

APPENDIX “G”

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 twentieth 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 23, 2010.

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

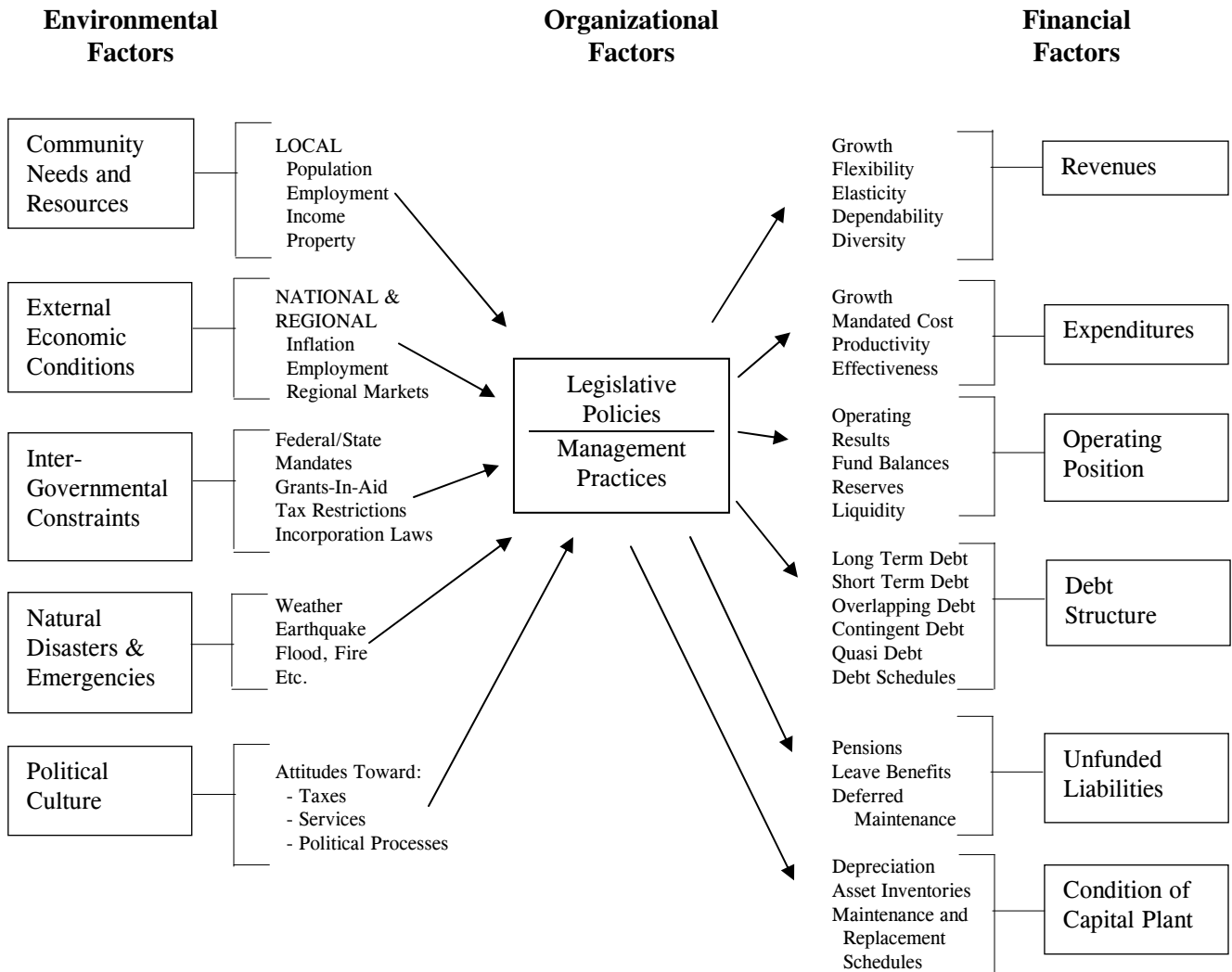
The financial indicators are the primary tools of the Financial Trend Monitoring System. They represent a way to quantify changes in the twelve factors. The chart on page 4 shows the twenty-eight indicators along with the factors with which they are associated. Many aspects of financial condition cannot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

REVENUES

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

EXPENDITURES

- Expenditures Per Capita
- Employees Per Capita
- Fringe Benefits

OPERATING POSITION

- Operating Surpluses
- Enterprise Losses
- General Fund Unrestricted 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:

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

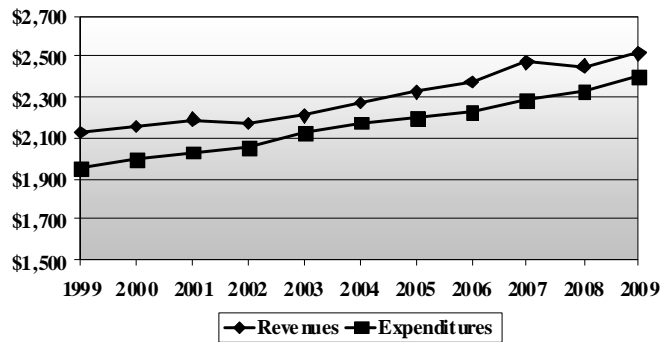
Revenues and Expenditures Per Capita:

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.

Revenues/Expenditures per Capita

(In Constant Dollars)



Trends:

This indicator considers “Net Operating Revenues/Expenditures” to be revenues and expenditures (on a constant dollar basis) from the General, Special Revenue, and Debt Service funds. Because this indicator combines these operating funds, the representation is somewhat different than those made in the Annual Fiscal Plan, which is fund specific when examining revenue and expenditure growth. In the eleven-year period between FY99 and FY09, the County's per capita revenues (in constant dollars) have increased from \$2,125 to \$2,516, or 18.4 percent. Per capita expenditures (in constant dollars) increased from \$1,956 to \$2,405, or 23.0 percent during this eleven-year period. During this eleven-year period, the County's population increased by 20.2 percent.

In examining the data, a number of distinct trends are evident. First, after steady increases from FY99 to FY01, FY02 and FY03 per capita revenue growth (in constant dollars) lagged behind fixed expenditure requirements. During this time period, the County's intergovernmental revenues from the State were reduced as a result of fiscal problems encountered by the State during those years. The State's income tax receipts declined due to the economy in 2002. Additionally, the State budget had anticipated some additional revenues that did not materialize. Actions taken by the Virginia General Assembly in 2002 and 2003 reduced revenues from the State to all Virginia localities. Henrico County's funding reduction from the State in these two years exceeded \$25.0 million.

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 has been allowed 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 for the first time since the last economic recession in FY02. 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). With per capita revenues declining and per capita expenditures rising, FY08 experienced the largest percentage margin of per capita expenditure growth to per capita revenue growth since FY91.

In FY09, per capita expenditures continued to outpace per capita revenues, but by a far less margin as in FY08. Overall revenue growth in FY09 reflected the lowest year-over-year growth since the last recessionary economic environment in FY02. In light of this, and in anticipation of an extended economic downturn, a number of expenditure savings initiatives were implemented in FY09, including a General Government hiring freeze and a Countywide energy savings initiative, including the targeted downsizing of the County's vehicle fleet to save on fuel costs and a new focus on designing and building Leadership in Energy and Environmental Design (LEED) certified buildings which will result in long term energy cost savings for the County. Also in FY09, the County's "Henrico, VA" initiative was implemented, in which the majority of "Richmond, VA" addresses were changed to "Henrico, VA". This initiative was pursued because of revenue miscoding that misdirected millions of dollars in annual County revenue to the City of Richmond. Estimates indicate that this address change may have redirected as much as \$8.0 million to the County. It is because of these revenue and cost savings initiatives that per capita expenditure growth didn't overwhelmingly surpass per capita revenue growth in FY09.

The County of Henrico continues to prepare multi-year financial plans that factor in infrastructure and operating requirements for an increasing population. Both the capital and operating budgets are cross-walked annually to ensure that all known costs of operations are recognized. Before the County issues any debt, a full debt affordability analysis is undertaken. Finally, both the Henrico County School Board and the Henrico County Board of Supervisors agreed to a long-term financing plan that phased in \$586.3 million in debt (\$237.0 million authorized in the November, 2000 General Obligation Bond Referendum and \$349.3 million in debt authorized in the March, 2005 General Obligation Bond Referendum) by controlling incremental expenditure growth for continuing operations at a maximum of 5.0 percent per year.

In examining this indicator over this eleven-year period, in spite of fluctuations in the economy and State aid, the overall trend for this indicator shows that Henrico County has a consistent history of meeting current expenditure requirements with current revenues and has avoided the use of one-time revenues in meeting fixed operating expenditures.

At this writing, the State has cut \$7.1 billion from its \$77 billion biennial budget for 2008-2010. Including cuts recommended in the Governor's amendments to the FY2009-10 budget, which are currently being deliberated by the General Assembly, the State budget shortfall has yielded an overall reduction in State aid to the County exceeding \$39.0 million as of December 2009. In addition to the budget cuts already implemented, the proposed 2010-2012 biennial budget anticipates an additional \$4.2 billion shortfall, which will result in even greater funding reductions in State aid to the County. In addition to State budget issues, real estate valuations have declined significantly as well. It should be noted that in the FY10 approved budget, real estate and State aid represent nearly 70.0 percent of General Fund revenues. To address these funding reductions, the County has made a number of expenditure reductions in FY10 and will make a number of adjustments to the budget in FY11.

Due to continued concern regarding the State budget shortfall, as well as continued declines in real estate valuations, a warning trend is noted for this indicator.

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

Formula:

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

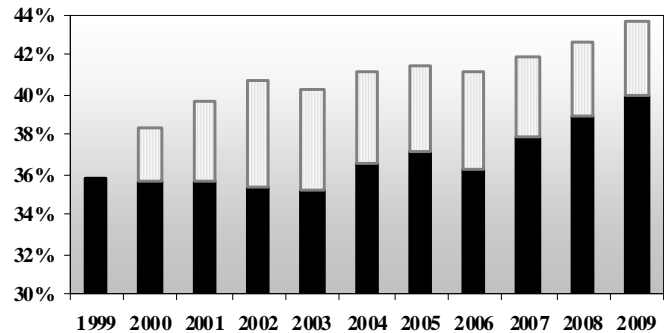
Intergovernmental Revenues:

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. On the graph above, these PPTRA revenues appear as the top stacked bar, which was first received from the State in FY00.

Intergovernmental Revenues

(as a % of Gross Operating Revenues)



An over dependence 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 35.8 percent in FY98 to 43.7 percent in FY09. The peak in this indicator is FY09 and largely arises from additional State Aid for local education. 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 (FY00-FY09) reflect all intergovernmental revenues, while the lower stacked bars (FY00-FY09) exclude the effects of PPTRA payments.

While intergovernmental revenue has increased from 35.8 percent of gross operating revenues recorded in FY99 to the FY09 level of 43.7 percent, there are three distinct patterns that need to be noted, as the increase is largely misleading. The chart depicts an overall upward trend beginning in the time period examined. In FY99, State lottery funds were made available for Education and totaled \$5.0 million. Through FY09, Henrico used these funds exclusively for Education construction projects. 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 had not been created for this revenue source.

It should also be noted that in FY00, House Bill (HB) #599 funds for police were "unfrozen" from levels that had

remained constant since FY92. In the eight years between FY92 and FY99, this revenue remained at a “frozen” level of \$2.3 million per annum. The HB #599 payments were increased to \$6.3 million in FY00 (based on the original HB #599 funding formula), thereby impacting this indicator. Henrico utilizes the HB #599 funds for operational enhancements and capital projects for police. Since FY08, when HB #599 funding to the County reached its peak of \$10.1 million, the State has cut this funding source by over 15.0 percent, creating additional pressure on local revenues.

The second trend which is evident is that State Aid for all other program areas (Education, Public Safety, Jails, Constitutional Officers, Mental Health, etc), as a percentage of gross operating revenues, was actually *reduced* between FY00 and FY03 as a result of budget shortfalls at the State level during that time. That is, while total intergovernmental aid reflects an increase during that period, **the increase is largely due to PPTRA payments**. In all other areas, the County actually experienced a net decrease in State aid.

The third trend reflects the reclassification of prior local revenues as “state” revenues, and while overall State aid looks like it is increasing since FY06, 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 HB #568 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 seven 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	\$37.0 million
FY09	\$37.0 million

From FY01 through FY07, PPTRA payments constituted between 4.0 and 5.0 percent of all intergovernmental aid received by the County. In FY08 and FY09, PPTRA payments made up less than 4.0 percent of all intergovernmental revenues to the County, at 3.8 percent and 3.7 percent, respectively.

The FY03 Trends document included the following warning regarding PPTRA payments from the State:

*“While the [budget] reductions above suggest a warning trend, Henrico’s largest exposure **remains** with Personal Property Tax reimbursements from the State, as opposed to incremental programmatic reductions in aid. That warning trend was first noted in last year’s Trends document. The PPTRA reimbursement being made to the localities represents a significant outlay of funds for the State and is now depicted as “Aid to Localities” by the State. The warning concerns possible legislation or a wish to index future PPTRA payments in some manner so that the State may be able to control the growth of these expenditures in the future. In times of budgetary unease, that may offer a simple solution for decision makers at the State level. Locally, the results of such a change would have a materially adverse affect on the County’s revenues.”*

In the 2004 session of the Virginia General Assembly, the legislature did in fact make such a change to these 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. Long term, if the State does not re-adjust these payments to localities, residents of each locality will pay more each year in Personal Property taxes and at this current writing, the State’s promise of maintaining reimbursement levels at 70.0 percent for the County’s taxpayers slipped to 61.0 percent in 2008. In 2009, the payments increased to 65.0 percent due to declining vehicle valuations that were a result of the economic environment. The differential is paid by the County’s taxpayers.

The Governor’s 2010-2012 Proposed Budget recommends the elimination of the vehicle personal property tax altogether, including the State’s PPTRA payments to localities as a means to offset the State’s budget shortfall. Outgoing Governor Kaine recommended a 1.0 percent income tax surcharge to be dedicated to localities to make up for the loss of revenue to localities from the elimination of vehicle personal property tax revenue. The House of Delegates has rejected this bill and made it very clear that tax increases were not to be considered.

At this writing, the State has cut \$7.1 billion from its \$77 billion biennial budget for 2008-2010. Including cuts recommended in the Governor’s FY10 Caboose Budget currently being deliberated by the General Assembly, the State budget shortfall has yielded an overall reduction in State aid to the County exceeding \$39.0 million from FY08 to FY10, which has ultimately resulted in a cost shifting of constitutionally mandated programs from the State to Henrico County. The biggest impact by far has been in the area of Education, which has received over \$30.0 million of the total \$39.0 million in funding cuts from the State. Because of the increasing dependence on State revenues (State revenues represent over 35.0 percent of County General Fund revenues in the FY10 budget), the County has been forced to make a number of difficult budgetary decisions to offset these significant cuts. In addition, the newly introduced 2010-2012 biennial budget anticipates an additional \$4.2 billion shortfall, which will result in even greater funding reductions in State aid to the County, as the newly elected Governor McDonnell has sharply opposed any tax increases. With a shortfall of this magnitude, there is the continued possibility that the State could initiate further legislation capping, reducing, or even eliminating specific payments to localities.

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; and structure and equipment permit fees.

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 should 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 11.8 percent of operating revenues in FY00 to a low of 8.6 percent in FY09. In this time period, there have only been three actual decreases in the amount of elastic tax revenues collected, in FY02, FY08, and FY09, all during periods of economic recession.

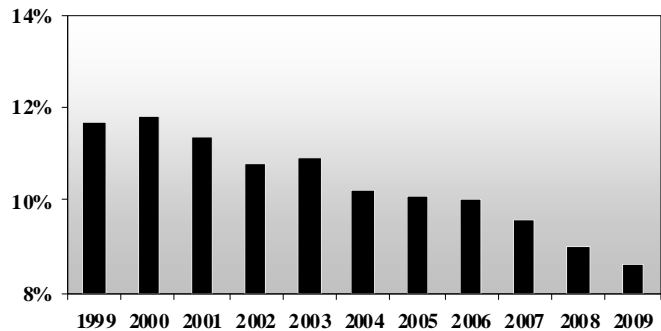
The first three years reflected above, FY99 through FY01, reflected a period of economic expansion. As a result of the expansion during those years, the Board of Supervisors implemented a Business and Professional License Tax (BPOL) reduction strategy as a means of encouraging more businesses to locate 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.

A recent synopsis of these receipts is warranted. In FY02, due to the effects of the recession, elastic revenues actually declined from the \$71.4 million recorded the prior fiscal year to \$69.0 million. In FY03, the County's elastic revenues increased by 6.3 percent. In FY04, these revenues increased by another 1.6 percent and FY05 actual receipts increased by 6.3 percent. FY06 data reflects receipts of \$85.2 million, which is a 7.6 percent increase over FY05. FY07 data reflects receipts of \$89.3 million which is a 4.8 percent increase over the prior fiscal year.

In correlation with the beginning of the most recent recessionary economic environment, FY08 data reflects only the second year-over-year decline in receipts in this time period, with collections of \$87.6 million, which is a 1.9 percent decrease from the prior fiscal year. This trend has continued into FY09 with collections of \$86.1

Elastic Operating Revenues

(as a % of Net Operating Revenues)



million, a 1.7 percent decrease from FY08. The reduction in gross elastic revenues the last two fiscal years reflects the downturn in the economy and the struggling housing market, as local sales & use tax receipts and BPOL collections declined 2.0 percent since FY07, and structure and equipment permit revenues declined 42.6 percent over the last two fiscal years. Despite the recent declines, over this eleven-year period, **while the County has reduced its operational reliance from these elastic revenue sources, the actual revenue derived from them has increased by 36.8 percent.**

On a positive note, Henrico County ranked second among all localities in Virginia for total taxable sales in 2008. Refer to the chart below for comparisons to other localities.

2008 Virginia Taxable Sales

Total Taxable Sales are from February 1, 2008 to January 31, 2009

Rank	Locality	Total Taxable Sales	Population	Per Capital Taxable Sales
1	Fairfax County	13,545,372,435.15	1,009,428	13,418.86
2	Henrico County	4,928,864,038.85	289,847	17,005.07
3	Virginia Beach City	4,841,022,728.60	430,349	11,249.07
4	Prince William County	4,151,724,427.55	373,427	11,117.90
5	Loudoun County	4,114,591,915.65	278,909	14,752.45
6	Chesterfield County	3,563,713,062.05	298,850	11,924.76
7	Chesapeake City	3,048,122,834.95	215,906	14,117.79
8	Arlington County	2,991,260,620.80	203,126	14,726.17
9	Norfolk City	2,808,257,214.45	235,915	11,903.68
10	Richmond City	2,445,806,257.65	194,974	12,544.27
11	Alexandria City	2,059,502,024.98	136,601	15,076.82
12	Newport News City	2,021,413,334.35	181,220	11,154.45
13	Roanoke City	1,925,487,308.70	92,024	20,923.84
14	Hanover County	1,605,943,654.00	96,992	16,557.47
15	Spotsylvania County	1,392,356,309.90	119,559	11,645.75

As of this writing, the economic environment has seemingly begun to stabilize, although monthly job figures are still reflecting net losses. However, the economic factors driving most of the County's revenue sources are lagging indicators, and the effects of the economy are still weighing heavily on County revenue collections. At this writing, local sales tax collections reflect a 5.1 percent decline in FY10, and declines are anticipated in BPOL receipts and structure and equipment permits as well. The real estate market continues to struggle, as January 1, 2010 reassessments reflect an overall 8.0 percent drop in real estate valuation. While FY11 local revenue collections will reflect continued declines, with the economy stabilizing, it is likely that local revenues will begin to stabilize or reflect a slight increase in the near future. However, it is anticipated that economic recovery will be very slow, as it will likely take years to get back to levels seen just two years ago.

With the continued decline in real estate valuations, combined with significant cuts already allocated by the State and an ever-worsening State budget shortfall that will likely result in continued funding reductions, the reliance on elastic revenue receipts will continue to increase. Therefore, a warning trend is warranted for this indicator.

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

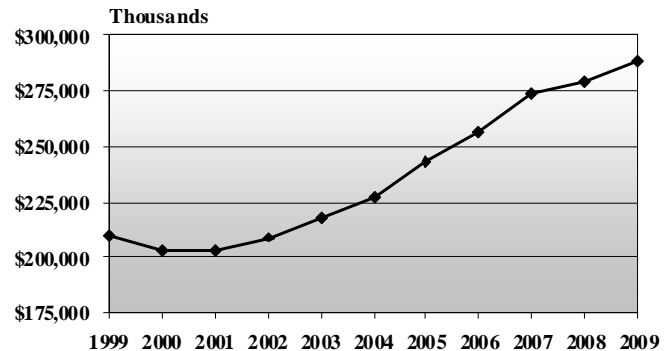
Formula:

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 66.7 percent of total **local** operating revenue in Henrico County in FY09. 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 a healthy increase in general property tax revenues over the last eleven years. In unadjusted dollars, general property tax revenue has increased from \$209.6 million in FY99 to \$374.9 million in FY09. This represents an average annual increase of 6.0 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 CY99 and CY09, the County's unadjusted real estate tax base has increased by \$20.7 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. In FY99, property tax revenues constituted 38.8 percent of net operating revenues, which includes intergovernmental revenues. By FY05, this percentage had dropped to 36.1 percent. The FY05 Trends document included the following observation:

"The reduction arises as a result of other revenue sources, specifically, intergovernmental aid that has increased in this time period. As noted earlier on the "Intergovernmental Revenues" indicator, there was a notable increase in intergovernmental aid beginning in FY99. However, with the capping of the PPTRA payments from the State beginning in FY06, it is likely that property tax revenues as a percent of total operating revenues will increase in the future again".

In FY06, property tax revenues actually represented 36.9 percent of net revenues, reflecting an **increase** over the prior fiscal year. In FY07 property tax revenue stayed constant with the prior year, representing 37.0 percent of net operating revenues. In FY08, property tax revenues **increased**, to 37.7 percent of net revenues.

In FY09, the most recent fiscal year, property tax revenues stayed relatively constant at 37.6 percent. However, with the "Great Recession" significantly impacting virtually every County revenue source in FY09 and, to a

much greater extent in FY10, a dependence on each and every revenue source has been realized. The State began reducing payments to localities in FY09 to offset its budget shortfall, and elastic revenues were beginning to decline as well. In spite of a net increase in FY09, the economy's impact on property tax revenues was significant, as real estate valuation reflected, at the time, the lowest year-over-year increase on record, automobiles experienced valuation declines, and the largest property tax payer in the County, Qimonda AG, closed its doors.

Another observation from the graph on the prior page is the "leveling off" of general property tax revenue (in constant dollars) in FY08 and the subsequent sharp uptick in FY09, in spite of the before-mentioned struggles in property tax valuations. The reason for this increase is twofold. First, tax increment financing associated with Short Pump Town Center, the most successful shopping center in the Metropolitan Richmond Area since it opened its doors in 2003, was completed with the final debt payment from the County during that year. As such, all County revenues associated with this development, including real estate tax and personal property tax revenues that previously were used to pay debt service, began depositing into County coffers in FY09. The second reason for the upswing in property tax collections in FY09 is the implementation of the "Henrico, VA" initiative, in which the majority of "Richmond, VA" addresses were changed to "Henrico, VA." This initiative was pursued because of revenue miscoding that misdirected millions of dollars in annual County revenue, including business personal property tax revenues, to the City of Richmond. Without the significant impact of Short Pump Town Center and the "Henrico, VA" initiative, the graph on the prior page would have shown a continued leveling off of general property tax revenue (in constant dollars) in FY09.

In FY10, the State cut aid to localities by a much greater extent than in FY09, increasing the reliance on property tax revenues. However, at this writing, it is anticipated that real estate valuations will decline 8.0 percent in the County, due to continued declines in residential real estate valuations and unprecedented declines in commercial real estate valuations. The economic environment surrounding FY10 indicates a "perfect storm," one that will at least continue into FY11 as well.

Overall, the continued growth of the County's total tax base over this time period is a very positive trend, however there is no doubt that the recent nationwide concerns regarding the solvency of residential and commercial mortgages has impacted the real estate market. Because of the large number of businesses and jobs lost in the County over the last two years, it will likely take a number of years to reach levels seen just two years ago. Once the economy recovers and the County experiences the creation of new jobs and the migration of new businesses into the County, property tax values will rebound and will show positive gains. However, all signs point to a very slow local economic recovery. As such, a warning trend is noted for the foreseeable future.

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:

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.

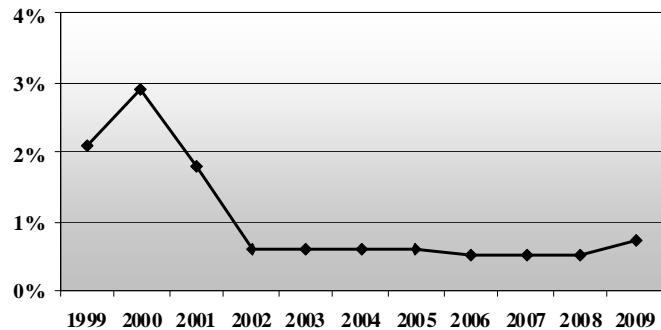
Trends:

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 2.1 percent in FY99 to the most recent level of 0.7 percent recorded in FY09. The high point in this time period was in FY00, when uncollected real and personal property taxes totaled 2.9 percent of the property taxes levied.

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 were 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/or credit card 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. Between FY02 and FY05, this indicator measured at 0.6 percent before bottoming at 0.5 percent between FY06 and FY08. The most recent fiscal year, FY09, reflect the impacts of the recessionary economic environment and the toll it has had on the local real estate market, as the percentage of current uncollected real and personal property taxes increased to 0.7 percent. In 2008, the number of residential foreclosures increased 93.0 percent from 2007, and in 2009, foreclosures increased another 36.6 percent. With a growing number of homeowners in the County having trouble making their mortgage payments, an increase in uncollected tax payments is expected.

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 FY09, at 8.6 percent of the overall tax base. However, when this list is analyzed at the end of FY10, it will likely look much different and reflect a much smaller percentage of the overall tax base. In FY09, the ten "Principal Taxpayers" consisted of Qimonda AG (by far the largest taxpayer in FY09), which closed its doors in January 2009, and seven of the remaining nine businesses reflect some of the hardest impacted sectors of the economy over the last two years, including retail establishments, warehouses, office space, and apartment property management companies. The remaining two businesses among the top ten

Uncollected Current Property Taxes (as a % of Total Levy)



“Principal Taxpayers” are both utility companies. 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. While this premise likely will remain true in the future, the companies on this list may likely be different and may make up a much smaller percentage of the tax base.

In looking at this indicator over the eleven-year time period, a peak is depicted in FY00. However, even at its peak, uncollected current property taxes as a percent of the total levy measured 2.9 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, it is not anticipated that this indicator will reach the 5.0 percent threshold, though it could increase from current levels. No long term warning trend is noted for this indicator, though the lasting effects of the recessionary economic environment may be a factor in the number of uncollected taxes in the immediate future.

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

Formula:

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

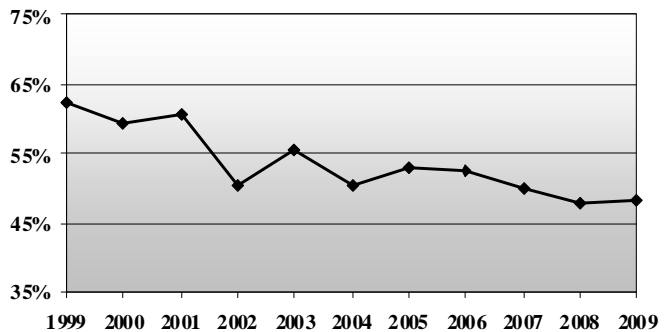
User Charge Coverage:

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.

User Charge Coverage

(Revenues/Expenditures)



Trends:

As shown in the graph, the user charge coverage for the County has measured less than 63.0 percent for this eleven-year period, with a low of 48.0 percent occurring in FY08, and a high of 62.3 percent occurring in FY99.

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. However, user charges as a percent of expenditures have fallen in both FY08 and FY09, to 77.5 percent and 54.7 percent, respectively. This is due to significant declines in the number of permits issued in these fiscal years. As a result of the real estate market struggles, structure and equipment permit revenues dropped nearly 17.0 percent in FY08, followed by a decline of 31.2 percent in FY09. Mental Health's user charge coverage has actually increased over the eleven-year period from 32.5 percent to 40.5 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, this has not impacted this operation 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. In FY08, however, this was not the case, as the School Cafeteria generated just under 85.0 percent of operational requirements, mostly due to significant increases in the cost of food. However, the School Cafeteria increased charges for school lunches in the most recent fiscal year, FY09, to help offset these rising operating costs and generated just over 95.0 percent of operational requirements. (The difference in the past two years has come from School Cafeteria reserves). As such, no warning trend is noted in this area.

This indicator in the eleven-year period has averaged 53.7 percent. Excluding Recreation, the indicator has averaged 69.8 percent in the eleven-year period. Overall, no warning trend is noted for this indicator, although there is continued concern regarding structure and equipment permit revenues due to the continued struggles in the real estate market. The County will continue to maximize efforts to ensure coverage rates are appropriate to reduce reliance on other County revenues.

WARNING TREND: Increase in revenue shortfalls as a percentage of net operating revenues.

Formula:

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

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 revenue shortfall, while a negative number reflects a revenue surplus.

Trends:

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

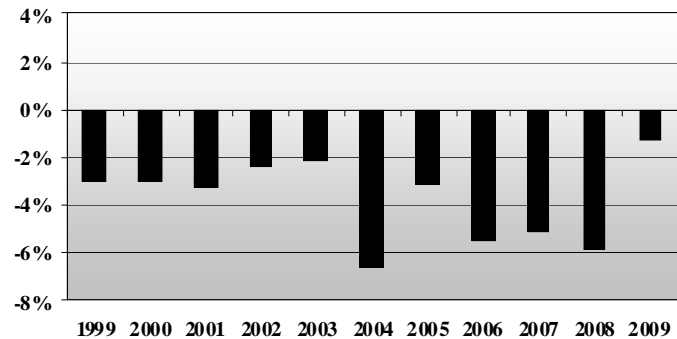
In looking at this eleven-year period, this indicator peaked in FY04, when the budget to actual revenue variance reached 6.6 percent. The low points may be found in FY03 and the most recent fiscal year, FY09, when the variances reflected were 2.1 percent and 1.2 percent respectively. **In no case in this eleven-year time period did the County’s actual revenues not meet budgeted estimates.**

Looking at the trend since FY99, the County’s annual revenue variance has averaged 3.7 percent. The County of Henrico maintains a conservative posture when projecting revenues on an annual basis. In FY02 and FY03, the County experienced significant reductions in aid from the State of Virginia in a myriad of areas – the largest being Education. These reductions were the result of State budget shortfalls that came about due to the recession in 2001. By maintaining a conservative posture in the projection of revenues, the County was able to weather both the recession and maintain service levels in key areas, such as Education and Public Safety while continuing to expand needed infrastructure.

As noted earlier, the County’s reliance on elastic revenues has decreased over the past eleven years and in the pages that follow, a depiction of the County’s fund balance is positive. 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 the ability to continue to maintain a conservative revenue posture in the future as a means of ensuring operational and financial stability. In fact, 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, only behind FY04, the first fiscal year after the last economic recession. In FY09, with virtually every revenue source impacted by the recession, the variance between actual revenue collections and budget estimates narrowed, as the revenue surplus of 1.2 percent reflects the lowest surplus in the eleven-year period examined. More specifically, the State began making significant reductions in aid to localities to offset budget shortfalls, elastic revenues (local sales tax receipts, business and professional license tax receipts, etc.) showed significant declines, and real estate valuations reflected the lowest year-over-year increase in at least thirty years. In spite of these revenue concerns, the County still managed to achieve a revenue surplus.

Revenue Shortfalls

(as a % of Net Operating Revenues)



All of the concerns noted above will continue into FY10, only to a much greater extent. From FY08 to FY10, the State has reduced aid to Henrico County by over \$39.0 million, the majority of which has been realized in FY10. In addition to State budget concerns, real estate valuations as of January 1, 2010 reflect an overall reduction in the real estate tax base of 8.0 percent, the first overall real estate valuation reduction on record. Virtually every County revenue source is expected to decline in FY10. To offset these revenue reductions, the County has made a number of expenditure reductions, which has allowed the County to reduce revenue budget estimates as well. In February 2010, an amendment to reduce the FY10 budget was introduced to the Board of Supervisors. The amendment reflects revised revenue estimates and offsetting expenditure reductions.

At this writing, the State is estimating another budget shortfall in their 2010-2012 Biennial Budget, in the amount of \$4.2 billion. Additional reductions in State aid to localities are inevitable in FY11. County revenue estimates for most individual revenue sources will further decline in FY11, and a number of expenditure reductions will be made to offset these reductions. Because of significant expenditure reductions made in FY10 and FY11, few discretionary expenditures will remain in the FY11 budget. For this reason, a warning trend is noted for this indicator.

WARNING TREND: Increasing number of employees per capita.

Formula:

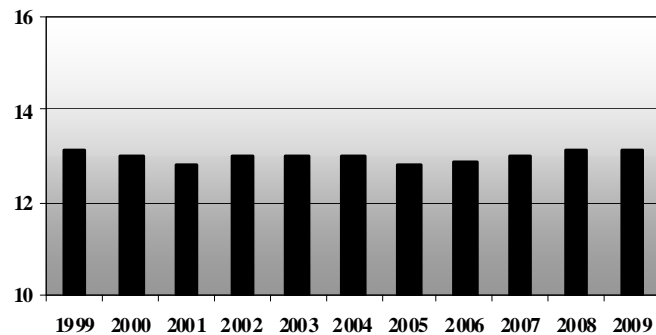
$$\frac{\text{Number of General Government Employees}}{\text{Population}}$$

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) has increased by 682 employees since FY99. The graph above illustrates that the employees per 1,000 population measured in FY99 is the same as the indicator in FY08 and FY09 at 13.1, which reflects the peak for this indicator. The County's personnel complement total was 4,000 in FY09.

The high point of this trend in FY99 is misleading, as it is mostly due to new positions hired in the prior fiscal year, FY98. In FY98, a total of 73 positions were added to the complement, of which, 49 were associated with Public Safety initiatives. Only twelve new positions were hired in FY99, offset by a higher population increase than in FY98. A trend that is evident is that since FY00, the employees per capita indicator has leveled off at approximately 13.0 per 1,000 population. The exceptions were in FY01 and FY05 when the employees per capita indicator slightly decreased to 12.8 per 1,000 population. For three fiscal years, FY02 through FY04, this indicator measured at a stable level of 13.0 employees per 1,000 population.

The fiscal years FY06 through FY08 show slight annual increases in this indicator. In FY06, employees per 1,000 population increased to 12.9, in FY07 this indicator represented the average 13.0 employees, and FY08 reflected an increase to the highest point since FY99 at 13.1, which remained consistent in FY09. In this time period, a number of new facilities approved in the March 2005 General Obligation Bond Referendum were fully staffed. These personnel costs, however, have been planned since the approval of the referendum and this increasing trend is not expected to be of a long-term nature.

It should also be noted that between FY99 and FY09, a total of 118 positions have been added to the Division of Police's complement. This expansion has largely been aided by obtaining Federal Community Oriented Policing Services (COPS) Grants. During this same time period, 198 additional positions have been added to the Division of Fire's complement as a means of ensuring an increasing population continues to receive these critical services in a timely manner. The continued expansion of the County's EMS efforts is perhaps the largest reason for the increase in Division of Fire personnel although Homeland Security requirements have also impacted personnel numbers.

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 266 employees in the Public Works department. This is because this trend analysis is not intended to be a comparable benchmark against other localities.

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

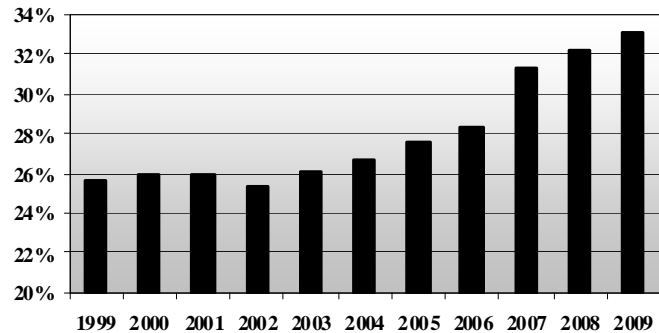
Formula:

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

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 28.0 percent between FY99 and FY09. The high points reflected in this time frame are the most current fiscal years, FY07 through FY09, which measure 31.3 percent in FY07, 32.2 percent in FY08, and 33.1 percent in FY09. 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 these costs fall largely outside of the direct control of the County, as free market forces, or the Virginia General Assembly dictate costs in both of these areas.

First, in looking at health care costs, the County's cost for providing health care *per employee* in FY99 was \$1,887. By FY09, this cost had nearly tripled to \$5,651 *per employee*, or a change of 199.5 percent. In the FY10 budget, the cost of health care has increased to \$6,081 *per employee*. 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 recently transitioning health care to a self-insurance program. 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 second cost that is outside of the County's control is the cost of Virginia Retirement System (VRS) and life insurance benefits. The past six Trends documents have noted concern regarding these rising costs. 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 FY05 budget, where the VRS rate for General Government employees increased by 42.5% in *one year*. The FY09 budget reflected a cost requirement of 16.01 percent of salaries for General Government – excluding teachers. Including teachers, the total budgeted cost for FY09 amounted to \$75.3 million for Henrico County.

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 FY09, the County's cost in this area required 1.0 percent of all salaries to be budgeted for this benefit, which equated to approximately \$4.6 million.

With the transition to a self-insured health care program, the County is no longer completely at the mercy of health care market trends, as the self-insurance fund includes a rate stabilization fund that is intended to “flatten out” future health care cost increases. However, VRS and life insurance benefits continue to remain completely outside of the County's control. FY08's Trends document noted the following observation:

“With the recent declines in the stock market, the VRS pension fund has experienced its share of losses as well. With significant gains in the stock market unlikely in the near future, these losses will likely be shouldered by localities in the next biennial budget, 2010-12, through significant rate increases.”

Though the State's 2010-2012 Biennial Budget is still being crafted at this writing, the County has received notification from the State that the County's General Government VRS contribution rate will increase 7.8 percent in FY11 from the budgeted FY10 rate. While, generally speaking, a 7.8 percent increase is nowhere near the increase of 42.5 percent experienced in FY05, it will prove to be much harder for the County to absorb this increase given the fact that the overall County budget will reflect a *net decrease* in FY11 to offset an anticipated 8.0 percent reduction in the real estate tax base, greater than \$39.0 million in reduced funding from the State, as well as declines in nearly every other revenue source.

Because of 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.

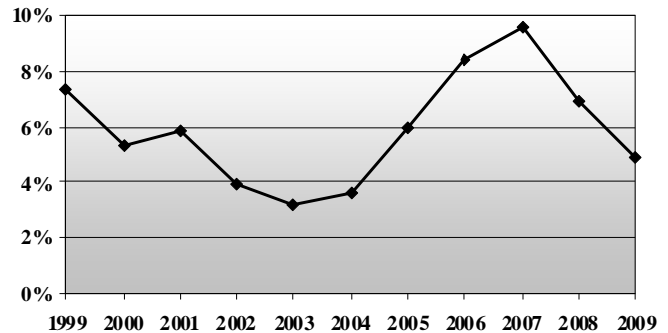
Formula:

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

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. Between FY99 and FY01, the local economy rebounded from the recession of the early 1990's with solid growth in the revenue categories of general property tax, sales tax, and business and professional license tax, producing annual operating surpluses that averaged 6.2 percent over those three years. In FY02, as a result of the recessionary period and the decline in the County's elastic revenue sources and State budget reductions, the operating surplus dropped to 3.9 percent. State budget reductions also impacted the County's revenue streams in FY03 as evidenced by a drop in the operating surplus from 3.9 percent in FY02 to the FY03 level of 3.2 percent, the lowest level in the eleven years examined. In FY04, the operating surplus improved to a level of 3.6 percent, although the effects of the State's recent budget reductions continued to be reflected in this lower than average operating surplus. In FY05, the operating surplus returned to historic post-recession averages and measured 6.0 percent, followed by a healthy 8.4 percent in FY06.

In FY07, with continued increases in the County's elastic tax revenues, the operating surplus reflected a variance of 9.6 percent, the highest surplus in this eleven-year period. In FY08, despite net operating revenue collection growth at its lowest level since the last recessionary period of FY02 and FY03, the operating surplus reflected a variance of 6.9 percent, well above the eleven-year average of 5.9 percent.

In FY09, eighteen months into the worst recessionary economic environment since the Great Depression, the County achieved an operating surplus of 4.9 percent. This statement is a testament to the County's conservative financial policies of capping incremental expenditure growth annually and, as a result, estimating revenues extremely conservatively. In fact, the eleven-year trend of annual operating surpluses is an indication of Henrico County's sound financial condition and reflects Henrico's conservative budgetary policies. In addition, this trend reflects growth in recurring revenues that consistently exceed the growth in recurring expenditures and therefore minimize the use of one-time funding sources, such as fund balance.

WARNING TREND: Consistent enterprise losses.

Formula:

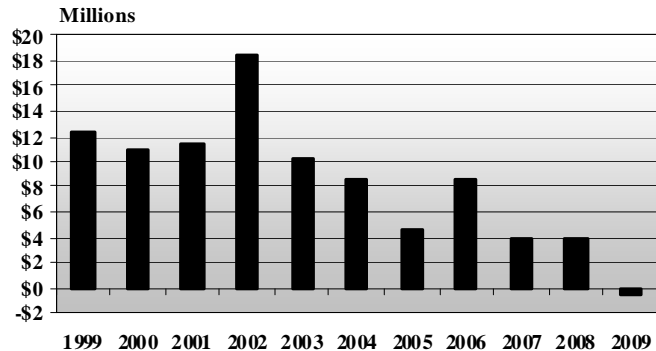
Enterprise Profits or Losses in Constant Dollars

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 above, the **negative numbers on the scale represent operating losses.**

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 most recent fiscal year, FY09, the overall trend shown above has consistently 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.

The upward trend between FY99 and FY02 reflected a combination of steady customer growth and moderate annual rate increases between FY95 and FY00 that were able to provide revenues sufficient to cover all current operating costs, including depreciation expenses. Water and Sewer rates were not raised in FY01, FY02, or FY03 due to sufficient bond coverage ratios and resources to fund long-term infrastructure repairs. Water and Sewer rates were increased slightly each year from FY04 through FY09 in order to ensure that long-term infrastructure continues to be maintained.

From FY03 through FY09, a downward trend is evident in the chart above. There are a number of factors impacting this indicator during this time frame. First, it should be noted that, after increases in expenditures of 1.5 percent and 1.3 percent in FY01 and FY02, respectively, expenditures grew at increasing rates each year from FY03 (5.5 percent increase) through FY06 (9.1 percent increase). Also, from FY03 through FY05, each of these fiscal years had twice the rate of operating expenditure increases as compared to operating revenue growth.

The rate of operating expenditure growth also outpaced operating revenue growth from FY07 to FY09, with FY07 operating expenditure growth (3.4 percent increase) over four times operating revenue growth (0.8 percent increase) and FY09 operating expenditure growth (5.1 percent increase) over seven times operating revenue growth (0.7 percent increase). Also impacting this indicator are significant interest earnings expenses from FY07 through FY09 related to an \$80 million bond sale in 2006. As can be seen in the chart above, FY09 reflects the only time in this eleven-year time frame that operating revenues were insufficient to cover operating expenditures. This is not indicating that the Water and Sewer Fund did not make an overall "profit" in FY09. However, it does indicate that operating requirements in FY09 required the use of revenue sources that are generally associated with infrastructure, not operations, such as water and sewer connection fees.

Even with its operating “loss” posted in FY09, 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” is very rare for bonds issued by local Utility departments, and Henrico County’s Water & Sewer Fund has two of them.

The Enterprise Funds’ operating results displayed above also reflect the financial performance of the Belmont Golf Course. In FY99, the Belmont Golf Course reported positive operating results. From FY00 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 FY08, 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 FY08, revenue collections increased nearly 11.0 percent from the prior fiscal year, while expenditures were actually reduced by 1.4 percent. Rounds of play in the fiscal year were up 3.3 percent from the prior fiscal year.

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. As such, the Golf Course once again posted a net operating loss. Substantial improvement is not anticipated in FY10, as residents’ discretionary spending continues to be impacted due to a number of citizens that remain unemployed in the County. This trend of reduced discretionary spending is being reflected in a number of indicators, including local sales tax receipts, which at this writing are down 5.1 percent for the fiscal year, as well as continued declines in the number of new vehicle sales. To help return the Golf Course to profitability, an increase in green fees is being proposed to the Board of Supervisors for consideration in FY11. However, until consistent and sustainable increases in the number of rounds played are realized, a warning trend for the Golf Course *continues*.

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

Formula:

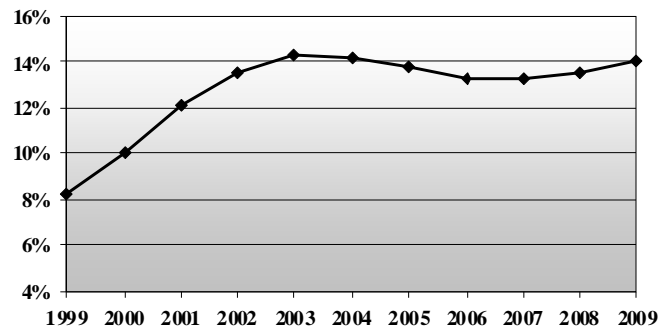
$$\frac{\text{Unrestricted General Fund Balance}}{\text{Net Operating Revenues}}$$

General Fund Unrestricted Balance:

The level of a locality's unrestricted 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 Unrestricted balance as a percentage of General Fund expenditures.

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



Trends:

Henrico County's unrestricted General Fund balance as a percentage of net operating revenues has grown from 8.2 percent in FY99 to 14.0 percent in FY09. As noted above, the depiction of this indicator in the Trends document is different than the indicator reflected in the Annual Fiscal Plan.

Looking at the trend, between FY99 and FY03, the County's percentage of unrestricted fund balance reflected an upward trend before leveling off in FY04 and remaining constant at 13.3 percent for FY06 and FY07. In FY08, the County's percentage of unrestricted fund balance had a slight uptick to 13.5 percent, and then increased again in FY09 to 14.0 percent. This is particularly positive considering that during FY02, 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 unrestricted fund balance grew by 13.0 percent from FY07 to FY09, during the worst recession since the Great Depression. The increase in this indicator has been influenced by the County's conservative posture when estimating available revenues and expenditure controls imposed on both General Government and Education.

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 unrestricted 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.

In spite of the continuing economic troubles and subsequent revenue declines, particularly in the areas of State aid and real estate, as noted on numerous occasions throughout this document, the County's unrestricted General Fund balance *as a percentage of net operating revenues* will likely increase once again in FY10. Because of adjustments made to expenditures in FY10 to offset anticipated declines in revenues, the County may add to fund balance on June 30, 2010, while not nearly at levels in the recent past. Also, because of an anticipated net

decline in operating revenues in FY10, if unrestricted General Fund balance remains relatively flat, an increase will be reflected in this indicator for FY10.

Overall, the County's Unrestricted General Fund Balance reflects a positive trend since FY99 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 twenty-one 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 unrestricted General Fund balance and will continue to use prudence in safeguarding this resource.

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:

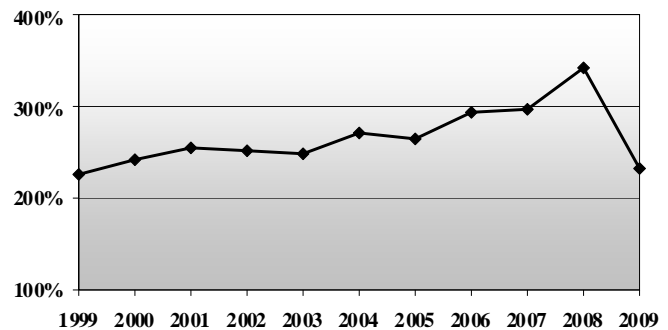
A liquidity ratio of greater than 1:1 (more than 100 percent) is referred to as a "current account surplus." Henrico County has been successful in achieving a current account surplus for the eleven-year period shown. In the ten year period from FY99 through FY08, cash and short-term investments grew at an average annual rate of 11.3 percent, outpacing the average annual growth in current liabilities in that ten year period of 6.7 percent. However, in FY09, 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 does 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 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. With the County continuously pursuing bond refundings as a means to generate substantial debt service savings, current liabilities will likely remain inflated for the near term, and the liquidity indicator, as charted above, will likely remain at its current level in the immediate future.

Over the past eleven years, the County has maintained an average liquidity ratio of 2.66:1, which is more than *twice* the defined "current account surplus" above. The low point in this indicator of 2.25:1 was experienced in FY99. 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.

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:

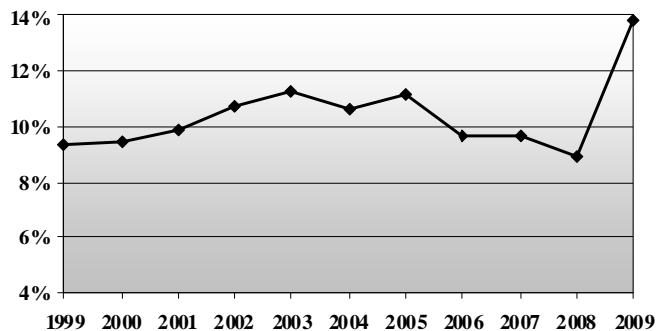
In the eleven-year trend depicted above the indicator has gone from a low of 8.9 percent in FY08, to a high of 13.8 percent in FY09, the most recent fiscal year. The level for FY09 is the highest in this eleven-year period for two overriding reasons. First, as noted in the “Liquidity” indicator narrative, 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 bond refundings in CY09, with only minimal impact, by comparison, due to newly issued debt. Also impacting this indicator in FY09 is the historically low growth in net operating revenues, which grew at 2.1 percent in FY09, the lowest increase since the last recessionary economic environment in FY02.

There are two large components that make up this indicator, the first of which is recorded “accounts payable.” The FY09 total for this liability measured \$53.3 million, which reflects an increase of \$3.9 million when compared to the FY08 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 \$43.8 million in FY09. As already noted, this large increase is misleading, as \$38.8 million reflects two bond refundings. Excluding the bond refundings, current liabilities as a percentage of net operating revenues would have registered at 9.9 percent in FY09, much less than the 13.8 percent noted above. In November 2000 the voters approved a \$237.0 million General Obligation Bond Referendum. In March of 2005, the voters approved a \$349.3 million General Obligation 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

Current Liabilities
(as a % of Net Operating Revenues)



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.

With the continued revenue concerns noted throughout this document, notably significant reductions in State funding and the valuation declines experienced in real estate, it is likely that this indicator will remain high for several fiscal years into the future. In addition to these revenue concerns, at this writing, the County still has \$146.4 million in GO bonds scheduled to be sold in the next three fiscal years, FY11 through FY13, as was approved in the March 2005 GO Bond Referendum. Because of the combination of declining revenues and increasing debt service obligations, a warning trend is noted for this indicator in the immediate future.

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:

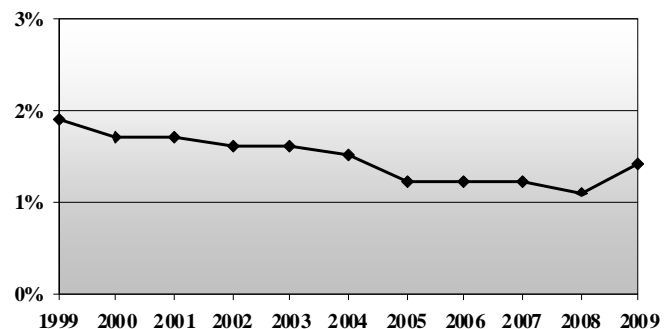
During the eleven-year period shown above, the long-term debt indicator reached a high point of 1.9 percent in FY99. Despite a slowdown in real property assessed valuation, the FY08 indicator of 1.1 percent reflected the low point in this eleven-year period. In the most recent fiscal year, FY09, the indicator increased 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 addition, the County experienced the lowest year-over-year growth in real estate valuation in FY09. This combination caused a one-year spike in this indicator in FY09.

As seen above, Henrico County's percentage of net long-term debt to real property valuations has remained relatively stable. In FY01 and FY02, the County began phasing in debt associated with the General Obligation Bond Referendum approved by the voters in November 2000. As of the end of FY09, the County's net direct long-term debt was \$503.5 million, which reflects a net increase of \$107.2 million when compared to FY08. In FY09, the County issued \$137.5 million in long-term debt for Education and General Government projects, refunded \$33.8 million in long-term debt, and retired \$30.3 million of long-term debt obligations.

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.

Long-Term Debt

(as a % of Assessed Valuation of Real Property)



Going forward, a warning trend is noted for this indicator for the near-term. While the County has taken a one-year break from issuing any new debt in FY10, from FY11 through FY13 the County is scheduled to issue \$146.4 million in new long-term debt, as approved by the citizens in the County's March 2005 General Obligation Bond Referendum. Real estate valuations as of January 1, 2010 are anticipated to decline by approximately 8.0 percent from the prior fiscal year, with little to no growth expected in the next several fiscal years. With long-term debt increasing in the near term and with anticipated declines in real estate valuations, this indicator will likely remain historically high.

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:

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 5.9 percent in FY99 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 percentage has fluctuated within a range of 1.2 percent.

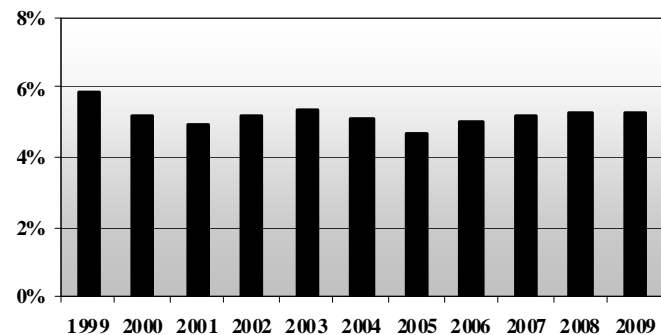
This indicator will trigger a warning if the increase in debt service consistently exceeded the increase in net operating revenues. The issuance of debt normally results in a slight increase in this indicator, because in the year following the issuance of debt, the amount of debt service generally grows 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.

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

Debt Service

(as a % of Net Operating Revenues)



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. While these refundings will keep the “Debt Service” indicator from substantially rising in FY10, the debt service savings realized in FY11, due to the refundings and the decision to not issue any new long-term debt in FY10, will likely not keep pace with the anticipated declines in State aid and real estate tax revenue, which will likely be reflected as an increase in this indicator in the near term. Because of revenue concerns in the immediate future, a warning trend is noted for this indicator.

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:

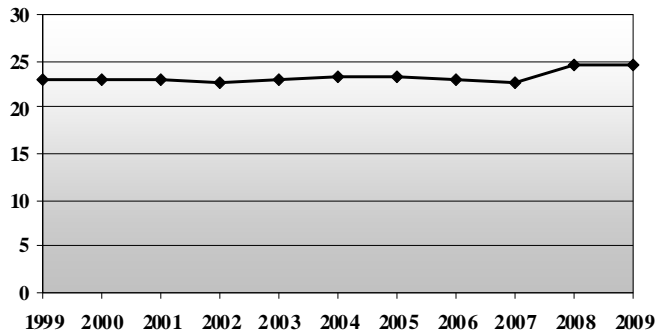
$$\frac{\text{Total Days of Unused Vacation Leave}}{\text{Number of General Government Employees}}$$

Accumulated Vacation Leave:

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).

Accumulated Vacation Leave
(Days per Employee)



Trends:

In terms of the overall trend, the accumulated vacation leave indicator has averaged 23.3 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 24.6 days in FY09.

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. The FY09 accumulated vacation leave indicator remained relatively constant with FY08. In the entire eleven-year period, this indicator has fluctuated within a range of 2.1 days.

The overall slight upward movement since FY99 is 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 46. The average County employee has been with the County for more than 10 years (Source: Human Resources Department Annual Report, FY2008-09).

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:

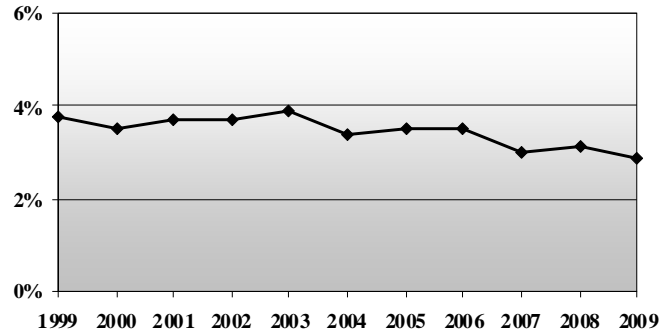
$$\frac{\text{Capital Outlay from Operating Funds}}{\text{Net Operating Expenditures}}$$

Level of Capital Outlay:

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.

Level of Capital Outlay

(as a % of Net Operating Expenditures)



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 2.9 percent and 3.9 percent, which is indicative of the consistency of meeting capital outlay requirements within the operating budget. In FY99, this indicator reflected a total of 3.8 percent, while the FY09 total measures 2.9 percent, the lowest level in the eleven years examined. In fiscal years FY05 and FY06, the indicator remained constant at 3.5 percent and decreased by 0.5 percent to 3.0 in FY07. Although this percentage dropped in FY07, it is important to note that the indicator rebounded in FY08, showing a positive increase over the prior fiscal year. The County's level of capital outlay has averaged 3.4 percent of net operating expenditures throughout this eleven-year period.

In the recessionary economic environment of FY02 through FY04, in spite of a number of revenue challenges, particularly reductions in State aid, the County was able to maintain a stable level of capital outlay expenditures. This may be considered positive as the County was not forced to defer capital outlay expenditures in order to maintain a balanced budget. However, the current economic difficulties have presented much deeper revenue challenges than experienced in FY02 through FY04.

In FY09, the indicator fell to the lowest level in the eleven-year time frame at 2.9 percent. Unlike the rebound in FY08, it is not expected that the indicator will show substantial improvement in the coming fiscal years. In fact, it is very likely that this indicator will fall further. With the revenue reductions anticipated in FY10 and FY11, departments have been charged with finding expenditure savings throughout their individual budgets. A likely target for departmental cuts will be in the area of capital outlay expenditures, which could result in obsolete or inefficient equipment in the near future. As such, a warning trend is noted for this indicator.

The overall consistency in capital outlay expenditures in the eleven years examined may be viewed as a positive trend as current capital outlay needs are being met within existing resources. These capital outlay expenditures are largely concentrated in the areas of new computer equipment, replacement computers, and replacement vehicles, particularly in the area of public safety.

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.

Trends:

The chart above reflects two overall trends. First, between FY99 and FY01, depreciation expense for the County of Henrico remained consistent at 2.4 percent. However, in FY02, with the implementation of GASB 34, 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 new 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. In FY09, depreciation expenditures as a percentage of depreciable fixed assets yielded 2.8 percent, a slight increase from the prior fiscal year indicator of 2.7 percent.

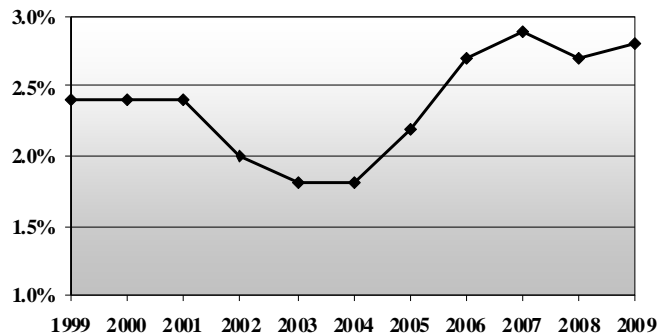
What this graph shows clearly, is that with the standardization in the recordation of fixed assets that is the result of GASB 34, this indicator now reflects a level that is slightly higher than that noted in the 1990's. This result was anticipated as assets of the Enterprise Fund continue to increase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

Depreciation

(Depreciation Expense as a % of Assets)



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

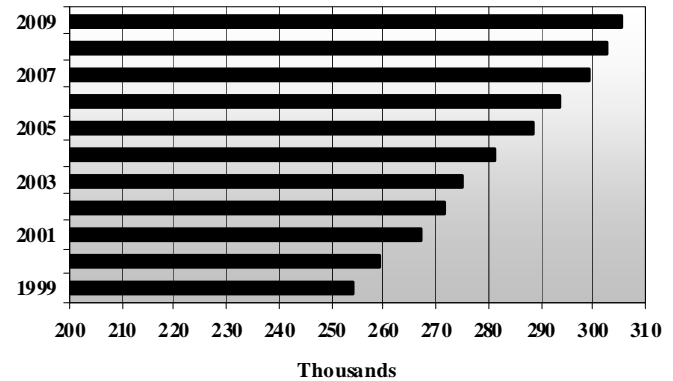
Indicator:

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 254,194 in FY99 to 305,580 in FY09, an increase of 20.2 percent in this eleven-year time span, or an annual average of 1.8 percent per year. In the eleven-year period, the County's resources have kept pace with the increased demand for services from a rising population.

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.

The population number for FY01 represents actual Census Data. All other years have been obtained from the Henrico County Department of Planning (see website: www.co.henrico.va.us).

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.

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

Indicator:

Per Capita Income

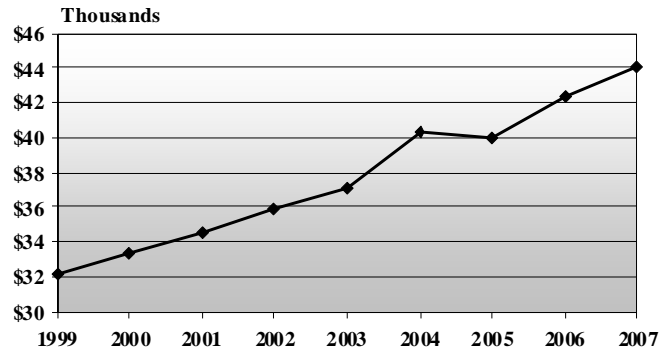
Source: Bureau of Economic Analysis

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 31.1 percent from \$32,141 in 1999 to the \$44,079 reported for 2007. It should be noted that this indicator factors in increases to the County's population, which increased 17.8 percent between 1999 and 2007.

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 2007 tax year.

Since the recessionary period of the early 1990's, this indicator has consistently increased with the exception of 2005, where this indicator remained somewhat constant from 2004. In 1999, this indicator reflected an increase of 2.9 percent from the prior year. In calendar years 2000 through 2002, there was a steady increase in the per capita income average growth rate, ranging from a low of 3.6 percent in 2000 to a high of 4.0 percent increase in 2002. In calendar year 2003, the growth rate decreased slightly to 3.1 percent. The 2004 data reveals that per capita income in Henrico County reached its highest growth rate in the nine-year period at 8.6 percent, which represents a dramatic increase from the previous calendar year. In 2005, however, this indicator leveled off and actually decreased by 0.5 percent from the previous year. In calendar year 2006, the increase was a healthy 6.0 percent, followed by an increase of 3.8 percent in 2007.

It should be noted that while the County's population has increased by an annual average of 1.8 percent in the past eleven years, taxpayer returns from County residents reflect an average annual increase of 3.9 percent in the *nine* years reflected on the graph above.

WARNING TREND: Increasing number of public assistance recipients.

Formula:

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

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 experienced a low of 6.0 percent in FY01 and a high of 13.7 percent in FY09, the most recent fiscal year. In looking at the past nine years in particular, this indicator has increased dramatically from 6.0 percent in FY01 to 13.7 percent in FY09.

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.

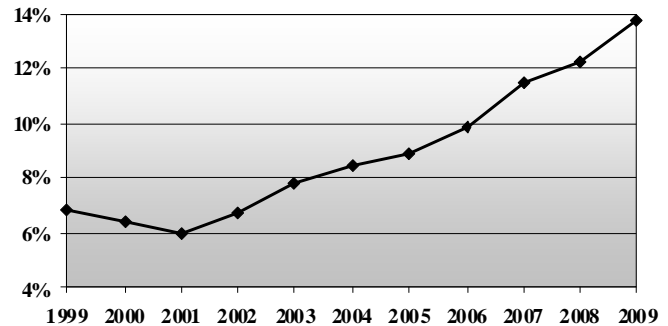
Between FY99 and FY01, this indicator reflected a downward trend before rising again in FY02. The reasons for the decline during this time period reflect both State policy changes and outside economic conditions. First, policy changes were found in Virginia's welfare reform program. The welfare reform program, Virginia Initiative for Employment not Welfare (VIEW), was designed to help recipients become self-sufficient and independent of public assistance by capping the length of time an individual may remain on public assistance. Augmented by other services, such as the Child Day Care Program, it has allowed more residents to enter the workforce. Second, the overall conditions of the economy during this time period coupled with low unemployment levels propelled many residents off of public assistance.

The Medicaid population has increased dramatically over the past nine 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. Also, the recessionary economic environment, and the subsequent loss of jobs and personal income, has created more demand for public assistance.

A warning trend continues for this indicator.

Public Assistance Recipients

(as a % of Total Population)



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

Formula:

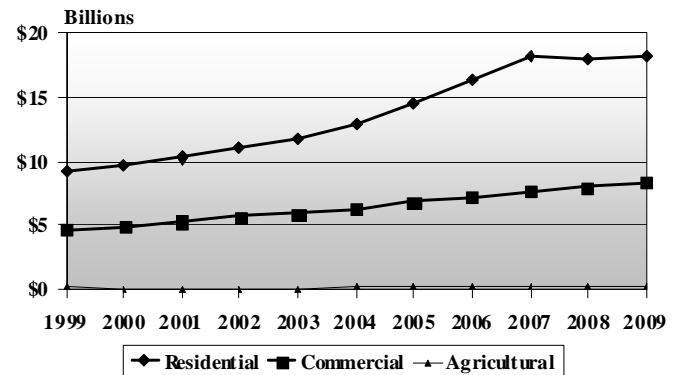
Real Property Values (Constant Dollars)

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 CY98, 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 FY08, residential property values (in constant dollars) showed a slight decrease from the prior fiscal year, the first such decrease in this indicator since data collection began for the Trends document in 1981. The reasons for this decrease are twofold. First, the struggle in the residential real estate market hindered property value increases, as evidenced by residential reassessment values only increasing 2.6 percent in January 2008, the lowest year-over-year increase since 1995. Second, the property values noted in the graph are inflation adjusted (constant dollars), and in FY08 the consumer price index (CPI), commonly referred to when measuring inflation, yielded a 5.0 percent increase over the prior year, the largest such increase since 1989. It is important to note that unadjusted real property values actually increased nearly \$1.1 billion or 4.7 percent in FY08 from the prior fiscal year.

In FY09, residential property values (in constant dollars) reflect a slight increase after the decline in FY08. The

reasons for this increase are solely attributed to the deflationary environment in FY09, as the CPI posted a 1.4 percent decline from the inflated levels experienced in FY08. The market value of residential real estate actually slightly declined in FY09 by 0.3 percent. However, because of the decline in the CPI, the indicator reflects positive growth in real property values (in constant dollars).

Problems continue in the local real estate market, as real estate valuations have declined nearly 8.0 percent in total from January 2009 to January 2010. A year-over-year decline in total real estate valuation is unprecedented in Henrico County, but residential foreclosures and increasing office space vacancies have significantly impacted the local real estate market. Inclusive of new construction, residential real estate valuations have declined nearly 5.6 percent and commercial real estate valuations have declined over 13.2 percent. Beyond FY10 and FY11, the best case scenario for at least the immediate future assumes that local real estate valuations have “bottomed” and that very minimal growth in valuations follow. However, until the County can bring back a substantial portion of the numerous jobs that have been lost over the last two years, residential foreclosures will likely remain at high levels and commercial real estate, notably office space, will remain vacant. As such, a warning trend is noted for the immediate future.

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

Formula:

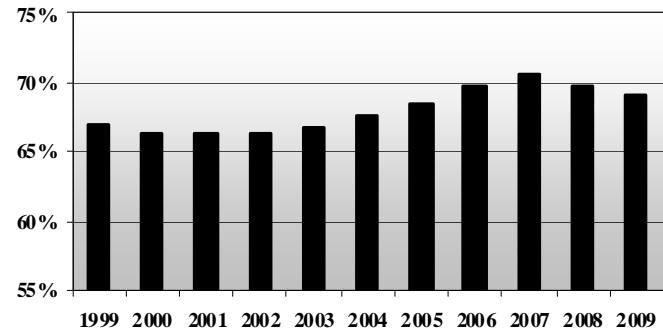
$$\frac{\text{Market Value of Residential Development}}{\text{Market Value of Total Development}}$$

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.

Trends:

Residential development as a percentage of total property market value in Henrico County has ranged from a low of 66.3 percent in 2002, to a high of 70.6 percent in 2007. The indicator shown above for 2000 and 2001 was 66.4 percent. In 2003 and 2004, this indicator increased slightly to a level of 66.7 percent and 67.5 percent, respectively. This indicator continued to rise in 2005 with 68.4 percent, 2006 with 69.7 percent, and in 2007 with a high of 70.6 percent. In 2008, the indicator again fell below the benchmark of 70.0 percent to 69.8 percent and in 2009 dropped again to 69.1 percent.

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.

Between 1999 and 2001, commercial property market values (including multi-family) outpaced the growth of residential property values. In those three years, commercial value increases of 9.0, 8.4, and 10.6 percent outpaced the growth of residential values, which depicted increases of 5.5, 7.1, and 10.4 percent. From 2003 to 2007, increases in residential market values outpaced increases in the commercial segment of the market. As noted within the "Real Property Value" indicator, both the residential and commercial components of the Real Estate Tax base increased at rates that exceeded the rate of inflation. In this time period, the low interest rate environment spurred significant growth in residential real estate. Also, banks were lending funds to nearly any inquiring consumer, without regard to the borrower's ability to repay the loan. However, the factors that allowed the residential real estate market to thrive in this time span has been the driving factor behind the current struggles of the real estate market and the near collapse of the entire national financial sector. In 2008, increases in commercial values remained relatively strong but residential values began to show signs of slowing down, as reassessments increased only 2.6 percent in 2008. In total, residential market value increased 4.7 percent due to new construction, while total commercial market value increased 9.0 percent. 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 noted in the Real Property Value indicator narrative, residential real estate valuation actually declined by 0.3 percent in 2009, while commercial valuation increased over 3.1 percent. Commercial and real estate markets continue to struggle in 2010, as residential real estate valuations have declined nearly 5.6 percent, driven by increasing levels of residential foreclosures, and commercial real estate valuations have declined by 13.2 percent, mostly a result of increasing vacancies in office space. Because of the steep drop in commercial real estate valuation, the Residential Development indicator will increase in 2010. In fact, it is anticipated that the percentage of residential valuation will increase over 71.0 percent in 2010. While the continued declines in both commercial and residential real estate markets can be attributed to a number of factors, the one factor that would improve the outlook of the County's overall real estate market is jobs. Newly created jobs in the County would fill vacant office space, and would provide families with the household income needed to make timely mortgage payments. Until the County replenishes the numerous jobs lost over the last two years, a warning trend must be noted.

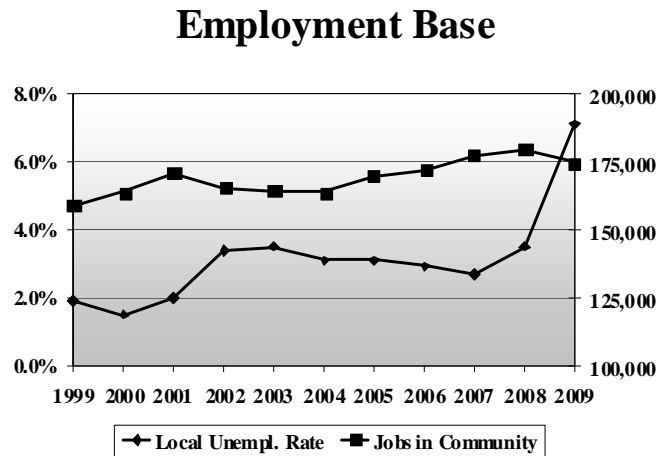
WARNING TREND: Increasing rate of local unemployment or a decline in number of jobs provided within the community.

Indicators:

Local Unemployment Rate and Number of Jobs within the Community

Employment Base:

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



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

Trends:

I. Unemployment:

Henrico County's unemployment rate, in the eleven-year period above, reflects a high of 7.1 percent in 2009, and lows at or below the 2.0 percent level for 1999, 2000, and 2001. Between 1999 and 2001, local economic conditions continued to improve, which resulted in lower unemployment rates. The 2002 unemployment rate depicts an increase to 3.4 percent and 2003 showed a leveling off of the local unemployment rate at 3.5 percent. The 2002 and 2003 increases were indicative of the recessionary period at the time. In 2004 and 2005, the unemployment rate remained constant at 3.1 percent. The 2006 unemployment rate of 2.9 percent as well as the 2007 unemployment rate of 2.7 percent illustrates the improvement in economic conditions at the time from the prior recessionary period. With the recently ended recessionary period that began in December 2007, unemployment climbed sharply to 3.5 percent in 2008. As evidenced in the graph above, the difficult economic environment forced a number of businesses to close its doors or re-evaluate their staffing needs in 2009, as the unemployment rate more than doubled from 2008 to 7.1 percent. This indicator is highly indicative of changes in the economy and thus, is a solid representation of the condition of the local economy. A warning trend is noted for this indicator, as job losses in the area will likely continue until the economy shows substantial and sustainable signs of recovery.

II. Number of Jobs:

From 1999 through 2009, the number of jobs in Henrico increased from 158,760 to 174,758, an increase of 10.1 percent. In 2002, 2003, and 2004, the number of jobs reflected a decrease from the 170,793 level reported for 2001. The decrease can be attributed to the recession that encompassed 2002 and 2003. This recession led to a number of corporate layoffs in the Richmond Metropolitan Area. The recession also impacted the State of Virginia's budget and there were a number of State governmental jobs in this time period that were eliminated,

downsized or privatized. In 2007, this indicator was impacted in a positive manner due to several large corporate entries into the Richmond Metropolitan Area as well as a number of new businesses that opened in Henrico. In 2008, the number of jobs again increased.

As was the case in the last recessionary economic environment, 2009 reflects a net decrease in the number of jobs in Henrico County. However, in the recession of 2002 and 2003, most of the jobs lost were due to corporate layoffs as a means to improve the company's bottom line. As the economy improved in the years that followed, these corporations began to hire once again, as evidenced by the annual job increases and declining unemployment rate from 2004 through 2008. Much different than the prior recession, in the current economic environment, the Metropolitan Richmond Area, notably Henrico County, lost a number of large, high-profile companies altogether, including two Fortune 1000 companies, Circuit City Stores and LandAmerica Financial, as well as the largest individual taxpayer in the County, Qimonda North America. In 2008, Circuit City Stores and Qimonda were the sixth and seventh largest employers in the County, respectively. With these companies no longer in existence, recovery will be much more difficult than after the recession of 2002 and 2003, as Circuit City, Qimonda, and LandAmerica Financial, as well as a number of other local businesses that have been forced to close their doors, cannot simply increase hiring when the economy shows signs of recovery. Because of the workforce size of the companies that the County has lost, to achieve substantial job growth in the County going forward will require the attraction of other large corporate entities. From January 1, 2008 through January 20, 2010, the Metropolitan Richmond Area has lost over 14,000 jobs, more than half of which were in Henrico County.

With the economic environment showing little signs of improvement locally, a warning trend is noted for the near term, as area employers will likely be forced to continue shedding jobs to cut costs until the economy shows sustainable signs of recovery.

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

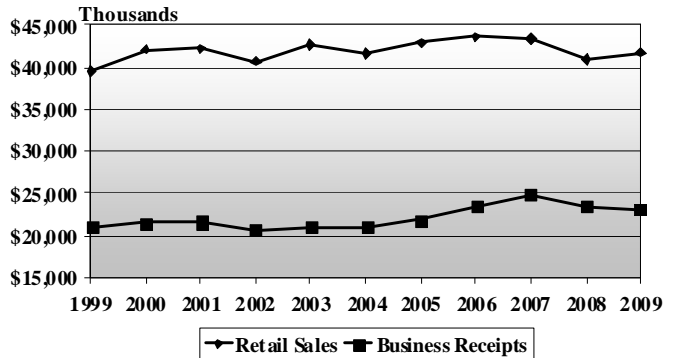
Indicators:

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, have increased from \$39.5 million in FY99 to \$41.7 million in FY09, representing an average annual increase *(after the effect of inflation is removed)* of 1.1 percent. The elasticity of this revenue stream is evidenced by the declines in FY02 and FY08, both of which represent the beginning of a recessionary economic environment. Prior to that, the more recent upward trends were marked by a healthy local and national economy as seen during much of the 1990's and economic recovery period between 2004 and 2007.

With the retraction in FY02, sales tax receipts decreased. However, a surprising thing occurred in FY02. In spite of the decline in total sales tax receipts, Henrico County's retail sales as a percentage of total sales in the Richmond Metropolitan Area (including the City of Richmond and Chesterfield County) actually *increased* from the FY01 level of 45.98 percent to 48.91 percent. This occurred because Henrico's diversified retailers offered more of a choice to the region's shoppers during this recession. In FY03, local sales tax receipts rebounded from the previous year, increasing by 4.8 percent representing the largest constant dollar increase since FY00. In FY04, inflation adjusted sales declined from \$41.8 million to \$40.8 million, decreasing by 2.4 percent from the previous fiscal year. This decline was driven by an increase in the inflation factor, which overshadowed the increase in local sales tax receipts. FY05 inflation adjusted sales of \$42.1 million and the FY06 inflation adjusted sales of \$42.8 million reflects increases of 3.2 percent and 1.7 percent, respectively. In FY07, inflation adjusted sales declined slightly from \$42.8 to \$42.6 million.

In FY08, inflation adjusted sales declined from \$42.6 million to \$40.0 million, a decrease of 6.0 percent from the prior fiscal year. This year-over-year decrease is by far the highest recorded in this eleven-year time period. The reasons for this decrease are twofold. First, as mentioned above, local sales tax collections are highly elastic and the recessionary economic environment present through much of FY08 hindered growth in this revenue source. It should be noted that real unadjusted local sales tax revenue declined 1.3 percent in FY08 from prior fiscal year collections. Second, like the Real Property Value indicator, the values noted in the graph are inflation adjusted (constant dollars), and in FY08 the consumer price index was measured at 5.0 percent, the largest such increase since 1989.

While the inflation factor negatively impacted inflation adjusted local sales tax collections in FY08, the reverse

happened in FY09. With the CPI actually *declining* in FY09, reflecting a period of deflation, inflation-adjusted sales tax collections posted an above-average 2.1 percent growth. However, actual sales tax collections only increased by 0.7 percent in FY09. That being said, the fact that actual local sales tax collections grew in FY09, when all other elastic revenues were negatively impacted, should be considered a positive. The reason for this increase in FY09 is twofold. First, tax increment financing associated with Short Pump Town Center, the most successful shopping center in the Metropolitan Richmond Area since it opened its doors in 2003 and located in Henrico County, received its final debt payment from the County. As such, all County revenues associated with this development, including local sales tax collections and BPOL receipts that previously were used to pay off debt, began depositing into County coffers in FY09. The second reason for the sharp upswing in local sales tax collections in FY09 is the implementation of the “Henrico, VA” initiative, in which the majority of “Richmond, VA” addresses were changed to “Henrico, VA.” This initiative was pursued because of revenue miscoding that misdirected millions of dollars in annual County revenue, including local sales tax collections and BPOL receipts, to the City of Richmond. Without the significant impact of Short Pump Town Center and the “Henrico, VA” initiative, the graph on the prior page would have shown a much less drastic increase, or perhaps even a decrease, in inflation adjusted retail sales in FY09.

With the continuing economic struggles, a warning trend is noted for this indicator in the near term, as it is likely that sales tax revenue collections will decline or remain stagnant throughout this difficult economic environment. However, because of the diversity of retailers that Henrico County offers, when the economy begins its recovery, it is anticipated that local sales tax revenues will again show signs of healthy growth.

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

The graph for the eleven-year period shown above indicates that local business license tax receipts, in constant dollars, have been maintained at a level that kept up with 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 paid off. The FY02, FY03, and FY04 totals reflect a decrease when compared to the FY01 totals, however a decrease was anticipated as the local economy was in recession. FY05, FY06, and FY07 totals rebounded strongly from the recessionary period, 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) reflect the sharpest year-over-year decrease in this eleven-year time period due to the struggling economy and unusually high inflation. While this indicator reflects a significant decrease, real unadjusted BPOL tax revenue only reflects a slight decrease of 1.0 percent. It should be noted that in FY02, the beginning of the last economic recession, BPOL tax receipts declined 2.4 percent from the prior fiscal year, more than twice as high as in FY08. In FY09, inflation adjusted BPOL tax receipts declined by 1.9 percent and real unadjusted BPOL tax revenue declined by 3.2 percent. Considering the state of the local economy in FY09, including the closing of a number of County businesses, one would expect the year-over-year impact to be much greater. As with local sales tax collections, the impact of Short Pump Town Center and the “Henrico, VA” initiative had a positive impact in FY09.

As with local sales tax collections, a warning trend is noted for the immediate future, as the current economic downturn is impacting every facet of the business community, which will have a direct impact on BPOL tax receipts. Because of the diversified nature of the County’s business community, when the current economic recession is over and the economy begins to rebound, BPOL tax receipts will again show strong growth.

FINANCIAL INDICATORS DISPLAYED GRAPHICALLY

Description	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Revenues Per Capita	2,125.0	2,155.3	2,192.3	2,172.9	2,209.0	2,274.5	2,328.6	2,377.7	2,471.0	2,452.7	2,515.6
Expenditures Per Capita (In Constant Dollars)	1,955.5	1,993.8	2,033.0	2,052.8	2,129.3	2,176.2	2,197.8	2,228.4	2,287.6	2,330.1	2,405.4
Intergovernmental Revenues (without PPTRA)	35.8%	35.6%	35.6%	35.4%	35.2%	36.5%	37.2%	36.2%	37.9%	38.9%	40.0%
Intergovernmental Revenues (PPTRA only)		2.7%	4.0%	5.3%	5.0%	4.7%	4.2%	4.9%	4.0%	3.8%	3.7%
Elastic Tax Revenues (as a % of Net Operating Revenue)	11.7%	11.8%	11.4%	10.8%	10.5%	10.2%	10.1%	10.0%	9.6%	9.0%	8.6%
Property Tax Revenues (In Constant Dollars)	209,583	203,664	202,750	209,028	217,738	226,968	242,864	257,077	273,494	279,565	288,853
Uncollected Property Tax Revenues (as a % of Total Levy)	2.1%	2.9%	1.8%	0.6%	0.6%	0.6%	0.6%	0.5%	0.5%	0.5%	0.7%
User Charge Coverage (Revenues/Expenditures)	62.3%	59.2%	60.7%	50.6%	55.3%	50.6%	53.0%	52.4%	50.1%	48.0%	48.2%
Revenue Shortfalls (as a % of Net Operating Revenue)	-3.0%	-3.0%	-3.2%	-2.4%	-2.1%	-6.6%	-3.1%	-5.4%	-5.1%	-5.8%	-1.2%
Employees Per Capita (Employees per thousand population)	13.1	13.0	12.8	13.0	13.0	13.0	12.8	12.9	13.0	13.1	13.1
Fringe Benefits (as a % of Salaries)	25.6%	25.9%	26.0%	25.3%	26.1%	26.7%	27.6%	28.4%	31.3%	32.2%	33.1%
Operating Surpluses (as a % of Net Operating Revenue)	7.4%	5.3%	5.9%	3.9%	3.2%	3.6%	6.0%	8.4%	9.6%	6.9%	4.9%
Enterprise Losses (In Constant Dollars)	12,468	11,000	11,386	18,299	10,314	8,708	4,676	8,507	3,951	3,889	(0.665)
General Fund Balances (as a % of Net Operating Revenue)	8.2%	10.0%	12.1%	13.6%	14.3%	14.2%	13.8%	13.3%	13.3%	13.5%	14.0%
Liquidity (Cash & Investments as a % of Current Liabilities)	225.0%	240.9%	255.2%	251.4%	248.5%	271.1%	266.0%	294.9%	297.1%	342.2%	232.2%
Current Liabilities (as a % of Net Operating Revenue)	9.3%	9.4%	9.9%	10.7%	11.3%	10.6%	11.2%	9.7%	9.7%	8.9%	13.8%
Long Term Debt (as a % of Assessed Valuation)	1.9%	1.7%	1.7%	1.6%	1.6%	1.5%	1.2%	1.2%	1.2%	1.1%	1.4%
Debt Service (as a % of Net Operating Revenue)	5.9%	5.2%	4.9%	5.2%	5.4%	5.1%	4.7%	5.0%	5.2%	5.3%	5.3%
Accumulated Employee Leave Liability (in Days)	23.0	23.0	23.0	22.8	23.1	23.3	23.2	23.0	22.5	24.5	24.6
Level of Capital Outlay (as a % of Net Operating Expenditures)	3.8%	3.5%	3.7%	3.7%	3.9%	3.4%	3.5%	3.5%	3.0%	3.1%	2.9%

FINANCIAL INDICATORS DISPLAYED GRAPHICALLY

Description	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Depreciation (Depreciation Expense as a % of Assets)	2.4%	2.4%	2.4%	2.0%	1.8%	1.8%	2.2%	2.7%	2.9%	2.7%	2.8%
Population	254,194	259,179	267,024	271,440	274,847	281,069	288,735	293,382	299,443	302,518	305,580
Per Capita Income (restated)	32,141	33,286	34,534	35,928	37,059	40,246	40,036	42,459	44,079	N/A	N/A
Public Assistance Recipients (as a % of Total Population)	6.8%	6.4%	6.0%	6.7%	7.8%	8.4%	8.9%	9.8%	11.5%	12.2%	13.7%
Property Values (In Constant Dollars)	14,2714	14,7270	15,7400	16,9430	17,9151	19,5405	21,6485	23,9851	26,1483	26,3885	26,9494
Residential	6,7773	3,1927	6,8781	7,6433	5,7376	9,0727	10,7879	10,7935	9,0189	9,0184	2,1257
Commercial	9,323	9,627	10,298	11,074	11,793	12,985	14,566	16,459	18,159	18,114	18,317
Agricultural	4,730	4,942	5,295	5,703	5,962	6,355	6,846	7,260	7,678	7,970	8,338
Residential Development (includes agric)	0,218	0,158	0,146	0,166	0,160	0,201	0,236	0,266	0,312	0,304	0,295
(as a % of Total Property)	66.9%	66.4%	66.4%	66.3%	66.7%	67.3%	68.4%	69.7%	70.6%	69.8%	69.1%
Employment Base											
Local Unemployment Rate	0,0190	0,0150	0,0200	0,0340	0,0350	0,0310	0,0310	0,0290	0,0270	0,0350	0,0710
Jobs in Community	158,760	163,704	170,793	165,203	164,398	163,525	170,183	172,216	177,744	179,426	174,758
Business Activity - #1 (In Constant Dollars)											
Retail Sales	39,519	42,034	42,104	40,642	42,609	41,568	42,906	43,622	43,442	40,822	41,692
Annual Business Receipts	21,054	21,453	21,562	20,616	20,821	21,064	21,799	23,386	24,861	23,432	22,999
Business Activity - #2											
Market Value of Business Property	4,730	4,942	5,295	5,703	5,962	6,355	6,846	7,260	7,678	7,970	8,338
Acres Devoted to Business	5,017	5,175	5,479	5,684	5,800	5,897	5,954	6,032	6,062	6,118	6,371

GENERAL FINANCIAL AND ECONOMIC DATA

Item	Description	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1.3	Cash & Short Term Investments	112,855	131,589	158,160	171,895	187,865	209,971	234,085	242,879	268,646	298,304	320,117
1.4	Accounts Payable	27,416	32,165	37,329	41,502	47,298	49,607	54,607	46,617	51,420	49,407	53,262
1.7	Principle due in 12 months	18,927	18,382	20,317	22,142	23,351	23,132	27,038	29,870	33,224	30,749	74,560
1.8	Other Current Liabilities	3,823	4,078	4,334	4,730	4,939	4,700	6,354	5,875	5,771	7,021	10,025
1.9	Total Current Liabilities	50,166	54,625	61,980	68,373	75,587	77,439	87,999	82,362	90,414	87,177	137,847
		2.25	2.41	2.35	2.31	2.29	2.71	2.66	2.97	2.97	3.42	2.32
1.10	Net Direct Long Term Debt	268,245	264,534	283,262	287,105	314,423	329,992	306,861	357,638	399,683	396,269	503,505
1.12	Cost Depreciable Fixed Assets	667,164	714,837	739,416	774,354	831,112	880,456	922,326	957,377	982,096	1,015,665	1,051,575
1.13	Depreciation Expense	15,942	17,041	17,587	15,744	15,186	16,028	19,995	25,879	28,010	27,596	28,928
1.14	General Fund Operating Surplus	40,122	30,572	37,266	24,733	21,720	25,957	47,396	71,814	88,709	67,853	48,547
1.15	Enterprise Operating Results	12,468	11,410	12,195	19,808	11,400	9,939	5,472	10,386	4,954	5,120	(863)
1.16	General Fund Balances	75,705	89,879	112,553	118,781	126,950	140,670	161,517	199,079	207,453	239,708	252,549
1.17	General Fund Restricted Balances	31,557	31,928	36,860	31,691	31,298	36,718	53,132	85,442	84,029	107,615	113,094
1.18	General Fund Unrestricted Balances	44,147	57,951	75,693	87,090	95,652	103,952	108,385	113,637	123,424	132,093	139,455
1.19	Uncollected Property Taxes	4,479	6,670	4,417	1,539	1,553	1,678	2,037	1,638	1,901	2,035	2,700
1.20	Full Property Tax Levy	213,104	230,461	244,518	256,109	265,314	287,938	324,712	339,091	352,305	369,930	380,661
2.1	Property Tax Revenues	209,583	211,261	217,145	226,258	240,665	259,061	284,218	313,845	342,937	368,044	374,884
2.2	Committed User Charges	20,887	22,025	24,104	23,179	24,135	23,907	26,143	28,316	29,127	28,850	29,884
2.3	Uncommitted User Charges	7,080	7,345	7,890	8,457	8,961	9,646	9,744	9,988	9,745	2,845	2,846
2.4	Other Revenue greater than 5%	90,183	95,457	102,029	101,468	109,465	116,443	118,320	125,617	125,927	122,796	125,309
2.5	Other Revenue less than 5%	18,891	21,402	27,749	19,064	17,806	20,081	22,479	23,470	33,800	37,612	28,837
2.6	Total Local Operating Revenue	346,623	357,491	378,916	378,427	401,031	429,137	460,904	501,236	538,535	560,147	561,760
2.7	Intergovernmental Operating Revenue	193,535	221,949	248,047	259,993	270,034	300,535	325,935	350,394	389,249	416,686	435,925
2.7	Intergovernmental Operating Revenue (without PPTRA reimbursements)	206,318	222,944	226,102	236,387	246,444	266,444	292,612	308,238	329,028	379,686	398,923
2.10	Gross Operating Revenues	540,159	579,440	626,964	638,420	671,066	729,672	786,839	851,629	927,785	976,833	997,685
2.13	Net Operating Revenues	540,159	579,440	626,964	638,420	671,066	729,672	786,839	851,629	927,785	976,833	997,685
2.14	Restricted Operating Revenues	161,581	176,207	186,473	191,910	204,837	231,539	262,136	280,148	317,359	328,348	354,849
2.15	Elastic Operating Revenue	62,956	68,570	71,451	69,017	73,331	74,509	79,200	85,208	89,286	87,579	86,099
2.17	Net Operating Revenue Budgeted	524,057	562,084	607,124	623,409	657,000	681,735	762,685	806,056	880,557	920,221	986,094
3.1	Salaries and Wages	276,056	302,193	316,750	332,167	346,539	363,879	393,160	413,031	440,213	464,016	487,694
3.2	Fringe Benefits	70,614	78,228	82,348	83,945	90,538	97,282	108,505	117,379	137,938	149,220	161,362
3.3	Supplies	23,196	25,016	32,612	27,282	27,386	28,252	31,976	34,433	36,858	40,764	43,737
3.4	Services	52,493	58,188	64,681	88,036	78,659	94,074	93,720	88,068	109,413	117,670	107,968
3.5	Capital Outlay	18,697	18,828	21,553	22,031	25,398	23,678	25,788	28,075	25,447	28,322	27,403
3.6	Principal-Long term Debt	17,267	17,397	18,382	19,987	21,792	22,986	22,747	26,633	29,450	32,779	30,284
3.7	Interest-Long term Debt	14,369	12,732	12,487	13,047	14,439	13,961	14,466	15,598	18,588	18,900	22,339
3.8	Total Direct Debt	31,636	30,128	30,869	33,034	36,231	36,947	37,213	42,230	48,038	51,679	52,623
3.9	Other Expenditures	18,448	17,465	26,268	29,369	34,656	46,093	44,101	54,842	36,926	52,400	50,416
3.10	Internal Service Fund Transfers	5,946	5,990	6,316	6,852	7,441	7,930	8,173	20,083	24,113	23,917	22,764
3.11	Total Net Operating Expenditures	497,086	536,036	581,398	603,150	646,848	698,136	742,636	798,141	858,946	927,990	953,967
3.12	Number of General Government Employees	3,318	3,358	3,416	3,517	3,561	3,640	3,694	3,774	3,895	3,953	4,000
3.13	Unused Annual Leave (in days)	76,339	77,361	78,519	80,217	82,182	84,862	85,661	86,980	87,502	96,971	98,411
3.14	Unused Sick Leave (in days)	244,968	247,074	248,178	251,411	255,593	257,590	261,646	267,779	272,360	270,336	280,842
3.15	Expenditures Covered by Charges	33,525	37,233	39,728	45,846	43,674	47,267	49,296	54,040	58,176	60,157	61,944
7.1	Population (Calendar Year)	254,194	259,179	267,024	271,440	274,847	281,069	288,735	293,382	299,443	302,518	305,580
7.3	Total Personal Income (Thous. of \$)	8,288,655	8,761,633	9,184,465	9,622,920	10,065,647	11,106,399	11,234,015	12,125,029	12,758,972	N/A	N/A
	Per Capita Income	32,141	33,286	34,534	35,928	37,059	40,246	40,036	42,459	44,079	N/A	N/A
7.4	Public Assistance Recipients	17,285	16,645	16,028	18,182	21,369	23,628	25,591	28,656	34,469	36,799	41,809
7.6	Market Value of Property (Mil. of \$)	14,271	15,276	16,857	18,340	19,801	22,303	25,335	29,282	32,788	34,740	34,976
7.8	Market Value-Residential (Mil. of \$)	9,323	9,987	11,030	11,986	13,035	14,821	17,047	20,093	22,770	23,847	23,772
7.9	Market Value-Commercial (Mil. of \$)	4,730	5,126	5,671	6,173	6,590	7,254	8,012	8,863	9,627	10,493	10,821
7.10	Market Value-Agricultural (Mil. of \$)	218	164	157	180	177	229	277	325	391	400	382
7.11	Residential Households (Calendar Year)	110,083	111,982	113,041	114,884	116,345	119,107	121,505	123,457	125,972	127,046	128,529
7.12	Vacancy Rates-Residential (Calendar Year)	1.7%	1.8%	1.4%	1.4%	1.4%	1.4%	1.5%	1.5%	1.6%	1.6%	1.6%
7.15	Local Unemployment Rate	1.9%	1.5%	2.0%	3.4%	3.5%	3.1%	3.1%	2.9%	2.7%	3.5%	7.1%
7.16	Jobs Within Community	158,760	163,704	170,793	165,203	164,398	163,525	170,183	172,216	177,744	179,426	174,758
7.17	Retail Sales (Thous. of \$)	39,519	43,602	45,093	43,992	47,096	47,446	50,212	53,254	54,473	53,742	54,109
7.19	Annual Business Receipts (Thous. of \$)	21,054	22,253	23,093	22,315	23,013	24,042	25,510	28,551	31,174	30,848	29,849
7.20	Business Acres (Calendar Year)	5,017	5,175	5,479	5,684	5,800	5,897	5,954	6,032	6,062	6,118	6,371
		433	158	304	205	116	97	57	78	30	56	253
7.21	CPI	166.2	172.4	178.0	179.9	183.7	189.7	194.5	202.9	208.4	218.8	215.7
7.22	CPI-Index	1,000.0	1,037.3	1,071.0	1,082.4	1,105.3	1,141.4	1,170.3	1,220.8	1,253.9	1,316.5	1,297.8

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