

APPENDIX “F” FINANCIAL TRENDS MONITORING SYSTEM

Note to the reader:

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

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

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

What follows is a reproduction of the original Trends document that was presented by the County Manager to the Board of Supervisors on February 24, 2015.

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

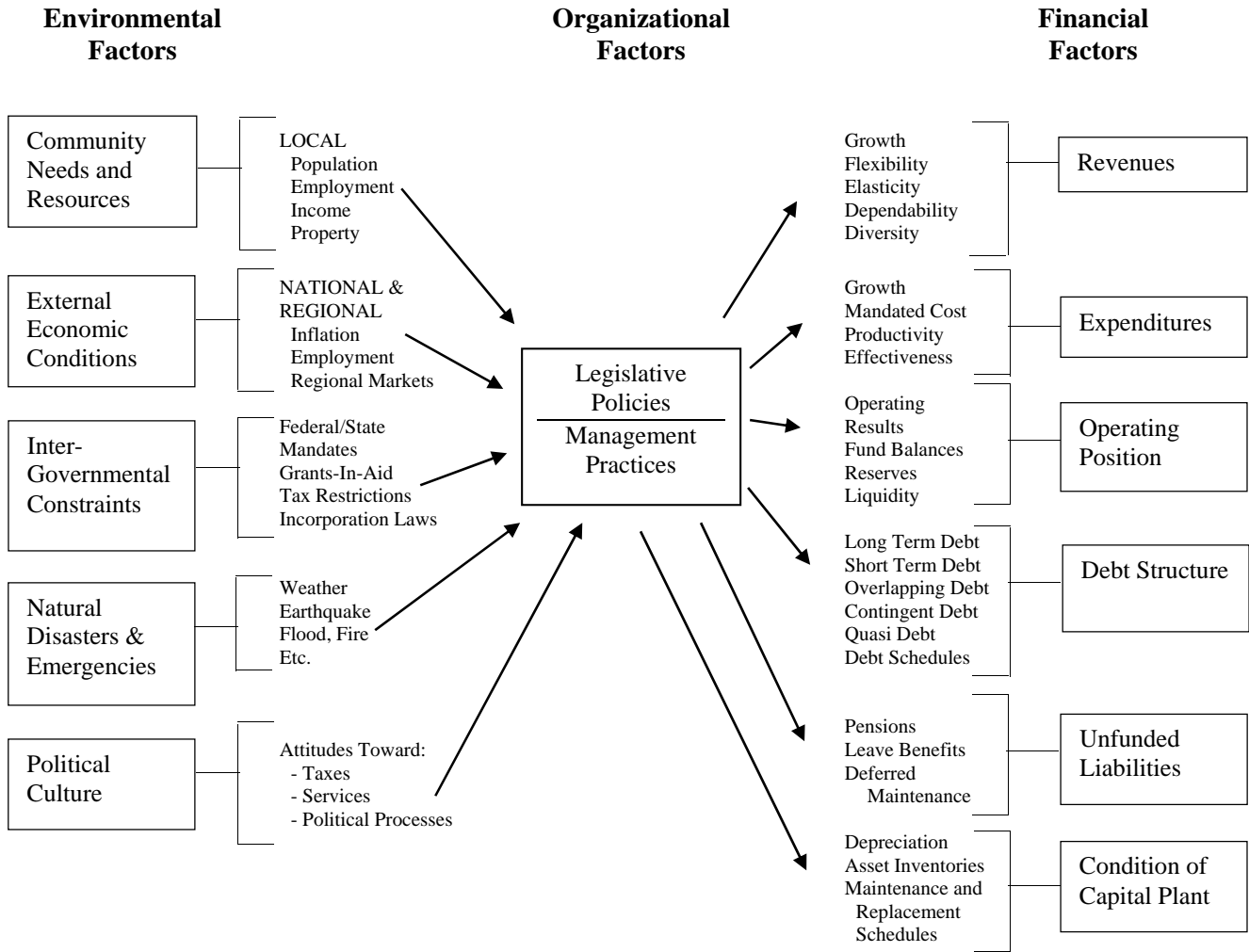
The financial indicators are the primary tools of the Financial Trend Monitoring System. They represent a way to quantify changes in the twelve factors. The chart on page 4 shows the twenty-eight indicators along with the factors with which they are associated. Many aspects of financial condition cannot 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

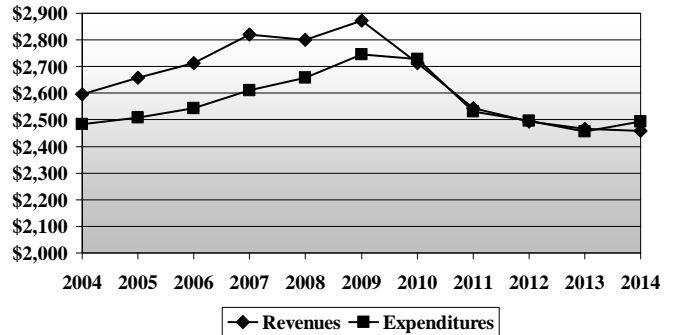
Population
Per Capita Income
Public Assistance Recipients
Real Property Values
Residential Development
Employment Base
Business Activity - Local Retail Sales Tax
Receipts and Business License Tax Receipts
Business Activity - Commercial Acres and
Market Value of Business Property

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

Formula:

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

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. The decrease in per capita revenues in FY08 marked the first such year of decline since this indicator began being tracked in 1982. That being said, since FY10 the County has experienced five consecutive years of declines, though the rate of decline has slowed in the past three years. In FY10, per capita revenues (in constant dollars) declined 5.5 percent from the previous fiscal year to \$2,713 and in FY11 they dropped again to \$2,544, a decline of 6.2 percent. Declines of 2.0 percent, 1.1 percent, and 0.2 percent were experienced in FY12, FY13, and FY14, respectively. From FY09 (the indicator’s peak) to FY14, per capita revenues (in constant dollars) have declined 14.3 percent. Viewed another way, FY14 per capita revenues (constant dollars) of \$2,459 are less than those collected in FY04 – ten fiscal years prior.

Per capita expenditures (in constant dollars) increased from \$2,484 to \$2,746, or 10.5 percent from FY04 to FY09, before falling four consecutive fiscal years from FY10 to FY13 as a result of targeted expenditure reductions, described in greater detail below. In FY10, per capita expenditures (constant dollars) dropped 0.6 percent to \$2,642, dropped another 7.2 percent in FY11, declined 1.4 percent in FY12, and declined 1.6 percent in FY13. From FY09 to FY13, per capita expenditures (constant dollars) declined 10.5 percent before experiencing an increase of 1.5 percent in FY14. Similar to per capita revenues (constant dollars) as noted above, FY14 per capita expenditures (constant dollars) of \$2,494 are also nearly equivalent to the same figure achieved in FY04. It should be noted that this decline in expenditures does not capture expenditures that have been “absorbed” during this most recent economic downturn through numerous recognized operating efficiencies. During this eleven-year period, the County’s population increased by 14.3 percent.

In examining the data, a number of distinct trends are evident. First, from FY04 to FY07, the County’s per capita revenues outpaced per capita expenditures. In looking back over this time period, economic prosperity resulted in healthy revenue growth, while the County’s financial plans intentionally minimized incremental expenditure growth. This is important in that expenditure controls have ensured the County’s operating budgets did not outpace available resources. By minimizing incremental expenditures, the County was afforded the ability to

forecast revenues conservatively. The benefits of this practice were realized in FY08, as County resources were able to keep pace with a number of significant fixed cost increases despite a slowing economy and accompanying slowing revenue growth. Per capita revenues (in constant dollars) in FY08 declined 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 FY11, revenues per capita dropped significantly due to the economic downturn, and expenditures per capita were reduced to accommodate the loss in revenue. In anticipation of a slow economic recovery, or economic “new normal,” a number of sustainable expense reduction initiatives were implemented that have allowed the County to reduce overall expenses by more than \$125 million over the past five years, including the elimination, freezing, or unfunding of more than 650 positions Countywide.

In the most recent fiscal year, FY14, expenditures on a per capita basis increased by 1.5 percent while revenues on a per capita basis on a per capita basis experienced a minimal decrease of 0.2 percent. However, the expense increase is a bit misleading as Schools, in compliance with General Accounting Standards Board (GASB) regulations, had to recognize the full life of new “capital lease” agreements for elementary laptops, middle school laptops, and network equipment. GASB requires the County to disclose as an expenditure the full amount of nearly \$43.0 million (\$10.7 million over four years) for these transactions in FY14, a figure that will not appear in the financial statements until the lease is renewed. Without this accounting requirement, expenditures per capita would be at their lowest point since FY03 and would be well below revenues per capita.

As the County slowly emerges from the depths of this past recessionary economic environment, pockets of positive local economic data provide a cautiously optimistic outlook in regards to the County’s local revenue streams. While these “positives” are encouraging, there is continued concern regarding real estate tax revenue and aid from the Commonwealth of Virginia, which combined represent two thirds of the County’s General Fund revenues. While both have experienced recent growth, the level of growth has not kept up with inflation and population growth. These concerns are coupled with a number of additional fixed cost increases the County has absorbed over the past four fiscal years. Fixed cost increases coupled with little revenue growth require further expenditure reductions. In response, a number of vacant positions have been unfunded or eliminated, across-the-board operating reductions were applied to all County agencies, and a number of other targeted expenditure reductions were implemented.

While, as previously mentioned, there are some positive signs within local revenues, real estate assessments are not expected to grow much past 2.0 percent for the foreseeable future and State revenues, outside of Education, will remain stagnant in the short term due to other funding priorities of the General Assembly. As such, it is not expected that the overall County revenue picture will grow at the same level as population and inflation growth, meaning expenditures will also continue with minimal growth. With this economic “new normal” in mind, the County has been adding fiscal structure within the budget process, minimizing one-time resources and investing in core services – particularly Education and Public Safety. The past few Trends documents have denoted warning trends for this indicator due to minimal revenue growth anticipated. Though revenue growth is expected to be minimal for the foreseeable future, Henrico County will continue investing in core services and exploring 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 have placed the County in an overall positive fiscal environment. Therefore, the warning trend noted last year has been lifted.

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

Formula:

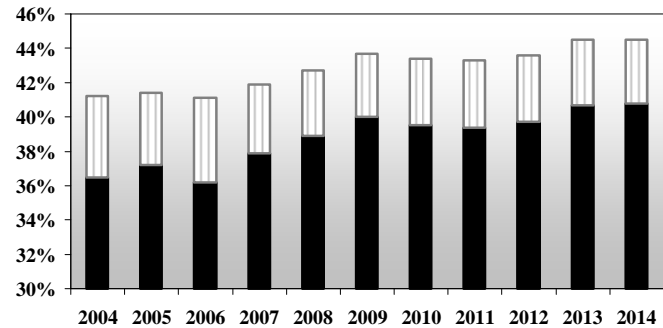
$$\frac{\text{Intergovernmental Operating Revenues}}{\text{Gross Operating Revenues}}$$

Intergovernmental Revenues

(as a % of Gross Operating Revenues)

Intergovernmental Revenues:

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



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

Trends:

As the graph above indicates, Henrico County's intergovernmental revenues as a percentage of operating revenues have increased from 41.2 percent in FY04 to 44.6 percent in FY14, although as is described below, this increase is somewhat misleading. The peak in this indicator is FY14 and largely arises from additional State Aid for education, outpacing growth in local revenues, primarily real estate. As mentioned above, the State began reimbursing localities under the PPTRA in FY00. The graph above delineates between PPTRA reimbursements and all other intergovernmental revenues. The total bars reflect all intergovernmental revenues, while the lower stacked bars exclude the effects of PPTRA payments.

While intergovernmental revenue has increased substantially over the eleven year period examined, there are two distinct patterns that need to be noted, as the increase is largely misleading. From FY04 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 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.

The second trend reflects the reclassification of prior local revenues as “state” revenues, and while overall State aid looks like it increased from FY06 through FY09, the increase is somewhat misleading. One example that depicts why these increases are misleading is **legislation that replaced four local revenue sources** with a monthly payment from the State Department of Taxation, known as 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. The State deducts an administrative fee from the revenue collections and redistributes the funding monthly to localities as a fixed percentage of State-wide collections, which was established by FY06 local collection levels. This is noted because it represents an example of the State’s continued forays into issues of local taxing authority. This concern of State involvement in local revenues continues to be noted as a concern, as it is a significant wildcard in the County’s multi-year financial planning efforts.

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

Fiscal Year	PPTRA Payment
FY00	\$4.3 million
FY01	\$25.1 million
FY02	\$33.9 million
FY03	\$33.6 million
FY04	\$34.1 million
FY05	\$33.3 million
FY06	\$42.1 million
FY07	\$37.2 million
FY08 – FY14	\$37.0 million

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

In the 2004 session of the Virginia General Assembly, the legislature made a materially adverse change to PPTRA payments – effective for FY06. The legislature capped the State’s PPTRA payments to localities at approximately \$950.0 million and uses a pro-rata distribution mechanism for making these payments in the future. In essence, what that means is that Henrico’s PPTRA reimbursements from the State will remain at a level amount in the future, while the taxpayer portion will once again increase and the taxpayer will be required to pay more to the County. The State’s promise of maintaining reimbursement levels at 70.0 percent for the County’s taxpayers slipped to 58.0 percent in 2013 and to 55.0 percent in 2014. 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.

The State found those funds in FY12 and Aid from the Commonwealth has grown to exceed the peak of FY09 in FY14. However, in the spring of 2014, the State identified a “shortfall” of revenues as a result of the impact of Federal sequestration. While State revenues are still growing, the rate of growth is not able to keep up with projected expenditure increases, many of which result from mandates placed on the County by the State, such as teacher retirement cost increases. In November, 2014 the General Assembly adopted a number of changes to reduce the State budget, among them being the reinstatement of the “Aid to the Commonwealth” line in which the Virginia Department of Planning and Budget (DPB) outlines a number of areas where localities can take reductions and recommends amounts. As part of this State initiative, localities are required to either choose where and how much to reduce from the identified areas or, if a locality chooses, pay the Commonwealth an amount up to the identified total. For Henrico, the FY15 amount for reduction was \$1,079,511 that the County adopted in each area specified by DPB. As of this writing, the statewide total of nearly \$30 million is still included in the FY16 State Budget.

Local revenues are beginning to recover, but with the continued fiscal struggles at the State level, which impact approximately one-third of the County’s General Fund revenues, net revenue growth remains concerning. Minimal local revenue growth creates an enhanced reliance on State aid, and with this in mind, a warning trend continues for this indicator.

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

Formula:

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

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 the food and beverage tax, more commonly known as a “meals tax”.

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

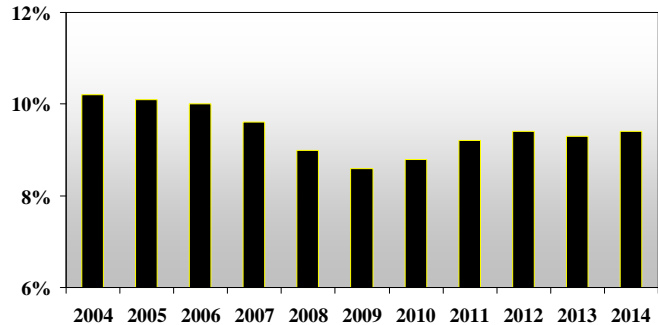
Trends:

The graph shown above indicates that the percentage of elastic tax revenues for Henrico County have decreased from a high of 10.2 percent of operating revenues in FY04 to a low of 8.6 percent in FY09. In looking at the time period examined, the overall trend reflects a reduction in operational reliance from these elastic revenue sources, despite overall growth in these revenues of 22.0 percent during the period. 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 looking at the most recent fiscal year, 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 voters approved a referendum to impose a Food and Beverage Tax, more commonly referred to as the Meals Tax, in November, 2013. This 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.

Elastic Operating Revenues

(as a % of Net Operating Revenues)



Another positive note, Henrico County ranked second among all localities in Virginia for total taxable sales in 2013, only behind the much larger Fairfax County. Refer to the chart below for comparisons to other localities.

2013 Virginia Taxable Sales

Total Taxable Sales are from February 1, 2013 to January 31, 2014

<u>Rank</u>	<u>Locality</u>	<u>Total Taxable Sales</u>	<u>Population</u>	<u>Per Capita Sales</u>
1	Fairfax County	\$ 14,418,135,608	1,130,924	\$ 12,749
2	Henrico County	5,117,597,702	318,611	16,062
3	Virginia Beach City	5,064,938,738	448,479	11,294
4	Prince William County	5,015,240,516	438,580	11,435
5	Loudoun County	4,858,737,333	349,679	13,895
6	Chesterfield County	3,750,483,911	327,745	11,443
7	Arlington County	3,232,890,487	224,906	14,374
8	Chesapeake City	3,156,162,495	228,417	13,818
9	Norfolk City	2,635,223,970	245,782	10,722
10	Richmond City	2,357,213,207	210,309	11,208

Pockets of positive local economic information indicate a “bottom” has been achieved, though a slow recovery is expected. Sales tax receipts stagnated in both FY13 and FY14, but early returns for FY15 are promising since, as of this writing, sales tax receipts are up 3.6 percent. However, as noted last year 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. Finally, as mentioned earlier the meals tax was implemented on June 1, 2014 and promptly provided nearly \$2.0 million in its first month. Since that time, as of the Quarterly Financial Report through December, 2014, the County has collected \$10.7 million and is currently collecting approximately \$2.0 million every month. Due to slow growth in real estate and continued fiscal distress at the State level, combined with the implementation of the meals tax, an increase in this indicator is expected into the near future. That being said, any growth in meals tax collections will be dedicated to one-time capital project expenditures, decreasing the reliance on these resources for operational purposes. As such, no warning trend is warranted for the indicator.

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

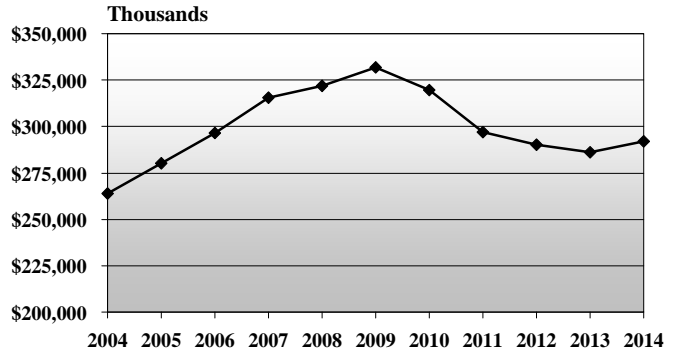
Formula:

Property Tax Revenues (Constant Dollars)

General Property Tax 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 71.0 percent of total **local** operating revenue in Henrico County in FY14. 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.

General Property Tax Revenue
(In Constant Dollars)



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 \$264.1 million in FY04 to \$367.1 million in FY14, representing an average annual increase of 4.0 percent in this eleven-year period.

Henrico's strong local economy and community of choice designation for new area residents and businesses have had a positive impact on the County's real property assessed valuations over the past eleven years. During this time period between CY04 and CY14, the County's unadjusted real estate tax base has increased by \$11.2 billion. In this eleven year time period, it should also be noted that when looking at these property tax revenues and comparing them to total net revenues, a revealing pattern emerges. Beginning in 1999, personal property tax payments paid by the State under the Personal Property Tax Relief Act (PPTRA) have been classified as intergovernmental revenues even though the assessment function is performed at the local level. After capping PPTRA payments at \$37.0 million annually for Henrico County, property tax revenues as a percentage of net operating revenues increased from 36.9 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 in FY14 is attributed to a 2.8 percent increase in the real estate tax base January 1, 2014, as well as a healthy increase in personal property tax receipts.

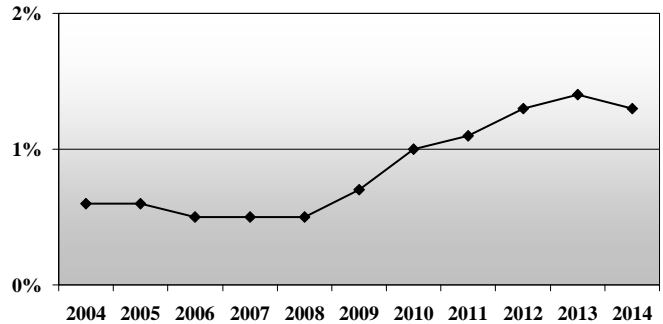
Overall, the upward trend of the County's total tax base over this time period is a very positive trend. To further influence this trend, the County's overall tax base for January, 2015 reflects a 3.7 percent increase, with reassessments increasing 2.5 percent. Further, while the number of properties that were foreclosed remains historically high and continues to be a drag on the real estate tax base, the number of foreclosures in 2014 decreased 20.5 percent to 587 – the lowest number of foreclosures since 2008. Going forward, the County anticipates continued growth in real estate values, albeit in the range of between 2.0 percent and 3.0 percent – levels equivalent to inflation growth. With a second consecutive year of overall real estate valuation growth, albeit minimal, and with personal property tax receipt expected to continue to grow at levels close to inflation, the warning trend noted last year has been lifted.

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

Formula:

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

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

Trends:

As the graph above indicates, for this eleven-year period, Henrico County's percentage of current **uncollected** real and personal property taxes has ranged from 0.5 percent from FY06 through FY08, to 1.4 percent in FY13, the high point in the eleven years examined, before falling to 1.3 percent in the most recent fiscal year, FY14.

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 has had on the citizens of Henrico County and the local real estate market, as the percentage of current uncollected real and personal property taxes increased from 0.5 percent in FY08 to 1.4 percent by FY13.

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 FY14, at 6.3 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, no long term warning trend is noted for this indicator.

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

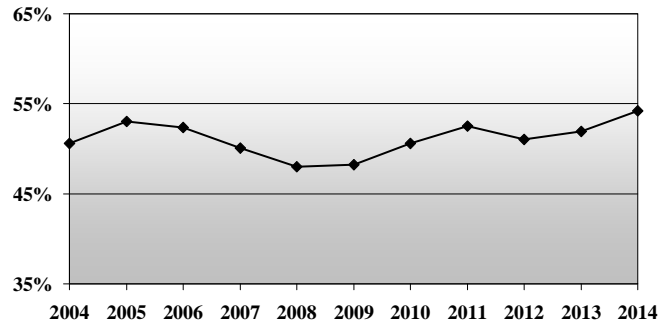
Formula:

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

User Charge Coverage (Revenues/Expenditures)

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 this eleven-year period, with a low of 48.0 percent occurring in FY08, and a high of 54.2 percent occurring in FY14 – the most recent year examined. The indicator measures user coverage of seven specific expenditure areas. These are: Building Inspections, Employee Cafeteria, Mental Health, Recreation, Street Lighting, School Cafeteria and Solid Waste.

In looking at the larger operational components, the user charge coverage percentages for Building Inspections has typically been sufficient to cover the activities of that department, peaking in FY05. 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. User charge coverage for Building Inspections increased to 54.1 percent in FY11, and again in FY12 to 65.1 percent, due to expenditure reductions made by the department and an increase in structure and equipment permit revenue collections in FY12. However, the user charge coverage for FY13 dropped to 61.2 percent because of a drop in permit fee collections. In FY14, structure and equipment permit fees were increased in an effort to close the coverage gap, and as a result, the coverage was 76.9 percent, and the primary reason for the increase in the indicator that fiscal year.

Mental Health's user charge coverage has actually increased over the eleven-year period from 35.3 percent to 47.9 percent due to third party fee payments made to that entity. The user charge coverage for Solid Waste has fluctuated, as in years where large capital expenditures are required for the landfill, operational revenues will not meet operational requirements. However, because Solid Waste has built up reserves for these occurrences, the operation has not been impacted in a negative manner. In looking at Recreation, the user charge coverage in this area has remained at approximately 5.0 percent throughout this time period. Also in this eleven-year time period, the School Cafeteria has typically generated sufficient revenues to cover operational requirements.

This indicator in the eleven-year period has averaged 51.1 percent. Excluding Recreation, the indicator has averaged 67.5 percent in the eleven-year period. As the local economy continues to slowly improve, associated revenues, particularly structure and equipment permit revenues, should improve as well. As such, no warning trend is noted for this indicator. The County will continue to maximize efforts to ensure coverage rates are appropriate to reduce reliance on other County revenues.

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

Formula:

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

Revenue Shortfalls:

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

Trends:

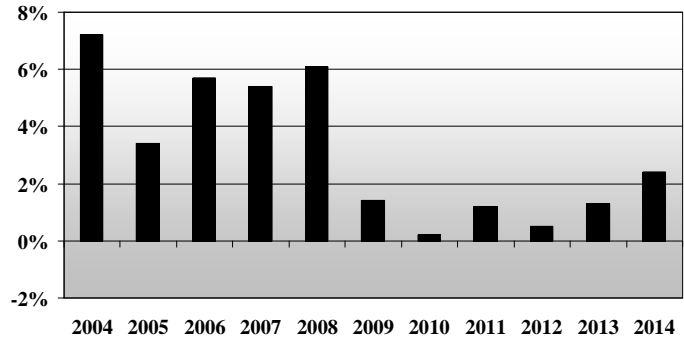
The overall trend depicted above reveals that the County’s revenues exceeded budget estimates for each of the eleven years analyzed.

In looking at this eleven-year period, this indicator peaked in FY04, when the budget to actual revenue variance reached 7.2 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, which reflects the largest revenue variance in the past six fiscal years. **In no case in this eleven-year time period did the County’s actual revenues not meet budgeted estimates.**

Looking at the trend since FY04, the County’s annual revenue variance has averaged 3.2 percent. The County of Henrico maintains a conservative posture when projecting revenues on an annual basis. Because of the initiatives established by the Board of Supervisors over this time span - notably the capping of annual incremental expenditure growth and the decreasing reliance on elastic revenues - despite a struggling economy, the County has had the ability to continue to maintain a conservative revenue posture. In spite of the recessionary economic environment in FY08, the budget to actual revenue variance of 5.8 percent reflected the second highest level in this eleven-year period. The impact of the economic downturn is evident from FY09 through FY12, as the gap between estimated and actual revenue collections narrowed due to virtually all revenue sources declining. In fact, in FY10, actual revenues (across the General Fund, Special Revenue Fund, and Debt Service Fund) declined \$37.9 million from the previous fiscal year and declined another \$16.1 million in FY11. During this period, and in anticipation of a slow economic recovery, or economic “new normal,” a number of sustainable expense reduction initiatives were implemented that have allowed the County to reduce overall expenses by more than \$125 million over the past five years, including the elimination, freezing, or unfunding of more than 650 positions Countywide.

Slightly 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. Conservative revenue estimates in the FY15 budget, notably in real estate tax collections and State aid, in addition to the County’s newly implemented meals tax which will likely exceed the estimated \$18 million for FY15, will likely grow this

Revenue Variance
(as a % of Net Operating Revenues)



indicator again in the current fiscal year, in spite of the State's fiscal difficulties. With strategic fiscal structure also added in the FY15 budget, and with continued fiscal concerns at the State level requiring highly conservative estimates, this indicator will likely reflect positive results into the foreseeable future. As such, the warning trend noted in last year's document has been lifted for this indicator.

WARNING TREND: Increasing number of employees per capita.

Formula:

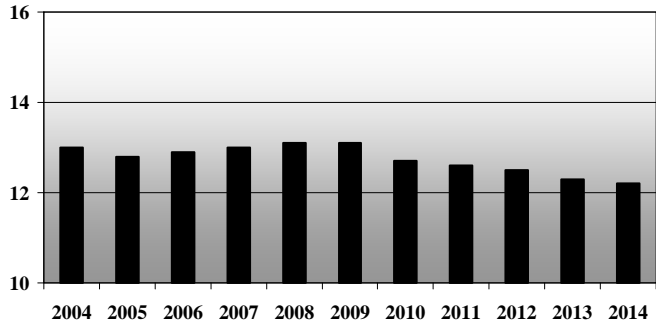
$$\frac{\text{Number of General Government Employees}}{\text{Population}}$$

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 360 employees from FY04 to FY09, then were 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 six years of the time period examined, with the peak at 13.1 in FY08 and FY09. Since FY09, this indicator has steadily dropped to the FY14 level of 12.2.

Two notes are warranted for this indicator. First, the graph above does not exclude departments that offer specialized services not offered by most localities in the State. Henrico County is one of two counties in the State that maintain their own roads, and the information above includes 254 employees in the Public Works department. Second, 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 nearly 300 vacant positions.

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 March 2005 General Obligation Bond Referendum. 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. Of these 42 vacant positions, 21 were eliminated altogether, and the other 21 were placed into a hold complement, dropping the indicator to 12.6 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. As such, this indicator dropped again to 12.5 in FY12, 12.3 in FY13, and 12.2 in FY14. In fact, the ratio of employees per 1,000 population is at its lowest level since FY1988.

It is important to note that FY15 marks the first year since FY09 that employees have been added to the complement. This budget reflects a net increase of 10 positions as a result of eliminating vacant positions from a myriad of departments to provide additional positions needed for Police, Public Works, and the Public Library. Every position eliminated from the complement has been strategic and is sustainable. In fact, as the County continues to find additional ways to become even more efficient, it is very likely that the practice of reducing employees in specific areas, generally administrative areas, will continue and those resources will be reinvested in core services. As such, in spite of continued annual population growth going forward, no warning trend is noted for this indicator.

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

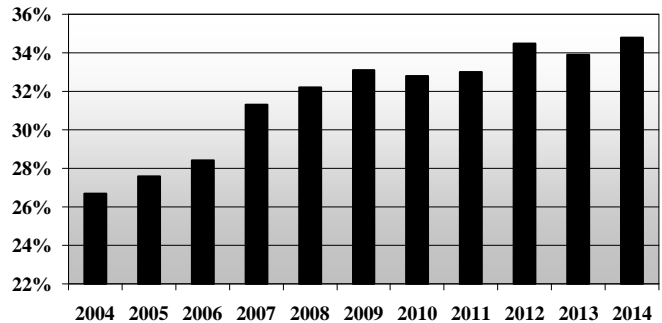
Formula:

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

Fringe Benefits
(as a % of Salaries)

Fringe Benefits:

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



Trends:

The fringe benefits ratio has averaged 31.7 percent between FY04 and FY14. The high point reflected in this time frame is FY14, which measured 34.8 percent. Clearly, the trend for this indicator reflects significant annual increases in the prior eleven fiscal years, and this trend is anticipated to continue into the future.

Two years in the eleven years examined reflect net declines in this indicator – FY10 and FY13. In FY10, fringe benefits as a percent of salaries fell to 32.8 percent; however, this statistic is extremely misleading as healthcare costs increased, and all other fringe benefit rates remained consistent with FY09. The reason for this reduction is the result of a budget savings measure at the State level by the General Assembly in which the State deferred its fourth quarter VRS payment to the following fiscal year, which eliminated the fourth quarter employer share of the VRS payment for teachers across all localities. 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 posted the second highest level in the eleven years examined, at 34.5 percent.

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, 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 FY04 was \$3,800. By FY14, this cost had nearly doubled to \$6,849 *per employee*, or a change of 103.0 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 by President Obama on March

23, 2010. As part of this law, employers across the country are faced with a number of new regulations and taxes that will have a significant cost to most employers, including Henrico County. In fact, in April 2012, the County was notified that beginning on January 1, 2014, it must begin paying a “transitional reinsurance fee” that costs the County \$1.1 million in the current fiscal year. Further, Henrico County will have to reexamine the healthcare benefits it offers its employees to ensure that they aren’t too “rich” and subject to additional tax penalties. Specific new regulations associated with the PPACA are communicated every week, and therefore, it is difficult to know the full impact of the PPACA on the County’s healthcare costs.

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

In addition to the ones previously noted, a number of other recent decisions and considerations by the General Assembly in regards to VRS are particularly troublesome. More specifically:

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

An additional cost that impacted this indicator is the VRS Life Insurance benefit for employees. This benefit was not funded by the State between FY02 and FY06 (and therefore – the County could not fund the local required amount). In FY07, the State re-instituted payment requirements, and in FY11 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.

The long-term trend in this indicator is clearly upward and prospects for the future continue to remain negative. The two principal reasons for the increase are health care and Virginia Retirement System costs, both of which fall largely outside of the direct control of the County. Due to continued concern over cost increases for retirement benefits, a warning trend for this indicator continues.

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

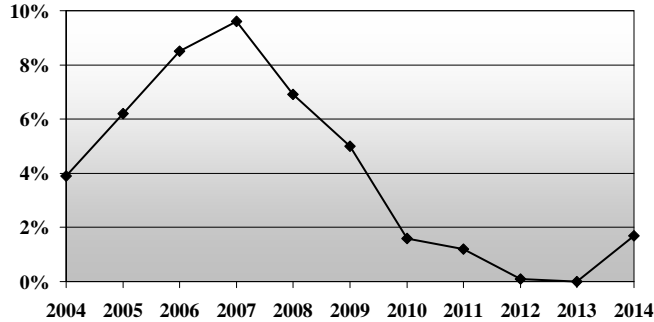
Formula:

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

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.

Operating Surpluses
(as a % of Net Operating Revenues)



Trends:

The County of Henrico has produced an operating surplus for each of the eleven years presented. From FY04 to FY07, the operating surplus improved from a level of 3.9 percent to the indicator’s peak of 9.6 percent in FY07.

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 4.6 percent. In FY09, eighteen months into the worst recessionary economic environment since the Great Depression, the County achieved an operating surplus of 5.0 percent. In FY10 and FY11, the County achieved 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. Additionally, the budget for FY15 added some fiscal structure back to the budget baseline. With these structural additions, as well as conservative revenue estimates in both the FY15 and FY16 budgets, these two fiscal years should yield positive operating surpluses as well. This, in combination with continued economic recovery, should yield positive operating surpluses in future fiscal years as well. As such, the warning trend noted last year has been lifted.

WARNING TREND: Consistent enterprise losses.

Formula:

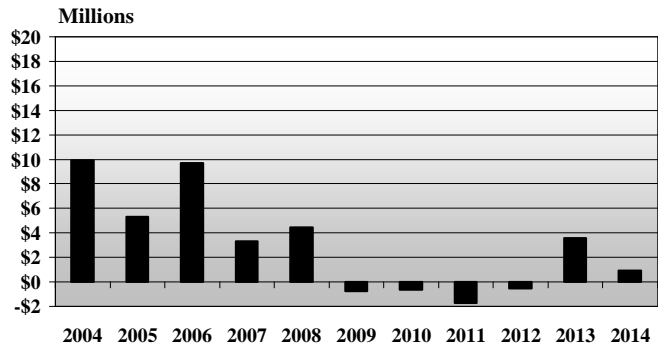
Enterprise Profits or Losses in Constant Dollars

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.

Enterprise Profits or Losses
(In Constant Dollars)



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

There are a number of factors impacting this indicator during this time frame. 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 funds maintained "profitability" in FY14, though it should be noted it was 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 of this analysis, during this entire eleven-year period, the Water and Sewer Fund generated sufficient net revenues each year to exceed the coverage requirements under its Revenue Bond covenants. As a result of the consistent financial results experienced by the Water and Sewer Fund, Fitch IBCA awarded Henrico County an "AAA" rating in 2001. In 2008, Standard & Poor's upgraded its rating to an "AAA" as well. To achieve one "AAA" bond rating is very rare for bonds issued by local Utility departments, and Henrico County's Water & Sewer Fund has two of them. As such, no warning

trend is warranted for the Water and Sewer Fund.

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

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

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

In FY09, the Belmont Golf Course experienced an 8.0 percent decline in the number of rounds of play as compared to FY08. The number of rounds played fell another 6.8 percent in FY10 and 0.9 percent in FY11. As such, the Golf Course posted net operating losses in these three fiscal years. Improvement in the economy in FY12 resulted in a 13.2 percent increase in the number of rounds of play, though a net operating loss was again reported. In FY13, rounds dropped 8.0 percent and, 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.

To address this situation, a number of reforms to reduce costs at the golf course were made in the FY15 budget in an effort to boost profitability. In addition to a \$2 increase in greens fees and \$1 increase in cart fees, a number of reductions were made to the expenditure budget for the Belmont Golf Course fund. Through December, in spite of fewer rounds year-to-date the golf course has increased revenues through the fee increase and expenses are down. While this is not a full year, the impact of the changes made in FY15 appear to be felt immediately. However, more data is required 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:

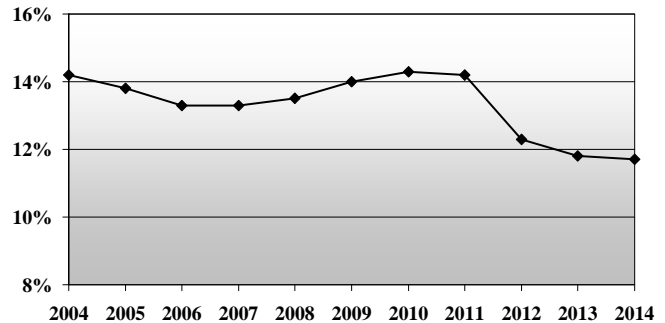
$$\frac{\text{Unassigned General Fund Balance}}{\text{Net Operating Revenues}}$$

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 FY04, where it was 14.1 percent, to FY11, where it was 14.2 percent before dropping each year since, to 11.7 percent in FY14. It should be noted that overall General Fund balance increased \$13 million in FY14 and unassigned fund balance increased \$2.4 million, the first such overall fund balance increase in five years.

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 that during FY03 and FY04, the County's revenues were impacted by State funding reductions, and the effects and after-effects of a national recession. Of even greater significance, the County's overall 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. In FY14, unassigned fund balance increased 2.1 percent as the County experienced a positive result of operations.

In FY04, the County of Henrico faced a significant natural disaster, *Hurricane Isabel*. In the aftermath of the storm, the County's Board of Supervisors was able to appropriate over \$20.0 million for the massive cleanup that was required. In FY05, the County of Henrico was deluged with *Tropical Storm Gaston* and the Board again was able to quickly react to the damage to public facilities by appropriating \$8.0 million. The fact that the County has a strong unassigned fund balance ensures that in times of emergency, the County has the resources to react quickly and effectively to ensure that the service delivery our residents expect continues in the manner expected.

Overall, the County's Unassigned General Fund Balance reflects a positive trend since FY04 that places Henrico

in a desirable position for a local government. Henrico County has been assigned an AAA/AAA/Aaa bond rating, making it one of 36 counties in the nation to hold such a rating. The maintenance of a healthy fund balance is a critical component examined by rating agencies when assigning bond ratings. Henrico has a long history of maintaining a healthy 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 has been 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.

However, FY14 saw revenues rebound thanks to improvements in the property tax base. Combined with a continued effort to keep expenses low, unassigned fund balance increased by \$2.4 million or 2.1 percent and total fund balance (including assignments) by \$13.0 million or 6.6 percent. In addition to this positive result in FY14, the budget in FY15 utilized ongoing resources to fund many of the items previously funded with one-time resources. This included adding \$4.0 million to the Risk Management fund, funding police vehicles and fire apparatus replacement with current revenues, and adding \$1.0 million in current revenues for computer replacement out of the Technology Replacement Fund. These strategic additions of fiscal structure will positively impact fund balance levels for the foreseeable future. As such, the warning trend noted the past few years in this document has been lifted.

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

Formula:

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

Liquidity:

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

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

Trends:

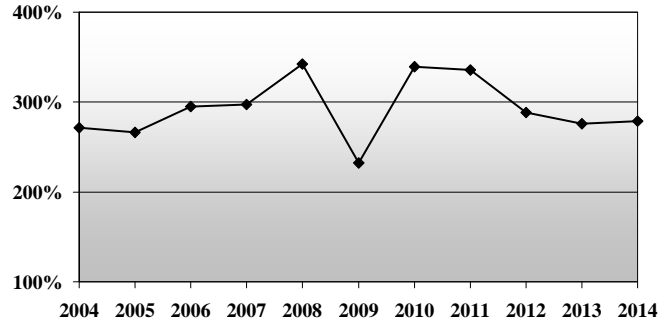
A liquidity ratio of greater than 1:1 (more than 100 percent) is referred to as a "current account surplus." Henrico County has been successful in achieving a current account surplus for the eleven-year period shown.

From the chart above, this indicator reflects a large "dip" downward in FY09. In that fiscal year total current liabilities increased by 58.1 percent, mostly in the area of "principle due in 12 months." It should be noted, however, that the spike in "principle due in 12 months" is misleading, as it mostly reflects two bond refundings in CY09. It is important to note that the County's bond refundings do not increase the County's outstanding long-term debt or the length of time to pay off the debt. "Principal due in 12 months" related to newly issued debt is minimal by comparison. In fact, ignoring the impact of the bond refundings in CY09 altogether, current liabilities only increase 13.6 percent instead of 58.1 percent, and the Liquidity indicator would reflect 323.2 percent in FY09, much higher than the recorded 232.2 percent. In FY10, this indicator increased to 339.4 percent and in FY11, the indicator dropped slightly to 335.4 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. FY13 saw this indicator drop to 275.5 percent and in the most recent fiscal year, FY14, this indicator increased to 279.0 percent.

Over the past eleven years, the County has maintained an average liquidity ratio of 2.92:1, 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.

Liquidity

(Cash & Investments as a % of Current Liabilities)



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

Formula:

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

Current Liabilities:

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

Trends:

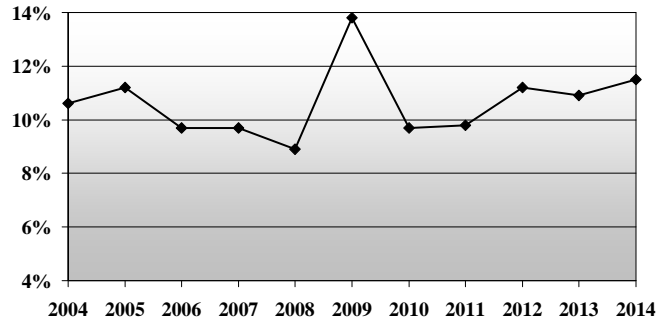
In the eleven-year trend depicted above the indicator has ranged from a low of 8.9 percent in FY08 to a high of 13.8 percent in FY09. The level for FY09 is the highest in this eleven-year period. As noted in the “Liquidity” indicator narrative, total current liabilities increased 58.1 percent in FY09 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. The indicator increased to 11.2 percent in FY12 as a result of the County combining two years of planned General Obligation (G.O.) debt issues into one as a result of the attractive interest rates at the time. For FY13, this indicator fell to 10.9 percent but increased to 11.5 percent in FY14.

There are two large components that make up this indicator, the first of which is recorded “accounts payable.” The FY14 total for this liability measured \$61.6 million, which reflects an increase of 18.1 percent when compared to the FY13 totals. It is important to note that the accounts payable does fluctuate based on purchasing activity within the governmental unit. The second large component, “principal due in 12 months,” reflected an increase of just under 1.0 percent in FY14.

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

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

Current Liabilities
(as a % of Net Operating Revenues)



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

Formula:

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

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.

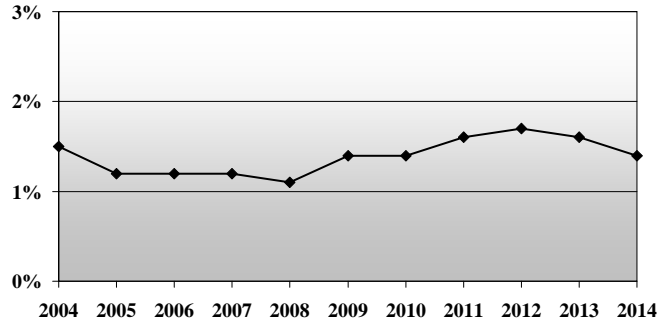
In FY09, the indicator reflects a sharp increase to 1.4 percent, due to a 27.1 percent increase in long-term debt, as the County issued \$137.5 million in General Obligation and VPSA Bonds. In FY10, this indicator remained constant at 1.4 percent; however this statistic is slightly misleading as the 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. Therefore, this indicator fell to 1.6 percent and 1.4 percent, respectively, as net long-term debt dropped \$41.2 million in FY13 and fell another \$37.9 million in FY14, to a level of \$454.1 million.

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

No long term warning trend is noted.

Long-Term Debt

(as a % of Assessed Valuation of Real Property)



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

Formula:

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

Debt Service

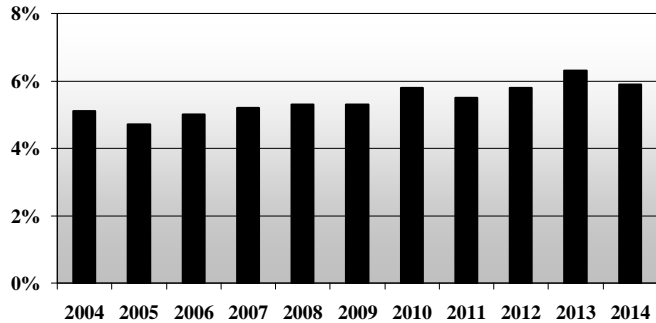
(as a % of Net Operating Revenues)

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. 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 and the low point of 4.7 percent may be found in the FY05 total. It is important to note that in this eleven-year time period, this indicator has fluctuated within a range of 1.6 percent.

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

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

There are important differences in this indicator and the "Long-Term Debt" indicator. The "Debt Service" indicator reflects the amount of principal and interest the County pays annually on its long-term debt as a percentage of operating revenues. The "Long-Term Debt" indicator reflects the County's total outstanding debt

as a percentage of assessed real estate valuation. The “Long-Term Debt” indicator graph reflects a sharp uptick in FY09 due to the large amount of debt issued in that fiscal year. However, that spike is not evident in the “Debt Service” indicator chart. This is due to the County’s two bond refundings in CY09 that achieved substantial debt service savings. The realized savings were mostly allocated in FY09 through FY11 to help the County offset anticipated revenue reductions as a result of the difficult economic environment. It should be noted that the County has taken part in a number of additional bond refundings since 2009 that have generated permanent significant savings.

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

In FY11, the County issued \$72.2 million in new debt, but the first principal payment wasn’t due until FY12, and only six months of interest was due in FY11, which resulted in a reduction in debt service payments in FY11 of \$4.0 million as compared to FY10. In FY12, \$66.1 million in new debt was issued. Although operating revenues experienced a slight increase, the Debt Service indicator increased to 5.8 percent, the highest point in the eleven year period examined, as noted above. As operating revenues continue to gradually trend upwards again, and no new debt is planned until at least FY16 (associated with a new radio communications system), this indicator should drop for at least the next two fiscal years. A new bond referendum isn’t likely until substantial recovery is evident in the economy. Therefore, no long term warning trend is noted.

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

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

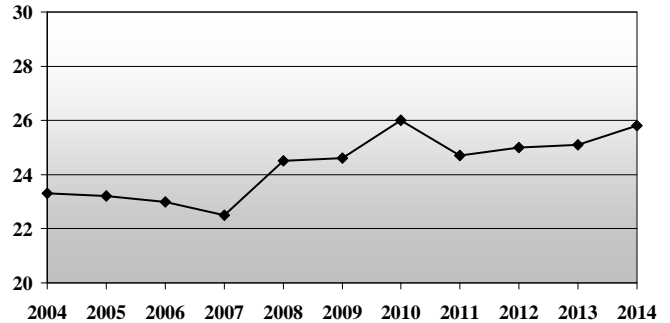
Formula:

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

Accumulated Vacation Leave
(Days per Employee)

Accumulated Vacation Leave:

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



Trends:

In terms of the overall trend, the accumulated vacation leave indicator has averaged 24.3 days during the eleven-year period. What can be seen throughout this time period is stability in this indicator as it has ranged from a low of 22.5 days in FY07 to the high point of 26.0 days in FY10.

In looking at the graph above, the indicator remains relatively flat until FY08. This is due to an adjustment of annual leave accrual rates and increased “carry-over” hours (less time “lost”) for employees with fifteen or more years of service. FY10 experienced an unusual increase to 26.0 days of accumulated vacation leave per employee, mostly a result of the reduction in the number of General Government employees in that fiscal year. To assist in balancing the FY11 budget to significantly reduced revenues, the County eliminated 101 vacant General Government positions. In FY11, the indicator dropped to 24.7, mostly due to the County’s hiring freeze yielding well over 200 positions throughout much of the fiscal year. In other words, while the positions were being counted in the General Government complement, there were no vacation days associated with them as they were unfilled. The indicator rose slightly in FY12 to 25.0 and remained relatively flat at 25.1 in FY13. In FY14, this indicator increased slightly to 25.8. In the entire eleven-year period, this indicator has fluctuated within a range of 3.5 days.

The overall slight upward movement since FY04 is also reflective of the County’s workforce, which is aging to a certain extent and employees with more seniority earn more hours of vacation leave than less senior employees. Henrico County’s vacation leave indicator will generally increase as the average length of employment of County employees’ increases. The most recent information suggests the County has a workforce whose average age is 45. The average County employee has been with the County for nearly twelve years, which are both the same as last year (Source: Human Resources Department). It should be noted the average age could go down again when this indicator is presented next year due to the County’s Voluntary Retirement Incentive Program (VRIP). Due to the FY13 VRIP initiative, the average employee age dropped four years as 98 employees accepted the incentive and retired. In the FY15 budget, the County offered the VRIP incentive again, with 53 employees accepting.

No warning trend is noted for this indicator.

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

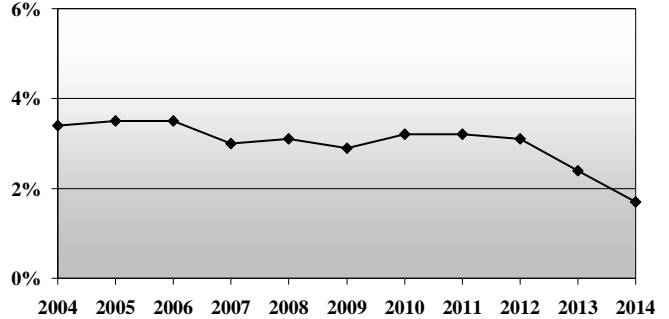
Formula:

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

Level of Capital Outlay
(as a % of Net Operating Expenditures)

Level of Capital Outlay:

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



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

Trends:

The eleven-year trend for this indicator depicts a range between 1.7 percent and 3.5 percent. From FY04 through FY12, a fairly consistent level of capital outlay expenditures occurred, ranging from 2.9 percent to 3.5 percent. While the first nine years reviewed is indicative of the consistency of meeting capital outlay requirements within the operating budget, the drops in FY13 and FY14 are the result of departmental budget balancing maneuvers.

After three consecutive years of across-the-board budget reductions, the FY13 budget included yet another round of reductions to all departments. One significant budgetary decision was to remove \$6.6 million in capital outlay – for the purchase of replacement Police vehicles, replacement Fire apparatus, and replacement School buses – from the operating budget and fund with General Fund balance via the Capital Projects Fund, a practice that continues into the current fiscal year. In fact, with a fifth consecutive year of across-the-board reductions in FY14, capital outlay spending was reduced to its lowest level since 1994 at 1.7 percent of net operating expenditures. Further departmental budget reductions in FY15, combined with relatively flat overall departmental budgetary growth anticipated in FY16, indicates that capital outlay spending will likely remain at lower than average levels. Lower capital outlay spending could result in obsolete or inefficient equipment in the near future. As such, a warning trend is noted for this indicator.

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

Formula:

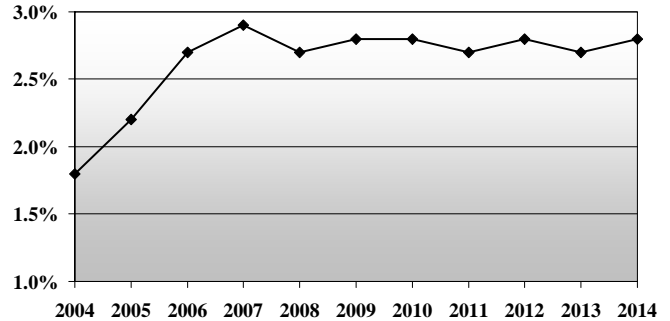
$$\frac{\text{Depreciation Expense}}{\text{Cost of Depreciable Fixed Assets}}$$

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.

Depreciation
(Depreciation Expense as a % of Assets)



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, FY14, 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.

No warning trend is noted for this indicator.

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

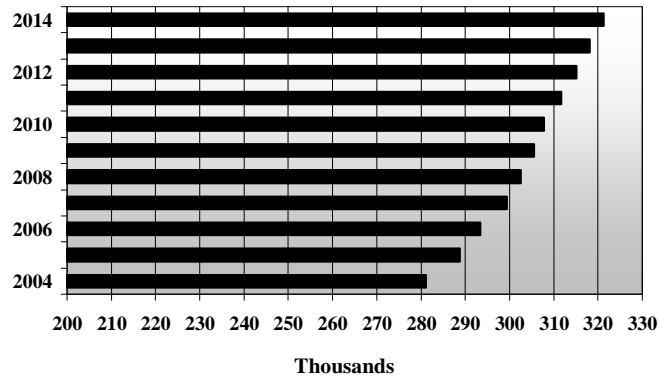
Indicator:

Population of County Residents

Population

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 281,069 in FY04 to 321,374 in FY14, an increase of 14.3 percent in this eleven-year time span, or an annual average increase of 1.43 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 materializing and producing slight incremental revenue growth for the County. While even slight revenue growth is positive after significant revenue losses during the peak of the most recent recession, current overall revenue growth lags inflation plus population growth. This trend is anticipated to continue into the immediate future. As such, 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 remains and will remain a challenge as County revenues slowly recover.

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

Indicator:

Per Capita Income

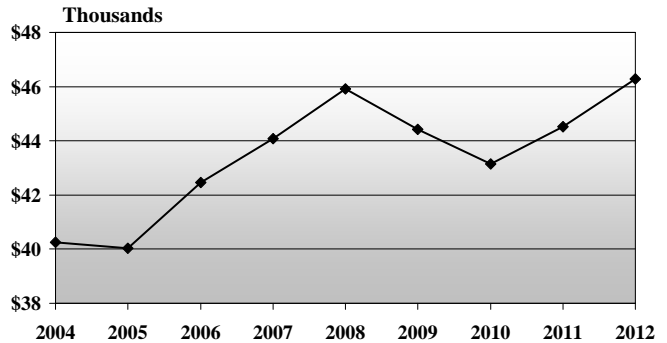
Source: Bureau of Economic Analysis

Per Capita Income:

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

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

Per Capita Income



Trends:

In the nine years depicted above, per capita income has increased by 15.0 percent from \$40,246 in 2004 to the \$46,292 reported for 2012. It should be noted that this indicator factors in increases to the County's population, which increased 12.1 percent between 2004 and 2012.

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 2012 tax year.

From the recessionary period of the early 1990's through 2005, this indicator consistently increased. In looking at the eleven-year period examined, after a slight drop of 0.5 percent in 2005, 2006 through 2008 reflected healthy increases of 6.1 percent, 3.8 percent, and 4.2 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 3.2 percent, and again in 2010 as per capita income fell another 2.9 percent. As the economy started slowly turning around, 2011 saw an increase of 3.2 percent and 2012 increased by 4.0 percent.

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

WARNING TREND: Increasing number of public assistance recipients.

Formula:

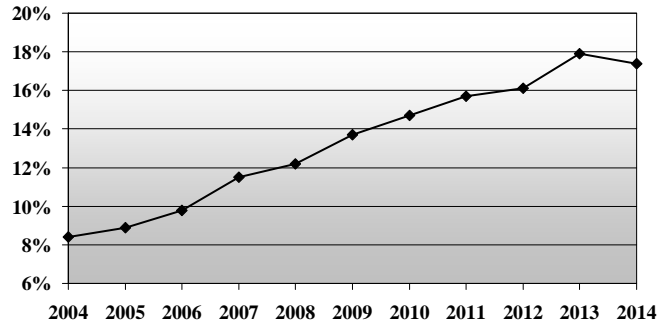
$$\frac{\text{Public Assistance Recipients}}{\text{Total Population}}$$

Public Assistance Recipients

(as a % of Total Population)

Public Assistance Recipients:

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



Trends:

The eleven-year trend for this indicator has increased dramatically in this time period, experiencing a low of 8.4 percent in FY04 and a high of 17.9 percent in FY13. In the most recent fiscal year, FY14, the percentage of the County’s public assistance recipients dipped slightly to 17.4 percent.

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

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

The recessionary economic environment, and the subsequent loss of jobs and personal income, has created more demand for public assistance. In fact, in Henrico County, since July 2007 the Supplemental Nutrition Assistance Program (also recognized as the food stamp program) caseload has increased nearly 150.0 percent, the Temporary Assistance for Needy Families (TANF) caseload has increased by nearly 4.0 percent, and the number of individuals receiving Medicaid increased by 65.5 percent (Source: Henrico County Department of Social Services).

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

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

Formula:

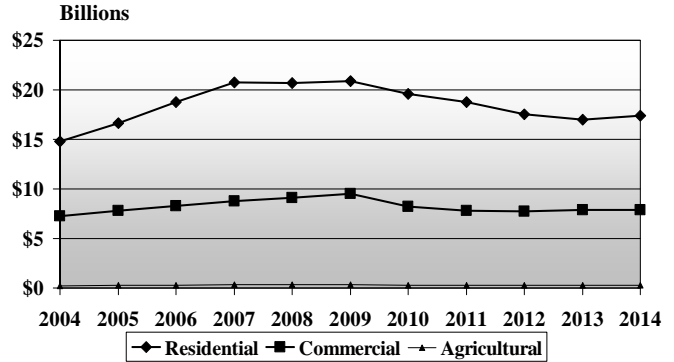
Real Property Values (Constant Dollars)

Real Property Values:

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

Real Property Values

(In Constant Dollars)



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 FY10 through FY13, constant dollar residential property values declined 18.6 percent and constant dollar commercial property values declined 16.7 percent. Residential foreclosures and increasing office space vacancies significantly impacted the local real estate market in 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. While slight increases in this indicator are reflected in both residential (2.3 percent) and commercial (less than 0.1 percent) for FY14, both residential and commercial property values, on a constant dollar basis, remain below FY06 levels. As the County continues its economic development efforts and residential foreclosures improve, the County is again recognizing slight 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 – historically between 2.0 and 3.0 percent. In fact, in unadjusted January 1, 2014 real estate values, both commercial and residential, increased 2.8 percent and January 1, 2015 real estate values reflect growth of 2.5 percent. As such, this indicator should reflect a “flattening out” effect long-term. As the County recently experienced its second consecutive year of modest growth, at levels that are expected for the foreseeable future, a positive trend is becoming evident. As such, the warning trend noted for the past few years has been lifted.

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

Formula:

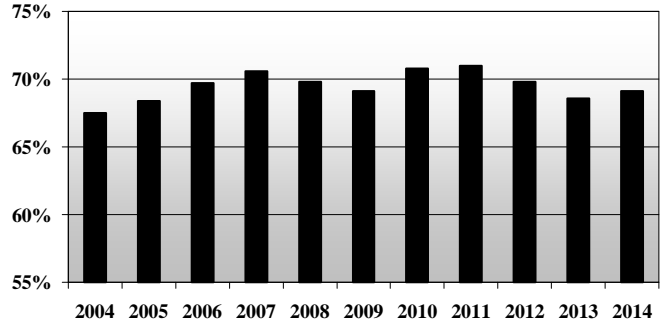
$$\frac{\text{Market Value of Residential Development}}{\text{Market Value of Total Development}}$$

Residential Development:

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

Residential Development

(as a % of Total Property)



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 67.5 percent in 2004, to a high of 71.0 percent in 2011. As reflected in the chart above, the indicator increased each year from 2004 to 2007, from 67.5 percent in 2004 to 70.6 percent in 2007. In 2008, the indicator fell below the benchmark of 70.0 percent to 69.8 percent and in 2009 dropped again to 69.1 percent. In 2010, the indicator rose to 70.8 percent, increased again in 2011 to 71.0 percent, before again falling below the 70.0 percent threshold, to 69.8 percent in 2012, 68.6 in 2013, and 69.1 percent in the most recent year, 2014.

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 5.0 percent in residential real estate valuations. This large differential carried the Residential Development indicator to nearly 70.8 percent. Commercial valuations declined 1.5 percent in 2011, twice the decline of residential valuations that dropped 0.7 percent, increasing the indicator to 71.0 percent, the highest level in the eleven years examined. Slight improvement in the commercial real estate market in 2012 resulted in an overall increase of 0.7 percent in values, while residential real estate values dropped just under 5.0 percent. As such, the indicator fell back below the 70.0 percent threshold, to 69.8 percent. In 2013, residential values declined 1.3 percent and commercial values grew more than 4.0 percent. For the first time since 2008, 2014 residential reassessments reflected growth, at 3.2 percent, and commercial values grew just under 2.0 percent, causing the indicator to increase to 69.1 percent.

Continued improvement in the residential real estate market in 2014 reflected a 2.6 percent increase in January 1, 2015 reassessment, as compared to 2.4 percent growth in commercial values. As such, the Residential Development indicator will slightly improve again in 2015. As the overall real estate market improves and stabilization becomes more and more evident, there is growing confidence that slight growth of between 2.0 percent and 3.0 percent will continue in both residential and commercial valuations going forward. As such, the warning trend noted in the past few years has been lifted.

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

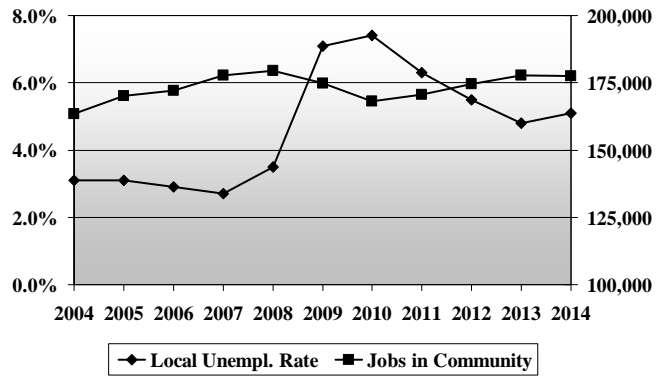
Indicators:

Local Unemployment Rate and Number of Jobs within the Community

Employment Base:

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

Employment Base



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

Trends:

I. Unemployment:

Henrico County's unemployment rate, in the eleven-year period above, reflects a high of 7.4 percent in 2010, and a low of 2.7 percent for 2007. From 2004 to 2007, there is a distinct downward trend as the unemployment rate fell from 3.1 percent to the eleven year low of 2.7 percent. The second distinct trend began in 2008 as the unemployment rate shot up to 7.4 percent as a result of several businesses closing – most notably LandAmerica Financial, Circuit City, and Qimonda AG. Since 2010, the rate has steadily dropped as new jobs have steadily matriculated into Henrico County. In 2014, the rate crept up slightly from 4.8 percent to 5.1 percent. While this rate is still high compared to Henrico's historical average of 3.5 percent dating back to 1988, the drop still represents great improvement compared to where the County was just a short time ago. With the overall downward trend since 2010, in addition to recent economic development announcements which should further improve the unemployment rate, the warning trend noted the past few years in this document has been lifted.

II. Number of Jobs:

From 2004 through 2008, the number of jobs in Henrico increased from 163,525 to a peak of 179,426. As a result of the economic downturn, by 2010, the number of jobs in Henrico declined to 168,142. Since 2010, the County has added back 9,505 jobs, and now totals 177,647, which is approaching the same number of jobs in 2007.

Due to the severe recessionary economic environment, 2009 and 2010 both reflected net declines in the number of jobs in Henrico County. In 2011, Henrico gained 2,439 jobs, reflecting growth of 1.5 percent from the previous year, and in 2012, Henrico added 4,047 jobs, growth of 2.3 percent. That positive momentum continued into 2013 with the addition of 3,182 jobs, reflecting growth of 1.8 percent. The number of jobs remained relatively flat in 2014, decreasing by 163 net jobs. With the County now nearly making up for all jobs lost during the economic downturn, and due to a number of recent economic development announcements, the warning trend noted the past few years has been lifted.

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

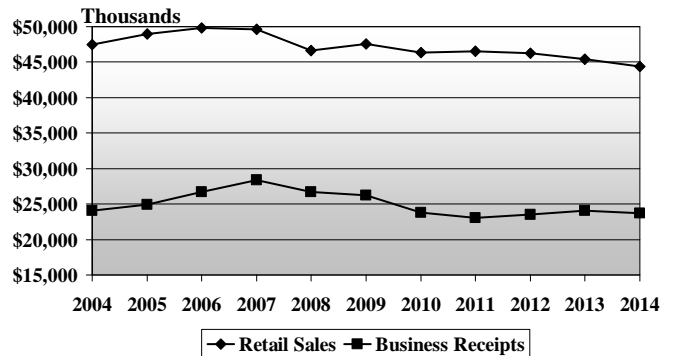
Indicators:

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

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

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

Local Retail Sales and Business Receipts
(In Constant Dollars)



Trends:

I. Local Retail Sales Tax Receipts:

The above graph indicates that local sales tax receipts, in constant dollars, reflect a reduction from \$47.4 million in FY04 to \$44.4 million in FY14. The elasticity of this revenue stream is evidenced by the decline in FY08, which represents the beginning of the most recent recession. Prior to that, the more recent upward trends were marked by a healthy local and national economy as seen between 2004 and 2007. In FY08, inflation adjusted sales declined from \$48.0 million to \$45.1 million, a decrease of 6.0 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 in spite of the economic downturn. 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 the most recent fiscal year, FY14, sales tax receipts adjusted for inflation decreased to its lowest point in the examination period at \$44.4 million. That being said, as of this writing, sales and use tax collections are currently up 3.6 percent compared to where they were this time last year, and are projected to end the fiscal year at similar growth levels. As such, it is anticipated that this indicator will reflect upward movement again in FY15. In spite of recent weakness as compared to inflation, the County still maintains the lion’s share of regional taxable sales and has continued strength in its retail market. While sales and use tax receipts will be monitored closely, no long-term warning trend is noted for this indicator.

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

The graph for the eleven-year period shown on the preceding page indicates that from FY04 to FY07, local business license tax receipts, in constant dollars, were maintained at a level that exceeded inflationary changes. This is important because of the fact that between FY99 and FY00, the Henrico County Board of Supervisors phased in a tax reduction strategy (implemented in 1996), which reduced BPOL tax rates as a means of encouraging more businesses to locate in the County. The mostly positive trend in business and professional

license tax receipts since this strategy was implemented strongly suggests that the tax reduction strategy was successful. FY05, FY06, and FY07 totals rebounded strongly from the recessionary period in 2002 and 2003, with constant dollar gains of 3.5 percent, 7.3 percent, and 6.3 percent, respectively.

Like local sales tax revenues, FY08 BPOL tax receipts (constant dollars) fell sharply due to the struggling economy and unusually high inflation. While this indicator reflects a significant decrease, real unadjusted BPOL tax revenue only reflected a slight decrease of 1.0 percent. In FY09, inflation adjusted BPOL tax receipts declined by 1.8 percent and real unadjusted BPOL tax revenue declined by 3.2 percent. In FY10 inflation adjusted BPOL tax receipts declined by 9.4 percent, easily the largest decline in the eleven-year period examined, and real unadjusted BPOL tax revenue declined by 8.5 percent. In FY11 inflation adjusted BPOL tax receipts declined by 2.9 percent, but real unadjusted BPOL tax revenue increased slightly, by 0.8 percent. From FY09 to FY11, a number of businesses in the County were forced to close their doors. As new businesses have entered the County and join the existing diversified business community, BPOL tax receipts are again reflecting growth after three years of declines. In fact, in FY12 and FY13, inflation-adjusted BPOL tax revenue grew 2.0 percent and 2.3 percent, respectively. In the most recent fiscal year, FY14, inflation-adjusted BPOL tax receipts declined 1.4 percent, though experienced overall growth of 0.6 percent. Due to the County's continued economic development efforts and low business tax environment, it is expected that BPOL tax receipts will continue growing into the immediate future at a rate similar to inflation, or approximately 2.0 to 3.0 percent. Unlike sales tax collections, no long-term warning trend is noted.

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

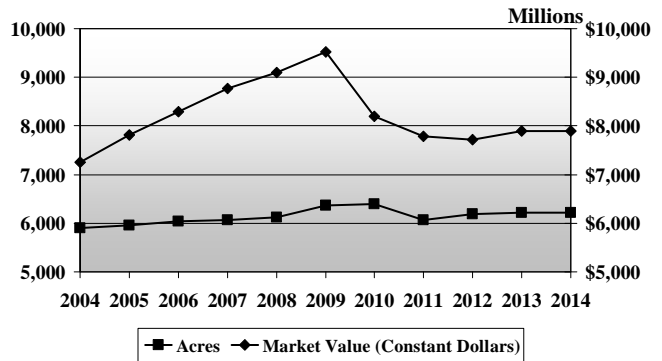
Indicators:

*Number of Commercial Property Acres and
Market Value of Business Property*

Business Activity – Commercial Acres and Market Value of Business Property:

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

Commercial Acres and Market Value of Business Property



Trends:

I. Business Acres:

As shown in the graph above, business acreage steadily increased from 2004 to 2010, with 5,897 acres in 2004 to 6,393 in 2010. In 2011, business acreage dropped substantially to 6,064, but this is entirely due to a change in the calculation methodology for land use acreage by the Department of Planning, to be more compatible and consistent with the County's technological systems. The County, in fact, added 33 acres in 2011. Business acreage is defined as "developed commercial property for office and retail use." The data reveals that in the eight years from 2004 to 2010 and in 2012 through 2014, the average annual increase in the number of business acres developed was nearly 72.0. That being said, in the most recent fiscal year, 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.

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

II. Market Value of Business Property:

The eleven-year trend for this indicator, *in constant dollars*, has ranged from \$7.3 billion in CY04 to \$9.5 billion in CY09, before falling in each of the next three years, to \$7.7 billion in CY12 before climbing the next two years to \$7.9 billion in CY14. The value of commercial properties is prone to devaluation when the supply of those properties is greater than the demand. Commercial valuations increased every year from FY04 to FY09. In 2010, entering the third year of the most recent recessionary economic environment, the supply of vacant office and retail space increased significantly due to a number of businesses closing their doors. The result was an overall reduction in the commercial tax base of more than 13.0 percent in FY10. Another decrease in the commercial tax base of 1.5 percent occurred in CY11 due to the continued elevated supply of vacant office space. In 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 4.2 percent, and slightly increased more than inflation in CY14 with growth of 2.1 percent. From CY10 to CY12,

constant dollar commercial market values declined 18.9 percent.

Improvement in the commercial real estate market continued from January 2014 to January 2015, as commercial reassessments reflect an increase of \$241.7 million or 2.4 percent from the prior year. Including new commercial growth of \$130.9 million, the total commercial base grew \$372.7 million. Looking into the future, commercial real estate will continue to rebound slowly as jobs continue to gradually matriculate back into the County after the substantial losses during the economic downturn. Due to recent growth, no warning trend is noted; however, the County remains cautious in the near term due to the likelihood that it will take a number of years to fully recover the losses during the recent economic downturn, which may impact this indicator negatively as values may struggle to keep up with inflation levels.

FINANCIAL INDICATORS DISPLAYED GRAPHICALLY

Description	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues Per Capita	2,614.1	2,667.8	2,724.0	2,831.5	2,809.4	2,879.1	2,713.5	2,544.3	2,493.8	2,465.2	2,459.4
Expenditures Per Capita (In Constant Dollars)	2,483.9	2,508.6	2,543.5	2,611.7	2,659.4	2,745.6	2,728.4	2,531.1	2,496.2	2,456.7	2,494.3
Intergovernmental Revenues (without PPTRA)	36.3%	37.0%	36.1%	37.8%	38.7%	39.9%	39.5%	39.4%	39.7%	40.7%	40.8%
Intergovernmental Revenues (PPTRA only)	4.6%	4.2%	4.9%	4.0%	3.8%	3.7%	3.9%	3.9%	3.9%	3.8%	3.7%
Elastic Tax Revenues (as a % of Net Operating Revenue)	10.1%	10.0%	10.0%	9.6%	8.9%	8.6%	8.8%	9.2%	9.4%	9.3%	9.4%
Property Tax Revenues (In Constant Dollars)	264,120	280,079	296,375	315,392	322,117	332,036	319,795	297,133	290,275	286,190	292,195
Uncollected Property Tax Revenues (as a % of Total Levy)	0.6%	0.6%	0.5%	0.5%	0.5%	0.7%	1.0%	1.1%	1.3%	1.4%	1.3%
User Charge Coverage (Revenues/Expenditures)	50.6%	53.0%	52.4%	50.1%	48.0%	48.2%	50.6%	52.5%	51.0%	51.9%	54.2%
Revenue Variance (as a % of Net Operating Revenue)	7.2%	3.4%	5.7%	5.4%	6.1%	1.4%	0.2%	1.2%	0.5%	1.3%	2.4%
Employees Per Capita (Employees per thousand population)	13.0	12.8	12.9	13.0	13.1	13.1	12.7	12.6	12.5	12.3	12.2
Fringe Benefits (as a % of Salaries)	26.7%	27.6%	28.4%	31.3%	32.2%	33.1%	32.8%	33.0%	34.5%	33.9%	34.8%
Operating Surpluses (as a % of Net Operating Revenue)	3.9%	6.2%	8.5%	9.6%	6.9%	5.0%	1.6%	1.2%	0.1%	0.0%	1.7%
Enterprise Losses (In Constant Dollars)	9,939	5,337	9,710	3,298	4,439	(0,759)	(0,628)	(1,746)	(0,547)	3,575	0,914
General Fund Balances (as a % of Net Operating Revenue)	14.1%	13.7%	13.3%	13.3%	13.5%	13.9%	14.3%	14.2%	12.3%	11.8%	11.7%
Liquidity (Cash & Investments as a % of Current Liabilities)	271.1%	266.0%	294.9%	297.1%	342.2%	232.2%	339.4%	335.4%	288.2%	275.5%	279.0%
Current Liabilities (as a % of Net Operating Revenue)	10.5%	11.1%	9.6%	9.7%	8.9%	13.8%	9.7%	9.8%	11.2%	10.9%	11.5%
Long Term Debt (as a % of Assessed Valuation)	1.5%	1.2%	1.2%	1.2%	1.1%	1.4%	1.4%	1.6%	1.7%	1.6%	1.4%
Debt Service (as a % of Net Operating Revenue)	5.0%	4.7%	4.9%	5.2%	5.3%	5.3%	5.8%	5.5%	5.8%	6.3%	5.9%
Accumulated Employee Leave Liability (in Days)	23.3	23.2	23.0	22.5	24.5	24.6	26.0	24.7	25.0	25.1	25.8
Level of Capital Outlay (as a % of Net Operating Expenditures)	3.4%	3.5%	3.5%	3.0%	3.1%	2.9%	3.2%	3.2%	3.1%	2.4%	1.7%

FINANCIAL INDICATORS DISPLAYED GRAPHICALLY

Description	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Depreciation (Depreciation Expense as a % of Assets)	1.8%	2.2%	2.7%	2.9%	2.7%	2.8%	2.8%	2.7%	2.8%	2.7%	2.8%
Population	281,069	288,735	293,382	299,443	302,518	305,580	307,832	311,726	315,157	318,158	321,374
Per Capita Income (restated)	40,246	40,036	42,459	44,079	45,911	44,423	43,151	44,529	46,292	N/A	N/A
Public Assistance Recipients (as a % of Total Population)	8.4%	8.9%	9.8%	11.5%	12.2%	13.7%	14.7%	15.7%	16.1%	17.9%	17.4%
Property Values (In Constant Dollars)	22,3035	24,7095	27,3765	29,8525	30,1176	30,7610	28,0585	26,8267	25,5148	25,1626	25,5603
Residential	14,821	16,626	18,786	20,731	20,674	20,908	19,580	18,764	17,540	17,016	17,407
Commercial	7,254	7,814	8,286	8,765	9,097	9,517	8,192	7,792	7,717	7,901	7,903
Agricultural	0,229	0,270	0,304	0,356	0,347	0,336	0,287	0,271	0,257	0,245	0,250
Residential Development (includes agric) (as a % of Total Property)	67.5%	68.4%	69.7%	70.6%	69.8%	69.1%	70.8%	71.0%	69.8%	68.6%	69.1%
Employment Base											
Local Unemployment Rate	0.0310	0.0310	0.0290	0.0270	0.0350	0.0710	0.0740	0.0630	0.0550	0.0480	0.0510
Jobs in Community	163,525	170,183	172,216	177,744	179,426	174,758	168,142	170,581	174,628	177,810	177,647
Business Activity - #1 (In Constant Dollars)											
Retail Sales	47,445.94	48,973.05	49,789.44	49,596.33	46,591.40	47,588.10	46,350.28	46,510.42	46,221.22	45,374.49	44,431.39
Annual Business Receipts	24,042.47	24,880.78	26,693.21	28,382.80	26,743.24	26,251.54	23,771.18	23,082.60	23,548.78	24,080.66	23,740.45
Business Activity - #2	4.5%	3.5%	7.3%	6.3%	-5.8%	-1.8%	-9.4%	-2.9%	2.0%	2.3%	-1.4%
Market Value of Business Property	7,253.52	7,813.85	8,286.40	8,765.34	9,096.80	9,516.95	8,192.10	7,792.24	7,717.47	7,901.23	7,902.61
Acres Devoted to Business	5,897.00	5,954.00	6,032.00	6,062.00	6,118.00	6,371.00	6,393.00	6,064.00	6,189.00	6,211.00	6,214.00

GENERAL FINANCIAL AND ECONOMIC DATA

Item	Description	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1.3	Cash & Short Term Investments	209,971	234,085	242,879	268,646	298,304	320,117	314,414	309,643	308,287	289,131	318,999
1.4	Accounts Payable	49,607	54,607	46,617	51,420	49,407	53,262	48,284	48,717	53,348	52,155	61,604
1.7	Principle due in 12 months	23,132	27,038	29,870	33,224	30,749	74,560	32,810	32,825	38,725	38,510	38,890
1.8	Other Current Liabilities	4,700	6,354	5,875	5,771	7,021	10,025	11,557	10,769	14,881	14,284	13,853
1.9	Total Current Liabilities	77,439	87,999	82,362	90,414	87,177	137,847	92,651	92,311	106,954	104,950	114,346
1.10	Net Direct Long Term Debt	329,992	306,861	357,638	399,683	396,269	503,505	460,535	499,930	533,180	492,025	454,095
1.12	Cost Depreciable Fixed Assets	880,456	922,326	957,377	982,096	1,015,665	1,051,575	1,080,905	1,109,368	1,124,786	1,143,806	1,176,897
1.13	Depreciation Expense	16,028	19,995	25,879	28,010	27,596	28,928	30,566	30,439	31,308	30,993	32,433
1.14	General Fund Operating Surplus	28,457	48,896	72,364	88,984	67,853	49,565	15,123	11,751	553	336	17,000
1.15	Enterprise Operating Results	9,939	10,386	3,622	5,120	(863)	(721)	(721)	(2,078)	(661)	4,400	1,148
1.16	General Fund Balances	140,670	161,517	199,079	207,453	239,708	252,549	246,603	230,524	221,639	197,540	210,567
1.17	General Fund Restricted Balances	36,718	53,132	85,442	84,029	107,615	113,094	109,831	96,798	104,751	83,364	93,945
1.18	General Fund Unrestricted Balances	103,952	108,385	113,637	123,424	132,093	139,455	136,771	133,727	116,888	114,175	116,622
1.19	Uncollected Property Taxes	1,678	2,037	1,638	1,901	2,035	2,700	3,604	3,737	4,604	5,025	4,815
1.20	Full Property Tax Levy	287,938	324,712	339,091	352,305	369,930	380,661	365,522	349,269	347,803	357,613	361,689
2.1	Property Tax Revenues	264,120	287,165	316,998	346,403	371,556	377,532	367,444	353,555	351,142	352,275	367,120
2.2	Committed User Charges	23,907	26,143	28,316	29,127	28,850	29,884	30,409	30,207	31,424	31,336	33,266
2.3	Uncommitted User Charges	9,646	9,744	9,988	6,745	2,845	2,846	3,261	3,321	3,152	3,323	3,379
2.4	Other Revenue greater than 5%	116,443	118,320	125,617	125,927	122,796	125,309	119,791	127,013	129,354	125,872	125,113
2.5	Other Revenue less than 5%	20,081	22,479	23,470	33,800	37,612	28,837	22,822	21,028	21,220	22,342	21,664
2.6	Total Local Operating Revenue	434,197	463,852	504,389	542,002	563,659	564,409	543,727	535,125	536,292	535,150	550,542
2.7	Intergovernmental Operating Revenue	300,535	325,935	350,394	389,249	416,686	435,925	416,038	408,589	414,459	430,280	442,504
2.7	Intergovernmental Operating Revenue (without PPTRA reimbursements)	266,444	292,612	308,263	352,028	379,686	398,923	379,036	371,587	377,457	393,278	405,502
2.10	Gross Operating Revenues	734,732	789,787	854,783	931,251	980,345	1,000,334	959,765	943,714	950,751	965,430	993,046
2.13	Net Operating Revenues	734,732	789,787	854,783	931,251	980,345	1,000,334	959,765	943,714	950,751	965,430	993,046
2.14	Restricted Operating Revenues	231,539	262,136	280,148	317,359	328,348	354,849	342,338	334,134	337,427	353,406	354,976
2.15	Elastic Operating Revenue	74,509	79,200	85,208	89,286	87,579	86,099	84,217	87,182	89,098	90,097	92,893
2.17	Net Operating Revenue Budgeted	681,735	762,685	806,056	880,557	920,221	986,094	957,860	932,150	946,188	953,214	969,062
3.1	Salaries and Wages	363,879	393,160	413,031	440,213	464,016	487,694	480,659	472,724	480,853	495,822	496,472
3.2	Fringe Benefits	97,282	108,505	117,379	137,938	149,220	161,362	157,582	156,088	165,696	167,899	172,540
3.3	Supplies	28,252	31,976	34,433	36,858	40,764	43,737	41,682	46,168	43,383	42,775	48,999
3.4	Services	94,074	93,720	88,068	109,413	117,670	107,968	120,657	113,118	109,529	105,315	144,336
3.5	Capital Outlay	23,678	25,788	28,075	25,447	28,322	27,403	31,049	29,983	29,924	23,210	17,210
3.6	Principal-Long term Debt	22,986	22,747	26,633	29,450	32,779	30,239	34,880	32,300	32,290	38,510	37,615
3.7	Interest-Long term Debt	13,961	14,466	15,598	18,588	18,900	22,339	21,191	19,722	23,035	22,393	21,132
3.8	Total Direct Debt	36,947	37,213	42,230	48,038	51,679	52,623	56,071	52,022	55,325	60,903	58,747
3.9	Other Expenditures	46,093	44,101	54,842	36,926	52,400	50,416	52,285	45,527	43,982	41,361	44,052
3.10	Internal Service Fund Transfers	7,930	8,173	20,083	24,113	23,917	22,764	25,058	23,195	22,949	24,815	24,779
3.11	Total Net Operating Expenditures	698,136	742,636	798,141	858,946	927,990	953,967	965,044	938,824	951,640	962,100	1,007,136
3.12	Number of General Government Employees	3,640	3,694	3,774	3,895	3,953	4,000	3,915	3,927	3,927	3,927	3,927
3.13	Unused Annual Leave (in days)	84,862	85,661	86,980	87,502	96,971	98,411	101,636	96,974	98,048	98,496	101,198
3.14	Unused Sick Leave (in days)	257,590	261,646	267,779	272,360	270,336	280,842	284,267	288,847	292,650	286,114	290,157
3.15	Expenditures Covered by Charges	47,267	49,296	54,040	58,176	60,157	61,944	60,144	57,538	61,630	60,360	61,408
7.1	Population (Calendar Year)	281,069	288,735	293,382	299,443	302,518	305,580	307,832	311,726	315,157	318,158	321,374
7.3	Total Personal Income (Thous. of \$)	11,106,399	11,234,015	12,125,029	12,758,972	13,437,921	13,167,734	13,265,139	13,823,694	14,578,842	N/A	N/A
	Per Capita Income	40,246	40,036	42,459	44,079	45,911	44,423	43,151	44,529	46,292	N/A	N/A

GENERAL FINANCIAL AND ECONOMIC DATA

Item	Description	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
7.4	Public Assistance Recipients	23,628	25,591	28,656	34,469	36,799	41,809	45,255	49,093	50,801	56,898	55,924
7.6	Market Value of Property (Mil. of \$)	22,303	25,335	29,282	32,788	34,740	34,976	32,239	31,921	30,865	30,973	32,114
7.8	Market Value-Residential (Mil. of \$)	14,821	17,047	20,093	22,770	23,847	23,772	22,497	22,327	21,218	20,945	21,871
7.9	Market Value-Commercial (Mil. of \$)	7,254	8,012	8,863	9,627	10,493	10,821	9,413	9,272	9,356	9,726	9,929
7.10	Market Value-Agricultural (Mil. of \$)	229	277	325	391	400	382	329	322	311	302	315
7.11	Residential Households (Calendar Year)	119,107	121,505	123,457	125,972	127,046	128,529	129,781	130,482	131,044	131,652	132,363
7.12	Vacancy Rates-Residential (Calendar Year)	1.4%	1.5%	1.5%	1.6%	1.6%	1.6%	1.6%	2.5%	2.4%	2.0%	1.6%
7.15	Local Unemployment Rate	3.1%	3.1%	2.9%	2.7%	3.5%	7.1%	7.4%	6.3%	5.5%	4.8%	5.1%
7.16	Jobs Within Community	163,525	170,183	172,216	177,744	179,426	174,758	168,142	170,581	174,628	177,810	177,647
7.17	Retail Sales (Thous. of \$)	47,446	50,212	53,254	54,473	53,742	54,109	53,256	55,342	55,913	55,852	55,825
7.19	Annual Business Receipts (Thous. of \$)	24,042	25,510	28,551	31,174	30,848	29,849	27,313	27,466	28,487	29,641	29,828
7.20	Business Acres (Calendar Year)	5,897	5,954	6,032	6,062	6,118	6,371	6,393	6,064	6,189	6,211	6,214
7.21	CPI	189.7	194.5	202.9	208.4	218.8	215.7	218.0	225.7	229.5	233.5	238.3
7.22	CPI-Index	1,000.0	1,025.3	1,069.6	1,098.3	1,153.5	1,137.0	1,149.0	1,189.9	1,209.7	1,230.9	1,256.4

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