INTRODUCTION

This report compiles National, State, and Local data that measure current economic conditions to be utilized in the planning of the future of Henrico County. Figures with dollar values will be in the millions unless indicated otherwise. The purpose of this report is to provide a comprehensive overview of different economic indicators that may affect Henrico County's ability to perform its services.

DEFINITIONS & CONCEPTS

Financial Condition - Financial condition is broadly defined utilizing three standards of measurement:

- **Ability to maintain existing service levels-** means more than the ability to pay for services currently being provided. It 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 but 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 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.

- **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. Disruptions, as we have learned through recent experience, may also impact expenditures, requiring additional funding to address new challenges.

- **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 a smaller tax base upon which to generate revenue.

The Financial Trend Monitoring System (FTMS) – This report 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. This system assists the Board of Supervisors in setting long-range policy priorities and provides a logical way of introducing long-range considerations into the annual budget process. This report has been developed using the International City/County Management Association manual entitled *Evaluating Financial Condition, A Handbook for Local Government*.

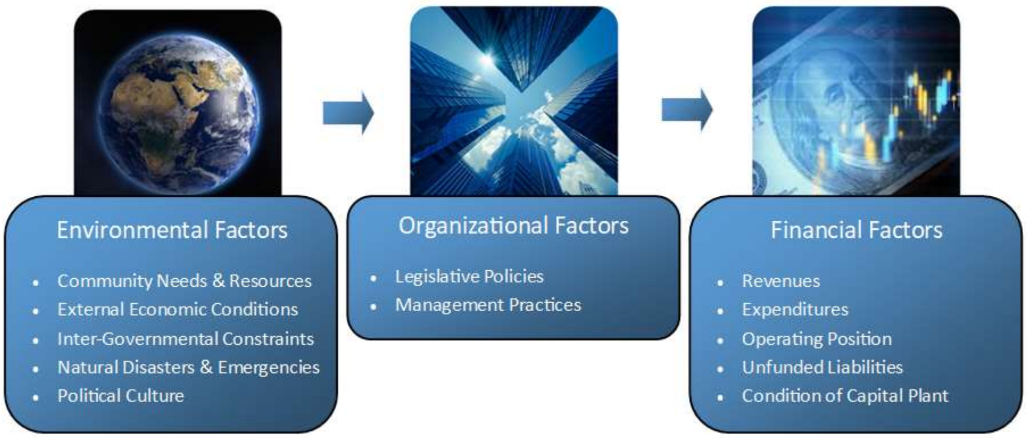
The FTMS is built on twelve overall "factors" that represent the primary forces that influence financial condition (see Figure 1). These financial condition factors are then associated with twenty-eight "indicators" that measure different aspects of these factors. Once developed, these can be used to monitor changes in the factors, or more importantly, changes in financial condition. There are three classifications of factors:

- **Environmental Factors** – These factors create demand and provide resources. Analysis of these factors addresses the question "Do they provide enough resources to pay for the demands they create?"

- **Organizational Factors**- Responses of the government to changes in environmental factors. Examples include increasing or reducing services, raising or lower taxes, etc. Analysis of these factors addresses the question "Do legislative policies and management practices provide the opportunity and flexibility to make the appropriate response to changes in the environment?"

- **Financial factors**- Analysis of these factors addresses the question "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?"

Figure 1- Financial Condition Factors



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

Financial indicators- These are the primary tools of the FTMS and represent a way to quantify changes in factors. Many aspects of financial condition cannot be measured explicitly; however, by quantifying factors via indicators and plotting them over a specified period, decision makers can begin to monitor and evaluate the County's financial performance. Financial indicators may include such things as:

- Cash liquidity
- Level of business activities
- Changes in fund balance
- External revenue dependencies

Elastic and inelastic – These are economic terms used to indicate how indicators respond to changes in the overall economy. Elastic indicators will have greater responses to changes in the economy and inelastic factors remain largely unchanged despite economic changes.

HOW TO USE THIS DOCUMENT

Twenty-eight financial 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 financial indicators selected are grouped by seven financial factors:

- **Revenues**
- **Expenditures**
- **Operating Position**
- **Debt Structure**
- **Employee Leave**
- **Condition of Capital Plant**
- **Community Needs & Resources**

The remainder of this document 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.