

COUNTY OF HENRICO, VIRGINIA
FINANCIAL TREND MONITORING SYSTEM
FISCAL YEARS 2010 – 2020

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INTRODUCTION

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

DEFINITIONS & CONCEPTS

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

- **Ability to maintain existing service levels-** means more than the ability to pay for services currently being provided. It means the ability to maintain programs in the future that are currently funded from external sources such as state or federal grants where the support is likely to diminish, 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.
- **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.
- **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 (FTMS) – This report is a management tool that pulls together the pertinent information from the County's budgetary and financial reports, mixes it with the appropriate economic and demographic data, and creates a series of local government financial indicators that, when plotted over a period of time, can be used to monitor changes in financial condition. This system assists the Board of Supervisors in setting long-range policy priorities and provides a logical way of introducing long-range considerations into the annual budget process. The following discussion has been developed using the International City/County Management Association manual entitled *Evaluating Financial Condition, A Handbook for Local Government*.

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

- **Environmental Factors** – These factors create demand and provide resources. Analysis of these factors presents the question "Do they provide enough resources to pay for the demands they create?".
- **Organizational Factors-** Responses of the government to changes in environmental factors. Examples include increasing or reducing services, raising or lower taxes, etc. Analysis of these factors presents the question "Do

legislative policies and management practices provide the opportunity and flexibility to make the appropriate response to changes in the environment?"

- **Financial factors**- Analysis of these factors presents the question "Is government paying the full cost of operating without postponing costs to a future period when revenues may not be available to pay these costs?"

Figure 1- Financial Condition Factors



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

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

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

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

HOW TO USE THIS DOCUMENT

Twenty-eight financial indicators have been selected for use in monitoring Henrico County’s financial condition. They are displayed graphically on the following pages. These indicators were chosen based upon the availability of data and their appropriateness for Henrico County. The financial indicators selected are grouped by seven financial factors:

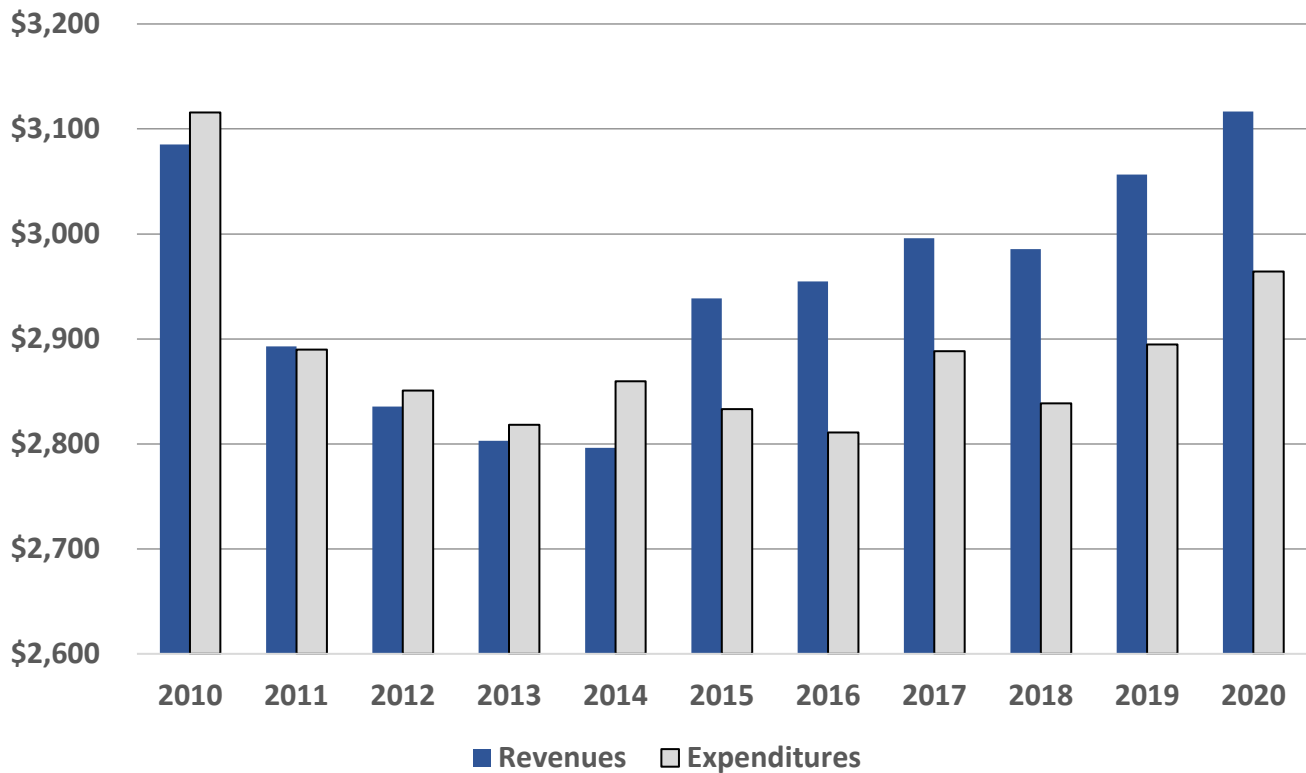
- **Revenues**
- **Expenditures**
- **Operating Position**
- **Debt Structure**
- **Employee Leave**
- **Condition of Capital Plant**
- **Community Needs & Resources**

The remainder of this document is structured into seven sections, one for each of the seven factors. Appendix A provides the raw data used to develop the graphs. Appendix B provides a list of the Economic Data Sources used in the analysis.

REVENUE INDICATORS

REVENUES/EXPENDITURES PER CAPITA

(In Constant Dollars)

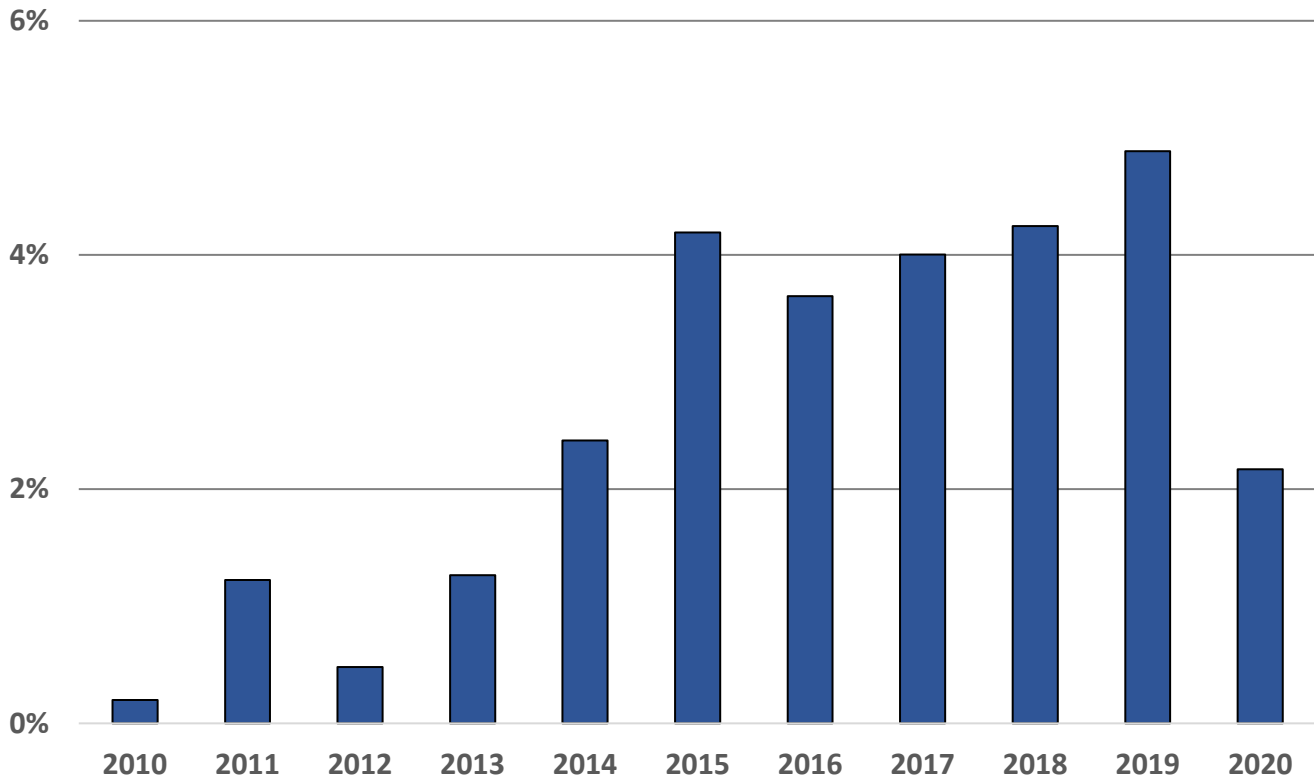


These indicators depict how revenues and expenditures are changing relative to changes in the level of population. As the population increases, it might be expected that the need for services would increase proportionately; therefore, the level of per capita revenues should remain at least constant in real terms. If per capita revenues are decreasing, it could be expected that the locality would be unable to maintain existing service levels unless new revenue sources or ways to save money are found. 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.

Both Revenues and Expenditures per capita increased in FY2020 despite the economic impacts of the COVID-19 pandemic. FY2020 Revenues per capita exceeded FY2010 levels making FY2020 the highest Revenue per capita in this 11-year timeframe. FY2020 Expenditures per capita rose proportionately with revenues, a trend that has been in place since FY2015. **Current revenues and expenditures per capita indicate that there is a healthy ratio of spending to saving in Henrico County.** Future years may have smaller gaps between Revenues and Expenditures due to the compensation proposal coming forward in the FY2022 budget.

REVENUE VARIANCE

(As a % of Net Operating Revenue)

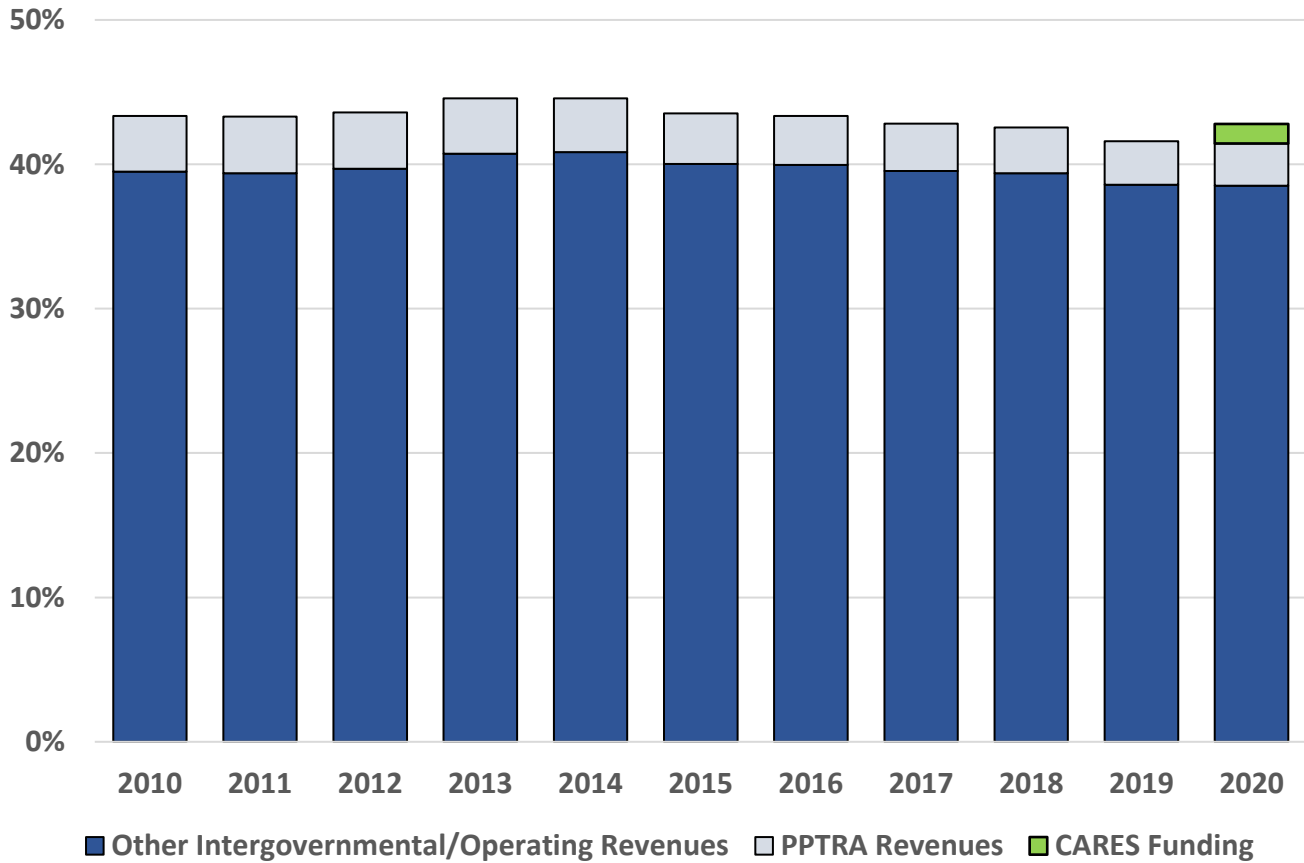


This financial indicator examines the differences between revenue estimates and revenues realized. The data shown includes revenues in the General, Special Revenue, and Debt Service funds. Major discrepancies in revenue estimates can be an indication of a declining economy, inefficient collection procedures, or inaccurate estimating techniques. On the graph above, the 0% marker at the x-axis represents the fiscal year budgeted estimates and the graph indicates the variance of actuals from the budget estimate. A positive number indicates budget estimates were exceeded, while a negative number reflects missed revenue projections.

The revenue variance reached a 5-year low in FY2020 with actual revenues still exceeding the estimated values. Henrico has implemented a strategy of a conservative budgeting in recent years, meaning revenues are estimated to be on the lower side of a confidence interval to allow for unexpected changes. The COVID-19 pandemic is an example of an unexpected economic change that resulted in the reduced margin between expected and received. **Current trends show that Henrico County’s pattern of under-projecting revenues during the budget process in order to mitigate risk is effective in times of unexpected events.**

INTERGOVERNMENTAL REVENUES

(As a % of Gross Operating Revenues)

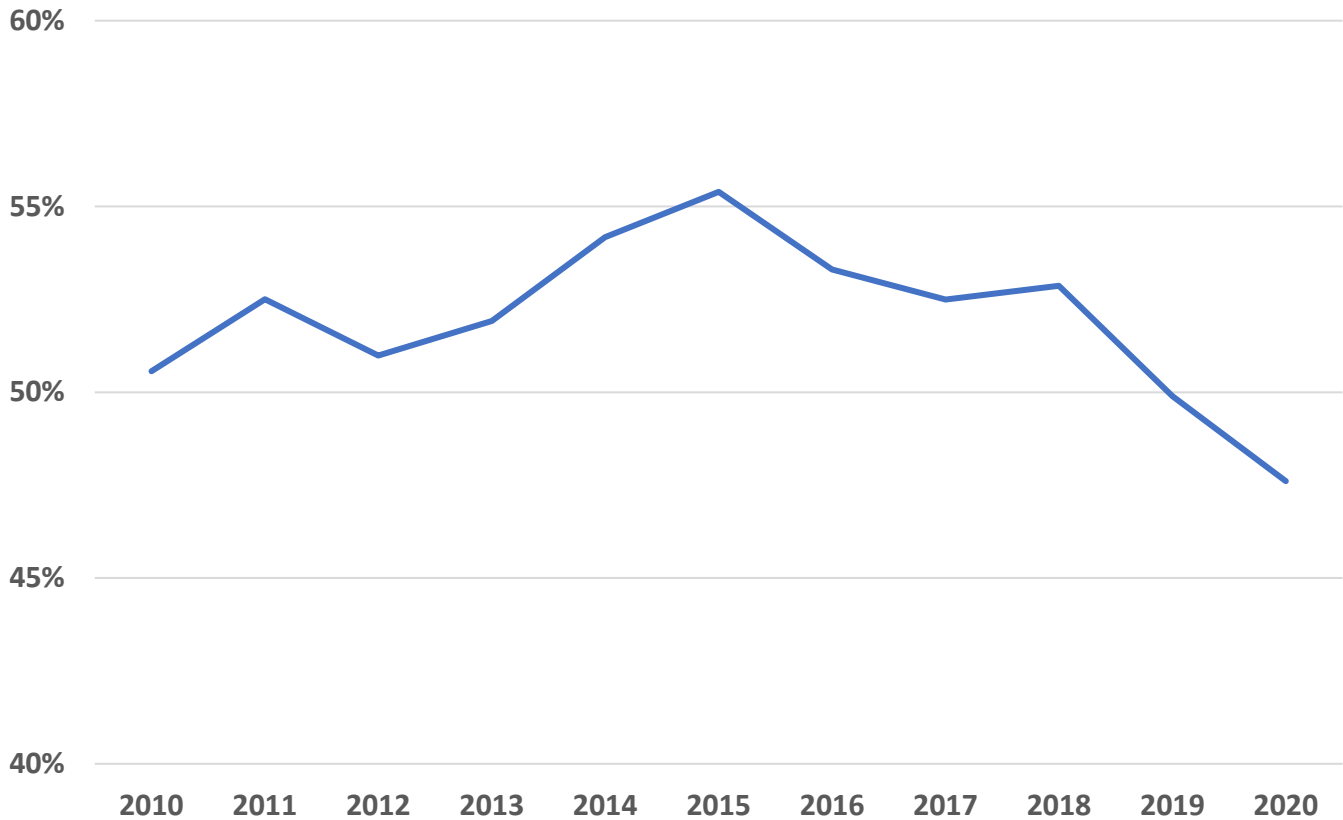


Intergovernmental revenues are those revenues received from other governmental entities such as the Commonwealth of Virginia and the Federal Government. Intergovernmental revenue is commonly restricted revenue and legally earmarked for a specific use as required by State and/or Federal law or grant requirements. An overdependence on intergovernmental revenues can have an adverse impact on the County's financial condition if conditions change or funding is withdrawn after the locality has developed a dependence on the program. Personal property tax payments paid by the State under the Personal Property Tax Relief Act (PPTRA) have been classified as intergovernmental revenues even though the assessment function is performed at the local level. In the graph above, PPTRA revenues appear as the top stacked bar.

Intergovernmental Revenues have remained relatively stable over the 11-year period shown. The slight increase in FY2020 (1.3%) is related to funding received through the CARES act in response to the economic impacts related to the COVID-19 pandemic. Without CARES funding, FY2020 would have seen no growth over FY2019. Intergovernmental Revenues (including PPTRA) have consistently averaged between 43% and 45% of Gross Operating Revenues since FY2009. The slight decrease seen in FY2019 has not been present since FY2007. **Despite the presence of an economic shock from the COVID-19 pandemic, dependence on Intergovernmental Revenues has not changed significantly in 12 years.**

USER CHARGE COVERAGE

(Revenues/Expenditures)

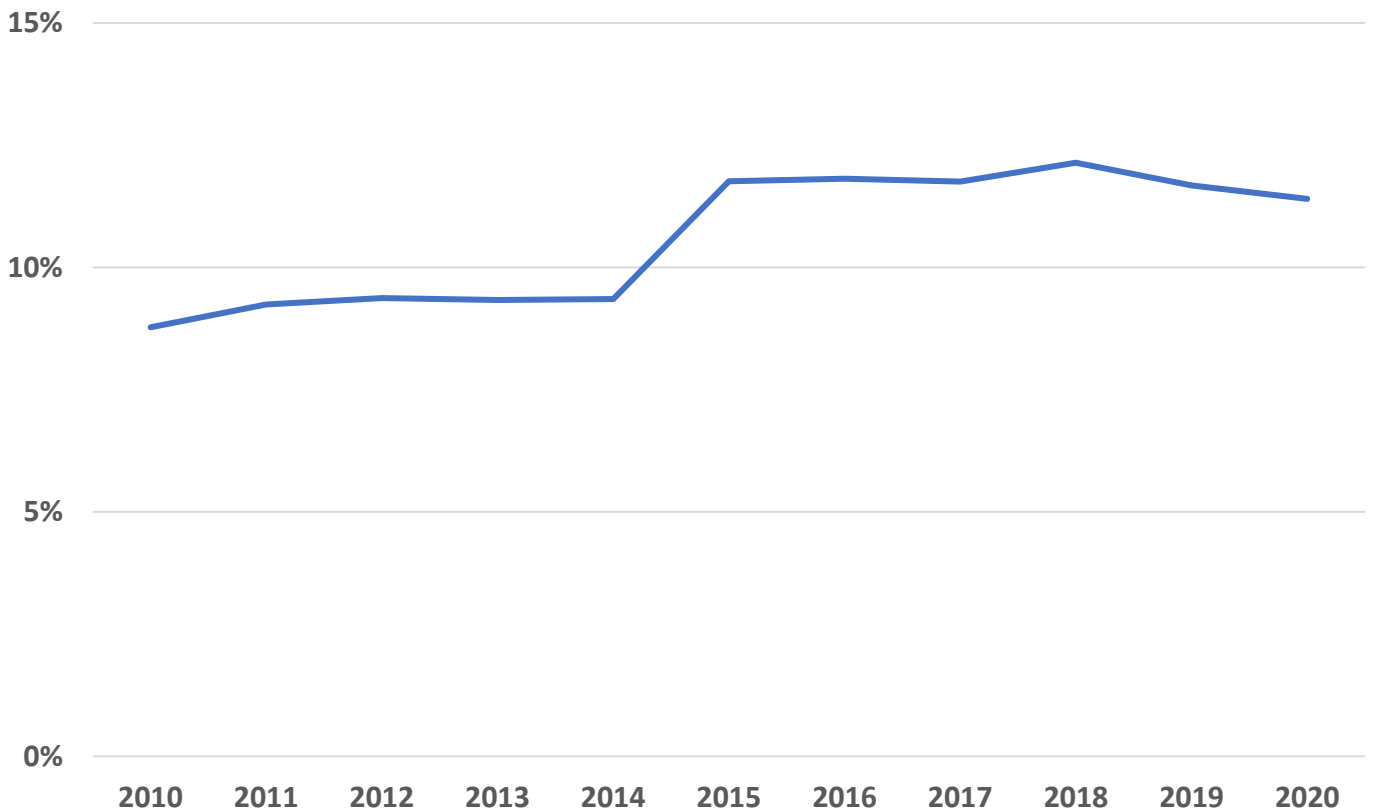


User Charge Coverage refers to the ratio of the county’s fees to the full cost of providing related services. Henrico County charges fees for the employee cafeteria, recreation activities, building permits, the school cafeterias, mental health services, street lighting, and solid waste services. If User Charge Coverage declines, these services must be covered by other revenue sources. Inflation erodes the User Charge Coverage if not reviewed and fees amended periodically.

User charge coverage reached an all-time low in FY2020. This constitutes a warning trend. The COVID-19 pandemic forced the closure of school and employee cafeterias and many public facilities, resulting in a \$1.4 million drop in User Charge revenues in FY2020. All coverage ratios, except for that associated with Building Inspections, decreased with Recreation taking the largest decrease at 47.9 percent from FY2019. Henrico’s public schools increased expenditures in the School Cafeteria by providing free meals to students at various locations throughout the county, resulting in a \$1 million increase in expenditures. This, combined with a \$1.4 million decrease in revenues, brought the School Cafeteria coverage ratio from 100 percent coverage down to 68 percent, or a decrease of 32.2 percent. Currently, Building inspections is the only self-sustainable use charge operation, operating at 171.2 percent coverage. All other departments are operating at a loss between 71.9 percent coverage (Solid Waste/Street Lights) down to 1.8 percent coverage (Recreation).

ELASTIC OPERATING REVENUES

(As a % of Net Operating Revenues)

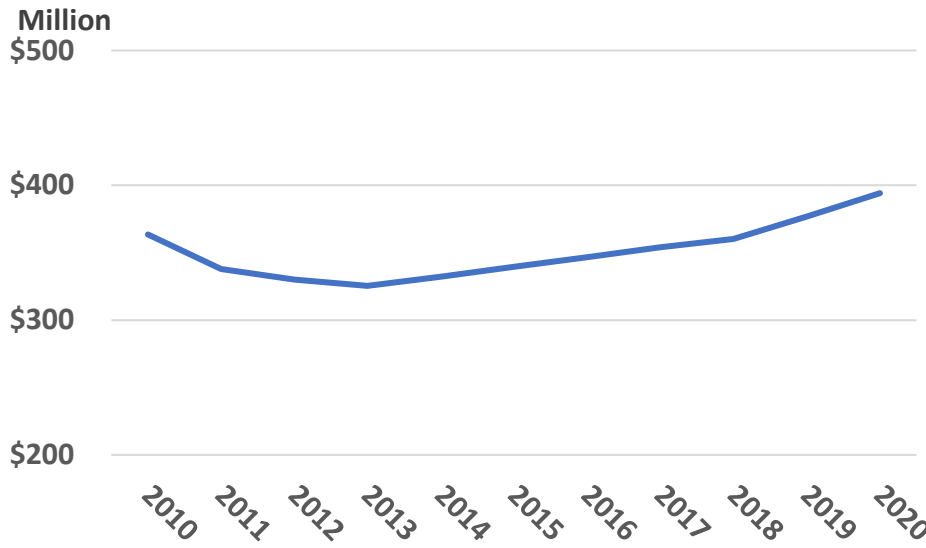


Revenue categories used for this indicator include Local Sales and Use Taxes, Business and Professional License Taxes, structure and equipment permit fees, and Food and Beverage Taxes. The trend line shows the aggregate total of these revenues as a percentage of total Net Operating Revenues for each fiscal year. A decrease in Elastic Operating Revenue (negative impact) or an increase in Net Operating Revenue (positive impact) can result in a negative trend. Due to this, the indicator looks for unplanned changes in the trend.

In FY2020, Elastic Operating Revenue and Net Operating Revenue both increased, but due to Net Operating Revenues increasing at a faster rate than Elastic Operating Revenues, there is a downward trend from FY2019 to FY2020. **Current trends indicate that there is a healthy ratio of elastic and inelastic revenues in Henrico County, allowing for the Net Operating Revenue to grow despite a near-stagnant growth in Elastic Operating Revenues.**

GENERAL PROPERTY TAX REVENUES

(In Constant Dollars)

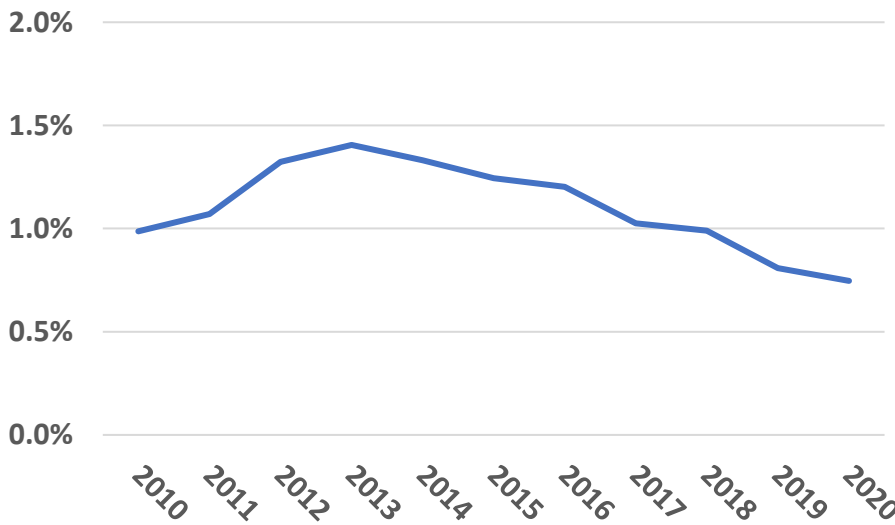


General property tax revenues in Henrico County include both current and delinquent real and personal property tax revenue collected by the County. These revenues constitute Henrico County's largest local revenue category, representing 67.5 percent of total local operating revenue in Henrico County in FY2020.

General property tax collections were healthy in FY2020, exceeding recorded collections in the history of the FTMS in Henrico County, exceeding the previous peak of \$378 million (recorded in FY2009) by \$17 million.

UNCOLLECTED CURRENT PROPERTY TAXES

(As a % of Total Levy)



Every year a certain percentage of current real and personal property taxes go uncollected. If 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

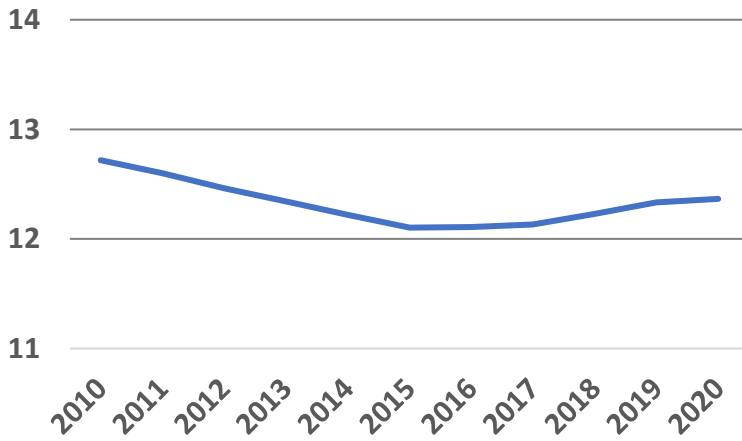
stability of the property tax base or is indicative of systemic problems with local tax collection efforts.

FY2020 represents the lowest uncollected current property taxes in this 11-year timeline with a continuing downward trend. Due to the COVID-19 pandemic, relief measures were put in place in FY2020 including deferring the first due date for Property taxes from June to August at no penalty to the property owner. Had these measures not been implemented, it is likely that this measurement would have been higher. Additionally, the County permanently eliminated the credit card fee associated with payment in an effort to further reduce delinquencies.

EXPENDITURE INDICATORS

EMPLOYEES PER CAPITA

(Employees per 1,000 Population)

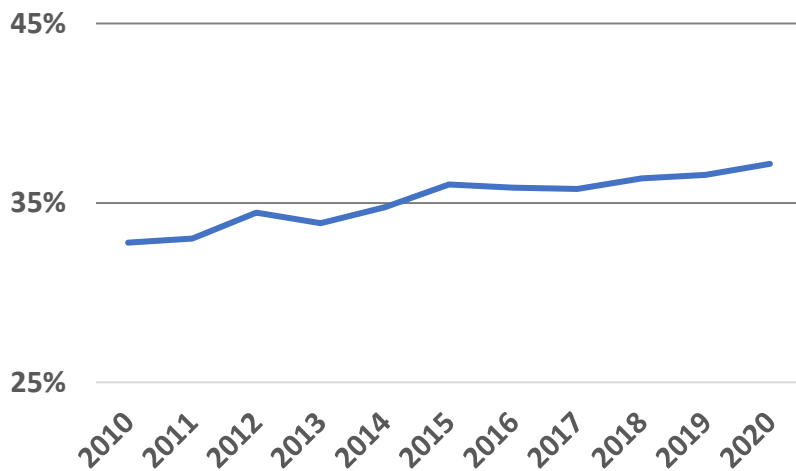


Personnel costs reflect the major portion of Henrico County’s operating budget and changes in the number of employees per capita are indicative of changes in expenditures. An increase in employees per capita might indicate that expenditures are rising faster than revenues, or that the locality is becoming more labor intensive, or that personnel productivity is declining. This report uses total approved employee positions in a given fiscal year and does not take into account mid-year changes to staffing or vacant positions.

Employees per capita modestly increased in FY2020 but is currently at FY1991 levels for staffing and if vacant positions are excluded, FY2020 exhibited a ratio similar to what was recorded for FY1982. Position growth was slowed due to restrictions set by Henrico due to the evolving COVID-19 pandemic resulting in an increase of 0.28 percent from FY2019 to FY2020 vs. an increase of 0.85 percent from FY2018 to FY2019.

FRINGE BENEFITS

(As a % of Wages)



Fringe benefits are compensation that employees receive in addition to wages paid by an employer. In the case of a locality, monitoring fringe benefits is another way to monitor a large portion of overall expenditures. The fringe benefits measured on this indicator include FICA, 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 wages paid to obtain the percentages depicted.

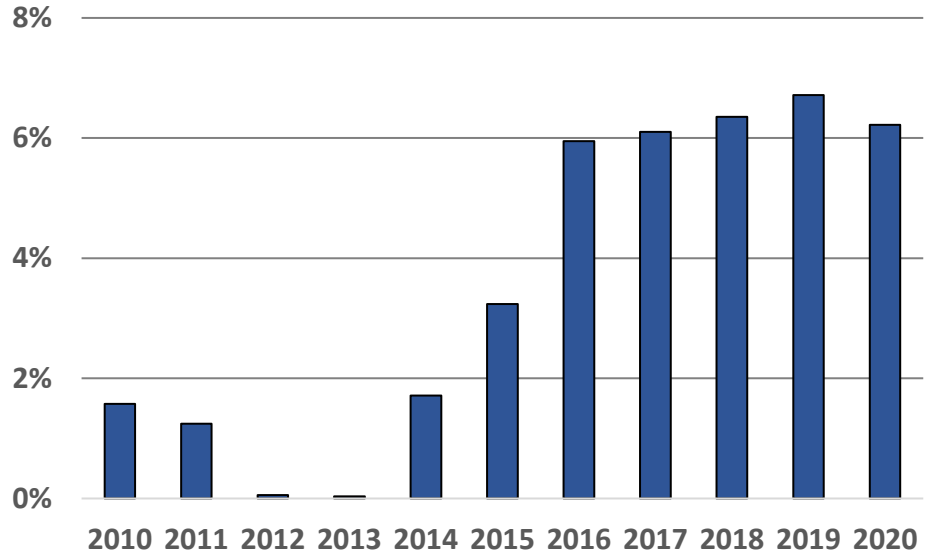
Fringe benefits have reached an all-time high in FY2020 due to increasing health care costs market wide. These costs largely fall outside of the direct control of the County but **show how the County is impacted by increasing costs in the larger economy.**

OPERATING POSITION INDICATORS

OPERATING SURPLUS

(As a % of Net Operating Revenues)

An operating surplus occurs when current revenues exceed current expenditures. If the reverse is true, it means that there is a deficit and the locality is spending more than it receives. There can be isolated cases where spending more than collecting is prudent and may not be reason for alarm. Frequent occurrences of operating deficits may indicate that realized revenues are not supporting current expenditures which should constitute a review of priorities and goals.

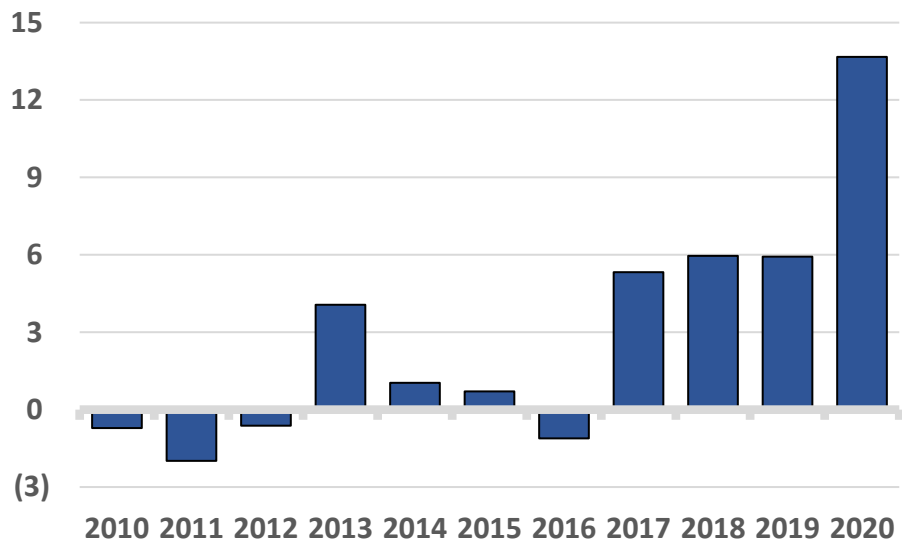


Operating surpluses slightly dipped in FY2020 in response to the COVID-19 pandemic but are still well above the 35-year average operating surplus of 5.5 percent.

ENTERPRISE LOSSES

(in Constant Dollars)

Enterprise losses occur when “for profit” programs encounter an operating deficit. Negative numbers on the scale represent program losses (inclusive of depreciation expenses). Enterprise operations included in this analysis were Water and Sewer services and the Belmont Golf Course. In December 2020, First Tee of Richmond took over operations of the Belmont Golf Course and this enterprise program is no longer in operation.



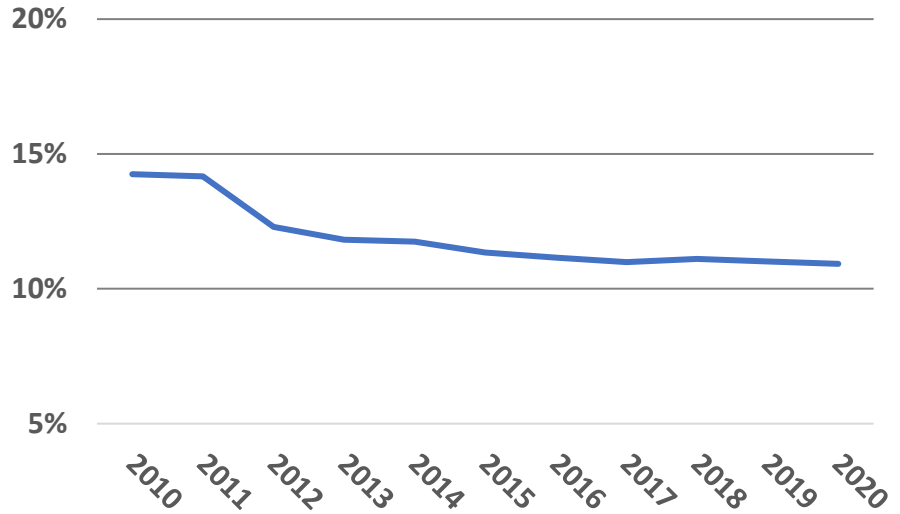
The enterprise surplus in FY2020 represent the largest gain in this 11-year timeline and the second largest surplus in the FTMS. The driver of the surplus comes from expenditure levels not changing from FY2019 to FY2020 matched against increasing revenues in the same timeframe from water and sewer services.

GENERAL FUND UNASSIGNED BALANCES

(As a % of Net Operating Revenues)

The level of a locality's unassigned fund balance may determine its ability to withstand unexpected financial emergencies, which may result from natural disasters, revenue shortfalls, or steep rises in inflation. It also may determine a locality's ability to accumulate funds for large-scale one-time purchases without having to incur debt.

The ratio of general fund unassigned balance to the total balance of the General, Special Revenue and Debt Services funds is 10.9 percent for FY2020. **Current levels have been maintained for the past 5 fiscal years and are above the 35-year average of 8.5 percent.**

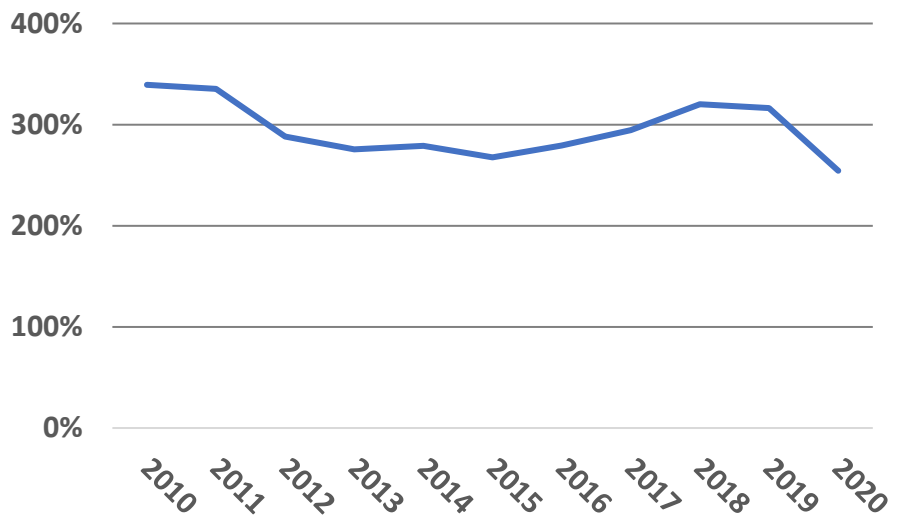


Note: This historical depiction is reflected differently than the percentages referred to in the Annual Fiscal Plan as "net operating revenues." The graph above includes the General, Special Revenue and Debt Service Funds, causing the percentage reflected on this page to be lower than what is reflected in the Annual Fiscal Plan.

LIQUIDITY

(Cash & Investments as a % of Current Liabilities)

Liquidity measures a locality's ability to pay its short-term obligations through the monitoring of its cash position. "Cash position" includes cash on hand and in the bank, and assets that can be easily converted to cash, such as short-term investments. Short-term obligations include accounts payable, the payments on 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.



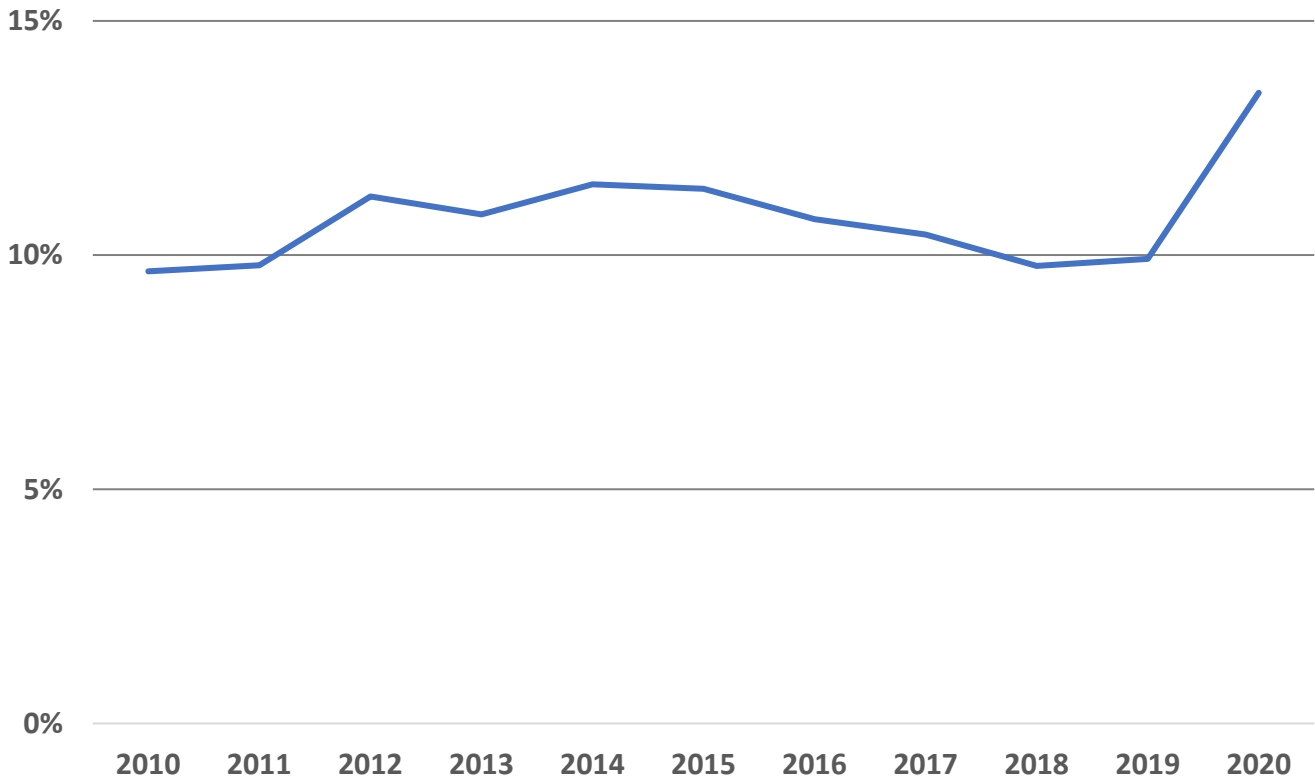
Declining liquidity may indicate that a locality has overextended itself.

FY2020 marks a substantial drop in liquidity compared to other fiscal years in this 11-year timeline. Interest rates reached record lows in FY2020 which prompted the county to refund already approved long-term debt in order to take advantage of the lower rates. As issuances were retired and then re-issued, the total principal due in twelve months was inflated, bringing liquidity down. **The lower liquidity is cause for concern if it is an ongoing trend in subsequent fiscal years.**

DEBT STRUCTURE INDICATORS

CURRENT LIABILITIES

(As a % of Net Operating Revenues)



Current liabilities include short-term debt, the current debt service payments of long-term debt, accounts payable and other 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. Use of short-term borrowing is option for handling erratic flows of revenues, but an increasing amount of short-term debt outstanding at the end of successive years can indicate liquidity problems, deficit spending, or both.

As mentioned in the previous analysis regarding liquidity, **current liabilities increased in FY2020 due to debt issuances in FY2019 and FY2020** that are realizing their first debt service payments containing principal. As the debt service payment increased to accommodate these higher payments, so too did current liabilities, reaching levels not seen since FY2009. Still, the higher current liabilities are **only a cause for concern if it is a reoccurring trend in subsequent fiscal years.**

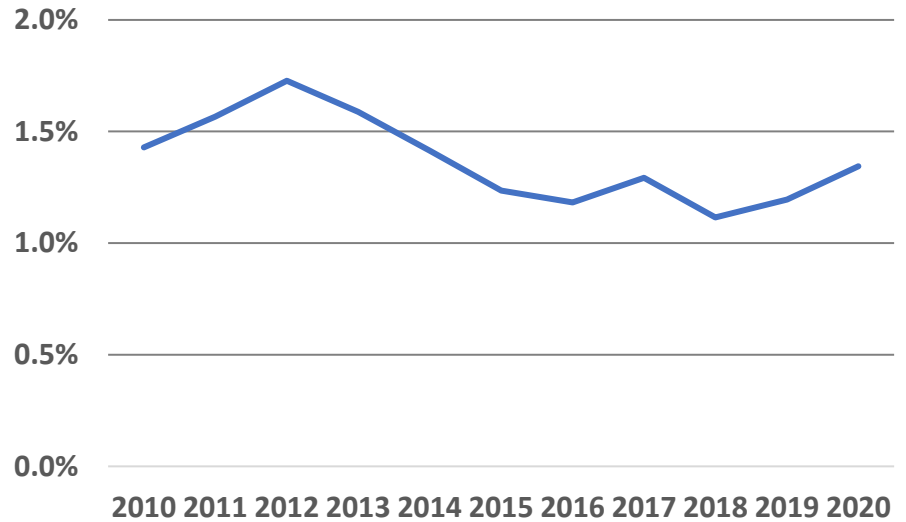
LONG TERM DEBT

(As a % of Assessed Valuation of Real Property)

A locality's ability to repay its debt is determined by comparing net direct long-term debt (paid directly with general tax revenues) to assessed valuations. 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. The concern is that long-term debt should not exceed the locality's resources for paying the debt.

Long-term debt has been increasing the past two fiscal years to levels similar to FY2014.

Like previous analyses have noted, recent bonds issuances seeking to take advantage of low interest rates have played a part in this increase. **The FY2020 level is still below that of FY2013 and the 35-year average of 1.5%.**

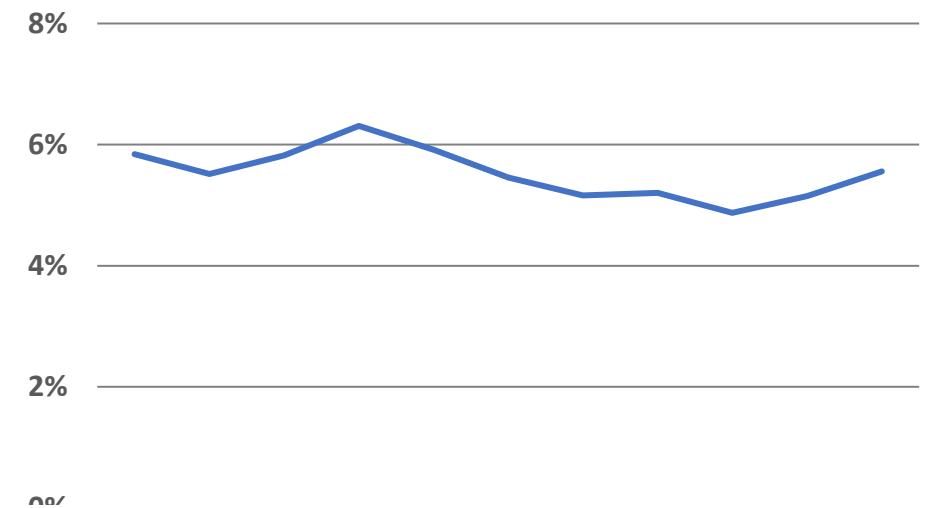


DEBT SERVICE

(As a % of Net Operating Revenues)

Debt service is the amount of principal and interest that a locality must pay each year on 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 which may be an indication of fiscal strain. 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. The indicator does not include Enterprise Fund debt.



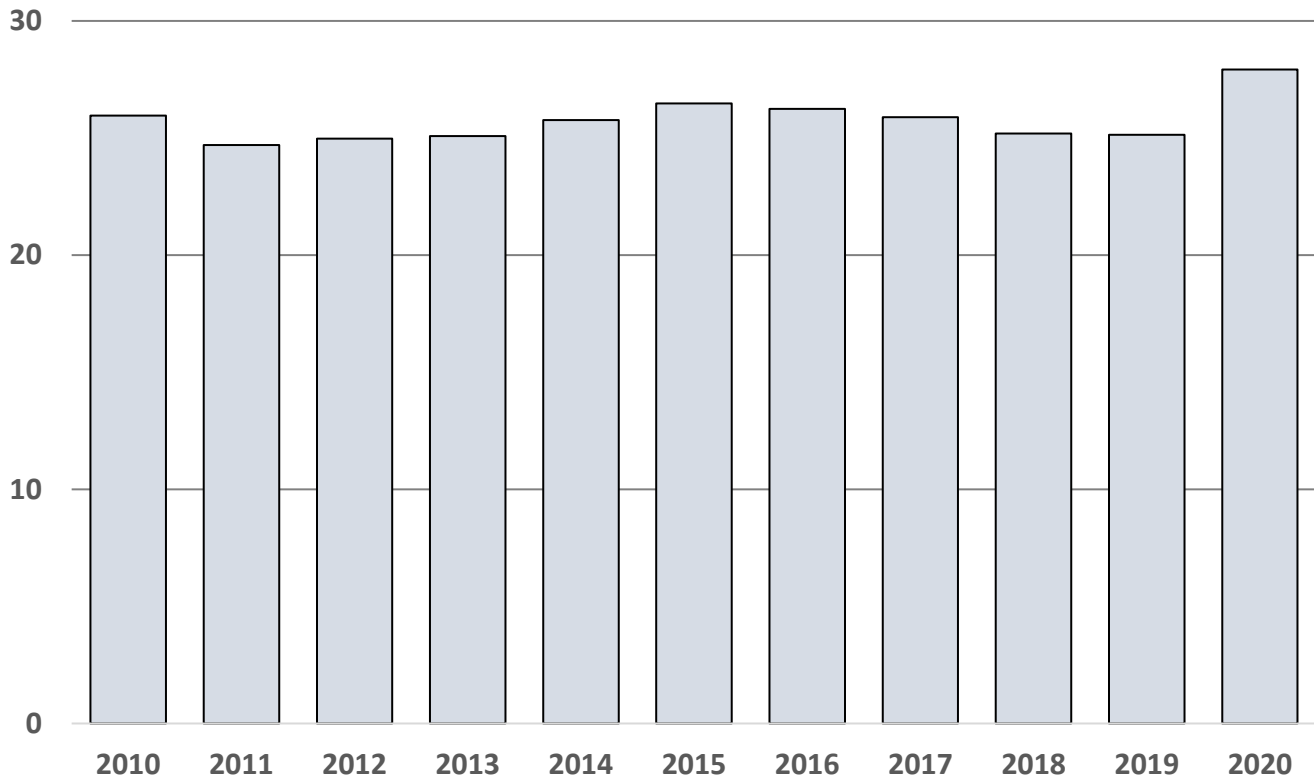
Note: "Net Operating Revenues" includes only the General, Special Revenue, and Debt Services Funds.

As previously discussed in the analyses of Current Liabilities and Long-Term Debt, **increases in FY2019 and FY2020 are related to the recent issuance of debt. Current levels at 5.6 percent are similar to levels experienced in FY2013 and FY2014 but are marginally higher than the 35-year average of 5.3 percent.**

EMPLOYEE LEAVE INDICATORS

ACCUMULATED VACATION LEAVE

(Days per Employee)



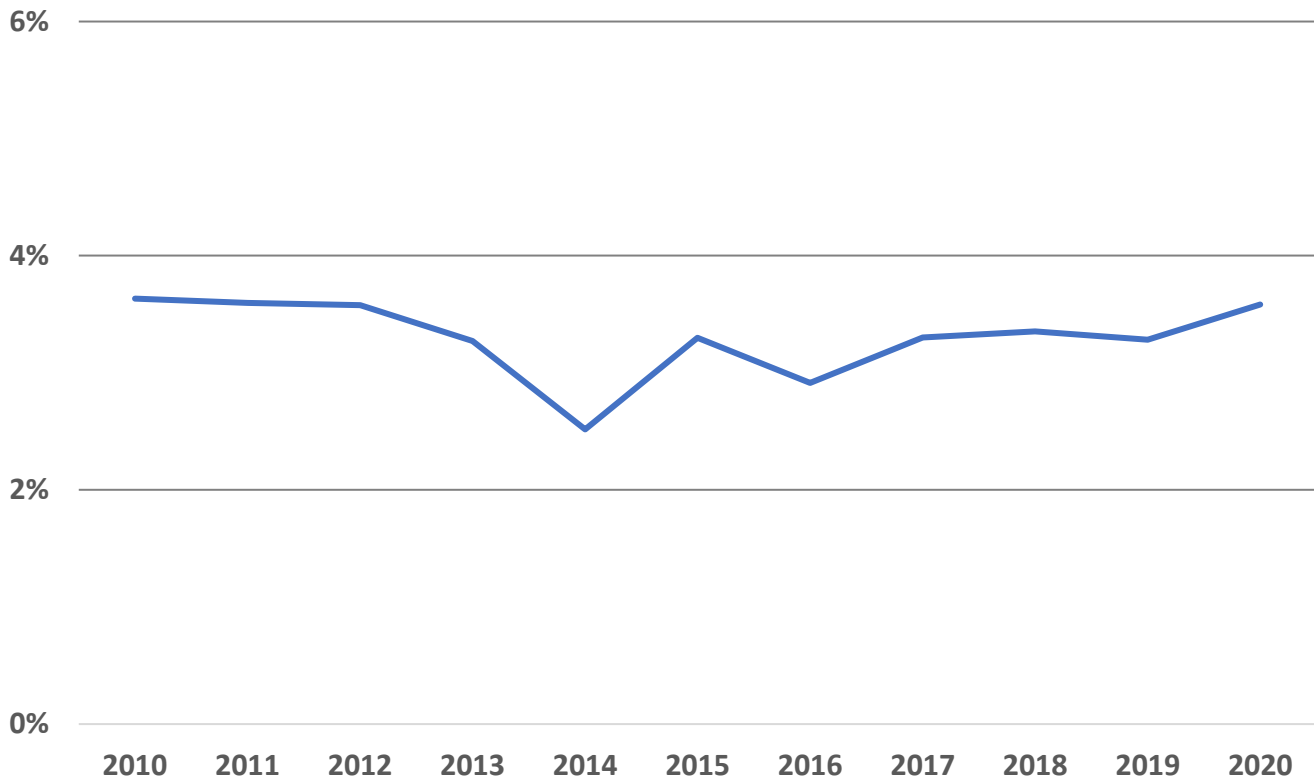
Localities usually allow their employees to accumulate some portion of unused paid leave, which may be paid at termination or retirement. This expenditure is rarely funded while it is being accumulated although the costs of the benefit are covered through normal attrition and the related compensation differential. While there is no direct fiscal impact that arises from this indicator, its inclusion is useful in depicting overall employee welfare, which impacts the previously discussed indicator Fringe Benefits and personnel related expenditures.

Accumulated paid leave has reached an all-time high of 27.9 days per employee. The COVID-19 pandemic is the leading cause for this increase in unused leave. Henrico is currently implementing a telework policy that allows the majority of its workforce to work from home and in some cases, greater flexibility to working hours. COVID-19 has also increased some responsibilities for departments to alleviate COVID-19 induced issues and employees have responded by working more and using less vacation time. **When the pandemic subsides and global travel restrictions are lifted, there is expected to be a greater than normal usage of leave that may return this trend to FY2019 levels or lower.** Balances will be inflated over the next few years as all leave balances were carried over from FY2020 to FY2021 and balances will be carried forward again from FY2021 to FY2022.

CONDITION OF CAPITAL PLANT INDICATORS

LEVEL OF CAPITAL OUTLAY

(As a % of Net Operating Revenues)



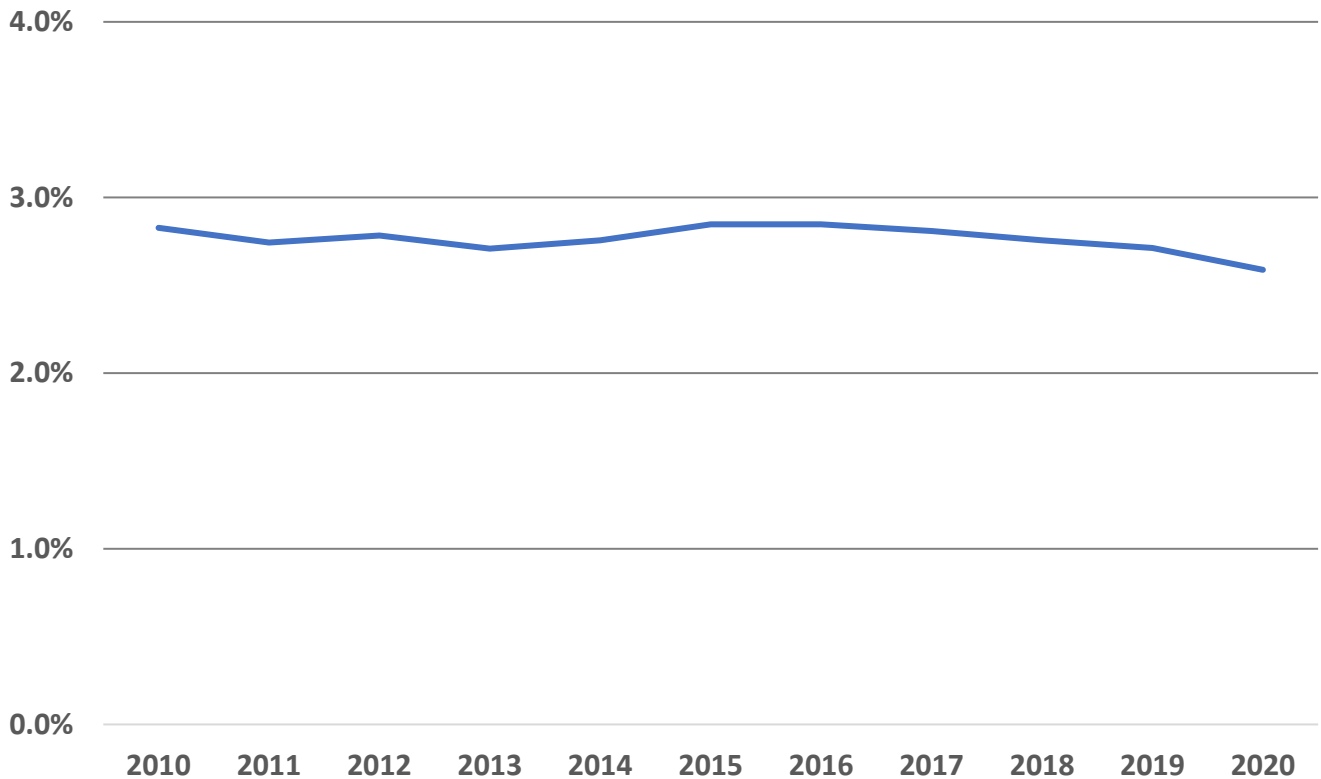
Capital outlay includes expenditures for equipment in the operating budget, such as vehicles or computers. It normally includes equipment that will last longer than one year. Capital outlay does not include capital improvement expenditures for construction of capital facilities such as streets, buildings,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

The purpose of capital outlay in the operating budget is to replace worn equipment or add new equipment. The level of capital outlay is a rough indicator of the status of equipment and determine if it is being maintained in good condition. A declining trend in the short run of one to three years may not be concern for alarm as it could mean that a locality's needs have temporarily been satisfied. 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 liabilities.

The overall trend for the level of capital outlay is relatively flat for the 11-year timeline depicted. **FY2020 levels increased slightly from 3.3% to 3.6%.** The slight increase is likely due to Henrico County switching to telework with the COVID-19 pandemic and related stay-at-home orders requiring the immediate purchase of laptop computers to replace desktops. **Current levels are two percentage points higher than the average rate since FY1997, which was the year that "Data Processing" (currently the Department of Information Technology) was absorbed as a General Fund department.**

DEPRECIATION

(As a % of Assets)



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 at a relatively stable proportion of the cost of the entity's fixed assets, as 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 likely being used beyond their estimated useful life.

Depreciation as a percent of assets has averaged 2.8 percent since FY2007. **FY2020 recognized a slight decrease to 2.6 percent, but the overall trend remained stable.** A decrease in depreciation is only a cause for concern if it is a reoccurring trend in subsequent fiscal years and **should continue to be monitored.**

COMMUNITY NEEDS & RESOURCES INDICATORS

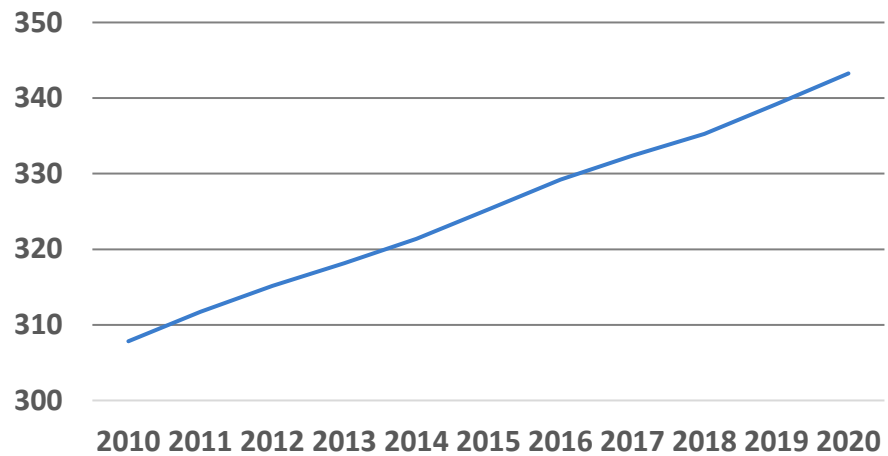
POPULATION

Empirical evidence indicates that changes in population can have a direct effect on a locality's revenue because of the impact upon related factors, such as employment, income, and property value. A sudden increase in population can create immediate pressures for new capital outlays, infrastructure and for higher levels of service, particularly in the areas of

Education, and Recreation. A locality faced with a declining population is rarely able to reduce expenditures at the same rate as population loss as many expenditures such as debt service, government mandates, and salaries are fixed and cannot effectively be reduced in the short run.

Population growth remains healthy and in line with expectations based on growth in previous years. The United States 2020 Census will have more exact data and provide Henrico with a hard snapshot of the current population.

Thousands

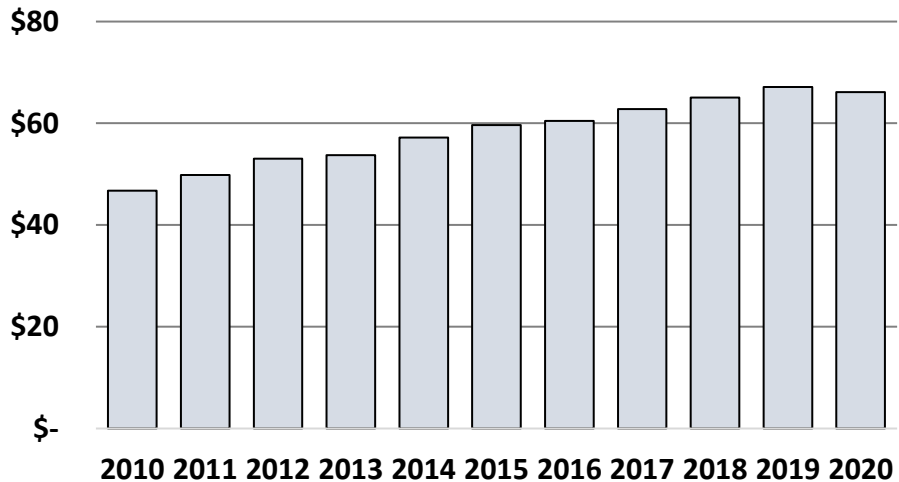


PER CAPITA INCOME

Per capita income is a 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 may result in a drop in consumer purchasing power and can provide advance notice that businesses, 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.

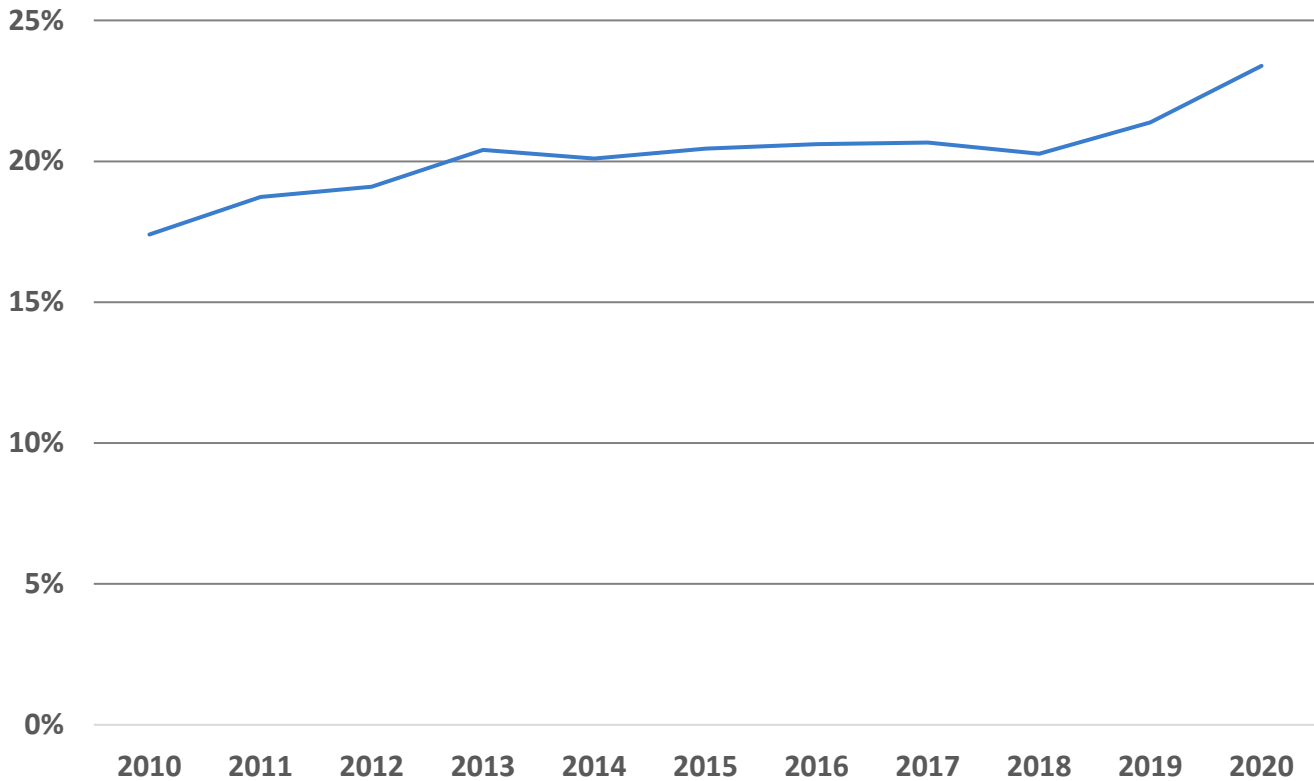
Thousands



Per capita income in FY2020 has decreased from \$67,128 per person to \$66,152, which is a 1.5 percent decrease. The last decrease recorded by the FTMS was from FY2008 to FY2009 during the Great Recession. The current decrease is likely 2020's drop is attributable to the large job loss experienced in the latter half of 2020 due to the COVID-19 pandemic.

PUBLIC ASSISTANCE RECIPIENTS

(As a % of Total Population)



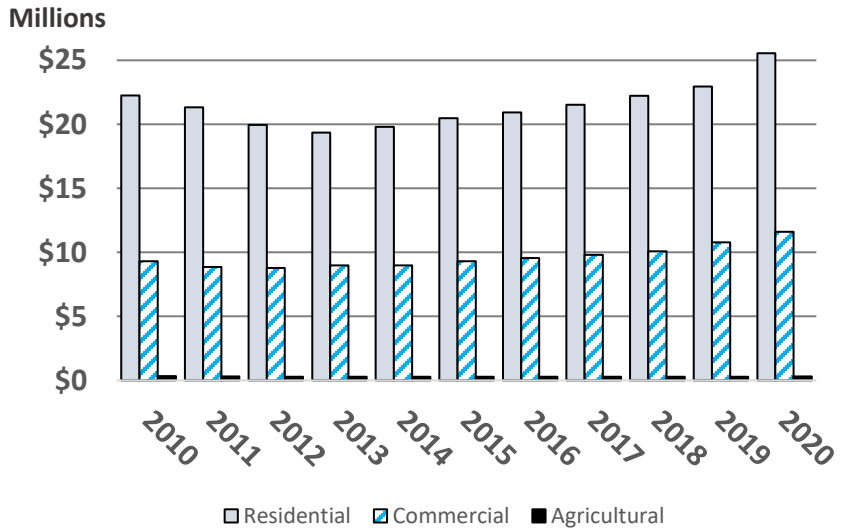
This trend is closely associated with a decline in personal income. The indicator measures the number of public assistance recipients against the number of residential households in the County. An increase in the number of public assistance recipients can signal a future increase in expenditures because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

Public assistance recipients were at its highest levels in FY2020, reaching a rate of 23.4 percent, representing a 2 percent increase from FY2019. Rates increased in FY2010 in response to the Great Recession and then remained relatively stable at approximately 20 percent from FY2012 through FY2018. Economists predicted a recession in the near future as expansions and recessions in the economy are part of natural business cycles. With a U.S. economy already slowing down, the COVID-19 pandemic exacerbated market conditions which may have led many to seek public assistance with the government implementing many different assistance programs through stimulus funding. Further, recent Medicaid expansion has approved additional subsets of applicants, creating a wider pool of people eligible for public assistance. **Public assistance recipients are not expected to decrease to levels seen in FY2018 until FY2022 or later and should continue to be monitored. This constitutes a warning trend.**

REAL PROPERTY VALUES

(In Constant Dollars)

Changes in real property values are important as property taxes tend to be a large source of revenue for localities. If a locality has a stable tax rate, the tax revenues will increase with property values. Localities experiencing rapid population and economic growth are likely to experience growth in property values in the short-run. This is because the supply of housing is fixed short-term and the increase in demand due to growth will force prices up. The extent to which declining real property values affect a locality's revenues will depend on the locality's reliance on property tax revenue and other related revenues.



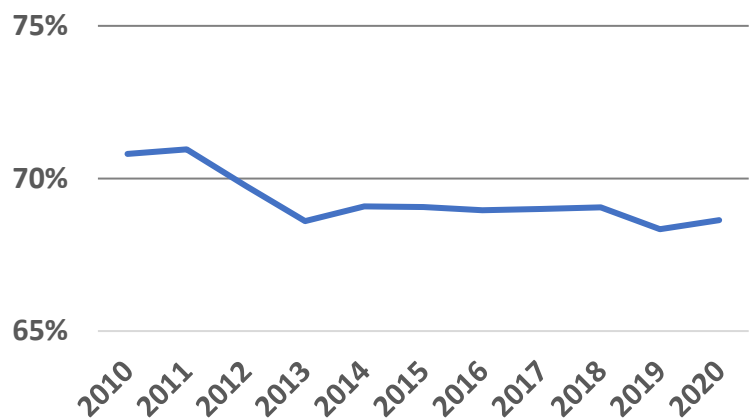
The extent to which declining real property values affect a locality's revenues will depend on the locality's reliance on property tax revenue and other related revenues.

Real property values continue to increase and are currently exceeding FY2009 levels. Despite the COVID-19 pandemic, record low mortgage rates have increased demand for homes with higher-than-average transactions. Population growth has provided a positive push for real property values. **Real property taxes are a fairly inelastic revenue source which indicates healthy revenues in the future.**

RESIDENTIAL DEVELOPMENT

(As a % of Total Property)

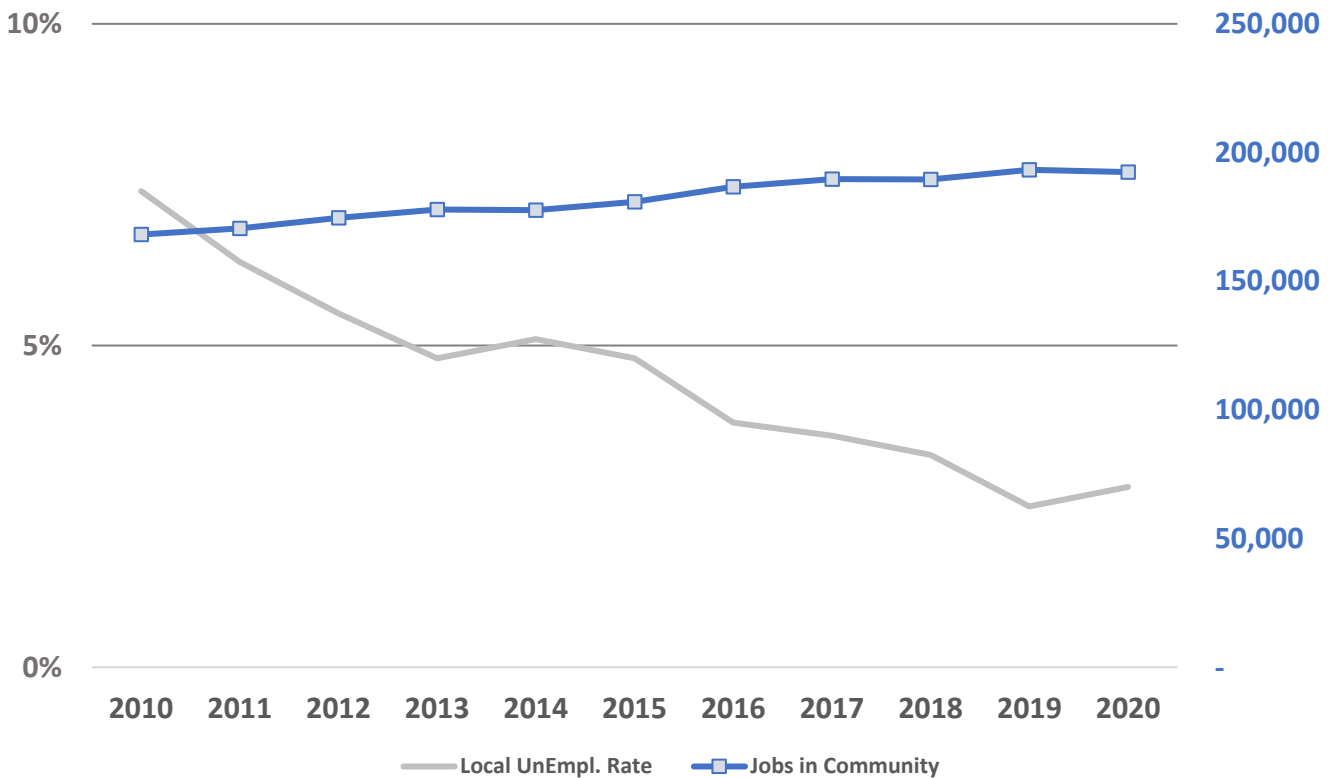
The net cost of servicing residential development is generally higher than the net cost of servicing commercial or industrial development due to the related demands for public services such as Public Safety, Public Utilities, and Education. This demand also impacts the location of new residential development as houses built outside of current service areas can impose greater initial costs to localities than houses built within developed areas. The extent to which new residential development affects the financial condition of a community will depend on the community's economy, tax structure, and expenditure profile. A locality must balance development type with current zoning and availability of public services to maintain fiscal viability. Henrico County has determined that a 70.0 percent level of residential valuation is optimal.



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Residential development in FY2020 increased slightly to 69.0 percent, but levels have been relatively stable since FY2012 with slight variances year to year. Preliminary data post-FY2020 has indicated a large increase in residential development, suggesting that **there may be an increase in development levels in upcoming fiscal years.**

EMPLOYMENT BASE



Employment base considers the unemployment rate and the total number of jobs within the locality. This indicator is significant because it is directly related to the levels of business activity and personal income. The two trend lines tend to move in opposite directions. Changes in the number of jobs provided by the community are a measure of business activity and changes in the rate of employment of the community's residents is related to fluctuations in personal income and, thus, is a measure of the community's ability to support its local business sector. A change in employment base can provide preliminary information on business sector changes and provide notification if further research is warranted.

Total jobs in the community decreased and the local unemployment rate increased in FY2020. This is likely attributable to the economic impacts from the COVID-19 pandemic. FY2020 only captured the beginning of the pandemic from March 2020 to June 2020. **Preliminary data post-FY2020 indicates that this downturn will likely improve as stay-at-home orders related to the pandemic are lifted and vaccines become widely available.**

LOCAL RETAIL SALES & BUSINESS RECEIPTS

(In Constant Dollars)

The level of business activity can provide information about a locality's financial condition in two ways:

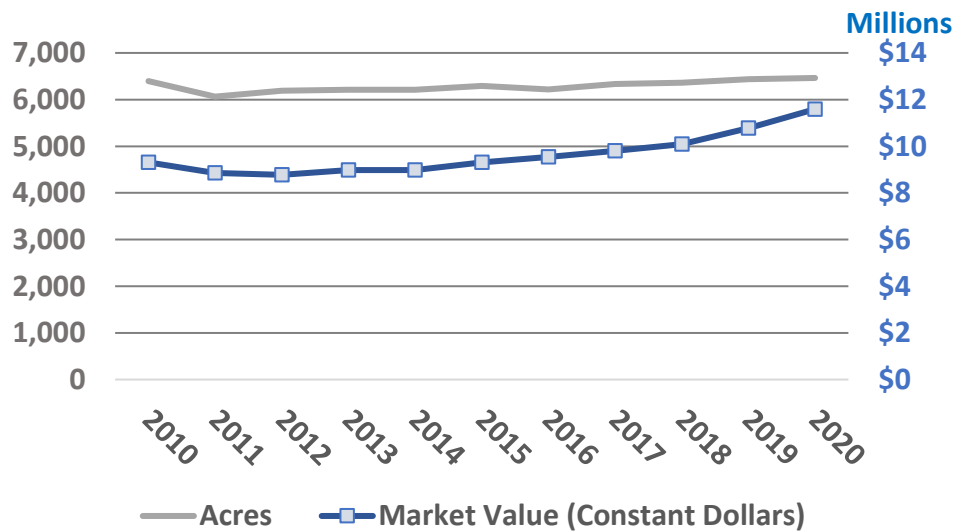
1. It directly affects revenue yields of sales taxes and gross receipts taxes as these are direct products of business activity.
2. There is an indirect effect on other demographic and economic areas such as employment base, personal income, or property values. A decline in business activity will tend to have a negative impact on employment base, personal income and/or commercial property values.



Retail sales and business receipts both trended upwards in FY2020, reaching all-time highest levels in the FTMS. Preliminary data post-FY2020 indicates that business activity is declining in response to the COVID-19 pandemic.

COMMERCIAL ACRES & MARKET VALUE OF BUSINESS PROPERTY

Another measurement of business activity is the Commercial Acres & Market Value of Business Property indicator. As previously noted, there must be balance of land uses in a locality to ensure that the higher costs of residential areas are off-set by lower-cost commercial and industrial areas, which are monitored through Commercial Acreage. Similarly, the value of business property can be indicative of the overall health of a business as it is common practice to determine fair market value of a commercial property through use of a business' Net Operating Income.



The market value of business property has relatively trended upwards since FY2010 and **FY2020 represents the highest level of market value to date.** Commercial acres has trended upwards since FY2011 after a severe cut to the commercial sector during the Great Recession. Total commercial acreage returned to FY2010 levels in FY2019 and the **commercial sector has continued to grow from there with FY2020 levels of commercial acreage representing an all-time high.**

APPENDIX A

FINANCIAL INDICATORS GRAPHICALLY

Description	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenues Per Capita	3,085.3	2,892.9	2,835.5	2,803.0	2,796.4	2,938.5	2,954.6	2,995.9	2,985.5	3,056.5	3,116.6
Expenditures Per Capita	3,115.7	2,890.0	2,850.9	2,818.1	2,859.5	2,833.0	2,810.9	2,888.4	2,838.6	2,894.6	2,964.2
(In Constant Dollars)											
Intergovernmental Revenues (without PPTRA)	39.5%	39.4%	39.7%	40.7%	40.8%	40.0%	39.9%	39.5%	39.4%	38.6%	39.9%
Intergovernmental Revenues (PPTRA only)	3.9%	3.9%	3.9%	3.8%	3.7%	3.5%	3.4%	3.3%	3.2%	3.0%	2.9%
Elastic Tax Revenues	8.8%	9.2%	9.4%	9.3%	9.4%	11.8%	11.8%	11.8%	12.1%	11.7%	11.4%
(as a % of Net Operating Revenue)											
Property Tax Revenues (Millions)	364	338	330	325	332	340	347	354	360	377	394
(In Constant Dollars)											
Uncollected Property Tax Revenues	1.0%	1.1%	1.3%	1.4%	1.3%	1.2%	1.2%	1.0%	1.0%	0.8%	0.7%
(as a % of Total Levy)											
User Charge Coverage	50.6%	52.5%	51.0%	51.9%	54.2%	55.4%	53.3%	52.5%	52.9%	49.9%	47.6%
(Revenues/Expenditures)											

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Revenue Variance		0.2%	1.2%	0.5%	1.3%	2.4%	4.2%	3.6%	4.0%	4.2%	4.9%	2.2%
(as a % of Net Operating Revenue)												
Employees Per Capita		12.7	12.6	12.5	12.3	12.2	12.1	12.1	12.1	12.2	12.3	12.4
(Employees per thousand population)												
Fringe Benefits		32.8%	33.0%	34.5%	33.9%	34.8%	36.0%	35.8%	35.8%	36.4%	36.6%	37.2%
(as a % of Salaries)												
Operating Surpluses		1.6%	1.2%	0.1%	0.0%	1.7%	3.2%	6.0%	6.1%	6.4%	6.7%	6.2%
(as a % of Net Operating Revenue)												
Enterprise Losses		(0.714)	(1.985)	(0.621)	4.064	1.039	0.707	(1.114)	5.327	5.960	5.930	13.672
(In Constant Dollars)												
General Fund Balances		14.3%	14.2%	12.3%	11.8%	11.7%	11.3%	11.2%	11.0%	11.1%	11.0%	10.9%
(as a % of Net Operating Revenue)												
Liquidity		339.4%	335.4%	288.2%	275.5%	279.0%	267.8%	279.3%	294.7%	320.0%	316.5%	254.4%
(Cash & Investments as a % of Current Liabilities)												
Current Liabilities		9.7%	9.8%	11.2%	10.9%	11.5%	11.4%	10.8%	10.4%	9.8%	9.9%	12.2%
(as a % of Net Operating Revenue)												

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Long Term Debt		1.4%	1.6%	1.7%	1.6%	1.4%	1.2%	1.2%	1.3%	1.1%	1.2%	1.3%
(as a % of Assessed Valuation)												
Debt Service		5.8%	5.5%	5.8%	6.3%	5.9%	5.5%	5.2%	5.2%	4.9%	5.2%	5.6%
(as a % of Net Operating Revenue)												
Accumulated Employee Leave Liability		26.0	24.7	25.0	25.1	25.8	26.5	26.2	25.9	25.2	25.1	27.9
(in Days)												
Level of Capital Outlay		3.6%	3.6%	3.6%	3.3%	2.5%	3.3%	2.9%	3.3%	3.4%	3.3%	3.6%
(as a % of Net Operating Expenditures)												
Depreciation		2.8%	2.7%	2.8%	2.7%	2.8%	2.8%	2.8%	2.8%	2.8%	2.7%	2.6%
(Depreciation Expense as a % of Assets)												
Population		307.832	311.726	315.157	318.158	321.374	325.283	329.227	332.368	335.283	339.191	343.258
Per Capita Income (restated)		46.724	49.849	53.016	53.733	57.214	59.670	60.451	62.778	65.072	67.128	66.152
Public Assistance Recipients (restated for 2016 Trends)		17.4%	18.7%	19.1%	20.4%	20.1%	20.4%	20.6%	20.7%	20.3%	21.4%	23.4%
(as a % of Total Population)												

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Property Values	-8.7852	-4.3903	-4.8901	-1.3806	1.5805	3.5468	2.2015	2.8659	3.0295	4.3495	10.1356
(In Constant Dollars)											
Residential	22.263	21.335	19.943	19.348	19.792	20.491	20.930	21.537	22.225	22.950	25.558
Commercial	9.315	8.860	8.775	8.984	8.985	9.311	9.547	9.807	10.088	10.770	11.599
Agricultural	0.326	0.308	0.292	0.279	0.285	0.292	0.279	0.293	0.283	0.294	0.304
Residential Development	70.8%	71.0%	69.8%	68.6%	69.1%	69.1%	69.0%	69.0%	69.1%	68.3%	69.0%
(as a % of Total Property)											
Employment Base											
Local Unemployment Rate	0.0740	0.0630	0.0550	0.0480	0.0510	0.0480	0.0380	0.0360	0.0330	0.0250	0.0280
Jobs in Community	168,142	170,581	174,628	177,810	177,647	180,877	186,728	189,618	189,572	193,284	192,419
Business Activity - #1											
(In Constant Dollars)											
Retail Sales	54,107.23	54,679.24	54,228.28	53,331.99	52,251.09	54,604.94	56,260.49	56,930.63	58,421.94	57,915.42	59,106.34
Annual Business Receipts	27,415.09	26,649.98	27,228.74	27,840.38	27,475.94	29,502.77	30,134.76	31,193.61	30,486.54	32,259.21	33,504.20
	-8.2%	-2.8%	2.2%	2.2%	-1.3%	7.4%	2.1%	3.5%	-2.3%	5.8%	3.9%
Business Activity - #2											
Market Value of Business Property	9,314.60	8,859.95	8,774.94	8,983.87	8,985.44	9,311.14	9,546.71	9,807.43	10,087.66	10,769.50	11,598.81
Acres Devoted to Business	6,393.00	6,064.00	6,189.00	6,211.00	6,214.00	6,291.00	6,217.00	6,331.00	6,360.00	6,435.00	6,463.19

GENERAL FINANCIAL AND ECONOMIC DATA

Item	Description	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1.3	Cash & Short-Term Investments	314,414	309,643	308,287	289,131	318,999	323,342	326,848	347,810	365,651	386,403	394,217
1.4	Accounts Payable	48,284	48,717	53,348	52,155	61,604	58,946	55,431	60,925	60,128	62,176	64,762
1.7	Principle due in 12 months	32,810	32,825	38,725	38,510	38,890	39,255	38,605	41,700	39,845	43,775	67,321
1.8	Other Current Liabilities	11,557	10,769	14,881	14,284	13,853	22,553	22,969	15,405	14,279	16,146	22,883
1.9	Total Current Liabilities	92,651	92,311	106,954	104,950	114,346	120,754	117,005	118,030	114,252	122,098	154,966
1.10	Net Direct Long Term Debt	460,535	499,930	533,180	492,025	454,095	411,405	406,150	464,530	424,685	480,305	593,260
1.1	Cost Depreciable Fixed Assets	1,080,905	1,109,368	1,124,786	1,143,806	1,176,897	1,205,603	1,249,751	1,300,142	1,357,128	1,434,087	1,482,192
1.1	Depreciation Expense	30,566	30,439	31,308	30,993	32,433	34,326	35,573	36,517	37,412	38,905	38,365
1.1	General Fund Operating Surplus	15,123	11,751	533	336	17,000	34,246	64,678	69,053	74,332	82,706	78,705
1.2	Enterprise Operating Results	(721)	(2,078)	(661)	4,400	1,148	782	(1,244)	6,051	6,963	7,041	16,171
1.2	General Fund Balances	246,603	230,524	221,639	197,540	210,567	224,205	232,416	253,995	279,926	281,896	274,646
1.2	General Fund Restricted Balances	109,831	96,798	104,751	83,364	93,945	104,259	111,167	129,679	150,038	146,258	136,394
1.2	General Fund Unrestricted Balances	136,771	133,727	116,888	114,175	116,622	119,946	121,249	124,316	129,887	135,638	138,252
1.2	Uncollected Property Taxes	3,604	3,737	4,604	5,025	4,815	4,645	4,506	3,994	4,046	3,504	3,402
1.20	Full Property Tax Levy	365,522	349,269	347,803	357,613	361,689	373,457	374,674	389,341	409,080	433,550	455,726
2.1	Property Tax Revenues	367,444	353,555	351,142	352,275	367,120	375,685	387,388	402,026	420,786	447,469	466,198
2.2	Committed User Charges	30,409	30,207	31,424	31,336	33,266	33,372	33,680	33,971	38,084	36,866	35,727

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2.3	Uncommitted User Charges	3,261	3,321	3,152	3,323	3,379	3,378	3,552	5,678	3,617	3,544	3,151
2.4	Other Revenue greater than 5%	119,791	127,013	129,354	125,872	125,113	158,824	165,920	176,154	182,032	186,844	183,291
2.5	Other Revenue less than 5%	22,822	21,028	21,220	22,343	21,664	25,951	25,143	29,010	27,406	44,323	35,487
2.6	Total Local Operating Revenue	543,727	535,125	536,292	535,150	550,542	597,210	615,683	646,840	671,925	719,046	723,853
2.7	Intergovernmental Operating Revenue	416,038	408,589	414,459	430,280	442,504	460,328	471,181	484,181	497,572	512,094	541,451
2.7	Intergovernmental Operating Revenue (without PPTRA reimbursements)	379,036	371,587	377,457	393,278	405,502	423,327	434,180	447,180	460,570	475,092	504,449
2.10	Gross Operating Revenues	959,765	943,714	950,751	965,430	993,046	1,057,538	1,086,864	1,131,022	1,169,497	1,231,140	1,265,304
2.1	Net Operating Revenues	959,765	943,714	950,751	965,430	993,046	1,057,538	1,086,864	1,131,022	1,169,497	1,231,140	1,265,304
2.1	Restricted Operating Revenues	342,353	334,149	337,442	353,421	354,991	374,039	375,575	384,747	400,198	418,949	424,529
2.2	Elastic Operating Revenue	84,217	87,182	89,098	90,097	92,893	124,352	128,416	132,959	141,977	143,776	144,266
2.2	Net Operating Revenue Budgeted	957,860	932,150	946,188	953,214	969,062	1,013,213	1,047,214	1,085,742	1,119,821	1,170,974	1,237,845
3.1	Salaries and Wages	480,659	472,724	480,853	495,822	496,472	508,111	526,875	538,928	554,880	577,497	604,277
3.2	Fringe Benefits	157,582	156,088	165,696	167,899	172,540	183,080	188,878	192,860	201,806	211,170	224,655
3.3	Supplies	41,682	46,168	43,383	42,775	48,999	49,833	42,677	41,628	47,488	47,679	41,740
3.4	Services	120,657	113,118	109,529	105,315	144,336	111,340	109,868	118,046	120,684	145,237	121,429
3.5	Capital Outlay <i>(restated for 2017 Trends)</i>	35,217	33,920	34,201	31,748	25,555	33,639	30,132	36,013	37,298	38,276	43,129

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3.6	Principal-Long term Debt	34,880	32,300	32,290	38,510	37,615	38,285	38,605	41,700	39,845	43,775	48,870
3.7	Interest-Long term Debt	21,191	19,722	23,035	22,393	21,132	19,392	17,481	17,144	17,143	19,632	21,432
3.8	Total Direct Debt	56,071	52,022	55,325	60,903	58,747	57,677	56,086	58,844	56,988	63,407	70,302
3.9	Other Expenditures	52,285	45,527	43,982	41,361	44,052	49,701	53,866	69,189	59,539	63,631	66,186
3.10	Internal Service Fund Transfers	25,058	23,195	22,949	24,815	24,779	26,177	25,609	34,955	33,250	33,162	31,697
3.1	Total Net Operating Expenditures	969,212	942,761	955,918	970,638	1,015,481	1,019,557	1,033,991	1,090,463	1,111,934	1,165,903	1,203,415
3.1	Number of General Government Employees	3,915	3,927	3,927	3,927	3,927	3,937	3,986	4,032	4,100	4,183	4,245
3.1	Unused Annual Leave (in days)	101,636	96,974	98,048	98,496	101,198	104,232	104,592	104,368	103,290	105,173	118,561
3.1	Unused Sick Leave (in days)	284,267	288,847	292,650	286,114	290,157	286,638	280,967	275,656	268,414	264,097	259,544
3.2	Expenditures Covered by Charges	60,144	57,538	61,630	60,360	61,408	60,245	63,189	64,717	72,042	73,891	75,045
7.1	Population (Calendar Year)	307,832	311,726	315,157	318,158	321,374	325,283	329,227	332,368	335,283	339,191	343,258
7.3	Total Personal Income (Thous. of \$) - <i>restated</i>	14,383,264	15,539,295	16,708,471	17,095,572	18,387,012	19,409,625	19,902,117	20,865,472	20,865,472	22,006,480	22,707,121
	Per Capita Income - <i>restated</i>	46.724	49.849	53.016	53.733	57.214	59.670	60.451	62.778	65.072	67.128	66.152
7.4	Public Assistance Recipients (<i>restated for 2016 Trends</i>)	53,566	58,387	60,188	64,927	64,583	66,505	67,849	68,693	67,948	72,519	80,277
7.6	Market Value of Property (Mil. of \$)	32,239	31,921	30,865	30,973	32,114	33,295	34,364	35,937	38,083	40,391	44,307
7.7	Assessed Property Values (Mil. of \$)	32,239	31,921	30,865	30,973	32,114	33,295	34,364	35,937	38,083	40,204	44,118
7.8	Market Value-Residential (Mil. of \$)	22,497	22,327	21,218	20,945	21,871	22,670	23,386	24,463	25,966	27,253	30,229
7.9	Market Value-Commercial (Mil. of \$)	9,413	9,272	9,336	9,726	9,929	10,302	10,667	11,140	11,786	12,789	13,718

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7.10	Market Value- Agricultural (Mil. of \$)	329	322	311	302	315	323	312	333	330	349	359
7.1	Residential Households (Calendar Year)	129,781	130,482	131,044	131,652	132,363	133,020	134,153	134,747	135,623	136,619	138,219
7.1	Vacancy Rates- Residential (Calendar Year)	1.6%	2.5%	2.4%	2.0%	1.6%	1.4%	1.4%	1.5%	1.6%	1.5%	1.4%
7.2	Local Unemployment Rate	7.4%	6.3%	5.5%	4.8%	5.1%	4.8%	3.8%	3.6%	3.3%	2.5%	2.8%
7.2	Jobs Within Community	168,142	170,581	174,628	177,810	177,647	180,877	186,728	189,618	189,572	193,284	192,419
7.2	Retail Sales (Thous. of \$)	54,677	57,222	57,694	57,736	57,738	60,414	62,861	64,666	68,256	68,775	69,908
7.2	Annual Business Receipts (Thous. of \$)	27,704	27,889	28,969	30,139	30,361	32,641	33,670	35,432	35,618	38,308	39,627
7.20	Business Acres (Calendar Year)	6,393	6,064	6,189	6,211	6,214	6,291	6,217	6,331	6,360	6,435	6,463
7.21	CPI	218.0	225.7	229.5	233.5	238.3	238.6	241.0	245.0	252.0	256.1	257.8
7.2	CPI-Index	1.0105	1.0465	1.0639	1.0826	1.1050	1.1064	1.1173	1.1359	1.1683	1.1875	1.1827

APPENDIX B

EXTERNAL ECONOMIC DATA SOURCES

Bureau of Economic Analysis

Bureau of Labor Statistics

Evaluating Financial Condition, A Handbook for Local Government - International City/County Management Association

Federal Reserve Bulletins

U.S. Census Bureau

Virginia Department of Social Services, Local Profile Report

Virginia Economic Indicators

Virginia Employment Commission

Weldon Cooper Center for Public Service

INTERNAL ECONOMIC DATA SOURCES

Department of Human Resources, Annual Reports

Departments of Finance, Human Resources, Planning, and Social Services

Henrico County Approved Annual Fiscal Plans

Henrico County Comprehensive Annual Financial Reports

Manager's Monthly Reports