APPENDIX "F"
FINANCIAL TRENDS MONITORING SYSTEM
FY 2007 - 2017

Note to the reader:

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

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

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

What follows is a reproduction of the original Trends document for the period of FY 2007 – 2017 that was presented by the County Manager to the Board of Supervisors on February 27, 2018.

THE FINANCIAL TREND MONITORING SYSTEM

Financial Condition

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

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

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

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

The Financial Trend Monitoring System

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

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

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

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

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

Financial Indicators

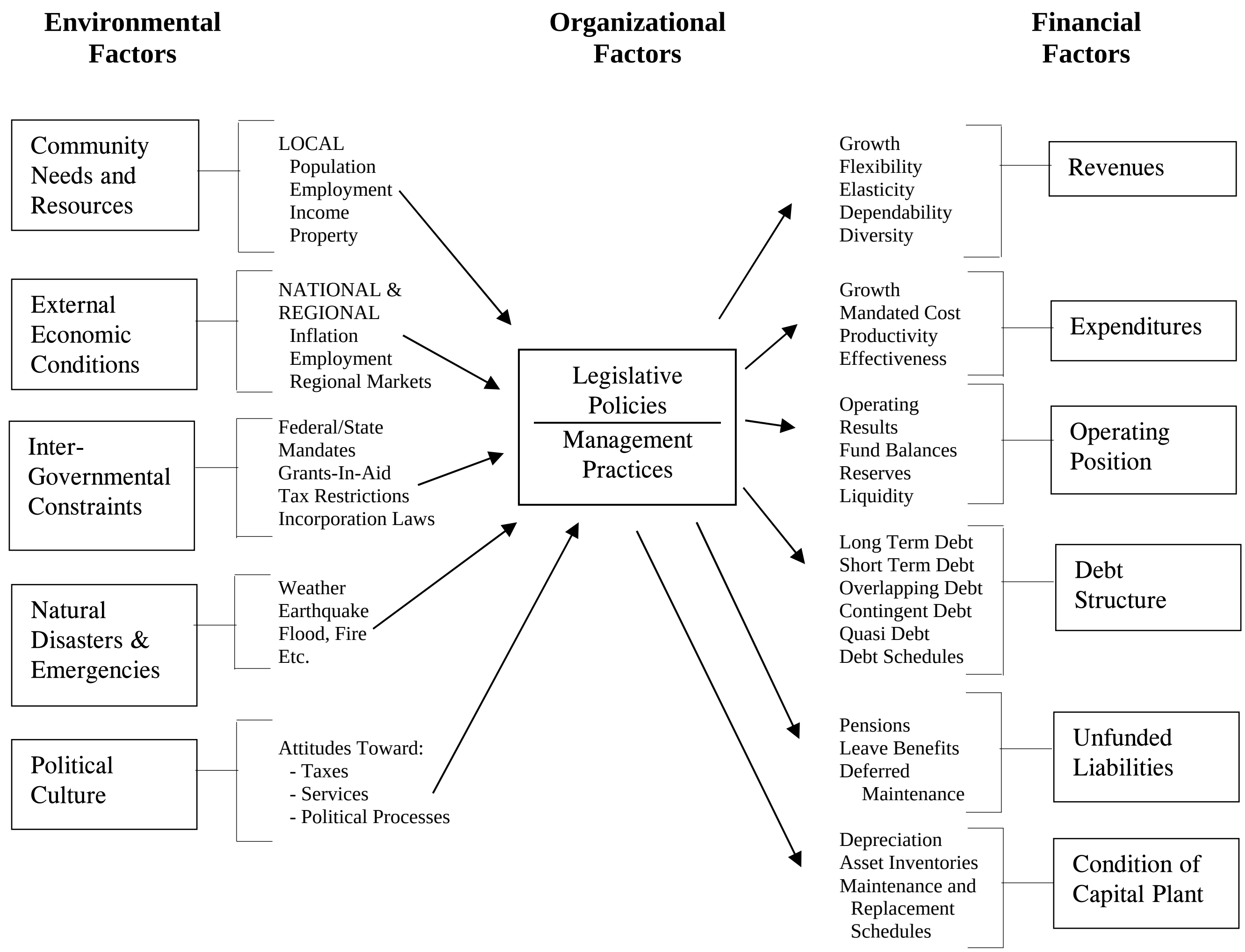
The financial indicators are the primary tools of the Financial Trend Monitoring System. They represent a way to quantify changes in the twelve factors. The chart on page 4 shows the twenty-eight indicators along with the factors with which they are associated. Many aspects of financial condition cannot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

How to Use This Document

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

Chart 1

Financial Condition Factors



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

FINANCIAL INDICATORS

(Those underlined denote warning trends)

REVENUES

- Revenues Per Capita
- Intergovernmental Revenues
- Elastic Operating Revenues
- General Property Tax Revenues
- Uncollected Current Property Taxes
- User Charge Coverage
- Revenue Variance

EXPENDITURES

- Expenditures Per Capita
- Employees Per Capita
- Fringe Benefits

OPERATING POSITION

- Operating Surpluses
- Enterprise Losses
- General Fund Unassigned Balances
- Liquidity

DEBT STRUCTURE

- Current Liabilities
- Long-Term Debt
- Debt Service

EMPLOYEE LEAVE

- Accumulated Vacation Leave

CONDITION OF CAPITAL PLANT

- Level of Capital Outlay
- Depreciation

COMMUNITY NEEDS & RESOURCES

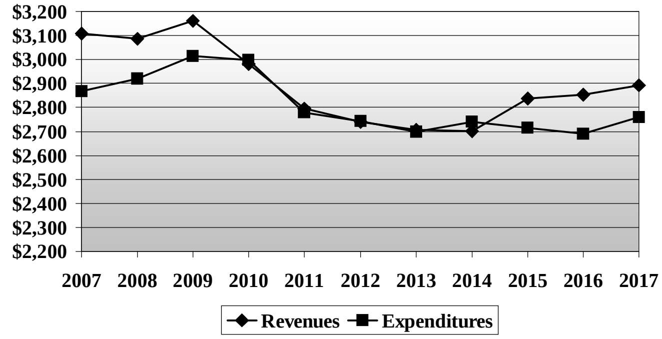
- Population
- Per Capita Income
- Public Assistance Recipients
- Real Property Values
- Residential Development
- Employment Base
- Business Activity - Local Retail Sales Tax Receipts and Business License Tax Receipts
- Business Activity - Commercial Acres and Market Value of Business Property

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

Formula:

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

Revenues/Expenditures per Capita
(In Constant Dollars)



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

Trends:
This indicator considers "Net Operating Revenues/Expenditures" to be revenues and expenditures (on a constant dollar basis) from the General, Special Revenue, and Debt Service funds. Because this indicator combines these operating funds, the representation is somewhat different than those made in the Annual Fiscal Plan, which is fund specific when examining revenue and expenditure growth. In looking at per capita revenues, the most recent fiscal year, FY17, marked the third straight year of constant dollar increase in this indicator since FY09. With 1.4 percent growth in this indicator (gross revenue growth of 4.1 percent), FY17 growth in per capita revenue was slower than the 5.1 percent growth experienced in FY15, but higher than the 0.5 percent experienced in FY16. As a note, the decreases in per capita revenues (constant dollar) noted in FY08 and from FY10 through FY14 are the only such year-over-year declines in this indicator since it began being tracked in 1982, pointing to the severity of the Great Recession.

While the per capita revenue growth in FY17 is indicative of continued improvement in the County's existing revenue streams, it also reflects the third full fiscal year recognition of the County's 4.0 percent meals tax, which generated just over $28.4 million in FY17, all of which was dedicated to the County's school system. Of the $28.4 million in meals tax receipts collected in FY17, $9.0 million was allocated to the operating budget of the County's school system, while the balance of $19.4 million was dedicated to pay-as-you-go capital budget needs for County schools, expenditures that are not captured in this indicator. Including meals tax receipts, total General Fund revenues grew by $38,903,545 in FY17 (current dollars) and Special Revenue Fund revenues, which mostly reflect State and Federal grant funding, increased by $10.9 million (current dollars), yielding total revenue growth of $29.3 million in current dollars for FY17, as compared to FY16.

In looking at expenditures per capita (constant dollar), the County experienced a year-over-year increase of 2.6 percent in FY17, the second increase since 2009 and a far cry from pre-recession high of $3,015. While in years past, slow economic growth subdued expenditure growth, a note of caution is warranted when acknowledging the decline in FY15. In FY14 GASB required a one-time accounting entry which inflated actual expenditures in this indicator for the fiscal year by $43 million; an expenditure that was not present in FY15. In fact, without this entry recorded in FY14, expenditures per capita (constant dollar) would have grown by 3.5 percent. The focus of the FY15 budget was adding structure back to the County's finances after several years of strategic budgetary reductions necessary in the difficult economic environment. This structure is evident in a number of indicators portrayed throughout this document.

In examining the data, a few distinct trends are evident. First, from FY06 to FY07, the County's per capita revenues outpaced per capita expenditures. In looking back over this time period, economic prosperity resulted in healthy revenue growth, while the County's financial plans intentionally minimized incremental expenditure growth. This is important in that expenditure controls have ensured the County's operating budgets did not outpace available resources. By minimizing incremental expenditures, the County was afforded the ability to forecast revenues conservatively. The benefits of this practice were realized in FY08, as County resources kept pace with a number of significant fixed cost increases despite a sluggish economy and the subsequently slower revenue growth. Per capita revenues (in constant dollars) in FY08 declined and on the expense side, fixed costs increased significantly, mostly due to soaring energy prices - notably the costs of gasoline, diesel fuel, electricity, and heating costs (natural gas).

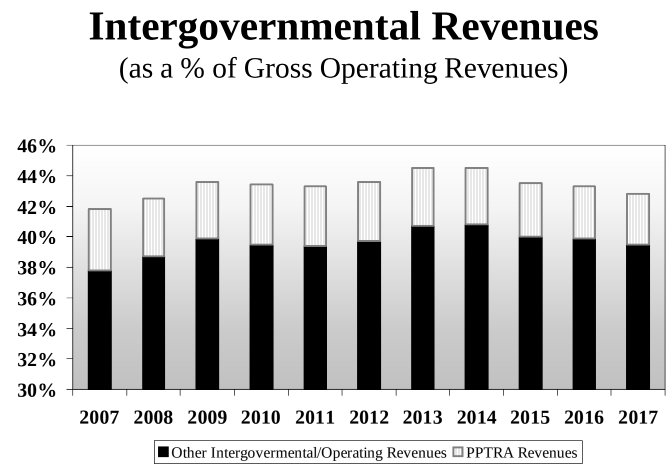
From FY09 to FY14, revenues per capita dropped significantly due to the economic downturn, and expenditures per capita were reduced to accommodate this loss in revenue. In anticipation of a slower than normal economic recovery, a number of sustainable expense reduction initiatives were implemented that allowed the County to reduce or absorb more than $125 million in expenses, including the elimination, freezing, or unfunding of more than 650 positions countywide. It should be noted that from FY07 to FY17, the County's population grew by 12.6 percent.

As the County's economy and revenue streams continue growing, a myriad of positive local, state and national economic data allow for an optimistic outlook in regards to the County's local revenue streams. While there are plenty of positive signs within local revenues, real estate assessment growth will not return to that seen during 2003 to 2009 period because of the unsustainable housing bubble from 1995-2006 that artificially propped up real estate prices. We also anticipate that State revenues will remain stagnant in the short term due to other funding priorities of the General Assembly. Real estate tax revenues and State Aid, combined, account for approximately two-thirds of all County General Fund revenues. Henrico's cautious outlook towards State revenues notwithstanding, the local revenues have been growing at a healthy, moderate rate reaching 4.1 percent in the most recent fiscal year. This exceeds population and inflation growth, which combined have averaged 1.1 and 1.3 percent since the recession, respectively. However, to avoid becoming complacent, the County will continue to add fiscal structure within the budget process, minimizing one-time resources and investing in core services – particularly Education and Public Safety. The County must also continue to explore innovative ways to provide the highest level of service at the lowest possible cost. In spite of the challenges noted herein, the structural additions and strategic expenditure reductions, as well as solid local revenue growth, have placed the County in an overall positive fiscal environment. Therefore, no warning trend is noted for this indicator.

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

Formula:

Intergovernmental Operating Revenues
Gross Operating Revenues



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

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

Trends:
As the graph above indicates, Henrico County's intergovernmental revenues as a percentage of operating revenues increased from 41.8 percent in FY07 to 44.6 percent in FY14, and then reversed course, dropping to 42.8 percent in the most recent fiscal year, FY17. The peak in this indicator is FY14 and largely arises from additional State Aid for education, which outpaced growth in local revenues, primarily real estate tax revenues. FY17 was also the third full-year that recognized the County's 4.0 percent meals tax, all local revenue, which has generated $83.3 million for the county's school system since FY15. As mentioned above, the State began reimbursing localities under the PPTRA in FY00. The graph above delineates between PPTRA reimbursements and all other intergovernmental revenues. The total bars reflect all intergovernmental revenues, while the lower stacked bars exclude the effects of PPTRA payments.

While intergovernmental revenue has increased substantially over the eleven year period examined, there are two distinct patterns that need to be noted, as the increase is largely misleading. Starting in FY05 and extending through FY09, Henrico County was awarded annual discretionary State Lottery funds of more than $5.0 million for Education, funds in which Henrico used solely for Education construction projects and not factored into this indicator. This decision was based on the premise that, if in the future, the State reduced lottery funds for Education - the County's operating budget would not be impacted in a negative manner. As such, an operational dependence was not created for this revenue source. The significance of this decision was realized in FY10, as discretionary lottery funds were significantly reduced to $3.2 million from $5.7 million received the previous fiscal year. In FY11, the entire discretionary allocation of lottery funds was eliminated, as the State began utilizing lottery proceeds to supplant reductions to specific Education programs formerly funded with General Fund dollars. In the 2016 Legislative Session, the General Assembly's Adopted Biennial Budget included the return of discretionary lottery funding. While the County did not include lottery funding in the adoption of the FY17 budget, this funding stream was eventually utilized by HCPS to fill a funding gap that was the result of missing enrollment projections by over 500 students.

The second trend reflects the reclassification of prior local revenues as "state" revenues, and while overall State aid looks like it increased from FY07 through FY09, the increase is somewhat misleading. One example that depicts why these increases are misleading is **legislation that replaced four local revenue sources** with a monthly payment from the State Department of Taxation, known as the Communication Sales & Use Tax, which became effective January 1, 2007 and was supposed to be "revenue neutral." The following local revenue sources were replaced: **Consumer Utility Tax, Cable TV Franchise Fee, Cellular Telephone Tax, and E-911 Tax**. This legislation distributes funding using a formula that has impacted Henrico's receipts, and has not proved to be revenue neutral as assumed in the legislation, as is demonstrated in the table below. The State deducts an administrative fee from the revenue collections and redistributes the funding monthly to localities as a fixed percentage of State-wide collections, which was established by FY06 local collection levels.

Fiscal Year	Local Revenue Collection	Communications Sales & Use Tax Collection
FY06	$14,260,480	$0
FY07	$9,662,975	$5,792,982
FY08	$0	$15,088,668
FY09	$0	$13,709,408
FY10	$0	$13,766,559
FY11	$0	$13,698,421
FY12	$0	$13,243,471
FY13	$0	$12,359,303
FY14	$0	$13,226,685
FY15	$0	$13,111,116
FY16	$0	$12,722,974
FY17	$0	$12,410,247

This is noted because it represents an example of the State's continued forays into issues of local taxing authority. This concern of State involvement in local revenues continues to be noted as a concern, as it is a significant wildcard in the County's multi-year financial planning efforts.

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

In the 2004 session of the Virginia General Assembly, the legislature made a materially adverse change to PPTRA payments – effective for FY06. The legislature capped the State's PPTRA payments to localities at approximately $950.0 million and uses a pro-rata distribution mechanism for making these payments in the future. In essence, what that means is that Henrico's PPTRA reimbursements from the State will remain at a level amount in the future, while the taxpayer portion will once again increase and the taxpayer will be required to pay more to the County. The State's promise of maintaining reimbursement levels at 70.0 percent for the County's taxpayers slipped to 53.0 percent in 2017. As noted earlier, the differential is paid by the County's taxpayers.

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

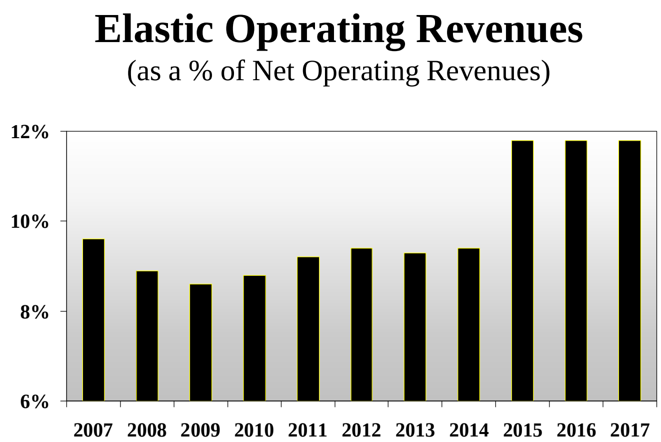
In the spring of 2014, the State identified a "shortfall" of revenues as a result of the impact of Federal sequestration, resulting in reductions in funding to localities across the State. While the State missed its revenue projections for FY14 and substantially adjusted revenue expectations for FY15 mid-year, revenue projections from the Commonwealth remained alarmingly healthy. As feared, at the end of FY16, the State announced that while its revenues grew, they would again fall short of revenue projections. This created a $1.5 billion "shortfall" for the Commonwealth – the result of continued struggles with accurately projecting their revenues. As such, Henrico County continues to be exceptionally cautious when it comes to estimating revenues from the Commonwealth.

With the implementation of the County's meals tax along with moderate growth in other local revenues, some of the County's reliance on State aid has been alleviated. However, the fact remains that State revenues represent a large portion of the County's operating revenues and as long as the Commonwealth continues to struggle with their fiscal picture, <u>a warning trend must continue for this indicator</u>.

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

Formula:

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



Elastic Operating Revenues:
Elastic operating revenues are those that are highly responsive to changes in the economic base and inflation. The highly elastic revenue categories used for this indicator are:

- Local sales and use taxes;
- Business and professional license taxes;
- Structure and equipment permit fees; and
- Food and beverage tax, more commonly known as a "meals tax".

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

Trends:
The graph shown above indicates that the percentage of elastic tax revenues for Henrico County have increased from a low of 8.6 percent in FY09 to a high of 11.8 percent in the most recent fiscal year, FY17. The sharp increase from FY14 to FY15 was primarily the result of the first full-year implementation of the County's 4.0 percent meals tax, which generated $26.8 million in FY15. Similar results were recognized in FY16 and FY17 with collections of $28.1 million and $28.4 million, respectively. This is why elastic operating revenues as a percent of net operating revenues have remained stable over the past three years at 11.8 percent. In addition to meals tax receipts, sales tax receipts grew 3.8 percent in FY17 and BPOL receipts increased 5.7 percent. In looking at all elastic tax revenues, the County experienced an increase of $4.5 million or 3.5 percent in FY17.

In looking from FY07 to FY14, the overall trend reflects a reduction in operational reliance from these elastic revenue sources. From FY10 to FY12, in spite of net declines in overall elastic revenues, the reliance on elastic revenues increased due to significant declines in real estate values and State aid, which combined account for approximately two-thirds of the County's General Fund revenues. The indicator dropped slightly in FY13 in spite of year-over-year growth due to increased State aid. In FY14, elastic revenue growth of 3.1 percent can be partly attributed to two factors. First, the FY14 Approved Budget included an increase in structure and equipment permit fees that restructured how the fees were charged. Second, the meals tax was implemented on June 1, 2014 and generated nearly $2.0 million in that first month, which was reflected in FY14 totals depicted in this indicator.

As a result of economic expansion from FY93 through FY01, the Board of Supervisors implemented a Business and Professional License Tax (BPOL) reduction strategy as a means of encouraging more businesses to locate in Henrico County. That strategy was first implemented by the Board of Supervisors in January 1996 and was phased in over a period of years. By January 2000, this tax reduction strategy fully exempted the first $100,000 in gross receipts from taxation for County businesses and established a uniform maximum tax rate of $.20/$100 for County businesses. While the tax reduction did impact this indicator, it has had two beneficial impacts. First, due to the phase-in of the Board's BPOL tax reduction strategy, Henrico reduced its operating reliance on these elastic revenues prior to the actual recession of FY02. Second, commercial taxpayers do not require the same service levels as residential taxpayers, so a net benefit to the County's revenues has been achieved by attracting more businesses to Henrico. In the FY18 budget, the Board of Supervisors doubled the BPOL exemption, increasing it from $100,000 to $200,000 in an effort to make Henrico even more attractive to businesses searching for a place to locate their business. The amount of the exemption will continue to be explored as an economic development and tax relief strategy.

Another positive note, Henrico County ranked fourth among all localities in Virginia for total taxable sales in 2016, behind only Fairfax County, Loudoun County and Virginia Beach. More significantly though, when looking at the ten largest generators of taxable sales, **Henrico ranks first for taxable sales per capita**. Refer to the chart below for comparisons to other localities.

Rank	Locality	2016 Taxable Sales	Population	Per Capita
1	**Henrico County**	**$5,479,744,704**	**321,233**	**$ 17,058**
2	Loudoun County	5,564,634,638	385,327	14,441
3	Chesapeake City	3,425,962,195	240,485	14,246
4	Arlington County	3,199,424,638	236,691	13,517
5	Fairfax County	14,910,908,192	1,137,290	13,111
6	Chesterfield County	4,179,658,883	333,963	12,515
7	Virginia Beach City	5,530,431,346	453,628	12,192
8	Prince William County	5,409,993,523	448,050	12,075
9	Richmond City	2,625,916,434	221,679	11,846
10	Norfolk City	2,698,815,474	247,087	10,923

Encouraging local economic trends and continued elastic revenue growth indicate a solid turnaround in the local economy. That being said, on average the United States economy has experienced a recession every five to six years, and is now at the ten-year mark since the beginning of the last recession, which was the worst since the Great Depression. Further, the General Assembly continues to look for ways to reform the BPOL tax in an attempt to reduce business taxes, which would be to the detriment to localities. So, while local economic growth has continued its positive trend, the County must remain diligent and exercise fiscal prudence when estimating elastic resources to mitigate reliance on these resources and quickly adapt to changing economic conditions. Nonetheless, with growth continuing in all the elastic indicators, no warning trend is warranted for the indicator.

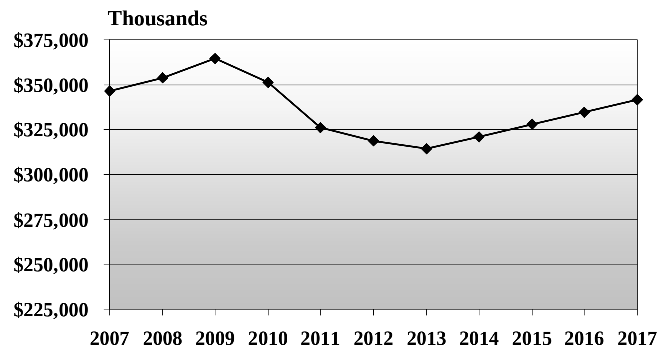
WARNING TREND: Decreasing or negative growth in general property tax revenues (constant dollars).

Formula:

Property Tax Revenues (Constant Dollars)

General Property Tax Revenue

(In Constant Dollars)



General Property Tax Revenues:
General property tax revenues in Henrico County include both current and delinquent real and personal property tax revenue levied and collected by the County. These revenues constitute Henrico County's largest local revenue category, representing 62.2 percent of total **local** operating revenue in Henrico County in FY17. It should be noted that beginning with FY99, the State's reimbursements of personal property tax revenues have been recorded as "intergovernmental" revenue. That is to say, the PPTRA revenue is not reflected on this indicator. This indicator does capture the "local" component of personal property – including the machinery and tools tax.

Trends:
Henrico County has experienced an overall healthy increase in general property tax revenues over the last eleven years. In unadjusted dollars, general property tax revenue has increased from $346.4 million in FY07 to $402.0 million in FY17, representing an average annual increase of 1.5 percent over this eleven-year period.

Henrico's strong local economy and community of choice designation for new area residents and businesses have had a positive impact on the County's real property assessed valuations over the past eleven years. During this time between CY07 and CY17, the County's unadjusted real estate tax base has increased by $3.1 billion. In this eleven year time period, it should also be noted that when looking at these property tax revenues and comparing them to total net revenues, a revealing pattern emerges. Beginning in 1999, personal property tax payments paid by the State under the Personal Property Tax Relief Act (PPTRA) have been classified as intergovernmental revenues even though the assessment function is performed at the local level. After capping PPTRA payments at $37.0 million annually for Henrico County, property tax revenues as a percentage of net operating revenues increased from 37.1 percent in FY06 to 38.3 percent in FY10. Due to the economic downturn, particularly the impact on real estate values, this indicator dropped four consecutive years, to 36.5 percent in FY13. The increase in constant dollar property tax revenue over the next four years is attributed to increases of 3.7 percent, 3.7 percent, 3.2 percent, and 4.6 percent in the overall real estate tax base for the past four years.

Overall, the upward trend of the County's total tax base over this time period is a very positive trend. To further influence this trend, the County's overall tax base for January, 2018 reflects a reassessment increase of 4.6 percent, with new construction increasing 1.4 percent. Going forward, the County anticipates continued growth in real estate values, though nothing compared to the growth experienced in the mid-2000's, when property values increased by 76.6 percent from 2003 to 2009. With a fifth consecutive year of overall real estate valuation growth and with personal property tax receipt expected to continue to grow at levels close to inflation, no warning trend is noted for this indicator.

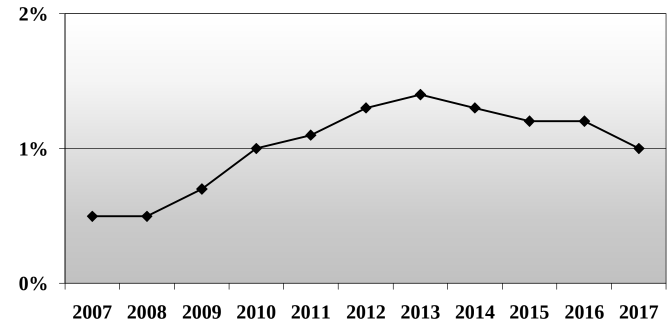
WARNING TREND: Increasing amount of current uncollected property taxes as a percentage of the current total property tax levy.

Formula:

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

Uncollected Current Property Taxes

(as a % of Total Levy)



Uncollected Current Property Taxes:
Every year a certain percentage of current real and personal property taxes go uncollected because property owners are unable to or choose not to pay them. As this percentage increases over time, it may be an indication of an overall decline in a locality's economic health. Bond rating agencies consider that a locality will normally be unable to collect between 2.0 to 3.0 percent of its property tax levy each year. If uncollected property taxes rise to more than 5.0 percent, rating agencies consider this to be a negative indicator that signals potential problems in the stability of the property tax base or is indicative of systemic problems with local tax collection efforts.

Trends:
As the graph above indicates, for this eleven-year period, Henrico County's percentage of current **uncollected** real and personal property taxes has ranged from 0.5 percent in FY07 and FY08, to 1.4 percent in FY13, the high point in the eleven years examined, before falling the past four years to 1.0 percent in FY17.

In looking at this indicator, a consistency in collections on the part of the County is depicted, as the range on the graph is within expected parameters. In the past several years, significant enhancements have been made in the collection of delinquent real estate taxes. This, in part, can be attributed to Henrico's commitment to improving customer service by streamlining collection procedures and increasing payment options for County residents. In this time period, Henrico has implemented acceptance of payments by credit card over the telephone and via the internet, implemented acceptance of payments by debit and credit cards in person, instituted a monthly debit program for personal and real property tax payments, continued to be more timely in collecting delinquent taxes and enhanced its collection processes. The results of these efforts can clearly be seen above. From FY09 to FY13, uncollected real and personal property taxes reflect the impacts of the recessionary economic environment and the toll it had on the citizens of Henrico County and the local real estate market, as can be seen by the steady climb before topping out at 1.4 percent in 2013.

One ancillary fact that needs to be mentioned is that the County's top ten "Principal Taxpayers" continued to constitute a large percentage of the tax base in FY17, at 6.6 percent. This is an important note for this indicator due to the fact that collections of current taxes from the "Principle Taxpayers" of a locality are generally made in the year they are due.

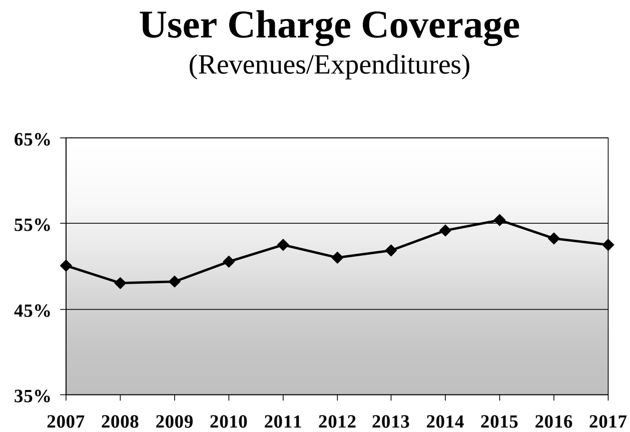
In looking at this indicator over the eleven-year time period, a peak is depicted in FY13. However, even at its peak, uncollected current property taxes as a percent of the total levy measured 1.4 percent, well below the 5.0 percent level that Bond Rating agencies consider negative.

Due to enhancements made in the collections area in the past several years, levels are anticipated to remain well below 2.0 percent. As such, <u>no long term warning trend is noted for this indicator</u>.

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

Formula:

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



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

Trends:
As shown in the graph, the user charge coverage for the County has measured less than 55.0 percent for much of this eleven-year period, with the exception being in FY15, in which user charge coverage increased to 55.4 percent. For FY16 this decreased to 53.3 percent which is below the FY14 level and again dropped in FY17 to 52.5 percent. The indicator measures user coverage of seven specific expenditure areas. These are: Building Inspections, Employee Cafeteria, Mental Health, Recreation, Street Lighting, School Cafeteria and Solid Waste. The decrease in this indicator in FY17 is the result of expenditure growth of 2.4 percent as compared to only 0.9 percent growth in revenues.

In looking at the larger operational components, the user charge coverage percentages for Building Inspections had typically been sufficient to cover the activities of that department. However, user charges as a percent of expenditures fell significantly in the economic downturn due to the significant drop in the number of permits issued during the downturn. To put this in perspective, in FY07, the user charge coverage percentage for Building Inspections was 99.9 percent, falling to 48.5 percent by FY10. In FY14, structure and equipment permit fees were increased in an effort to close the coverage gap, and as a result, the coverage grew to 76.9 percent. In FY15, for the first time since FY05, permit fees sufficiently covered all costs of Building Inspections. This trend has continued over the past two fiscal years, as permit fees provided coverage of 112.8 percent of Building Inspections expenses in FY17.

Mental Health's user charge coverage has increased over the eleven-year period from 38.2 percent to 45.3 percent due to third party fee payments made to that entity. The user charge coverage for Solid Waste shows a positive trend over the eleven-year period, increasing from 72.3 percent in FY07 to 98.4 percent in FY17. In looking at Recreation, the user charge coverage in this area has averaged 4.7 percent throughout this time period. Also, in this eleven-year time period, the School Cafeteria has typically generated sufficient revenues to cover operational requirements.

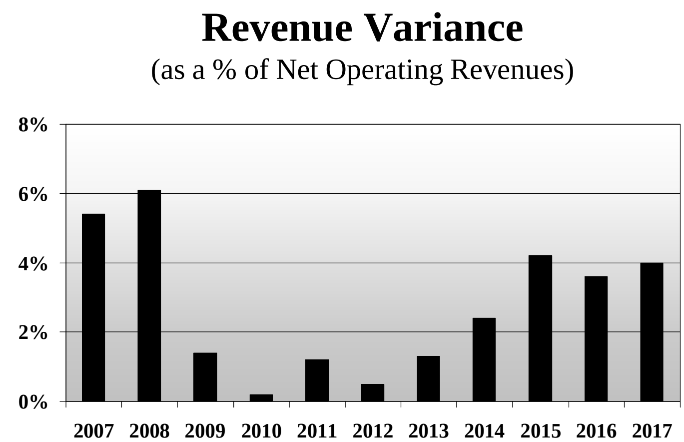
This indicator in the eleven-year period has averaged 51.6 percent. Excluding Recreation, the indicator has averaged 68.7 percent in the eleven-year period. As the local economy continues to slowly improve, these user fees should continue to improve. As such, <u>no warning trend is noted for this indicator</u> and the County will continue to maximize efforts to ensure coverage rates are appropriate to reduce reliance on other County revenues.

WARNING TREND: Declining revenue variance as a percentage of net operating revenues.

Formula:

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

Revenue Variance:
This financial indicator examines the differences between revenue estimates and revenues actually received. It includes revenues in the General, Special Revenue, and Debt Service funds. Major discrepancies in revenue estimates can be an indication of a declining economy, inefficient collection procedures, or inaccurate estimating techniques. On the graph to the right, the "0%" represents the fiscal year budgeted estimates. A positive number reflects a positive revenue variance, indicating budget estimates were met, while a negative number reflects missed revenue projections.



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

In looking at this eleven-year period, this indicator peaked in FY08, when the budget to actual revenue variance reached 6.1 percent. The low points may be found from FY09 through FY13, when the variances ranged from 0.2 percent in FY10 to 1.3 percent in FY13. The variance for FY14 increased to 2.4 percent, while the variance for FY15, at 4.2 percent, reflects the largest revenue variance in the past eight fiscal years. For FY16 the revenue variance dropped to 3.6 percent, but this was still the third highest in nine years, significantly higher than FY14 and trailing only slightly the most recent fiscal year, FY17, where revenue variance increased again to 4.0 percent.

Looking at the trend since FY07, the County's annual revenue variance has averaged 2.8 percent. The County of Henrico maintains a conservative posture when projecting revenues on an annual basis. In spite of the recessionary economic environment in FY08, the budget to actual revenue variance of 6.1 percent reflected the highest level in this eleven-year period. The impact of the economic downturn is evident from FY09 through FY13, as the gap between estimated and actual revenue collections narrowed due to virtually all revenue sources declining. During this period, and in anticipation of a slow economic recovery, a number of sustainable expense reduction initiatives were implemented that allowed the County to reduce overall expenses by more than $125 million, including the elimination, freezing, or unfunding of more than 650 positions Countywide.

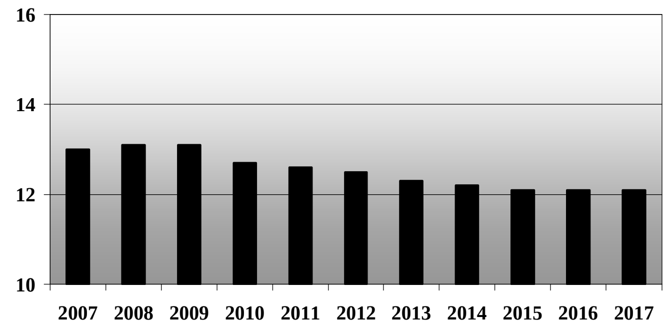
Continuously improving revenue collections, combined with the continued effort of departments finding efficiencies, allowed the County to post an improved 2.4 percent revenue variance in FY14, contributing to growth in overall General Fund fund balance as well – the first such increase in fund balance in five years. A revenue variance of 4.0 percent was achieved in FY17 due to conservative revenue estimates, the continuing performance of meals tax, and the continued focus on minimizing expense growth. The continuation of conservative revenue estimates in the FY18 budget will again yield a positive revenue variance into the foreseeable future. As such, <u>no warning trend is warranted for this indicator</u>.

WARNING TREND: Increasing number of employees per capita.

Formula:

Number of General Government Employees
Population

Employees per Capita
(Employees per 1,000 Population)



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

Trends:
The County's General Government personnel complement *(which does not include the personnel complement of the Henrico County Public Schools)* increased by 226 employees from FY06 to FY09, then was reduced by 73 positions from FY10 to FY14. The graph above illustrates that the employees per 1,000 population generally measured around 13.0 employees per 1,000 population during the first three years of the time examined, with the peak at 13.1 in FY08 and FY09. Since FY09, this indicator has steadily dropped to the level of 12.1, where it has sat for the past three fiscal years despite an increase of 105 positions in the personnel complement over this time frame.

Three notes are warranted for this indicator. First, the graph above does not exclude departments that offer specialized services not offered by most localities in the State. Henrico County is one of two counties in the State that maintain its own roads, and the information above includes 262 employees in the Public Works department. Second, the personnel complement does not include positions that are completely tied to non-County funding sources and do not have local revenue sources supporting them. As of this writing, the County has 339 of these positions throughout the County. Finally, this indicator includes positions that are currently being held vacant as a result of the County's hiring freeze. As of this writing, the County is holding 367 vacant positions that are in the personnel complement.

Growth in this indicator from FY06 through FY08 are a direct reflection of a number of new facilities that were built as a result of the two General Obligation Bond Referenda held in November, 2000 and March, 2005. In October 2008, in response to a number of troubling economic indicators at that time, the County implemented a hiring freeze that impacted nearly all departments across the County. To assist in balancing the FY11 budget against significant revenue reductions, the County eliminated 101 of these vacant positions in FY10. The result of this action is that the number of General Government employees per 1,000 population was reduced from 13.1 in FY09 to 12.7 in FY10, easily the largest year-over-year fluctuation in the time period examined. In the FY12 budget 21 vacant positions were eliminated to assist in balancing the budget and 21 positions were placed into a hold complement, dropping the indicator to 12.5 employees per 1,000 population. In FY12 through FY14, the number of positions remained constant to the number in FY11 at 3,927 positions, in spite of the increase in population. In FY15, the number of positions increased by a net total of 10 to 3,937 and in FY16, the number of positions increased by a net total of 49 to 3,986. Then in FY17, the county added 46 positions bringing the total to 4,032. This indicator dropped to 12.5 in FY12, 12.3 in FY13, 12.2 in FY14, and 12.1 in FY15, FY16, and FY17. In fact, the ratio of employees per 1,000 population is at its lowest level since FY1988.

The increase in the FY16 complement was primarily driven by the addition of 26 positions associated with the new Libbie Mill and Varina libraries and 17 additional employees added to the Sheriff's Office complement as a result of a jail closure. It is important to note that a total of 16 positions were eliminated from the complement in order to offset the impact of these new positions. FY17 saw a similar increase in the number of general government employees with addition of 46 positions. These additions were mostly associated with three departments: Police, Fire and Libraries. The Police positions were due to the third year of promised increases to patrol personnel and additional positions for the new radio system. Fire's increases were due to the first of a three year commitment to hire three firefighters for extra coverage and positions for the new Fire Station #19. Library's increases were entirely due to the new Varina Area library opening.

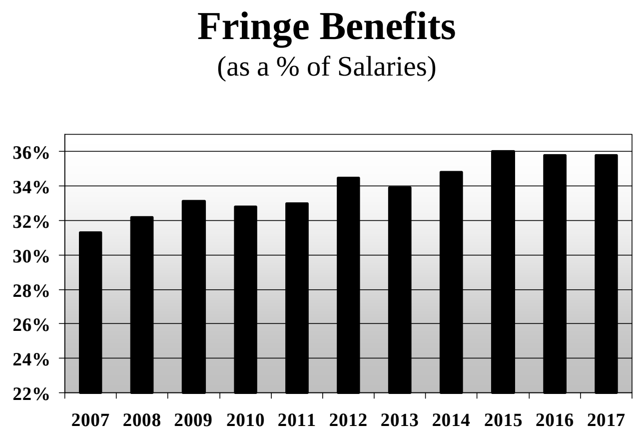
As the local economy improves and demands for services increase, new positions will be needed to meet the community's needs. However, the addition of a new position requires an extensive analysis and justification. Further, if a position is no longer required for a service, then that position will be reallocated within the County where it can be utilized in an effort to minimize the need for new positions. With these practices in place, <u>no warning trend is noted for this indicator</u>.

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

Formula:

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

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



Trends:
The fringe benefits ratio has averaged 33.9 percent between FY07 and FY17. The high point reflected in this time frame is FY15, which measured 36.0 percent. Clearly, the trend for this indicator reflects significant annual increases in the prior eleven fiscal years, and this trend is anticipated to continue into the future.

Three years in the eleven years examined reflect net declines in this indicator – FY10, FY13, and FY16. In FY10, fringe benefits as a percent of salaries fell to 32.8 percent; however, this statistic is extremely misleading as healthcare costs increased, and all other fringe benefit rates remained consistent with FY09. The reason for this reduction is the result of a budget savings measure at the State level by the General Assembly in which the State deferred its fourth quarter VRS payment to the following fiscal year, which eliminated the fourth quarter employer share of the VRS payment for teachers across all localities. Further, in FY11, the General Assembly lowered the VRS teacher employer rate from 9.85 percent to 3.93 percent as a budget balancing decision. However, the General Government VRS rate increased, in addition to all other fringe benefit rates, and the fringe benefits ratio increased to 33.0 percent. The full-year impact of the VRS rate increase from FY11 can be seen in FY12, as the indicator sharply increased to 34.5 percent. In FY16 and FY17 this indicator declined slightly from an eleven-year high of 36.0 percent to 35.8 as a result of salaries increasing at a higher pace than fringe benefits.

The reduction in this indicator in FY13 is also misleading as the General Assembly, as part of a series of reforms to increase the funding status of VRS and mitigate future cost increases exacerbated by the budget actions of the General Assembly in FY10 and FY11, forced localities to provide a 5.0 percent salary increase to its employees in exchange for the employees paying 5.0 percent of their respective salary into VRS – a portion that localities, including Henrico, had provided as a benefit to employees. While this action helped to reduce this indicator, it did so at a net cost increase of just under $6.0 million to the County's taxpayers while resulting in a net pay reduction to employees as they had to pay additional FICA taxes on the higher salary.

In looking at health care costs, the County's cost for providing health care *per employee* in FY07 was $4,430. By FY17, this cost had increased to $7,292 *per employee*, or a change of 64.6 percent. While the County cannot influence national trends regarding the cost of health care insurance, Henrico has taken a very aggressive approach in cost-containment by transitioning health care to a self-insurance program, which went into effect January 1, 2008. Prior to this transition, the County's health care program operated as a fully insured program, which, in exchange for the payment of a premium, an insurance company assumed the risk, administered the program, and paid all claims. With the transition to a self-insured program, the County pays claims and third party administrative fees. Self-insurance allows the County to more fully control all aspects of the plan, including setting rates to smooth out the impact of increases on employees and the County, while maintaining adequate funding to cover claims, expenses, and services.

The Patient Protection and Affordable Care Act (PPACA) was signed into law on March 23, 2010. Many of the provisions in that law still stand, with some not having taken effect yet. As health insurance markets continue to be unstable and the legislative process remains uncertain, the County will continue to monitor any federal actions that impact the health care industry as they will certainly affect this benefit provided to the County's employees.

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

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

In 2012, the General Assembly mandated that all non-Public Safety employees that are not vested (those with less than five years) in VRS as of January 1, 2013, and all new employees hired after January 1, 2014, be placed into a "hybrid" retirement plan, consisting of both a defined benefit and defined contribution plan. The defined contribution component requires an employer match. Implementation of the hybrid retirement plan should mitigate cost increases slightly a number of years out. Further, the VRS Board Certified now requires 100 percent funding by the General Assembly.

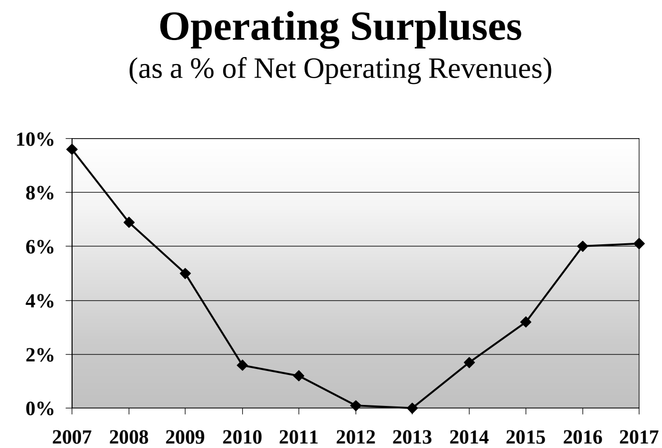
An additional cost that impacted this indicator is the VRS Life Insurance benefit for employees. This benefit was not funded by the State between FY02 and FY06 (and therefore – the County could not fund the local required amount). In FY07, the State re-instituted payment requirements, and in FY11 reduced the rate from 0.79 percent to 0.28 percent to reduce expenditures. As a result of this significant reduction, the 2012 General Assembly increased the VRS Life rate from 0.28 percent to 1.19 percent of salaries, a one year increase of 425.0 percent. In FY15, VRS life was again increased to 1.33 percent of salaries, which a 11.76 percent increase.

Despite three years of fringe benefits remaining consistent as a percentage of salaries, the long-term trend in this indicator is <u>upward and prospects for the future continue to remain negative</u>. The two principal reasons for the increase are health care and Virginia Retirement System costs, both of which fall largely outside of the direct control of the County. As such, <u>a warning trend for this indicator continues</u>.

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

Formula:

$$\frac{\textit{General Fund Operating Surpluses}}{\textit{Net Operating Revenues}}$$



Operating Surpluses:

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

Trends:

The County of Henrico has produced an operating surplus for each of the eleven years presented. In FY07, the operating surplus was at its peak of 9.6 percent. As clearly seen on the chart above, throughout the economic downturn, beginning in FY08 and continuing through FY13, the County's annual operating surplus consistently declined each year. In FY08, in spite of net operating revenue collection growth at its lowest level since the previous recessionary period of FY02 and FY03, the operating surplus reflected a variance of 6.9 percent, well above the eleven-year average of 4.0 percent. In FY09, eighteen months into the worst recessionary economic environment since the Great Depression, the County achieved an operating surplus of 5.0 percent. In FY10 and FY11, the County achieved operating surpluses of 1.6 percent and 1.2 percent, respectively. Considering the environment in which these surpluses were achieved, and the fact that it was accomplished without raising taxes, laying off employees, or cutting service levels, the operating surpluses in these two fiscal years is considered in a very positive light. However, as the economy continued to struggle the County continued to face fixed cost increases making the ability to close budget gaps more and more challenging. This is reflected in the FY12 operating surplus of only $535,000, or 0.1 percent of net operating revenues as well as the FY13 operating surplus of $336,000.

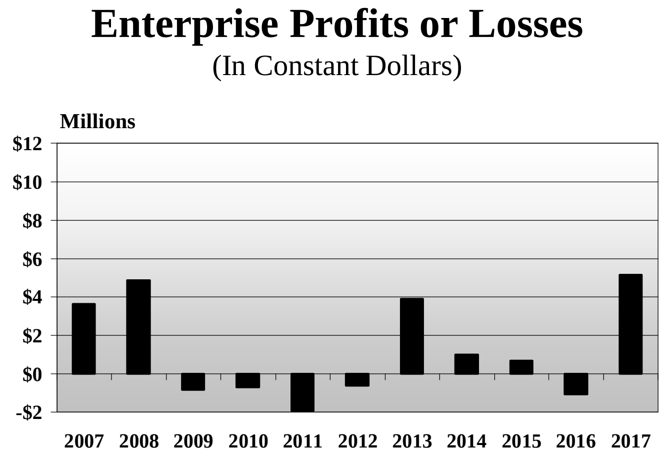
However, with the first moderate signs of recovery in the local economy, particularly real estate, and increases in State Aid, the $17.0 million operating surplus realized in FY14 was the largest since FY09 and the first increase in operating surplus as a percentage of net operating revenues since FY07. In FY15, the operating surplus doubled to $34.2 million as a result of fiscal structure added back to the budget baseline that fiscal year. In FY16, as previously stated, the trend continued upward and the operating surplus was $64.7 million. In the most recent fiscal year, FY17, the County realized an even larger operating surplus of $69.1 million, the highest surplus since FY07. With conservative revenue estimates for both the FY18 and FY19 budgets, these two fiscal years should yield positive operating surpluses as well. This, in combination with moderate economic growth, should yield positive operating surpluses in future fiscal years. As such, <u>no warning trend is warranted for this indicator</u>.

WARNING TREND: Consistent enterprise losses.

Formula:

Enterprise Profits or Losses in Constant Dollars

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



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

Trends:
With the exception of the four-year trend of negative results from FY09 to FY12, the overall trend for FY13-FY15 shown above reflected positive results. FY16 reversed trend with the first Enterprise loss in four years but was followed in FY17 by the largest profit for the entire eleven-year examined period. The Water and Sewer Fund consistently makes up more than 90.0 percent of the total net income or loss reported in the Enterprise Fund.

There are a number of factors impacting this indicator during this time frame. From FY07 through FY10, operating expenditure growth outpaced revenue growth in each fiscal year, mostly a result of the downturn in the economy which impacted revenue growth. As can be seen in the chart above, FY09 through FY12 all reflect operating revenues that were insufficient to cover operating expenditures. This is not indicating that the Water and Sewer Fund did not make an overall “profit” in these fiscal years. However, it does indicate that operating requirements from FY09 through FY12 required the use of revenue sources that are generally associated with infrastructure, not operations, such as water and sewer connection fees. FY13 saw a return to “profitability.” This was the result of a 2.0 percent increase in revenues collected as well as a 0.7 percent decrease in expenditures. The Enterprise Fund maintained “profitability” in FY14 and FY15, though it should be noted these two fiscal years were the lowest “profit” recorded in the history of the tracking of this indicator, excluding years where a loss is noted. It should be noted that depreciation expenditures are included in this analysis, which are simply an accounting entry and do not impact cash flow. To give insight into impact of depreciation expenses on this indicator, the depreciation expense (unadjusted) for the Water and Sewer Fund in FY11, the lowest level of this indicator in the eleven years examined, totaled $28.4 million. **Excluding depreciation expenditures, this indicator would reflect operating profits for all fiscal years examined in this analysis**.

Even with its operating “losses” posted in the four fiscal years from FY09 to FY12, during this entire eleven-year period the Water and Sewer Fund generated sufficient net revenues each year to exceed the coverage requirements under its Revenue Bond covenants. As a result of the consistent financial results experienced by the Water and Sewer Fund, Fitch IBCA awarded Henrico County an “AAA” rating in 2001. In 2008, Standard

& Poor's upgraded its rating to an "AAA" as well. To achieve one "AAA" bond rating is very rare for bonds issued by local utility departments, and Henrico County's Water & Sewer Fund has two of them. In FY16, Fitch changed Henrico County's rating from "AAA Negative Outlook" to "AAA with a Stable Outlook". This change in designation was due to the strong financial health of the system and the increases in the financial metrics. As such, no warning trend is warranted for the Water and Sewer Fund.

The Enterprise Fund's operating results also reflects the financial performance of the Belmont Golf Course. From FY02 to FY07, the Belmont Golf Course reported net operating losses of varying amounts. These losses were due to several factors. Rounds of play for each of these fiscal years were less than FY99 due to an increase in the number of golf courses in the area. Additionally, expenditures to correct turf damage and capital improvements were incurred in each of these years.

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

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

In FY09, the Belmont Golf Course experienced an 8.0 percent decline in the number of rounds of play as compared to FY08. The number of rounds played fell another 6.8 percent in FY10 and 0.9 percent in FY11. As such, the Golf Course posted net operating losses in these three fiscal years. Improvement in the economy in FY12 resulted in a 13.2 percent increase in the number of rounds of play, though a net operating loss was again reported. In FY13, rounds dropped 8.0 percent and, in what could be seen as the bottom, the number of rounds in FY14 decreased 13.7 percent and were the lowest recorded since 1978 when the County first acquired the golf course. In FY15, as a result of targeted cost reductions at the golf course and slight green fee and cart increases, as well as 1.3 percent increase in rounds played, the Belmont Golf Course nearly achieved profitability in FY15. However, Belmont experienced a 2.2 percent decrease in the number of rounds in FY16 to 28,285, a new historical low for the Golf Course's history with the County and reflective of the downward trend in golf rounds nationwide. Starting in FY17, the golf course underwent the first round of stream restoration repairs through the assistance of State grants that impacted the playability of the course as half of it was closed in order to accommodate these repairs. This resulted in another decline in annual rounds played, dropping to 24,071 or a 14.9 percent decrease.

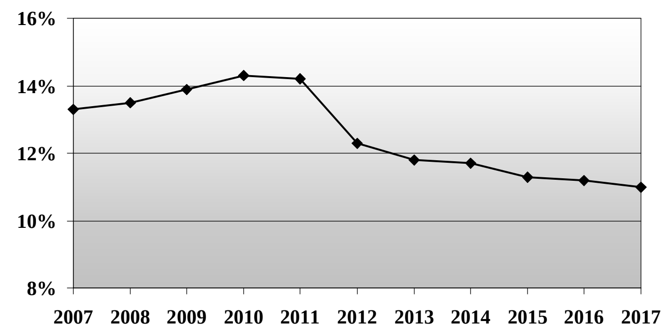
Currently, the County is examining other alternatives for the Belmont Golf Course property. This includes finding a private operator to take over operations of Belmont or converting the property to a park and discontinuing golf operations. Until an alternative is decided, the Belmont will continue to operate as is and, as such, a warning trend for the Golf Course continues.

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

Formula:

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

General Fund Unassigned Balance
(as a % of Net Operating Revenues)



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

Trends:
Henrico County's unassigned General Fund balance as a percentage of net operating revenues remained relatively static from FY07, where it was 13.5 percent, to FY11, where it was 14.2 percent before dropping each year since, to 11.0 percent in FY17. It should be noted that overall General Fund balance increased $21.6 million in FY17.

As noted above, the depiction of this indicator in the Trends document is different than the indicator reflected in the Annual Fiscal Plan. In FY06, the Board of Supervisors agreed with a policy recommendation to maintain the County's unassigned fund balance at a level of 18.0 percent of General Fund expenditures (again, different than the indicator reflected in this document). Effective June 30, 2012 (FY12), as part of the County's FY13 budget balancing efforts, a policy change was recommended to the Board to reduce the amount of unassigned fund balance maintained from 18.0 percent to 15.0 percent of General Fund expenditures in an effort to "free up" cash reserves to fund vehicle replacement in the capital budget for a maximum three-year period.

The overall trend is positive, especially considering the effects and after-effects of two recessions during this eleven year period. Of even greater significance, the County's overall unassigned fund balance grew by 8.3 percent from FY07 to FY11, amidst the worst economic environment since the Great Depression. Again, the decline in FY12 is associated with the County's policy change regarding unassigned fund balance while the decline in FY13 is the result of a drop in unassigned fund balance. FY14, FY15, FY16, and FY17 reflect unassigned fund balance increases of 2.1 percent, 2.9 percent, 1.1 percent, and 2.5 percent respectively, as the County experienced a positive result of operations. It is important to again note that this depiction of General Fund balance is completely different from those referred to in the Annual Fiscal Plan, as "net operating revenues" in this indicator includes the General, Special Revenue, and Debt Service Funds. In the Annual Fiscal Plan, net operating revenues typically refer to just General Fund revenues.

Overall, the County's Unassigned General Fund Balance reflects a positive trend since FY07 that places Henrico in a desirable position for a local government. Henrico County has been assigned an AAA bond rating by all three bond rating agencies making it one of only 44 triple AAA rated counties in the Country. The maintenance of a healthy fund balance is a critical component examined by rating agencies when assigning bond ratings. Henrico has a long history of maintaining a healthy unassigned General Fund balance and will continue to use prudence in safeguarding this resource.

As a result of the continued economic difficulties and correlated struggling revenue growth, in combination with consistent fixed cost increases, the County was forced to cut expenditures – over $125 million in five fiscal years – and become more aggressive in its revenue estimates. This effort was necessary to avoid tax rate increases, service delivery reductions, and layoffs. However, overall fund balance – both assigned and unassigned – declined four consecutive fiscal years by a total of 21.8 percent from FY10 to FY13. This is not necessarily reflected in this indicator, as assigned fund balance levels are not considered in this analysis. Assigned fund balance is of significant importance as there are a number of critical annual appropriations that are made from these balances, including appropriations from the Risk Management Self-Insurance Reserve, funding for specific pay-as-you-go capital projects such as annual appropriations of building maintenance funding for both General Government and Education facilities, as well as the County's Revenue Stabilization Fund, which funds the first-year operating costs associated with new facilities. Though the intent of a number of these balances are for one-time purposes, annual appropriations of reserves from some of these "buckets" require additional funds to build the reserves back up for the following fiscal year. With unassigned fund balance levels currently calculated as a percentage of General Fund expenditures, when overall fund balance declines, the assigned fund balance levels are impacted on a greater scale.

With the County's revenue picture becoming more positive over the past four fiscal years, unassigned and overall fund balance levels have improved. However, net operating revenues have had greater growth in comparison to the unassigned fund balance. With this growth in the net operating revenues the County decided to utilize it to strengthen their Risk Management fund by adding 5.0 million to its operating budget, fund the vehicle replacement funds for Police, Fire, and Schools with current revenues, and fund the technology replacement fund again with current revenues after years of utilizing only reserves. These decisions justify the slight decrease in this indicator for FY15, FY16, and FY17. In review of the current fiscal year there is a great indication that the operating revenue will continue to grow, which verifies that these funding decisions are sustainable and will place the County in an improved fiscal position moving forward. As such, no warning trend is warranted for this indicator.

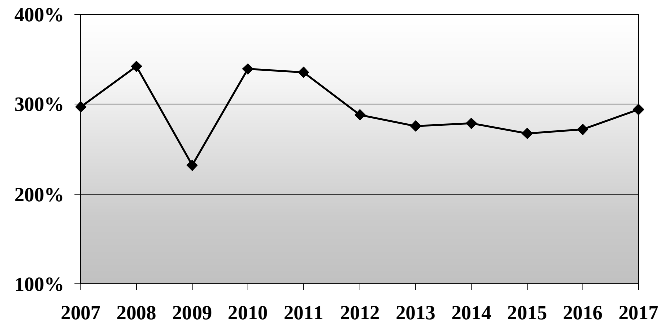
WARNING TREND: Decreasing amount of cash and short-term investments as a percentage of current liabilities.

Formula:

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

Liquidity

(Cash & Investments as a % of Current Liabilities)



Liquidity:

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

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

Trends:

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

From the chart above, this indicator reflects a large “dip” downward in FY09 mostly in the area of “principle due in 12 months.” It should be noted, however, that the spike in “principle due in 12 months” is misleading, as it mostly reflects two bond refunding’s in CY09. It is important to note that the County’s bond refunding’s do not increase the County’s outstanding long-term debt or the length of time to pay off the debt. “Principal due in 12 months” related to newly issued debt is minimal by comparison. In fact, ignoring the impact of the bond refunding’s in CY09 altogether, current liabilities only increase 13.6 percent instead of 58.1 percent, and the Liquidity indicator would reflect 323.2 percent in FY09, much higher than the recorded 232.2 percent. In FY10 this indicator increased to 339.4 percent which was an overall decline in current liabilities. and in FY11, the indicator dropped slightly to 335.4 percent. In FY12, the indicator dropped significantly to 288.2 percent, mostly due to the large debt issuance in that fiscal year, as the County combined two planned General Obligation debt issues into one as a result of the attractive interest rates at the time. This debt issuance finalized the County’s March 2005 General Obligation Bond Referendum. Over the prior four fiscal years, FY13 to FY16, this indicator averaged 273.6 percent, but FY17 saw this indicator rise to 294.7 percent, the highest level since FY11.

Over the past eleven years, the County has maintained an average liquidity ratio of 2.93:1, which is more than *twice* the defined “current account surplus” above. The low point in this indicator of 2.32:1 was experienced in FY09. By performing annual debt capacity reviews and by compiling a five-year Capital Improvement Program that encompasses all funds, and by ensuring that those capital projects which obtain funding are appropriately cross-walked to the annual operating budget, the County of Henrico will not incur liabilities at a rate that cannot be supported within established resources. Based on the overall stable trend of this indicator, no warning is warranted for this indicator.

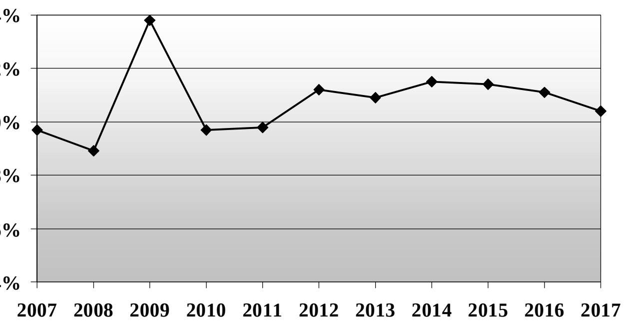
WARNING TREND: Increasing current liabilities at end of year as a percentage of net operating revenues.

Formula:

Current Liabilities / *Net Operating Revenues*

Current Liabilities

(as a % of Net Operating Revenues)



Current Liabilities:

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

Trends:

In the eleven-year trend depicted above the indicator has ranged from a low of 8.9 percent in FY08 to a high of 13.8 percent in FY09. As noted in the "Liquidity" indicator narrative, total current liabilities increased 58.1 percent in FY09 as compared to the previous fiscal year. However, this increase is misleading, as it is mostly attributed to an increase in "principal due in 12 months" as a result of two significant bond refundings in CY09, with only minimal impact, by comparison, due to newly issued debt. This indicator fell back to more "normal" levels at 9.7 percent in FY10. Over the past eleven years the indicator has been, on average, 10.8 percent. The decline from FY14 to FY17 has been the result of year-end balances of accounts payable and other current liabilities.

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

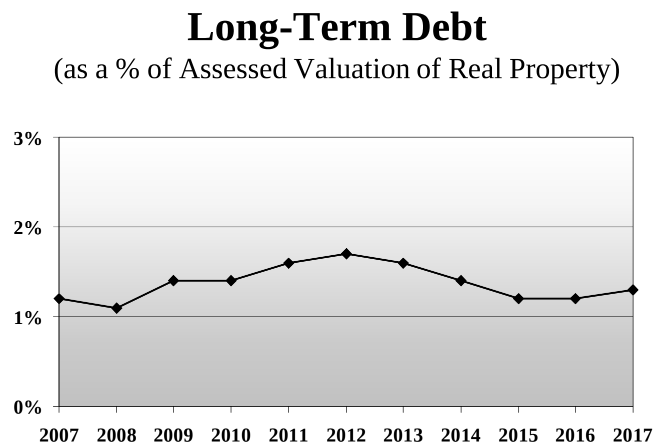
In November 2016, the voters approved a $419.8 million G.O. Bond Referendum. This referendum also included projects for Schools, Fire, Roadway, Public Library and Recreation and Parks. The plan developed will issue this debt over a six-year time period and the debt service is projected to be covered with current revenues – those that are freed up due to paying off debt obligations or revenues not currently appropriated.

For this eleven-year period, this ratio has been between 8.9 percent and 13.8 percent of net operating revenues. Although the general trend from FY08 to FY14 is slightly upward, there has a downward trend for the past three fiscal years. The fact that the County has not experienced significant annual changes in this indicator, excluding the misleading increase in FY09, is reflective of the County's continuation of conservative financial management. Also, this consistency is reflective of the County's prudent debt management practices, and successful long-term planning for infrastructure improvements. This indicator is very much aligned with the next two indicators: 1) long-term debt as a percentage of assessed valuation and 2) debt service as a percentage of net operating revenues. For these reasons, no warning trend is noted.

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

Formula:

<u>Net Direct Bonded Long-term Debt</u>
Assessed Valuation of Real Property



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

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

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

In FY09, the indicator reflects a sharp increase to 1.4 percent due to a 27.1 percent increase in long-term debt, as the County issued $137.5 million in General Obligation and VPSA Bonds. In FY10, this indicator remained constant at 1.4 percent; however, this statistic is slightly misleading as the County deferred its schedule bond issuance that year – and is solely due to an unprecedented drop in the County’s real estate tax base. In fact, net long-term debt dropped 8.5 percent that fiscal year. In FY11, the indicator grew to 1.6 percent as the debt that was deferred in FY10 was issued, in the amount of $72.2 million, and real estate values declined yet again on January 1, 2011. For FY13 and FY14, no new debt was issued as the County’s March 2005 Referendum was completed in FY12, as noted above. Since its peak, this indicator has fallen to 1.2 percent for both FY15 and FY16. For FY16, it is important to note that outstanding debt reflected a net decrease of $5.3 million as a result of the County issuing $34.0 million in Lease/Revenue Bonds to fund the County’s share of the regional 800 MHz Public Safety Communication System. In FY17, this indicator experienced a slight increase in long-term debt due to the first issuance of bonds related to the 2016 Bond Referendum.

As stated in the section “Current Liabilities”, in November 2016 the voters overwhelmingly approved a $419.8 million G.O. Bond Referendum to fund significant capital infrastructure projects for Schools, Fire, Roadway, Public Library and Recreation and Parks. Before the County put forward this plan, a debt affordability analysis similar to the methodology employed above was conducted to insure the County’s ability to repay the proposed debt that will be issued over a six year period. It should be noted that for the debt affordability analysis for the referendum (and for any new debt issue the County undertakes) personal property is added to real property when determining "long-term debt as a percent of total assessed value." Adding the assessed value of personal property to real property lowers the percentage slightly, but this is the current methodology utilized by the Bond Rating Agencies for Virginia localities. The debt affordability analysis also includes calculations for debt per capita and debt as a percentage of General Fund expenditures, which are two additional indicators used by the Bond Rating Agencies to determine a locality's ability to issue debt. The analysis verified the affordability of the debt issuance plan put forward to the voters. No long-term warning trend is noted at this time, though this trend will be closely watched to assure the continued affordability of the 2016 G.O. Bond Referendum.

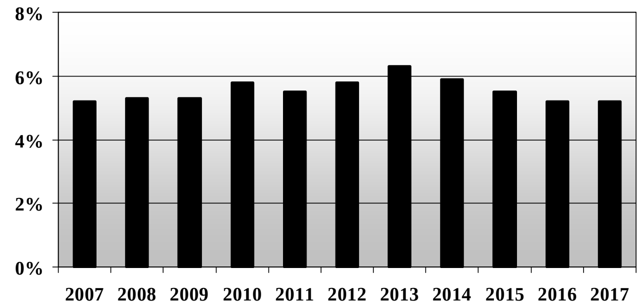
WARNING TREND: Increasing amount of net direct debt service as a percentage of net operating revenues.

Formula:

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

Debt Service

(as a % of Net Operating Revenues)



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

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

Trends:
As shown in the graph above, the debt service percentage reached the high point of 6.3 percent in FY13 with the low point of 5.2 percent bookending this analysis in years FY07, FY16 and FY17. It is important to note that in this eleven-year time period, this indicator has fluctuated within a range of 1.1 percent. The indicator average over the 11 year period is 5.5 percent.

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

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

In November 2016, the voters overwhelmingly approved a $419.8 million G.O. Bond Referendum. This referendum included projects for Schools, Fire, Roadway, Public Library and Recreation and Parks. In FY17, the first debt issuance for the approved FY16 Bond Referendum in FY16 occurred earlier than scheduled and totaled $114.6 million. This was alongside a refunding of bonds that were originally issued in 2010 and 2011. The impact of the issuance of this new debt will occur with the FY18 and FY19 budgets. It is currently estimated that $53 million will be issued in FY19, the second issuance of bonds approved in the 2016 Referendum. The remaining $252.2 million in G.O. Bonds will be issued over the following five years as they are needed for the projects to be undertaken.

There are important differences in this indicator and the "Long-Term Debt" indicator. The "Debt Service" indicator reflects the amount of principal and interest the County pays annually on its long-term debt as a percentage of operating revenues. The "Long-Term Debt" indicator reflects the County's total outstanding debt as a percentage of assessed real estate valuation. The "Long-Term Debt" indicator graph reflects a sharp uptick in FY09 due to the large amount of debt issued in that fiscal year. However, that spike is not evident in the "Debt Service" indicator chart. This is due to the County's two bond refunding's in CY09 that achieved substantial debt service savings. The realized savings were mostly allocated in FY09 through FY11 to help the County offset anticipated revenue reductions as a result of the difficult economic environment. It should be noted that the County has taken part in several additional bond refundings since 2009 that have generated permanent significant savings.

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

In FY11, the County issued $72.2 million in new debt, but the first principal payment wasn't due until FY12, and only six months of interest was due in FY11, which resulted in a reduction in debt service payments in FY11 of $4.0 million as compared to FY10. In FY12, $66.1 million in new debt was issued. Although operating revenues experienced a slight increase, the Debt Service indicator increased to 5.8 percent. In FY13, this indicator reached its peak at 6.0 percent as debt service expenses increased at a faster rate (10.1 percent) than net operating revenues (1.5 percent). As with the "Long-Term Debt" indicator, <u>no long-term warning trend is noted at this time</u>. But as debt is scheduled to be issued over the next six years, this indicator will be important along with the debt affordability analysis conducted outside of the <u>Trends</u> document to assure the County's ability to afford new debt.

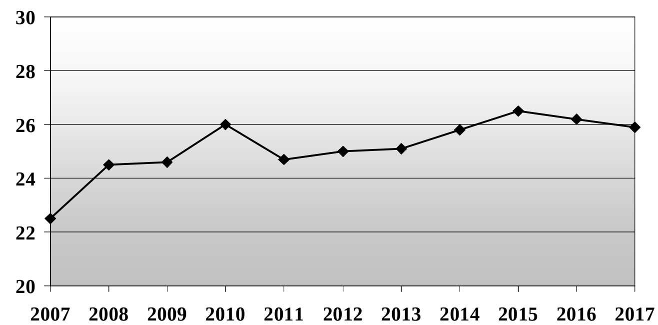
One last note needs to be mentioned. This indicator is <u>different</u> than a similar indicator included in the annual debt affordability analysis – which is "debt service as a percentage of General Fund Expenditures." However, this examination in the <u>Trends</u> document does cross-verify the results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

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

Formula:

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

Accumulated Vacation Leave
(Days per Employee)



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

Trends:
In terms of the overall trend, the accumulated vacation leave indicator has averaged 25.2 days during the eleven-year period. What can be seen throughout this time period is stability in this indicator as it has ranged from a low of 22.5 days in FY07 to the high point of 26.5 days in FY15.

In taking a historical look, the indicator remained relatively flat until FY08. This is due to an adjustment of annual leave accrual rates and increased "carry-over" hours (less time "lost") for employees with fifteen or more years of service. FY10 experienced an unusual increase to 26.0 days of accumulated vacation leave per employee, mostly a result of the reduction in the number of General Government employees in that fiscal year. To assist in balancing the FY11 budget to significantly reduced revenues, the County eliminated 101 vacant General Government positions. In FY11, the indicator dropped to 24.7, mostly due to the County's hiring freeze yielding well over 200 positions throughout much of the fiscal year. In other words, while the positions were being counted in the General Government complement, there were no vacation days associated with them as they were unfilled. The indicator rose slightly in FY12 to 25.0 and remained relatively flat at 25.1 in FY13. In FY14, this indicator increased slightly to 25.8. In FY15, this indicator reached the highest point in the time period represented, increasing to 26.5 before decreasing in FY16, to 26.2, the first decrease since 2011. FY17 saw a similar decrease to 25.9. In the entire eleven-year period, this indicator has fluctuated within a range of 4.0 days, though if you look at the period from FY08 (when annual leave accrual rates and "carry-over" hours were increased) to FY16 the fluctuation in this indicator is within 2.0 days.

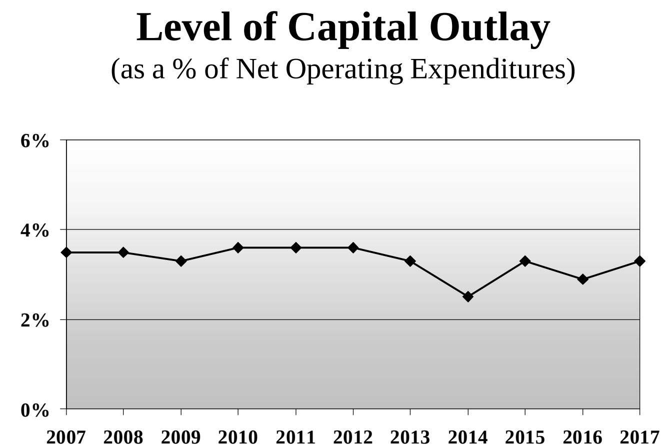
The overall slight upward movement since FY07 is also reflective of the County's workforce, who are aging to a certain extent and employees with more seniority earn more hours of vacation leave than less senior employees. Henrico County's vacation leave indicator will generally increase as the average length of employment of County employees' increases. With that said, if the declines of the past two years continue, this will be indicative of the workforce becoming younger and less tenured.

The most recent information suggests the County has a workforce whose average age is 45.0. The average County employee has been with the County for twelve years (Source: Human Resources Department). <u>No warning trend is noted for this indicator</u>.

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

Formula:

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



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

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

Trends:
As a note for the 2017 <u>Trends</u> document, this trend has been restated to include capital outlay associated with the Central Automotive Maintenance Fund, the Technology Replacement Fund, and the Vehicle Replacement Fund to more accurately reflect capital expenditures. The eleven-year trend for this indicator depicts a range between 2.5 percent and 3.6 percent, which is indicative of the consistency of meeting capital outlay requirements. In fiscal years FY07 and FY08, the indicator remained constant at 3.5 percent and decreased by 0.2 percent to 3.3 percent in FY09. From FY10 through FY12, this indicator remained constant at 3.6 percent and decreased by 0.3 percent in FY13.

In FY14, capital outlay spending was reduced to its lowest level in the eleven year period at 2.5 percent of net operating expenditures due to the result of departmental budget balancing maneuvers. The level of capital outlay expenditures increased in FY15 to 3.3 percent of net operating expenditures however this was the result of increased capital lease costs related to a new contract for HCPS student laptops and reconciliation of the bills so they would all be on the same billing cycle. In FY16, the capital outlay went back down to 2.9 percent. However, in FY17, the level increased to 3.3 percent due to the purchase of multiple school buses for HCPS.

The Vehicle Replacement Fund, as noted earlier, was created in the FY13 budget as a budget reduction measure by reducing the unassigned fund balance level from 18 percent of General Fund expenditures to 15 percent of General Fund expenditures and assigning that difference to purchase Police vehicles, Fire apparatus, and school buses. Beginning in FY15, Police vehicles and Fire apparatus purchases remained in the Vehicle Replacement Fund but were funded with current General Fund revenues. The decision was made to keep these expenses in a separate fund within the Capital Project series of funds to allow for the carry-forward of unspent appropriations from one year to the next. This is particularly helpful with the acquisition of Fire apparatus as there are significant fluctuations based on what types of equipment are scheduled to be replaced. In FY16, $1.0 million was added to the Vehicle Replacement Fund as the start of a multi-year effort to fund, with current revenues, school bus replacements. This funding was increased to $2.0 million in the FY17 budget and will continue over a number of years until a total of $4.0 million a year is achieved.

The Central Automotive Maintenance (CAM) fund, a division within the Department of General Services, purchases and maintains vehicles for many of the County's agencies. CAM budgets for the replacement of vehicles for all other departments on an annual basis. In FY17, CAM spent $2.9 million on the replacement of vehicles and other equipment.

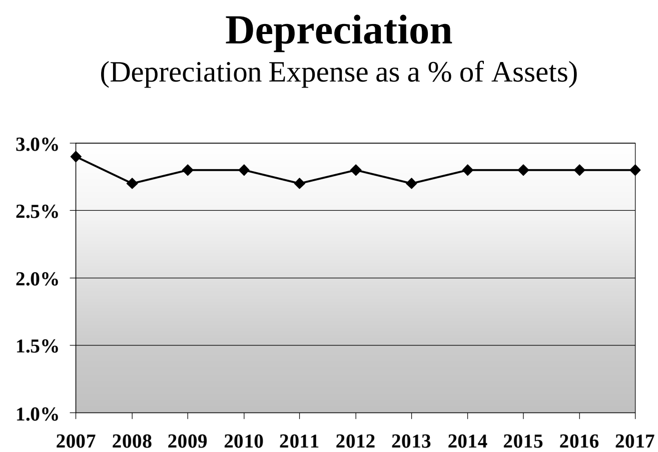
The Technology Replacement Fund is an internal service fund for the purchase of computers, laptops, and other pieces of technology necessary for County employees to efficiently and effectively do their jobs while avoiding the budget swings created by one-time purchases. This fund was created in FY01 and was funded by eligible departments adding 1/3 of the costs of their equipment to a 'Technology Replacement' line item within the department's budget. These line items would be utilized as revenues to support the purchases from the Technology Replacement Fund. Over time as computer equipment became cheaper and started lasting longer, a fund balance was developed for the Technology Replacement Fund. During the economic downturn, this fund balance was utilized as a budget balancing tool to offset the loss of revenues in the General Fund. In FY13, department contributions were eliminated and all expenses in the Technology Replacement Fund were supported by the balance of the fund. The FY15 budget included a transfer of $1.0 million of ongoing revenues to minimize the use of the Technology Replacement Fund balance, which was continued in FY16 to support the $1.9 million in computer replacements. The FY17 budget included $2.0 million of ongoing revenues to support a budget of nearly $3.0 million for the Technology Replacement Fund.

The restatement of this indicator to include the other funds supported by General Fund revenues shows a more accurate reflection of the level of capital outlay expenses within General Government. It also shows a more consistent level of expenditure, indicative of the County's efforts to make sure a) employees have the right equipment to do their job, and b) County infrastructure is updated and maintained on a regular basis. There are steps still required to fully fund certain programs, such as the aforementioned School Bus Replacement Fund and the Fire Apparatus Replacement Fund, and fully funding Technology Replacement with ongoing revenues. As long as these steps are still being taken, a warning trend will continue for this indicator.

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

Formula:

$$\frac{\textit{Depreciation Expense}}{\textit{Cost of Depreciable Fixed Assets}}$$



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

Trends:
The chart above reflects two overall trends. First, with the implementation of GASB 34 in FY02, a change was required in the length of depreciation for Utilities infrastructure. The change increased the time for depreciating many of these assets and is based on an industry standard. (GASB 34 required standardization in many areas that encompass fixed assets of localities and one of the changes actually increased the term of depreciation for certain assets). Concurrent with this, the value of fixed assets arising from the County's Water Treatment Plant resulted in an increase in County "assets" of nearly $92.0 million over a two-year period, although that increase is really of a one-time nature. The drop in FY08 is a result of a change in the capitalization threshold for personal property (furniture, vehicles, and equipment/software) from $2,500 to $5,000. From FY08 to the most recent fiscal year, FY17, depreciation expenditures as a percentage of depreciable fixed assets have been consistent at either 2.7 percent or 2.8 percent.

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

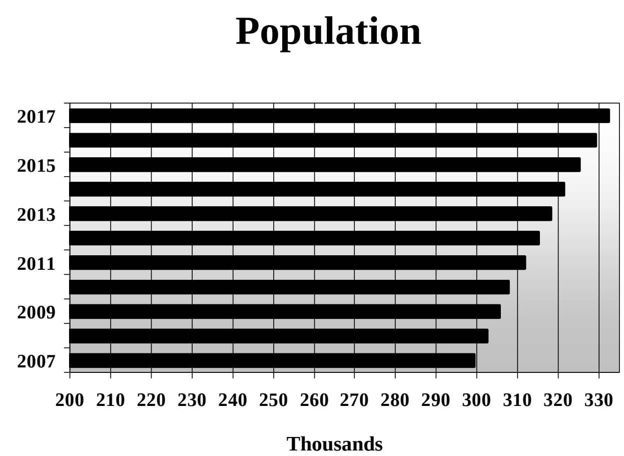
The absence of a truly downward trend suggests that the County's depreciable assets are not currently being used past their depreciable useful life.

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

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 299,443 in FY07 to 332,368 in FY17, which represents an increase of 11.0 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 most recent 2010 United States Census, Chesterfield County grew at a faster pace over the past decade, as they now have a higher population than Henrico.

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

As noted throughout this document, local economic growth is steady and producing modest incremental revenue growth for the County. However, Henrico County must continue to focus on finding ways to provide efficient services at the lowest possible cost to its growing population, cutting costs where possible and continuing to make wise investments in its core services.

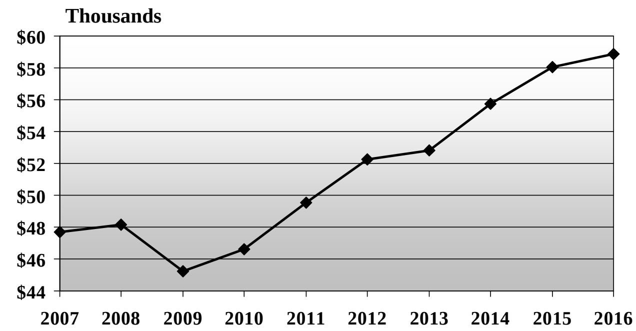
Due to consistent population growth, no warning trend is noted for this indicator. However, providing necessary services to this growing population will remain a challenge.

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:
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 23.5 percent from $47,688 in 2007 to the $58,876 reported for 2016. It should be noted that this indicator factors in increases to the County's population, which increased 9.9 percent between 2007 and 2016.

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 2016 tax year.

From the recessionary period of the early 1990's through 2005, this indicator consistently increased. In looking at the ten-year period examined, 2006 through 2008 reflected increases of 14.6 percent, 3.9 percent, and 1.0 percent, respectively. With the bankruptcy of two Fortune 1000 companies in this economic downturn 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. Despite economic volatility, 2009 was the only year Henrico experienced a decline in per capita income. Per capita income grew each year from 2010 through 2016, and experienced a total increase of 30.1 percent.

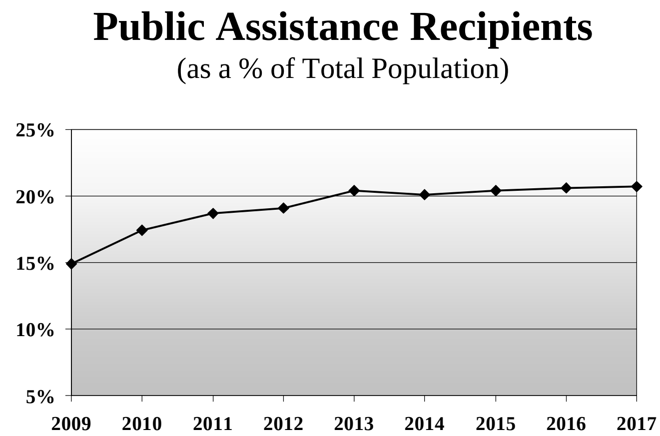
As jobs have matriculated back into the County, it is anticipated that this indicator will continue the trend of consistent gains into the immediate future. As such, no warning trend is noted for this indicator at this time.

<u>WARNING TREND</u>: 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 <u>Trends</u> document. However, the data for this trend from this resource only goes back to 2009. Therefore, this document will only show a nine-year trend this year and will add data points in subsequent years.

The nine-year trend for this indicator has increased dramatically in this time period, from a low of 14.9 percent in FY09 to 20.4 percent in FY13. Since FY13, the indicator has leveled off but experienced a high of 20.7 percent in FY17. 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 increase every year, which impacts this indicator as well.

In Henrico County, since 2010, the Supplemental Nutrition Assistance Program (SNAP) (also recognized as the food stamp program) caseload has increased by 7.0 percent and the number of Medicaid cases has increased by 30.2 percent (Source: Virginia Department of Social Services).

In addition, the Patient Protection and Affordable Care Act was signed into law by President Obama on March 23, 2010. In June 2012, the U.S. Supreme Court ruled that the federal government could not force states to expand their Medicaid programs by withholding federal funds to the existing Medicaid programs. In FY15, Virginia did not expand Medicaid for individuals with less than 138 percent of the federal poverty level. Should the Commonwealth of Virginia decide to opt in to Medicaid expansion, it is estimated that as many as

300,791 additional people statewide would be eligible for Medicaid benefits. In Henrico County, it is estimated that 11,430 additional residents would qualify, adding to the 45,626 recipients currently eligible, increasing the citizens in Henrico receiving Medicaid benefits by nearly 25.0 percent (Source: Henrico Department of Social Services).

It should be noted that prior editions of Trends had shown this data point increasing significantly in recent years. The revised data only differs in that the number of unduplicated has increased at the rate of population growth, remaining over 20.0 percent for the past five years. Due to the high level of public assistance recipients over this time period, a warning trend should continue for this indicator.

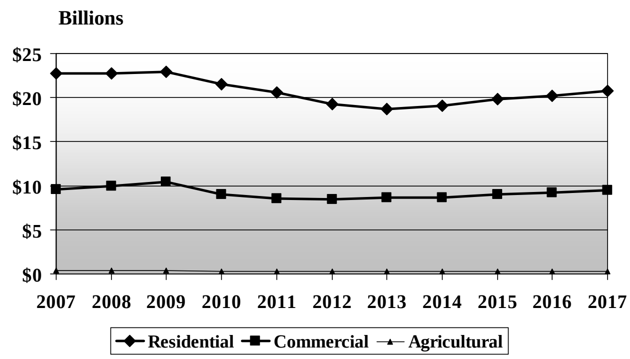
WARNING TREND: Declining or negative growth in market value of residential, commercial or agricultural property (constant dollars).

Formula:

Real Property Values (Constant Dollars)

Real Property Values

(In Constant Dollars)



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

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

Trends:
The above graph illustrates real property values in *constant* dollars for residential, commercial, and agricultural properties. As such, any increases in this indicator are reported after negating the "effect" of inflation. The increases in valuation reflected above have been mitigated by a reduction in the Real Estate Tax Rate in this period of time. Specifically, since CY05, the Real Estate Tax Rate has been reduced from $0.94/$100 to the current level of $0.87/$100 of assessed valuation. In looking at the historical Real Estate Tax rates for the County of Henrico, two facts are clearly evident. First, *stability* is clearly evident as the Real Estate Tax Rate was maintained at $0.98/$100 of assessed valuation for a period of *sixteen* consecutive years (CY80-CY95). The second trend that is evident is that since CY98, as property valuations have increased, the Board of Supervisors has mitigated these increases with prudent Real Estate Tax rate reductions that have been made without impacting the County's ability to meet debt obligations, capital infrastructure needs, and County operations, while also offering tax relief to County residents. This is a very difficult balancing act, but one that has been achieved because of the consistency of Board actions in establishing the Real Estate Tax rate on an annual basis.

In 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. In that same time period, the County lost $36.9 million in annual revenue from Real Estate Tax collections, particularly painful as this funding source represents one-third of the County's overall General Fund revenues. This trend has been reversed with constant dollar residential property values increasing by 11.3 percent from FY13 to FY17 while constant dollar commercial property values have experienced an increase of 11.8 percent from FY12 to FY17. While increases in this indicator have been steady for 4 and 5 years, respectively, it is important to note that both residential and commercial property values, on a constant dollar basis, remain below FY07 levels. As the County continues its economic development efforts and residential foreclosures decrease, the County is recognizing modest growth in its real estate values.

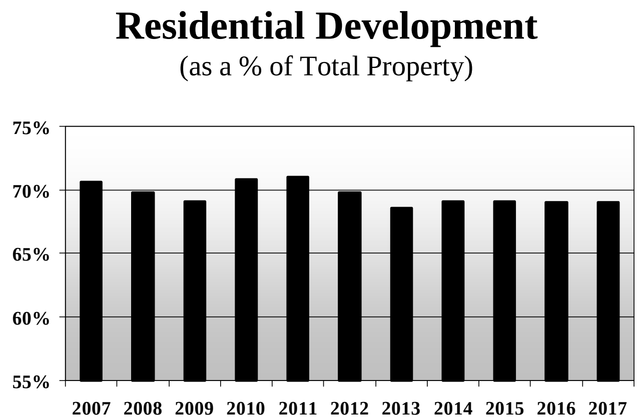
In looking back at historical residential real estate price appreciation since the late 1800's, the average annual growth nearly always mirrors the annual inflation rate, as determined by the CPI. In fact, when adjusting real estate price appreciation by removing the inflation rate, and plotting these 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 fourth 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 within the next year or two. Therefore, <u>no warning trend is noted for this indicator at this time</u>.

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

Formula:

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

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, 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 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 at this level through 2015. In 2016, this indicator fell to 69.0 percent and maintained this level in 2017.

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

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 nearly 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. For the first time since 2008, 2014 residential reassessments reflected growth at 4.4 percent, and commercial values grew by 2.1 percent, causing the indicator to increase to 69.1 percent.

Although the indicator remained relatively flat for FY15, FY16 and FY17, it is important to note that both residential and commercial values experienced an increase as discussed in the previous trend.

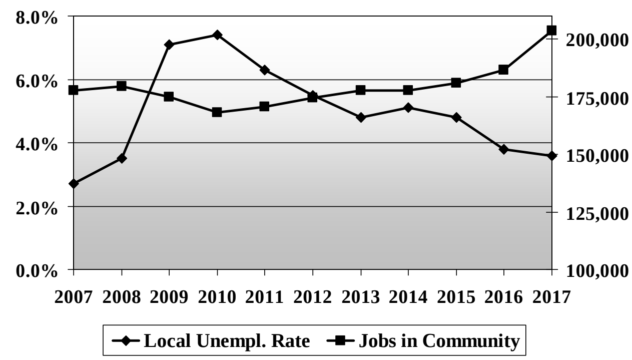
As the overall real estate market improves and stabilization becomes more and more evident, there is growing confidence that growth will continue in both residential and commercial valuations going forward. As such, <u>no warning trend is noted for this indicator at this time</u>.

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

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

Trends:
I. Unemployment:
Henrico County's unemployment rate, in the eleven-year period above, reflects a low of 2.7 percent for 2007 and a high of 7.4 percent in 2010. From 2003 to 2007, there was a distinct downward trend as the unemployment rate fell from 3.5 percent to the eleven year low of 2.7 percent shown in the chart above. The second distinct trend began in 2008 as the unemployment rate shot up to 7.4 percent because of several businesses closing – most notably LandAmerica Financial, Circuit City, and Qimonda AG – as well as jobs lost in the construction and manufacturing sectors that were being artificially propped up due to the housing bubble. Since 2010, the rate has steadily dropped as new jobs have consistently matriculated back into Henrico County. In 2014, the rate crept up slightly from 4.8 percent to 5.1 percent but has since continued its downward trend. In FY17, the unemployment rate fell to 3.6 percent, the lowest point since before the recession. This rate is also slightly below Henrico's historical average of 3.7 percent dating back to 1988, representing a great improvement compared to 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 2005 through 2008, the number of jobs in Henrico increased from 170,183 to 179,426. As a result of the economic downturn, by 2010, the number of jobs in Henrico had declined to 168,142. Since 2010, the County has added back 35,337 jobs and now totals 203,479 for 2017. This year marks the highest number of jobs in the eleven-year period (and the highest one-year increase) as well as the most jobs within the community that has been recorded to date. With the County surpassing the 2008 indicator for number of jobs and always continuing to look for more employment opportunities through economic development, there is no warning trend for this indicator.

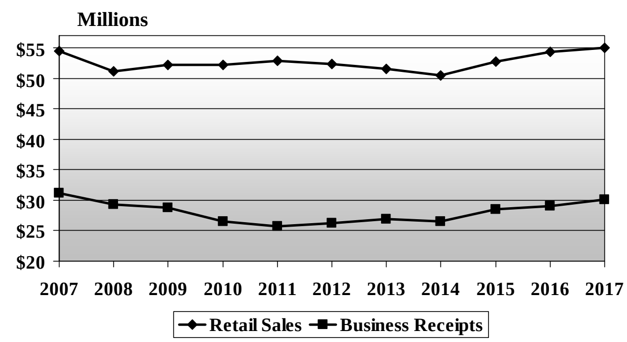
WARNING TREND: Decline in business activity as measured by retail sales and gross business receipts.

Indicators:

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

Local Retail Sales and Business Receipts

(In Constant Dollars)



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

Trends:

I. Local Retail Sales Tax Receipts:

The above graph indicates that local sales tax receipts, in constant dollars, have finally surpassed the previous 11-year high of $54.5 million in FY07 with $55.0 million recorded in FY17. The elasticity of this revenue stream is evidenced by the decline in FY08, which represents the beginning of the most recent recession. Prior to that, the more recent upward trends were marked by a healthy local and national economy as seen between 2005 and 2007. In FY08, inflation adjusted sales declined from $54.5 million to $51.2 million, a decrease of 6.1 percent from the prior fiscal year, and was due to the largest consumer price index measurement since 1989, in addition to declining sales tax collections.

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.

From FY10 through FY14, only FY11 reflected growth in inflation-adjusted sales tax collections. During this period, sales tax receipts have been relatively constant, but clearly not growing at the level of inflation. In FY14, sales tax receipts adjusted for inflation decreased to its lowest point in the examination period at $50.5 million. Retail sales, on a constant dollar basis, experienced a significant rebound in FY15, growing 4.5 percent. A similar trend was recorded for FY16 where retail sales grew 3.0 percent while FY17 came in a bit more tepidly at 1.2 percent growth. However, the County still maintains the lion's share of regional taxable sales and will continue to strengthen its retail market. In fact, local sales and use taxes increased in FY15, FY16 and FY17, year-over-year, at rates of 4.7 percent, 6.6 percent and 3.8 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 join the existing diversified business community, BPOL tax receipts are again reflecting growth after three years of declines. In fact, in FY12 and FY13, inflation-adjusted BPOL tax revenue grew 2.2 percent and 2.3 percent, respectively. BPOL tax receipts in FY14 experienced an inflation-adjusted decline of 1.3 percent, though experienced overall growth of 0.7 percent. Business receipts in FY15 grew at the highest rate since before the economic recession as, in constant dollars, they grew 7.4 percent. While not nearly as substantial as FY15, business receipts grew 2.1 percent in FY16 and 3.5 percent in FY17.

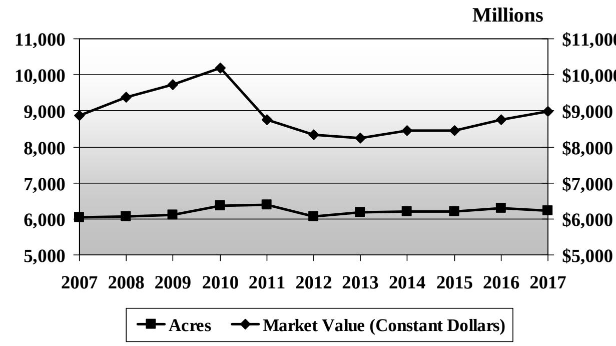
To enhance the County's economic development efforts and low business tax environment, the Board of Supervisors doubled the exemption for businesses to pay BPOL taxes from $100,000 to $200,000 as part of the FY18 budget. Even with this increase and potentially others in the future, it is anticipated that BPOL receipts will continue to grow with the economy. Just as with sales tax collections, <u>no long-term warning trend is noted</u>.

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

Commercial 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. <u>Business Acres:</u>
As shown in the graph above, business acreage steadily increased from 2007 to 2010, with 6,032 acres in 2007 to 6,393 in 2010. In 2011, business acreage dropped substantially to 6,064, but this is <u>entirely due to a change in the calculation methodology for land use acreage by the Department of Planning</u>, 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. That being said, in FY14, the total acreage developed was only 3 acres, the lowest annual total in Henrico County since 1993. This is due to two factors: 1) several commercial structures were demolished in FY14 and reclassified from business acreage to vacant acreage and 2) several parcels were previously incorrectly identified as business acreage and corrected. This growth rebounded in FY15 to 77 newly developed business acres for a total of 6,291. The reduction in 2016 to 6,217 is misleading as there was 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. 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. <u>Market Value of Business Property:</u>
The eleven-year trend for this indicator, *in constant dollars*, starts at $9.6 billion in CY07 and rises to $10.5 billion in CY09, before falling in each of the next three years due to recessionary contractions. After bottoming out at $8.5 billion in CY12, it started climbing again and over the next five years, reaching $9.5 billion in CY17, 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 when we were entering the third year of the most recent recessionary economic environment and the supply of vacant office and retail space increased significantly due to a number of businesses closing their

doors. The result was an overall reduction in the commercial tax base of more than 13.0 percent in FY10. Another decrease in the commercial tax base of 1.5 percent occurred in CY11 due to the continued elevated supply of vacant office space. In 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 and CY16, as commercial values increased 5.1 percent and 3.6 percent, respectively. CY17 marks the fifth consecutive year of growth with commercial values increasing 4.1 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, commercial real estate will continue to rebound as jobs continue matriculating back into the County, which they have considering Henrico had the second highest number of jobs in VA for 2016. Due to an environment of continuing growth, no warning trend is noted but a cautious outlook remains.

FINANCIAL INDICATORS DISPLAYED GRAPHICALLY

Description	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Revenues Per Capita	3,109.9	3,085.7	3,162.1	2,980.3	2,794.4	2,739.0	2,707.6	2,701.2	2,838.5	2,854.0	2,893.9
Expenditures Per Capita	2,884.4	2,933.6	3,028.5	3,009.6	2,791.6	2,753.9	2,722.2	2,762.2	2,736.6	2,715.2	2,790.1
(In Constant Dollars)											
Intergovernmental Revenues (without PPTRA)	37.8%	38.7%	39.9%	39.5%	39.4%	39.7%	40.7%	40.8%	40.0%	39.9%	39.5%
Intergovernmental Revenues (PPTRA only)	4.0%	3.8%	3.7%	3.9%	3.9%	3.9%	3.8%	3.7%	3.5%	3.4%	3.3%
Elastic Tax Revenues	9.6%	8.9%	8.6%	8.8%	9.2%	9.4%	9.3%	9.4%	11.8%	11.8%	11.8%
(as a % of Net Operating Revenue)											
Property Tax Revenues	346,403	353,789	364,683	351,238	326,348	318,816	314,330	320,925	328,006	334,909	341,890
(In Constant Dollars)											
Uncollected Property Tax Revenues	0.5%	0.5%	0.7%	1.0%	1.1%	1.3%	1.4%	1.3%	1.2%	1.2%	1.0%
(as a % of Total Levy)											
User Charge Coverage	50.1%	48.0%	48.2%	50.6%	52.5%	51.0%	51.9%	54.2%	55.4%	53.3%	49.8%
(Revenues/Expenditures)											
Revenue Variance	5.4%	6.1%	1.4%	0.2%	1.2%	0.5%	1.3%	2.4%	4.2%	3.6%	4.0%
(as a % of Net Operating Revenue)											
Employees Per Capita	13.0	13.1	13.1	12.7	12.6	12.5	12.3	12.2	12.1	12.1	12.1
(Employees per thousand population)											
Fringe Benefits	31.3%	32.2%	33.1%	32.8%	33.0%	34.5%	33.9%	34.8%	36.0%	35.8%	35.8%
(as a % of Salaries)											
Operating Surpluses	9.6%	6.9%	5.0%	1.6%	1.2%	0.1%	0.0%	1.7%	3.2%	6.0%	6.1%
(as a % of Net Operating Revenue)											
Enterprise Losses (In Constant Dollars)	3.622	4.875	(0.833)	(0.689)	(1.918)	(0.600)	3.926	1.004	0.683	(1.076)	5.146
General Fund Balances	13.3%	13.5%	13.9%	14.3%	14.2%	12.3%	11.8%	11.7%	11.3%	11.2%	11.0%
(as a % of Net Operating Revenue)											
Liquidity	297.1%	342.2%	232.2%	339.4%	335.4%	288.2%	275.5%	279.0%	267.8%	272.1%	294.7%
(Cash & Investments as a % of Current Liabilities)											
Current Liabilities	9.7%	8.9%	13.8%	9.7%	9.8%	11.2%	10.9%	11.5%	11.4%	11.1%	10.4%
(as a % of Net Operating Revenue)											
Long Term Debt	1.2%	1.1%	1.4%	1.4%	1.6%	1.7%	1.6%	1.4%	1.2%	1.2%	1.3%
(as a % of Assessed Valuation)											
Debt Service	5.2%	5.3%	5.3%	5.8%	5.5%	5.8%	6.3%	5.9%	5.5%	5.2%	5.2%
(as a % of Net Operating Revenue)											
Accumulated Employee Leave Liability	22.5	24.5	24.6	26.0	24.7	25.0	25.1	25.8	26.5	26.2	25.9
(in Days)											
Level of Capital Outlay	3.5%	3.5%	3.3%	3.6%	3.6%	3.6%	3.3%	2.5%	3.3%	2.9%	3.3%
(as a % of Net Operating Expenditures)											

FINANCIAL INDICATORS DISPLAYED GRAPHICALLY

Description	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Depreciation	2.9%	2.7%	2.8%	2.8%	2.7%	2.8%	2.7%	2.8%	2.8%	2.8%	2.8%
(Depreciation Expense as a % of Assets)											
Population	299.443	302.518	305.580	307.832	311.726	315.157	318.158	321.374	325.283	329.227	332.368
Per Capita Income (restated)	47.688	48.161	45.246	46.634	49.548	52.233	52.820	55.725	58.039	58.876	N/A
Public Assistance Recipients (restated for 2016 Trends)			14.9%	17.4%	18.7%	19.1%	20.4%	20.1%	20.4%	20.6%	20.7%
(as a % of Total Population)											
	32.7877	33.0789	33.7855	30.8174	29.4644	28.0236	27.6367	28.0735	29.0692	29.7091	30.5606
Property Values	11.9741	0.8883	2.1360	-8.7852	-4.3903	-4.8901	-1.3806	1.5805	3.5468	2.2015	2.8659
(In Constant Dollars)											
Residential	22.770	22.707	22.963	21.505	20.608	19.265	18.689	19.119	19.793	20.218	20.804
Commercial	9.627	9.991	10.453	8.998	8.558	8.476	8.678	8.680	8.994	9.222	9.474
Agricultural	0.391	0.381	0.369	0.315	0.298	0.283	0.269	0.275	0.282	0.270	0.283
Residential Development (includes agric)	70.6%	69.8%	69.1%	70.8%	71.0%	69.8%	68.6%	69.1%	69.1%	69.0%	69.0%
(as a % of Total Property)											
Employment Base											
Local Unemployment Rate	0.0270	0.0350	0.0710	0.0740	0.0630	0.0550	0.0480	0.0510	0.0480	0.0380	0.0360
Jobs in Community	177,744	179,426	174,758	168,142	170,581	174,628	177,810	177,647	180,877	186,728	203,479
Business Activity - #1											
(In Constant Dollars)											
Retail Sales	54,472.82	51,172.44	52,267.14	52,265.72	52,818.26	52,382.65	51,516.86	50,472.75	52,746.49	54,345.69	54,993.02
Annual Business Receipts	31,173.50	29,372.74	28,832.69	26,482.03	25,742.96	26,302.02	26,892.85	26,540.81	28,498.66	29,109.14	30,131.95
	8.9%	-5.8%	-1.8%	-8.2%	-2.8%	2.2%	2.2%	-1.3%	7.4%	2.1%	3.5%
Business Activity - #2											
Market Value of Business Property	9,627.18	9,991.23	10,452.70	8,997.58	8,558.41	8,476.28	8,678.11	8,679.62	8,994.24	9,221.79	9,473.64
Acres Devoted to Business	6,062.00	6,118.00	6,371.00	6,393.00	6,064.00	6,189.00	6,211.00	6,214.00	6,291.00	6,217.00	6,331.00

GENERAL FINANCIAL AND ECONOMIC DATA

Item	Description	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1.3	Cash & Short Term Investments	268,646	298,304	320,117	314,414	309,643	308,287	289,131	318,999	323,342	326,848	347,810
1.4	Accounts Payable	51,420	49,407	53,262	48,284	48,717	53,348	52,155	61,604	58,946	55,431	60,925
1.7	Principle due in 12 months	33,224	30,749	74,560	32,810	32,825	38,725	38,510	38,890	39,255	41,700	41,700
1.8	Other Current Liabilities	5,771	7,021	10,025	11,557	10,769	14,881	14,284	13,853	22,553	22,969	15,405
1.9	Total Current Liabilities	90,414	87,177	137,847	92,651	92,311	106,954	104,950	114,346	120,754	120,100	118,030
1.10	Net Direct Long Term Debt	399,683	396,269	503,505	460,535	499,930	533,180	492,025	454,095	411,405	406,150	464,530
1.12	Cost Depreciable Fixed Assets	982,096	1,015,665	1,051,575	1,080,905	1,109,368	1,124,786	1,143,806	1,176,897	1,205,603	1,249,751	1,300,142
1.13	Depreciation Expense	28,010	27,596	28,928	30,566	30,439	31,308	30,993	32,433	34,326	35,573	36,517
1.14	General Fund Operating Surplus	88,984	67,853	49,565	15,123	11,751	533	336	17,000	34,246	64,678	69,053
1.15	Enterprise Operating Results	3,622	5,120	(863)	(721)	(2,078)	(661)	4,400	1,148	782	(1,244)	6,051
1.16	General Fund Balances	207,453	239,708	252,549	246,603	230,524	221,639	197,540	210,567	224,205	232,416	253,995
1.17	General Fund Restricted Balances	84,029	107,615	113,094	109,831	96,798	104,751	83,364	93,945	104,259	111,167	129,679
1.18	General Fund Unrestricted Balances	123,424	132,093	139,455	136,771	133,727	116,888	114,175	116,622	119,946	121,249	124,316
1.19	Uncollected Property Taxes	1,901	2,035	2,700	3,604	3,737	4,604	5,025	4,815	4,645	4,506	3,994
1.20	Full Property Tax Levy	352,305	369,930	380,661	365,522	349,269	347,803	357,613	361,689	373,457	374,674	389,341
2.1	Property Tax Revenues	346,403	371,556	377,532	367,444	353,555	351,142	352,275	367,120	375,685	387,388	402,026
2.2	Committed User Charges	29,127	28,850	29,884	30,409	30,207	31,424	31,336	33,266	33,372	33,680	33,971
2.3	Uncommitted User Charges	6,745	2,845	2,846	3,261	3,321	3,152	3,323	3,379	3,378	3,552	5,678
2.4	Other Revenue greater than 5%	125,927	122,796	125,309	119,791	127,013	129,354	125,872	125,113	158,824	165,920	176,154
2.5	Other Revenue less than 5%	33,800	37,612	28,837	22,822	21,028	21,220	22,343	21,664	25,951	25,143	29,010
2.6	Total Local Operating Revenue	542,002	563,659	564,409	543,727	535,125	536,292	535,150	550,542	597,210	615,683	646,840
2.7	Intergovernmental Operating Revenue	389,249	416,686	435,925	416,038	408,589	414,459	430,280	442,504	460,328	471,181	484,181
2.7	Intergovernmental Operating Revenue (without PPTRA reimbursements)	352,028	379,686	398,923	379,036	371,587	377,457	393,278	405,502	423,327	434,180	447,180
2.10	Gross Operating Revenues	931,251	980,345	1,000,334	959,765	943,714	950,751	965,430	993,046	1,057,538	1,086,864	1,131,022
2.13	Net Operating Revenues	931,251	980,345	1,000,334	959,765	943,714	950,751	965,430	993,046	1,057,538	1,086,864	1,131,022
2.14	Restricted Operating Revenues	317,374	328,363	354,864	342,353	334,149	337,442	353,421	354,991	374,039	375,575	384,747
2.15	Elastic Operating Revenue	89,286	87,579	86,099	84,217	87,182	89,098	90,097	92,893	124,352	128,416	132,959
2.17	Net Operating Revenue Budgeted	880,557	920,221	986,094	957,860	932,150	946,188	953,214	969,062	1,013,213	1,047,214	1,085,742
3.1	Salaries and Wages	440,213	464,016	487,694	480,659	472,724	480,853	495,822	496,472	508,111	526,875	538,928
3.2	Fringe Benefits	137,938	149,220	161,362	157,582	156,088	165,696	167,899	172,540	183,080	188,878	192,860
3.3	Supplies	36,858	40,764	43,737	41,682	46,168	43,383	42,775	48,999	49,833	42,677	41,628
3.4	Services	109,413	117,670	107,968	120,657	113,118	109,529	105,315	144,336	111,340	109,868	118,046
3.5	Capital Outlay *(restated for 2017 Trends)*	30,210	32,373	31,506	35,217	33,920	34,201	31,748	25,555	33,639	30,132	36,013
3.6	Principal-Long term Debt	29,450	32,779	30,284	34,880	32,300	32,290	38,510	37,615	38,285	38,605	41,700
3.7	Interest-Long term Debt	18,588	18,900	22,339	21,191	19,722	23,035	22,393	21,132	19,392	17,481	17,144
3.8	Total Direct Debt	48,038	51,679	52,623	56,071	52,022	55,325	60,903	58,747	57,677	56,086	58,844
3.9	Other Expenditures	36,926	52,400	50,416	52,285	45,527	43,982	41,361	44,052	49,701	53,866	69,189
3.10	Internal Service Fund Transfers	24,113	23,917	22,764	25,058	23,195	22,949	24,815	24,779	26,177	25,609	34,955
3.11	Total Net Operating Expenditures	863,709	932,040	958,070	969,212	942,761	955,918	970,638	1,015,481	1,019,557	1,033,991	1,090,463
3.12	Number of General Government Employees	3,895	3,953	4,000	3,915	3,927	3,927	3,927	3,927	3,937	3,986	4,032
3.13	Unused Annual Leave (in days)	87,502	96,971	98,411	101,636	96,974	98,048	98,496	101,198	104,232	104,592	104,368
3.14	Unused Sick Leave (in days)	272,360	270,336	280,842	284,267	288,847	292,650	286,114	290,157	286,638	280,967	275,656
3.15	Expenditures Covered by Charges	58,176	60,157	61,944	60,144	57,538	61,630	60,360	61,408	60,245	63,189	68,198
7.1	Population (Calendar Year)	299,443	302,518	305,580	307,832	311,726	315,157	318,158	321,374	325,283	329,227	332,368
7.3	Total Personal Income (Thous. of $) - *restated*	14,135,116	14,457,715	13,789,201	14,346,335	15,402,475	16,499,257	16,870,717	17,981,681	18,871,045	19,223,208	N/A
	Per Capita Income - *restated*	47.688	48.161	45.246	46.634	49.548	52.233	52.820	55.725	58.039	58.876	N/A
7.4	Public Assistance Recipients (restated for 2016 Trends)			45,673	53,566	58,387	60,188	64,927	64,583	66,505	67,849	68,693
7.6	Market Value of Property (Mil. of $)	32,788	34,740	34,976	32,239	31,921	30,865	30,973	32,114	33,295	34,364	35,937
7.8	Market Value-Residential (Mil. of $)	22,770	23,847	23,772	22,497	22,327	21,218	20,945	21,871	22,670	23,386	24,463
7.9	Market Value-Commercial (Mil. of $)	9,627	10,493	10,821	9,413	9,272	9,336	9,726	9,929	10,302	10,667	11,140
7.10	Market Value-Agricultural (Mil. of $)	391	400	382	329	322	311	302	315	323	312	333
7.11	Residential Households (Calendar Year)	125,972	127,046	128,529	129,781	130,482	131,044	131,652	132,363	133,020	134,153	134,747

GENERAL FINANCIAL AND ECONOMIC DATA

Item	Description	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
7.12	Vacancy Rates-Residential (Calendar Year)	1.6%	1.6%	1.6%	1.6%	2.5%	2.4%	2.0%	1.6%	1.4%	1.4%	1.5%
7.15	Local Unemployment Rate	2.7%	3.5%	7.1%	7.4%	6.3%	5.5%	4.8%	5.1%	4.8%	3.8%	3.6%
7.16	Jobs Within Community	177,744	179,426	174,758	168,142	170,581	174,628	177,810	177,647	180,877	186,728	203,479
7.17	Retail Sales (Thous. of $)	54,473	53,742	54,109	54,677	57,222	57,694	57,736	57,738	60,414	62,861	64,666
7.19	Annual Business Receipts (Thous. of $)	31,174	30,848	29,849	27,704	27,889	28,969	30,139	30,361	32,641	33,670	35,432
7.20	Business Acres (Calendar Year)	6,062	6,118	6,371	6,393	6,064	6,189	6,211	6,214	6,291	6,217	6,331
7.21	CPI	208.4	218.8	215.7	218.0	225.7	229.5	233.5	238.3	238.6	241.0	245.0
7.22	CPI-Index	1.0000	1.0502	1.0352	1.0461	1.0834	1.1014	1.1207	1.1439	1.1454	1.1567	1.1759

ECONOMIC DATA SOURCES

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