



County of Henrico, Virginia

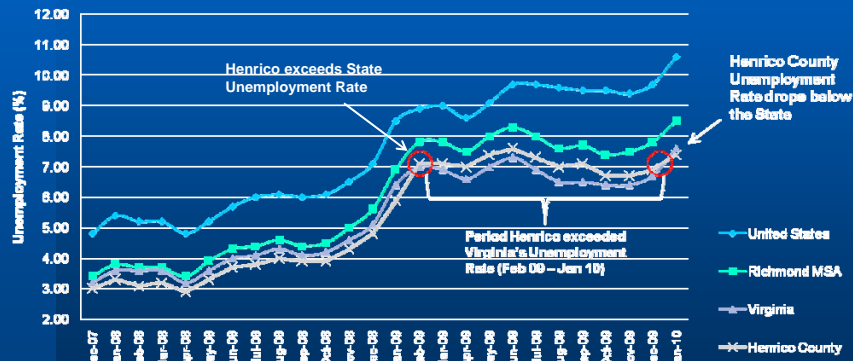
Proposed Annual Fiscal Plan
Revenue Briefing
Fiscal Year 2010-11

Overview

- **Lingering Effects of a Troubled Economy
– A Look at Jobs**
- **State Economy/Budget Shortfall**
- **Real Estate**
- **Review of Local Revenues**
- **Summary of General Fund Revenues**

Unemployment

Monthly Unemployment Rates (Dec 2007 - Jan 2010)



Source: Virginia Employment Commission.

Local Job Losses

Metro Richmond Announced Job Loss Report
January 1, 2008 – January 20, 2010

Company	# of Employees	Company	# of Employees
A & N Stores	400	Genworth Financial	400
AdvantaStaff	261	Graphic Packaging	165
Altria	1,000	Kaiser Aluminum	206
Bank of America	136	Land America	582
Central Parking System	112	Lumberg Automation	117
Circuit City (including Headquarters)	3,991	Progressive Group Alliance	98
Continental Health	143	Reynolds Packaging	648
Dillard's - Chesterfield Town Center	100	Qimonda	2,550
DuPont	500	Tyson's	192
Evergreen Packaging	115	Wachovia Securities	929
		Other	825

Revenues Impacted by Job Loss

- Nearly every County revenue is impacted by job loss.
- Residential and commercial real estate tax revenues decline as valuations decline.
- Local sales tax and personal property tax receipts decline due to consumers spending less on discretionary items.
- Job loss across the State results in reduced State revenues, and ultimately funding reductions for State aid to localities.

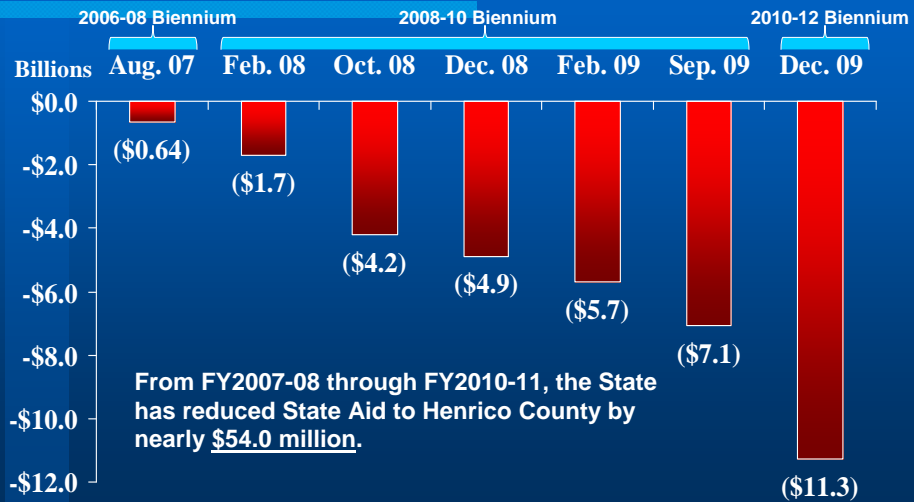
FY2011-12 – Looking Ahead

- FY2011-12 may prove to be equally, if not more demanding than FY2010-11.
- The future outlook for the health of State finances and the local economy causes great concern.
- Will we begin to see growth in local revenues?
Will the State's revenue estimates for the Biennial Budget materialize?
- While the economy may begin to grow at the national level, it will take a number of months, possibly even years, before this translates into revenue growth locally.



State Budget Shortfall

State Budget Shortfall – A Timeline



State Aid Overview

- **FY2010-11 State revenue projections were prepared prior to the final budget estimates adopted by the General Assembly.**
 - State revenue estimates reflect the House of Delegates' and Senate's budgets.
- **Overall, State revenue estimates reflect a decline of \$31.0 million in FY2010-11 from the FY2009-10 Adopted Budget.**
 - Mostly reflects declines in State Aid for Education.
 - There is no single area that has not been impacted.

State Aid Overview

- **There are continued concerns regarding future budget shortfalls even after the latest round of budget reductions.**
- **Without significant “revenue enhancements” in the 2010-2012 Biennial Budget, the State has been forced to rely on State Fiscal Stabilization Funds (federal stimulus funds) and more aggressive revenue estimates to avoid even deeper budget reductions.**

State Aid Overview

Fiscal Year	Est. State Revenue Growth
FY2010-11	+3.8 percent
FY2011-12	+5.1 percent
FY2012-13	+5.2 percent
FY2013-14	+4.3 percent
FY2014-15	+4.6 percent
FY2015-16	+4.5 percent

Source: General Fund Six-Year Financial Plan. Fiscal Years 2011 to 2016. Department of Planning and Budget. January 2010.

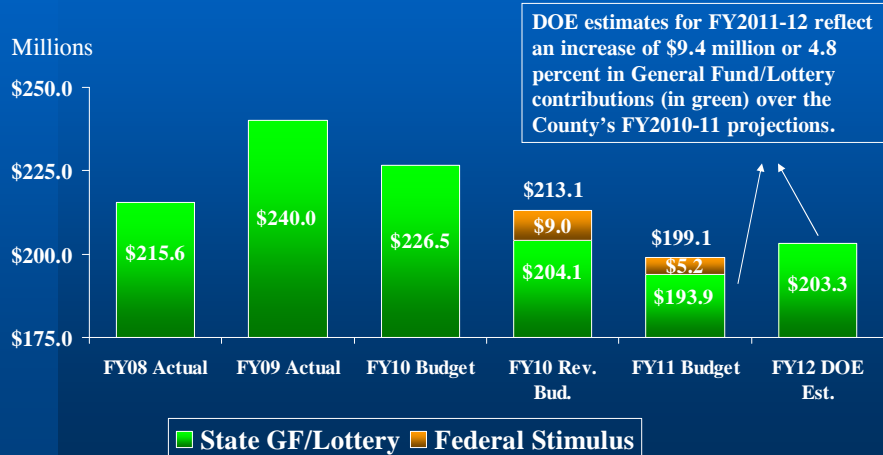
State Aid Overview

- State revenue estimates in both years of the Biennial Budget may not materialize – which would likely require additional reductions in aid to localities.
- This is especially true in FY2011-12, as the State must make up for the billions of dollars of federal stimulus funds that were used to supplant General Fund dollars in FY2009-10 and FY2010-11 to help offset budget shortfalls.
- As such, the County has taken a very cautious approach in estimating State revenues for FY2010-11.

Henrico County State Revenue Breakdown

	FY10 Budget	FY11 Budget	Dollar Increase	Percent Change
Education	\$226,476,000	\$199,131,000	(\$27,345,000)	(12.1%)
Public Works	28,745,000	28,745,000	0	0.0%
General Gov't	<u>51,139,500</u>	<u>47,461,000</u>	<u>(3,678,500)</u>	<u>(7.2%)</u>
Total State Aid	306,360,500	275,337,000	(31,023,500)	(10.1%)

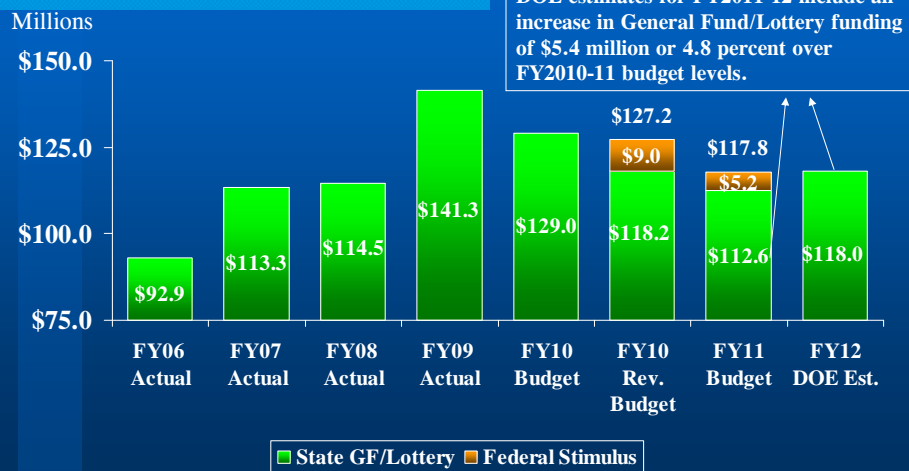
State Revenues for Education



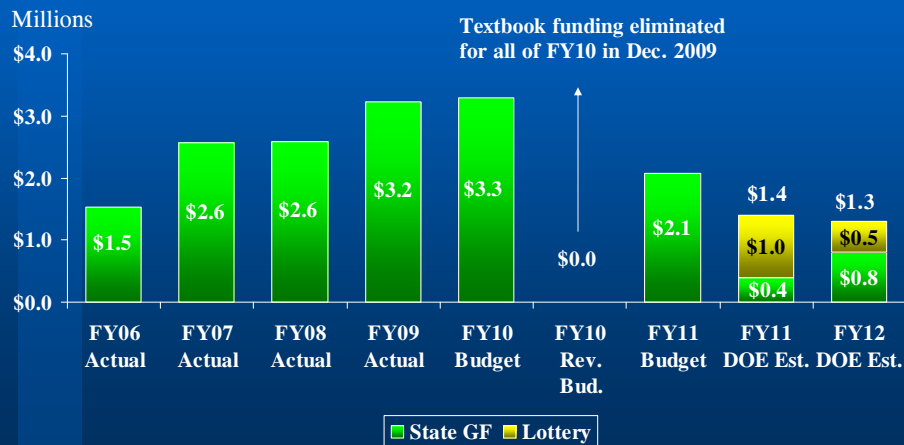
State Aid for Education - Breakdown

	FY10 Budget	FY11 Budget	Dollar Increase	Percent Change
Basic Aid	\$128,998,000	\$117,757,000	(\$11,241,000)	(8.7%)
Sales Tax	46,381,000	42,677,000	(3,704,000)	(8.0%)
Other, SOQ LCI Hold	39,915,000	28,350,000	(11,565,000)	(29.0%)
Harmless"	0	1,091,000	1,091,000	100.0%
Other Revenue	<u>11,182,000</u>	<u>9,256,000</u>	<u>(1,926,000)</u>	<u>(17.2%)</u>
Total State Aid	226,476,000	199,131,000	(27,345,000)	(12.1%)

Basic Aid Funding



State Funding for Textbooks

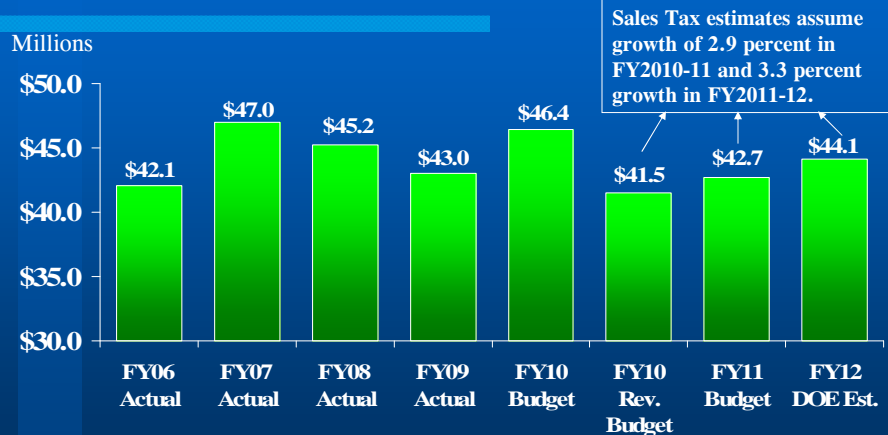


Education Lottery Proceeds in the General Fund

- The State has utilized Lottery Proceeds to supplant a number of previously State General Fund funded programs.
- Below is a list of individual Schools revenue from the State funded with Lottery Proceeds in the Biennial Budget.
- State funding in these program areas are budgeted in the County's General Fund.

Lottery Funded Programs	FY11 Budget	FY12 DOE Est.
At-Risk	\$1,455,000	\$1,452,000
Foster Care	\$1,089,000	\$1,150,000
K-3 Primary Class Size Reduction	\$2,738,000	\$2,277,000
Career and Technical Ed.	\$505,000	\$505,000
English as a Second Language	\$1,231,000	\$1,173,000
Textbooks (Split funded)	\$1,000,000	\$517,000
Total Lottery Funds in GF	\$8,018,000	\$7,074,000

Share of State Sales Tax - Education

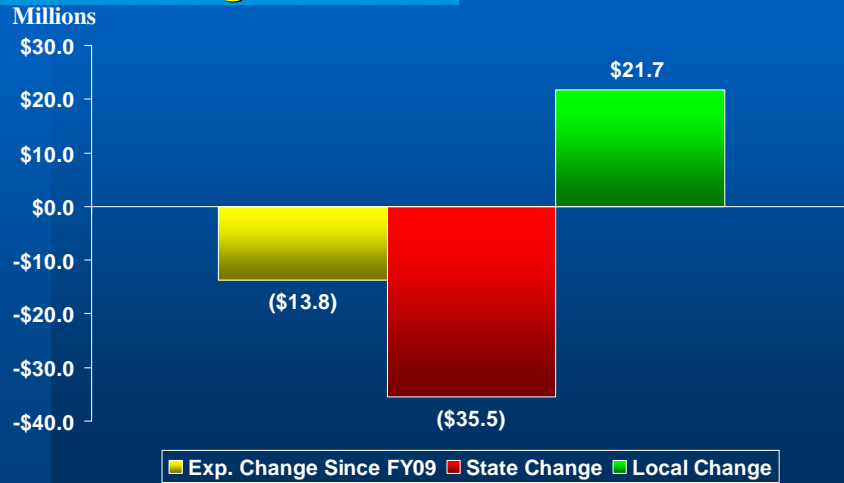


State Aid for Education - Summary

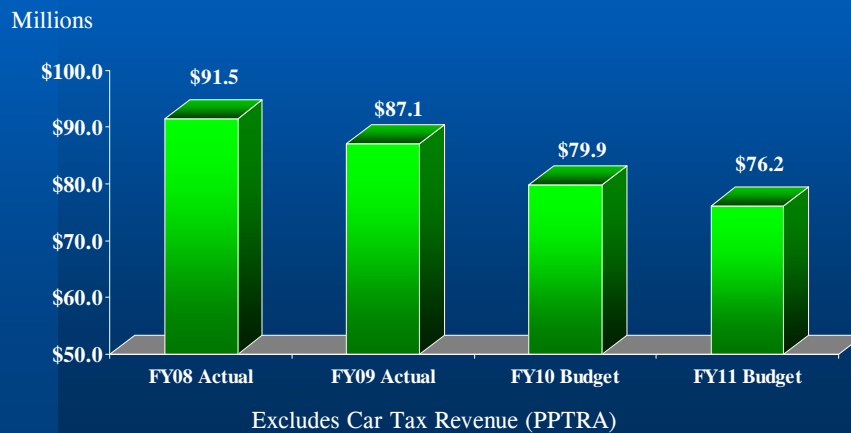
- Like FY2009-10, although to a much greater extent, Education received deep cuts in funding from the State in FY2010-11.
- To offset these cuts in FY2010-11, the County is increasing its allocation for Schools operations by \$5.5 million, in spite of declining local revenues.
- In fact, even in the midst of overall declines in local revenues, the past two budgets have increased local funding for Education to offset steep reductions in State Aid...

Henrico County Schools – State and Local Funding

FY11 GF Budget vs. FY09 GF Actuals



State Revenues for General Government



State Revenues

State Gas Tax Allocation for Public Works (Operating and Capital Construction)

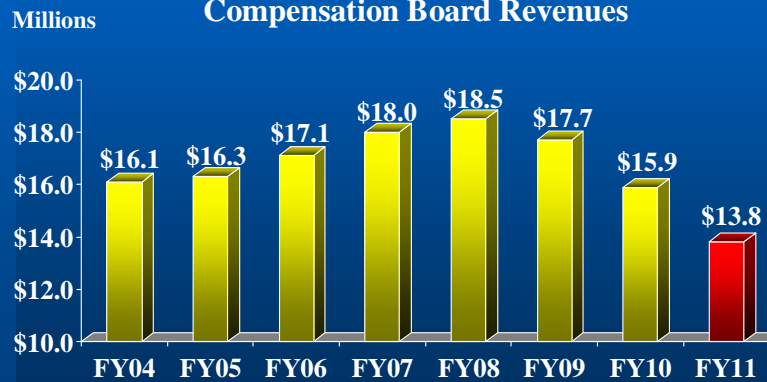


* Estimates do not include funding for capital construction.

FY04 through FY09 reflect actuals. FY10 and FY11 are estimates.

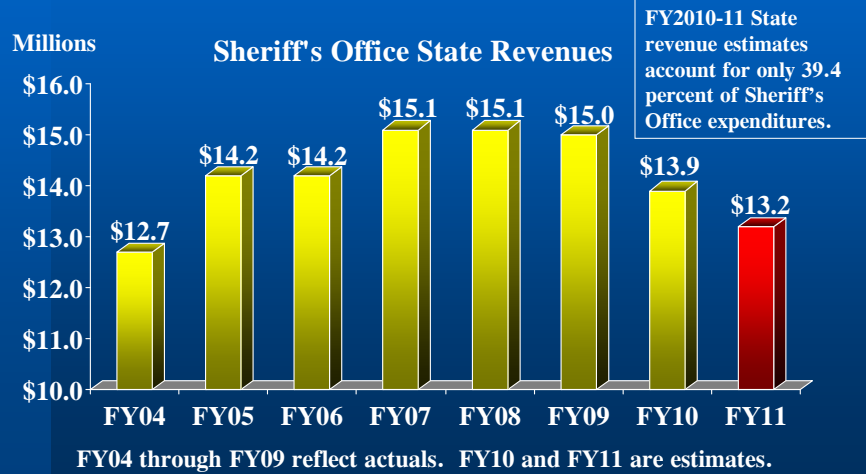
State Revenues

Shared Expenses Category - Compensation Board Revenues

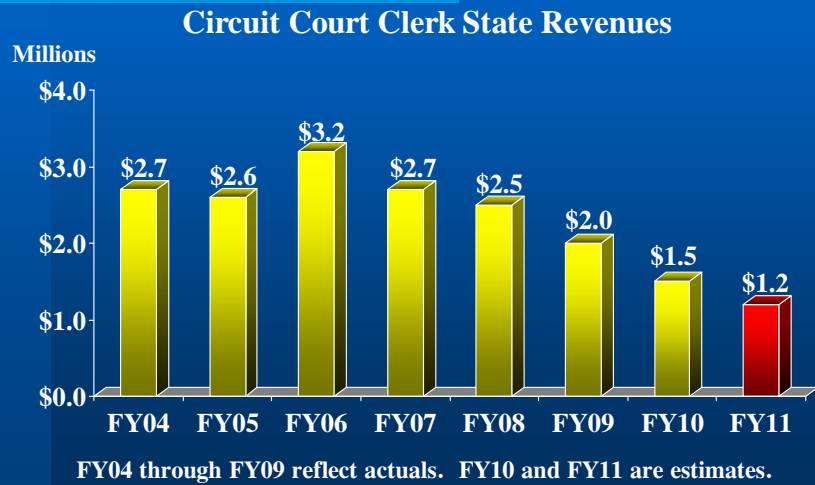


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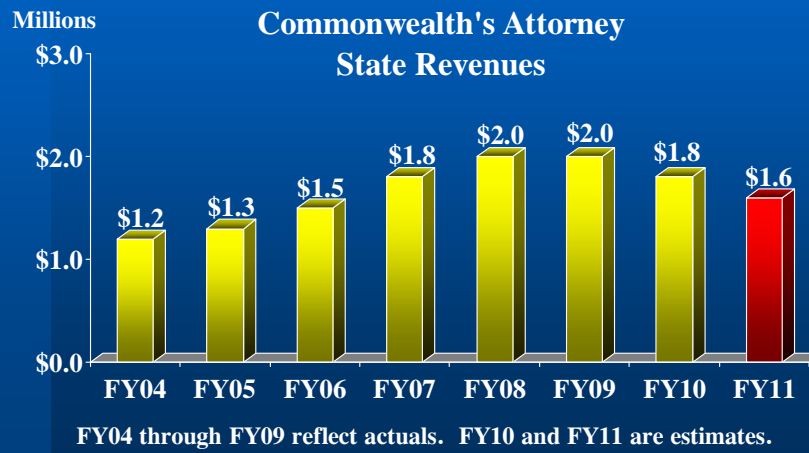
State Revenues



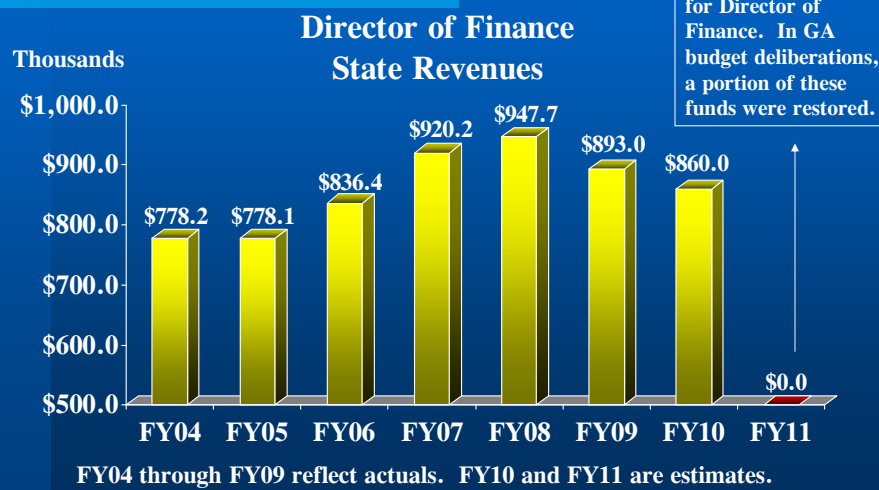
State Revenues



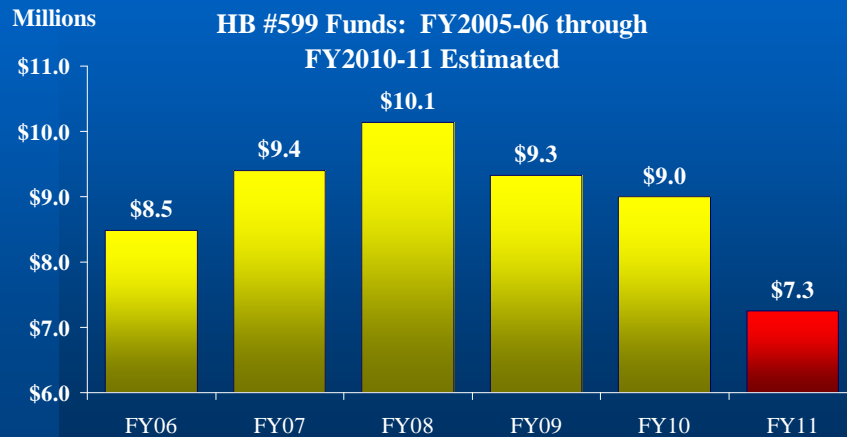
State Revenues



State Revenues



State Revenues



State Revenues

- Governor Kaine's introduced budget eliminated the current biennial requirement for localities to revert \$50.0 million a year in "local aid to the State."
- However, the conference report reintroduces the requirement for FY2010-11 and FY2011-12 and, in fact, increases the annual contribution by \$10 million or 20.0% a year for an annual total of \$60.0 million in each year of the biennium.
- Will reduce State revenues by an additional \$330,000 (all funds) – Henrico's total allocation of the \$60.0 million will be approximately \$2.0 million in FY2010-11 and FY2011-12.
- Requires the County to either "choose" which State revenue streams are to be reduced or make a payment in this

State Revenue Summary

- State Aid to Henrico County has been significantly reduced in the General Assembly's 2010-2012 Biennial Budget.
- There's continued concern that the State may have to correct revenue estimates once again in the future, and the County's FY2010-11 revenue estimates reflect this concern.
- It will take a number of years before State Aid to Henrico County reaches levels seen just two or three years ago. Some individual programs may never again reach prior funding levels.

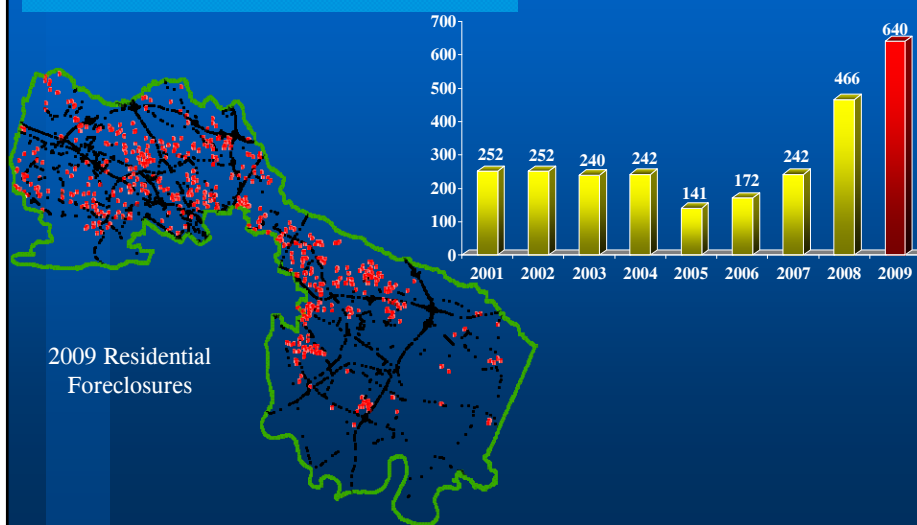


Real Estate

Real Estate Overview

- During 2009, the local real estate market experienced unprecedented declines that are affecting residential and commercial values.
- This marks the first time since 1942 that the County's real estate valuation actually declined.
- The real estate tax base decline reflects the market as of the end of calendar year 2009, as the County continues to utilize the most up-to-date sales information for assessment purposes.

Local Residential Foreclosures



Residential Home Sales Volume



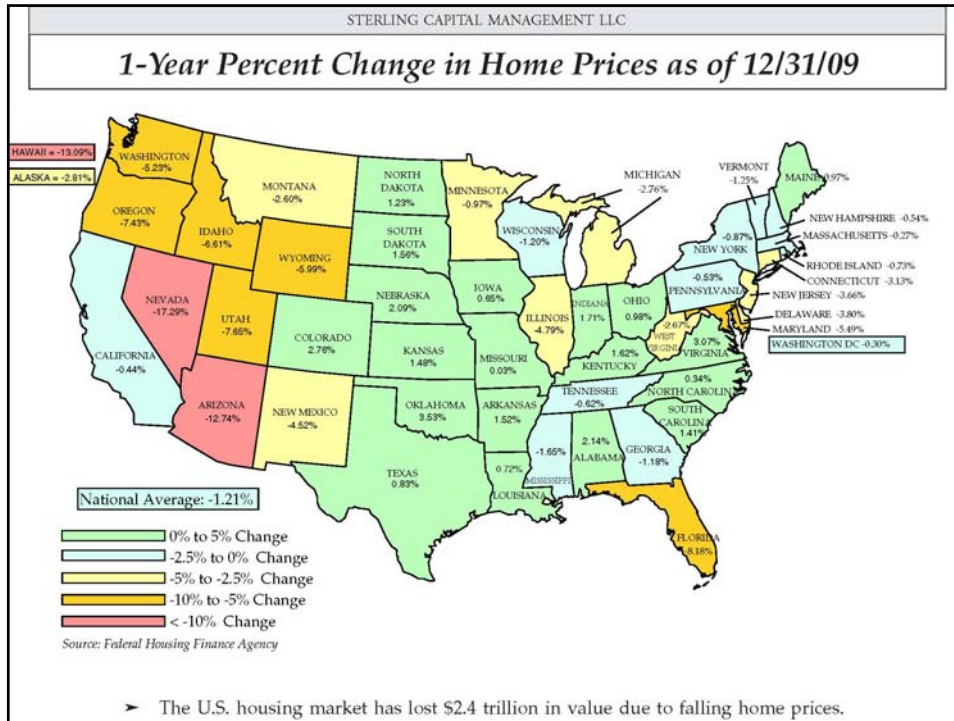
Is This the Bottom?

- Residential Foreclosures as a percentage of all real estate transactions

- 1999 thru 2007: 1% to 3%
- 2008 All: 5%
- 2009 All: 9%
- January 2010: 16%
- February 2010: 18%

Residential Foreclosures by Month
2006 through 2010 YTD

	2006	2007	2008	2009	2010
January	12	23	35	42	64
February	17	17	35	50	80
March	16	18	25	38	
April	19	8	44	40	
May	14	16	33	39	
June	15	17	34	59	
July	14	16	43	69	
August	17	18	55	68	
September	9	17	31	53	
October	9	35	49	58	
November	17	26	45	58	
December	13	31	37	66	
Total	172	242	466	640	



Commercial Real Estate Conditions

- Commercial real estate values have dropped by 13.0 percent in the Countywide January 2010 reassessment.
- Investment Grade properties (those that generate rental income) have declined in value significantly – some exceeded a 20.0 percent drop.

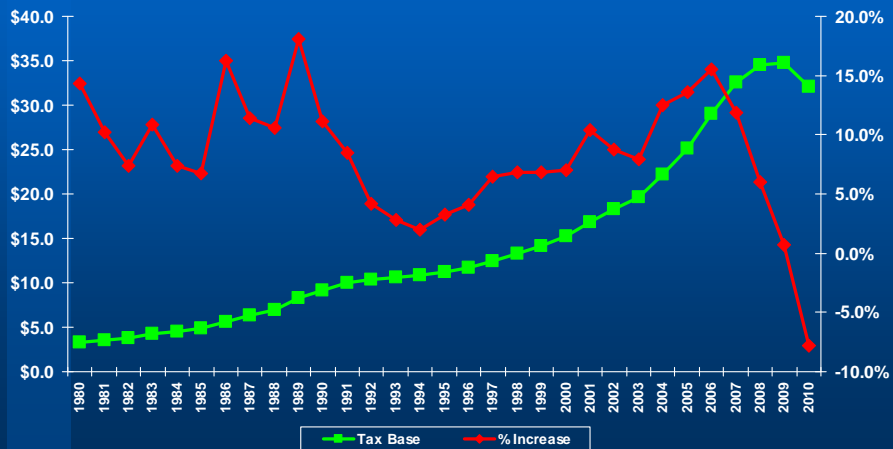
Commercial Real Estate Conditions

- The overall office vacancy rate in the Richmond Metro Area increased from 9.1% in 2008 to 11.2% in 2009.
- Vacancy rates increased substantially in 2009.
- Negative impact on rental rates.

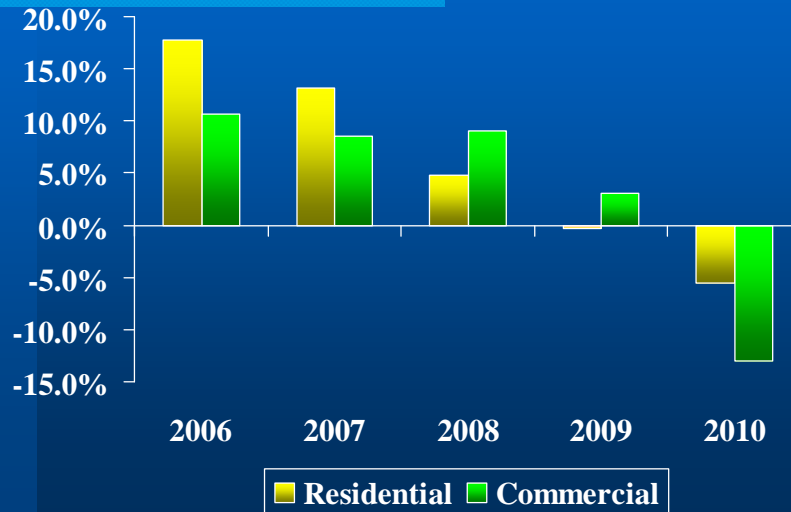
Local Overall Office Vacancy Rates			
	2007	2008	2009
Glenside/Broad St	4.7%	7.9%	8.2%
Innsbrook	6.6%	17.9%	27.1%
Lakeside	3.7%	4.0%	20.2%
Parham East	0.5%	3.3%	1.3%
West End	6.1%	6.4%	10.3%
East End	1.9%	1.9%	4.8%
Far West End	6.4%	4.6%	13.4%

Source: *Marketbeat Richmond, Virginia Office Report.*
Cushman & Wakefield Alliance Research. 4Q09.

Tax Base Increase – 30 Year History



Five-Year Taxable Value Percentage Change



Real Estate

Current Real Property Tax Revenue



FY00 through FY09 are actuals, FY10 and FY11 are estimated.

Real Estate Summary

- Considering the uncertain status of State revenues, additional pressure will be placed on the County's local revenue base, notably real estate.
- Will 2010 experience the beginning of a recovery in the real estate market?
- Continued increases in residential foreclosures and high vacancy rates in commercial properties will make it difficult.
- Recovery in the local real estate market will depend heavily on the creation of jobs in the area.



Local Revenues

Local Revenue Overview

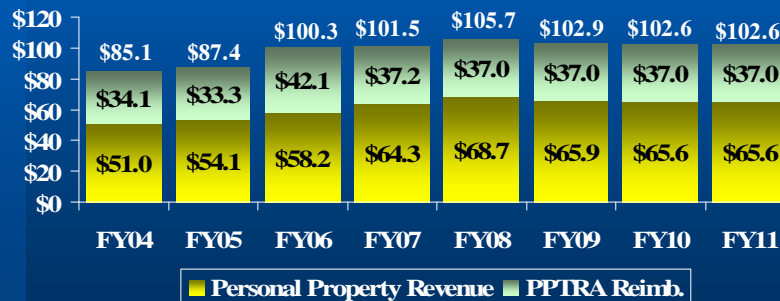
- Overall, local revenues reflect a decline of \$20.6 million in the FY2010-11 Proposed Budget from the FY2009-10 Budget – a 3.7% decrease.
- The decline in real estate tax collections of \$22.0 million accounts for all of the net reduction.
- In fact, there is a net increase in all other local revenues of \$1,421,500. This is mostly attributed to conservative estimates in prior fiscal year budgets.
- The impact of the “Henrico, VA” initiative has played a significant role in retaining a number of local revenues.

Personal Property

- \$102.6 million estimate – same as FY2009-10 budget levels.
 - “Henrico, VA” initiative - Business Personal Property Tax revenues are anticipated to remain steady.
 - Also, after two years of declines, vehicle valuations are anticipated to remain stable in calendar year 2010.
 - Disbursements by the State to localities under the Personal Property Tax Relief Act (PPTRA) remain capped at \$950 million. The State’s portion of the Personal Property Tax bills will remain at 65.0 percent for CY2010.

Personal Property Revenue

Personal Property Tax Revenue
with PPTRA Reimb. Estimate



FY04 through FY09 are actuals, FY10 and FY11 are estimated.

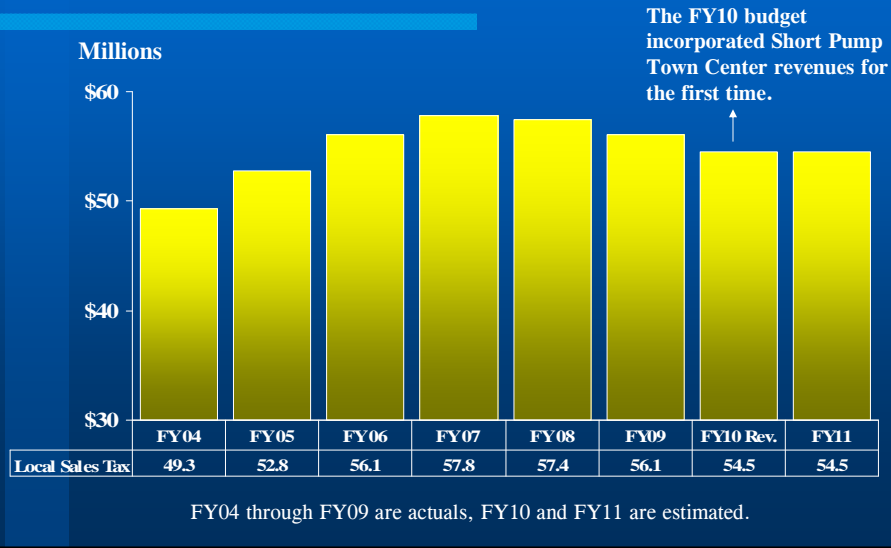
Local Sales Tax Revenues

- The economic slowdown has impacted Local Sales Tax receipts.

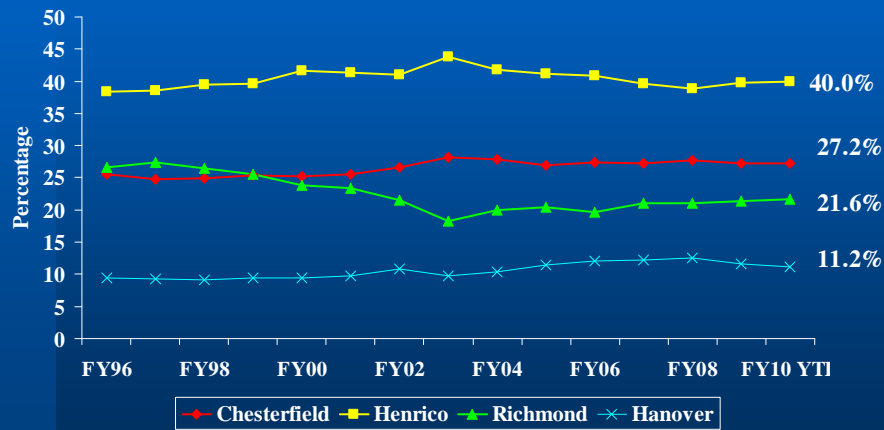
FY05	FY06	FY07	FY08	FY09
7.3%	6.2%	2.9%	(0.7%)	(2.3%)

- As of this writing, Henrico's Local Sales Tax receipts are down **4.8%** when compared to last fiscal year receipts.
 - Lowest year-over-year decline in the Richmond Metro Area.
 - "Henrico, VA" initiative.
- Henrico County continues to lead the Richmond Metro Area in retail sales – 40.0% of total as of March 2010 (including Hanover County).
- F2010-11 revenue estimates of \$54.5 million reflect a \$2.6 million or 5.0% decline from the FY2009-10 budget.

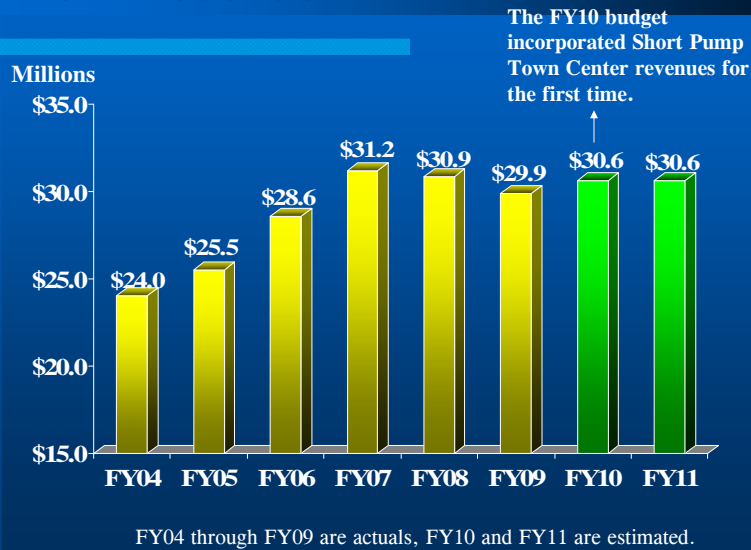
Local Sales Tax Revenues



Local Sales Tax Revenues



BPOL Revenue



In Summary

- We are in the midst of a “perfect storm” within our revenue streams.
- The next two fiscal years will be very difficult for both the State and the County.
- Henrico will continue to take a multi-year approach in both estimating and allocating public resources.
- Recovery will ultimately be tied to the County’s economic development efforts and job creation.



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