OFFICE OF THE COUNTY ADMINISTRATOR

Robert S. LaSala
County Administrator

September 15, 2011

The Honorable Chairman and Members of the
Board of County Commissioners:

In accordance with my statutory responsibilities, I present the **Fiscal Year 2012 Annual Operating and Capital Budget** for your consideration.

I am grateful for your guidance and support as we developed the budget in this period of unprecedented fiscal stress. The Board's leadership in working with the other Constitutional Officers and elected officials has been particularly crucial in this process. I especially appreciate the spirit and dedication of all of the County's employees who have continued to provide high quality public services as we transform the organization to deal with the new budget realities.

Although the Great Recession technically ended in late 2009, Pinellas County and other local governments across the country are continuing to deal with its ongoing effects. We entered this period in a position of financial strength due to the foresight and prudent actions of the Board. The dramatic revenue declines which began in Fiscal Year 2008 have created challenges which the Board has approached in a deliberate, thoughtful manner. Over the past few years, we have emphasized the long view and made tough decisions that began to adapt County government to fit our revenue constraints; not just for the short term, but also into the future. These changes, which eliminated some programs and made significant reductions in many others, were not made because these programs lacked value, but because we were compelled to focus on providing only those services we can afford.

315 Court Street, Room 601
Clearwater, FL 33756
Phone: (727) 464-3596
FAX: (727) 464-4384
Website: www.pinellascounty.org

The economic recovery was anticipated to be slow and gradual, and unfortunately the reality has been more difficult than even the most pessimistic predictions. The weakness in the real estate market has continued as foreclosures have depressed market prices. The decline throughout calendar year 2010 is reflected in the FY2012 taxable values, established based on January 1, 2011 conditions. There are encouraging signs, as the decreases were not as great as in the past three years, but we are still uncertain whether we have in fact reached bottom in this crucial segment of our revenue base.

Unemployment is still high locally, in the state, and across the nation. Consumer confidence is wavering as the economy continues to deal with volatile fuel prices, manufacturing supply chain interruptions resulting from the tragic earthquake and tsunami in Japan, international financial weakness, the national debt, and other stresses. On the positive side, tourism is regaining strength and our other non-property tax related revenues are showing signs of slow growth. The new “normal” level of economic activity is yet to be defined, but existing and potential new caps on property taxes will blunt the recovery for Pinellas and all other Florida local governments.

We have continued to focus the efforts of the organization on one primary goal:

> **Reshape Pinellas County government by restructuring, reorganizing, resizing, and realigning the organization to provide an efficient and effective array of services.**

Using our multi-year forecast as a foundation, we quantified our budget challenges and developed strategies to meet the immediate needs and position us to address future concerns. Our aim was to transform the organization while limiting disruption and potential negative impacts.

Because of this forward-thinking approach, we have arrived at a point in our journey where we can see better days ahead. The establishment of the Service Level Stabilization account provides us with a mechanism to bridge budget gaps over the next several years and begin a “glide path for a soft landing from our turbulent flight.” Provided there is no double-dip recession, unforeseen financial crisis, or catastrophic natural disaster, we should be able to maintain levels of service and staffing going forward in the coming years.

The FY2012 Budget reflects the staff’s recommendations for this stage of the transformation of County government. It is based upon the guidance and policy direction provided by the Board over the last six months. We will continue the process through restructuring and other organizational efficiencies, and some of these changes necessarily require a longer time frame than is reflected in this budget. We maintain our dedication to providing a County government that is responsive to the most critical needs and maintains key public services at a level of excellence that sustains the quality of life for our Pinellas County residents and visitors.

The $1,632,349,980 balanced budget continues the County's tradition of providing high quality services to the public while prudently managing the public's funds. The total FY2012 Budget is $21.0 million or 1.3% more than the total FY2011 Budget, which reflects a net increase in operating, capital, reserves, and enterprise functions.

The General Fund is the primary operating fund of the County and is heavily dependent on property taxes, which represent nearly two-thirds of its revenue. Due mainly to the continued deterioration in the real estate market during calendar year 2010, the FY2012 General Fund budget decreased by $38.4 million or 6.5%, from the FY2011 Revised Budget (net of non-recurring expenditures). The General Fund county-wide millage rate remains at 4.8108 mills, and the unincorporated area (MSTU) millage rate also is unchanged at 2.0857 mills. However, property tax revenue declined due to a 4.5% decrease in county-wide taxable values and a 3.5% decrease in MSTU taxable values.

The millage rates for other property tax supported budgets remain the same except for the EMS fund and the following Fire District millages which have been increased due to legal requirements: Clearwater, Dunedin, Gandy, Largo, High Point, Tierra Verde, and South Pasadena. Our other operating and capital improvement budgets have all been adjusted to achieve balance and maintain as high a level of service as possible within given revenue constraints. The Budget Message following this letter presents a comprehensive overview of the detailed information contained in the budget document.

CONCLUSION

As your County Administrator, I am honored to have worked with you in the development of the FY2012 Budget.

This budget builds on a foundation of strategic planning, performance measurement, program budgeting, and multi-year forecasting that Pinellas County has developed over years of thoughtful and concerted effort. These planning and management systems provided the framework and the information for logical and financially viable decisions. We will continue to use and refine these systems going forward.

One of our key strengths has always been the commitment to excellence and teamwork of our County employees at all levels of the organization. Unfortunately, during the past several years we have been unable to recognize their service through any increase in compensation. The Legislature's actions this year will in effect impose a 3% pay cut by requiring employee contributions to the Florida Retirement System. It is my hope that as our economic position improves we will be able to provide the proper levels of compensation that will recognize the dedicated public service of our County personnel and help us retain their skills and talents.

As we look to the future, until we see the bottom of the economic cycle, we will not know what the “new normal” will be. And although there are always new unknowns, the difficult decisions made over the past several years have positioned us well to meet these new challenges.

More than ever, developing the budget has been a complex and challenging endeavor. I am fortunate to have had the support and assistance of a highly qualified and dedicated staff and management team. I would also like to reaffirm my appreciation to all those who helped with the successful development of this budget.

Respectfully submitted,

Robert S. LaSala
County Administrator

FY2012 BUDGET MESSAGE TABLE OF CONTENTS

OVERVIEW OF THE FY2012 BUDGET PROCESS

The *Overview of the FY2012 Budget Process* portion of the FY2012 Budget Message provides an overview of: this year's budget targets, the reduction process, the organizational approach to making reductions, a summary of the reductions, and budget strategy for balancing the budget. This section includes the following topics:

- Budget Targets
- Reduction Process
- Departments under the Board of County Commissioners
- Balancing the FY2012 Budget
- Independent Agencies
- Constitutional Officers and Court Support
- Reduction in Force

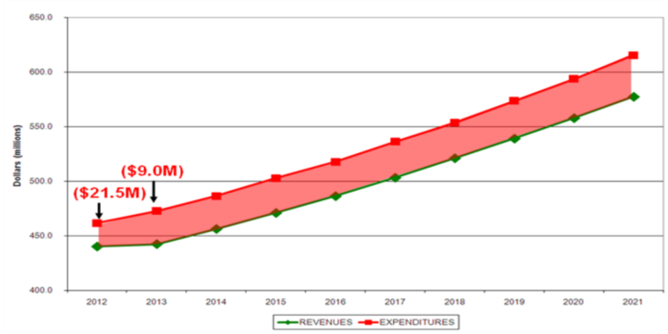
Budget Targets

Current Year Target

Based on the budget forecast performed in January, individual expenditure targets were identified for each fund. There was no formal expenditure target set for the current fiscal year since budgets have been tightened significantly over the last several years. The Forecast assumes a 99% spending rate consistent with a historical average. Any amount below 99% helps make non-recurring funds available that can be used for non-recurring (one-time) purposes, to increase the balance in the Service Level Stabilization Account or to increase reserves. Although no formal target was set, departments and agencies were encouraged to spend less wherever possible.

General Fund Target

The ten-year forecast for the General Fund presented in January showed a structural imbalance (where projected recurring expenditures exceed recurring revenues) of \$21.5 million in FY2012 and an additional \$9.0 million shortfall projected in FY2013.



At a strategic planning meeting on February 11, 2011, the Board set the methodology for calculating targets for the FY2012 budget process. First, each agency was responsible for the variance from their FY2011 budget targets, which totaled \$13.3 million.

Agency	Variance
Board of County Commissioners	$653,670
Sheriff	$9,643,880
Tax Collector	$35,090
Clerk of the Circuit Court	$822,140
Property Appraiser	$965,420
Supervisor of Elections	$80,210
Judiciary	$0
Public Defender	$41,080
State Attorney	$0
Business Technology Services	$947,000
Human Resources	$112,620
Human Rights	$0
Medical Examiner	$0
Total	**$13,301,110**

Next, the projected shortfall of \$13.3 million was subtracted from the \$21.5 million to get the difference or \$8.2 million. The \$8.2 million was distributed proportionately between the departments under the Board of County Commissioners, the Constitutional Officers, and Independent Agencies using the adjusted base budget percentages for each agency. The adjusted base budget is calculated by starting with the FY2011 expenditure budget and making various adjustments such as backing out reserves, non-property tax revenues, cost allocation charges, non-recurring projects, and other items. Making these adjustments ensures a more accurate base on which to apply the reduction percentages and helps avoid distorting the forecast picture. The Budget staff

collaborated with staff from the Constitutional Officers and Independent Agencies to determine the adjusted base budgets against which the target reductions were applied.

Agency	%	Variance
Board of County Commissioners	32.66%	$2,677,757
Sheriff	52.87%	$4,334,753
Tax Collector	2.00%	$163,978
Clerk of the Circuit Court	1.85%	$151,679
Property Appraiser	2.68%	$219,730
Supervisor of Elections	1.36%	$111,505
Judiciary	0.04%	$3,280
Public Defender	0.15%	$12,298
State Attorney	0.00%	$0
Business Technology Services	5.26%	$431,262
Human Resources	0.88%	$72,150
Human Rights	0.19%	$15,578
Medical Examiner	0.06%	$4,919
Total	**100.0%**	**$8,198,890**

The FY2012 target for each agency equaled the FY2011 target variance plus the proportional share of the remainder of the FY2012 shortfall.

Agency	Variance
Board of County Commissioners	$3,331,427
Sheriff	$13,978,633
Tax Collector	$199,068
Clerk of the Circuit Court	$973,819
Property Appraiser	$1,185,150
Supervisor of Elections	$191,715
Judiciary	$3,280
Public Defender	$53,378
State Attorney	$0
Business Technology Services	$1,378,262
Human Resources	$184,770
Human Rights	$15,578
Medical Examiner	$4,919
Total	**$21,500,000**

The reduction targets were applied to the FY2012 “cost of opening the doors” budget, which is simply the amount of money it would cost to provide the same level of services that we provided last year.

The Forecast included inflationary adjustments for health insurance, Florida Retirement System contributions, a CPI-based inflation factor, and changes to cost allocation charges were netted out to hold the recipients harmless in the target allocation process.

Targets for Other Funds

Targets for other funds were also developed depending on the circumstances for each fund. The funds most affected by current economic conditions include the ad valorem supported funds and the Water and Sewer funds.

Ad valorem supported funds with separate property tax levies, such as the Health Department, the Feather Sound Community Services District, the Palm Harbor Recreation & Library District, and the Public Library Cooperative, were asked to submit budgets that can be supported by their revenue streams which include a projected 6% decrease in property tax revenue in FY2012.

In Utilities, the Water and Sewer systems were directed to meet expenditure targets that would limit necessary water and sewer rate increases as much as possible.

Reduction Process

Community Input

The County has incorporated considerable public and employee input into this year’s budget process. Vehicles for input included two community meetings, a budget e-Town Hall, a statistically valid telephone citizens’ preference survey, on-line citizens’ preference survey, citizen suggestions through the County’s website, and employee suggestions through the Better Way website.

Community Meetings

The Board of County Commissioners held two community meetings to discuss the budget in March. Meetings were held on March 10th in Palm Harbor and on March 15th in St. Petersburg. We were very pleased to have over 150 attendees. These meetings allowed for one-on-one citizen interaction with each of the Board of County Commissioners as well as the County Administrator and other executive leadership. Through these meetings we received valuable

input and feedback for this year's budget process.

Budget e-Town Hall

The County also held its second Budget e-Town Hall meeting on April 6th. The goal of the meeting was to reach, engage, and involve more citizens – those not often able to attend public hearings – by providing a convenient electronic portal through which citizens could dialogue with the County Commissioners. The format of this year's event was expanded to include several i-Town Hall elements such as additional telephone and Twitter components to the blog, web-based video, and television event. The Budget e-Town Hall generated more than 10,500 participants as residents blogged, tweeted, and called in during the event. Last year the County's e-Town Hall meeting was profiled by Government Technology Magazine and the National Association of Counties and helped to contribute to Sunshine Review's award of an A+ transparency grade for the County's website. Pinellas County is one of only eight out of more than 3,000 counties in the entire United States to receive this designation.

Telephone Citizens' Preference Survey

A new element added to this year's budget process was a statistically valid Telephone Citizens' Preference Survey. The survey was independently conducted by a third party from April 19 to April 29. Respondents met quotas to ensure representation from various age groups, genders, unincorporated residents, and other demographic factors. The margin for error is 6% at the 95 percent confidence level. The survey invited citizens to give their reaction to specific funding cuts and fee increases. It also asked citizens to indicate their priorities for potential program reductions. The results of the telephone survey are available on the Citizens' Guide to the Budget website at: http://www.pinellascounty.org/budget/

On-line Citizens' Preference Survey

Another citizen input mechanism employed for this budget process was an on-line citizens' preference survey. The questions used in the on-line survey were the same as the ones used in the telephone survey. The survey link was e-mailed out to more than 12,000 people who have signed up to receive electronic communications with the County. The survey was open from April 25 to April 29 and was completed by almost 3,000 participants, which is a great response rate of about 25%. Although the results of the on-line survey are not statistically valid, the results essentially mirrored the statistically valid telephone survey. The results of the on-line survey are available on the Citizens' Guide to the Budget website at: http://www.pinellascounty.org/budget

Citizen Suggestions

We have also received citizen input through the County's "**Citizens' Guide to the Budget**" website at www.pinellascounty.org/budget. This website includes helpful information on the Pinellas County budget including video, presentations and handouts for all budget development meetings as well as useful information such as the budget timeline, the budget document, opportunities for citizen input, how the budget process works, and other budget-related topics.

Earlier this year, the citizen suggestion box was re-activated and we have received 78 suggestions to date. Since January 2009, over 1,650 people have signed up to receive budget news via email. And since January, there have been over 70,000 aggregate hits on the Citizen's Guide to the Budget Website.

Employee Input

One of the first actions taken for this budget cycle was to re-activate the **"A Better Way"**; an internal website that was created two years ago. This purpose of this website is to communicate with employees regarding the budget process and set up a suggestion box to tap the wisdom of our employees. We have received 49 cost-saving and revenue ideas to date and have been pleased with the breadth and depth of the suggestions that have been submitted. In reading through them it is obvious that employees have put a lot of time and thought into the suggestions. We really appreciate all of the hard work and effort that went into them. All ideas that have been submitted to date can be accessed on the **A Better Way** website including the suggestions from last year's budget process.

Cost-Savings and Revenue Teams

Two employee teams comprised of representatives from various Board departments were re-activated to review the cost-saving and revenue ideas submitted by both our employees and citizens. The **Revenue Team** was adapted from our existing Revenue, Enhancement, & Sponsorship Team. The **Cost-Savings Team** was created last year. The goals of both teams were to review the ideas, prioritize them, analyze them, and turn them into actionable options for consideration by County Administration.

Cost-Saving Ideas

For the last few months staff has been working hard to address the high priority cost saving ideas coming out of the team. Some of the ideas we plan on implementing include are listed below. Please see the <u>Management Initiatives</u> section of the Budget Message for more information on each of these items.

- <u>Merger of Public Works and Utilities:</u> A cost saving idea that has been submitted several times over the last two years is the merger of the Public Works and Utilities departments into the new Department of Environment & Infrastructure. During last year's budget process the engineering functions of both departments were consolidated and this reorganization will complete the merger.

- <u>Reorganization of Fleet into Real Estate Management:</u> Another cost saving idea is the reorganization of Fleet Management from a stand-alone department to a division of the Real Estate Management Department. The consolidation is anticipated to help increase staff capacity and provide more opportunities for synergy.

- <u>Creation of Enterprise GIS Bureau</u>: A cost saving idea that is already in progress is the creation of an Enterprise GIS Bureau. Earlier this year, the departments under the Board of County Commissioners partnered closely with the Property Appraiser's Office, Business Technology Services, and other GIS stakeholders to create an enterprise-wide GIS Bureau. This Bureau will provide countywide GIS support and result in cost savings, enhanced services, and data quality improvements.

- <u>Potential Consolidation and/or Sharing of Governmental Services:</u> We have received dozens of citizen and employee suggestions regarding the potential consolidation and/or sharing of governmental services between the County, cities, and other entities. The services of a consultant have been engaged to help work with the County and other entities to identify potential areas of consolidation or sharing of services.

- <u>Centralized Chiller Facility:</u> This cost saving idea would construct a chilled water facility that would serve buildings in the downtown

Clearwater campus. Depending on the amount of capital investment, the County can buy down the cost of chilled water from a vendor over the long-term or own the facility and potentially sell chilled water to other public and private customers in the area. Fully funding this project is estimated to result in $507K of recurring savings, $3.8 million of cost avoidance, and potential revenue opportunities of $300 to $400K.

Revenue Ideas

We have also reviewed several revenue ideas from the Revenue Team that are being included in the FY2012 Budget. Please see the Management Initiatives section of the Budget Message for more information on each of these items.

- Parking Fees at Fort De Soto Park and Howard Park Beach & Causeway: The new parking fees at Fort De Soto Park and Howard Park Beach & Causeway have been submitted as revenue ideas through citizen and employee suggestions for the last several years. These two parks had over 4.4 million visitors last year. Charging parking fees will bring these two parks in-line with the County's other beach access parks. The new parking fee is consistent with the results of the statistically valid Citizens' Preference Survey, which showed that two-thirds of total respondents were in support of a parking fee at Fort De Soto Park.

- Fees Analysis for Building, Development, and Review Services (BDRS): A revenue idea submitted through the Better Way website by employees is to take a close look at the Building and Development Review Services Fees to ensure that the County is capturing an optimal level of cost recovery.

In addition to the ideas listed above, other ideas will continue to be analyzed in the coming months for future implementation. We commend our employees and our citizens for their thoughtfulness, vision, and grasp of economic realities.

Departments Under the Board of County Commissioners

Approach to Reductions

In crafting this year's reduction process for departments under the Board of County Commissioners, departments were not asked for across-the-board reduction scenarios as was requested the last two years. County Administration recognized that some departments have already been reduced to the point where additional reductions would be counterproductive. A more targeted approach was taken for this year's budget process based on Board direction provided at various strategic planning meetings and citizen input from our community outreach efforts. This approach was customized and focused on certain programs and service levels. We also challenged ourselves to identify reductions that limit the impact to the public and preserve our current service levels as much as possible.

As staff approached potential program reductions, we considered the following:

- Is the program or service level reduction consistent with BCC priorities?

- Given the new budget climate, should the County continue to provide this service?

- What is the impact of the program reduction to the community?

- Can we reduce the service level of the program and still have a viable program?

- Is the program sustainable over time given future revenue constraints?

- Is eliminating or reducing a program going to have an indirect negative impact on the County's economy?

Overview of Reductions

The FY2012 General Fund budget target for the BCC departments is $3.3 million. This target was met and exceeded by reductions totaling $3.6 million.

Department	Reduction	F/T Positions
Parks & Conserv. Resources	$1.5M	(6)
Health & Human Services	$208K	0
Environment & Infrastructure	$500K	0
Real Estate Management	$1.1M	0
Justice & Consumer Services	$300K	0
Total	**$3.6M**	**(6)**

Parks & Conserv. Res. ($1.5M; 6 positions)

- Parks ($322K; 5 positions): Operational efficiencies as a result of new organizational development with roving crews, centralizing functions, standardization of chemicals, dispensing, and cleaning supplies, centralized controls, reductions in inventory, and reduced volume of maintenance projects are a result of reduced staff. Efficiencies can be implemented with no impact to service level.

- County Extension ($178K; 1 position): Efficiencies created by the merger of Parks & Conservation Resources-Extension and Environmental Lands Education Centers results in the elimination of one position. With the realignment of duties, refocusing of priorities, and the addition of a University of Florida faculty position, no adverse impact is anticipated for the public.

- Reductions Restored by Parking Fees at Fort De Soto Park and Howard Park Beach & Causeway ($1.0M): The implementation of parking fees at Fort De Soto Park and Howard Park Beach & Causeway results in additional revenue that restores two reductions. The first is to close the parks two days a week ($500K) and the second reduction is to eliminate lifeguards at Fort De Soto, Sand Key, and Howard Parks ($500K). Due to the offsetting parking fee revenue, these reductions are not included in the FY2012 Budget.

Health & Human Services ($208K)

- Healthcare Services Program ($208K): This reduction has no impact on current services as current enrollment levels are below the budgeted service level. It is anticipated that by increasing program eligibility to 115% of federal poverty level will allow for an increase of 1,000 newly eligible clients at the new program funding level.

Environment & Infrastructure ($500K)

- Mosquito Control ($271K): This reduction reduces operating supplies for Mosquito Control program to baseline funding level. The previous funding level was set at a higher level in order to address the increase in supplies necessary for peak seasons of mosquito activity. Going forward, if additional supplies are necessary during peak seasons, funding will have to come from General Fund reserves.

- Various Programs ($229K): This reduction reduces various line items across several programs. A portion of the reduction includes in-house staff absorbing some of the services that are contracted for currently.

Real Estate Management ($1.1M)

- Utility Savings ($600K): This reduction reflects lower operating costs from prior investments in non-recurring facility energy and conservation projects. Examples of these projects include: Detention Facility Water Conservation Phase I and II, Lighting Retrofits, and Demand Control Ventilation Phase I and II.

- Space Plan Implementation ($500K): Significant reductions in force have reduced position counts to the point where

opportunities exist to move departments from leased space to county-owned space.

Justice & Consumer Services ($300K)

- Juvenile Justice Mandate ($300K): This reduction reduces the County's mandated costs for pre-dispositional juvenile detention from $5.8M to $5.5M based on anticipated savings in the coming year.

Impact of Reductions

In developing the reduction package we considered the Board's budget priorities and strategic initiatives as well as the feedback we received from our numerous community outreach efforts. We challenged ourselves to identify reductions that limit the impact to the public and preserve our current service levels as much as possible. We have been able to limit the impact of budget reductions to our citizens thanks to smart decisions made over the last two budget cycles. Wherever possible we have restructured the organization to optimize how we provide services to the community. We implemented several reorganizations last year that are now paying dividends to the organization. The FY2012 budget includes more reorganizations that will hopefully bear fruit in the future. We also are seeing the return on investment from cost-saving ideas such as the implementation of the Space Plan and several facility and energy conservation projects. We are pleased that we have been able to leverage over a million dollars of operational efficiencies from the organization, rather than making service level reductions that negatively impact our community.

Balancing the FY2012 Budget

Adjustments to the Forecast

In June, the General Fund forecast was revised to reflect the latest information impacting the budget following several budget work sessions with the Board. As already mentioned, the BCC departments exceeded the $3.3 million reduction target by reducing $3.5 million for a difference of about $250K. The **target variance** from the Constitutional Officers, Court Support, and Independent Agencies totaled $924K. The components of the net variance are shown in the table below.

Agency	Variance	
Sheriff	50,000	Met Target
Tax Collector	0	Met Target
Supervisor of Elections	5,870	Met Target
Clerk of the Circuit Court	(426,060)	Missed Target
Property Appraiser	(522,606)	Missed Target
Judiciary	8,370	Met Target
Public Defender	(39,860)	Missed Target
State Attorney	N/A	N/A
Business Technology Services	0	Met Target
Human Resources	0	Met Target
Human Rights	0	Met Target
Medical Examiner	0	Met Target
Total	**($924,286)**	

The budget request from Business Technology Services included a **recurring budget request** totaling $1.7 million. The request included $533K for enterprise licenses & maintenance costs from the OPUS, CHEDAS, and Justice CCMS technology projects; $327K for GIS personnel and training costs to help support the new Enterprise GIS Bureau that was created this year; $873K for the Enterprise Capacity Plan to help fund the replacement of equipment in a timely manner and avoid service interruptions and other potential negative issues.

Fuel cost estimates in the General Fund were also updated to reflect higher costs over the last several months. The impact in the current budget year is anticipated to be $380K. The impact in FY2012 is estimated at $770K as the cost increase is annualized for the entire year.

The County is also experiencing a significant increase in its **Medicaid** bill from the State. The County pays the State for in-patient hospital care for days 11 through 45. This item is a challenge to budget for given the uncertainty regarding how long a person may need hospital care. Over the last several months, the Medicaid bill has increased considerably and the impact in the

current budget year is anticipated to be $3 million. This increase will result in a one-time impact that will have to be funded by reserves. The impact in FY2012 is estimated at $2 million given that the forecast assumed a funding level of $10 million.

At the June 9th budget work session, the Board provided direction to mitigate the 15% **health insurance** increase to active employees given the fact that employees will be experiencing a 3% pay cut due to changes to the Florida Retirement System. The total cost to mitigate this increase is estimated at $1.7 million.

The original forecast assumed a 6% decrease in **taxable values** in FY2012. The estimated taxable values received from the Property Appraiser on July 1st showed that Countywide taxable values have decreased 4.5% and the MSTU or unincorporated area have decreased 3.5%. This results in a positive impact to the General Fund forecast of $4.1 million. Based on the latest information available we also revised the FY2013 assumption for taxable value from 0% to a 3% decrease.

The biggest change to Forecast resulted from major changes to the **Florida Retirement System** (FRS) that were recently passed by the Legislature. Some of the changes include: Contributions by current employees toward their retirement will increase from zero to 3%; For employees hired after July 1st, the vesting period and normal retirement date have been extended; and anyone entering DROP after July 1st will have a lower interest rate than is currently offered. Changes recently adopted by the Legislature for the Florida Retirement System result in an increase in the employee contribution from zero to 3% percent. This means that employer contribution rates will be reduced which results in a savings to the County The savings will accrue to the County, not the State. The General Fund savings in FY12 from FRS changes are significant at $13 million dollars.

Agency	Variance
BCC Departments and Independent Agencies	$3.8M
Sheriff	$7.6M
Tax Collector	$704K
Clerk of the Circuit Court	$444K
Property Appraiser	$302K
Supervisor of Elections	$121K
Total	**$13.0M**

Because employee contributions began as of July 1st, we expect a positive impact of about $900K in the current year, which does not include the Sheriff. Per Board direction on June 9th, the $900K was added to the balance in the Service Level Stabilization Account.

The net changes to the forecast from all of these adjustments is a positive $8.3M as shown in the table below.

Agency	Variance
Target Variance-Const. & Indep.	($924K)
Recurring Issues Request	($1.7M)
Fuel	($770K)
Health Insurance	($1.4M)
Medicaid	($2.0M)
Miscellaneous Revenues	($2.3M)
Target Variance-BCC Departments	+$250K
Ad Valorem	+$4.1M
FRS Adjustment	+$13.0M
Total	**$8.3M**

Board Changes to the Proposed Budget

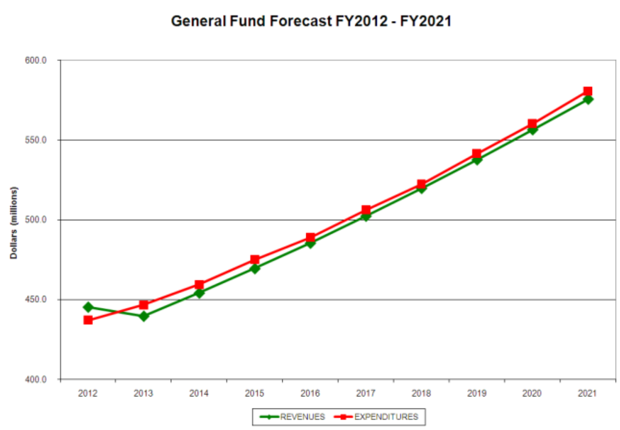
At the August 23rd budget work session, the Board amended the Proposed Budget as follows:

Proposed Budget as of July 12th	**$8.3M**
Reduction in Juvenile Justice mandate	+$300K
Restoration of Social Action Funding	($200K)
Restoration of 1 Full-Time Position and 1 Part-Time Position in Human Resources	($147K)
Additional Support for East Lake Library	($42K)
Net Impact of Board Changes to the Proposed Budget	**$8.2M**

These changes result in $100K increase to the Service Level Stabilization Account and a $189K decrease in Reserves.

Revised General Fund Forecast

The revised General Fund forecast shows that recurring revenues exceed recurring expenditures in FY2012 by $8.2 million. This amount plus additional savings from the Board changes to the Proposed Budget results in an additional $8.4 million contributed to the Service Level Stabilization Account for a new total of $28.6 million. In FY2013 the forecast assumes a decrease in taxable values of 3% which contributes to the $7.0 million recurring shortfall. This shortfall should be manageable given that we have $28.6 million in the Service Level Stabilization Account available to bridge to FY2014 and beyond.



Budget Strategy

By judiciously re-investing the savings from FRS and other changes in the FY2012 budget, the Board created a situation where we have more than we need to technically balance the budget. The Board chose to add the $8.4 million to the Service Level Stabilization Account (SLSA), which brings that balance to $28.6 million dollars. The SLSA can be thought of as a savings account that we have built up over the last three years to give us flexibility to get the organization through a difficult period of time.

Over the next several years we will be able to draw down this account to provide the organization with a "glide path for a soft landing." For example, the SLSA will allow us to avoid making reductions all the way down to the point where revenues bottom out and will help serve as a bridge to a more financially stable time. Starting in FY2013 we will be able to draw down the SLSA to avoid further significant budget reductions for the foreseeable future. Of course this assumes that we do not have any black swans, or unforeseen circumstances such as a double-dip recession, etc. In summary, due to the prudent financial decisions made during this budget process, the organization will be able to breathe a collective sigh of relief by lowering anxiety levels about the future. Going forward, the community should begin to experience the benefits of achieving organizational stability and service level sustainability.

Independent Agencies

Independent Agencies in the County include the Construction Licensing Board, the Feather Sound Community Services District, the Health Department, Human Resources, Medical Examiner, Office of Human Rights, Palm Harbor Recreation and Library District, Pinellas Planning Council, and Business Technology Services.

The **Construction Licensing Board (CLB)** regulates the construction and home improvement industry through uniform contractor competency licensing, code adoption, and code interpretations. The programs and activities of the CLB are 100% funded by license renewal fees, fines, and citations, with no impact to the General Fund. The CLB has no reductions in the FY2012 budget as there was no applicable target for the programs in the Construction Licensing Board Fund.

The **Feather Sound Community Services District (FCSD)** is a special taxing district within unincorporated Pinellas County. This special taxing district was created by a vote of the residents of Feather Sound. The activities of this district are supported by ad valorem taxes and subject to a 1.0 mill cap. In FY2012, the taxable

value of the district decreased by 4.5% resulting in a $6K reduction in ad valorem revenue. The FSCSD will continue to support necessary ongoing operational requirements totaling $170K by drawing down reserves ($50K) accumulated by the FSCSD non-profit organization. This is consistent with the multi-year plan for drawing down FSCSD reserves approved during the FY2010 budget process.

The **Health Department** promotes and protects the health of citizens and visitors to Pinellas County through programs of disease prevention, diagnosis and treatment of disease, and environmental monitoring. County funding to the Health Department is supported by ad valorem revenue and is in addition to State and other revenues. In FY2012, the taxable value of the district decreased by 4.5% resulting in a $165K decrease in ad valorem revenue. This reduction may reduce access to indigent healthcare to an estimated 270 patients and reduce the contingency reserve by $70K.

Human Resources provides a central personnel servicing function for the following Appointing Authorities: Board of County Commissioners, Clerk of the Circuit Court, Property Appraiser, Supervisor of Elections, Tax Collector, Office of Human Rights, Pinellas Planning Council, Business Technology Services, and the Construction Licensing Board. Human Resources is governed by a Personnel Board. Human Resources is funded by the General Fund and had a reduction target of $185K. The Human Resources budget submission included $147K of reductions. These reductions were subsequently restored by the Board on August 23rd.

The **Medical Examiner** provides both forensic medicine service (investigation of sudden, unexpected, or suspicious death) and forensic laboratory service (chemical and drug analyses) to Pinellas County on a contractual basis. The non-professional services contract expenses portion of the Medical Examiner's budget is funded by the General Fund and had a reduction target of $5K. The Medical Examiner met the target through reduced personnel costs, including increased use of part-time rather than full-time employees.

The **Office of Human Rights** provides the citizens of Pinellas County protection against discrimination pursuant to local, State, and Federal law. In particular, the office provides protection from discrimination based upon religion, political affiliation, race, color, age, sex, national origin, disabled/handicapped status or sexual orientation. Human Rights is funded by the General Fund and was subject to a $16K target reduction. That target was ultimately met by the upcoming retirement of the current Director and recruitment of a replacement at an entry-mid level salary.

The **Palm Harbor Recreation and Library District** is a special taxing district within unincorporated Pinellas County. This special taxing district, formed by the residents of Palm Harbor, was established for the purpose of providing recreation facilities and library facilities and services to the residents of Palm Harbor. The activities of this district are supported by ad valorem taxes and subject to a 0.5 mill cap. In FY2012, the taxable value of the district decreased by 2.9% resulting in a $43K decrease in ad valorem revenue. Due to this reduction in revenue, the payment to the Palm Harbor Recreation and Library District will be reduced by $34K.

The Palm Harbor Community Services Agency has formally requested that the Board of County Commissioners approve the collection of the full 0.5 mill for the district so that some of the services reduced over the last several years could be re-instated. The FY2012 Budget does not include a millage rate increase for the Palm Harbor Recreation and Library District.

The **East Lake Community Library** serves residents of Pinellas County in the northeastern unincorporated area. The library is operated by an independent board, receiving monetary support from the Pinellas Public Library Cooperative through the Palm Harbor Library District and the County General Fund (MSTU portion). The staff members at East Lake are not Pinellas County employees. There is a reduction of 3.5% in the collections of FY2012 MSTU ad valorem revenues resulting in decreased revenue support for East Lake Community Library of $7K. On August 23rd, the Board agreed to a formal request by the Palm Harbor Community Services Agency to provide additional funding of $42,000 a year for the next two years to adequately meet the East Lake Community Library's operating budget and to fully participate with the Pinellas Public Library Cooperative. This amount brings the County's total support for the East Lake Library to $243K.

The **Pinellas Planning Council (PPC)** is a dependent special district that acts as the advisory body to the Countywide Planning Authority. The budget for the PPC is not included in the County's budget but the Board of County Commissioners has the right to review and adjust the PPC's approved budget and certify its millage. The PPC's mission is to maintain and enhance a representative forum for countywide planning and provides for overall policy direction, plan consistency, interagency coordination and technical assistance in furtherance of a coherent, efficient, and effective countywide planning process. The activities of the PPC are supported by ad valorem taxes subject to a 0.1666 mill cap. In FY2012, the taxable value for the PPC millage decreased by 4.5% resulting in a $19K decrease in ad valorem revenue. The PPC is making reductions totaling $24K and continues to draw down reserves of $369K to fund ongoing operations. This is consistent with the multi-year plan for drawing down PPC reserves approved during the FY2010 budget process. The budget for the PPC is summarized in Exhibit G of the Budget Message.

The **Pinellas Public Library Cooperative (PPLC)** serves eligible residents of Pinellas County and its member public libraries. The Cooperative serves these groups through the management of county, state, and federal funds for library development and by facilitating the sharing of materials and resources among its members. The activities of the PPLC are supported by ad valorem taxes imposed exclusively in the unincorporated area (less Palm Harbor) and subject to a 0.5 mill cap. In FY2012, the taxable value for the PPC millage decreased by 3.6% resulting in a $188K decrease in ad valorem revenue. Due to this reduction in revenue, the PPLC has reduced its budget for funding available to membership libraries and for administrative expenses by $150K.

Business Technology Services (BTS) provides a full suite of technology services to all BCC Departments, as well as the Constitutional Officers, Independent Agencies, and the Courts. BTS is governed by the Business Technology Services Board. BTS is mostly funded by the General Fund and was subject to a $1.4M target reduction. BTS met the target through these cost saving initiatives: (1) Implementing Voice Over Internet Protocol technology for providing telephone communications services throughout the county; (2) Implement a new cell phone/PDA/pager stipend in lieu of the devices currently provided by BTS for use in performing County business; (3) Exploit technology and standardization for the centralization and remote maintenance of personal computers in lieu of dispatched field desktop support; and (4) Implement self-service options to reduce the need for providing level one customer support.

Constitutional Officers and Court Support

Constitutional Officers in the County include the Clerk of the Circuit Court, the Property Appraiser, the Sheriff, the Supervisor of Elections, and the Tax Collector. The County also provides Court Support to the Judiciary, the Public Defender, and the State Attorney subject to Article V requirements and local options.

The **Clerk of the Circuit Court** serves as the accountant and clerk to the Board of County Commissioners, custodian of county funds and ex-officio county auditor. The portion of the Clerk's budget that is classified as Board Support pursuant to Article V, Revision 7, is funded by the General Fund and was subject to a $974K target reduction. The Clerk of the Circuit Court submitted reductions totaling $548K. The reductions include the elimination of one position.

The **Property Appraiser** is responsible for valuing all property in Pinellas County and administering any tax exemptions for the purpose of levying taxes. The Property Appraiser's total budget is approved by the State Department of Revenue (not the Board of County Commissioners). The commissions the Board must budget for the Property Appraiser is set by statute. Each taxing authority is billed a proportional amount based on its proportional share of total ad valorem taxes for the preceding year. The portion of the Property Appraiser's budget that is funded by the General Fund had a reduction target of $1.2M. The Property Appraiser submitted reductions to this budget totaling $722K, including the elimination of 7 positions and reductions in various operating expenses.

The **Sheriff** is the chief law enforcement officer within the County and provides basic service such as law enforcement, jail operations, and court security to all citizens in Pinellas County. The Sheriff serves as the primary law enforcement officer to the unincorporated areas of Pinellas County and to 12 of the County's 24 municipalities pursuant to contract. Additionally, the Sheriff provides a variety of law enforcement services to the other municipalities and contracts with many of these departments for specialized services. The Sheriff's budget is funded by the General Fund and had a reduction target of $14M. The Sheriff's budget request made reductions which met the reduction target and exceeded it by $50K. The reductions included the elimination of 75 full-time positions. Law Enforcement was reduced $5.4M (13 positions). Detention & Corrections was reduced $7.4M (41 positions). Judicial Operations was reduced $1.3M (21 positions). Examples of the reductions are: eliminating 20 deputies from jail transportation and contracting out the function ($700K); converting the Jail Central Division to 12-hour shifts, eliminating 10 positions ($1M); reducing "read-off" at the jail from once per week to once every two weeks ($250K); revising the agency uniform policy ($500K); reducing the number of computer printers ($300K); converting 19 full-time deputy positions in Court Security to 16 part-time positions ($600K); and assigning non-sworn employees to perform security functions at the Criminal Justice Center which were formerly contracted out ($300K). Other reductions included the elimination of the Strategic Planning Section, the Human Resources Director, an insurance coordinator, 3 forensic science specialists, one Community Policing deputy, and various positions in Court Processing, Investigative Operations, Inmate Medical Records, Property and Evidence, and the front desk at the Sheriff's administration building. The $15M of reductions was offset by a decrease in revenue of $859K for a total reduction impact of $14.1M.

The **Supervisor of Elections** is responsible for preparing and conducting all Federal, State, County, and Municipal elections in the County.

The office registers, maintains changes and updates the records for all County voters and qualifies all candidates for County offices. The Supervisor of Elections recruits, trains and assigns all poll workers, locates and contracts with polling locations, surveys polling places and makes improvements to comply with ADA accessibility requirements, and purchases and maintains voting equipment and supplies. The Supervisor of Elections budget is funded by the General Fund and had a reduction target of $192K. The Supervisor of Elections met the target through reductions which include reorganization of personnel, the elimination of 1 position, and various reductions to operating expenses due to cost saving measures. The budget includes non-recurring funding for the 2012 presidential preference primary as well as costs associated with redistricting resulting from the 2010 Census.

The **Tax Collector** bills, collects and distributes all taxes for the County, Municipalities, Tourist Development Council, School Board, and taxing districts. The Tax Collector issues licenses and titles for cars, trucks, boats and mobile homes, issues fishing and hunting licenses, and issues Drivers Licenses. The County's portion of the budget reflects the funds associated with the Tax Collector fees related to the collection of the Countywide and Unincorporated area (MSTU) millage. The amount the Board must budget as fees and commissions for the Tax Collector is set by statutory formula. The Tax Collector's total budget request is approved by the Florida Department of Revenue (not the Board of County Commissioners). The portion of the Tax Collector's budget that is funded by the General Fund had a reduction target of $199K. The Tax Collector met the target through cost reductions including the elimination of 3 positions.

The **Judiciary** includes operational and administrative support for the Circuit and County Courts within Pinellas County. The Board of County Commissioners provides funding for communications and technology, facilities, maintenance, furniture, the guardianship program, an alternative sanctions coordinator, and certain local options. All other operating expenses are the financial responsibility of the State. Of the total County portion of the Judiciary budget, only Statutory Requirements was subject to a target reduction of $3K. The Judiciary's budget submission met and exceeded the target by making reductions in operating expenses totaling $4K.

The **Public Defender** provides legal advice, counsel, and defense services to needy and financially indigent citizens accused of crimes, as required by Florida law. The County portion of the budget funds Article V related technology requirements and a jail diversion program. The jail diversion and incompetent to proceed programs were subject to a $53K reduction target. The Public Defender's budget submission did not include any reductions.

The **State Attorney** represents the State of Florida in the circuit and county courts and is responsible for conducting criminal prosecutions of all persons charged with violating state, county, and/or local laws and ordinances. The State Attorney reviews charges and complaints to determine whether they warrant prosecution and trial. The County portion of the budget funds Article V related technology requirements. As a result, there was no reduction target applied to the State Attorney's budget.

Reduction in Force

BCC Departments-Position Impacts

In reviewing the full-time permanent position impacts from the reductions, the Parks reduction eliminated six positions. In the Airport Fund, the Airco Golf Course was closed in May resulting in the elimination of two full-time positions. The total number of position eliminations for the BCC departments is eight.

The eight eliminated positions are offset by the addition of twelve full-time positions from the service level enhancement resulting from the new parking fees at Ft. De Soto and Howard Parks, for a net position impact of four.

The position eliminations from closing the Airco golf course took place in May. Any incumbents in those positions have already left the organization. Of the six position eliminations in Parks, it is anticipated that at least four of those positions will be able to work in the same classifications as part of the service level enhancement in Parks due to implementation of the new parking fees at Fort De Soto Park and Howard Park Beach & Causeway. That means that at least two positions in Parks remain at risk for potential layoff.

Net Position Reductions
As shown in the table below, the net position reductions for the BCC Departments and the Constitutional Officers and Independent Agencies result in the elimination of 93 positions or 2% of the total workforce.

Agency	Positions Increase/(Decrease)
BCC Departments-Reductions	(8)
BCC Departments-Parks Fees	12
Clerk of the Circuit Court	0
Property Appraiser	(7)
Sheriff	(85)
Supervisor of Elections	(1)
Tax Collector	(3)
Judiciary	0
Business Technology Services	(1)
Construction Licensing Board	0
Employee Health Benefits	0
Human Resources	0
Medical Examiner	0
Office of Human Rights	0
Net Change in Full-Time Positions	**(93)**

Since FY2007, total positions have decreased 1,698 or 26%. Within that number, the BCC departments have decreased 979 positions or 35%, which yields the lowest position count since FY1985. The Constitutionals and Independents have decreased 719 positions or 19% which yields the lowest position count since FY1994.

Reduction in Force
Although it is uncertain how many layoffs may result from the position changes, the organization is committed to doing its best to place everyone involved in other positions within the Unified Personnel System.

Other employees will change positions within their departmental units consistent with the bumping process and vacant positions will be eliminated. For more information regarding the retention formula, layoff rule, and bumping process please visit the following Human Resources website: http://ups.co.pinellas.fl.us/Transition

Employees affected by the reduction in force will remain on the payroll through September 30th. At that time, each employee will receive the value of their remaining leave.

MANAGEMENT INITIATIVES

The *Management Initiatives* portion of the FY2012 Budget Message provides an overview of various management initiatives that the County has implemented over the last several years. As our organization has faced difficult budget challenges, we have been able to effectively leverage our strategic planning, budget forecasting, performance measurement, and program budgeting initiatives that have been implemented over time. This section discusses the following initiatives:

- Strategic Planning
- Multi-Year Forecasting
- Performance-Based Management
- Program-Based Budgeting
- Reorganizations
- Cost-Saving Initiatives
- User Fees & New Revenues

Strategic Planning

New Strategic Operating Principles & Initiatives

To help chart the organization's course into FY2012 and beyond, the Board of County Commissioners held several strategic planning meeting this year from December to April. These meetings helped set a foundation for development of **operating principles** that will support a new Strategic Plan to replace the current *Vision Pinellas* Strategic Plan that was adopted five years ago. The new strategic plan is anticipated to be developed later this year.

In the governance area, the Board will strive to:

- Govern proactively through the strategic planning process.
- Govern at the level closest to the citizen.
- Govern at the appropriate County level.
- Consider both the current and future impact of its decisions.

In making decisions, the Board agreed to:

- Provide consistency and efficiency by using an enterprise approach where possible.
- Make decisions as a commission with the appropriate level of public input.

In the financial area, the Board will attempt to:

- Align the beneficiary of a service to the funding source for that service.
- Undertake a level of risk commensurate with their public/fiduciary responsibilities.
- Utilize "pay-as-you-go" funding strategy where possible.
- Deliver service in the most cost effective way.

The Board will also endeavor to:

- Collaborate to break down barriers.
- Provide the highest level of accountability.
- Leverage technology to increase productivity and save money.

The Board also developed a set of **strategic initiatives** to be pursued during this budget cycle and beyond.

1. Explore the feasibility of consolidation of Constitutional Officers' functions (and other county functions) in common facilities and/or North, Central and South County Service Centers.

2. Explore the feasibility of consolidation of 9-1-1 Emergency Communications dispatch operations.

3. Explore the feasibility of further consolidation of fleet maintenance operations and facilities. In doing so, investigate partnerships with other governments and agencies.

4. Continue to explore the feasibility of consolidated revenue collection and billing in EMS and Utilities by the Tax Collector.

5. Explore opportunities for further consolidation of printing services.

6. Explore opportunities for further consolidation of purchasing and procurement activities.

7. Continue to work towards an enterprise Geographic Information System (GIS) in cooperation with BTS, County Administrator, and the Property Appraiser.

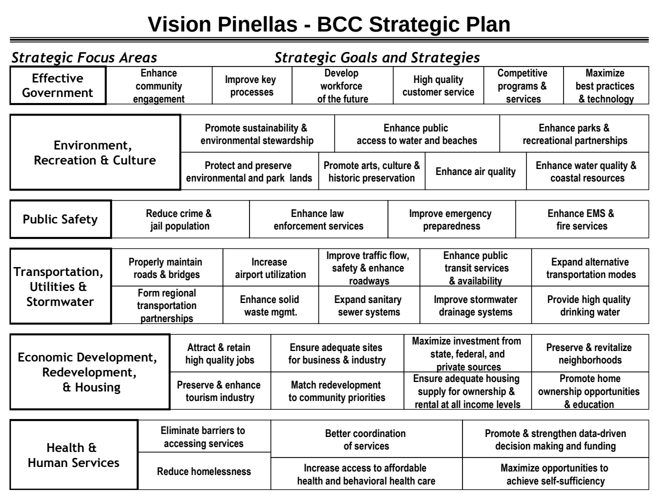
8. Continue to explore the feasibility of further mailroom consolidation.

Current Strategic Plan: Vision Pinellas
Pinellas County has traditionally been a leader in the application of advanced professional management methods to departmental operations. Prior to 2005, a number of tools, such as Total Quality Management (TQM), had been implemented. In 2005, the Board of County Commissioners recognized the need for a new visionary framework to meet the challenges of the new century. The County contracted for the development of a formal strategic plan for the organization. The result of that effort was the Board of County Commissioners Strategic Plan, also called *Vision Pinellas*, which was adopted by the Board on February 14, 2006. The Strategic Plan is a high-level document that provides overall Board direction on a number of priority issues.

Strategic Focus Areas
The Strategic Plan is organized into six Strategic Focus Areas (SFA). These are broadly defined key areas, which provide context for what needs to be achieved for the organization's success. In our case, this success would be areas of importance according to the citizens of Pinellas County as articulated by their elected officials through the Strategic Plan. The Strategic Focus Areas are:

- Public Safety
- Health & Human Services
- Transportation, Utilities, & Stormwater
- Environment, Open Space, Recreation & Culture
- Economic Development, Redevelopment, & Housing
- Effective Government

Strategic Goals & Strategies
Strategic Goals & Strategies are more specific initiatives or actions needed to achieve success in each of the Strategic Focus Areas, and they are grouped by the Strategic Focus Area to which they relate best. The Strategic Goals & Strategies reflect the key priorities of the BCC and the organization and change over time as organizational goals change or are achieved. In order to facilitate understanding and track implementation of the Strategic Plan, a one-page summary of the two key structural elements of the Plan, Strategic Focus Areas and Strategic Goals & Strategies, was developed.



MANAGEMENT INITIATIVES

Strategic Action Items

A third element of the Strategic Plan is the Strategic Action Items that support each of the Strategic Focus Areas and Strategic Goals & Strategies. These action items can be found in the SFA business plans and are the specific activities or initiatives that need to be achieved in order to achieve the goals & strategies. The relationship between these elements is illustrated below.

Many strategic goals & strategies often impact more than one department in the organization and sometimes include other agencies.

Strategic Focus Area Teams

To facilitate implementation of the strategic goals & strategies six cross-departmental teams were established. Team leads were named for each team and team members were selected. Each SFA team has representation from related departments. For example, the Economic Development, Redevelopment, & Housing team features members from Economic Development, Community Development, Building, Development Review Services, and Planning, as well as ad-hoc participation from Human Services, Communications, Convention & Visitors Bureau, Airport, Public Works, and STAR Center.

During FY2006 the SFA teams worked to develop business plans for each SFA that provide detail and specificity regarding implementation of the goals and strategies in the Strategic Plan. This detail includes identifying the department(s) tasked with the strategy, a time frame for implementation, deliverable(s) if any, and related performance measures.

The Effective Government SFA team was established to serve as the coordinating body for the ongoing work of all of the Strategic Focus Area Teams. This team is also charged with guiding the County's over arching strategies that affect all of the strategic focus areas and the county's services overall. The composition of this team includes the team leads from the Strategic Focus Area teams, each of the Assistant County Administrators, and other key leaders.

The SFA team concept has become a cornerstone to the County's strategic planning approach and has already produced benefits such as enhancing collaboration and networking, better understanding of other people's roles and responsibilities, and a big picture perspective towards meeting challenges. Each of the SFA teams is tasked with implementation of the Strategic Action Items in their business plans. Reporting is done on a quarterly basis to track progress related to implementation.

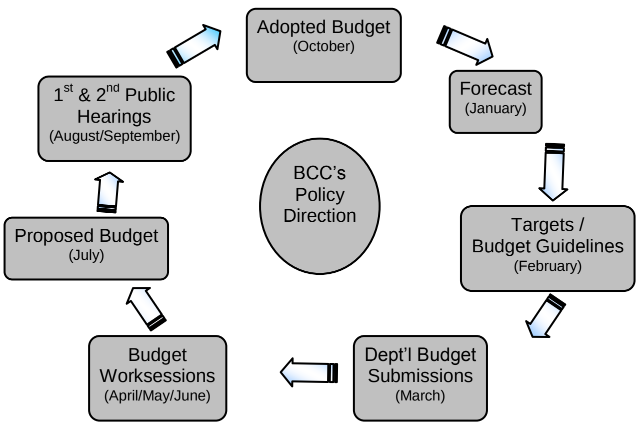
Strategic Plan Update

The Board's current Strategic Plan needs to be adjusted to reflect the County's new fiscal reality. We will undertake a formal and comprehensive review of the Strategic Plan with the Board of County Commissioners in the Fall. Once the new strategic plan has been developed, periodic updates to the Strategic Plan are anticipated to occur at least annually, usually in the October to December timeframe in advance of the budget process.

Multi-Year Forecasting

Forecasting and the Annual Budget Process

The first step in the annual budget process is to update the Forecast in order to develop the budget guidelines for the upcoming budget process.



Several of the County's key funds are included in the Forecast. Each fund is analyzed individually as part of the forecasting process.

Development of Budget Guidelines

The budget guidelines are developed by County Administration based on the results of the Forecast and policy direction from the Board of County Commissioners. If the results of the Forecast for a given fund indicate a shortfall, the budget guidelines would most likely include some kind of reduction target. If a surplus is expected, the guidelines would most likely include proposals for new or enhanced programs. The budget guidelines are communicated to the County's departments and agencies for use during their budget development. At this time all instructions and resources for preparing budget requests are also distributed.

Updating the Forecast

After the Forecast is prepared and presented to the Board of County Commissioners in the January timeframe, the Forecast is continually updated throughout the rest of the fiscal year in parallel with the budget development process. A revised Forecast is included in the County Administrator's Budget Message in both the Proposed and Adopted Budget documents.

Developing the Forecast

The Forecast is developed by the Office of Management & Budget (OMB) during November and December for presentation to the Board of County Commissioners in January. The Forecast is built upon an individual assessment of ten of the County's major funds: the General Fund, Tourist Development Fund, Transportation Trust Fund, Capital Projects Fund, Emergency Medical Services Fund, Fire Districts Fund, Airport Fund, and Utilities Water, Sewer, and Solid Waste Funds.

The process for developing the Forecast includes updating the projections for FY2010 with actual revenue and expenditure information following the close out of the fiscal year as of September 30, 2010. At the same time, the current FY2011 expenditures are projected on a preliminary basis by analyzing the actual expenditures to date and projecting the remaining months left in the fiscal year. These expenditure projections are further refined later in the process as department provide their expenditure projections. The coming FY2012 budget year is forecasted based on the best information available at that point in time. The Forecast has a ten year horizon to help determine the long-term financial position of the County's funds as well as the impact of today's budget decisions. The out-years through FY2021 are forecasted using various projection methods such as trend analysis, linear regression, and moving averages.

Forecast Assumptions

The projections are modeled so that assumptions may vary each year to reflect future impacts of known variables and other anticipated events. The model is also designed to allow the key assumptions to be adjusted so that sensitivity analysis can be performed to demonstrate the

impact of changing key assumptions. Additionally, unknown risks that could potentially affect the ten-year forecast have been identified and discussed.

Forecast Results
Major assumptions driving the revenue and expenditure projections are outlined to ensure a clear understanding for the basis of the results. Shortfalls and surpluses are cumulative in the sense that any individual year's surplus or deficit flows into the next year's fund balance, thus carrying a current year's balance forward. In using the information contained in the projection, it is important to understand that an indicated surplus or deficit reflects the model's assumptions and demonstrates a potential need for revenue increases, expenditure reductions, or a mix of both.

The Power of the Forecast
Developing a multi-year forecast provides decision-makers with at least two key benefits: (1) assessing the long-term financial sustainability of the County's Funds and (2) understanding the impact of today's decisions on the future.

Long-Term Fiscal Sustainability
One of the key purposes of developing a multi-year fund forecast is to identify potential actions necessary to balance revenues and expenditures over the long-term to ensure fiscal sustainability. Forecasting over a ten-year horizon can serve as a window into the future to warn of potential future challenges. For example, if a major capital project (i.e. jail expansion) will have a significant impact on the operating budget, that impact can be anticipated several years in advance and strategies can be developed and implemented to manage the negative impact to the budget. Conversely, if debt service on a bond is due to expire in the near future, additional funds may become available to increase service levels to certain programs or other uses.

Enhanced Decision-Making
Another benefit of long-term forecasting is the ability to assess the impact that decisions made in the present can have on future fiscal capabilities. If the Board is considering funding a new or enhancing an existing program, the Forecast can demonstrate the long-term impact to the budget. Similarly, if the Board is considering a new revenue source, the Forecast can show how much revenue could be anticipated over the years. Implementing cost-saving initiatives can also be forecasted and evaluated over time. In summary, the Forecast can be a powerful tool to understand how policy changes have real consequences that last far beyond a one-year budget solution.

Performance-Based Management

Performance measurement is a process of systematically collecting data about an organization's efficiency and effectiveness in delivering a program or service. This data ties back to the goals of the individual department as well as the County as a whole, and provides stakeholders such as elected officials, managers, and citizens with information regarding the performance of the organization.

Transition to Outcome-Based Performance Measures
Performance measurement in Pinellas County is not a new activity. Since the 1970s, County budget documents have included output-based performance measures detailing information regarding inputs such as the number of employees and the size of the budget, as well as outputs that show the volume of workload accomplished. A review of the performance measures included in the FY2002 Executive Budget reveals that 97% of the measures were output-based. These output measures provide good information on what we have done; however, they are limited as they do not provide

information as to how *well* those services are being provided.

Over the last few years, many local governments have recognized a need to reflect information regarding the efficiency, effectiveness, and outcomes of their service delivery. During their FY2002 Vision Session, the Board of County Commissioners requested that the organization "develop performance measures that improve the efficiency and accountability of County service delivery." As a result, departments under the BCC were asked to transition from output-based to outcome-based performance measures during the FY2004 budget process. The FY2012 Executive Budget document will continue to reflect outcome-based performance measures using a Balanced Scorecard framework for the County organizations that participated in this effort. The FY2012 Executive Budget document will be available following the adoption of the budget in October.

Benchmarking

As County organizations make a successful transition from output-based to outcome-based performance measures that track how well services are being provided, they can begin to benchmark themselves against past performance as well as other public and private service providers. The County is a founding member of the Florida Benchmarking Consortium (FBC) which is a collaboration of Florida local governments seeking to improve upon or implement performance measurement programs. Founded in 2004 by a handful of local government performance managers, the FBC consists of over 50 cities and counties around the state.

Performance measurement is a practice that has permeated all levels of government from the Federal Government's Government Performance and Results Act (GPRA) of 1993, to numerous state and local programs. Rather than being a passing fad, performance measurement is a practice that is gradually being integrated into all aspects of government management. Governments measure performance to:

- Strengthen accountability
- Enhance decision-making
- Improve customer service
- Support strategic planning and goal setting
- Assist governments in determining effective resource use

The most powerful reason for measuring performance is that citizens are continually demanding more responsive and cost-effective government. In Pinellas County, revenue growth has been limited, while citizen expectations for top quality services have remained high. An enhanced performance measurement system can help increase the quality of government services offered to the public and the efficiency with which they are performed.

Program-Based Budgeting

Beginning in FY2008, the departments under the Board of County Commissioners transitioned to program-based budgeting. A program-based budget sets programs as the basis for budget appropriations instead of line-items and focuses on the expected results of services and activities in the context of the County's strategic priorities. Stratifying a department's budget into programs can be challenging since there is no clear definition of what constitutes a program. Ideally, a program should be clearly delineated, have a minimum overlap with other programs, be results oriented, and lend itself to quantification. This helps carry out planning, budgeting, administrative control, and reporting within the framework of the program structure.

Over the last five years, each department has stratified its budget by program. Programs are categorized as Mandatory, Essential, Administrative, and Other. Program sheets for each County department can be found in the FY2012 Executive Budget document that will be available following the adoption of the budget in October.

Benefits of Program Budgeting
Stratifying the departmental budgets into programs has been an extremely useful tool during the last several budget cycles. Benefits of program budgeting include:

- Enhanced transparency and user friendliness for the Board and the general public.
- Improved decision-making for resource allocation.
- Clear linkages between the budget and strategic priorities.
- Enhanced management information, control, and accountability.
- Increased focus on operational efficiency and performance.
- Mechanism for supporting enhanced fiscal discipline.

A complete transition to program-based budgeting is expected to take place once the new Oracle Project Unified Solution (OPUS) project is fully implemented over the next two years. OPUS is a joint effort of the Board of County Commissioners (BCC), the Clerk of the Circuit Court, the Human Resources Department, and Business Technology Services (BTS). This project will replace legacy software and integrate the County's financial, purchasing, human resources, and budget systems which will facilitate program and performance-based budgeting.

Reorganizations

This section provides the managerial approach to this year's reorganizations, an overview of the reorganizations for departments under the Board of County Commissioners, and anticipated efficiencies from the reorganizations.

Approach to Reorganizations
The overarching strategy for this year's budget process is to reshape Pinellas County government by restructuring, reorganizing, and realigning the organization to provide an efficient and effective array of services. Our approach has been to take a hard look at our organizational structure and service delivery systems and transform the organization to fit our new fiscal reality. This transformation is anticipated to be an ongoing process as each organizational unit is optimized over time.

Overview of Reorganizations
Several reorganizations were included in last year's budget that increased efficiencies and contributed savings to this year's budget (*see reductions for Departments Under the Board of County Commissioners*).

At this time there are two reorganizations included in the FY2012 Budget that will become effective on October 1, 2011 or sooner:

<u>Merger of Public Works and Utilities:</u> This reorganization is intended to merge Public Works and Utilities to create the new Department of Environment & Infrastructure. During last year's budget process the engineering functions of both departments were consolidated and this reorganization will complete the merger. To help guide the merger, a Management Council made up of representatives from both departments was

created. A consultant has also been engaged to assist with the implementation. While the merger is anticipated to result in numerous operational efficiencies and synergies, it will take time to optimize the new department so no savings from the merger are included in the FY2012 Budget.

Reorganization of Fleet into Real Estate Mgmt.
Another cost saving idea is the reorganization of Fleet Management from a stand-alone department to a division of the Real Estate Management Department. Staffing for both of these internal service departments have been significantly reduced over the past three years. The consolidation is anticipated to help increase staff capacity and provide more opportunities for synergy. For example, the new Fleet division will have access to more financial staff support in the Real Estate Management Department than it would as a stand-alone department. Although the merger is anticipated to result in operational efficiencies, more time is needed to optimize the department so no savings from the reorganization are included in the FY2012 Budget.

Anticipated Efficiencies
It is anticipated that these reorganizations will ultimately produce tangible efficiencies. However, the necessary optimization process will likely run its course beyond the beginning of the new fiscal year. Therefore, no anticipated savings from these reorganizations is included in the FY2012 Budget. Any savings realized from these actions will be applied to the reductions projected in the FY2013 budget process.

Cost-Saving Initiatives

Several initiatives are being pursued that are anticipated to result in future efficiencies or savings.

Potential Consolidation and/or Sharing of Governmental Services
Enhancing collaboration and partnering with other entities is a strategic initiative from the Board's strategic planning process. Historically this has been a difficult endeavor without the involvement of an objective third party. To that end, the services of a consultant have been engaged to help work with the County and other entities to identify potential areas of consolidation or sharing of services. The study will inventory potential programs and services and identify specific opportunities that could be pursued in the short, intermediate, and long term. The study is expected to be completed this Fall.

Centralized Chiller Facility
This cost saving initiative is the design and construction of a centralized chiller facility in downtown Clearwater. Chilled water is used to cool a building's air which represents a significant operating cost to the County. This project would construct a new chilled water facility that would serve buildings in the downtown Clearwater campus. Depending on the amount of capital investment, the County can buy down the cost of chilled water from a vendor over the long-term or own the facility and potentially sell chilled water to other public and private customers in the area.

The $1.5 million design costs of the facility are funded by a federal grant from the Department of Energy. During last year's budget process, $3.0 million was allocated from non-recurring funds towards the cost of the project. The total cost of the project is estimated at $12.0 million. Because we do not currently have enough non-recurring dollars to fully fund the project, the

balance of the cost, $7.5 million, will be financed by a loan from the Solid Waste Renewal & Replacement Fund. The terms and conditions of the loan have not been set at this time, but would likely include principal being paid off in 5 to 7 years. Fully funding this project is estimated to result in $507K of recurring savings, $3.8 million of cost avoidance, and potential revenue opportunities of $300 to $400K.

Creation of Enterprise GIS Bureau

Traditionally, multiple Geographic Information Systems (GIS) have been maintained by various County agencies. Earlier this year, the departments under the Board of County Commissioners partnered closely with the Property Appraiser's Office, Business Technology Services, and other GIS stakeholders to create an enterprise-wide GIS Bureau. This Bureau will provide countywide GIS support and result in cost savings, enhanced services, and data quality improvements. An Enterprise GIS Steering Committee was created by the Business Technology Services Board to provide governance over the new Bureau. The Committee is chaired by the Property Appraiser and includes representatives from the Supervisor of Elections, Utilities, County Administration, Business Technology Services, Sheriff's Office, and the Department of Environment & Infrastructure.

Leveraging Volunteers

Since FY2007, fiscal challenges have resulted in the elimination of 1 out of every 3 full-time positions for the BCC departments. To help offset a portion of this impact to levels of service experienced by the public, the County has launched an initiative to better leverage volunteers. This initiative is underway and significant progress has taken place. For example, the number of new volunteers placed in the first quarter of this year increased 567% (289 vs. 51) from last year's first quarter. Additionally there was a 40% increase in volunteer hours worked over the same period. The value of volunteer hours worked is $804K (based on $21.36 an hour as determined by Independent Sector), which is a $231K increase in the first quarter alone. As our volunteer initiative continues to progress, we expect even more value to be added for our community.

Privatization of the Marina

The County owns and operates one public marina. The Belle Harbour Marina was acquired in 2006, is located in Tarpon Springs, and provides access to the Anclote River and the Gulf of Mexico. As a cost-saving measure, the Parks & Conservation Resources Department is exploring the possibility of privatizing the operations of the marina. In May, a Request for Proposals for operation of the marina was circulated, which resulted in one response meeting the necessary criteria. A contract is scheduled to be reviewed by the Board in October. If the operation of the marina is successfully privatized, a provision of the contract will ensure that current employees at the marina would have the opportunity to be employed by the new operator.

User Fees and New Revenues

The **Governmental User Fee Schedule** reflects charges for services assessed by departments under the County Administrator. Exhibit B contains a summary of fee changes. The fees are intended to recover costs associated with the provision of services that benefit a specific user rather than having these costs subsidized by property taxes.

User Fee Schedule-General Fund

For FY2011, General Fund user fees are budgeted to generate $7,453,460 in revenue. For FY2012, user fees are budgeted to generate $9,944,350, an increase of 33.4% over the FY2011 budget. The projected increase is driven by new park parking fees ($2.25M) and new fees for code enforcement ($40K). Excluding the new fees, other user fee revenues will be $200,760 or 2.7% higher than the FY2011 budget. Anticipated decreases in campground fees and some other revenues partially offset increased revenues and fee adjustments in other areas.

User Fee Schedule-Utilities Funds

There are no changes proposed to the fees and charges schedule for the water and sewer enterprise funds. For FY2012, the total budgeted Water and Sewer Enterprise Fund revenue from fees is approximately $1.8 million for water and $759K for sewer.

Parking Fees at Fort De Soto Park and Howard Park Beach & Causeway

Fort De Soto Park and Howard Park had over 4.4 million visitors last year. Charging parking fees will bring these two parks in-line with the County's other beach access parks. The new parking fee is consistent with the results of the statistically valid Citizens' Preference Survey, which showed that two-thirds of total respondents were in support of a parking fee at Fort De Soto Park. At Howard Park, the fee would only apply to the Beach and Causeway, and not the inland portion of the park.

The new parking fee is $5 per vehicle. Annual passes would be available for $75 and citizens 65 years and over would be eligible for an annual pass at the rate of $55. Bicyclists and pedestrians would not pay the fee and the intention is to allow for annual passes in exchange for volunteer hours provided to the parks system. At Fort De Soto Park we will have the ability to administer a low income means test that will allow citizens receiving state assistance free or reduced admission upon presentation of proof of eligibility. Parking in both parks will be free for vehicles displaying a disabled license tag or hanger. This policy continues existing fee policy which allows for free parking at public beach accesses and boat ramp parking areas.

The new parking fees are estimated to generate $2.25 million. The FY2012 Budget includes $1.0 million of the fee to restore two park system reductions including closing the parks two days a week and elimination of lifeguards. The fee funds $700K for a much needed service enhancement to all County parks with the addition of twelve full-time positions to provide enhanced security and presence in the parks, cleaner restrooms, and increased holiday coverage. The fee also funds $300K annually for capital improvements and repairs for bath houses at Fort De Soto and Howard Parks, which require an elevated level of maintenance due to high use and the corrosive effects of sand and salt water. The remainder of the revenue, $250K, will be used to fund the ongoing collection costs of the fee including ten part-time positions. Non-recurring implementation costs of $548K are also necessary to fund pay and display machines, build an entry station, and make necessary pavement improvements.

Fees Analysis for Building, Development, and Review Services (BDRS)

The County would like to ensure that the current fee schedule for Building and Development Review Services Fees is capturing an optimal level of cost recovery. To this end, a consultant was engaged in May to review the BDRS fee schedule, benchmark with comparable jurisdictions, recommend appropriate levels of cost recovery, and identify potential revenue opportunities. The report is anticipated to be complete this Fall. Any revenue changes from the report could be implemented later this year or as part of next year's budget process.

ECONOMIC OVERVIEW & BUDGET BACKGROUND

The *Economic Overview & Budget Background* portion of the FY2012 Budget Message provides important context for the FY2012 Budget and includes the following sections:

- The National Economy
  - Background
  - National Outlook
- The State Economy
  - Background
  - Florida Outlook
- The Local Economy
  - Background
  - Local Outlook

The National Economy

BACKGROUND

End of the Great Recession

The recession officially ended in June 2009 and lasted 18 months. This was the longest recession since the Great Depression as shown below.

Length of Recession (Contraction Peak to Trough)	No. of Mths.
August 1929 – March 1933	43 months
May 1937 – June 1938	13 months
February 1945 – October 1945	8 months
November 1948 – October 1949	11 months
July 1953 – May 1954	10 months
August 1957 – April 1958	8 months
April 1960 – February 1961	10 months
December 1969 – November 1970	11 months
November 1973 – March 1975	16 months
January 1980 – July 1980	6 months
July 1981 – November 1982	16 months
July 1990 – March 1991	8 months
March 2001 – November 2001	8 months
December 2007 – June 2009	18 months

This recession was especially deep due to the overlap of a meltdown in the financial sector and a steep downturn in the real estate market. These two key sectors of the economy reinforced each other in a downward spiral.

Avoiding a Double-Dip Recession

Since the end of the recession in June 2009, there have been fears that the fragile economic recovery was in danger of falling back into a recession. A double-dip is defined as a period during which a recovery is interrupted by economic contraction, usually in the form of negative GDP growth. There has only been one double-dip recession in the post-World War II era, the recession of 1980-1982. Some of the issues driving the fears of a double-dip recession revolve around: high unemployment, low consumer spending, high oil prices, impacts from the European debt crisis, the threat of deflation, and expiration of the stimulus. Some of these fears have been allayed by actions taken by the Federal Reserve and Congress in late 2010.

Quantitative Easing

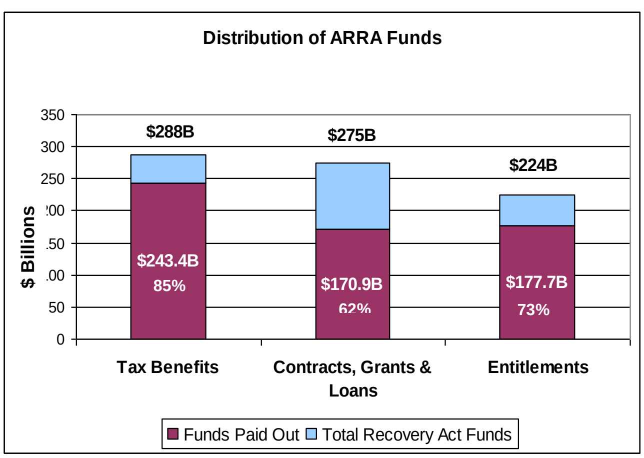
In November 2010, the Fed announced it would increase quantitative easing, buying $600 billion of Treasury securities by the end of the second quarter of 2011. Quantitative easing (QE) is an unconventional monetary policy used by some central banks to stimulate their economy. The central bank creates money which it uses to buy government bonds and other financial assets, in order to increase the money supply and the excess reserves of the banking system. Expansionary monetary policy normally involves a lowering of the interest rates by the central bank. However, when the interest rates are either at, or close to zero, normal monetary policy can no longer function effectively, and quantitative easing may be used by the monetary authorities in order to further stimulate the economy. The Fed launched this program in order to counter the threat of deflation—a dangerous drop in prices, wages, and the values of homes and stocks while the nation struggles with persistently high unemployment. This action influences financial markets by pushing long-term rates down, equity prices up, and decreasing the dollar exchange rate.

Extension of the Bush-era Tax Cuts

Expectations for the economic recovery increased when President Obama signed an extension of the Bush-era tax cut rates on December 2010. This legislation extended the current income, dividend, and capital gains tax rates for another two years. The legislation also included a 13 month extension of unemployment benefits and a 2% point cut in Social Security payroll taxes from 6.2% to 4.2%. The bill also provides a two-year patch to the Alternative Minimum Tax and offers extensions of the Child Tax Credit, the Earned Income Tax Credit, the American Opportunity Tax Credit for college tuition, the Research and Experimentation Credit, and a host of other items. Extension of the tax cuts is expected to stimulate consumer spending and continue a tax-friendly investing environment.

End of the Stimulus

In February 2009, Congress passed the American Recovery and Reinvestment Act (ARRA) of 2009, sometimes referred to as the Stimulus Act. The goals of the Recovery Act were to create new jobs as well as save existing ones; and spur economic activity and invest in long-term economic growth. The chart below shows the distribution of ARRA funds as of December 31, 2010.



Of the $787 billion, $592 billion or 75%, has been paid out. As funds wind down, the effect of the stimulus on the economy will decrease into 2011.

Stimulus Projects in Pinellas County

In Florida, a large portion of the stimulus funds are devoted to Florida Department of Transportation (FDOT) projects. In Pinellas County, stimulus funds will assist with the reconstruction of US 19 from north of Whitney Road to north of State Road 60 (Gulf to Bay), which includes the construction of a limited access mainline roadway, frontage roads, and three interchanges. The recipient of these Stimulus Package funds is Florida Department of Transportation, District 7. The District will be lead for the construction. The total amount of Stimulus Package funding for the project is $45M of which $21M is local stimulus funds. Total project cost is $132M.

The amount of funds that the Pinellas County government is eligible for is limited to county governments, highly urbanized areas, and to programs offered by Pinellas County. The County is not eligible for Stimulus funds that are targeted to functions provided by other local governments or agencies, such as, transit (PSTA), transportation (FDOT), weatherization (Urban League), education (school district and/or St. Petersburg College), and labor and development (Worknet).

Pinellas County applied for twelve grants funded from this act, seeking a total of $65,807,626. As of July, 2012 nine awards have been granted totaling $14,468,623:

<u>Health and Human Services</u> – Replace Mobile Medical Unit with more capable vehicle:

- $327,150 awarded June 25, 2009 (the county matched $30,000)

<u>Health and Human Services</u> – Increased services offered by Mobile Medical Unit:

- $155,125 awarded March 27, 2009, and an additional $1,000 awarded on September 21, 2009

Community Development - Block Grant Recovery Act Funding for the creation of the Homeless Emergency Project's Community Service Center:

- $809,226 awarded July 22, 2009

Community Development – Short-term rental assistance for at-risk residents (See HPRP Fingertip Fact Card for details):

- $1,237,464 awarded June 19, 2009

Office of Management and Budget – Energy Efficiency and Conservation:

- $3,791,300 awarded August 31, 2009

Airport – Terminal improvements and renovations:

- $5,357,400 awarded April 8, 2009

Justice & Consumer Services/Florida Department of Law Enforcement:

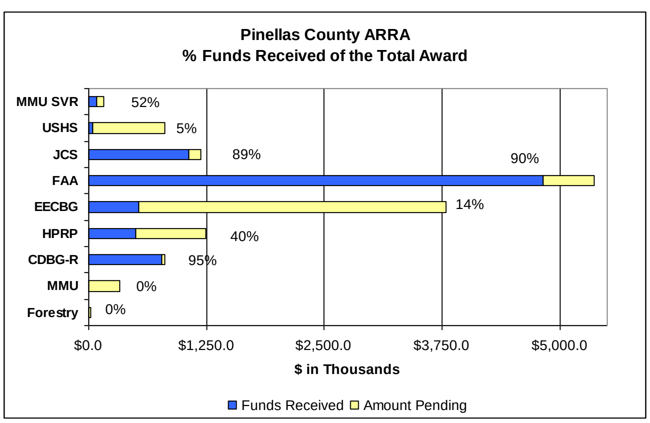
- Edward Byrne Memorial Justice Assistance Grant
- $1,962,437 awarded August 4, 2009 (Acceptance of Program)

Airport – Terminal baggage conveyor improvements:

- $808,184 awarded November 3, 2009

Parks & Conservation Resources – Tree Planting and Joe's Creek Greenway Park improvements:

- $19,297 awarded June 14, 2010



Funds received as of March 31, 2011

Key::

MMU	Mobile Medical Unit
MMU SVR	MMU Increase Service
CDBG-R	Community Development Block Grant Recovery Act Grant
HPRP	Homeless Prevention and Rapid Rehousing Program
EECBG	Energy Efficiency and Conservation Block Grant
FAA	Terminal Improvements Recovery Act Grant
JCS	Edward Byrne Recovery Act Grants ($770,448 directly to LE Agencies)
USHS	Homeland Security Recovery Grant for Airport
Forestry	Florida Division of Forestry

For more information, go to the following website: www.pinellascounty.org/recovery

The Path to Fiscal Sustainability

The National Commission on Fiscal Responsibility and Reform is a Presidential Commission created in 2010 whose mission was to identify policies to achieve fiscal sustainability in the long run. The Commission included 18 members—six appointed by the President, six members of the U.S. House of Representatives, and six members of the U.S. Senate (10 Democrats and 8 Republicans). The Commission first met on April 27, 2010 and released its report on December 1, 2010. In the report the Commission proposed a six-part plan "to put our nation back on a path to fiscal health, promote economic growth, and protect the most vulnerable among us." Take as a whole, the plan would:

- Achieve nearly $4 trillion in deficit reduction through 2020.
- Reduce the deficit to 2.3% of GDP by 2015.
- Sharply reduce tax rates, abolish the AMT, and cut backdoor spending in the tax code.
- Cap revenue at 21% of GDP and keep spending below 22% and eventually 21%.
- Ensure lasting Social Security solvency, prevent the project 22% cuts to come in 2037, reduce elderly poverty, and distribute the burden fairly.

- Stabilize debt by 2014 and reduce debt to 60% of GDP by 2023 and 40% by 2035.

The plan has six major components:

1) Discretionary Spending Cuts: Enact tough discretionary spending caps to force budget discipline in Congress. Include enforcement mechanisms to give the limits real teeth. Make significant cuts in both security and non-security spending by cutting low-priority programs and streamlining government operations. Offer over $50 billion in immediate cuts to lead by example, and provide $200 billion in illustrative 2015 savings.

2) Comprehensive Tax Reform: Sharply reduce rates, broaden the base, simplify the tax code, and reduce the deficit by reducing the many "tax expenditures"—another name for spending through the tax code. Reform corporate taxes to make America more competitive, and cap revenue to avoid excessive taxation.

3) Health Care Cost Containment: Replace the phantom savings from scheduled Medicare reimbursement cuts that will never materialize and form a new long-term care program that is sustainable with real, common-sense reforms to physician payments, cost-sharing, malpractice law, prescription drug costs, government-subsidized medical education, and other sources. Institute additional long-term measures to bring down health care spending growth.

4) Mandatory Savings: Cut agriculture subsidies and modernize military and civil service retirement systems, while reforming student loan programs and putting the Pension Benefit Guarantee Corporation on a sustainable path.

5) Social Security Reforms to Ensure Long-Term Solvency and Reduce Poverty: Ensure sustainable solvency for the next 75 years while reducing poverty among seniors. Reform Social Security for its own sake, and not for deficit reduction.

6) Process Changes: Reform the budget process to ensure the debt remains on a stable path, spending stays under control, inflation is measured accurately, and taxpayer dollars go where they belong.

Following the issuance of this report, the White House and Congress have been debating the methods and timetables for addressing Federal deficit reduction and related issues. The uncertainty of future action has raised concerns that may affect future economic growth.

Congressional Budget Office Outlook

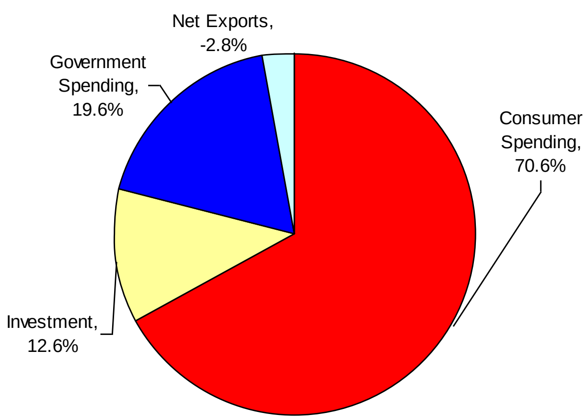
In a June, 2011 report, the Congressional Budget Office (CBO) presented its long-term economic outlook under two scenarios: one assuming current law, and an alternative reflecting potential changes that might be approved (such as extending the Bush-era tax cuts). The CBO concluded that:

> To keep deficits and debt from climbing to unsustainable levels, policymakers will need to increase revenues substantially as a percentage of GDP, decrease spending significantly from projected levels, or adopt some combination of those two approaches. Making such changes while economic activity and employment remain well below their potential levels would probably slow the economic recovery. However, the sooner that medium- and long-term changes to tax and spending policies are agreed on, and the sooner they are carried out once the economy recovers, the smaller will be the damage to the economy from growing federal debt. Earlier action would permit smaller or more gradual changes and would give people more time to adjust to them, but it would require more sacrifices sooner from current older workers and retirees for the benefit of younger workers and future generations.

The current debate in Washington over increasing the debt ceiling illustrates how difficult it will be to reach agreement on the changes needed to achieve a fiscally sustainable Federal budget.

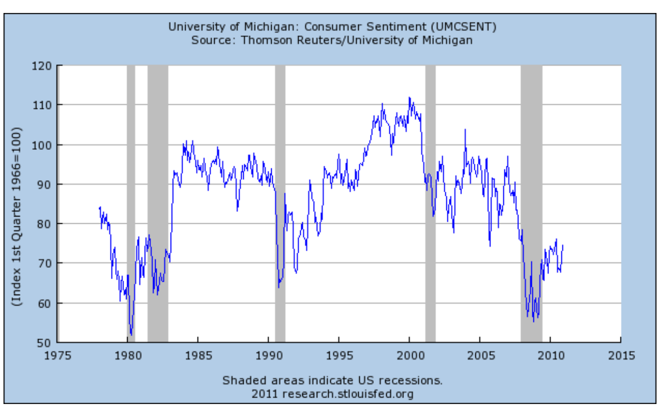
NATIONAL OUTLOOK

Gross Domestic Product (GDP) is the generally accepted measure of the size of the national economy. GDP measures the total market value of all final goods and services produced in a country in a given year. The major components of national GDP (2009) are shown in the pie chart below.



Consumer Spending

At 70.6%, consumer spending easily represents the largest portion of GDP. Unfortunately, most economists expect 1 to 2% growth in consumption over the next couple of years. This expectation is based on relatively high levels of unemployment, an increase in household savings, a restrictive supply of credit, and potential tax increases. The graph below shows consumer sentiment from 1975 to date.



Source: St. Louis Federal Reserve

Consumer sentiment is improving from near the lowest levels ever obtained, 55.3, in November 2008 to 74.5 in December 2010. Although trending upward, this amount is still well below the long run average of 86.5.

The twin effects of the bursting of the housing bubble and the financial crisis resulted in a massive decline in household wealth nationwide, which has been further exacerbated by high unemployment. This decline has induced households to reduce their consumption and increase their savings in order to rebuild wealth. Since the end of the recession in 2009, consumer spending growth has been positive, but that growth has been and will likely continue to be gradual. Average annual consumption growth from 2011 through 2014 is anticipated to be just 2.3%. To put this in perspective, the average annual growth in consumption during the period 2003-2007 was 3.0%.

Year	% Change in Consumption Growth
2004	3.5%
2005	3.4%
2006	2.9%
2007	2.4%
2008	-0.3%
2009	-1.2%
2010	1.8%
2011 (Est.)	2.6%
2012 (Est.)	2.4%
2013 (Est.)	2.0%
2014 (Est.)	2.3%

Source: UCF Institute for Economic Competitiveness
U.S. Forecast, March, 2011

The May, 2011, Labor Department report showed unemployment is currently at 9.1%. According to the May, 2011 survey by the National Association of Business Economics, monthly payroll gains are forecast to average 190,300 in 2011, and improve slightly to 202,500 per month in 2012. Joblessness will remain high, with the unemployment rate edging down to 8.5% in the fourth quarter of 2011 and 8.0 percent in the final quarter of 2012. This is

anticipated to mark the weakest post-recession job recovery on record.

The outlook for consumer spending received a significant boost with the extension of the Bush-era tax cut rates in December 2010 for at least the next two years. All individuals' marginal tax rates will remain the same, middle-class taxpayers will be free from an Alternative Minimum Tax surcharge, and employees will benefit from a 2% reduction in Social Security taxes.

According to the National Retail Federation's analysis of government figures, sales for May, 2011 rose for the 11th straight month. The May sales were 5.0% higher compared to the previous year. The recession low point for sales was in December 2008.

Government Spending

The second largest component of GDP is Government Spending at 19.6%. The state and local government sector represents 60% of total government spending. State government budgets will be challenged as federal stimulus support ends and income and sales tax revenues begin a slow recovery. Until property tax revenues recover, local government spending will likely lag. Overall, the state and local government sector is anticipated to decrease slightly or be flat over the next few years. The federal government sector represents 40% of total government spending and is expected to wind down by the end of 2010 and decrease by 2-3% from current levels over the next three years.

Investment

The third largest component of GDP is Investment at 12.6%. Business investment in equipment and structures is expected to increase substantially over the next several years. Businesses are holding large amounts of cash and coupled with low interest rates it is anticipated that business equipment spending will increase by about 10% a year through 2013. The outlook for investment in structures is poor as this sector has seen a significant contraction in 2009 and 2010 as the commercial mortgage crisis continues to play out. It is anticipated that this sector will bottom out during 2011 and grow slightly in 2012 and 2013. Residential fixed investment growth has been negative since 2006 and should finally see positive growth beginning in 2011. Finally, inventories have shown sustained growth as demand has appeared to stabilize.

Net Exports

The definition of net exports is exports minus imports. Current net exports are at a -2.8%, down from -6% last year. A key factor driving net exports is the value of the dollar. The value of the dollar has gradually weakened during 2010 and is anticipated to continue to depreciate due to recent action by the Federal Reserve. The Fed's move to increase quantitative easing helps decrease the dollar exchange rate against other currencies. A depreciated dollar should help increase exports by making the costs of U.S. goods more competitive in the global marketplace and reduce the negative net exports calculation.

Summary of National Outlook

Most economists agree that the national economy hit bottom in 2009 and that we are on track for a sustainable recovery. Normally, economic recoveries are marked by real economic growth of around 5% in the first year of recovery due to pent up demand. It is anticipated that this particular recovery will more than likely be in the 2-3% range due to lingering high levels of unemployment, the bottoming out of the housing market, the continued decline of commercial real estate market, and decreases in both federal and state & local government spending.

Economic Recovery	GDP Growth
1961-1962	7.5%
1970-1971	4.5%
1975-1976	6.2%
1982-1983	7.7%
1991-1992	2.6%
2001-2002	1.9%
Average	5.1%
2007	1.9%
2008	0.0%
2009	-2.6%
2010	2.8%
2011 (Est.)	2.8%
2012 (Est.)	2.7%
2013 (Est.)	3.0%
2014 (Est.)	3.4%

Source: UCF Institute for Economic Competitiveness
U.S. Forecast, March, 2011

In summary, the national economy has appeared to stabilize and is anticipated to grow slightly through 2010 and experience moderate growth of 2 to 3.4% annually from 2011 through 2014.

The State Economy

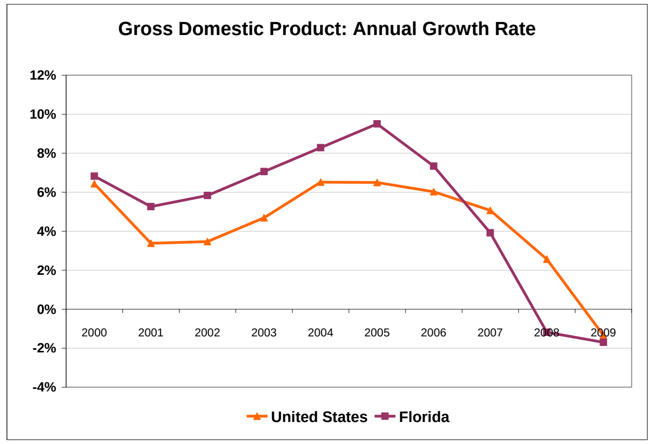
BACKGROUND

The background information below for the State's economy is derived primarily from the Florida Economic Estimating Conference which met in December 2010 and February 2011 to update forecast for the State's economy.

Until a few years ago, Florida was one of the nation's fastest growing states. With the end of the housing boom and the beginning of the real estate market correction, the state slipped to virtually no growth on a year-over-year basis. While Florida was not the only state to experience a significant deceleration in economic growth (California, Nevada and Arizona showed similar trends), it was one of the first and hardest hit. Looking across the 50 states, the three most-widely used indicators of government financial health illustrate these changes.

State Gross Domestic Product

Gross Domestic Product (GDP), the market value of all final goods and services produced or exchanged within a state, is one of the key economic measures for the comparison of states. While Florida has outperformed the nation as a whole in seven of the past ten years, two of these years (2004 and 2005) were greatly influenced by the activity sparked by the 2004 and 2005 storms (primarily through insurance payments). In 2006, Florida returned to the national growth level before dropping below it in 2007 (4.8% US versus 2.8% FL), 2008 (3.3% U.S. versus 0.3% FL), and 2009 (-1.3% U.S. versus -1.7% FL). Florida's nominal GDP in 2009 was just over $737 billion.



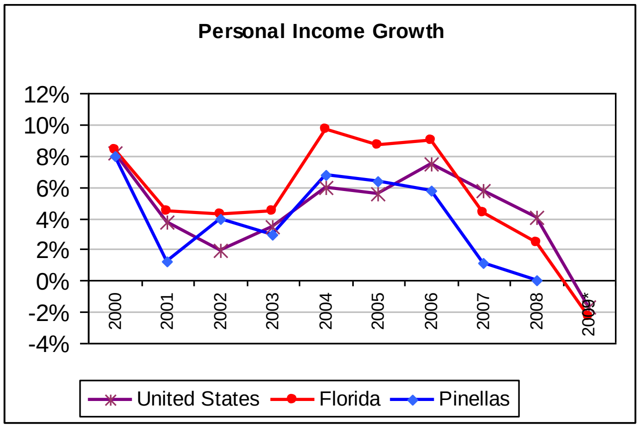
Source: Bureau of Economic Analysis

After adjusting for inflation, Florida's real growth in GDP ranked it 45th in the nation in 2009 with an outright decline of -3.4% By way of comparison, Florida was ranked 50th in 2008 and 4th in the nation in 2005. For Arizona, Nevada and Florida, losses in the construction sector accounted for a significant portion of the decline as it subtracted more than one percentage point from real GDP growth in each of these states.

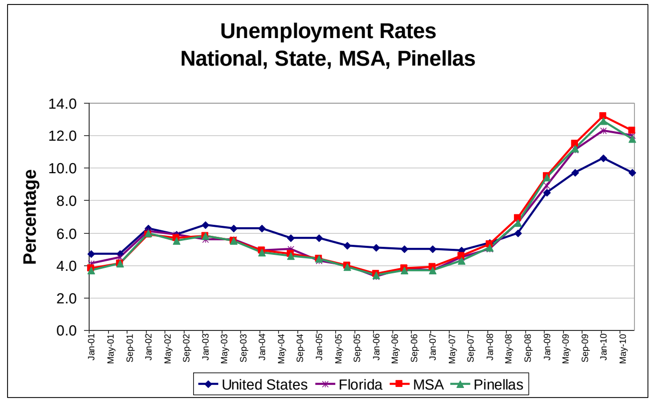
Personal Income Growth

Other factors are frequently used to gauge the health of an individual state. The first of these measures is personal income growth, primarily related to changes in salaries and wages. Quarterly personal income growth is particularly good for measuring short-term movements in the economy.

Since the 2nd quarter of the 2009 calendar year, Florida has experienced slightly positive growth in personal income. The increase of 0.9% in the most recent quarter (Q2 of the 2010 calendar year) ranked Florida 37th in the country. This is slightly worse than last year's ranking at this time—30th. Personal Income growth has averaged about 3.8% from 1991-2008. It is anticipated that from 2009-2011, growth in personal income will be below average or only 1-3%.



Note: 2009 data not available for Pinellas County
Source: U.S. Bureau of Economic Analysis



Source: Florida Research and Economic Database (FRED)

Job Growth and Unemployment

The key measures of employment are job growth and the unemployment rate. While Florida led the nation on the good-side of these measures during the boom, the state was worse than the national averages on both measures until July when Florida experienced its first over-the-year increase in jobs since June 2007. However as of October 2010, Florida is still 854,900 jobs below its most recent peak in March 2007. This means that rehiring, while necessary will not be enough. At the current pace, a full recovery to the previous peak will not occur until about the spring of 2016.

The state's unemployment rate in October was 11.6%, persistently remaining higher than the national rate of 9.0%. As of October, Florida had 1.1 million unemployed people and was ranked 4th in the country for its unemployment rate. Even more troublesome, 48 of Florida's 67 counties have double-digit unemployment rates. The problems have clearly been widespread. For the second year in row, the only sector to gain jobs among Florida's major industries was Education & Health Services. Virtually all of the increase was due to health services, primarily in ambulatory health care services.

Largely, these changes were related to Florida's ongoing housing market woes and the gloomy national and global outlooks that plagued most of the year. The growing inventory of unsold houses coupled with the sluggish credit crisis dampened residential construction activity throughout the entire year. Last July, the Florida Economic Estimating Conference (FEEC) had expected a meager 31,200 private housing starts for the year. In fact, new activity rose to 36,000 private housing starts. While better than expected, this figure represents just 13.3% of the FY2005-06 level. Single family starts managed to post a positive gain, but multi-family starts worsened the percentage drop they made in FY2008-09 over FY2007-08. In yet another manifestation of the significant housing market adjustment still facing Florida, existing single family home sales ended the FY2009-10 nearly 30% below the peak volume of the 2005 banner year, while the median home price continued its decline.

Financial Shocks

Florida's economy has essentially moved through three waves of responses to financial shocks: the collapse of the state's housing boom, a national recession, and a credit crisis severe enough to bring on a global contraction.

At first, the end of the housing boom brought lower activity and employment in the construction and financial fields, as well as spillover consumption effects in closely related

industries: landscaping and sales of appliances, carpeting, and other durable goods used to equip houses. This began in the summer of 2005 when the volume of existing home sales started to decline in response to extraordinarily high prices and increasing mortgage rates. Closely linked to the housing industry, Florida's nonagricultural employment annual growth rate began to retreat from its peak in the fall of 2005.

By the summer of 2006, existing home prices began to fall, and owners started to experience negative wealth effects from the deceleration and losses in property value. Mortgage delinquencies and foreclosures became commonplace as property prices further tanked in 2007, and the unemployment rate began to climb as part of a slow slide into a national recession that was ultimately declared in December 2007.

By the fall of 2008, Florida's homegrown problems with the housing market were giving way to several worldwide phenomena: a national recession that was spreading globally and a credit crisis that was threatening to bring down the world's largest financial institutions. As the sub-prime mortgage difficulties spread to the larger financial market, it became clear that any past projections of a relatively quick adjustment in the housing market were overly optimistic. Forecasts were dampened through the end of the fiscal year, and then again as the excess inventory of unsold homes was further swollen by foreclosures and slowing population growth arising from the national economic contraction.

While small improvements were seen in late 2009 and early 2010 on the state and national fronts, they seemed to sputter as the recovery struggled to take hold.

Bridge to Recovery

In addressing the State's FY2011 $3.2 billion deficit the Florida Legislature used $2 billion of federal stimulus funds, $400 million of trust funds, and revenue enhancements including a new Seminole Gaming Contract to minimize deep budget cuts and build a bridge to recovery. The stimulus funding and trust fund sweeps are non-recurring in nature.

The use of non-recurring funding to balance last year's budget resulted in the FY2012 budget cycle being extremely challenging. The State needed to close a shortfall of about $3.6 billion for the FY2012 budget. To balance the budget, the State made dramatic changes to the Florida Retirement System, reduced Medicaid funding, eliminated 4,500 positions, cut $1.35 billion in education spending, and raised college tuition.

During upcoming budget cycles, it is possible that the Legislature will shift costs (mandates and funding formulas) to local governments in an effort to deal with fiscal pressures at the state level.

FLORIDA OUTLOOK

The background information below for the State's economy is derived primarily from the Florida Economic Estimating Conference which met in December 2010 and February 2011 to update forecast for the State's economy.

For Florida, it appears that the extreme financial and economic stress experienced over the last few years reached its bottom sometime during the spring of 2010. Months of modest growth are expected before full recovery begins in earnest in the spring of 2011. The remaining questions focus on the actual pace of recovery, the degree of remaining turbulence, and the risk of a double-dip.

Labor Market

Florida's current unemployment numbers represent a loss of 854,900 jobs from the peak, with the state's negative over-the-year growth rate actually beginning in March 2007. While the state's job losses began with the construction downturn, almost all of the major industries were ultimately affected. Overall employment is projected to gain 1.1% in FY2010-11 and then increase by 2.1% in FY2011-12, 2.9% in FY2012-13, and 2.4% in FY2013-14. Job restoration in the construction, information and financial activities sectors will lag behind the other areas and is not anticipated to experience positive annual growth until FY2011-12.

The unemployment rate peaked at 12.4% in August 2010, and as of October has decreased to 11.6%. The unemployment rate for FY2011-12 is projected to be 10.8%, followed by 9.2% in FY2012-13 and 8.2% in FY2013-14. Over time, the Florida forecast begins to converge to the national forecast, except Florida's job growth is stronger throughout the forecast horizon.

The outlook for wages and salaries has weakened slightly. Florida's long-term growth prospects essentially mimic the national forecast; however, Florida's average annual wages largely fall below the nation as a whole. In 2009, the state's average annual wage for all industries was only 89.9% of the national average.

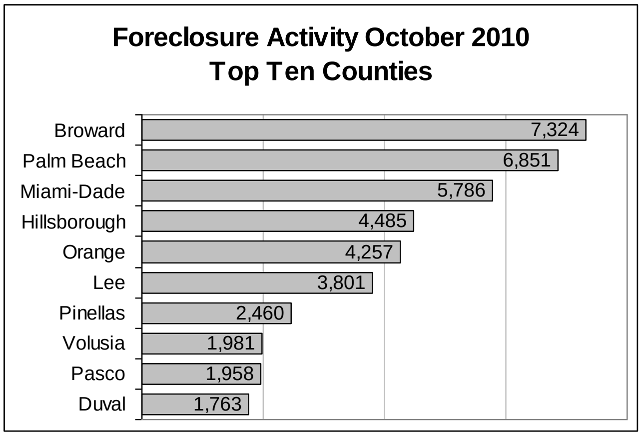
Housing and Construction

Vigorous home price appreciation that outstripped gains in income and the use of speculative financing arrangements made Florida particularly vulnerable to the decelerating housing market and interest rate risks. In 2006, almost 47% of all mortgages in the state were considered "innovative" (interest only and pay option ARM). With the ease of gaining access to credit, long-term homeownership rates were inflated to historic levels – moving Florida from a long-term average of 66.3% to a high of over 72%. Essentially, easy, cheap and innovative credit arrangements enabled people to buy homes that previously would have been denied.

The surging demand for housing led many builders to undertake massive construction projects that were left empty when the market turned. The national inventory of homes is now close to 9 months. In Florida, the picture is worse. Based on the most recent data, the excess supply of homes is approaching 450,000. At any given point of time, an inventory of roughly 50,000 is good – the 450,000 figure is on top of that level. Subtracting the "normal" inventory and using the most sales experience, the state will need significant time to work off the current excess – at least until the end of the 2011 calendar year (halfway through FY2011-12), likely longer. Because the state is so diverse, some areas will reach recovery much faster than other areas.

Foreclosures have further swelled Florida's unsold inventory of homes. Originally related to mortgage resets and changes in financing terms that placed owners in default, recent activity has been boosted by the continually growing number of unemployed. Although foreclosure filings

dropped from last year, the state still finished 2010 with the second most filings in the country.

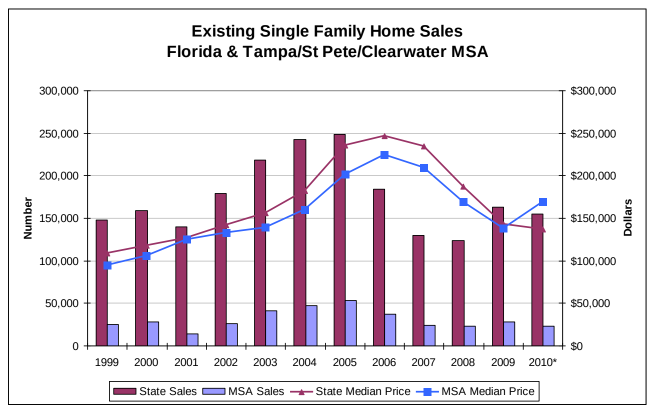


Source: RealtyTrac.com

The Florida economy is unlikely to turn around until new construction comes back to life, and is not expected to happen until the inventory is reduced. With the meltdown in the mortgage market and the subsequent credit crunch, housing starts went into a significant decline that showed little improvement until this year. A strong rebound is not forecasted until FY2011-12; however, it lasts through the remainder of the planning horizon. Total construction expenditures follow a similar pattern, never returning to the 2005-06 level during the forecast period.

As the availability of financing for commercial real estate tightens and loan losses mount, growth in private nonresidential construction expenditures is projected to fall another 13.6% this year after last seeing positive growth in FY2007-08. The market is expected to stabilize next year, and then return to stronger growth in the out-years. Similarly, after posting a 20.7% gain in FY2007-08, public construction activity posted back-to-back declines over the past two years. In FY2010-11, moderate growth is expected to return.

During the past nineteen months, existing home sales have grown by double-digit rates over the same month in the prior year. In the last six months, the sales volume has reached just over 69% of the level achieved in the 2005 banner year. Much of the sales increase has been driven by the increasing number of distressed sales. This can be seen in the continuing price declines. In 2008, the median price of an existing home declined 20% and in 2009, it declined another 24%. To date, 2010 is averaging a decline of 4%. From an economic perspective, significant price declines are a precursor to recovery, but they are still painful. The inventory of unsold homes suggests that prices will continue to fall or stay relatively flat through most of 2011. From the peak in 2006 to November 2010, the state has already seen a 44.6% decline in median price for existing homes. This level was slightly down from a peak decline of 49.2% in January 2010.



Source: Florida Association of Realtors - * Through November, 2010

Population Growth

Population growth continues to be the state's primary engine of economic growth, fueling both employment and income growth. The national economic contraction significantly slowed Florida's population gains, but this was not unexpected. Over 80% of the state's population growth comes from positive net migration, primarily from people moving into Florida from other states.

Top Ten States Migrating Into Pinellas County by Returns, 2008	# of Returns
New York	1,058
Ohio	630
Pennsylvania	599
Michigan	557
Massachusetts	515
New Jersey	493
Illinois	433
Georgia	405
California	400
Texas	331

Source: Internal Revenue Service

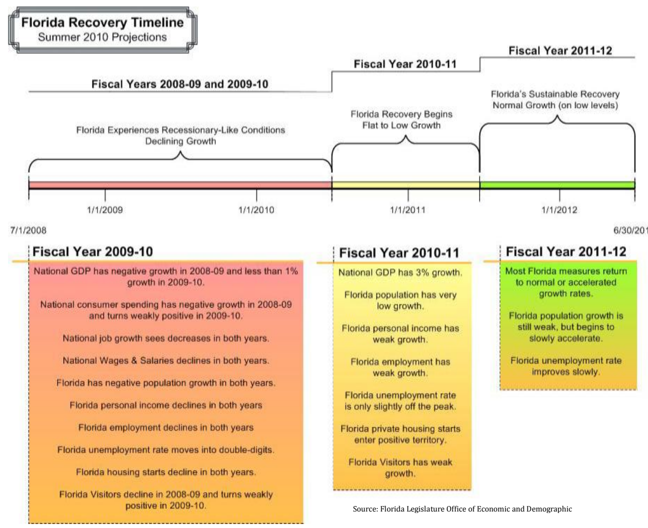
From past studies, it is clear that people are reluctant to move during recessions – first, because of the inability to sell their homes, and second, because of the difficulty in finding new jobs. Florida's strong international migration, which – until recently – had been a bulwark, is also being affected by the global economic slowing.

Population growth hovered between 2.0% and 2.6% from the mid 1990's to 2006, then began slowing before crossing into negative territory in 2009 and flattening out in 2010. In 2011, growth is expected to reflect just the state's natural increase (positive births minus deaths) with 77,492 new residents. The extremely low rate of growth seen over the past few years is unprecedented in Florida's modern history. Over the forecast horizon, population growth will moderately rebound – persisting above 1.2% after 2013. While this is still significant growth – Florida was adding a city roughly the size of Miami every year; in the future, it will be a city more like St. Petersburg – it is markedly lower than the average of the annual growth rates between 1970 and 1995 (3.04%).

Summary of Florida Outlook

As shown in the Florida Recovery Timeline from the Florida Legislature Office of Economic and Demographic Research, Florida can expect flat to low growth halfway through 2010 and make a gradual transition to low level normal growth beginning halfway through 2011 and on through 2012. This low level normal growth is marked by weak population growth and a slow improvement in the unemployment rate.

A larger version of the Timeline can be found at the end of this section.



Source: Florida Legislature Office of Economic and Demographic Research

The Local Economy

BACKGROUND

The context of this section is from the perspective of background impacting the Pinellas County budget.

Property Value Increases

From FY2002 to FY2007 there were unusually large increases in property values in Pinellas County and throughout the state. Across Florida, public budget hearings brought out many citizens who were upset about their proposed property taxes as presented on their "Truth in Millage" (TRIM) notices. Most of those who expressed their frustration were persons who owned property that was not homesteaded and therefore not protected by the "Save Our Homes" taxable value increase cap, such as commercial and rental business owners and owners of second homes. In response to the public's concerns, the Board of County Commissioners reduced the FY2007 county-wide millage rate by 0.701 mills (over 10%), the first millage rate reduction since the 1997 budget year.

Impact of Save Our Homes Amendment

Not all local governments were as responsive to the situation as Pinellas, and this dramatic growth in taxable values resulted in a surge in property tax revenues that became the focus of legislative concern. In reality, the primary problem has been the systematic inequities resulting from the "Save Our Homes" amendment to the Florida Constitution which has capped the growth in taxable values for homesteaded properties (permanent residences) since 1996. The amendment was intended to protect homeowners from escalating property tax bills resulting from growth in market value, a situation that was perceived to be forcing some people, particularly residents on fixed incomes, to sell their homes.

While this objective has no doubt been achieved, there have been dramatic, and in many cases unforeseen, consequences as a result of Save Our Homes. Because of the large amount of market or "just" value not taxed due to the Save Our Homes exemption, a disproportionate share of any increase in tax revenue has been placed on properties that are not established permanent residences, such as businesses, rental properties, and newly purchased homes.

The increases in values for fiscal years 2002 through 2007 notwithstanding, the historical trend over the previous sixteen years in Pinellas has been an average annual increase of about 5% in values (including new construction). Most observers believed that the market would correct itself and return to more normal patterns. To some extent, the value growth part of the problem could be expected to correct itself over time.

Legislative Property Tax Roll-Backs

The Florida Legislature perceived property tax reform as one of the two most critical issues (along with property insurance reform) that needed to be addressed in 2007. In June, a three-day Special Session of the Legislature produced a mandate that was unlike anything ever seen before in its forced reductions in property taxing capability of local government in Florida. The Legislature did not make similar reductions to FY2008 school property taxes, which they control, even though these taxes make up about 40% of most property owners' tax bills.

Unfortunately, this solution failed to address the real inequities that were the focus of public discontent and instead has the potential for even greater disparities in the future.

The Legislature adopted two key items impacting property tax reform. The first approach involved statutory changes requiring all counties, cities, and special districts to roll back property tax collections in FY2008 to a point below the FY2007 collections adjusted for new construction (also known as the "rolled-

back rate"). This target ranged from 3% to 9% below the rolled-back rate depending on the State's calculation of how much the taxing authority's property tax revenue increased from FY2002 to FY2007. Independent Districts, and Dependent Districts many of which have the primary purpose of providing Fire or Emergency Medical Services, were all targeted at 3% below the rolled-back rate.

These calculations, and the resulting reduction categories, did not adequately acknowledge the lower tax profile of Pinellas. Pinellas County was required to cut 7% below rolled-back (the second-most-severe level), even though:

- The County's FY2002–FY2007 percentage increase in per capita property tax was below the state's average increase for counties;
- The County's FY2007 per capita property tax was less than Orange, Hillsborough (and other counties) that were in the 3% or 5% cutback categories;
- A city with the same percentage increase was required to cut only 5%;
- The State's numbers did not reflect seasonal or tourist population impacts; and
- The State's numbers did not take into account the additional cost pressures for an urban coastal county (such as property insurance).

Property Tax Revenue Cap

The other item adopted by the Legislature with important long-term implications was the implementation of a property tax revenue cap. Beginning in FY2009, property tax revenue increases will be limited to new construction plus the statewide percentage increase in per capita personal income. This percentage has averaged about 3.8% from 1991-2008. It is anticipated that from 2009-2012, growth in personal income will be below average or only 1-3%. Even this minor increase is neutralized by the historic decreases in property valuation.

The caps require that the maximum millage rate that can be approved by a simple majority vote of the Board of County Commissioners equals the prior year's maximum rolled-back rate adjusted for the change in per capita Florida personal income. A two-thirds vote of the Board may approve up to 110% of this maximum. Any higher millage rate requires a unanimous vote of the Board, or a referendum. Based on information from the Florida Department of Revenue, it appears that the County may have some flexibility for increases above the property tax revenue cap in the short term because the Board has not levied the maximum millage since the baseline was set in FY2008.

The long-term impact of this cap is that property tax revenue will be constrained even if taxable values increase beyond the average increase in personal income. To date, the County has not seen an impact from this cap because values have actually declined since it was passed. However, due to the bursting of the housing bubble and the negative impact of foreclosures, the baseline of values has been set artificially low, which will keep property tax revenues constrained by a higher than anticipated margin.

Impact of Amendment One

The FY2009 budget situation was unique in several ways. This was largely due to the passage of Amendment One, placed on the ballot by the Legislature and approved by the voters of Florida on January 29, 2008, which reduced property tax revenues. Also, the economic downturn which began in FY2008 intensified, which further reduced property taxes and also reduced revenues from other important sources.

Amendment One made the following changes which reduced taxable property values and revenues available to local government:

- "Doubled" the existing $25,000 homestead exemption (except for school taxes)
- Allows for up to $500,000 of the Save Our Homes exemption to be applied to another property (portability)
- Imposed a 10% cap on assessments for non-homestead property (school taxes exempt)
- Instituted a new tangible personal property exemption of $25,000

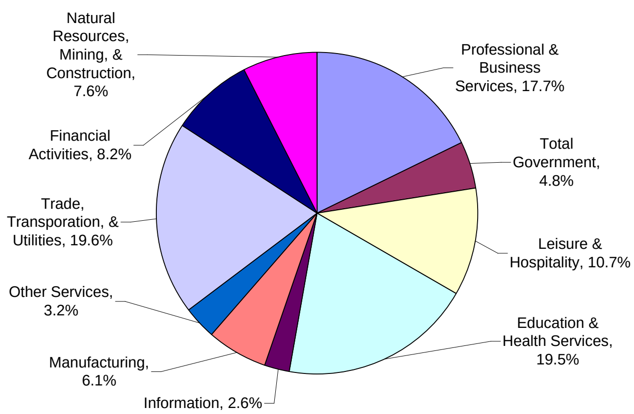
Impact of the Recession
At the same time that the impact of Amendment One was being felt, the real estate "bubble" burst, and market values for property declined dramatically. The result was an unprecedented decrease in the property tax base. Since World War II, the average annual increase in taxable value is about 5%. In the last four years, the Countywide taxable value has decreased 8.4%, 11.4%, 9.7%, and 3.5% in FY2012. Normally, some of this revenue decrease would be offset by the rest of the revenue mix such as sales taxes, state revenue sharing, and other miscellaneous revenues. Unfortunately, the general economy deteriorated to the point that virtually the entire mix of non-property tax revenues also declined substantially. The end result of all of these changes was a large negative impact to the County's revenues which have resulted in significant reductions across all of the County's funds.

Impacts to the Pinellas County Budget
Over the last four years, the County has been faced with resizing the organization to fit the new fiscal reality stemming from legislative action, the bursting of the housing bubble, and the recession. From FY2007 to FY2011, total positions decreased 1,618 or 25%. Within that number, the BCC departments decreased 985 positions or 35%, which yields the lowest position count since FY1985. The Constitutionals and Independents decreased 633 positions or 17% which yields the lowest position count since FY1995. The total position count in FY2011 is the lowest since 1989.

In the General Fund, the County's largest fund that funds most of its operations, property tax revenues (two-thirds of total revenues), have decreased 35% and total revenues have decreased 30% since FY2011.

LOCAL OUTLOOK

Pinellas County is the 6th largest county in population (931,113) and is the most densely populated in the State. Pinellas County is mostly built out and expects limited population growth in the future. The County is the most popular tourist destination on the Gulf of Mexico, drawing 13 million tourists annually. The County is part of the Tampa-St. Petersburg-Clearwater Metropolitan Statistical Area (MSA) comprised of Hernando, Hillsborough, Pasco, and Pinellas counties. Below is a chart of Employment by Industry (2008 data) for Pinellas County.



Source: Florida Labor Market Statistics

Over the last four years, several of these areas have seen substantial decreases: Natural resources, mining, and construction decreased 42%; Manufacturing decreased 27%; Information decreased 18%; Professional & Business Services decreased 12%; Trade, Transportation, & Utilities decreased 12%; Financial Activities decreased 11%; Leisure and Hospitality decreased 9%, and Other Services decreased 7%. The only areas that have shown growth since 2007 is Education & Health Services which increased 10% and Total Government which increased 6%.

Unemployment

In prior years, the average unemployment rate in the Tampa-St. Petersburg-Clearwater MSA has been 3.5%-4.5%. The current unemployment rate as of May, 2011, is 10.9%. In the table below, local unemployment exceeds the average beginning in 2008 and is expected to crest in 2010 and remain above average at least through 2015.

Year	Unemployment Rate (MSA)
2005	3.9%
2006	3.4%
2007	4.2%
2008	6.6%
2009	11.0%
2010	12.4%
2011 (Est.)	11.2%
2012 (Est.)	10.0%
2013 (Est.)	8.9%
2014 (Est.)	7.8%
2015 (Est.)	6.8%

Source: UCF Institute for Economic Competitiveness
Florida & Metro Forecast, March, 2011

This means that even if the economy improves in the short-term, that unemployment will continue to be a factor for several years.

Tourism

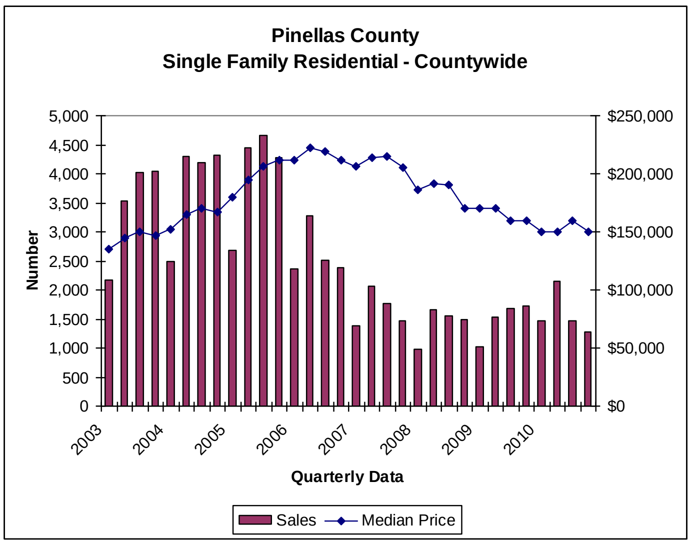
Tourism is a key economic driver of the economy in Pinellas County and contributes direct and indirect visitor expenditures of $6.7 billion annually. Tourism is very sensitive to economic conditions because it is discretionary in nature. During FY2008 and FY2009 bed tax collections decreased markedly as the recession deepened. With the recovery taking hold at the national level, bed tax collections are expected to increase gradually over the next several years from 2.5% to 3.0% before returning to an average increase of approximately 3.5% a year. (See the Fund Review for the Tourist Development Council Fund section of this document).

Real Estate

The real estate market in Pinellas County is struggling to recover from the bursting of the housing bubble. Pinellas, like the rest of Florida, experienced a dramatic rise in housing values for several years during the housing boom. Since the bubble burst, values countywide have declined by 8.4%, 11.4%, 9.7%, and 3.5% in the last four years.

Residential Real Estate

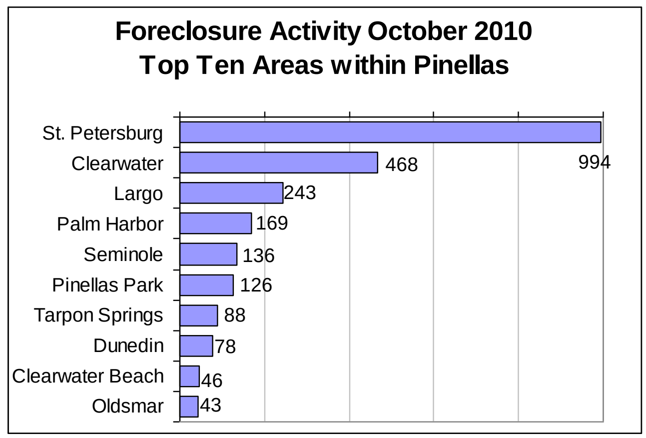
Over the last year, home sales in the Tampa Bay area have risen. However, almost half of all the sales are distressed sales involving foreclosed properties. Because distressed sales compose such a high proportion of the overall market, housing prices have decreased dramatically. The chart below shows that the median price in Pinellas County is currently at $150,000 which is 32% lower than the median price of $222,000 from 2006.



Source: Pinellas County Property Appraiser's Office

According to the Pinellas Realtor Organization, there has been a steady increase in pending contracts for the past six months. In November there were 15% more contracts written than a year ago. Bank-owned properties represent 56% of these contracts, an increase of over 87% from November 2009. In the condo market just over 50% of the contracts are for bank-owned properties, an increase of 92% from last year. Bank owned single family properties represent more than 60% of the contracts written, an 82% increase from a year ago. It is interesting to note that condos are selling for 85% of their list price, single family homes are selling at 80% of the list price, and 56% of all sales in Pinellas County are cash sales.

Foreclosures continue to hamper the recovery of the residential real estate market. In 2006, the monthly average of foreclosures was 308. In 2007, foreclosures doubled to 628 a month. From 2008 through 2009, foreclosures averaged almost 1,200 a month, which is approximately four times the normal average. Since November 2010, there has been some improvement as the average has decreased to below 500 for the last six months. However, this trend may be skewed by a recent moratorium in the courts and stricter requirements for lender documentation.



Source: RealtyTrac.com

Recovery in the residential real estate market is dependent on the strength of housing in several feeder markets, notably the Midwest and the Northeast. As those markets recover over the next two years, potential retirees and job hunters can sell houses in their home markets and help the Pinellas housing market decrease its current high level of inventory.

Commercial Real Estate

Although the Tampa Bay office market continues to struggle with abnormally high vacancy and subdued tenant demand, overall vacancy rates have improved slightly in 2010 compared to 2009. Most of this improvement can be attributed to job growth, which posted a positive increase of nearly 7,300 new jobs from February through August 2010. As job growth continues and as corporate confidence strengthens,

demand is expected to continue to rise slowly in 2011 resulting in lower vacancy rates and stability in asking rental rates.

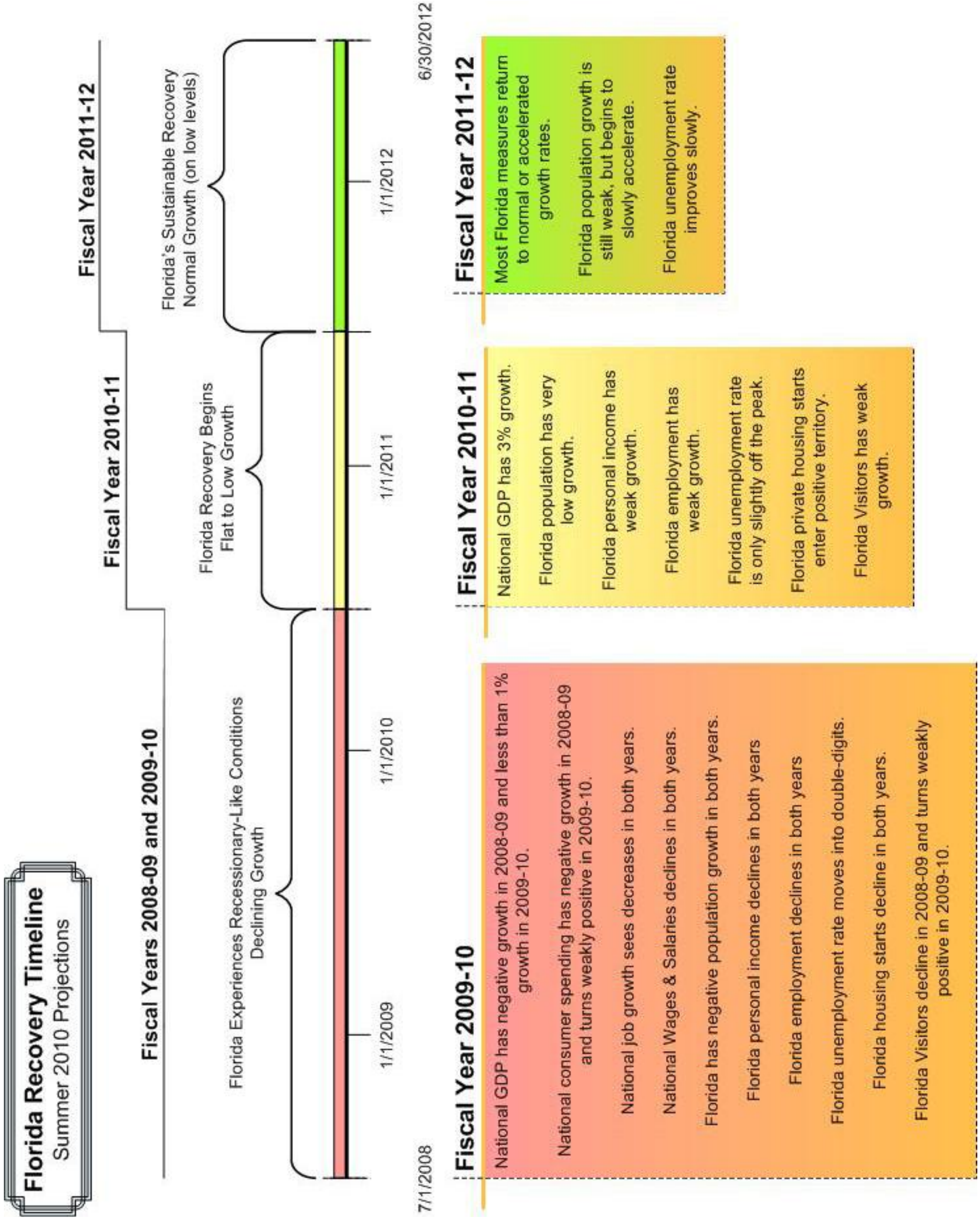
Summary of Local Outlook

A good indicator of the local economy is the percentage change in Gross Metro Product for the metropolitan statistical area (MSA). The Tampa-St. Petersburg-Clearwater MSA economy hit bottom during 2009 and grew slightly by 1.7% in 2010. Another year of similar moderate growth of 2.5% is expected in 2011. From 2012 to 2015 the local economy is expected to recover to 3-4% growth as shown in the chart below.

Year	% Change in Gross Metro Product (MSA)
2005	5.7%
2006	3.3%
2007	0.5%
2008	-3.0%
2009	-3.6%
2010	1.7%
2011 (Est.)	2.5%
2012 (Est.)	3.4%
2013 (Est.)	3.7%
2014 (Est.)	4.0%
2015 (Est.)	3.2%

Source: UCF Institute for Economic Competitiveness Florida & Metro Forecast, March, 2011

In the short term, the local recovery will be hindered by double-digit unemployment, low prices and high inventory of residential property due to foreclosures, and slow improvement in the commercial real estate market.



Source: Florida Legislature Office of Economic and Demographic Research

KEY FORECAST ASSUMPTIONS

The *Key Forecast Assumptions* portion of the FY2012 Budget Message includes a discussion of the sources of information used to develop assumptions for revenues and expenditures that drive the ten-year forecasts for ten of the County's key funds:

- Assumptions and Forecasting
- Revenue Assumptions
- Expenditure Assumptions

Assumptions and Forecasting

In establishing revenue and expenditure assumptions, we have reviewed data and forecasts from a variety of economists and other sources, including the State of Florida's Revenue Estimating Conferences. The State utilizes a professional, nonpartisan consensus process involving the Legislature, the Governor's Office, and the State's Division of Economic and Demographic Research in developing national and state economic forecasts that are used in all planning and budgeting actions of the state. The County is not required to use this data, but it provides useful background information for projecting changes in revenues and expenditures. The current Conference projections end at FY2021. The projections are available on-line at
http://edr.state.fl.us/Content/conferences/index.cfm

Revenue Assumptions

Property Taxes – General Fund, EMS Fund, and Fire Districts Fund

Ad valorem taxes, commonly called property taxes, are assessed on real property and on tangible personal (business) property. The tax rate is expressed in "mills". One mill is one dollar of taxes for each thousand dollars of taxable value. For example, a tax rate of 5.9 mills on a taxable value of $100,000 yields $590 in taxes.

Constitutional Limits
The Florida Constitution imposes a cap of 10 mills on the total of all Countywide ad valorem rates (which includes the General Fund countywide levy plus the levies for the Health Department and for Emergency Medical Services). A cap of 10 mills is also imposed on the combined total of all MSTU ad valorem rates (which includes the General Fund MSTU levy plus the levies for other dependent districts).

Timing of Valuations and Approval Process
The taxable values as of January 1st are established annually by the Property Appraiser and certified for budget purposes by July 1st. Final taxable values, following appeals and adjustments, are certified following the completion of the Value Adjustment Board (VAB) appeals process, which recently has been extending into February of the next calendar year.

Millage rates are approved annually by the Board of County Commissioners by resolution as part of the budget process. This process must follow the "Truth in Millage" (TRIM) law, including timing, advertisement, and conduct of public hearings.

Federal, state, county and municipal property is exempt from property taxes. Besides the Homestead and Save Our Homes Exemptions discussed in the Economic Overview section, various other exemptions may be available depending on the type of property.

Property taxes for FY2011 were levied based on taxable values as of January 1, 2010. This means that declining values during calendar year 2010 did not impact the FY2011 budget, but have a major impact on FY2012.

Impact of Foreclosures

In determining the values as of January 1, 2011, which are the basis for FY2012 calculations, the Property Appraiser factored in the impact of mortgage foreclosures. Foreclosures do not have a significant impact on current year collections of taxes levied because of the recovery mechanisms for delinquent taxes. If taxes are unpaid by June 1st, a Tax Certificate is offered for sale by the Tax Collector. The certificate is sold to an investor, and the County receives the equivalent of the taxes due. This recession has seen a dramatic increase in tax certificate sales.

Although they do not affect the percentage of property taxes collected during the fiscal year, foreclosures tend to depress market values of surrounding properties and this has a negative impact on the tax base. Along with the rest of the state, Pinellas County foreclosure filings increased significantly beginning in 2007 and were averaging about four times higher than the historical norm well into FY2010. Recent months show a decrease in foreclosure filings, partially due to nationwide disruptions in foreclosure proceedings following disclosure of irregularities in processing documentation by some banks. Industry analysts caution that filings are likely to rise again in the second half of calendar year 2011.

Pinellas County Foreclosure Case Filings
Comparison 2006-2011

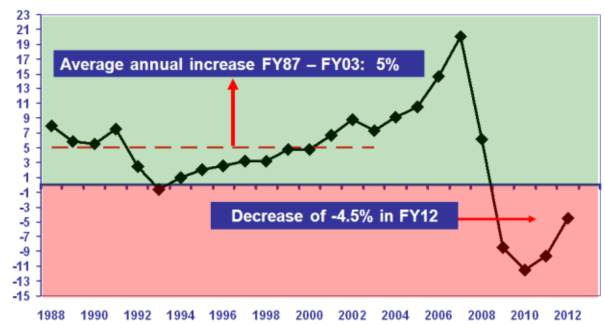
	2006	2007	2008	2009	2010	2011
Jan	255	506	963	1,263	1,128	421
Feb	253	469	1,016	1,284	1,383	390
Mar	315	494	1,035	1,420	1,118	424
Apr	247	513	1,134	1,407	1,118	448
May	281	479	1,118	1,275	860	
Jun	259	557	1,112	1,236	1,025	
Jul	273	650	1,086	1,365	806	
Aug	321	642	999	1,142	989	
Sept	324	662	1,295	1,215	1,040	
Oct	403	899	1,390	1,239	658	
Nov	398	894	969	1,120	383	
Dec	369	773	1,198	1,487	438	
TOTAL	3,698	7,538	13,315	15,453	10,946	1,683

Source: Pinellas County Clerk of the Circuit Court

Taxable Values

The taxable values for FY2012 were certified by the Property Appraiser on July 1, 2011. The county-wide value decreased by 4.5% compared to the FY2011 values. It was the fourth year in a row that the tax base declined. Prior to this the tax base only decreased once since World War II, a small -0.6% dip in FY1993.

Countywide Taxable Values Annual Rate of Change



The growth in homesteaded taxable value is subject to the caps imposed by the Save Our Homes amendment. This limits the annual growth in a property's taxable value to the growth in the Consumer Price Index (CPI) or 3%, whichever is lower. If the CPI index is negative, the allowable change in taxable values is also negative.

Save Our Homes Cap for Fiscal Year Based on Change in Consumer Price Index				
2003	**2004**	**2005**	**2006**	**2007**
1.6%	2.4%	1.9%	3.0%	3.0%
2008	**2009**	**2010**	**2011**	**2012**
2.5%	3.0%	0.1%	2.7%	1.5%

Source: Florida Department of Revenue

The factor used is the annual change in the CPI as of December each year. For example, the limit for FY2012 is the December, 2010 change percentage, +1.5%, which was issued by the U.S. Bureau of Labor Statistics in January, 2011.

KEY FORECAST ASSUMPTIONS

Property Taxes are normally one of the most reliable revenue sources available to local governments. As a result, most cities, counties, school districts, etc. rely on the stability of property taxes to build their budgets. Unfortunately, due to the combined result of mandatory legislative roll-backs, the passing of Amendment One, and a correction in the real estate market, taxable values have decreased dramatically resulting in a negative multi-year impact in property tax revenue.

Property Tax Revenue Caps

The revenue caps approved by the Legislature in 2007 require that beginning with FY2009, the maximum millage rate that can be approved by a simple majority vote of the Board of County Commissioners equals the prior year's maximum rolled-back rate adjusted for the change in per capita Florida personal income. A two-thirds vote of the Board may approve up to 110% of this maximum. Any higher millage rate requires a unanimous vote of the Board, or a referendum. The County may have some flexibility for increases in the short term because we did not levy the maximum millage in FY2009, FY2010, or FY2011.

Another aspect of the declining market values (and the "doubling" of the Homestead Exemption from $25,000 to $50,000) has been the erosion of the amount of value exempt from taxes due to Save Our Homes. Prices are now at the point where in some instances homesteaded residential market values have decreased below last year's taxable value. This means that rather than an increase due to the Save Our Homes recapture rule, some parcels previously covered by Save Our Homes will see decreases in their taxable value for FY2012.

Forecast Taxable Values

The assumption in the forecast is that taxable values will decline again for FY2013 before returning in FY2014 to an annual growth rate of 4%, slightly less than the 5% average growth which occurred in the years before the real estate boom.

Change in Taxable Values - Countywide				
2012	**2013**	**2014**	**2015**	**2016**
-4.5%	-3.0%	4.0%	4.0%	4.0%
2017	**2018**	**2019**	**2020**	**2021**
4.0%	4.0%	4.0%	4.0%	4.0%

The overall taxable value percentages in the forecast are the net effect of differing anticipated changes in the major components of the tax base. Within these categories, changes in individual properties may vary significantly due to many factors, including location (for example, beach vs. inland) or use (for example, hotel vs. retail). Non-residential taxable values are affected by vacancy rates in the commercial sector and the overbuilding of retail.

In the future, the growth in property tax revenues will be restrained by the caps put in place by the Legislature in 2007. The amount of new construction in Pinellas County will not provide the boost that other counties that are not essentially built-out will enjoy. For example, Orange and Hillsborough counties have large undeveloped areas that are available for major residential, commercial and industrial expansions. In FY2008, the new construction in Orange County essentially offset the mandated Legislative property tax rollback.

The Countywide taxable value is the basis for determining the Countywide revenue in the General Fund. For the purposes of this forecast, the percentage change in taxable value for the Emergency Medical Service Fund and the Fire Districts Fund is assumed to be the same as the Countywide taxable value change. Because of differences in the composition of their tax base, individual

fire districts would be expected to vary significantly from the overall change. The unincorporated area (MSTU) General Fund taxable value percentage change is assumed to vary slightly from the Countywide taxable value change. Other funds not included in this forecast that are dependent on property taxes are the Palm Harbor and Feather Sound Community Service District Funds, the Pinellas Public Library Cooperative Fund, and the Health Department Fund. With the exception of the Health Department, the percentage change in taxable value will differ from the Countywide change depending on the composition of the tax roll in each area.

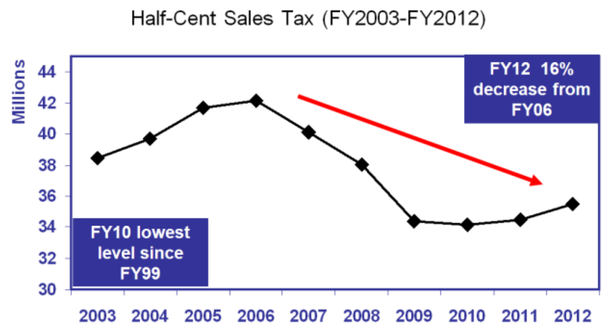
Sales Taxes – General Fund and Capital Projects Fund

Sales tax revenues are highly elastic, increasing and falling with the health of the overall economy. In addition to food and medicine, certain other purchases are exempted from sales tax by legislation. The County receives two types of sales taxes.

Half-Cent Sales Tax

This General Fund revenue is a portion of the State's six cent sales tax that is shared with counties and cities. First authorized in 1982, the program generates the largest amount of revenue for local governments among the state-shared revenue sources currently authorized by the Legislature.

Reflecting the recession, the revenue for FY2010 was the lowest in eleven years (since FY1999), but only slightly less than in FY2009. This indicates that sales tax revenues have stabilized, and FY2011 revenues are expected to begin slowly growing from this point as shown in the chart below.



For the State Shared Half-Cent Sales Tax, in FY2012 and later years, we anticipate a return to a growth mode, approaching historical patterns. A 3.0% growth rate is assumed for FY2012, followed by 3.5% annual growth for the FY2013-FY2021 forecast period. This projection is more conservative than the State General Revenue Estimating Conference, which anticipates a large FY2012 – FY2014 recovery "bump" of more than 6% per year. This statewide number reflects population growth that will not be a factor in Pinellas County. We believe that there will be a recovery boost, but the timing and extent is uncertain. Our forecast essentially reflects about 1.0% to 1.5% per year growth over the rate of price inflation. As a result, we are not anticipating a return to the FY2008 level of our Half-Cent Sales Tax revenues until FY2014.

Change in Half-Cent Sales Tax Revenue				
2012	**2013**	**2014**	**2015**	**2016**
3.0%	3.5%	3.5%	3.5%	3.5%
2017	**2018**	**2019**	**2020**	**2021**
3.5%	3.5%	3.5%	3.5%	3.5%

Infrastructure Sales Tax (Penny for Pinellas)

The revenue assumptions for the overall Penny sales tax are consistent with the Half-Cent sales tax. However, the growth rate in the Capital Projects Fund for the Penny sales tax is less at 2.6% growth in

FY2012 and 3.0% to 3.1% growth from FY2013 to FY2021. This is because the Courts & Jail allocation is a fixed amount that does not grow over time resulting in a slightly smaller growth rate for the County's overall share of the Penny.

Communications Services Tax – General Fund

The Communications Services Tax is a General Fund revenue that is paid by unincorporated area residents and is dedicated entirely to providing services for them through the MSTU.

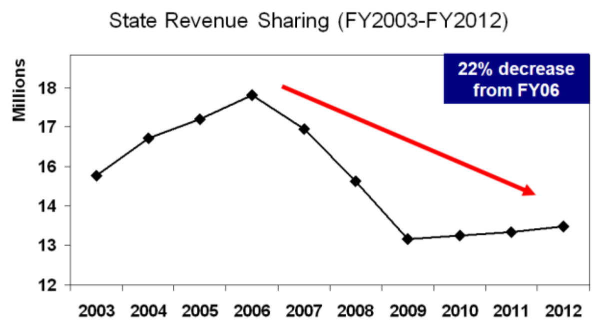
The CST legislation was enacted to restructure taxes on telecommunications, cable, direct-to-home satellite, and related services that existed prior to October 1, 2001. Previously, a county could impose franchise fees on telephone and cable television within its boundaries. Currently, for charter counties a local CST may be levied at a rate up to 5.1 percent, plus an add-on of up to 0.12 percent in lieu of imposing permit fees. The County has levied the maximum rate of 5.22% since January, 2003.

The Communications Services Tax has seen a decline due to the recession and to technological changes in the industry that have reduced the base of taxable services. The forecast projection uses the percentages developed by the State Gross Receipts Tax and CST Revenue Estimating Conference. The expectation is another year of declining revenues followed by a return to normal moderate growth patterns.

Change in Communications Services Tax Revenue				
2012	**2013**	**2014**	**2015**	**2016**
-0.2%	1.6%	2.0%	2.3%	2.5%
2017	**2018**	**2019**	**2020**	**2021**
2.5%	2.2%	2.1%	2.1%	2.1%

State Revenue Sharing - General Fund

State Revenue Sharing is primarily based on the State's sales tax revenue. The formula for Revenue Sharing is subject to adjustment by the Legislature. This General Fund revenue source reflects a long-term decline due principally to legislative reductions in the formula, and similar to sales taxes, Revenue Sharing was negatively impacted by the recession. The revenue for FY2009 was the lowest in seventeen years (since FY1992).



For State Revenue Sharing, the forecast assumes that there will not be any changes to the sharing formula. We expect a return to the pattern of moderate growth in this revenue source that predated the economy's boom and bust cycle, and are assuming an annual increase of 2% through the forecast period.

Change in State Revenue Sharing Revenue				
2012	**2013**	**2014**	**2015**	**2016**
2.0%	2.0%	2.0%	2.0%	2.0%
2017	**2018**	**2019**	**2020**	**2021**
2.0%	2.0%	2.0%	2.0%	2.0%

Interest Earnings – All Funds

The County earns interest on fund balances. These funds are invested by the Clerk of the Circuit Court in accordance with the Board of County Commissioners' approved Investment Policy. All investment activity is conducted in accordance with Section 218.415, Florida Statutes, and Section 2-144 of the Pinellas County Code. The primary objective of the policy is the safety of County funds. The second objective is the provision of sufficient liquidity. The

third objective, secondary to safety and liquidity, is to maximize the return on the investment portfolio while avoiding unreasonable investment risk.

Because of market conditions including record low interest rates, although investment performance in FY2010 exceeded established benchmarks, the actual interest earnings were below the relatively conservative projections assumed in the budgeting process. The forecast reflects this situation. The short term outlook is for continued minimal earnings. The long-term outlook (FY2013 and later) assumes annual earnings of approximately 2% on fund balances.

Other Revenues – All Funds

For other revenues, the forecast assumes flat to moderate growth which reflects the anticipated gradual economic recovery.

Change in Other Revenue (non-specific)				
2012	**2013**	**2014**	**2015**	**2016**
2.0%	2.0%	2.0%	2.0%	2.0%
2017	**2018**	**2019**	**2020**	**2021**
2.0%	2.0%	2.0%	2.0%	2.0%

<u>Other Fund-Specific Revenues</u>

Tourist Development Tax- TDC Fund

The revenue forecast for tourist development taxes assumes only a slight increase of 2.5% in FY2012 and FY2013 reflecting slight growth following the bottoming out of the economy. In the short term, collections should have a boost from publicity for the movie *A Dolphin Tale* which was filmed in Clearwater, the opening of the new Dali Museum in St. Petersburg, and the 2012 Republican National Convention in Tampa. Forecast percentages are on the conservative side of the range in modeling performed by the TDC's consultant Dr. Walter Klages. The following two years are expected to increase 3.0% as the recovery takes hold and then climb to 3.5% leveling out at the "new normal" through the rest of the forecast horizon.

Gas Taxes - Transportation Trust Fund

The County receives several types of gas tax, including State Shared Gas Taxes and Local Option Gas Taxes. These revenues are dedicated for transportation-related expenditures and are deposited in the Transportation Trust Fund. Revenue growth assumptions have been based on the State's Revenue Estimating Conference's forecast of gallons of motor fuel consumed annually in Florida. The State's annual average growth rate is 2%. These taxes are based on gallons consumed and not fuel prices. Pinellas County's built out condition, and the likelihood of future mandated vehicle fuel efficiency standards, leads to the forecast assuming no growth in these revenues. Although the County has the potential to levy an additional 1 to 5 cents in Local Option Gas taxes, there are no tax rate increases built into the forecast.

Ambulance User Fee Revenue – EMS Fund

Ambulance user fee revenues are primarily driven by patient demand (transport volume). Revenues are estimated to increase by 2.0% during the forecast period to remain consistent with the average historical increase in transport volume. The average increase in transport volume in the prior 10 years is 2.6%; ranging from -1.4% to 7.4%.

Flight Operations Revenues – Airport Fund

Airfield/Flight Line revenue for FY2012 is based on the current level of carriers and passenger numbers. For FY2013 through FY2021, an increase of 2% is forecast. The forecast is conservative, as no new carriers or agreement renewals have been included. Flight Line Leases are projected at a

conservative 2% growth rate over the forecast period.

Airport Rental Revenues – Airport Fund
Rent/Surplus/Refunds revenue for FY2012 is based on current leases/agreements through the termination of these lease agreements. In FY2013 through FY2021, an increase of 2% is forecasted.

AIRCO Golf Course - Airport Fund
The AIRCO golf course closed in FY2011. No revenues from aviation, office, or commercial development of the golf course acreage are projected in the forecast until FY2015. New property development will depend on factors such as site restrictions and economic conditions.

Water Revenues – Utilities Water Funds
The volume of water purchased has declined 16% from FY2007 to FY2011. The amount of water purchased is affected by economic conditions, housing and commercial vacancies, and levels of conservation.

The Water revenue forecast assumes only a 0.25% to 0.50% annual increase in retail water demand over the forecast period due to the expected slow growth in the economy. The wholesale water demand reflects a steep 72% decline in demand through FY2016, due to the projected loss of sales to three cities (Clearwater, Tarpon Springs, and Oldsmar), as they develop their own water resources.

Sewer Revenues – Utilities Sewer Funds
The volume of waste processed has declined 12% from FY2007 to FY2011. The amount of sewage processed is affected by economic conditions, housing and commercial vacancies, and levels of water conservation.

The Sewer revenue forecast assumes only a 0.25% annual increase in FY2012-FY2014 and a 0.50% annual increase in FY2015-FY2021 in retail and wholesale sewer demand due to the expected slow growth in the economy.

Solid Waste Revenues – Utilities Solid Waste Funds
Tipping fees for the Solid Waste facility are not anticipated to increase during the forecast period. Revenues are expected to grow about 0.5% annually.

The contract for electricity sales to Progress Energy contains annual escalations in revenue. The contract expires in 2024.

Expenditure Assumptions

In developing the requirements for departments and agencies to carry out their responsibilities, certain assumptions are common to the categories of Personal Services, Operating Expenses, and Capital Outlay.

Personal Services – Salaries – All Funds
The cost of Personal Services (salaries and benefits) is generally the single largest category of expense. Prior to FY2009, the range of salary merit adjustments generally varied from 0 to as high as 7%. No merit pay increases have been granted to County employees in recent years.

No salary adjustments are included in the forecast for FY2012. In future years, moderate pay for performance merit increases are expected to resume in order to maintain a compensation structure that can attract and retain quality employees. No automatic cost of living increases are anticipated in the forecast.

KEY FORECAST ASSUMPTIONS

Change in Salaries (Merit Increases – Net)				
2012	**2013**	**2014**	**2015**	**2016**
0.0%	0.0%	2.5%	2.5%	2.5%
2017	**2018**	**2019**	**2020**	**2021**
2.5%	2.5%	2.5%	2.5%	2.5%

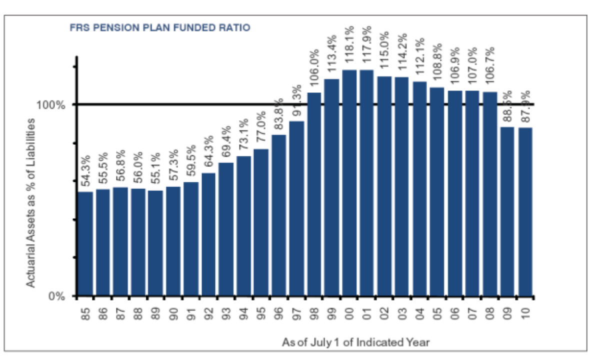
Personal Services – Employee Benefits – All Funds

The County is responsible for employer contributions to Social Security (FICA), the Florida Retirement System (FRS) State pension fund, and to support various other benefits such as health and life insurance, short term disability, workers compensation, and unemployment compensation. The two key drivers for employee benefits are the County's share of pensions and health insurance costs.

Florida Retirement System (FRS)

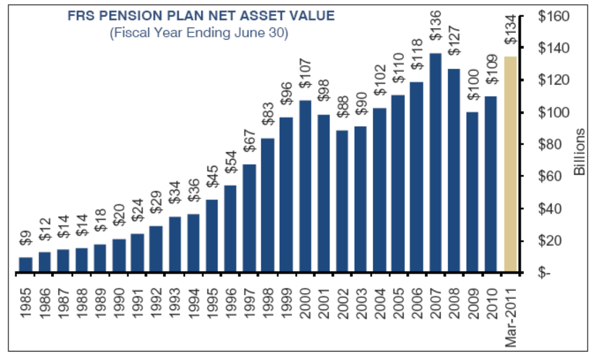
The County is required to participate in the Florida Retirement System (FRS), a State public pension plan. From 1998 to 2008, FRS had been one of the few state systems that had an actuarial surplus. This lowered the required contributions set by the Legislature that are based on an employee's salary and benefit category (public safety employees have higher benefits).

As with most other pension systems, the financial system crisis in the fall of 2008 had a significant effect on the value of FRS investments. As a result, in 2009 the FRS system had an unfunded liability and this situation continued into 2010.



Source: State Board of Administration
FRS Portfolio Review as of March 31, 2011

The FRS investment portfolio has now substantially recovered from this setback. As of March 31, 2011, the net asset value for the FRS pension plan was close to the peak value it had reached in 2007.



Source: State Board of Administration
FRS Portfolio Review as of March 31, 2011

However, the 2011 session of the Legislature determined that significant changes were needed in the FRS system. These changes are summarized in the following table.

2011 Legislative Changes to FRS

	Before	After
Employee contribution	0%	3%
Avg. final compensation	Highest 5 years	Highest 8 years
Vesting period	6 years	8 years
Normal retirement date for regular class, senior members, elected officers	62 with 6 yrs. of svc. or 30 years of service	65 with 8 yrs. of svc. or 33 years of service
Normal retirement date for special risk	55 with 6 yrs. of svc. or 25 years of service	60 with 8 yrs. of svc. or 30 years of service
DROP interest rate	6.5%	1.3%

Applies to new hires after 7/1/11

These changes will affect the future retirement benefits for current County employees as well as those hired after July 1, 2011 when these provisions take effect. The major impact on the County's expenditures results from changing FRS from a non-contributory to a contributory structure. This allowed the Legislature to significantly reduce the employer contribution rates for FRS, and not coincidentally balance the State budget.

The rate reductions also resulted in substantial FY2012 cost savings for the County, amounting to $13M in the General Fund alone as compared to earlier projections. Looking ahead, employer rates are scheduled to increase in July, 2012 under current legislation, and the future direction of legislative action cannot be predicted. Also, the restructuring of the FRS system is being challenged by a class action lawsuit, which if successful could reverse the employer contribution rate decreases. Taking a fiscally conservative approach, the forecast assumes moderate continued increases in the FRS contribution requirements over the next ten years.

Change in FRS Pension Contribution Rates				
2012	**2013**	**2014**	**2015**	**2016**
-51.0%	3.0%	3.0%	3.0%	3.0%
2017	**2018**	**2019**	**2020**	**2021**
3.0%	3.0%	3.0%	3.0%	3.0%

Health Insurance

Health insurance costs for the County have followed the national trend and outpaced inflation in recent years. These increases have been mitigated by the County's aggressive cost containment measures including the renegotiation of pharmacy and health contracts, the creation of a medication management program, and the introduction of a fully insured Medicare Advantage Group plan for Medicare-eligible retirees.

The forecast assumes that the County's aggressive health insurance cost containment measures will continue. Health insurance costs are also affected by changes in the workforce. As the number of active employees decreases due to budget reductions, and the number of retirees in the health plan increases, costs are spread over a smaller base. In recent years the ratio of active employees to retirees has changed, from 3 actives for every retiree to 2 actives for every retiree, while costs per position have increased. The result is that County employer contributions per active position have increased at a higher rate than cost inflation. This trend is expected to continue.

The Affordable Health Care Act passed in 2010 on the national level to restructure and contain health insurance costs could have a significant impact, but the forecast does not assume any changes in the current situation. A 15% increase in the County's Health Insurance contribution is budgeted for FY2012 primarily due to recent claims trends. The BCC's decision to keep employee health insurance costs constant in view of the impact of the new FRS mandate will result in an effective increase of 19% for employer contributions.

Change in Health Insurance Contributions				
2012	**2013**	**2014**	**2015**	**2016**
15.0%	10.0%	10.0%	10.0%	10.0%
2017	**2018**	**2019**	**2020**	**2021**
10.0%	10.0%	10.0%	10.0%	10.0%

The combined result of the forecast changes in salaries and benefits results in the following overall change to Personal Services costs.

Change in Personal Services Expenditures (Net Total Salary and Benefit Changes)				
2012	**2013**	**2014**	**2015**	**2016**
-2.1%	1.6%	3.7%	3.7%	3.7%
2017	**2018**	**2019**	**2020**	**2021**
3.7%	3.7%	3.7%	3.7%	3.7%

The percentages in the General Fund differ slightly from other funds due to projected Unemployment Compensation costs, which peaked at $1.2M in FY2010 due to Reductions in Force (RIFs) and are expected to decline over the next several years. Unemployment Compensation for all County operations is billed by the State to the General Fund.

KEY FORECAST ASSUMPTIONS

Operating Expenses and Capital Outlay- All Funds

The cost of services, commodities, and equipment (Operating Expenses and Capital Outlay) are driven by inflation. Many costs will track close to the Consumer Price Index (CPI), but fuel, chemicals, and construction materials often exceed that pace.

The difference between inflation as measured in the CPI and the cost pressure on local governments is illustrated by the Municipal Cost Index (MCI) developed by American City & County. The MCI draws on the CPI, the Producer Price Index (PPI), the Construction Cost Index (CCI), monthly statistical data collected by the U.S. Departments of Commerce and Labor, and independently compiled data to project a composite cost picture that more accurately reflects inflationary impacts on counties and cities. The higher inflation pressure on local governments is reflected in the most recent report issued by American City and County. Compared to the same period last year, the Municipal Cost Index increased 3.8%, as opposed to the 1.2% increase in the CPI.

The forecast assumes that the cost of services, commodities, grants and aids, and equipment will generally track the CPI increases developed by the State in their consensus Revenue Estimating Conference.

Change in Other Non-Personnel Expenditures (CPI)				
2012	**2013**	**2014**	**2015**	**2016**
1.7%	2.0%	2.1%	2.2%	2.2%
2017	**2018**	**2019**	**2020**	**2021**
2.1%	2.1%	2.1%	1.9%	2.0%

However, certain expenses such as fuel, electricity, and state-mandated Medicaid charges have cost growth factors differing somewhat from the basic CPI.

Fuel - All Funds with Fleet Equipment

Fuel costs are dependent on the amount of fuel purchased as well as the price of fuel. The County has reduced the size of the fleet and increased fuel efficiency. As a result, gallons purchased have declined (from 1.36M in FY2008 to 1.14M in FY2010). In FY2011, fuel consumption is anticipated to further decline to 1.08M gallons based on preliminary data. FY2012 fuel consumption may decrease to some extent due to potential budget reductions.

Future fuel efficiency gains are unlikely due to the composition of the fleet. Only 51 of 1,750 units are cars (less than 3%). The bulk of the fleet is heavy equipment. These units usually achieve only 8 to 10 miles per gallon because of idling time (for power take off units) and the gear ratio needed to haul heavy loads. There are no federally mandated fuel economy standards for heavy trucks and equipment.

The FY2011 Budget was based on a price of $2.46/gallon; since that time prices have escalated dramatically, and this has impacted FY2011 projected expenditures as well as the amount budgeted for FY2012. Prices are expected to continue to rise at a moderate pace throughout the forecast period. As the last year has demonstrated, market conditions and unforeseen events can have a significant impact on the price of fuel.

Change in Fuel Costs				
2012	**2013**	**2014**	**2015**	**2016**
39.0%	5.0%	4.0%	4.0%	4.0%
2017	**2018**	**2019**	**2020**	**2021**
3.0%	2.0%	2.0%	2.0%	2.0%

Fleet Replacement - All Funds with Fleet Equipment

Some departments have an increase in fleet replacement costs in the FY2012 budget as units are replaced that were not paying into the Fleet fund in FY2011 due to deferral of purchases and life cycle extensions.

Electricity - General Fund and Utilities Funds

The County's office facilities are generally charged a commercial rate for electricity by Progress Energy. Historically these rates have averaged annual increases of 5%. The Utilities facilities are mainly charged an industrial price by Progress Energy and TECO. Historically these rates have risen at an annual average of 7%.

The Real Estate Management and Utilities departments have both taken steps to decrease annual cost increases by implementing energy reduction measures directed at reducing energy consumption.

The forecast assumes flat percentage increases in electricity costs based on the historical averages.

Change in Electricity Costs - Commercial				
2012	**2013**	**2014**	**2015**	**2016**
5.0%	5.0%	5.0%	5.0%	5.0%
2017	**2018**	**2019**	**2020**	**2021**
5.0%	5.0%	5.0%	5.0%	5.0%

Change in Electricity Costs - Industrial				
2012	**2013**	**2014**	**2015**	**2016**
7.0%	7.0%	7.0%	7.0%	7.0%
2017	**2018**	**2019**	**2020**	**2021**
7.0%	7.0%	7.0%	7.0%	7.0%

Other Post Employment Benefits (OPEB) – All Funds

During FY2010, County actuarial consultants computed the County's net Annual Required Contribution (ARC) for Other Post Employment Benefits (OPEB) consistent with Government Accounting Standards Board directives to be $25.6M for Unified Personnel System (UPS) employees and $22.8M for Sheriff's Office employees.

The FY2012 Budget includes a transfer of $2M from the General Fund to the Employee Benefits Fund for a partial contribution to the annual OPEB ARC for both UPS and Sheriff's Office employees. In previous years, the County set aside a cumulative total of $27M for OPEB. Other local governments in Florida with an OPEB liability are also partially funding those obligations as budgets allow.

Effective January 1, 2011, new hires will not receive an explicit OPEB subsidy upon retirement and new retirees covered by Medicare must enroll in the less costly Medicare Advantage plan option. These actions will help better quantify the OPEB liability in the next OPEB valuation actuarial study.

The forecast assumes that OPEB funding in the General Fund will continue at the current level of $2M per year pending the results of the next OPEB valuation which will be available in 2012.

<u>Other Fund-Specific Expenditures</u>

Medicaid – General Fund

The County is billed by the State for Medicaid. The County reviews the bills for patients that are not County residents and rejects paying bills for non-county residents. The County pays the State for in-patient hospital care for days 11 through 45. The days do not have to be consecutive. Because patient stays less than 11 days or more than 45 days are not paid by the County, there is not a strong correlation

between the County's Medicaid bill and an increase in unemployment from the recession.

The average annual cost of Medicaid since FY2003 is $9.0M. During FY2011, these charges have increased significantly, and the FY2012 budget has been adjusted accordingly. The forecast assumes continued growth of these expenditures as health care costs increase and the State seeks to shift costs to the counties.

Projected Medicaid Costs - $ millions				
2012	**2013**	**2014**	**2015**	**2016**
$12.0M	$12.0M	$12.0M	$13.0M	$13.0M
2017	**2018**	**2019**	**2020**	**2021**
$13.0M	$13.0M	$14.0M	$14.0M	$14.0M

First Responder Expenditures – EMS Fund

First Responder expenditures are primarily driven by First Responder personnel costs (80%). Historically, First Responder expenditures were based through contract on a municipal cost index, but currently are based on First Responder budgets. The First Responder contractual expenditures are estimated to increase at 4% throughout the forecast period.

Ambulance Contract Expenditures – EMS Fund

Ambulance contract expenditures can fluctuate according to a blended CPI (60% medical CPI and 40% transportation index of CPI). The contract calls for minimum increase of 3% and a maximum of 5.5%. Contractual payments to the ambulance contractor are assumed to increase by 4.5% through the forecast period.

Purchase of Water - Utilities Water Funds

A major expense to the Water System is the purchase of water. Tampa Bay Water provides a six-year schedule of anticipated rate increases. An annual rate increase of 2.5% per year is assumed for the remainder of the forecast period. The actual cost in dollars will be dependent on the amount of water purchased.

Change in Rate -Cost of Water Purchased from Tampa Bay Water				
2012	**2013**	**2014**	**2015**	**2016**
1.2%	3.1%	0.4%	2.6%	0.5%
2017	**2018**	**2019**	**2020**	**2021**
0.9%	2.5%	2.5%	2.5%	2.5%

Chemicals - Utilities Water and Sewer Funds

The increase in the cost of chemicals for Water and Sewer operations has been historically around 7% annually. The forecast projects this trend to continue.

Change in Cost of Chemicals for Utilities				
2012	**2013**	**2014**	**2015**	**2016**
7.0%	7.0%	7.0%	7.0%	7.0%
2017	**2018**	**2019**	**2020**	**2021**
7.0%	7.0%	7.0%	7.0%	7.0%

Capital Outlay - Utilities Water and Sewer Funds

The Water and Sewer capital outlay forecasts reflect the construction and purchase needs as estimated by the Department of Environment and Infrastructure Engineering Division. The Sewer forecast does not include any capital expenditures from bond proceeds.

Solid Waste Expenditures – Utilities Solid Waste Funds

Solid Waste operating expenditures are projected to generally follow overall inflationary trends except for the projected start-up of recycling programs in FY2012. The Solid Waste capital outlay forecast reflects the construction and purchase needs as estimated by the consulting engineering services report by Camp, Dresser & McKee, Inc. There is a large capital need forecasted for FY2012 for

water treatment at the Solid Waste facility and for FY2017 and FY2018 to install additional air pollution measures, in anticipation of tighter regulatory requirements.

FUND REVIEWS

The *Fund Reviews* portion of the FY2012 Budget Message includes ten-year forecasts for ten of the County's major funds:

- General Fund
- Tourist Development Fund
- Transportation Trust Fund
- Capital Projects Fund
- Emergency Medical Services Fund
- Fire Districts Fund
- Airport Fund
- Utilities Water Funds
- Utilities Sewer Funds
- Utilities Solid Waste Funds

Sections in Each Fund Review

Each fund review includes the following sections:

- **Summary:** Provides an at-a-glance summary of the ten-year forecast. These results are also summarized in the Executive Summary.
- **Description:** Provides information concerning the fund such as: fund type, legal authority, authorized uses of proceeds, etc.
- **Revenues**: Provides a high level overview of the major revenues in the fund
- **Expenditures**: Provides a high level overview of the major expenditures in the fund
- **Ten Year Forecast**: Includes key assumptions in the forecast, a chart of the ten-year forecast, and key results interpreted from the forecast chart
- **Potential Risks:** Includes key factors that affect assumptions in the forecast over the forecast horizon
- **Balancing Strategies**: Includes potential revenue and expenditure options for balancing the funds

Additional Information

The fund reviews in this section are intended to be high level, user-friendly summaries of the results of the ten-year forecast for each fund.

For more detailed information, please see the *Key Assumptions* and *Pro-Formas* portion of this document.

Pinellas County

FUND REVIEWS: GENERAL FUND

Description

The General Fund includes the primary governmental functions of the County that are not completely supported by dedicated resources. These activities include, but are not limited to: Sheriff's law enforcement, detention, and corrections; health and human services; emergency management and communications; parks and leisure services; and the operations of the Property Appraiser, Tax Collector, and Supervisor of Elections.

The General Fund includes operations for both county-wide functions and the unincorporated area. These segments are tracked separately within the fund. The unincorporated area is commonly referred to as the MSTU (Municipal Services Taxing Unit). MSTU expenditures are about 8% of the total (net of reserves).

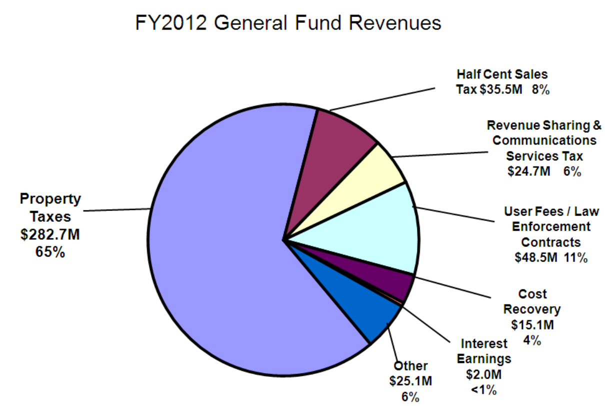
Reduction Target

The reduction strategy for the General Fund was developed to close the anticipated FY2012 gap of $21.5M. The FY2012 reduction targets were allocated by starting with the amounts that agencies had missed the previous year's targets ($13.M) and then distributing the remaining $8.2M shortfall proportionately to the BCC/County Administrator departments and the Constitutional Officers and Independent Agencies based on their share of the total General Fund budget.

The BCC / County Administrator departments and the Constitutional Officers and Independent Agencies achieved nearly all of the targeted reductions. After adjusting for updated FRS contribution rates and other revenue estimates, the result is that FY2012 recurring revenues will exceed expenditures by $8.2 million, and this amount plus additional savings from the Board changes to the Proposed Budget is being added to the Service Level Stabilization Account originally established in FY2010 for a total of $28.6M which is available to be used for mitigating future shortfalls.

Revenues

Property Taxes are the single largest source of General Fund revenues, accounting for almost two-thirds of the total. The four primary funding sources for the General Fund (Property Taxes, State Shared Half-Cent Sales Taxes, State Revenue Sharing, and Communications Services Taxes) comprise about 79% of the revenue. The remaining 21% is derived from a variety of resources, including User Fees, Grants, Interest, and Cost Recovery from other County funds.

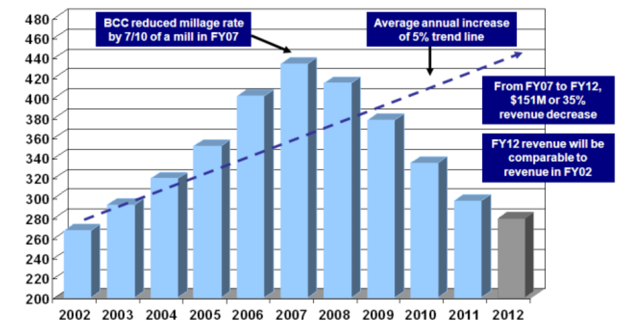


Property Taxes

The decline in property tax revenue from FY2008 to FY2012 will exceed the increases that occurred from FY2004 though FY2007. The additional revenue resulting from the run-up in values from 2003 through 2006 is no longer available, and the FY2012 budgeted revenue is less than the FY2003 revenue.

The combined General Fund property taxes for countywide and MSTU are expected to generate $282.7M in FY2012. From FY2007 to FY2012 property tax revenue is estimated to decrease $151M or 35%.

General Fund Property Tax Revenue (FY02-FY12) in millions



The negative impact from reduced property tax revenue is generally less pronounced for the municipalities in Pinellas County. Their General Fund revenue mix usually reflects other revenues such as franchise fees and utility taxes that can help mitigate the impact of a reduction in property tax revenue.

Sales Taxes

The second largest General Fund revenue source is the State Shared Half-Cent Sales Tax, which is 8% of total General Fund revenues. Estimated Sales Tax revenues for FY2012 are 16% under the peak year of FY2006. This tax is expected to generate $35.5M in FY2012.

State Revenue Sharing

The third major General Fund source, State Revenue Sharing, which is 3% of total General Fund revenues, is also primarily based on the State's sales tax revenue. This source is expected to generate $13.8M in FY2012, which is 22% under the peak year of FY2006.

Communications Services Taxes

The fourth major revenue in the General Fund is the Communications Services Tax (CST). The CST is expected to generate $10.9M in FY2012, down from a peak of $13.8M in FY2007. Pinellas County's revenue reflects the statewide trend for this source, which has experienced continued erosion due to heightened competition in the wireless market and reduced consumer spending in response to the recession.

Other Revenues

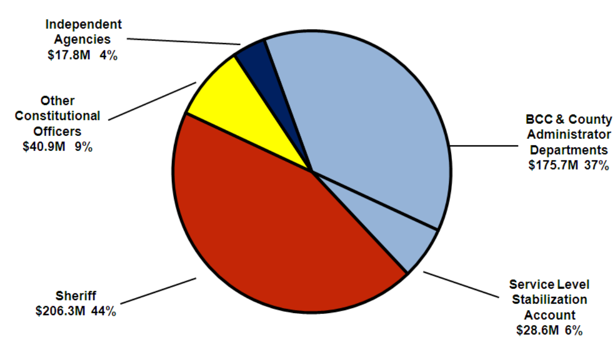
Lesser revenue sources include User Fees, Sheriff's Law Enforcement Contracts, Cost Recovery from other funds, Interest Earnings, and various other sources including Federal and State grants. In general these revenues have decreased as a result of the recession, but are mostly expected to resume moderate growth in future years.

Expenditures

The General Fund includes the primary governmental functions of the County that are not completely supported by dedicated resources. These activities include, but are not limited to: Sheriff's law enforcement, detention, and corrections; support of the Court system, including facilities and technology; health and human services; environmental management; emergency management and communications; parks and leisure services; general administration; and the operations of the Property Appraiser, Tax Collector, and Supervisor of Elections.

The budgeted expenditures in the General Fund total $469.3M (net of reserves) and can be summarized in four groups: the Board of County Commissioners, the Sheriff, Other Constitutional Officers, and Independent Agencies.

FY2012 General Fund Expenditures



Board of County Commissioners

This grouping of departments includes the departments under the County Administrator as well as the County Attorney's Office and the Board of County Commissioners (BCC). They are $204.3M of total FY2012 General Fund expenditures (excluding reserves). Of this total, $175.7M are departmental budgets, and $28.6M is the Service Level Stabilization Account.

Some of the major BCC programs include: social services; matching funds for Medicaid; building operations and maintenance (including the courts, jail, and Sheriff's headquarters); parks maintenance; environmental protection; environmental preserves; cultural affairs; emergency management; animal shelter; rabies control; economic development; consumer services; veteran's services; the county extension service; Florida Botanical Gardens; Heritage Village; public information; the County cable television station; planning; budget; purchasing; and State-mandated support of juvenile detention.

Sheriff

The Sheriff is an independently elected Constitutional Officer. The Sheriff's budget is $206.3M or 44% of total FY2012 General Fund expenditures (excluding reserves). Detention and Corrections programs comprise 52% of this total. The Sheriff also provides support to the Court System and provides Law Enforcement services to both the unincorporated area (MSTU) and by contract to 12 municipalities. The Sheriff's adopted budget is often supplemented during the year by grants from Federal and State agencies such as the U.S. Department of Justice and the Florida Department of Law Enforcement.

Other Constitutional Officers

These agencies, which are headed by independently elected officials, comprise $40.9M or 9% of total FY2012 General Fund expenditures (excluding reserves). In most cases, the General Fund only reflects part of the total agency budgets.

The Tax Collector and Property Appraiser's budgets are determined by statutory formulas and are approved by the State Department of Revenue. Only about 85% of the Tax Collector and Property Appraiser total budgets are included in General Fund expenditures. The remainder is supported by other funds and by revenue sources that are specific to certain functions. An example of the latter is the processing of driver's licenses, which receives some state support but not enough to cover the Tax Collector's cost of providing the service.

The Clerk of the Circuit Court has two separate budgets for activities in support of the Board of County Commissioners and for support of the Court system. The latter is fee supported and is not included in the County's budget; it is funded and approved by the State. The Board-related functions comprise about 24% of the Clerk's total budget.

The budget for the Supervisor of Elections experiences annual fluctuations which result from the varying number and scope of elections in a given year. The Supervisor is responsible for preparing and conducting all Federal, State, County, and Municipal elections within the County. The Supervisor's budget fluctuates from year to year depending on the number of elections to be conducted.

Independent Agencies

These agencies are $17.8M, or 4%, of total FY2012 General Fund expenditures (excluding reserves). They include the County's support for the Judiciary, the State Attorney, the Public Defender, the Criminal Justice Information System (CJIS), the Medical Examiner, the Office of Human Rights, and Human Resources.

Court Support

Much of the County's court support is driven by statutory mandates and Article V of the State Constitution that require the County to fund certain technology expenses, programs, and facilities. Only about 13% of the Judiciary's total budget, 8% of the Public Defender's budget, and 1% of the State Attorney's budget are funded by Pinellas County. This funding includes some local programs over and above the mandated requirements, such as Teen Court, Drug Court, and the Public Defender's Jail Diversion efforts. The Sixth Judicial Circuit encompasses both Pinellas and Pasco counties. Pasco County provides funding for similar functions at a lower level due to its relative size. The balance of these agency budgets are funded by the State.

Other Agencies

The Medical Examiner also serves the entire Sixth Judicial Circuit, and therefore is supported by both Pinellas and Pasco Counties. The Medical Examiner is not a government employee, but provides forensic investigative and laboratory services to the County by contract.

Two other agencies receive General Fund support. The Office of Human Rights provides County citizens protection from employment and housing discrimination and also acts as the County's internal affirmative action agency. The Human Resources department manages the Unified Personnel System (UPS) which provides centralized personnel services for the BCC and most of the other County elected officials and independent agencies. The major exception is the Sheriff, who operates a separate personnel system.

Proportional Share of the Budget

The budget figures in the previous paragraphs represent total budgeted expenditures, but these figures must be adjusted to give an accurate picture of the true proportional share of the discretionary budget represented by each agency.

For example, in developing targets for the FY2012 budget reductions, an adjusted base budget was calculated. Besides excluding reserves, this took into account non-recurring and mandated expenses as well as those supported by non-property tax revenues generated by the agencies' operations. The adjusted base represented the part of the budget that could be reduced in order to achieve balance.

Calculation of the FY2011 Adjusted Base Budget

FY2011 General Fund Budget	$580.0M
less Reserves	$94.1M
less Non-recurring expenditures	$32.4M
less Non-property tax revenues	$73.2M
less Cost allocation charges	$8.6M
less Article V and other mandates	$30.3M
Adjusted Base Budget	$341.4M

Following this calculation, the agencies' share of this adjusted base was calculated to arrive at the proportionate share of the budget reductions needed.

Distribution of the FY2011 Adjusted Base Budget

	Adj. Base Budget $	% of Base
BCC Departments	$111.5M	33%
Constitutionals & Independents	$229.9M	67%
Total	$341.4M	

Types of Expenditures

In addition to the breakout of organizational responsibilities, another way of looking at General Fund requirements is to consider the types of expenditure required for those organizations to carry out their responsibilities. Personal Services, Operating Expenses, and Capital Outlay in the General Fund are similar to those in other County funds. Several of the other expenditure categories merit additional discussion: Grants & Aids, Debt Service and Transfers.

Grants and Aids

The Grants and Aids expenditure category includes several types of funding provided by the County to other entities, such as financial assistance for low income residents and support of community non-profit social action agencies.

Grants and Aids also include Tax Increment Financing (TIF) payments to cities for community redevelopment areas (CRAs). Nine cities within the county have established a total of twelve CRAs. The County is required by interlocal agreements to contribute funds annually based on formulas that reflect the amount of growth in taxable values compared to a specified base year. In FY2012, the County will contribute a total of $6.2M in TIF payments to the cities.

Debt Service

Unlike many other local governments, Pinellas County has no outstanding bond issues which are supported by a pledge of property taxes or other general revenue. The only budgeted expenses for Debt Service (principal and interest payments) are for potential short term cash flow needs.

Transfers

Transfers between funds may be ongoing or non-recurring in nature. For example, an ongoing transfer to the Employee Health Benefits Fund is budgeted to address unfunded liabilities for Other Post Employment Benefits (OPEB).

Non-recurring funds may also be included in the other expenditure categories. For example, in FY2012 Operating Expenses includes several non-recurring BTS projects.

At the end of each fiscal year, non-recurring funds may be realized as additional fund balance resulting from revenue in excess of expenditures in a given fund. The FY2012 Budget allocates non-recurring funds for a variety of projects. Many of these projects will yield recurring savings in future years. The amount of non-recurring or one-time funds can vary significantly from year to year. As stated in the County's budget policies, non-recurring funds should be applied to increase reserves or used for one-time purposes only. They should not be used to fund ongoing programs.

Ten-Year Forecast

Key Assumptions – Revenues

For the purposes of this forecast, it is assumed that the General Fund millage rates for both countywide and MSTU purposes will remain the same as in FY2011. The millage rates have not changed since FY2008, at which time they decreased due to action by the State Legislature. The countywide millage rate is currently 4.8108 mills, the lowest since FY1990, and the MSTU rate is 2.0857 mills.

As explained in the Key Assumptions section of this document, the forecast is that taxable values will decline by 3% for FY2013 before returning in FY2014 to an annual growth rate of 4%, slightly less than the 5% average growth which occurred in the years before the real estate boom.

For the State Shared Half-Cent Sales Tax, in FY2012 and later years, we anticipate a 3.0% growth rate for FY2012, followed by 3.5% annual growth for the FY2013-FY2021 forecast period.

State Revenue Sharing is expected to return to a pattern of moderate growth slightly less than the sales tax, with an annual increase of 2% through the forecast period.

Communications Services Tax revenue is forecast to decline by -0.2% in FY2012, returning to annual growth ranging from 1.6% to 2.5% in FY2013 through FY2021.

For other revenues in the General Fund, the forecast assumes flat to moderate growth which reflects the anticipated gradual economic recovery.

Key Assumptions - Expenditures

The forecast assumes a continuation of current (FY2012) programs and service levels.

The basic assumptions for Personal Services and Operating Expenses that are used throughout the forecast apply to the General Fund. The forecast does not assume any net additional positions.

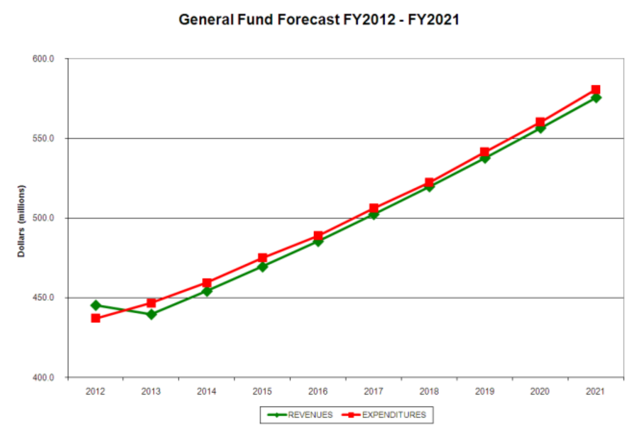
However, certain expenses such as electricity, fuel, and state-mandated Medicaid charges result in the General Fund's Operating Expense growth differing somewhat from the basic CPI.

As discussed previously, the County has no outstanding bond debt supported by property taxes or other general revenues. No such bond issues are anticipated during the term of the forecast.

Because of the uncertain nature of non-recurring funds, none are anticipated in the forecast with the exception of those estimated to be available in FY2012.

No new programs funded by Federal economic stimulus or other non-routine grants are included in the forecast. The assumption is that any such expenditures will be dedicated for non-recurring purposes or will cease when the grant funds are no longer available. In the recent past, the Sheriff in particular has been very proactive in seeking Federal and State funding for public safety purposes that supplement but not supplant existing budgets. While this is desirable and likely to continue, for the purposes of the forecast these unpredictable expenses and their offsetting revenue are not included.

Several capital improvement projects are expected to impact operating expenditures when completed. These projections have been incorporated into the forecast. For example, several energy conservation projects currently in progress are anticipated to reduce future ongoing utilities costs. Conversely, completion of the Lake Seminole Alum Injection project will place additional demands on General Fund resources. As specific increased needs are identified, to the extent possible these new demands will be accommodated within existing budgets.



Forecast Budget Gap Without Corrective Action				
2012	**2013**	**2014**	**2015**	**2016**
+$8.2M	-$7.0M	-$5.3M	-$5.5M	-$3.4M
2017	**2018**	**2019**	**2020**	**2021**
-$3.7M	-$2.5M	-$3.6M	-$3.7M	-$4.9M

Key Results

The forecast projects that in FY2013, recurring expenditures will exceed recurring revenues in the General Fund by an estimated $7.0M. A structural gap of approximately $5.0M would remain throughout the forecast period without action to address this problem.

The structural gap is within manageable proportions because of the pro-active

decisions made during the past several years. The goal of this budget process was to:

> *Reshape Pinellas County government by restructuring, reorganizing, resizing, and realigning the organization to provide an efficient and effective array of services.*

A significant part of this task has been accomplished. One of the key strategies employed in concert with the budget reductions for fiscal years 2010, 2011, and 2012 has been the creation of a Service Level Stabilization Account in the General Fund. The $28.6M that has been allocated is available to mitigate the impact of budget gaps on services. This account could be used to bridge the gaps over the next several years. The intent is to avoid cutting programs below a level that can reasonably be supported in future years by the new level of recurring revenue as property values recover.

It is important to note that this forecast is highly dependent on continued economic recovery and in particular, the return to growth in taxable values in FY2014 and later years. Should this situation be less positive, it would adversely affect the outlook in the General Fund.

Potential Risks

<u>REVENUE FACTORS</u>

Taxable Values

There are many factors that can alter the ten-year forecast of the General Fund. The primary concern, due to this fund's reliance on property taxes for a significant portion of revenue, is the performance of the real estate market.

The timing of the valuation of property for tax purposes is important. The FY2013 values (as of January 1, 2012) will reflect the market conditions at the end of the 2011 calendar year.

A change of 1% in the FY2012 countywide taxable value would result in a $2.5M change in revenue at the current millage rate of 4.8108. Similarly, a change of 0.1 mills in the rate using the FY2012 taxable value would result in a $5.3M change in revenue. In the following years, these impacts would be amplified by the other growth factors.

Save Our Homes Impact

Another variable is the homesteaded taxable value increase cap imposed by the Save Our Homes amendment, which is based on the annual change (December to December) in the Consumer Price Index. Under "normal" circumstances, as homesteaded properties represent about 35% of the total countywide taxable value, a change of 1% in the CPI (positive or negative) at the current millage rate would produce a change in revenue of approximately $1M. Because of the decline in market values, the amount of value that is shielded by Save Our Homes has been greatly reduced. When the real estate market returns to a pattern of growth, Save Our Homes will limit the amount of the increased value that is subject to property taxes.

Potential Property Tax Exemptions

The 2011 Legislature authorized a November, 2012 statewide referendum on three proposed expanded property tax exemptions. The first proposal would reduce the cap on the annual change in taxable values for non-homesteaded property from 10% to 5%. The second proposal would allow the Legislature to eliminate the "recapture rule" and prevent the assessed value of a property from increasing when its market value declines, even if the assessed value is less than the market value. The third would grant an initial homestead exemption of 50% of market value to homeowners who have not had a homestead exemption in Florida in the previous 3 years. If approved, any of these proposals would result in further

reductions to the tax base. The Legislative staff has estimated the cumulative impact of the proposals to be a revenue loss to local governments of nearly $1 billion statewide by FY2016. Other new exemptions as well as revenue and expenditure caps have been discussed and their passage would have negative revenue impacts as well.

Annexations

In the unincorporated area, the property tax base and revenue in the MSTU would be affected by annexations or by the creation of new municipalities. If a significant reduction in the tax base occurs, costs could be spread across a much smaller population. A thorough reevaluation of the scope and delivery methodology for MSTU services would be required if these changes reach a tipping point in the economies of scale.

Economic Conditions

The three other major revenue sources – Sales Tax, Revenue Sharing, and CST - are highly sensitive to economic conditions. If the economy improves, collections could be higher than anticipated as disposable income increases. The reverse would be true if the economic recovery stalls or deteriorates into new recession (a “double-dip”).

The Sales Tax is highly sensitive to economic conditions. If consumer confidence does not continue to improve, consumption will not grow at the moderate pace assumed in the forecast.

The 3.5% annual growth in the Sales Tax forecast for FY2013 generates about $1.2M in additional revenue each year, which would be impacted by variations from the anticipated economic recovery assumptions.

The forecast assumes that Revenue Sharing will grow at 2% per year, a rate slightly less than the growth in Sales Tax. However, there is no Constitutional prohibition against the State changing the formula to reduce or eliminate this revenue source unless the funds have been committed for debt service (which is restricted to 50% of the prior year’s proceeds). Pinellas has no Revenue Sharing pledged to support debt and the entire allocation, currently about $13.8M, is subject to revision by the Legislature.

State Budget Impacts

For the third year in a row, the State used non-recurring revenues, including a sweep of trust fund balances, to address the State FY2012 budget deficit. Upcoming budget cycles will continue to be challenging given the reliance on sales taxes as the State’s primary revenue stream. In dealing with upcoming State budget gaps, the Legislature may consider the possibility of reducing the amount of revenue it shares with local governments or cost shifting state responsibilities.

In light of the State’s continuing budget problems, legislative changes to the formulas for sales tax and revenue sharing are a real possibility. There is an unfortunate precedent for this type of action. Effective in July, 2005, the counties’ share of sales tax and revenue sharing revenues was decreased in response to the implementation of Article V / Section 7 court funding reforms. The impending statewide budget gap could be used as a justification to revise the formulas and reduce the amount of funding provided to local governments. A 10% cut in the Sales Tax formula would reduce revenues by over $3.5M.

Similarly, there has been repeated pressure from the telecommunications industry to reduce the scope of services that are subject to the Communications Services Tax. To date, the Legislature has resisted major changes that would reduce local CST revenues.

Limiting Factors

A cautionary note for long term planning relates to the scarcity of undeveloped land in Pinellas County. We will see relatively fewer new residents in the future compared to other counties with more opportunities for expansion. Because the distribution formulas for both shared sales taxes and revenue sharing are partially based on population, Pinellas will represent a declining percentage of the state total and therefore the percentage of these revenues will decline also. However, this is not expected to have a major impact in the short term, and the slowing of overall population growth in the State will delay the effect. Some erosion will result for those grants and other revenues that are allocated by population-driven formulas.

EXPENDITURE FACTORS

Inflation

On the expenditure side of the equation, the Consumer Price Index is a key element. For consistency, the CPI changes used in the forecast are those produced by the State of Florida's National Economic Estimating Conference. It should be noted that this is a consensus process which involves the Legislature, the Governor's Office, and the State's Division of Economic and Demographic Research. The intent is to produce a professional, nonpartisan basis for development of the State's budget that melds a variety of perspectives, and therefore does not necessarily reflect any one participant's economic model.

Historically, although inflation was as high as 12.5% in 1981, in the years from 1989 to 2008 the change in the CPI averaged about 3%. The true inflation rate will have a significant effect on future requirements. For example, an increase of 1% in the CPI, if applied to all FY2012 recurring costs, would require an additional $5M in expenditures. A change of 1% in the salary and benefits assumptions would produce a cost variance of $3M and an increase in the inflation rate of 1% would result in a $2M change in operating expenses in FY2013, and would trigger escalating impacts going forward.

Operating expenses have been assumed to generally follow the CPI inflation rate, but costs such as fuel and electricity are subject to unforeseeable variations and could impact this scenario.

Florida Retirement System

Because salaries and benefits are such a significant part of General Fund expenditures, higher than projected FRS contribution rates or health insurance cost increases could have significant negative impacts. The FRS bill approved this year tentatively establishes increased rates for the State 2013 fiscal year (July 1, 2012 to June 30, 2013) to address the system's unfunded liability. These rates are subject to change in next year's legislative session. As noted in the Key Forecast Assumptions section of this message, the unfunded liability may be lower than previously anticipated. However, the rates approved this year were not based on a detailed actuarial analysis, and it is possible that the Normal Cost Rates will increase when the required study is done late this calendar year. The forecast assumes that there will be gradual increases throughout the forecast period, but there is a large degree of uncertainty in that the Legislature and Governor have demonstrated that they are willing to make major structural changes to the pension system.

Health Insurance

Health insurance costs are impacted by inflation and also by the package of benefits offered. The extent to which the ratio of active employees to retirees changes will also impact the County's employer contributions to the health plans. An additional unknown is

the effect of Federal health insurance reform on costs and services, including any related mandates to programs such as Medicaid.

Unfunded Mandates

No new State or Federal mandates have been included in the forecast. As the State deals with its budget problems, there is likely to be growing pressure to push expenses down to local governments even while imposing more restrictions or rollbacks on local revenues. For example, previous Legislatures have considered altering the Medicaid Matching Funds and Mental Health Matching Funds requirements. In FY2012, these obligations total $14M for Pinellas County.

Theoretically, Article VII Section 18 of the Florida Constitution has a prohibition against imposing unfunded mandates on counties and cities. In practice, the Legislature can avoid this prohibition in many ways, through exemptions (such as mandates to enforce criminal laws) or exceptions, including declaring that the mandate "fulfills an important state interest" and is approved by a 2/3 vote of both the Senate and House. According to a report prepared by the Legislative Committee on Intergovernmental Relations (LCIR), in 2009 alone the Legislature enacted 25 laws containing 74 provisions that imposed mandates on counties and municipalities.

Balancing Strategies

There are several balancing strategies that could be considered to address the ongoing structural gap in revenues and expenditures beginning in FY2013.

Expenditure reductions are an option to be considered. The efforts to find efficiencies and streamline operations will continue to be pursued. Due to reductions over the last four years, General Fund costs have been reduced to the point that any further cuts would directly impact the continuation of programs as well as service levels.

Revenue increases are another option. The property tax rate could be increased to make up some or all of the shortfall in property tax revenue without exceeding the "rolled up" rate. Technically, this would not be defined as a property tax increase under the state definition. The County is currently collecting less than the maximum allowed majority-vote property tax revenue.

The County does not have a wide range of other revenue options. User fees can be increased but need to be considered in the context of the local marketplace and the effect on economic recovery. In the FY2012 budget process, both County employees and the general public identified potential revenue generating ideas. In addition to increasing user fees, some of these ideas include a local business tax (formerly known as occupational tax), payments in lieu of taxes or a return on equity from enterprise funds, and creating a fee-based storm water utility.

Unlike many cities, the Pinellas unincorporated area (Municipal Services Taxing Unit, or MSTU) has no utility taxes or franchise fees, which add to the cost of utility services. For example, some city residents pay up to a 10% utility tax and a 6% franchise fee on their electricity bills. The County has the option of instituting these fees, but this could increase annexations and loss of property tax base for the MSTU since the absence of these fees is an advantage to non-city residents.

Caution is needed in using non-recurring funds, including the Service Level Stabilization Account, to address budget gaps. If taxable values have not bottomed out but instead continue to decline, additional

reductions could be required in future years to arrive at a sustainable structure of services.

GENERAL FUND NON-RECURRING PROJECT ALLOCATIONS

The *General Fund Non-Recurring Project Allocations* portion of the FY2012 Budget Message provides an overview of the allocations included in the FY2012 Budget and sources of funding for the allocations. It includes the following sections:

- Sources of Funding
- Non-Recurring Project Allocations

Sources of Funding

Non-recurring funds are realized as additional fund balance resulting from revenue in excess of expenditures in a given fund. These funds would be over and above the target reserve amount. For example, in the General Fund, non-recurring funds are in addition to the reserve target and the amount for the Service Level Stabilization Account.

Non-Recurring Funds =
(Revenues – Expenditures) – Reserve Target

Non-recurring funds can vary significantly from year to year. Because they are non-recurring they should be used for one-time purposes only as stated in the County's budget policies (Exhibit A). As budgets get tighter, the ability to build additional fund balance becomes more limited.

The primary source for the non-recurring funds available in the FY2012 budget are additional revenues received over and above the 95% statutory requirement and actual expenditures that were less than originally projected. The forecast assumes that departments will spend the historical average of 99% of their budgets. Any amounts above this average help generate additional non-recurring funds.

An estimated total of $6.6M of non-recurring funding from the General Fund will be used to support a variety of non-recurring project allocations as shown in Exhibit D. Many of these projects will yield recurring savings in future years.

Non-Recurring Project Allocations

Projects are selected based on criteria such as return on investment, cost avoidance, recurring savings to the operating budget, and organizational impact. The projects receiving non-recurring project allocations in the FY2012 Budget include:

- Justice Consolidated Case Management System project ($1.0M): This project is a new software application designed to replace the existing Consolidated Justice Information System (CJIS) that maintains and preserves all of the County's transactions and history such as criminal, civil, and traffic cases. CCMS is a collaborative project involving the Judiciary, Clerk of Court, Sheriff, State Attorney, Public Defender, Board of County Commissioners, Business Technology Services (BTS), and other law enforcement agencies.

  The total budget for this project is estimated at $11.6M. The FY2012 Budget includes an allocation of $1.0 million. This project was funded in FY2010 for $2.7M and in FY2011 for $4.0M for a total of $7.7M budgeted to date. This amount is anticipated to be enough to fund projected expenditures through FY2012. Based on the estimated total project cost of $11.6M, another allocation of approximately $3.9M will be necessary in FY2013 or 14.

  This project began implementation in December of 2010. A separate cost center was created in the BTS Fund to account for this project. An internal website has been created for this project that provides additional information: http://intraweb.co.pinellas.fl.us/justice/

GENERAL FUND NON-RECURRING PROJECT ALLOCATIONS

- Supervisor of Elections ($1.6M): Allocation for non-recurring costs associated with the 2012 Presidential Preference Primary ($1.2M) which occurs every four years and Redistricting costs which occur every ten years ($380K).

- Homeless Initiatives ($840K): This item allocates funding to support homeless initiatives in Pinellas County, such as Pinellas Hope and street outreach activities in the south, mid, and north regions of the County. These funds are budgeted in General Government.

- Business Technology Services – Mainframe Retirement Project ($1.1M): This item funds the anticipated annual expenditures associated with retiring the mainframe over three years pending completion of the Oracle Projects Unified Solution (OPUS) and Justice Consolidated Case Management System projects.

- Business Technology Services – Enterprise GIS ($980K): This allocation funds non-recurring costs associated with the creation of a new Enterprise GIS Bureau. Costs include items such as imaging, applications, hardware, and software.

- Business Technology Services – Enterprise ($655K): This allocation funds various enterprise-wide non-recurring expenditures such as security maintenance, application maintenance, infrastructure maintenance, server storage and hardware for the Supervisor of Elections, network switch replacement for the Sheriff, and expansion of the Wi-Fi network.

- Implementation of Parking Fees at Fort De Soto and Howard Parks ($548K): This allocation funds non-recurring expenditures associated with the implementation of the new parking fees including equipment such as pay and display machines, a new entry station at Fort De Soto Park, and necessary pavement improvements.

GENERAL FUND RESERVES

The *General Fund Reserves* portion of the FY2012 Budget Message describes the purpose of reserves, the relevant industry standards, the County's budget policies on reserves, and the specific components of the FY2012 General Fund Reserves. It includes the following sections:

- Purpose of Reserves
- New Accounting Standards and Best Practices
- General Fund Reserve Policy
- FY2012 Budgeted Reserves

Purpose of Reserves

Reserves are not expenditures, but they are included in the budgeted total requirements for the fund. In order to be expended, the BCC must take formal action reappropriating these funds.

Maintaining adequate reserves is key to the County's ability to deal with potential emergencies and unforeseen events such as fuel price increases, unanticipated dips in revenues or a natural disaster. This is even more important in view of our geographic location on the Florida Gulf Coast. We need to have the ability to maintain critical public safety, transportation, and other services during and after hurricanes and other severe storms. We need the resources to provide these services immediately and not rely on Federal funding, which is often made available as reimbursements and received months or years after the event. Also, federal (FEMA) reimbursements typically cover only 75% of the loss. Additionally, due to conditions in the insurance marketplace, our coverages are less than the County's total asset base. The County's property value is estimated at approximately $600M (net of the Solid Waste and South Cross facilities). We carry $100M worth of insurance. This means that we have approximately $500M of exposure depending on the kind of damage we could receive in a storm event or natural disaster.

Having an adequate reserve also demonstrates stability to the financial markets. Although Pinellas has the lowest general revenue debt of any major Florida county, this stability enhances our ability to raise capital through bonding at a lower cost if required in the future. Even with the recent recalibration of credit scores by the bond rating agencies, Pinellas County earned a AAA rating (the highest) for general obligation debt by Fitch Ratings.

New Accounting Standards and Best Practices

In 2002, the Board of County Commissioners adopted a comprehensive series of budget policies which included reserve requirements. In June 2010, the BCC reviewed revisions to the Budget Policies on General Fund Reserves. These changes incorporated the new fund balance categories defined by the Government Accounting Standards Board (GASB) and best practices adopted by the Government Finance Officers Association (GFOA).

GASB Statement 54

The Government Accounting Standards Board is an independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments. Established in 1984 by agreement of the Financial Accounting Foundation (FAF) and 10 national associations of state and local government officials, the GASB is recognized by governments, the accounting industry, and the capital markets as the official source of generally accepted accounting principles (GAAP) for state and local governments.

In February, 2009, GASB issued Statement 54 which became effective for the County's FY2011 financial statements. The two main changes resulting from this statement are redefining how Reserves (Fund Balances) are to be reported, and changing the definitions of Special Revenue funds and other fund types.

For Reserves (Fund Balances), GASB 54 changed the focus from what is available for appropriation in reserves, to what the constraints on spending are. Those constraints identify who sets the restrictions on the spending and the amounts assigned to each category.

The budget policies for General Fund Reserves (Fund Balance) have been revised in accordance with GASB 54 and are summarized in the following table.

<table>
<tr><th></th><th>GASB Category</th><th>Working Definition</th><th>General Fund Definition</th></tr>
<tr><td></td><td>•Non-spendable</td><td>By nature, cannot be spent</td><td>Inventory</td></tr>
<tr><td></td><td>•Restricted</td><td>Spend only per outside agency</td><td>Grants</td></tr>
<tr><td rowspan="3">Unrestricted Categories</td><td>•Committed</td><td>Specific amount or percentage set by BCC</td><td>* Contingency Reserve</td></tr>
<tr><td>•Assigned</td><td>Amounts determined by Admin in accordance with BCC policy</td><td>* Cash Flow Reserve
* Encumbered Contracts Reserve
* Disaster Response Reserve</td></tr>
<tr><td>•Unassigned</td><td>Fund Balance in excess of Reserves</td><td>Non-recurring funds for one-time expenses</td></tr>
</table>

The amount and use of Non-Spendable and Restricted Reserves are defined by the value of inventories and limitations imposed by external entities such as grants that are being carried forward from the previous year. The budget policies address the other "unrestricted" categories.

GFOA Best Practice

The Government Finance Officers Association (GFOA) is the professional association of state/provincial and local finance officers in the United States and Canada, and has served the public finance profession since 1906. GFOA's purpose is to enhance and promote the professional management of governments for the public benefit by identifying and developing financial policies and best practices and promoting their use through education, training, facilitation of member networking, and leadership.

In October, 2009 the GFOA issued a new Recommended Best Practice on the Appropriate Level of Unrestricted Reserves (Fund Balance) in the General Fund which states:

> *GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain a reserve in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. The choice of revenue or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances.*
>
> *Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level.*

Based on new requirements from GASB 54 and updated GFOA Best Practice, the Board of County Commissioners revised their existing General Fund reserve policy.

General Fund Reserve Policy

Prior to FY2011, the General Fund reserve policy was "at a minimum, no less than 5% to 15% of operating revenues, or no less than one to two months of operating expenditures." Over the last several years, the Board of County Commissioners set a conservative General Fund reserve target of 15% of total resources.

For FY2011, the Board revised its budget policy to incorporate this more conservative approach given that Pinellas County is a high hazard, coastal county. The revised budget policy states:

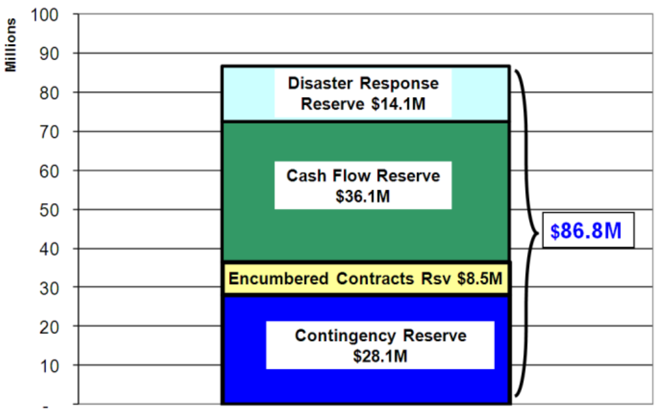
> ***The General Fund Reserve (Ending Balance) should be budgeted at a level of no less than 15% of total resources.***

The policy essentially sets a floor of 15% for the reserve level and does not set a cap to limit the reserve. The complete list of Budget Policies is presented in <u>Exhibit A</u> of the Budget Message.

FY2012 Budgeted Reserves

The FY2012 General Fund budget includes a projected reserve of $86.8M (16%) which meets and exceeds the Board's 15% policy target.

The components of the estimated FY2012 year-end reserves are Contingency, Encumbered Contracts, Cash Flow, and Disaster Response.



Contingency Reserve

The Contingency Reserve, which is budgeted at $28.1M in FY2012, is an amount equal to 5% of resources to be used for unanticipated revenue shortfalls or expenditures. For example, fuel costs and electricity rate increases have been highly volatile and often exceed normal inflation. Another example is the need for accrued leave payouts due to layoffs.

Encumbered Contracts Reserve

During the year, at any given time there are purchase orders and service contracts that have been approved and are subject to payment as work is completed or goods delivered. The $8.5M in the Encumbered Contracts Reserve for FY2012 represents the average amount that was encumbered at month's end for the 12-month period ending May 2011.

Cash Flow Reserve

The Cash Flow Reserve is required to meet cash flow needs. During the first two months of the fiscal year, expenditures exceed revenues because most of the property tax revenue is not received until December. Property tax revenue represents about 65% of the total General Fund revenue. The FY2012 amount for the Cash Flow reserve, $36.1M, is equal to one-twelfth of all General Fund revenue budgeted for the fiscal year.

Disaster Response Reserve

As a high hazard coastal county, Pinellas needs to have Disaster Response Reserve funds on hand in case of an emergency such as a hurricane or other man-made or natural disasters. In FY2012, $14.1M is budgeted in this reserve. Reimbursement from the Federal Emergency Management Agency (FEMA) and the State usually cover only a portion of the costs, is not available at the beginning of a disaster, and often is not received for many months or years. For example, FEMA funds for the three 2004 hurricanes which brushed Pinellas County (Jeanne, Charley, Frances) were not fully received until 2007, after extensive and protracted appeals through FEMA and the State. Approximately $1.6M of the $9.3M total cost was not reimbursed for these storm events.

There are other economic impacts which can result from a major disaster. With a substantial portion of the county's highest taxable value properties located on the shoreline or in lower elevation coastal areas, there is the potential for a reduction in the tax base if properties are damaged or destroyed by a storm surge or high winds. This would result in a decline in property tax revenue in the following year. Sales and other taxes would also decrease due to the negative effects on tourism from the storm. Rebuilding would generate additional revenues, but it would take time to offset the losses in the aftermath of the disaster. As an indication of the size of this problem, a seven-county area of

Florida impacted by 2004's Hurricane Charley sustained over $6.6 Billion in losses to residential, commercial, and industrial properties.

The County is the primary coordinating agency for disaster response, and extraordinary unbudgeted expenses are required to respond to such a situation. Resources are needed to pay for extended work hours for Sheriff's deputies and other emergency first response personnel and to operate emergency shelters and the emergency communications center. Public works crews and equipment, and possibly private contractors, are needed to repair storm damage. Debris removal funding may be required if solid waste resources are not available. Since storms may vary greatly in their impact, it is not possible to predict the exact amount which would be required.

UNINCORPORATED AREA (MSTU) BUDGET

The *Unincorporated Area (MSTU) Budget* portion of the FY2012 Budget Message provides an overview to the unincorporated area budget. It includes the following sections:

- Municipal Services Taxing Unit (MSTU)
- MSTU Revenues
- MSTU Expenditures
- MSTU Reductions
- Summary of MSTU Budget

Municipal Services Taxing Unit (MSTU)

The Municipal Services Taxing Unit (MSTU) is the part of the County budget that is devoted to providing services that are delivered exclusively to the unincorporated area. These services, such as law enforcement and building permitting, are similar to those which most cities provide. Florida Statutes require that MSTU services are to be provided "from funds derived from service charges, special assessments, or taxes within such unit only" {F.S. 125.01(1)(q)}. The Pinellas MSTU was established in 1975 and is codified as Chapter 114, Article X of the County Code.

The general operating revenue and expenditures for the MSTU are included within the County's General Fund and the Building and Development Review Services Fund. Other MSTU-related operating expenditures, such as traffic sign and signal maintenance, are budgeted in other funds, as are capital improvement expenditures such as Penny for Pinellas projects.

MSTU Revenues

MSTU Revenues consists of the following:

- Property Taxes (also known as ad valorem taxes): A millage rate is adopted by the Board of County Commissioners and collected in the unincorporated area to support MSTU services. The millage rate for FY2012 is 2.0857 mills. This rate has remained the same since FY2008.. The tax base for the MSTU declined by 3.5% compared to FY2011.

- Revenues Totally Generated by the MSTU: There are a number of County revenues that are totally generated by activity in the unincorporated area. These revenue sources have traditionally been credited to the Pinellas MSTU. In FY2012, these revenues include: communications services taxes; fees for building permits, tree removal, lot clearing, and zoning; administrative reimbursements for transportation impact fees; and mobile home licenses.

- Revenues Specifically Allowed by State Law: Chapter 218.64 of the Florida Statutes authorizes the County to allocate a portion of the One-Half Cent Sales Tax (a state shared revenue) to the MSTU. Sales tax support for the MSTU is $3.2M, which is based on the MSTU's percentage of total General Fund operating expenses.

- Other Revenues: Pinellas County has traditionally assigned a portion of other revenue sources to the MSTU, generally based on the ratio between the MSTU budget and the overall County General Fund budget. In FY2012, those revenues include interest income, and excess fees for the Tax Collector and Property Appraiser. These revenues are related to specific MSTU expenditures or to the other MSTU revenues previously identified.

Unlike many cities, the Pinellas MSTU has no utility taxes or franchise fees, which add to the cost of utility services. For example, some city residents pay up to a 10% utility tax and a 6% franchise fee on their electricity bills.

MSTU Expenditures

MSTU Expenditures include both direct and indirect costs and consist of the following activities:

- Sheriff's Office Law Enforcement: The Sheriff provides law enforcement services (road patrol) to the unincorporated area. The budget is determined by the Sheriff's Office based on an analysis of the resources (patrol officers, vehicles, etc.) that are anticipated. The current methodology for this allocation was reviewed and revised by an independent consultant in 2003. In FY2012, 39% of the Sheriff's law enforcement activity is dedicated to the MSTU.

- Departments or Programs entirely dedicated to the MSTU: Several agencies are engaged in providing services exclusively to the unincorporated area. In the FY2012 Budget, these activities are building inspection, development review services, code enforcement, lot clearing, local stormwater drainage maintenance, and the East Lake Library operating grant.

- Departments or Programs partially dedicated to the MSTU: Departments whose services, and therefore costs, are allocated between countywide and MSTU activities include Planning (zoning services only) and Economic Incentive Grants for job creation.

- Activities associated with revenue collection: The budgets for the elected Property Appraiser and Tax Collector are determined by statutory formulas that spread their costs in proportion to the property tax and other revenue they are responsible for supporting. Their budgets are approved by the State Department of Revenue. At the end of the fiscal year, any charges in excess of what these agencies actually required to operate are returned in the same manner.

The following table is a summary of the MSTU budget for FY2012.

MUNICIPAL SERVICES TAXING UNIT (MSTU)
FY2012 BUDGET

REVENUES	FY2011 Budget	FY2012 Budget
Ad Valorem Taxes	29,637,580	28,556,950
Delinquent Taxes & Tax Redemptions	118,240	118,240
Franchise Fee - I-Net	8,140	5,560
Franchise Fee - PEG	444,760	324,240
Communications Services Tax	11,100,000	10,900,000
Building Permits	3,832,530	3,832,530
Tree Removal Permits	206,740	229,890
Mobile Home Licenses	107,100	81,880
Local Gov't 1/2¢ Sales Tax	3,350,000	3,200,000
Tax Collector Excess Fees	205,290	182,050
Sheriff Excess Fees	266,140	212,670
Property Appraiser Excess Fees	3,260	-
Reimbursement of Impact Fee Admin.	68,210	5,000
Zoning Fees	406,320	409,380
Sheriff Civil Income	-	75,420
Lot Clearing	38,000	72,200
Interest and Miscellaneous	740,160	236,780
Subtotal - Revenues	50,532,470	48,442,790
Beginning Fund Balance	15,854,690	18,540,920
TOTAL RESOURCES	**66,387,160**	**66,983,710**
EXPENDITURES AND RESERVES		
Building Inspection	4,172,900	3,453,010
Prior Years' Recreation Grants outstanding	145,930	145,930
Development Review Services	2,111,840	2,233,880
Zoning (in Planning Dept, formerly in DRS)	103,410	218,700
Economic Incentive Grants	123,570	41,160
Environmental Codes Enforcement	1,350,930	1,398,710
Public Works Permitted Facilities(Stormwater)	3,216,840	3,107,010
Property Appraiser Fees	325,980	304,940
Tax Collector Fees	615,250	607,410
Sheriff	35,815,100	32,549,080
East Lake Library Operating Grant	208,280	242,990
Subtotal - Expenditures	48,190,030	44,302,820
Reserve for Contingencies	3,319,360	3,349,190
Reserve - Fund Balance	14,877,770	19,331,700
TOTAL EXPENDITURES & RESERVES	**66,387,160**	**66,983,710**

Note: This summary includes both General Fund and BDRS Fund MSTU revenues and expenditures.

FUND REVIEW: TOURIST DEVELOPMENT COUNCIL FUND

Summary

The Tourist Development Council (TDC) Fund is primarily funded by tourist development taxes that are extremely sensitive to general economic conditions. Over the last few years, tourist development tax revenues have declined due to the recession. Tourism in Pinellas County has begun strengthening and revenues are forecast to increase gradually by 2.5% to 3.5% during the forecast period matching anticipated gradual growth as part of the recovery in the broader U.S. economy.

The forecast for the Tourist Development Council Fund shows that the fund is balanced through the forecast period based on the assumption that the promotional activities budget would be adjusted to reflect any revenue increases or decreases that may occur. Beginning in FY2016, the fund is forecast to have additional capacity once the debt service on the Tropicana Field and the Dunedin Spring Training Facility is paid off in 2015. The additional capacity could be dedicated to new debt service, as with the Board approved Salvador Dali funding, or to supplement the promotional activities budget. In FY2010, the Board revised the Tourist Development Plan to allow funding of capital projects for non-profit museums that are open to the public and the Board also approved a review of the Tourist Development Plan every five years.

Description

The TDC Fund is a special revenue fund that accounts for the 5% tourist development tax (i.e. bed tax) on rents collected for temporary lodgings. Section 125.0104, Florida Statutes, was enacted by the State in 1977. The Board of County Commissioners enacted an ordinance in 1978 to levy this 2% tax to promote tourism in Pinellas County, and was approved at a referendum held on October 5, 1978. In 1988, the ordinance was amended to increase the tax by an additional 1% with one-half of this amount earmarked to fund beach re-nourishment projects. In January 1996, an additional 1% was levied to provide additional funds for promotional activities, beach re-nourishment, and to service debt on the County's obligation to the City of St. Petersburg's bonds for Tropicana Field. In December 2005, an additional 1% was levied to provide funding for promoting and advertising tourism. On November 2010, the Board approved an extension of the 5% tourist development tax to 2021. After 2015, it was determined that no more than 80% of the money generated by the 4th cent would be used for a new stadium, while the 5th cent would be dedicated for tourism promotion.

The TDC Fund supports the Tourist Development Council, serving as the St. Petersburg/Clearwater Area Convention and Visitors Bureau through taxes collected on rents for temporary lodgings (also called "bed taxes"). The Bed Tax is used to enhance the County's economy by increasing tourism and direct visitor expenditures through marketing and promoting the destination.

Revenues

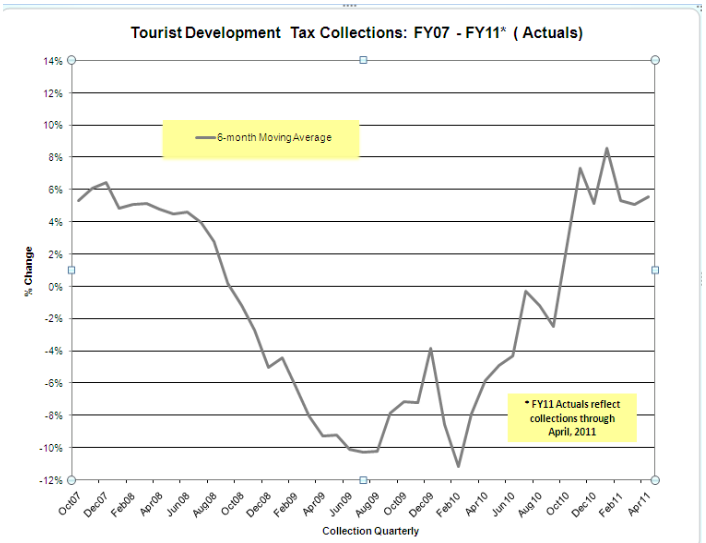
The TDC Fund consists almost exclusively of one primary funding source: tourist development taxes.

Tourist Development Taxes

Tourism is a key economic driver of the economy in Pinellas County and contributes direct and indirect visitor expenditures of approximately $6.4 billion annually. This tax is budgeted to generate $24.9M in FY2012.

Tourist Development tax collections are very sensitive to economic conditions due to the close relationship between disposable income and leisure travel. As the recession has progressed, collections have fluctuated

dramatically since 2007. The following chart showing a 6-month moving average of collections from 2007 to April, 2011 seems to indicate that collections bottomed out at the beginning of 2010 and are beginning to rebound at a lower level.



In addition, transient rental occupancy increased 5.9% from April 2011 compared to the same period the year before. From this point, collections are expected to grow slightly in 2011 and grow moderately over the next 2-3 years as the general economic recovery continues.

The chart below compares visitor origins between April 2011 and April 2010 and shows that although foreign visitors have decreased, the domestic market, especially the local Florida market, has picked up for a net total increase of 1.6%.

Visitor Segments	2010	2011	% Change
Florida	73,066	84,756	+16.0%
Southeast	30,974	30,674	-1.0%
Northeast	225,553	234,895	+4.1%
Midwest	271,616	270,412	-0.4%
Canada	63,536	66,190	+4.2%
Europe	114,365	105,743	-7.5%
U.S. Opp. Mkts.	15,090	14,530	-3.7%
Total	**794,200**	**807,200**	**+1.6%**

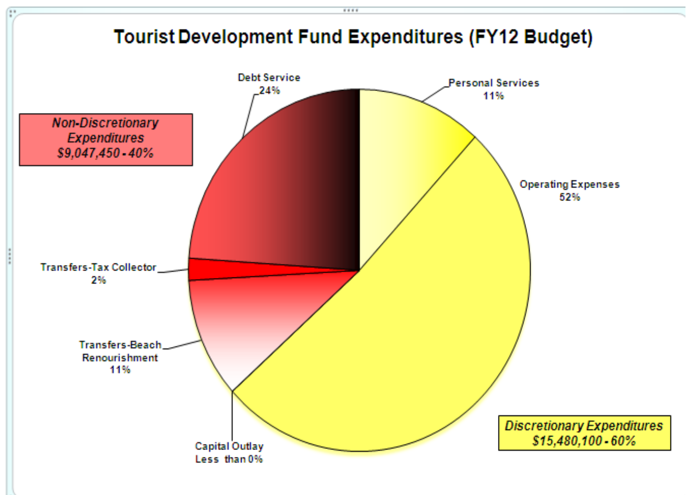
Source: April 2011 Visitor Profile, Research Data Services, Inc.

Expenditures

The TDC Fund supports budgeted expenditures and reserves in FY2012 totaling $29.1M. The primary expenditures in the fund are $10.8M for promotional activities, $5.9M for debt service for three sports facilities, $3.1M for two transfers, and $4.5M in reserves.

Promotional Activities

This budget helps pay for the promotional activities to promote the St. Petersburg/ Clearwater destination. As the pie chart below shows, promotional activities at 85% comprise the largest component of operating expenditures.



The TDC fund had previously provided funding for arts grants to help cultural organizations market their attractions to tourists. In the FY2011 Budget, the County's Cultural Affairs Division was eliminated and non-recurring funding of $300K was included in the General Fund budget to transition the program to a non-profit foundation. The $350K in Cultural Arts Grants funding in the TDC fund formerly budgeted as a transfer to the General Fund is now reflected in Operating Expenditures.

Debt Service

The TDC fund dedicates the entire $5.0M in proceeds of the 4th cent of tourist development revenue to the City of St. Petersburg to fund debt service on bonds for Tropicana Field (expires 2015). At the City of St. Petersburg's request, ownership of Tropicana Field was turned over to the County by the City in October 2002, as the County is exempt from paying property taxes on the facility. The County leases back the property to the City under terms that provide the City the same rights and responsibilities for the property that it had prior to the transfer of ownership. This fund also pays debt service in the amount of $588K for the City of Clearwater's spring training facility (expires 2021) and $288K for the City of Dunedin's spring training facility (expires 2015). At a November, 2010 BCC meeting, the Board approved an agreement that provides payments of $500K annually to the Salvador Dali Museum for capital outlay improvements commencing in 2015 for five years after the debt to the Tropicana Field Stadium is paid off.

Transfers

The TDC fund transfers half of the proceeds of the 3rd cent or $2.7M, to the Capital Projects fund for beach nourishment projects. The ordinance was changed in 2010 to amend the Pinellas County Code associated with the costs of administration for collection of tourist development taxes by the Tax Collector. The original transfer for these costs represented 3% of tax revenues to cover the costs of collection, which is estimated at $494K for FY2012, which is approximately 2% of estimated tax revenues currently.

Reserves

On a budget basis, the reserve level in the TDC fund is currently at 15%, which is the reserve level requested by the Tourist Development Council at the May 4th TDC Budget Meeting. From a budget perspective, this fund would ideally carry a reserve on the high end of the range to serve as a fiscal shock absorber in case tourist development tax revenue deteriorates as it tends to do quickly due to its sensitivity to economic conditions. For example, tourist development revenues declined dramatically in FY2002 after the September 11th terrorist attack, in FY2005 as a result of multiple hurricane landfalls in Florida, and most recently in FY2009 as a result of the financial crisis.

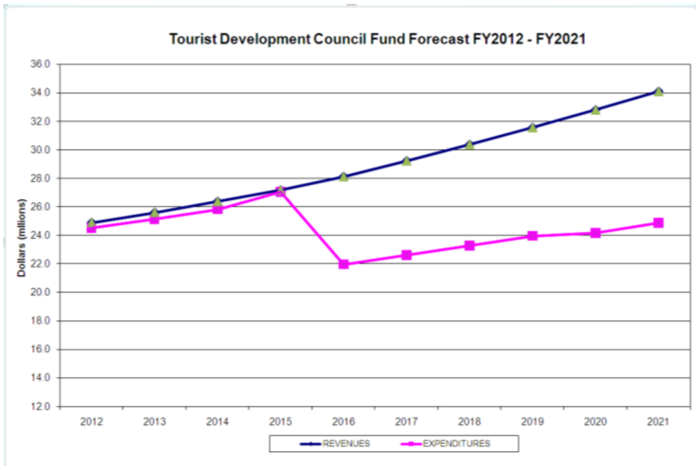
Reserves need to be maintained at a minimum of a 10% level if not higher to maintain liquidity in the fund. The TDC fund has several large expenditures, such as debt service, that come early in the fiscal year and then some occur later in the fiscal year, while peak revenues primarily occur throughout the Spring with tourists coming for Spring Break and the Easter timeframe. Since such seasonality occurs for both revenues and expenditures and these fluctuations do not match when they occur, the shortfalls of revenues during these times would be made up by using reserves until the revenues are collected.

Ten-Year Forecast

Key Assumptions

The revenue forecast for tourist development taxes assumes only a slight increase of 2.5% in FY2012 and FY2013 reflecting slight growth following the bottoming out of the economy. The following two years are expected to increase 3.0% as the recovery takes hold and then climb to 3.5% leveling out at the "new normal" through the rest of the forecast horizon. On the expenditure side, the promotional activities budget have been increased slightly to match the increase in revenue through the forecast period up until FY2015. Beginning in FY2016, a substantial amount of debt service will be paid off. The forecast does not assume that the additional capacity will be re-approved to service new debt or allocated to supplement

the promotional activities budget, except for the additional capital outlay approved for the Dali Museum beginning in 2015.



Key Results

The forecast for the TDC Fund from FY2012 to FY2015 shows that revenues and expenditures are in-line, while the fund maintains at least a 15% reserve. Beginning in FY2016, revenues exceed expenditures by a wide margin as the debt service of Tropicana Field and the Dunedin Spring Training Facility is paid off. Even with the new Board approved debt service to support the Dali Museum for $2.5M from FY2015 through FY2019, revenues will continue to exceed expenditures. The decision point in FY2016 will be whether to continue to use this portion of the proceeds of the 4th cent of tourist development for debt service on sports facilities or use it for other approved tourism development purposes such as promoting and advertising the St. Petersburg-Clearwater destination or to increase the reserves.

Potential Risks

There are many impacts that can alter the ten-year forecast of tourist development tax collections. The primary concern is the strength of the national economy due to the sensitivity of collections to economic conditions. If the economy improves, collections could be higher than anticipated as disposable income increases. The reverse would be true if the economy deteriorates.

Increases in fuel costs are also a factor for visitors driving to Pinellas County. In the past an increase in hurricane activity has had a negative effect on tourism as have red tide outbreaks in Tampa Bay.

The appreciation or depreciation of the U.S. dollar also has an impact on the number of foreigners visiting Pinellas County.

The possibility of offshore drilling in Florida's gulf coast could discourage tourism due to the potential negative ecological effects of that industry as well as potential oil spills as with the FY2010 Deepwater Horizon event.

Balancing Strategies

The forecast shows that the fund is in balance through the forecast period. The assumption is that the promotional activities budget is increased or decreased to match the tourist development tax revenue stream. The additional capacity forecast to begin in FY2016 will most likely be applied to newly approved debt service, to supplement promotional activities, or to increase the reserves.

Summary

The Transportation Trust Fund is primarily funded by state and local fuel taxes and has been impacted by a downturn in recent collections due to the recession's effect on the number of miles driven and gallons of fuel sold. Because of the built out nature of Pinellas County, more efficient cars, and fuel conservation efforts, as well as State law that does not allow indexing fuel taxes for inflation, future revenue growth is projected to be relatively flat and lag increases in consumer or industrial prices on the expenditure side.

The forecast for the Transportation Trust Fund indicates that the fund is not in balance beginning in FY2012, resulting in a depletion of fund balance by FY2018. This imbalance primarily results from inflationary pressures on expenditures that exceed the relatively flat growth in gas tax collections that are based upon the volume of gasoline pumped and are not indexed to the price of fuel. By FY2017, action will need to be taken to manage this future gap such as potential revenue transfers from the General Fund, imposition of additional local option gas taxes, or reductions in current service levels.

Description

The County Transportation Trust Fund is a special revenue fund required by Florida Statute 336.022 to account for revenues and expenditures used for the operation and maintenance of transportation facilities and associated drainage infrastructure. Activities include road and right of way maintenance (e.g., patching, mowing), bridge maintenance and operation, traffic engineering, traffic signal operation including Intelligent Transportation Systems, traffic control signage and striping, sidewalk repair and construction, and maintenance of ditches, culverts and other drainage facilities. Resources to support these activities are provided from gas taxes collected and distributed on a shared basis to all Florida Counties by the State of Florida, and local option gas taxes levied by the County. There are two local option taxes that have been imposed by the Board of County Commissioners. The most recent was a one cent levy (referred to by statute as the "Ninth Cent") beginning January, 2007 dedicated to the installation, operation, and maintenance of advanced technological traffic signal and messaging systems (Intelligent Transportation Systems). The other local levy is a six cents per gallon tax that is shared by Interlocal agreement between the County and all municipalities within Pinellas County. The County's share of collections is 60% of total receipts and the municipalities each receive portions of the remaining 40%. This six cent local option tax was recently extended for a ten year period commencing January, 2007.

Revenues

The Transportation Trust Fund consists mainly of three primary funding sources: State shared gas taxes ($10.1 million), a six cent per gallon local option gas tax ($12.7 million), and a one cent per gallon gas tax (the "Ninth Cent") earmarked for intelligent traffic systems ($3.8 million). The remaining revenues of the fund include interest and other miscellaneous revenues such as reimbursements from other governments for the County's work on municipal and state traffic signal systems.

State Shared Gas Taxes

This resource is the equivalent of three cents per gallon on motor fuel collected statewide then redistributed to Florida Counties by a formula related to population, geographic area, and local collections. This resource is driven by the gallons of fuel used, and is

therefore sensitive to economic activity such as commuting and tourism trips, or increases in the price of oil that might reduce demand for gasoline usage. The move toward more fuel efficient cars also has an effect in offsetting any population growth that might result in more vehicle trips; therefore this must be considered a relatively flat growth revenue source.

Six Cent Local Option Gas Tax (LOGT)

This resource is a six cent per gallon tax on all motor fuel sold within the County including diesel. Unlike the Ninth Cent it is shared with municipalities. By Interlocal agreement, the County retains 60% of monthly collections with municipalities sharing the remaining 40%. This resource is directly tied to the Pinellas County economy and its affect on gallons of fuel consumed. Since Pinellas County's growth in population has slowed, this resource can be impacted to a greater extent by more efficient cars and fuel conservation efforts. This is projected to be a relatively flat growth revenue source because economic growth that might spur increased demand in fuel is mitigated by these factors.

Ninth Cent Gas Tax

This resource is a one cent per gallon tax on all motor fuel sold within the County including diesel. It is not shared with municipalities. This resource is also directly tied to the Pinellas County economy and its affect on gallons of fuel consumed. As with the six cent local option tax, since Pinellas County's growth in population has slowed, this resource can be impacted to a greater extent by more efficient cars and fuel conservation efforts. This is projected to be a relatively flat growth revenue source because economic growth that might spur increased demand in fuel is mitigated by the factors discussed above.

Expenditures

The Transportation Trust Fund supports expenditures totaling approximately $28.7 million.

Transportation Programs

These expenditures include staff and operating expenses to maintain and operate the County's traffic controls, bridges, roads, and associated drainage systems. Key program expenditure areas include mowing County right of way and ditch maintenance activities ($6.4 million), traffic signal and traffic control activities ($5.8 million), and bridge and concrete structures maintenance ($5.2 million)

Intelligent Transportation Systems

As a part of traffic signal and traffic control activities the County is actively pursuing technological improvements to improve the flow of traffic in Pinellas County. This activity is tied to the Ninth Cent gas tax resource and is being focused on high priority traffic corridors in order to size the program to available resources. The current operating expenses for this program are approximately $2.1 million.

Capital Improvement Project Impacts

Some capital improvement projects have the potential to require increased operating expenditures when completed. Beginning in FY2012, the forecast includes estimated operating expenditures to support completed capital improvement projects.

Transfers

Following the inception of the Ninth Cent gas tax a transfer from the Transportation Trust Fund to the Capital Projects Fund has been made to support the installation of capital structures needed to implement the Intelligent Transportation System, such as traffic signal controllers, fiber optics,

cameras, and message boards. Depending upon available revenues after deductions for operating expenses, an annual average of approximately $3.0 million is transferred to the Capital Projects Fund to match state and federal grants available to implement the system on major County and State road corridors.

Reserves

The reserve level in the Transportation Fund is 29%, which is higher than the 5-15% reserve level budget policy adopted by the Board. This is the result of savings gained through recent budgetary reductions and efficiency initiatives. The reserve also includes the fund balance previously carried in the Local Option Gas Tax fund, which has been merged into the Transportation Trust Fund in accordance with new accounting standards (GASB Statement 54). This reserve level will gradually be reduced after expenditures begin to exceed revenues in FY2012.

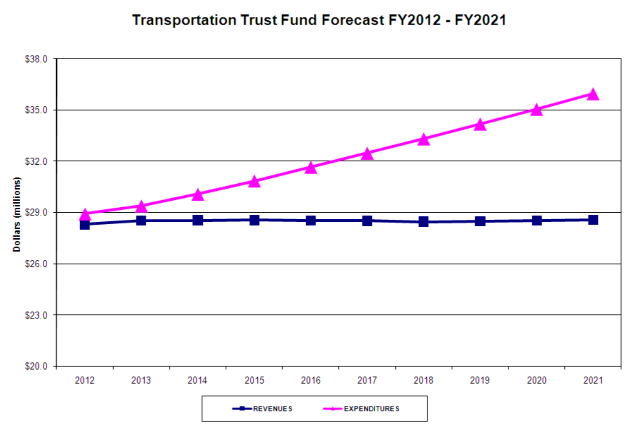
Ten-Year Forecast

Key Assumptions

As discussed, the main revenue sources for this fund are state shared gas taxes and local option gas taxes. Revenue growth assumptions have been based on the State's Revenue Estimating Conference's forecast of gallons of motor fuel consumed annually in Florida. The State's annual average growth rate is 2%. These taxes are based on gallons consumed and not fuel prices. Pinellas County's built out condition, and the likelihood of future mandated vehicle fuel efficiency standards, leads to this forecast assuming no growth in these revenues. Based on the historical and future growth patterns, current gas tax revenues are not predicted to keep up with current and projected inflationary expenditure demand on transportation operation and expenditure needs. The ten year forecast assumes that the current six cent local option gas tax levy will be extended beyond its current expiration year of 2017. The "Ninth Cent" levy is in effect until year 2026.

Key Results

Beginning in FY2012, Transportation Trust Fund expenses exceed revenues throughout the forecast period which causes a gradual erosion of fund balance until the fund assumes a negative cash position in FY2018. By FY2017, potential revenue and expenditure options will need to be implemented to keep the fund in balance.



Potential Risks

Impacts on this forecast include macro-economic conditions such as increases or decreases in the price of oil that could affect demand for motor fuel. Changes in the price of commodities such as concrete and asphalt could also affect the expenditure side of this forecast as the Transportation Trust Fund activities utilize large amounts of physical commodities. An unanticipated increase in fuel conservation efforts or mass transit efforts could also affect the outer years of this forecast. Also a decision to not extend the current six cent local option gas tax levy would have a major impact on this analysis.

Balancing Strategies

Major strategies to manage the forecasted gap in revenues versus expenditures include a continuation of actions to reduce future costs on the expenditure side, transfer of General Fund revenue to support transportation activities, or the imposition of additional local option gas taxes.

On the expenditure side, the County has experienced recent labor cost efficiencies in the Public Works operational areas as the result of improved preventive maintenance, work scheduling, and equipment utilization practices. Public Works should continue these improvement practices. Policy decisions could also be made to reduce service levels, such as mowing right of way areas 9 times per year rather than 11 for example.

From an enhanced revenue standpoint, the County has authority to impose an additional five cents tax per gallon of fuel sold within the County, however by statute proceeds realized would have to be shared with municipalities. The County's estimated share of one cent of local option gas tax is now approximately $2.0 million. Additional cents of local option gas tax can be adopted by a majority plus one vote by the Board. Local option gas taxes must be approved before July 1st in order to be effective January 1st of the following year. For comparison purposes, other Florida Counties that impose greater local option taxes than Pinellas County's seven cents are shown in the following table.

Counties Imposing Local Option Taxes Greater than Seven Cents	Cents Imposed
Alachua	12
Broward	12
Charlotte	12
Citrus	12
Collier	12
DeSoto	12
Hardee	12
Hendry	9
Hernando	9
Highlands	12
Lee	12
Manatee	12
Marion	12
Martin	12
Miami-Dade	10
Monroe	10
Okeechobee	12
Palm Beach	12
Polk	12
Putnam	12
St. Lucie	12
Sarasota	12
Suwanee	12
Volusia	12

Summary

The Capital Projects Fund is used to account for all governmental capital projects throughout the County. This fund's primary revenue source is the "Penny for Pinellas" one cent local option sales tax that is very sensitive to general economic conditions. Penny tax revenues have declined dramatically over the last several years due to the recession and are predicted to increase gradually during the forecast period matching general economic growth as part of the recovery in the local, state, and national economy.

The forecast for the Capital Projects Fund shows that the fund is balanced over the forecast period after making $12 million of reductions to the 2010-2020 Penny Program Allocations. Additional cash flow necessary in the first half of the ten-year period is being addressed through an interfund loan from the Solid Waste Replacement & Renewal Fund. The forecast includes repayment of the loan from FY2015 to FY2020.

Description

The Capital Projects Fund is used to account for all the governmental capital projects throughout the County. Such projects include roads, bridges, drainage, beach nourishment, park development, and construction of facilities necessary to provide County services.

Revenues

The major revenue components of the Capital Projects Fund are the Penny for Pinellas, Grants and Reimbursements, and Transfers from Other Funds.

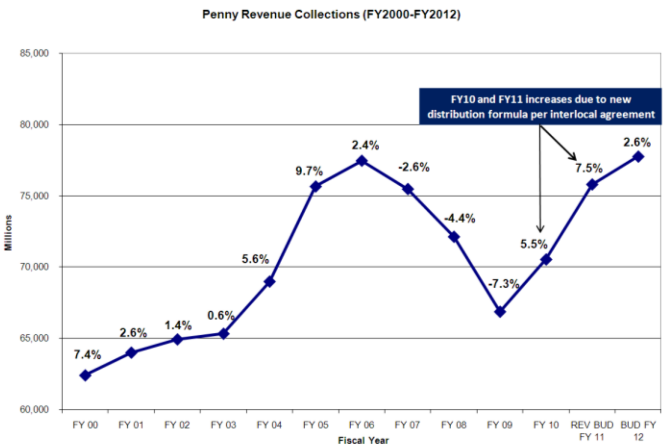
Local Option Sales Tax (Penny for Pinellas)
Penny for Pinellas revenues are proceeds of an additional one cent Local Government Infrastructure Surtax on Sales, pursuant to Section 212.055(2), Florida Statutes, imposed in Pinellas County. The authorized use of these funds is generally restricted to infrastructure projects only and cannot be used for ongoing operation and maintenance costs.

The Penny became effective February 1, 1990 for an initial period of ten years and has been extended by referendums in 1997 and 2007 for two additional ten year periods (until 2020). In accordance with statutory requirements, and interlocal agreements with each municipality in Pinellas County, the County receives approximately 52.3% of the total monthly collections generated by this tax, following the deduction of a dedicated amount for countywide use in improving Court and Jail facilities.

The Penny for Pinellas is the primary source of revenue supporting the County's Capital Improvement Program. Sales tax as a revenue source is highly elastic and is very sensitive to local and national economic conditions, such as inflation, wage growth, unemployment, and tourism. Normally sales taxes increase with economic activity and inflation, but reflecting the depth of the recent recession, collections declined about 15% from FY2007 to FY2009.

Collections increased in FY2010 and FY2011 due to the transition to the new revenue distribution formula that began in February, 2010 and results in a higher percentage of collections going to the County primarily due to the increase in the Courts & Jail amount from $80M to $225M over the ten year period. The revenue increase to the County is misleading as the underlying Penny revenues actually decreased in FY2010 and FY2011. In FY2012 the Penny is anticipated to increase 2.6%, which is consistent with the general improvement in the economy. The chart

below shows the fluctuation in annual growth rates experienced since FY2000.



Grants and Reimbursements

The second largest sources of revenue in the Capital Projects fund are grants and reimbursements. The FY2012 budget includes $19.1M in local grants, state grants, federal grants, and reimbursements from agencies like the Southwest Florida Water Management District and the Florida Department of Transportation. Grant and reimbursement revenues are highly variable over the forecast period. The forecast only includes grants that either have been awarded or are highly anticipated to be awarded.

Transfers from Other Funds

The Capital Projects Fund also receives several transfers from other funds to cover or contribute to costs for specific capital projects.

The FY2012 Budget includes a transfer of $52.5M from the Solid Waste Renewal and Replacement Fund as part of two interfund loans to the Capital Projects Fund.

The first interfund loan is authorized up to $85M was approved by the Board of County Commissioners in lieu of a $150M bond issue originally planned to finance key projects in the 2010 to 2020 Penny Program. On September 21, 2010, the Board approved a resolution authorizing a loan amount of up to $85 million. The outstanding principal is currently $65 million (including the FY2012 loan amount of $45 million). The annual rate of interest is a variable rate which is currently less than 1%. Payments on outstanding loan principal are required to begin no later than FY2016 and the loan shall be paid in full no later than December 31, 2019. The benefits of an interfund loan versus bonding include lower borrowing costs, no reserve requirements, interest accrues to a county entity, and more flexibility in the implementation and terms of the loan.

An additional loan will be necessary to cover the remaining $7.5 million of costs to fully fund the Centralized Chiller Facility project. This project funds the construction of a new centralized chiller facility for the downtown Clearwater campus. The County will purchase chilled water at a set rate based on the amount of investment towards the cost of the facility. Fully funding this project is estimated to result in $507K of annual savings, $3.8M of cost avoidance, and potential revenue opportunities of $300-400K a year. The total project cost is estimated at $12.0M, of which $1.5M of design costs are being paid for by a federal grant from the Department of Energy and $3.0M was allocated from non-recurring funding in the General Fund in the FY2011 Budget. The terms and conditions of the loan have not been finalized to date, but will be addressed in the next few months.

The General Fund transfer in FY2012 for $848K covers the cost of two items. The first are $548K of non-recurring costs related to the implementation of parking fees at Fort De Soto Park and Howard Park Beach & Causeway. These costs include pay and display machines, a new entry station at Fort De Soto Park, and necessary pavement

improvements. The second item funds $300K of recurring capital costs paid for by recurring revenue from the implementation of the new parking fees. These funds will be used annually to maintain and improve the bathhouses at Fort De Soto Park and Howard Park Beach & Causeway.

The FY2012 transfer of $3.0M from the Transportation Trust Fund (proceeds of the 9th cent Local Option Gas Tax) contributes to the cost of several Intelligent Transportation System / Advanced Transportation Management System projects.

The FY2012 transfer of $2.6M from the Tourist Development Council Fund (half of the proceeds of the 3rd cent) funds beach nourishment projects in the Coastal Management area.

The Transportation Impact Fee Fund transfers $1.1M in FY2012 to cover or contribute to the current or past costs of authorized transportation projects in the twelve geographic transportation impact fee districts of the county.

Expenditures

Expenditures in the Capital Projects Fund consist of capital project expenditures and debt service costs.

Capital Projects

The majority of expenditures in the Capital Projects fund are for infrastructure projects in the areas of transportation, storm water drainage and water quality, parks, environmental preservation, courts, jails, public safety, and other public facilities. Planned expenditures in this fund over the forecast period cover the project allocations from the 2010 to 2020 Penny Program. Please see the "Capital Improvement Program" section of the FY2012 Budget Message for expenditure highlights of the One-Year CIP and the Six-Year CIP.

Debt Service

Debt service costs over the forecast period are associated with two interfund loans from the Solid Waste Renewal and Replacement Fund. The first loan, currently at $65M is to help necessary liquidity in the Capital Projects Fund related to the acceleration of projects in the first half of the 2010-2020 Penny Program. The second loan for $7.5M is for the balance of the remaining cost for the Centralized Chiller Facility. This project has already been funded $1.5M by a Department of Energy grant and $3.0 by non-recurring funds in the General Fund.

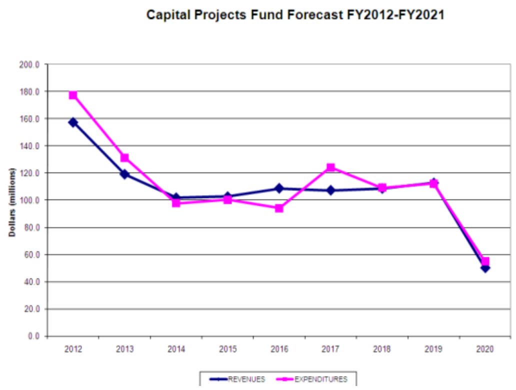
Ten-Year Forecast

Key Assumptions

The revenue assumptions for the overall Penny sales tax are consistent with the Half-Cent sales tax in the General Fund at 3% growth in FY2012 and 3.5% growth from FY2013 to FY2021. However, the growth rate in the Capital Projects Fund for the Penny sales tax is less at 2.6% growth in FY2012 and 3.0% to 3.1% growth from FY2013 to FY2021. This is because the Courts & Jail allocation is a fixed amount that does not grow over time resulting in a slightly smaller growth rate for the County's overall share of the Penny.

The expenditure assumptions for the Capital Projects Fund assume consistency with the 2010 to 2020 Penny Program allocations.

FUND REVIEW: CAPITAL PROJECTS FUND



Key Results

The forecast for the Capital Projects Fund shows that the fund is balanced over the forecast period after making $12 million of reductions to the 2010-2020 Penny Program Allocations. Additional cash flow necessary in the first half of the ten-year period is being addressed through an interfund loan from the Solid Waste Replacement & Renewal Fund. A primary driver of cash flow is $81M of expenditures associated with the Public Safety Complex project that is anticipated to begin in FY2012. The forecast includes repayment of the loan from FY2015 to FY2020. The out years also show that we will build up funds in FY2015 and FY2016 that will be used in FY2017 when major expenditures overlap.

Potential Risks

There are many impacts that can alter the ten-year forecast of the Penny tax collections. The primary concern is the strength of the local economy due to the sensitivity of collections to economic conditions. If the economy improves, collections could be higher than anticipated as consumer activity increases. The reverse would be true if the economy deteriorates. There are risks of increases in major commodities used in capital project construction such as steel or concrete, such as those the County experienced in 2005-2007 where prices escalated as much as 60-80% for these key materials.

Balancing Strategies

The forecast for the Capital Projects Fund shows that the fund is balanced over the forecast period after making $12 million of reductions to the 2010-2020 Penny Program Allocations. The assumption is that expenditures will be decreased or increased to match the Penny for Pinellas and other revenue streams that support the CIP.

FUND REVIEW: EMERGENCY MEDICAL SERVICE FUND

Summary

The Emergency Medical Service (EMS) Fund provides countywide emergency response life support throughout all of Pinellas County. This fund is sensitive to property values as it is funded primarily by ad valorem (property) tax revenue collected from property owners countywide and ambulance user fee revenues. Property tax revenues have declined dramatically in recent years due to a downturn in property values and statewide legislation.

The forecast for the EMS Fund indicates the fund is balanced over the forecast period. Both revenue and expenditure balancing strategies have been employed. On the revenue side, the FY2012 Proposed Budget includes an increase of 0.2674 in the countywide EMS millage rate from 0.5832 to 0.8506. On the expenditure side, the EMS Study expenditure savings are proposed to be implemented for the first responder provider contracts beginning in FY2013. The EMS Study 3.6 position option was presented to the Board on May 3rd, 2011, which subject to inflationary and other implementation factors provides for potential savings of $11.0M when fully implemented. The combination of revenue increases and expenditure savings will make up for deficits in prior years and increase reserves to a sustainable level throughout the forecast period.

The current ambulance service contract is in effect through FY2012, while First Responder contracts are negotiated on an annual basis.

Description

The EMS Fund is a special revenue fund established by referendum in 1980, which allows up to 1.5 mills to be levied annually on a county-wide basis to finance the operation of a comprehensive county-wide emergency medical service system. This system provides advanced life support emergency medical response and transport services to all citizens of Pinellas County. The County maintains EMS contracts with 18 fire service agencies (first responders), and one ambulance provider (Paramedics Plus, operating in Pinellas County under the trade name "Sunstar"). The EMS System is funded by a combination of property taxes and ambulance user fees. The ambulance user fees support the ambulance contractual expenditures and property taxes are intended to support the first responder expenditures.

The EMS Fund provides for a dual-response public utility model in which the county government retains control of and sets standards for the ambulance system and maintains contracts with 18 fire service agencies and one ambulance provider (Paramedics Plus, operating under the County's trade name "Sunstar"). Under the dual-response system, this means that both a first responder (firefighters, paramedics or emergency medical technicians (EMT)), and an ambulance go to the scene of an emergency when it occurs. Priority Dispatch continues to be implemented to reduce the number of multi-unit responses where appropriate.

The EMS System was established by referendum in 1980 by the Special Act (Chapter 80-585, Laws of Florida) that created the EMS Authority as a Dependent Special District. In 1988, Pinellas County Ordinance 88-12 solidified the current EMS system design. The Fiscal Policy guidelines within Ordinance 88-12 state that the Board of County Commissioners, sitting as the Emergency Medical Services Authority, directs the following fiscal policy guidelines that governs the financial operations of the County's EMS system: (a) To establish sound business controls and long term cost containment incentives throughout the County EMS system; (b) To provide adequate

funding to upgrade all EMS components to state-of-the-art-levels, and to maintain that progress in future years; (c) To provide for long term financial stability sufficient to sustain quality EMS operations far into the future; (d) To reduce the County EMS system's excessive dependence upon local tax support by developing a more balanced approach to EMS funding; and (e) To provide the Board of County Commissioners with a wider range of EMS financing options than have been available in the past.

Revenues

The primary funding sources for the EMS Fund are property taxes and ambulance user fees. Property taxes account for approximately 50% of total revenue while ambulance user fees, grant funds and interest earnings account for the balance of total revenue for this fund.

Ambulance User Fees

The ambulance service user fees provide funding for the ambulance provider (Paramedics Plus) contractual expenditures, ambulance billing costs, and ambulance program support costs. Ambulance user fees are based on transport volume and transport charges. An average retail rate charge is $581 per transport. Billing for the service is done by Pinellas County and collection is currently about 70% of billing for the transport service. The County bills Medicare, Medicaid and private insurance companies for transport service. The County handles transports for non-emergencies and mental health transports as well. The County utilizes the 9-1-1 System to dispatch calls for the proper response to the call. Ambulance user fee revenue is budgeted to generate $40.9M in FY2012. The Board of County Commissioners has the authority to increase ambulance user fees as necessary.

The County also offers an ambulance user fee membership program that citizens can join to minimize the cost of EMS transports. For FY2012, membership revenue is budgeted to generate $216.8K.

Property Taxes

Property taxes are used to fund first responder expenditures. Property tax revenues have decreased significantly over the last several years due to legislative rollbacks, the passage of Amendment One, the decline in the real estate market, and the recession.

The EMS millage rate is a county-wide millage rate that has remained flat since FY2008 at 0.5832. The Board of County Commissioners has the authority to increase or decrease this millage rate. The millage cap for this revenue is 1.5000 mills. In FY2011, the Board voted to keep the millage rate flat with the FY2010 millage rate at 0.5832 and utilize fund balance to make up the difference in revenues versus expenditures. At the May 26th, 2011 Board Meeting, the EMS Fund had a forecasted FY2012 budget deficit of $13.2M and a FY2013 projected budget deficit of $14.7M due to reduced property tax revenue collections. At that time, expenditures exceeded revenues and the fund was imbalanced.

To help balance the EMS Fund over the forecast period, the FY2012 Proposed Budget includes a proposed millage increase of 0.2674 bringing the FY2011 millage rate from 0.5832 to 0.8506. The chart below shows the history of the EMS millage rate and budgeted ad valorem revenue from FY2008 to FY2012. With this proposed millage rate increase, property taxes are budgeted to generate $41.6M in property tax revenue, which will assist in covering the deficits that were originally projected throughout the entire forecast period. The combined proposed millage rate increase and EMS Study expenditure savings closed the forecasted gap to balance the fund.

Emergency Medical Service Fund
Ad Valorem Revenue & Millage History

Fiscal Year	Millage	Budget $ (000's)
Proposed 2012	0.8506	$ 41.6
2011	0.5832	$ 30.0
2010	0.5832	$ 33.6
2009	0.5832	$ 38.3
2008	0.5832	$ 41.9

Note: Budget figures are at 95% of revenue

For the FY2012 Budget, due to a proposed increase in the millage rate, property tax revenues are budgeted to increase by $11.6M compared to FY2011. The FY2012 property tax revenue is on par with the ad valorem revenue collected in FY2008 with a 0.2674 lower millage rate due to taxable values decreasing dramatically over the last several years.

Expenditures

The Emergency Medical Service Fund supports budgeted expenditures and reserves in FY2012 totaling $106.1M for all eighteen first responders and the ambulance contractor. The primary expenditures in the fund are $37.0M for payments to the ambulance contractor, $38.2M for contractual payments to the first responders, and $11.4M in program support and billing of ambulance claims.

Ambulance Contractor Payments
The County contracts with Paramedics Plus for the County's SUNSTAR ambulance system. Contracts with the County's ambulance provider were renegotiated in FY2010 with a minimum 3% increase per year through September 30, 2012. A 4.5% increase was included in the forecast from FY2012 through FY2021 as these contracts can increase an amount for the medical consumer price index (MCPI) up to a maximum of 5.5% annually. However, once the contract is up for negotiation in FY2012, expenditures may change as the economy rebounds and fuel and labor costs and other factors change.

First Responder Contractual Payments
The County contracts with the eighteen first responder EMS providers that respond to calls using paramedics and that utilize Advanced Life Support (ALS) or Basic Life Support (BLS) equipment and personnel. During FY2012, the County negotiated with each EMS provider achieving an overall annual expenditure increase of less than 1%.

In FY2012, the first responder agreements also include an agreement of $34K to Eckerd College for basic life support water rescue.

EMS Program Support Costs
The County incurs program support costs (Personal Services and Operating Expenditures) to support the EMS program. These costs are allocated between the ambulance function and the first responder function.

Costs allocated to both functions include the Office of the Medical Director, St. Pete College training expenses, communication and EKG equipment and maintenance, and personnel and operating expenses to administer all contracts within the program.

The FY2012 Ambulance program support expenditures of $5.7M pay for those support items listed above and the ambulance billing function that includes a staff of 34. The FY2012 First Responder program support expenditures of $4.5M include those allocated support items listed above.

Transfers
The Emergency Medical Service fund has transfers to the Property Appraiser and Tax Collector to cover the costs for collection of ad valorem revenues. FY2012 costs for this function are $1.2M. The commissions for the

Property Appraiser and Tax Collector are pursuant to Florida Statutes.

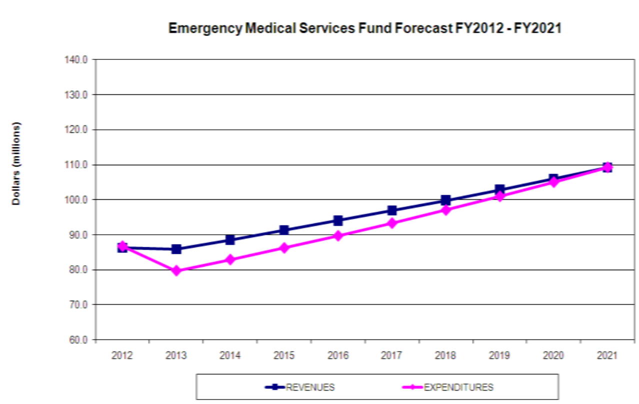
Reserves
Pinellas County Ordinance 88-12, which was amended with Resolution 89-208, authorizes the establishment of a prudent reserve equal to one-third of the annual budget for this fund. On May 26th, 2011, the Board approved the target reserve amount that would be amended to 25%. A change to the ordinance will be brought to the Board in early Fall to amend this target reserve level. Reasons for such a high reserve level include disasters, such as a hurricane, where a large amount of equipment/vehicles may need to be replaced quickly to sustain EMS service and enough working capital for a potential transition, if contract requirements are not met by the service provider. On a forecast basis, the FY2012 budgeted reserve level is estimated to be 22%. The reserve level will increase to 32% once the EMS Study expenditure savings are implemented in FY2013.

Ten-Year Forecast

Key Assumptions
The EMS countywide millage is assumed to increase by 0.2674 to 0.8506 in FY2012 and then remain flat through the forecast period. This proposed millage increase and implementation of study savings overcomes the forecasted decline in property tax revenue of 3% that is projected for FY2013. From FY2014 to FY2021, a 4% growth factor is assumed as taxable values should begin to recover as the economy improves and the housing market rebounds. During the forecast period, ambulance revenue user fees are estimated to increase by 2.0%.

First responder contractual expenditures are estimated to increase at 4% through the forecast period. The results of the EMS Study are expected to be phased in beginning FY2013 with resulting expenditure decreases.

Contractual payments to the ambulance contractor are assumed to increase by 4.5% through the forecast period as contracted expenditures have the potential to increase from a range of 0% to a maximum of 5.5% annually as stipulated in the contract. The County will work with the provider to negotiate the lowest possible contract while still maintaining quality service.



Key Results
In the chart for the total EMS Fund above, the forecast shows revenues exceeding expenditures over the forecast period. This is achieved through the proposed FY2012 millage rate increase and the implementation of the FY2013 EMS Study expenditure savings. If either of these balancing strategies are not employed, reserves will be exhausted in FY2013.

Potential Impacts

The major impact to future revenues is declining property tax revenues. If taxable values begin to rebound then the opportunity for higher revenues will increase. This will be one of the major drivers for increased revenues in the forecast.

Another major impact for future revenues will be ambulance user fee revenues. The

ambulance contract will be up for re-negotiation in FY2012 with potential impacts to expenditures. Since the ambulance contract was signed in FY2010, fuel and labor costs in the economy overall have increased.

Tourism and inflow into the local area of more visitors and residents will impact number of users to the EMS system.

Continued aging of the general population (baby boomers) could result in more transport volume in the ambulance area.

Balancing Strategies

The forecast shows that the fund is in balance over the forecast period due to the combined strategies of an increase in millage of 0.2674 and decreasing first responder expenditures as a result of implementation of the EMS Consultant Study. Between these two balancing strategies, the County's funding of Emergency Medical Services is sustainable over the forecast period.

FUND REVIEW: FIRE DISTRICTS FUND

Summary

The Fire Districts Fund provides fire protection service to the unincorporated areas of Pinellas County through twelve separate dependent fire protection districts that are funded entirely by ad valorem taxes collected from property owners within these districts. This fund forecast is presented in a high-level consolidated manner. Budgetarily, each Fire District is balanced separately. Property taxes have declined dramatically in recent years due to a downturn in property values and statewide legislation. Property tax revenues are forecast to decrease in FY2013 before increasing gradually during the forecast period.

The forecast for the Fire District Fund indicates that the fund is not balanced through the forecast period. Seven of the twelve fire districts are proposing millage rate increases for FY2012 to support increasing expenditures. Additional increases to millages for the individual fire districts will likely be necessary to cover expenditures over the forecast period. Potential millage rate increases will need to take into account the individual millage caps in each fire district.

Description

In 1973, a Special Act of the Florida Legislature (Chapter 73-600, Laws of Florida) created the Pinellas County Fire Protection Authority. This special legislation subsequently assumed ordinance status as Article II, Chapter 62 of the Pinellas County Code. The Board of County Commissioners is designated as the Fire Protection Authority, with responsibility to "establish and implement a permanent plan of fire protection for Pinellas County and each of its municipalities" and levy ad valorem taxes to fund fire protection services within these districts.

At present, the Fire Districts Fund consists of twelve separate municipal services taxing units (MSTUs) that provide fire protection services in the unincorporated areas of Belleair Bluffs/ Largo, Clearwater, Dunedin, Gandy, Largo, Pinellas Park, Safety Harbor, Tarpon Springs, Seminole, High Point, Tierra Verde, and South Pasadena. These districts were formed at differing times, after the electors in the affected unincorporated areas approved their creation and the levy of ad valorem taxes to fund fire protection.

Per County Code 62-32, compensation to each fire service provider is based on the pro rata share of the fire department's budget in each fire district. The pro rata share is allocated based on the value of real property for the unincorporated area in that district.

Revenues

The Fire Districts Fund consists of primarily one funding source: property taxes (ad valorem revenue).

Property Taxes

Property tax revenues have decreased significantly over the last several years due to legislative rollbacks, the passage of Amendment One, the decline in the real estate market, and the recession. These revenues are affected by taxable values for properties in the local economy. Overall, property taxes are budgeted to generate $14.7M in FY2012 across all districts.

Each dependent fire district has a separate ad valorem millage rate that is the major revenue source for each of the fire districts. The chart next illustrates that more than half of the fire districts require an increase in millage rates in FY2012 to fund fire service provider expenditures. These seven districts are Clearwater, Dunedin, Gandy, Largo, High Point Tierra Verde, and South Pasadena.

FUND REVIEW: FIRE DISTRICTS FUND

Dependent MSTU Fire Protection Districts

Ad Valorem Millage Rates & Millage Rate Caps

	Millage Rate Caps	FY12 Proposed Millage	FY11 Adopted Millage	Variance FY12/FY11 Millages
Belleair Bluffs/Largo	5.0000	1.7320	1.7320	0.0000
Clearwater	5.0000	2.6591	2.1385	0.5206
Dunedin	5.0000	2.2576	2.0102	0.2474
Gandy	5.0000	2.2602	2.1594	0.1008
Largo	5.0000	3.5133	3.4384	0.0749
Pinellas Park	5.0000	2.3675	2.3675	0.0000
Safety Harbor	5.0000	2.6800	2.6800	0.0000
Tarpon Springs	5.0000	2.3745	2.3745	0.0000
Seminole	10.0000	1.9581	1.9581	0.0000
High Point	10.0000	4.1916	3.2644	0.9272
Tierra Verde	3.0000	1.9087	1.7382	0.1705
South Pasadena	5.0000	3.1257	2.2188	0.9069

In addition to proposed millage adjustments in FY2012, each district is subject to a mandated millage cap. The millage cap threshold for Belleair Bluffs, Clearwater, Dunedin, Gandy, Largo, Pinellas Park, Safety Harbor, Tarpon Springs, and South Pasadena are set at 5 mills while Seminole and Highpoint have a 10 mill cap. Tierra Verde has the lowest millage cap at 3.0 mills, which was increased by the Board from 1.5 mills in June, 2010 to meet increasing operating expenditures.

The next chart shows the variation in the taxable values between unincorporated fire districts due to the composition of properties within the districts, e.g. beach properties, condominiums, etc. All of the FY2012 taxable values decreased from the prior year due to the continued decline in the real estate market.

Unincorporated Fire Districts

Percentage Change in Taxable Values FY2011/2012

Taxing Authority	FY11 Taxable Values	FY12 Taxable Values	% Chge
Belleair Bluffs/Largo	291,399,136	281,814,919	-3.3%
Clearwater	935,816,353	890,290,288	-4.9%
Dunedin	289,640,428	281,361,964	-2.9%
Gandy	58,745,745	46,246,094	-21.3%
Largo	607,662,536	534,801,933	-12.0%
Pinellas Park	279,062,146	268,835,925	-3.7%
Safety Harbor	67,460,539	63,446,493	-6.0%
Tarpon Springs	173,805,387	169,040,321	-2.7%
Seminole	2,285,943,862	2,207,921,446	-3.4%
Highpoint	742,902,519	678,863,660	-8.6%
Tierra Verde	737,937,448	714,254,103	-3.2%
South Pasadena	103,579,223	99,778,903	-3.7%

Expenditures

The Fire District Fund supports estimated expenditures and reserves in FY2012 totaling $23.2M for all twelve districts. The primary expenditures budgeted in the fund are $14.5M for contractual payments to the municipalities and other independent agencies for fire and rescue services and $8.0M in reserves.

Contractual Fire Payments

Contracts for fire protection services are negotiated with providers on an annual basis. The forecast includes an annual 5.0% increase for the service contracts through the forecast period. Fire departments submit their operating and capital budget requests on an annual basis and the County provides funding based on the unincorporated pro-rata share of property values within the district.

Administrative Costs

Administrative costs from the County are allocated to each fire district based proportionately on the amount of budgeted ad valorem revenue collected. In FY2012, this cost of $274K has decreased in recent

budget years as reductions have been made to this allocation. Operating Expenses for this fund is the distribution of the County's administrative expenses, such as personal services, repair services and intergovernmental charges, and other operating charges, that are allocated out to the twelve fire districts.

Transfers

The Fire District fund has transfers to the Property Appraiser and Tax Collector to cover the costs of collection for ad valorem revenues. FY2012 costs for these are estimated at $451K and fluctuate with ad valorem revenue estimates.

Reserves

The reserve level in the Fire District fund fluctuates as a whole, but each fire district is evaluated individually. The minimum reserve level that each district maintains is 5% reserve for contingency, which is at the low end of the 5-15% reserve level budget policy adopted by the Board. Several of the individual fire districts currently maintain a 5% minimum reserve including Clearwater, Dunedin, Gandy, Largo, High Point, Tierra Verde, and South Pasadena. Some of the districts maintain a 10% reserve level, such as Belleair Bluffs/Largo, Pinellas Park, Safety Harbor, Tarpon Springs, and Seminole Fire Districts, that serves as a buffer to shield the district from economic downturn in their area.

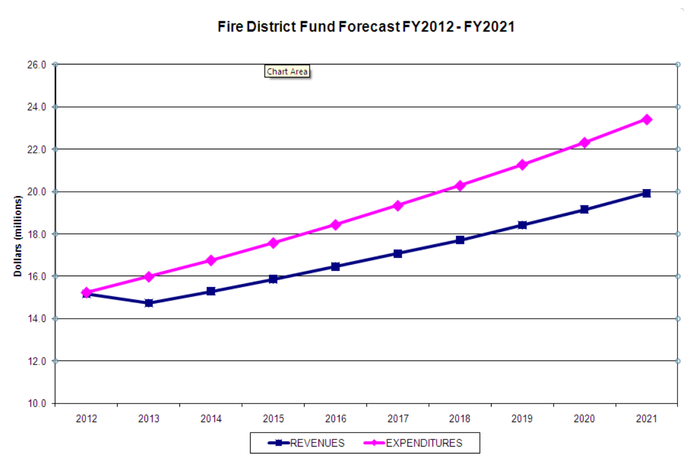
In addition, fire districts set aside funds in Reserve for Future Years for long-term capital projects, such as a new fire truck purchase or improvements to a fire station. Districts can request these funds with the County sharing their portion of this request based on the unincorporated value of the district.

Ten-Year Forecast

Key Assumptions

The fire district millages are assumed to increase to the new millage rates in the FY2012 Proposed Budget and then remain flat through the remainder of the forecast period for each of the districts. However, property tax revenue is forecasted to decrease in FY2013 by 3% due to additional decreases in taxable values during the forecast and then increase 4% annually through the rest of the forecast period as the housing market begins to rebound.

On the expenditure side, the contractual payments to the cities are assumed to increase by 5.0% through the forecast period, which outpaces the property tax revenues for the complete forecast period.



Key Results

The chart above shows that expenditures exceed revenues through the forecast period. The fire district fund is presented in a consolidated manner for all of the individual unincorporated twelve districts. Specific fire districts will vary in how much operating and capital funds are requests, reserves are maintained and fund balance is utilized. However, each individual district must be analyzed individually for their specific situations.

FUND REVIEW: FIRE DISTRICTS FUND

Overall, the revenues are outpaced by expenditures in several of the individual fire districts due to the high costs of the contracts. As the main source of revenue in this fund is property taxes, which is not anticipated to recover immediately, many of the districts will utilize fund balance through the forecast period to pay for long-term capital projects and current operating expenditures. Some of the unincorporated fire districts will also have to increase millage rates in each budget year to keep up with expenditures.

For the five districts (Belleair Bluffs/Largo, Pinellas Park, Safety Harbor, Tarpon Springs, and Seminole) that have 10% in Reserve for Contingencies and have not had to utilize their fund balances as quickly, they are well positioned going into FY2013 without immediately having to increase millage rates for their districts.

For the other seven districts (Clearwater, Dunedin, Gandy, Largo, High Point, Tierra Verde, and South Pasadena) that have less than 10% in Reserve for Contingencies and have had to borrow from fund balances, the forecast shows that these districts may have to increase millage rates for their districts to meet their individual district personnel and operating expenditures unless forecasted operating requests decrease.

Potential Risks

The major variable impacting future revenues for this fund is ad valorem revenue and taxable values. If taxable values begin to rebound, then the opportunity for higher revenues will increase. This will be one of the major drivers for increased revenues in the forecast.

However, if taxable values continue to decrease as they have in the past several years, then the major revenue stream for the fire districts will be impacted. As the districts continue to increase their operating requests and as taxable values decrease, the pressure on increasing millage rates for the fire districts will continue to increase each budget year. Some of the dependent fire districts that have not properly anticipated their future expenditures for operating and capital are anticipating millage increases that are near their millage caps, such as the Largo Fire District. This will require Board action for the district to increase their millage cap as Tierra Verde did in FY2010.

Another potential impact is annexation of the unincorporated fire district areas. As cities increasingly annex more of the available unincorporated properties area, there are less unincorporated properties to share the burden of costs of the service among the rest of the unincorporated area in a fire district.

An impact to fire service would be increased costs of Emergency Medical Service funding. Since most of these same fire service providers provide EMS services, if EMS funding is reduced by the County due to increased expenditure pressures and reduced forecasted revenues, these same providers may increase what they are requesting in their operating expenditure requests from the County in their funding formula, per the Special Act.

The opportunity for consolidation is also a possibility for the fire districts. Consolidation may result in considerable efficiencies that could reduce operating costs without reducing service levels.

Balancing Strategies

The forecast shows that this fund is not balanced during the forecast period. This fund cannot be taken as a whole, but each district must be looked at individually. Until the ad valorem revenue projection improves further out into the forecast, the individual districts will feel pressure to increase their millage rates. On the expenditure side, the contractual costs from the fire service providers' requests should be reviewed for continued efficiency opportunities.

Some of the individual districts can continue to use fund balance as long as it is available to them and as long as the minimum reserve of 5% is prudently maintained to continue funding their district personnel and operating expenditures.

Pinellas County

FUND REVIEW: AIRPORT FUND

Summary

The Airport Operating and Revenue Fund is an enterprise fund that accounts for revenues and expenditures at St. Petersburg – Clearwater International Airport. This includes management of airport properties in addition to airfield operations. The airport is self-supporting, and no property tax dollars are used to support the operation of the airport.

Airport revenues have remained stable in recent years due to the rental/lease terms and Allegiant Airlines' popularity. Revenues are forecast to increase gradually during the forecast period matching anticipated gradual growth as part of the recovery in the broader U.S. economy.

The forecast for the Airport Revenue and Operating Fund shows that the fund is balanced through the forecast period based on the assumptions that the capital projects budget would be adjusted to reflect the timing and amounts of any grants revenue and that the airport's operating budget would be adjusted to match revenues.

Description

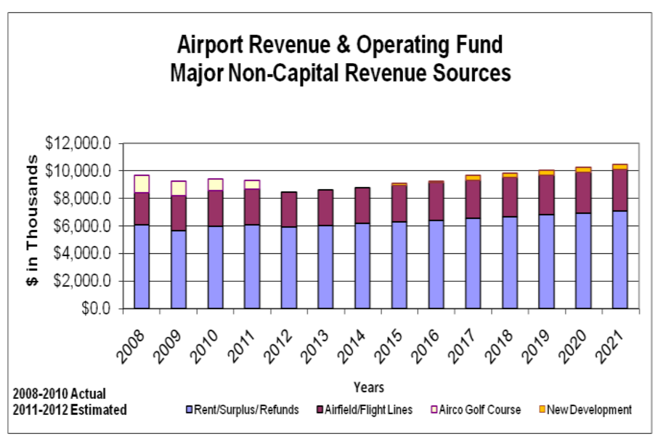
In March 1941 construction started for the airport at its present site. After Pearl Harbor, the airport, known as Pinellas Army Airfield, was used as a military flight-training base. After WWII, many army airfields were declared surplus and turned over to cities, counties, and state sponsors to manage. The Pinellas Army Airfield property was granted to Pinellas County by the U.S. Government to operate as a commercial airport. It was originally called the Pinellas International Airport, and given the airport call letters, PIE.

The Airport Revenue and Operating Fund is used to account for the self-supporting operations of St. Petersburg - Clearwater International Airport and its surrounding land uses on the airport's 2,000 acres. Approximately half of this property is dedicated to the airfield and supporting terminal and other facilities. The remaining acreage includes the 110 acre former AIRCO Golf Course (closed May 2011), a 200 acre Airport Business Center, and leased industrial, commercial, and governmental operations. All of the entire Airport property is a designated Foreign Trade Zone. All activities necessary for Airport operations (e.g. administration, operating and maintenance expense) are included in this fund. Also included are airport facility capital improvements, which receive federal and state grant funding of up to 95% of costs, depending on the type of project.

In recognition of the quality of operations and innovative and efficient management, the Florida Department of Transportation recognized St. Petersburg – Clearwater International Airport as the 2010 Commercial Service Airport of the Year.

Revenues

Excluding capital contributions, the two major funding sources supporting the Airport Revenue and Operating Fund during the forecast period are Rentals/Leases (64 to 67%), Airfield/Flight Lines (27 to 29%), and New Property Development (0 to 3%).



FUND REVIEW: AIRPORT FUND

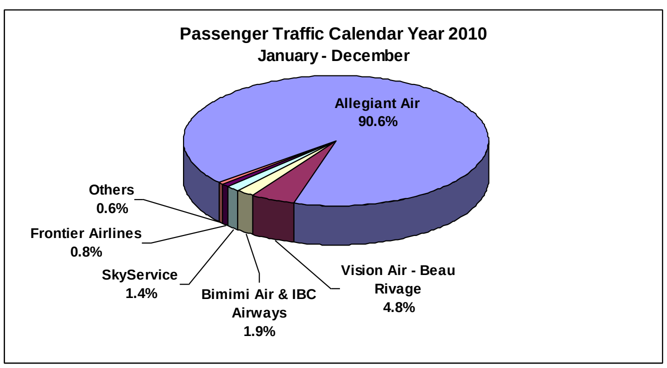
Rentals/Leases

Due to the size of the property and the proximity of Tampa International Airport, the perceived highest and best use of the St. Petersburg/Clearwater Airport land are aviation support and land leases. Pinellas County Criminal and Juvenile Courts, Cracker Barrel Restaurant, Dynamet Inc., and GE Aviation Systems are just a few examples of long term leases at the airport. Also included in this revenue source are businesses operating inside the airport terminal area, such as paid parking and car rentals, the gift shop and restaurant.

Airfield/Flight Line

Airfield fees are charges for the use of the runways and taxiways. Flight Line leases are for aircraft parking areas and maintenance hangars. These revenue sources are expected to remain constant over the near future.

The following chart shows that in 2010, Allegiant Airlines represented 91% of the passengers served on commercial carriers from St. Petersburg/Clearwater Airport.



However, with new service from Frontier Airlines that commenced November 2010, Allegiant Airlines now represents 85% of the total through May 2011. Terminal Leases, concession agreement income and Airfield fees in the near future are dependent on this passenger airline service.

Projected revenue for FY2011 is higher than budgeted due to increased activity levels, including the addition of Frontier Airlines and the expansion of routes by Allegiant Airlines.

New Property Development

On May 15, 2011, the golf course was closed due to declining revenues since 2007 and net losses starting in FY2009. Future plans consist of using the land for aviation, offices, and commercial uses. In the forecast, some revenue from New Property Development is anticipated to commence in FY2015.

Expenditures

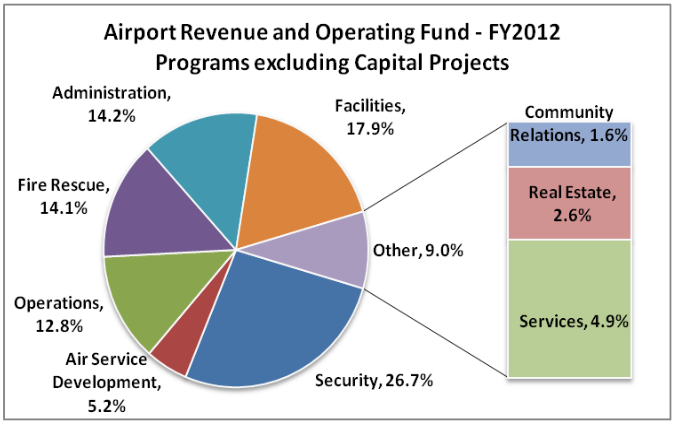
The Airport Revenue and Operating Fund supports estimated expenditures and reserves in FY2012 totaling $33.4M of which $11.2M is allocated for capital projects and $13.3M is reserves.

Airport Programs

Of the remaining $8.9M in operating expenditures, the primary program expenditure is $2.5M for Security and Utilities. Other major program expenditures include $1.6M for Maintenance, $1.2M for Airport Operations, and $1.3M for Airport Rescue & Fire Fighting.

The airport real estate program ensures compliance to Federal Aviation Administration (FAA) lease requirements. This program has FY2012 budgeted expenditures of $238K. However, the program revenues are budgeted for $5.9M.

FUND REVIEW: AIRPORT FUND

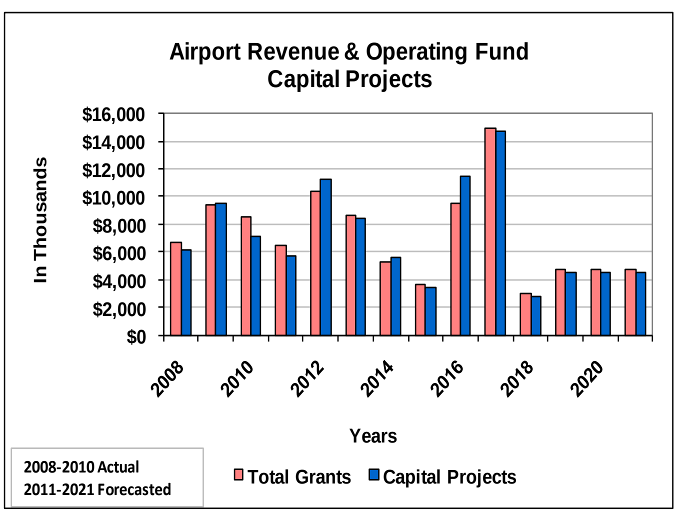


Personal Services

Personal Services expenses are for the salaries and benefits of the 66 positions needed to operate the Airport. Personal Services expenditures in FY2012 total $4.4M.

Capital Projects

The FY2012 Budget for Capital Projects is $11.2M. These projects receive funding in the form of grants from the Federal Aviation Administration (FAA) and the Florida Department of Transportation (FDOT). These projects will only commence when the appropriate grants funding is made available. The following chart shows the relationship between the scheduling of the revenues and the expenditures of capital projects.



Reserves

The total reserve level in the Airport Revenue and Operating fund is currently at 47%. This reserve level is the result of the profits that the Airport has been able to achieve over recent years.

Ten-Year Forecast

Key Assumptions

The revenue forecasts of funding total resources are conservative due to the current economic conditions.

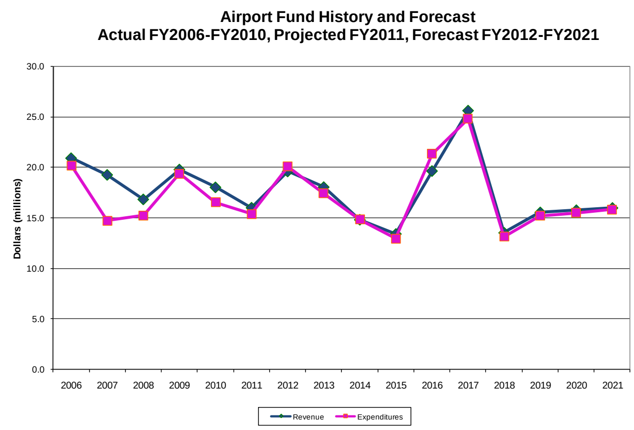
Airfield/Flight Line revenue for FY2012 is based on the current level of carriers and passenger numbers. For FY2013 through FY2021, an increase of 2% is forecast. The forecast is conservative, as no new carriers or agreement renewals have been included. Flight Line Leases are projected at a conservative 2% growth rate over the forecast period.

Rent/Surplus/Refunds revenue for FY2012 is based on current leases/agreements through the termination of these lease agreements. In FY2013 through FY2021, an annual increase of 2% is forecasted.

AIRCO Golf Course closed in May 2011. No new revenue from commercial or industrial development on the golf course acreage is projected in the forecast until FY2015. New property development will depend on factors such as site restrictions and future economic conditions.

Capital expenditures track the estimated capital contributions and estimates of current project completions in forecasted years.

FUND REVIEW: AIRPORT FUND



Key Results

The forecast for the Airport Fund is balanced over the forecast period.

The fluctuation in total revenues and expenditures is caused by the timing of capital projects. Capital project impact to both revenues and expenditures is fund neutral, since the projects are dependent on the availability of grants. If the grants are not forthcoming, the projects are not started.

Potential Risks

Several items can alter the ten-year forecast of Airport revenue collections. A primary concern is the strength of the airline industry and the continued success of Allegiant Airlines. Revenues could increase if the airport can attract new airline passenger service. Increases in rental/leases and concession income would result when current leases and agreements are renewed and rate formula escalations occur.

While the revenue growth projection from new property development is conservative, the potential lease income value of the AIRCO parcel is well over $1M annually. In addition, other vacant land parcels could add another $200K to $500K in annual lease income if fully leased. These funds could be added back into reserves or used for future capital development or to support currently unforeseen operating expenses.

Also, this forecast does not add any new passenger service. An increase of 250,000 new airline passengers could provide over $1M in additional income without a significant increase in operating expenses.

Balancing Strategies

The forecast does not show any structural gaps in revenues and expenditures as the fund is balanced through the forecast period assuming that the operating and capital budget would be adjusted in step with revenues.

FUND REVIEW: UTILITIES WATER FUNDS

Summary

The Pinellas County Utilities Water Funds are proprietary funds dedicated solely to supporting the Pinellas County Utilities Water System (Water System).

Water System retail and wholesale water sales revenues have declined with the slower economy, which will require rate increases to fund operations and maintain sufficient reserves during the forecast period. Rate increases are lower than previously projected due to delays in timing of wholesale demand reductions, lower operating and maintenance projections, and bond funding of capital projects. The forecast includes the following rate increases: a $1.00 increase to the base rate for retail water in each year FY2013, FY2014 and FY2015; and an increase of 4% each year FY2012-FY2015 on the wholesale water volumetric rate.

Description

The Pinellas County Water System is responsible for the provision of quality, cost effective potable water service to County retail and wholesale customers by planning, developing, constructing, financing, operating and maintaining water treatment and distribution facilities in accordance with State and Federal laws, rules and regulations. The Water System is continually being upgraded to provide customers with a safe and sufficient water supply for domestic needs as well as an ample supply for fire protection. The Water System also continues to educate its customers on important water conservation issues.

The Water Funds are enterprise funds, and are committed solely to support Water System functions. Water utilizes five funds: Revenue and Operating, Debt Service, Renewal and Replacement (capital), Impact Fees, and Construction Fund. This forecast covers all funds.

Revenues

The Water Funds generate revenues budgeted in FY2012 totaling $112.6M, which includes $23.5M in bond proceeds anticipated for FY2012 to pay for capital projects. The Water Funds have two primary funding sources: retail water sales of $65.9M and wholesale water sales of $17.8M.

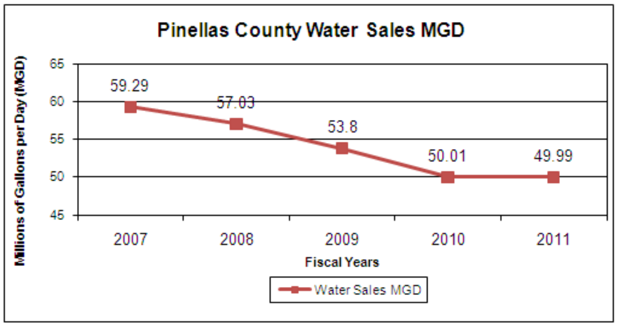
Retail Water Sales

The Water System charges $3.35 per month base rate and $4.78 per 1,000 gallons for retail water service. There is no rate increase proposed for FY2012. In future years, the proposed rate increase adds $1.00 to the base rate in FY2013, FY2014 and FY2015 for revised base rates of $4.35, $5.35 and $6.35 respectively. Retail customers are commercial and residential customers in the Pinellas County Utilities Water Service Area. The volume of water purchased has declined 9% from FY2007 to FY2011. The amount of water purchased is affected by economic conditions, housing and commercial vacancies, and levels of conservation.

Wholesale Water Sales

The Water System charges $3.2959 per 1,000 gallons for wholesale water service. The proposed rate increase is 4% each year FY2012-FY2015 resulting in revised rates of $3.4277, $3.5648, $3.7074, and $3.8557 respectively. Wholesale customers are five cities within Pinellas County that purchase water from the Water System in bulk and distribute it to their retail water customers. The cities of Clearwater, Tarpon Springs, Safety Harbor, Oldsmar, and Pinellas Park are the wholesale customers of the Water System. Similar to retail water sales, the volume of water purchased has declined 28% from FY2007 to FY2011. The amount of water purchased is affected by economic conditions, housing and commercial vacancies, and levels of conservation.

The graph below shows the recent history of the volume of Water sales by the Water System.



Source: Pinellas County Water System

Expenditures

The Water Funds support budgeted expenditures and reserves in FY2012 totaling $154M. The primary expenditures in the fund are $47M for the purchase of water, $19M for capital outlay, $13.2M for personal services costs, and $5.5M for operating expenses.

Purchase of Water

Under Section 373.1963 of the Florida Statutes, the Water System is required to purchase its water from Tampa Bay Water, the regional water supply authority. In 1997, 373.1963 F.S. was implemented by the signing of the Interlocal Agreement and the Master Water Supply Contract, under which Tampa Bay Water provides water to its members: Pinellas County, Hillsborough County, Pasco County, City of St. Petersburg, City of Tampa, and City of New Port Richey. Tampa Bay Water sets their rates according to their adopted budget and collects those rates from all members, according to the Master Water Supply Contract.

Capital Outlay

The Water System must maintain its equipment, facilities, pipelines, and plants in good working order, utilizing revenues generated within their proprietary funds. Capital outlay reflects the construction and purchase needs as estimated by Pinellas County Department of Environment and Infrastructure Engineering Division in the CIP six year work plan and beyond. The FY2012 budget includes Keller Facility improvements and booster/pump station upgrades supported by the $23.5M bond issue.

Personal Services

The Water System employs 217 full-time employees in FY2012. The Personal Services expenses are for the salaries and benefits of those positions needed to operate the Water System. Water System benefits include the cost of Other Post Employment Benefits (OPEB), as proprietary funds are required by GASB #45 to record the entire annual required contribution (ARC) accrual.

Operating Expenses

The Water System incurs annual recurring costs for repair and maintenance, supplies, fuel, and communications. The Water System also pays for electrical power to run its facilities and for chemicals to treat the water.

Reserves

The reserve level in the Water System is 38%, which is above the 5-15% reserve level budget policy adopted by the Board. The Water System maintains these reserves for cash flow and future capital needs.

Ten-Year Forecast

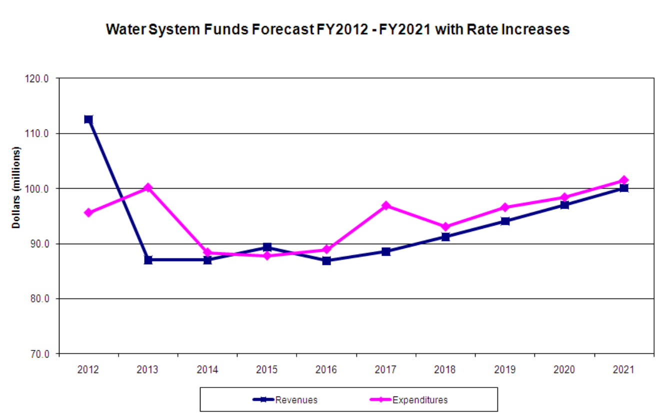
Key Assumptions

The revenue forecast assumes only a 0.25% to 0.50% annual increase in retail water demand over the forecast period due to the expected slow growth in the economy. The wholesale water demand reflects a steep 72% decline in demand FY 2007 through FY2016, due to the projected loss of sales to three cities (Clearwater, Tarpon Springs, and Oldsmar), as they develop their own water resources. For expenditures, Personal

Services and Operating Expenses reflect the forecast trends described in the Key Assumptions section of this document. A major expense to the Water System is the purchase of water. The cost per thousand gallons of purchasing water from Tampa Bay Water is forecasted to increase by 1.2% in FY2012 and 3.1% in FY2013. Electricity and chemicals costs are forecasted to increase by 5% and 7% per year respectively through the entire forecast period. The capital outlay forecast reflects the construction and purchase needs as estimated by the Pinellas County Department of Environment and Infrastructure Engineering Division.

To balance revenues with forecasted expenditures, rate increases will be necessary for both retail and wholesale rates. Burton and Associates, Utility Finance and Economics Independent Consultants have computed that the following rate increases are necessary to meet the forecasted expenses and reserve needs at the forecasted water demand levels: a $1.00 increase to the base rate for retail water in each year FY2013, FY2014 and FY2015; and an increase of 4% each year FY2012-FY2015 on the wholesale water volumetric rate.

The graph below shows Water System revenues and expenditures, assuming the above rate increases are adopted including FY 2012 bond proceeds:



Key Results

The forecast for the Water System Funds shows that the rate increases will provide sufficient revenues to maintain reserves and fund capital replacement needs.

Potential Risks

There are some impacts that can alter the ten-year forecast of the Water System. A continued economic decline would further reduce water demand, which would reduce revenue more than expenses. Operating costs (including Tampa Bay Water) could increase more (or less) than forecasted, causing higher (or lower) operating expenditures than forecasted. The Water System could experience a need for more maintenance than anticipated, causing increased capital costs.

Balancing Strategies

With the rate increases recommended by Burton and Associates, Water System revenues will be sufficient to cover forecasted expenditures and maintain sufficient reserves over the forecast period.

Pinellas County

FUND REVIEW: UTILITIES SEWER FUNDS

Summary

The Pinellas County Utilities Sewer Funds are proprietary funds dedicated solely to supporting the Pinellas County Utilities Sewer System (Sewer System).

With recent Sewer System retail and wholesale demand reductions, rate increases are needed to maintain adequate debt service coverage, cash flows to cover increased operating and maintenance costs such as electricity and chemicals, reserves and debt service coverage, and improvements and upgrades to the South Cross and WE Dunn Water Reclamation Facilities including those to comply with environmental regulations. The forecast includes the following rate increases: 6% each year FY2012 – FY2015 for retail sewer; and 9% each year FY2012-FY2015 for wholesale sewer.

The Reclaimed Water System is currently operating at a deficit. Rate increases are required due to ongoing costs for renewal and replacement of the systems and increased operating and maintenance costs such as electricity and chemicals. The proposed increases are: $1.00 to the monthly charge each year FY 2012 – FY2015 for unmetered service and a increase of $.08 to the user fee per 1,000 gallons each year FY2012- FY2015. Rates for wholesale customers are established by agreement with governmental entities purchasing reclaimed water from Pinellas County and are not included in the proposed increase.

Description

The Pinellas County Sewer System is responsible for the provision of quality, cost effective sewer service to the citizens residing in County sewer service areas by planning, developing, constructing, financing, operating, and maintaining sewage collection, transmission, treatment and disposal facilities in accordance with State and Federal laws, rules, and regulations. It provides an environmentally safe and sanitary means of collecting and transmitting discharged domestic wastes from residential, commercial, and industrial users. The Sewer System provides for the treatment and disposal of objectionable materials and organisms from these wastes in order to protect public health, property, and environment.

The Sewer Funds are enterprise funds, and are committed solely to support Sewer System functions. Sewer utilizes four funds: Revenue and Operating, Renewal and Replacement (capital), Interest and Sinking (Debt Service), and Construction Series 2008. The Sewer System is required to maintain a debt service coverage ratio of 1.25 per the bond covenants, but the bond ratings services recommend a debt service coverage ratio of 1.5 to sustain a bond rating of A1.

Revenues

The Sewer Funds generate revenues budgeted in FY2012 totaling $62.3M. The Sewer Funds have four primary funding sources: retail sewer charges of $48.1M, wholesale sewer charges of $6.6M, retail reclaimed water charges of $3.9M, and wholesale reclaimed water charges of $0.3M.

Retail Sewer Charges

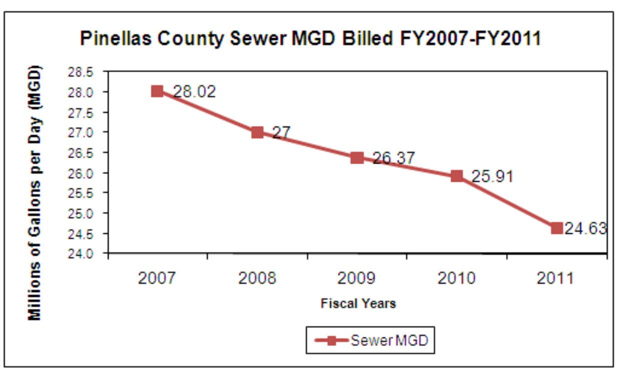
The Sewer System charges $10.50 per month base rate and $3.84 per 1,000 gallons for retail sewer service. The proposed FY2012 increase of 6% for retail customers results in a base rate of $11.13 and $4.07 per 1,000 gallons. Retail customers are commercial and residential customers in the Pinellas County Utilities Sewer Service Area. Total billed retail demand has declined 12% from FY2007 to FY2011. The amount of sewage

processed is affected by economic conditions, housing and commercial vacancies, and levels of water conservation. Prior to this proposed rate increase, there was a 1.5% increase in FY2011, a 3.5% increase in FY2010 and no rate increases from FY2004 thru FY2009.

Wholesale Sewer Sales

The Sewer System charges $2.96 per 1,000 gallons for wholesale sewer service. The proposed FY2012 increase of 9% for wholesale customers equates to $3.2264 per 1,000 gallons. Wholesale customers are four cities within Pinellas County that purchase sewer service from the Sewer System in bulk after collecting it from their retail sewer customers. The cities of North Redington Beach, Redington Shores, Indian Rocks Beach, and Pinellas Park are the wholesale customers of the Sewer System. Similar to retail sewer sales, the total billed wholesale demand has declined 12% from FY2007 to FY2011. The amount of waste processed is affected by economic conditions, housing and commercial vacancies, and levels of water conservation.

The graph below shows the recent history of the volume of waste billed by the Sewer System.



Source: Pinellas County Sewer System

Retail Reclaimed Water Charges

The Reclaimed Water System charges $15.00 per month base rate and $0.64 per 1,000 gallons for retail reclaimed water service for unfunded systems (systems without existing distribution lines) and $14.00 per month base rate and $0.64 per 1,000 gallons for funded systems (systems with pre-existing distribution lines). Rates for unfunded systems are higher as the Sewer System must recover the cost of constructing the reclaimed water distribution lines. Only those accounts that have metered service pay the volumetric rate, with most paying only the flat monthly rate. The FY2012 budget includes a proposed rate increase of $1.00 per year for un-metered service and a user fee per 1,000 gallon increase of $.08 per year. The proposed revised rates for FY2012 are: $16.00 for unfunded un-metered service; and $0.72 user fee per 1,000 gallons for unfunded metered service; $15.00 for funded un-metered service; $0.72 user fee per 1,000 gallons for funded metered service.

Wholesale Reclaimed Water Charges

The Reclaimed Water System charges volumetric rates by contract for wholesale reclaimed water service. No increase for wholesale rates are proposed for FY2012. Wholesale customers are four cities within Pinellas County that purchase reclaimed water service from the Reclaimed Water System in bulk and distribute it to their retail customers. The cities of St. Pete Beach, South Pasadena, Belleair, and Pinellas Park are the wholesale customers of the Reclaimed Water System.

Expenditures

The Sewer Funds support budgeted expenditures and reserves in FY2012 totaling $104M. The primary expenditures in the funds are $13.7M for personal services costs, $15.2M for debt service, $12.1M for operating expenses, $17.5M for capital outlay, and $34.9M in reserves.

Personal Services

The Sewer System employs 200 full-time employees in FY2012. The Personal Services

expenses are for the salaries and benefits of those positions needed to operate the Sewer System. Sewer System benefits include the cost of Other Post Employment Benefits (OPEB), as proprietary funds are required by GASB #45 to record the entire annual required contribution (ARC) accrual. This cost is included in the calculation of the debt service coverage ratio.

Debt Service

The Sewer System has $199.2M principal of outstanding bonds as of September 30, 2010, requiring annual principal and interest repayments averaging $15.2M per year until 2029. The bonds were issued to fund various sewer system capital projects. The bonds maturity dates are from 2017 through 2032. The Sewer System will be requesting to refund the remaining amount of the outstanding Sewer Revenue and Revenue Refunding Bonds, Series 1998. The approximate amount that will be refunded, if authorized by the Board of County Commissioners, will be $22,755,000. The estimated savings on the refunding is $2.1M.

Operating Expenses

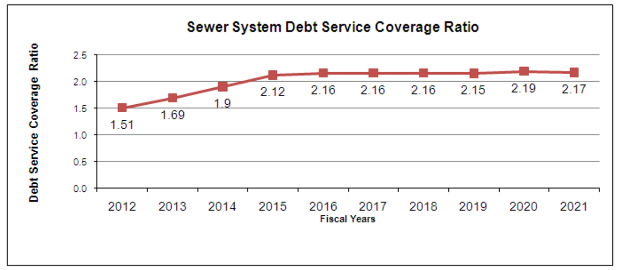
The Sewer System incurs annual recurring costs for repair and maintenance, supplies, fuel, and communications. The Sewer System also pays for electrical power to run its facilities and for chemicals to treat the waste.

Capital Outlay

The Sewer System must maintain its equipment, facilities, pipelines, and plants in good working order, using revenues generated within their proprietary funds. Capital outlay reflects the construction and purchase needs as estimated by the Department of Environment and Infrastructure Engineering Division in the CIP six year work plan and beyond.

Reserves

The reserve level in the Sewer System is 34%, which is higher than the 5-15% reserve level budget policy adopted by the Board. The Sewer System maintains $8.0M of reserves for cash flow and $ 22.5M to fund future capital needs. In addition, the 2008 bond issue requires a debt service reserve of $1.97M to maintain the recommended debt service ratio of 1.5.



Ten-Year Forecast

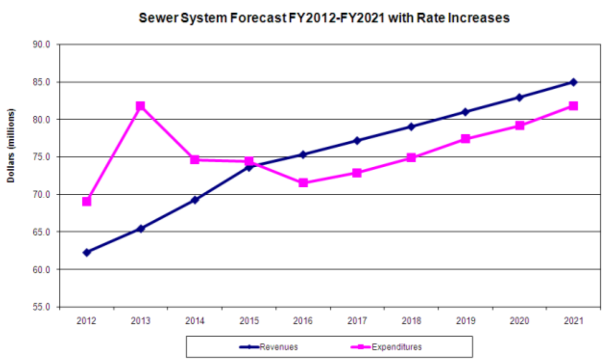
Key Assumptions

The revenue forecast assumes only a 0.25% annual increase in FY2012 – FY2014 and 0.50% annual increase in FY2015 - FY2021 in retail and wholesale sewer demand due to the expected slow growth in the economy. For expenditures, Personal Services and Operating Expenses reflect the forecast trends described in the Key Assumptions section of this document. Electricity and chemicals costs are forecasted to increase by 5% and 7% respectively per year through the entire forecast period. The capital outlay forecast reflects the construction and purchase needs as estimated by the Department of Environment and Infrastructure Engineering Division.

To balance revenues with forecasted expenditures, rate increases will be necessary for both retail and wholesale rates. Burton and Associates, Utility Finance and Economics Independent Consultants have computed that the following sewer rate increases are necessary to meet the forecasted expenses and reserve needs at the forecasted sewer demand levels: 6% each year FY2012–FY2015 for retail sewer; and 9% each year FY2012–FY2015 for wholesale

sewer; Reclaimed water/retail customers: $1.00 to the monthly charge each year FY2012–FY2015 for unmetered service and an increase of $.08 to the user fee per 1,000 gallons each year FY2012-FY2015.

The following graph shows Sewer System revenues and expenditures, assuming the above rate increases are adopted:



Key Results

The forecast for the Sewer System Funds shows that the proposed rate increases will provide sufficient revenues to maintain reserves, sustain the recommended debt service coverage ratio of 1.5, and fund capital replacement needs.

Potential Risks

There are some impacts that can alter the ten-year forecast of the Sewer System. A continued economic decline would further reduce water demand, which reduces sewer revenue that is based on volume. Operating costs could increase more (or less) than forecasted, causing higher (or lower) operating expenditures than forecasted. The Sewer System could experience a need for more maintenance than anticipated, causing increased capital costs.

Balancing Strategies

With the rate increases recommended by Burton and Associates, Sewer System revenues will be sufficient to cover forecasted expenditures, maintain sufficient reserves, and sustain the recommended debt service coverage ratio of 1.5. The chart below shows the forecasted debt service coverage ratio with the recommended rate increases.

FUND REVIEW: UTILITIES SOLID WASTE FUNDS

Summary

The Pinellas County Solid Waste Funds are proprietary funds dedicated solely to supporting the Solid Waste functions.

The forecast for the Utilities Solid Waste Funds shows that the fund is balanced through the forecast period. Solid Waste tipping fees and electricity sales revenues have declined with the slower economy, but will remain sufficient to fund operations and maintain sufficient reserves during the forecast period. Reserves are being accumulated for future capital replacement needs consistent with the 25 year capital plan.

Description

The Pinellas County Solid Waste department provides safe and environmentally sound integrated solid waste services to all citizens of Pinellas County. These services emphasize public awareness and communication to enable the citizens to make educated choices concerning proper management of their solid waste and to help maintain the quality of life in Pinellas County. In support of that mission, the Solid Waste department operates the landfill, the waste-to-energy plant, hazardous waste collection, recycling programs, and litter-reduction.

The Solid Waste Funds are enterprise funds, and are committed solely to support Solid Waste functions. Solid Waste utilizes two funds: Revenue and Operating, and Renewal and Replacement (capital).

Revenues

The Solid Waste Funds generate revenues budgeted in FY2012 totaling $87.3M. The Solid Waste Funds consist almost exclusively of two primary funding sources: tipping fees of $35.3M and electricity sales of $48.7M.

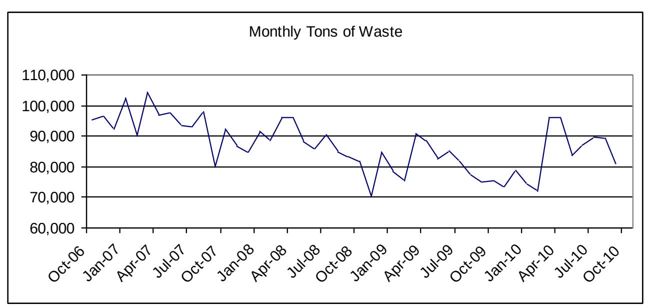
Tipping Fees

Solid Waste charges $37.50 per ton for all waste brought to the Solid Waste Facility. That rate has not changed since 1988. The volume of waste brought to the Solid Waste Facility is expected to increase slightly in FY2012. The amount of waste brought to the facility is affected by economic conditions and levels of recycling.

Electricity Sales

Solid Waste receives revenue from the electrical capacity contract with Progress Energy for power produced by the waste-to-energy plant. The revenue from this contract is defined by rates specified in the contract, which expires in 2024. Solid Waste also receives revenue for electricity sales in excess of the capacity contract with Progress Energy. This revenue stream is affected by the amount of waste received by the plant and the operating capacity of the plant. Due to slow growth in the economy and no planned increases in plant capacity for the next 10 years, this revenue is forecast to increase by 0.5% per year from FY2012 through FY2021.

The graph below shows the tons of waste delivered to the Solid Waste Facility.



Source: Pinellas Co. Solid Waste Mgmt. Tonnage Activity Reports

Interfund Loan Repayment

Debt service revenues over the forecast period are associated with the current $20M and proposed FY2012 $52.5M and FY2013

$5M interfund loans from the Solid Waste Renewal and Replacement Fund to the Capital Improvement Fund. On September 21, 2010 the Board authorized the first interfund loan up to $85M to assist with cash flow in the Capital Projects Fund through FY2019. The original 2010 to 2020 Penny Program was anticipated to be financed with a $150M bond issue in order to accelerate several key projects. The benefits of an interfund loan versus bonding include lower borrowing costs, no reserve requirements, interest accrues to a county entity, and more flexibility in the implementation and terms of the loan. Interest will be collected in FY2011 through FY2020, and loan repayment in FY2015 through FY2020.

An additional loan to the Capital Projects Fund will be necessary to cover the remaining $7.5 million of costs to fully fund the Centralized Chiller Facility project. This project funds the construction of a new centralized chiller facility for the downtown Clearwater campus. The County will purchase chilled water at a set rate based on the amount of investment towards the cost of the facility. The terms and conditions of the loan have not been finalized to date, but will be addressed in the next few months.

Expenditures

The Solid Waste Funds support budgeted expenditures and reserves in FY2012 totaling $221M. The primary expenditures in the fund are $30.2M for the Waste-to-Energy service contract, $11.2M for the Landfill service contract, $46.2M for capital investment, and $65.6M in reserves.

Waste-to-Energy Service Contract

Solid Waste is under contract with Veolia, Inc. to operate the Waste-to-Energy (WTE) plant. This contract expires in 2024, and has 10 one-year extensions.

Landfill Service Contract

Solid Waste is under contract with Veolia, Inc. to operate the landfill. This contract expires in 2015, and has a 3-year extension.

Capital Outlay

Solid Waste must maintain its equipment, facilities, and plants in good working order, utilizing revenues generated within their proprietary fund. Capital outlay reflects the construction and purchase needs as estimated in the consulting engineering services report from Camp, Dresser & McKee, Inc.

Personal Services

The Solid Waste System employs 82 full-time employees in FY2012. The Personal Services expenses are for the salaries and benefits of those positions needed to operate the Solid Waste System. Solid Waste System benefits include the cost of Other Post Employment Benefits (OPEB), as proprietary funds are required by GASB #45 to record the entire annual required contribution (ARC) accrual.

Interfund Loan to Capital Projects Fund

The forecast includes a transfer of $52.5M in FY2012 and $5M in FY2013 from the Solid Waste Renewal and Replacement Fund as part of the interfund loans to the Capital Projects Fund for cash flow purposes and for the Centralized Chiller Facility project.

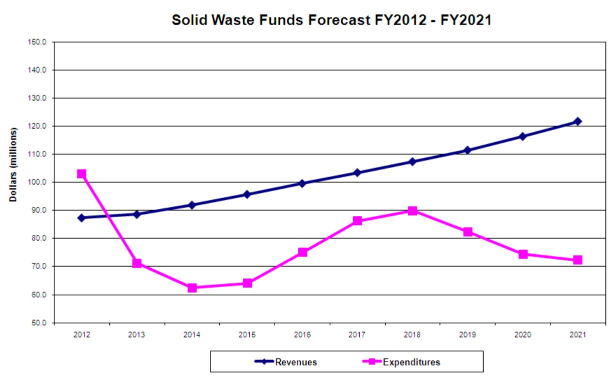
Reserves

The reserve level in the Solid Waste System is 30%, which is above the 5-15% reserve level budget policy adopted by the Board. Solid Waste maintains the following reserves: $7.5M required reserves per the contract with Veolia, $11M for insurance deductibles, $14M for 3 months of operating expenses, and the remainder of $33.1M is for future needs consistent with the 25 year capital plan.

Ten-Year Forecast

Key Assumptions

The revenue forecast assumes only a 0.5% increase in tipping fees and electricity sales throughout the forecast horizon due to the expected slow growth in the economy, increased recycling, and no planned capacity increases to the WTE plant. The revenue forecast does not include any increases in tipping fee rates. The economy does affect the tons of waste brought to the solid waste facility, because less consumption and lower tourism means less waste. For expenditures, Personal Services and Operating Expense reflect the forecast trends described in the Key Assumptions section of this document. The capital outlay forecast reflects the construction and purchase needs as estimated by the consulting engineering services report. There is a large capital need forecasted for FY 2012 for water treatment at the Solid Waste facility, and for FY2017 and FY2018 to install additional air pollution measures, in anticipation of tighter regulatory requirements.



Note: Does not include Capital Projects Fund loan activity

Key Results

The forecast for the Solid Waste Funds shows that the forecasted revenues are sufficient to provide for the forecasted expenditures over the next 10 years, while still maintaining sufficient reserves. Expenditures exceed revenue in FY2012 due to the capital projects within the Solid Waste Renewal and Replacement fund. (The forecast chart does not include the loans to the Capital Projects Fund or the future repayments from that fund.) Solid waste revenues exceed expenditures from FY2013 through FY2020. In FY2017 and FY2018 expenditures reflect non-recurring costs associated with additional air pollution measures. The recurring revenues are sufficient to support recurring operations without any increases in tipping fees. Reserves increase during the forecast period and reach the level of 85% of revenues in FY2021. The reserves are planned to fund considerable future capital replacement needs in the Solid Waste 25-year plan.

Potential Risks

There are some impacts that can alter the ten-year forecast of the Solid Waste Funds. A continued economic decline would further reduce incoming waste, which would reduce revenue from both the tipping fees and electricity sales. The WTE plant could experience more maintenance downtime than anticipated, reducing electricity sales and causing increased capital costs.

Balancing Strategies

The forecast does not show any structural gaps in revenues and expenditures as the fund is balanced through the forecast period.

CAPITAL IMPROVEMENT PROGRAM

The *Capital Improvement Program* portion of the FY2012 Budget Message provides an overview of the FY2012-2017 Capital Improvement Program (CIP), project highlights, Penny for Pinellas program, and other useful information. It includes the following sections:

- Capital Improvement Program (CIP)
- CIP Objectives
- CIP Goals
- CIP Policy
- CIP Project Definition and Criteria
- Penny for Pinellas
- Pay-As-You-Go Approach
- Overview of One-Year CIP Budget
- Overview of Six-Year CIP Work Plan

Capital Improvement Program (CIP)

The Pinellas County Capital Improvement Program (CIP) is a comprehensive six-year plan of proposed capital projects, intended to identify and balance the capital needs of the community within the fiscal capabilities and limitations of the County. It is primarily a planning document and is updated annually and subject to change as the needs of the community become more defined and the adopted projects move closer to final approval.

The first year of the program is the basis for actual appropriations authorized by the Board of County Commissioners for capital projects when adopting the Annual Budget.

The remaining five years are a guide for the future development of the County's new and replacement infrastructure needs. The overall CIP schedule is formulated to reflect County priorities and needs, by taking into consideration the County's goals and policies, strategic plan, urgency of a project, the County's ability to administer a project, the involvement of outside agencies, and the potential for future project funding.

The CIP brings together needs identified through many capital processes. Projects are established in the CIP based on input from citizen requests and prior public discussions, safety needs, planned rehabilitation cycles, grant funding processes, County staff, and Commissioners, as well as the County's mandated Growth Management Plan, Metropolitan Planning Organization's (MPO) Long Range Transportation Plan, and other County master plans. While capital projects originate from a variety of sources, projects most often come forward through the sponsoring department that is responsible for their implementation.

CIP Objectives

The objectives used to develop the CIP include:

- To preserve and improve the basic infrastructure of Pinellas County through public facility construction and rehabilitation;
- To maximize the useful life of capital investments by scheduling renovations and modifications at the appropriate time in the life-cycle of the facility;
- To identify and examine current and future infrastructure needs and establish priorities among projects so that available resources are used to the community's best advantage; and
- To improve financial planning by comparing needs with resources, estimating future borrowing needs, and identifying fiscal implications.

Department management reviews each project submitted for inclusion in the CIP and submits qualified projects to County Administration for review and approval. County Administration reviews a project request for its merit and relationship to overall County needs. The Board of County Commissioners conducts a final review of the program at public budget workshops, and

at annual public budget hearings prior to adoption of the Annual Budget.

CIP Goals

The following are the goals of the County in developing its annual capital budget and associated CIP:

- Identify and prioritize infrastructure requirements based upon a coordinated needs assessment methodology. The CIP is a comprehensive guide for the allocation of financial resources and provision of public service for a six year period. The CIP serves as a "blueprint" for the future of the community. It is a dynamic tool, not a static accounting document. The CIP requires each department to look to the future, anticipate the need for projects and justify that need. This requires the thoughtful integration of financial, engineering, and planning functions.

- Classify projects to ensure that those submitted for inclusion in the CIP are capital projects, not operating requirements. An accurate CIP relies upon the proper classification of projects. Requests which do not meet the specified criteria for a capital project should be considered in the operating budget.

- Identify the mandated state growth management Capital Improvement Element (CIE) projects from the non-mandated projects within the CIP. The CIP and CIE are closely related, but they are not the same. Some projects within the CIP will also be contained in the CIE; these projects should be separately identified. The funding of these projects is a high priority and must be balanced against the non-CIE projects that are also in the CIP.

- Develop a realistic funding scenario for the CIP that identifies resources on a project specific basis. The Growth Management Act requires a financial plan for projects that are mandated by the CIE. This same approach is to be extended to the CIP.

CIP Policy

It is the policy of the Pinellas County Board of County Commissioners to maintain a continuing Capital Improvement Program that will, when implemented, provide physical facilities that are:

- Responsive to the needs and demands of the public and county government;

- Supportive of the long and short-range economic, social, and environmental development policies of the county;

- Necessary to achieve the level of service identified in the adopted Comprehensive Plan.

The Capital Improvement Plan represents the planned implementation of various comprehensive plans that serve as a guide for future growth and development as adopted and amended by the Board of County Commissioners.

CIP Project Definition and Criteria

The following definition and criteria shall be utilized in determining the appropriateness of capital improvement budget requests:

Capital projects are defined as activities that lead to the acquisition, construction, or extension of the useful life of capital assets. Capital assets include things such as land, buildings, parks, streets, utilities, and other items of value from

which the community derives benefit for a minimum number of years.

1. All projects in the Capital Budget must have a total cost greater than $50,000 and a useful life of more than five years.

2. Capital projects are considered to be one-time outlays, which are non-recurring in nature. Purchases involving ongoing debt service or lease/purchase costs are typically not budgeted in the Capital Budget.

3. Capital projects must add to, enhance the value of, or extend the life of the County's physical assets. Major equipment purchases must be associated with a capital project and must meet the definition of a capital item in order to be placed in the Capital Budget.

4. County vehicular equipment purchases will not be addressed in the Capital Budget. Fleet appropriations are to be considered within the Operating Budget.

5. Expenditures for maintenance supplies and materials or replacement items shall be budgeted as an operating item. These items may not be appropriated in the capital budget.

The CIP is divided into two main sections: Governmental projects and Enterprise projects. Enterprise projects support the Airport and Utilities systems of Water, Sewer, and Solid Waste. These areas are run like businesses in which the revenues generated by these areas support their operations. These projects are funded by grants, airport fees, and water, sewer, and solid waste user fee charges. All other capital projects such as roads, drainage, public safety buildings, and park projects are included in the Governmental side of the CIP. Funding for the Governmental projects include the "Penny for Pinellas" which is a one cent local option sales surtax approved by vote of Pinellas citizens, grants and reimbursements, transportation impact fees, local option gas taxes, and tourist development tax.

Penny for Pinellas

The Penny for Pinellas funds approximately 75% of the Governmental CIP. This funding source was first established as an alternate means of funding Pinellas County's capital improvement program in 1989. It is approved by voter referendum for 10 years at a time. If the Penny had not been extended, the County's governmental capital improvements would have to be funded primarily by property taxes in the General Fund.

Impact of the Penny for Pinellas

Without the Penny, many public projects would not be completed until years into the future or not done at all. In 2007, the millage rate equivalent to generate the same amount as the Penny for Pinellas was 2.3 mills. This represents a potential 10% increase in a property owner's total millage rate. Besides allowing for funding of capital projects without relying on property taxes, another benefit is that tourists and other visitors pay about a third of the Penny which relieves County residents of much of the tax burden. Per State statute, the Penny for Pinellas can only be used for capital projects and cannot be used for operating and maintenance purposes such as maintaining parks or funding social service programs. This funding source is shared between the County and the 24 municipalities through an interlocal agreement. The County receives approximately 52.3% of the total monthly collections generated by this tax, following the deduction of dedicated amount for countywide use in improving Court and Jail facilities.

CAPITAL IMPROVEMENT PROGRAM

Original 2010 to 2020 Penny Program

The last renewal of the Penny for Pinellas took place on March 13, 2007 to extend the Penny for a third decade, 2010-2020. The revenue projections for the original 2010 to 2020 Penny Program were prepared in 2006. These projections assumed that the Penny would generate $1.94 billion between 2010 and 2020: $225 million for Courts & Jails projects, $817 million to support projects for the 24 municipalities, and $898 million available to County projects (including $56 million reserve).

Revised Projected Penny Revenue

The Penny for Pinellas is a sales tax and as such, is extremely sensitive to economic conditions. Unfortunately, due to the impacts of the Great Recession, Penny revenue decreased for several years instead of increasing at the original projected rate. As a result, the projected revenues for the 2010 to 2020 Penny Program were revised in 2009 to reflect the new economic reality. This resulted in considerable changes to the Penny Program project allocations. The revenue projections are revised annually as part of the budget process. The revised projections assume that the Penny will generate $1.4 billion between 2010 and 2020. As revenue projections increase or decrease, changes in the Penny Program Project allocations are made to match the revenue constraints.

FY2012 Changes to Penny Program Allocations

During this year's budget process, $12.0 million in reductions were necessary due to decisions by the Board at the end of the previous budget cycle that revised the Penny Program allocations. The two changes were to add a $4.5 million allocation for the Friendship Trail Bridge Demolition project and restore funding of $8.75 million to the Gulf Boulevard Improvements project that had been reduced previously as part of the FY2010 budget process. The reductions were made primarily in the Transportation & Traffic Flow area (see table below) as allocations for parks and environmental projects have absorbed substantial reductions in past reduction exercises.

Projects/Programs	Current Allocation	Reduction	Revised Allocation
Unincorporated Rec./Comm. Centers	$3.0M	($2.0M)	$1.0M
Traffic Signal Mast Arm Instl. (MSTU)	$4.0M	($2.5M)	$1.5M
Road Underdrains Annual Contracts	$5.5M	($1.0M)	$4.5M
Countywide Road Improv. Program	$50.0M	($5.5M)	$44.5M
General School & Sidewalk Program	$10.0M	($1.0M)	$9.0M
Total		**($12.0M)**	

Revised Penny Program Allocations

On an annual basis the 2010 to 2020 Penny Program allocations are updated to match the projected revenues in the Capital Projects forecast. The tables below show all of the current Penny Program allocations, including the adjustments made as part of the FY2012 budget process. We have included a column for the original allocations from 2006 in order to track any adjustments that have taken place over time to the Penny Program allocations.

<u>Transportation & Traffic Flow</u>

Projects/Programs	Original FY2006 Allocation	Revised FY2012 Allocation
Road Resurfacing & Rehabilitation Program	$66.0M	$66.0M
ADA Sidewalk Ramp Improvements	$2.5M	$2.5M
General School & Sidewalk Program	$10.0M	$9.0M
118th Avenue Expressway	$70.0M	$70.0M
Intersection Capacity Program	$44.5M	$33.5M
Bridge Rehabilitation Program	$50.0M	$50.0M
Rail Crossing Improvements	$5.0M	$3.7M
Countywide Road Improvements Program	$50.0M	$44.5M
62nd Avenue - 66th to 49th Street	$15.0M	$0
Friendship Trail Bridge Demolition	$0	$4.5M
Roadway Beautification Program	$6.0M	$0
Traffic Signal Mast Arm Installations (MSTU)	$4.0M	$1.5M
Road Underdrains Annual Contracts	$7.5M	$4.5M
Park Boulevard Drainage Improvements	$2.0M	$0
Pinellas Trail Expansion	$8.0M	$6.0M
Gulf Boulevard Improvements	$35.0M	$35.0M
Park Boulevard - 113th Street to Seminole Blvd.	$12.6M	$0
Total	**$388.1M**	**$330.7M**

CAPITAL IMPROVEMENT PROGRAM

Public Safety & Hurricane Preparedness

Projects/Programs	Original FY2006 Allocation	Revised FY2012 Allocation
Palm Harbor Fire Control Equipment	$3.0M	$2.2M
East Lake Fire Control Equipment	$3.0M	$2.2M
Emergency Responders Building	$34.0M	$34.0M
Community Building Emergency Shelter Projects	$10.0M	$7.5M
Public Safety Countywide Radio System	$14.5M	$14.5M
Public Safety Facilities & Central Commun. Center	$70.0M	$70.0M
Total	**$134.5M**	**$130.5M**

Parks, Recreation, & Culture

Projects/Programs	Original FY2006 Allocation	Revised FY2012 Allocation
East Lake Community Library Expansion	$4.1	$0
Palm Harbor Library Expansion	$5.8M	$0
Countywide Park Infrastructure Replacements	$29.0M	$22.0M
Pinellas Trail Repair and Renovation	$3.0M	$3.0M
Heritage Village – Master Plan Implementation	$10.0M	$0
Howard Park Infrastructure	$7.5M	$5.0M
Eagle Lake Park Development	$3.0M	$3.0M
Fort De Soto Park Infrastructure	$7.0M	$5.0M
Countywide Park Boat Ramp Land Acq. & Develop.	$7.5M	$0
Unincorporated Recreation/Community Centers	$16.0M	$1.0M
Community Parks Land Acquisition & Develop.	$10.0M	$6.6M
Total	**$103.0M**	**$45.6M**

Environmental Restoration & Protection

Projects/Programs	Original FY2006 Allocation	Revised FY2012 Allocation
Regional Stormwater Water Quality Imp. Program	$5.5M	$5.5M
Environmental Habitat Restoration	$2.4M	$2.4M
Weedon Island Preserve Projects	$3.5M	$1.0M
Brooker Creek Preserve Projects	$3.5M	$1.0M
Beach Access Acquisition & Development	$15.0M	$0
Upper Tampa Bay Recirculation & Restoration	$10.0M	$0
Lake Seminole Sediment Removal Project	$8.0M	$8.0M
County Extension Center Building Replacement	$7.5M	$0
Environmentally Sensitive Lands Acquisition	$18.0M	$16.0M
Total	**$73.4M**	**$33.9M**

Drainage & Stormwater Management

Projects/Programs	Original FY2006 Allocation	Revised FY2012 Allocation
Stormwater Conveyance System Impr. Program	$50.0M	$50.0M
Creek Erosion Control	$8.0M	$8.0M
Drainage Pond Compliance Projects	$5.0M	$3.7M
Drainage Channel Dredging Program	$5.0M	$3.7M
Cross Bayou Drainage & Watershed Impl. Proj.	$5.0M	$0
Total	**$73.0M**	**$65.5M**

Government Service Facilities

Projects/Programs	Original FY2006 Allocation	Revised FY2012 Allocation
Building Repair & Replacement Projects	$40.0M	$30.0M
Total	**$40.0M**	**$30.0M**

Housing, Jobs, and Human Services

Projects/Programs	Original FY2006 Allocation	Revised FY2012 Allocation
Affordable Housing Land Assembly Fund	$30.0M	$15.0M
Total	**$30.0M**	**$15.0M**

Courts & Jail Improvements

Projects/Programs	Original FY2006 Allocation	Revised FY2012 Allocation
Courts & Jail Projects	$225.0M	$225.0M
Total	**$225.0M**	**$225.0M**

Additional information regarding current and past Penny for Pinellas programs can be found at the following website: http://www.pinellascounty.org/Penny/

Pay-As-You-Go Approach

During the FY2010 budget process, it was determined that due to the uncertainty in the bond and credit markets, over the next several years the CIP will attempt to be funded on a "Pay-As-You-Go" basis as much as possible. The "Pay-As-You-Go" approach is recommended as the most prudent way of financing capital projects due to the unstable short term financial environment we are facing. The benefits of this approach include:

- Being fiscally conservative helps avoid marketing and financing costs of current credit market.
- A "pay-as-you-go" plan can be a positive factor in future credit analysis of the County and its long term debt rating.

- Provides a deliberative approach to the implementation of projects in accordance with the priorities and needs of the community.

- Specific projects can be considered for stand alone bonding if the priority and cost benefit is warranted.

During FY2008 and FY2009 several projects were accelerated from the 2010-2020 Penny program in order to:

- Enhance hurricane preparation: Emergency Responders Building; Public Safety Facilities & Central Communications Center; Emergency Shelter Program

- Take advantage of the availability of key endangered and park land parcels: Endangered Lands Acquisition; Community Park Lands Acquisition

- Advance project design funding to FDOT: 118th Avenue Expressway

- Address key infrastructure concerns: Howard Park Bridge Replacement; Eagle Lake Park

Funding for the accelerated projects was anticipated to come from a $150M bond issue similar to previous Penny programs. Due to the new pay-as-you-go policy implemented in FY2010, we do not plan to significantly bond the Penny program.

Interfund Loans from Solid Waste R&R Fund

In the absence of a bond issue, a limited interfund loan from the Solid Waste Renewal & Replacement Fund will be necessary to provide liquidity in the Capital Projects fund to cover expenditures related to the accelerated projects. On September 21, 2010, the Board approved a resolution authorizing a loan amount of up to $85 million. The outstanding principal is currently $65 million (including the FY2012 loan amount of $45 million). The annual rate of interest is a variable rate which is currently less than 1%. Payments on outstanding loan principal are required to begin no later than FY2016 and the loan shall be paid in full no later than December 31, 2019. The benefits of an interfund loan versus bonding include lower borrowing costs, no reserve requirements, interest accrues to a county entity, and more flexibility in the implementation and terms of the loan.

An additional loan will be necessary to cover the remaining $7.5 million of costs to fully fund the Centralized Chiller Facility project. This project funds the construction of a new centralized chiller facility for the downtown Clearwater campus. The County will purchase chilled water at a set rate based on the amount of investment towards the cost of the facility. Fully funding this project is estimated to result in $507K of annual savings, $3.8M of cost avoidance, and potential revenue opportunities of $300-400K a year. The total project cost is estimated at $12.0M, of which $1.5M of design costs are being paid for by a federal grant from the Department of Energy and $3.0M was allocated from non-recurring funding in the General Fund in the FY2011 Budget. The terms and conditions of the loan have not been finalized to date, but will be addressed in the next few months.

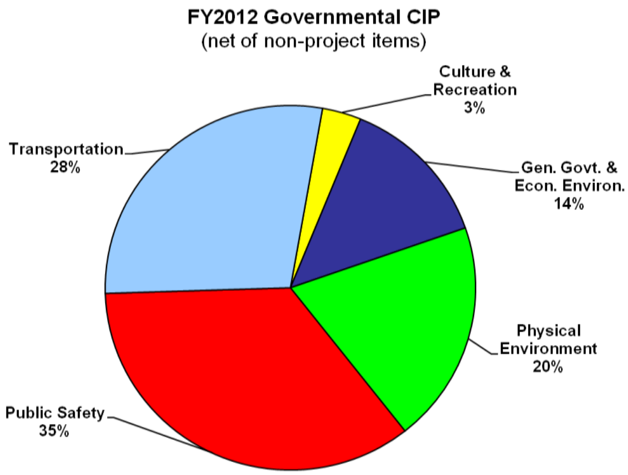
Overview of One-Year CIP Budget

The first year of the Capital Improvement Program, FY2012, is the basis for actual appropriations authorized by the Board of County Commissioners for capital projects when adopting the Annual Budget. The total FY2012 CIP budget is $381.3M. This amount includes both Governmental and Enterprise projects as well as non-project items such as reserves.

FY2012 Governmental CIP

The expenditure total (net of non-project items) for the FY2012 Governmental CIP is $179.0M. The pie chart below shows the percentage

distribution of expenditures amongst the functional areas of the CIP.



Major project highlights in the **Governmental One-Year CIP** are listed below by functional area.

Public Safety ($62.9M):
- Public Safety Facilities & Central Communications Center ($45.9M)
- Public Safety Radio System ($4.5M)
- Jail Expansion & Court Improvements ($9.3M)

Transportation ($50.6M):
- Keystone Road-US 19 to East Lake Road ($12.1M)
- Various Intelligent Transportation/Advanced Traffic Management System projects ($8.7M)
- Bryan Dairy-Starkey Road to 72nd Street ($7.5M)
- Road Resurfacing & Rehab Program ($5.5M)
- Pinellas/Progress Energy Trail Extension ($2.0M)
- La Plaza Bridge ($2.0M)
- Bridge Rehab Program ($1.8M)

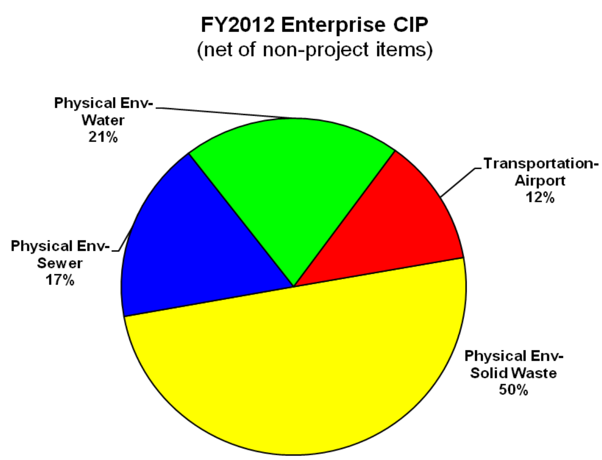
Physical Environment ($35.1M):
- Sand Key Nourishment ($7.5M)
- Lake Seminole Alum Injection ($4.8M)
- Stormwater Conveyance System ($3.4M)
- Bee Branch Drainage Improvements ($3.3M)
- Bear Creek Channel Improvements ($2.9M)
- Curlew Creek Channel A Improvements ($2.4M)
- Mobbly Bay Habitat Restoration ($2.2M)

General Government/Economic Environment ($24.1M):
- Centralized Chiller Facility ($12.0M)
- Space Plan Implementation ($2.9M)
- St. Petersburg Judicial Tower Renovations ($3.2M)
- 501 Garage Structural Repair ($1.0M)
- STAR Center Chiller #1 Replacement ($624K)

Culture & Recreation ($6.1M):
- Unincorporated Recreation Fields Development ($1.0M)
- Fort De Soto Water Circulation Project, Phase II ($862K)
- Wall Springs CA IV Restoration ($479K)
- Joe's Creek Greenway-Lealman ($347K)
- Wall Springs Development Phase III ($213K)
- Fort De Soto Dune Walkovers ($176K)

FY2012 Enterprise CIP

The expenditure total (net of non-project items) for the FY2012 Enterprise CIP is $91.8M. The pie chart below shows the percentage distribution of expenditures amongst the functional areas of the CIP.



Major project highlights in the **Enterprise One-Year CIP** are listed below by functional area.

Transportation-Airport ($11.2M):
- Rehab Runway 4/22 Pavement & Lighting ($5.5M)
- Terminal Improvements – Phase II ($1.3M)
- Taxiway L Rehab ($1.1M)

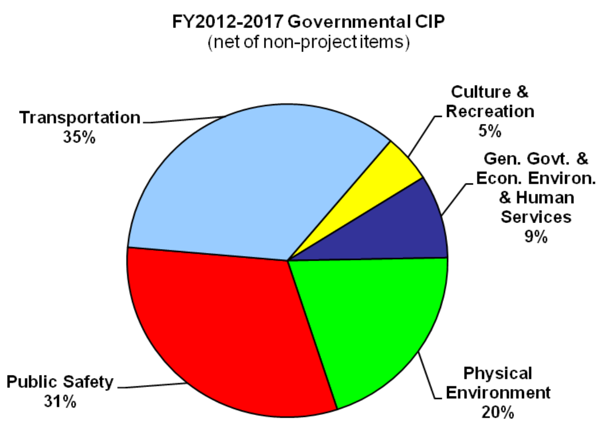
Physical Environment ($80.6M):
- Solid Waste Additions & Improvements ($45.9M)
- South Cross Waste Water Treatment Projects ($10.3M)
- Water System Improvements ($9.5M)
- Water Transmission Mains ($5.8M)
- Water Distribution Mains ($3.2M)
- Sewer System Modifications & Rehab ($3.1M)

Overview of Six-Year CIP Work Plan

In the Six-Year CIP work plan, only the first year, FY2012, is actually appropriated. The remaining five years are a work plan that is subject to change as time goes on. The total FY2012-2017 CIP budget is $1.11B. This amount includes both Governmental and Enterprise projects as well as non-project items such as reserves.

FY2012-2017 Governmental CIP

The expenditure total (net of non-project items) for the FY2012-2017 Governmental CIP is $708.1M. The pie chart below shows the percentage distribution of expenditures amongst the functional areas of the CIP.



Major project highlights in the **Governmental Six-Year CIP** are listed below by functional area and estimated year of commencement. The focus of this list are the out years of FY2013 through FY2017 as the FY2012 projects are covered in more detail in the "Overview of the One-Year CIP" section.

Transportation ($246.1M):
- 118th Avenue Expressway (FY2014)
- Gulf Boulevard Improvements (FY2013)

Public Safety ($222.5M):
- Jail Expansion & Court Improvements (FY2012)
- Public Safety Facilities & Central Communications Center (FY2012)

Physical Environment ($143.2M):
- Honeymoon Island Improvements (FY2012)
- Long Key Upham Beach (FY2013)
- Pass-A-Grille Beach Nourishment (FY2013)
- Treasure Island Nourishment (FY2013)
- Upham Beach Stabilization (FY2013)
- Lake Seminole Sediment Removal (FY2012)

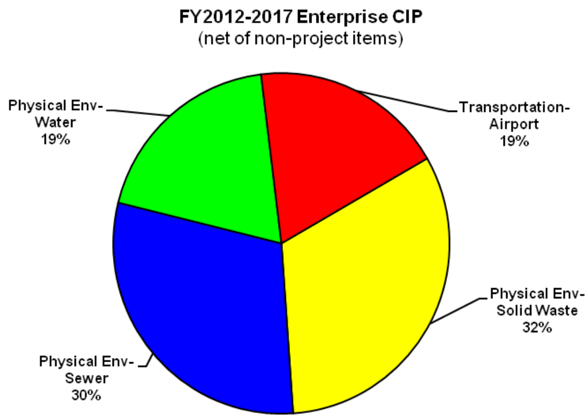
General Government/Economic Environment/Human Services ($61.1M):
- Affordable Housing Land Assembly Program (FY2017)
- 315 Court Curtain Wall Replacement (FY2013)
- STAR Center Roof Replacement (FY2013)

Culture & Recreation ($35.1M):
- Friendship Trail Bridge Demolition (FY2015)
- Unincorporated Recreation Fields Development (FY2012)
- Pinellas Trail Improvements (FY2013)

FY2012-2017 Enterprise CIP

The expenditure total (net of non-project items) for the FY2012-2017 Enterprise CIP is $294.5M. The pie chart below shows the percentage distribution of expenditures amongst the functional areas of the CIP.

CAPITAL IMPROVEMENT PROGRAM



Major project highlights in the **Enterprise Six-Year CIP** are listed below by functional area and estimated year of commencement. The focus of this list are the out years of FY2013 through FY2017 as the FY2012 projects are covered in more detail in the "Overview of the One-Year CIP" section.

Physical Environment-Utilities ($239.7M):

- Solid Waste Additions & Improvements (FY2012)
- Water Transmission Mains (FY2012)
- South Cross Waste Water Treatment Projects (FY2012)
- Sewer System Modifications & Rehab (FY2012)
- Water Distribution Mains (FY2012)

Transportation-Airport ($54.8M):

- Cargo Apron Construction (FY2016)
- New General Aviation Taxiways/Ramps (FY2016)
- New Maintenance Facility (FY2016)
- Rehabilitate Runway 17/35 (FY2017)
- Terminal Apron/Hardstand Rehab (FY2012)

Overall, there are more than 200 projects or program areas that comprise the six year CIP. A complete listing of CIP expenditure allocations is included in the "CIP by Functions & Activity Report" in Exhibit E. In addition, a summary of changes between this year's CIP and last year's CIP can be found in Exhibit F. The detailed FY2012-2017 CIP document is available on the County's website at: http://www.pinellascounty.org/budget/12Budget/cip/CIPListing.htm

Pinellas County