



**COMMUNITY
NEEDS AND RESOURCES
INDICATORS**



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

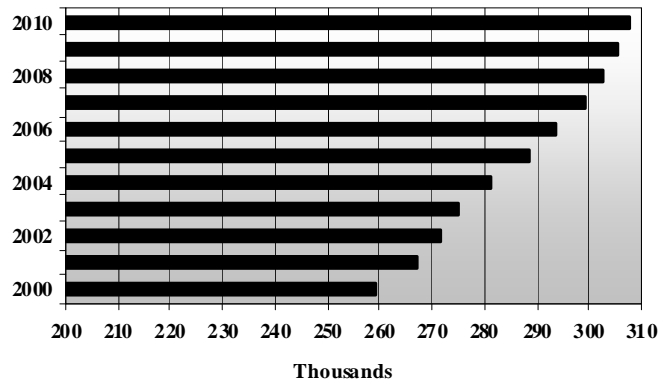
Indicator:

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 259,179 in FY00 to 307,832 in FY10, an increase of 18.8 percent in this eleven-year time span, or an annual average increase 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. According to the most recent 2010 United States Census, Chesterfield County grew at a faster pace over the past decade, as they now have a higher population than Henrico.

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

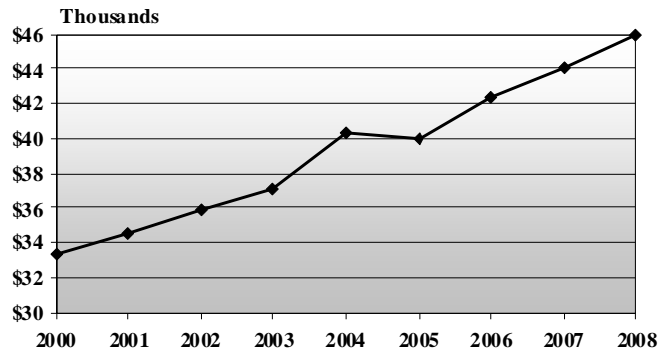
Source: Bureau of Economic Analysis

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 37.9 percent from \$33,286 in 2000 to the \$45,911 reported for 2008. It should be noted that this indicator factors in increases to the County's population, which increased 16.7 percent between 2000 and 2008.

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 2008 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 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. Another healthy increase followed in 2008 at 4.2 percent, in spite of the recessionary economic environment present the entire year.

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 4.1 percent in the *nine* years reflected on the graph above.

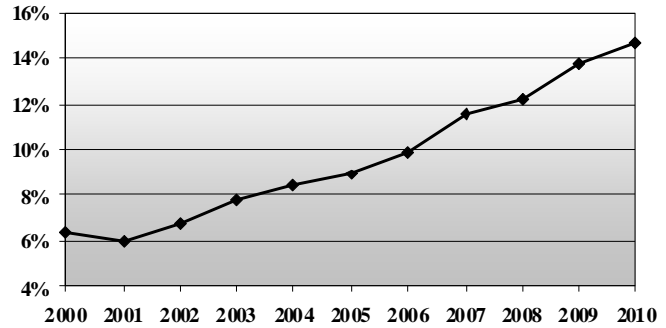


WARNING TREND: Increasing number of public assistance recipients.

Formula:

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

Public Assistance Recipients
(as a % of Total Population)



Public Assistance Recipients:

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

Trends:

The eleven-year trend for this indicator has experienced a low of 6.0 percent in FY01 and a high of 14.7 percent in FY10, the most recent fiscal year. In looking at the past ten years in particular, this indicator has increased dramatically from 6.0 percent in FY01 to 14.7 percent in FY10.

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.

In FY00 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 ten years, which has driven the increase in the number of public assistance recipients. There are currently more than fifty different categories that qualify for Medicaid coverage. Henrico has an aging population that requires long-term nursing home care, which is very expensive for each recipient. The number of mental health patients has increased as well as the number of foster care children, which have also added to the Medicaid population. In addition, policy changes related to income increase every year, which impacts this indicator as well.

The recessionary economic environment, and the subsequent loss of jobs and personal income, has created more demand for public assistance. In fact, in Henrico County from July 2007 through October 2010, the Supplemental Nutrition Assistance Program (also recognized as the food stamp program) caseload has increased 112 percent, the Temporary Assistance for Needy Families (TANF) caseload has increased by 38 percent, Unemployed Parent (UP) caseload tripled from 42 cases to 126 cases, and the number of individuals receiving



Medicaid increased by 36 percent (Source: Henrico County Department of Social Services). These are alarming trends for Henrico County, and clearly a warning trend continues for this indicator.



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

Formula:

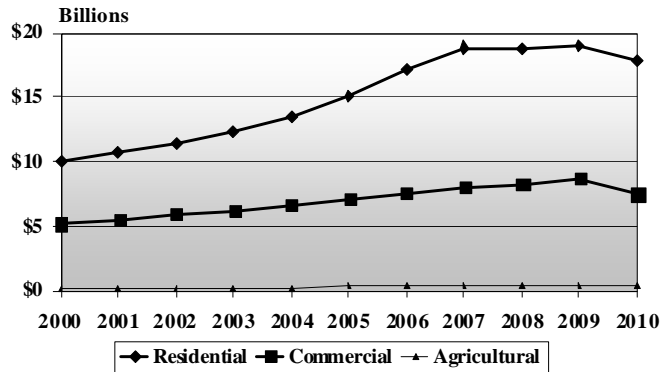
Real Property Values (Constant Dollars)

Real Property Values:

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

Real Property Values

(In Constant Dollars)



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

Trends:

The above graph illustrates real property values in *constant* dollars for residential, commercial, and agricultural properties. As such, any increases in this indicator are reported after negating the "effect" of inflation. The increases in valuation reflected above have been mitigated by a reduction in the Real Estate Tax Rate in this period of time. Specifically, since CY00, 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 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. 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).

FY10 experienced unprecedented declines in real estate valuations, as constant dollar residential property values declined 6.4 percent and constant dollar commercial property values declined 13.9 percent. Residential foreclosures and increasing office space vacancies significantly impacted the local real estate market in FY10. Problems continue in the local real estate market, as real estate valuations have declined 1.1 percent in total from January 2010 to January 2011. Residential foreclosures and vacant office space remain at historically high levels. Until the County can bring back a substantial portion of the more than 8,500 jobs lost in this most recent recessionary economic environment, 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.

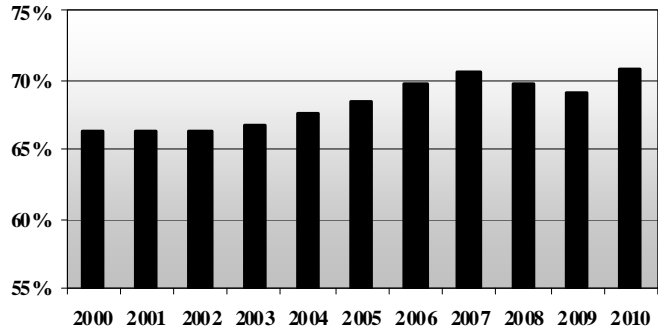
Formula:

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

Residential Development (as a % of Total Property)

Residential Development:

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



The location of new residential development is also important. Houses built on the outer fringe of a community can impose a far greater initial cost to local government than houses built within developed areas. This is because the locality must provide capital items such as streets, sewer lines, water mains, education facilities, and fire stations to service the new development. The extent to which new residential development affects the financial condition of a particular community will depend on the community's economy, tax structure, and expenditure profile.

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 70.8 percent in the most recent fiscal year, 2010. 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. In 2010, the indicator rose to 70.8 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.

In 2000 and 2001, commercial property market values (including multi-family) outpaced the growth of residential property values. In those two years, commercial value increases of 8.4 and 10.6 percent outpaced the growth of residential values, which depicted increases of 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. In 2010, because of sharp increases in vacant commercial real estate across the County, commercial valuations declined 13.0 percent as compared to a decline of 5.0 percent in residential real estate valuations. This large differential carried the Residential Development indicator to nearly 71.0 percent.

Commercial and residential real estate markets continue to struggle in 2011, as residential real estate valuations have declined by 0.9 percent, driven by continued high levels of residential foreclosures, and commercial real estate valuations have declined by 1.6 percent, mostly a result of continued high vacancy rates in office space. Because the decline in commercial real estate is nearly double that of residential real estate, the Residential Development indicator will again increase in 2011. While the continued declines in both commercial and residential real estate markets can be attributed to a number of factors, recovery in the market is closely correlated to the creation of new jobs in the County. 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 since January 2008, a warning trend must be noted.



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

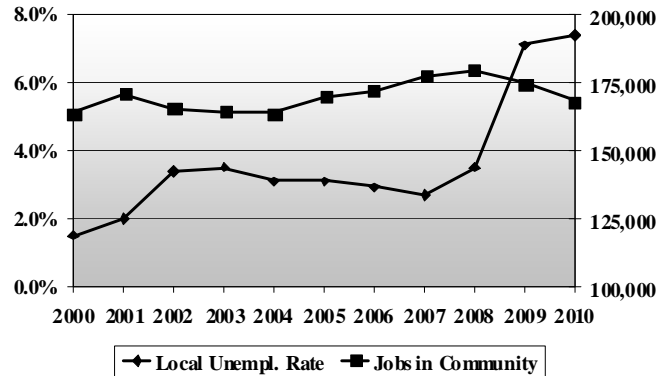
Indicators:

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.

Employment Base



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

Trends:

I. Unemployment:

Henrico County's unemployment rate, in the eleven-year period above, reflects a high of 7.4 percent in 2010, and lows at or below the 2.0 percent level for 2000 and 2001. In 2000 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 recession 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. In 2010, the unemployment rate rose again to 7.4 percent. This indicator is highly indicative of changes in the economy and thus, is a solid representation of the condition of the local economy. As of December 2010, the unemployment rate has improved significantly to 6.5 percent, although this remains exceptionally high as compared to just three years ago. While the local economy is beginning to add new jobs, it will take a number of years for the County to make up for the 8,500 jobs it lost since December 2007. As such, a warning trend continues to be noted for this indicator.

II. Number of Jobs:

From 2000 through 2010, the number of jobs in Henrico increased from 163,704 to 168,142, an increase of 2.7 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 and 2010 both reflected net declines 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 most recent 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. The recession claimed more than 14,000 jobs in the Metropolitan Richmond Area, with nearly two thirds of those in Henrico County.

A number of economic development announcements have been made recently, many of which will bring new jobs into the County. However, as noted above, it will take many years to make up for the 8,500 jobs Henrico lost in the most recent economic recession. As such, a warning trend continues to be noted for this indicator.



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

Indicators:

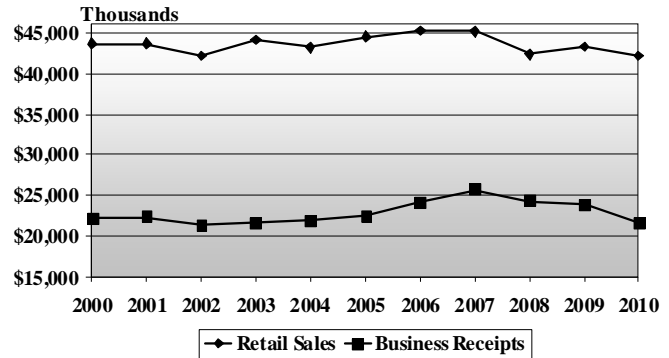
Local Retail Sales Tax and Business and Professional License (BPOL) Tax Receipts

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

The level of business activity affects a locality's financial condition in two ways. First, it directly affects revenue yields as sales taxes and gross receipts taxes are products of business activity. Second, the effect of these indicators may be indirect to the extent that a change in business activity affects other demographic and economic areas such as employment base, personal income or property values. Changes in business activity also tend to be cumulative.

A decline in business activity will tend to have a negative impact on employment base, personal income and/or commercial property values. This in turn can cause a decline in local revenues generated by businesses.

Local Retail Sales and Business Receipts
(In Constant Dollars)



Trends:

I. Local Retail Sales Tax Receipts:

The above graph indicates that local sales tax receipts, in constant dollars, reflect a reduction from \$43.6 million in FY00 to \$42.1 million in FY10. 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 a 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 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 economic struggles continuing into FY10, inflation-adjusted sales tax collections declined 2.6 percent to \$42.1 million. However, like the recessionary economic environment in FY02, Henrico County’s retail sales as a percentage of the total Richmond Metropolitan Area increased. In fact, in each year of the most recent recession, FY08 through FY11 (as of this writing), Henrico has increased its share of the total region’s retail sales. Clearly, this can be attributed to the “Henrico, VA” initiative and the diversity of Henrico’s retailers. As of this writing, sales tax collections are up a healthy 5.4 percent in FY11. Though it will likely take a number of years to achieve retail sales levels seen just a few years ago, there are clear signs that the local economy is again growing, albeit at a slow pace. As such, the near term warning trend noted in this document last year has been lifted and no long-term warning trend is noted.

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

The graph for the eleven-year period shown on the preceding page indicates that from FY00 to FY07, local business license tax receipts, in constant dollars, were 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) fell sharply due to the struggling economy and unusually high inflation. While this indicator reflects a significant decrease, real unadjusted BPOL tax revenue only reflected a slight decrease of 1.0 percent. 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. However, the recession present in FY02 was short lived, whereas the most recent recession lasted eighteen months (December 2007 through June 2009), the longest since the Great Depression, and the lingering effects of this most recent recession continue eighteen months after it officially ended. In FY09, inflation adjusted BPOL tax receipts declined by 1.9 percent and real unadjusted BPOL tax revenue declined by 3.2 percent. In FY10 inflation adjusted BPOL tax receipts declined by 9.5 percent, easily the largest decline in the eleven-year period examined, and real unadjusted BPOL tax revenue declined by 8.5 percent. A number of businesses in the County fell victim to the recessionary economic environment and were forced to close their doors. However, a number of recent economic development announcements have been made that will have a positive impact on every local revenue stream, including BPOL receipts. As new businesses enter the County



and join the existing diversified business community, BPOL tax receipts will again show strong growth. Like sales tax collections, the near term warning trend noted in last year's Trends document has been lifted and no long-term warning trend is noted as well.



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

Indicators:

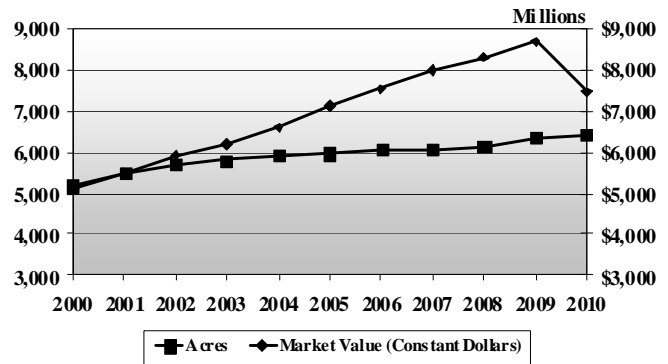
Number of Commercial Property Acres and Market Value of Business Property

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

The level of business activity affects a locality's financial condition in two ways. First, it directly affects revenue yields to the extent that the number of business acres and value of business property may be considered products of business activity. Second, the effect of these indicators may be indirect to the extent that a change in business activity affects other demographic and economic areas such as employment base, personal income or property values.

Changes in business activity also tend to be cumulative. A decline in business activity will tend to have a negative impact on employment base, personal income or property value. This in turn, can cause a decline in local revenues generated by businesses.

Commercial Acres and Market Value of Business Property



Trends:

I. Business Acres:

As shown in the graph above, business acreage has steadily increased from 5,175 in 2000 to 6,393 in 2010. Business acreage is defined as “developed commercial property for office and retail use.” The data reveals that in the ten years since 2000, the average annual increase in the number of business acres developed has been 121.8. There were three years in which business acreage development exceeded the eleven-year annual average. In FY01, 304 acres were developed and in FY02, the total acreage developed was 205 acres. In FY09, the total acreage developed was 253 acres, the second largest annual increase in the eleven years examined, in spite of the slowing economy. A number of large commercial developments were completed in FY09, including 142 acres associated with a new shopping center, White Oak Village, and a number of businesses surrounding the mall. A number of new hotels were constructed in FY09 as well. In the most recent fiscal year, FY10, only 22 total acres were developed, easily the lowest in the eleven years examined. The depth and length of the economic downturn impacted all real estate in FY10, particularly commercial real estate, and commercial construction was virtually nonexistent as a number of existing properties remained vacant, particularly office space.

Commercial development and concentration is a key component to maintaining a low Real Estate Tax rate and ensuring that Henrico continues to increase the number of jobs in the community. The commercial component of the Real Estate Tax base is able to subsidize the costs incurred by residential development – particularly in the area of Education. The total increase of business acreage in this eleven-year period is 23.5 percent.

II. Market Value of Business Property:

The eleven-year trend for this indicator, *in constant dollars*, has ranged from \$5.1 billion in CY00 to \$8.6 billion in CY09, before falling to \$7.4 billion in CY10. The value of commercial properties is prone to devaluation when the supply of those properties is greater than the demand. Commercial valuations increased every year from FY00 to FY09. This is in spite of the recessionary period of CY02 and CY03 and the economic downturn in CY08 and CY09. However, entering the third year of the most recent recessionary economic environment, the supply of vacant office and retail space increased significantly due to a number of businesses closing their doors. The result was an overall reduction in the commercial tax base of more than 13.0 percent.



Commercial real estate valuations have declined approximately 1.6 percent from January 2010 to January 2011, as the local supply of vacant commercial properties remains abundant. Since January 2008, Henrico County lost nearly 8,500 jobs locally and experienced an increase in its unemployment rate from 3.3 percent in January 2008 to a high of 7.5 percent in February 2010. While there have been a number of recent positive economic development announcements, many of which are adding jobs in Henrico County and absorbing office vacancies, it will take many years to replace the large number of jobs lost in the past three years. Looking into the future, commercial real estate will continue to struggle until these jobs are replenished, as newly created jobs would fill vacant office space and would have a positive impact on commercial real estate valuations. Also potentially impacting commercial real estate values in the future is that a number of loans may become due for refinancing, and some commercial property owners in the County may have troubles securing financing. Because of these issues, a commercial real estate market recovery is likely a number of years away. As such, a warning trend must be noted.

