receipts:

The above graph indicates that local sales tax receipts, in constant dollars, have grown markedly for four consecutive years, as the growth in this measure has outpaced inflation by a combined 11.8 percent from FY14 to FY18. This represents a sharp rebound from three consecutive years of decline from FY11 to FY14, which was a period of time when sales tax receipts were relatively constant but failed to grow at or near the level of inflation. Overall, the trend has risen by 10.3 percent over the 11-year measurement timeframe.

With a rare deflationary environment, coupled with slight growth in local sales tax collections, inflation-adjusted sales tax collections posted a 2.1 percent growth, despite the economic downturn, in FY09. This occurred due to the defeasance of the Short Pump Town Center CDA that fiscal year, as well as the successful implementation of the "Henrico, VA" initiative, in which the majority of "Richmond, VA" addresses were changed to "Henrico, VA" to correct revenue miscoding that misdirected local tax revenue to neighboring jurisdictions.

Throughout the eleven-year period, the County has maintained the lion's share of regional taxable sales and continues to strengthen its retail market. In fact, in current dollars, local sales and use taxes increased in FY15, FY16, FY17, and FY18 at year-over-year, at rates of 4.7 percent, 6.6 percent, 3.8 percent and 5.6 percent, respectively. Sales and use tax receipts will continue to be monitored closely but no long-term warning trend is noted for this indicator.

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

Like local sales tax revenues, FY08 BPOL tax receipts (constant dollars) fell sharply due to the struggling economy and unusually high inflation. While this indicator reflects a significant decrease, real unadjusted BPOL tax revenue only reflected a slight decrease of 1.0 percent. In FY09, inflation adjusted BPOL tax receipts declined by 1.8 percent and real unadjusted BPOL tax revenue declined by 3.2 percent. In FY10 inflation adjusted BPOL tax receipts declined by 8.2 percent, easily the largest decline in the eleven-year period examined, and real unadjusted BPOL tax revenue declined by 7.2 percent. In FY11 inflation adjusted BPOL tax receipts declined by 2.8 percent, but real unadjusted BPOL tax revenue increased slightly, by 0.7 percent. From FY09 to FY11, a number of businesses in the County were forced to close their doors.

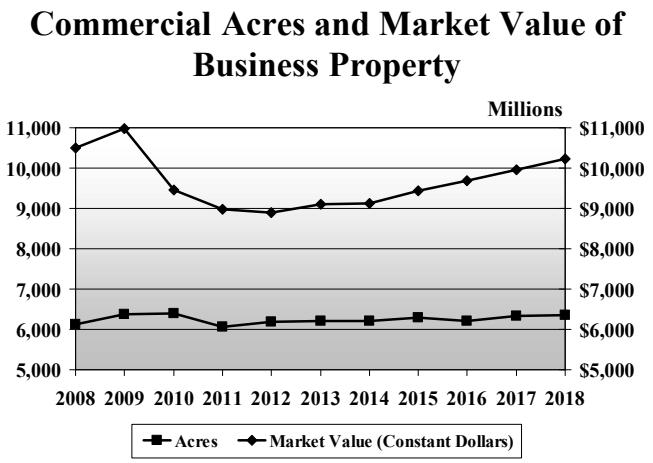
As new businesses have entered the County and joined the existing diversified business community, BPOL tax receipts are again reflecting growth after the years of decline. In fact, in FY12 and FY13, inflation-adjusted BPOL tax revenue grew 2.2 percent each year. BPOL tax receipts in FY14 experienced an inflation-adjusted decline of 1.3 percent. Business receipts in FY15 grew by 7.4 percent in constant dollars, the highest rate since before the economic recession. While not nearly as substantial as FY15, business receipts grew 2.1 percent in FY16 and 3.5 percent in FY17. To enhance the County's economic development efforts and low business tax environment, the Board of Supervisors doubled the exemption for businesses to pay BPOL taxes from $100,000 to $200,000 as part of the FY18 budget. This tax cut caused a 2.3 percent decline in BPOL tax receipts, on a constant dollar basis, in FY18. On a current dollar basis, BPOL receipts grew by 0.5 percent despite the doubling of the exemption.

Even with this increase and another increase in the exemption for businesses, from $200,000 to $300,000, in the FY19 budget, it is anticipated that BPOL receipts will continue to grow with the economy. Just as with sales tax collections, no long-term warning trend is noted.

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

Indicators:

Number of Commercial Property Acres and Market Value of Business Property



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

Trends:
I. Business Acres:
As shown in the graph above, business acreage steadily increased from 2008 to 2010, with 6,118 acres in 2008 growing to 6,393 in 2010. In 2011, business acreage dropped substantially to 6,064, but this is entirely due to a change in the calculation methodology for land use acreage by the Department of Planning, to be more compatible and consistent with the County's technological systems. The County, in fact, added 33 acres in 2011. Business acreage is defined as "*developed* commercial property for office and retail use." The data reveals that in the eight years from 2007 to 2010 and from 2011 through 2015, the average annual increase in the number of business acres developed was nearly 62.2. There was a reduction to 6,217 in 2016, caused by an adjustment to the Existing Land Use GIS layer that refined what was considered developed commercial property. The total business acreage for 2017 was 6,331 or 114 higher than 2016. Modest growth continued in 2018 as 29 additional acres were added. Outside of years where there were changes to the way business acreage is defined and collected, Henrico has seen steady increases in acreage.

Commercial development and concentration is a key component to maintaining a low Real Estate Tax rate and ensuring that Henrico continues to increase the number of jobs in the community. The commercial component of the Real Estate Tax base can subsidize the costs incurred by residential development – particularly in Education.

II. Market Value of Business Property:
The eleven-year trend for this indicator, *in constant dollars*, starts at $10.5 billion in CY08 and rises to $11.0 billion in CY09, before falling in each of the next three years due to recessionary contractions. After bottoming out at $8.9 billion in CY12, it started climbing again and over the next six years, reaching $10.2 billion in CY18, an increase of 11.8 percent. The value of commercial properties is prone to devaluation when the supply of those properties is greater than the demand, as was the case during the housing bubble. This was evident in 2010, the third year of the most recent recession and the supply of vacant office and retail space increased significantly due to several businesses closing their doors. The result was an overall reduction in the commercial tax base of more than 13.0 percent in FY10. Another decrease in the commercial tax base of 1.5 percent occurred in CY11 due to the continued elevated supply of vacant office space. In CY12, the commercial market improved slightly, and values increased 0.7 percent, though not enough to keep up with inflation, as reflected in the indicator above.

Commercial values increased greater than inflation in CY13 at 3.3 percent, and increased only barely higher than inflation in CY14 with growth of 0.02 percent. Growth continued in CY15, CY16 and CY17 as commercial values increased 5.1 percent, 3.6 percent, and 4.1 percent, respectively. CY18 marks the sixth consecutive year of growth with commercial values increasing 2.9 percent on a constant dollar basis. While these gains show continued improvement in the County's business property market values, it must be noted that this indicator has not fully rebounded to the 2009 level.

Looking into the future, the market value of commercial real estate will continue to rebound as jobs continue matriculating back into the County. Due to an environment of continuing growth, no warning trend is noted.