BOARD OF COUNTY
COMMISSIONERS
Nancy Bostock
Neil Brickfield
Susan Latvala
John Morroni
Norm Roche
Karen Williams Seel
Kenneth T. Welch

Pinellas County

OFFICE OF THE
COUNTY ADMINISTRATOR

Robert S. LaSala
County Administrator

October 1, 2012

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

In accordance with my statutory responsibilities, I present the adopted **Fiscal Year 2013 Annual Operating and Capital Budget**.

I appreciate 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 your commitment to establishing a strategic direction 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.

The last several years have been very hard. The perfect storm of legislative mandates, a constitutional amendment and the "Great Recession" have come together to create significant financial challenges.

In 2007, the Florida Legislature required counties to roll back the property tax rates, reducing property tax revenues for Fiscal Year 2008 by $20 million. The following year, the voters approved Amendment One to the state constitution, which doubled the homestead exemption and further reduced property tax revenues by $35 million. At the same time, we were beginning to experience the first impacts from the Great Recession as the economy started to soften and property values began to decline. By 2009, the recession was in full swing. Revenues dropped across the board with property values taking a pummeling. In the years since, property values have continued to decline, further hurting the County's budget. In total, property tax revenues have dropped by $145 million since 2007. The clock has been turned back 10 years as FY2003 was the last time property tax revenues were at this level. The "Great Recession" has certainly created a "lost decade" as characterized by some economists.

The impact to the organization and the public we serve from substantially reduced revenue has been great. Since 2007, the County's general fund budget has been reduced by an average of 35 percent. Various programs have been eliminated and

service levels decreased. Some departments, like Parks and Conservation Resources, have experienced deeper cuts of nearly 50 percent. The number of positions under the County Administrator has been reduced by nearly 1,000 positions. This level of staffing was last seen in 1985. Those dedicated to public service that remain try to do more with less. The reality is that we must do less with less.

Yet despite all of these challenges, I remain proud of the employees of the County. They have adapted, innovated and worked tirelessly to provide quality services to our citizens and visitors. I applaud their efforts. The Board has also shown leadership through these difficult times. Its commitment to a strategic approach has enabled the County to maintain core services while building a savings account called the service level stabilization account. Our strategy from the beginning has been to use the accumulated savings over the next two years as a bridge to an economic recovery. The Board has relied upon a 10-year financial forecast to guide its prudent decisions.

Every organization has a tipping point: a point beyond which the organization is irreparably damaged. I believe we are at that point. While we have been able to absorb the reductions of the last five years, our capacity has been significantly reduced. Reductions in Parks and Conservation Resources, Health and Human Services, Economic Development, and Transportation, just to name a few, have compromised the quality of life in Pinellas County. Reductions in other areas, notably public safety, have diminished our capacity to respond to emergency events and quickly recover post disaster. We are at this organization's tipping point. To absorb further cuts will snuff out the remaining resiliency of the organization, impede our ability to attract and retain the best talent, and render the County a less desirable place to live, work and play.

The County continues to face serious challenges. Public revenue streams remain weak as the costs of maintaining the capacity to deliver basic services and maintain public infrastructure continue to rise. The recession has provoked many "negative feedback loops," adversely affecting demands on core public functions performed by Pinellas County Government. The Healthy Communities initiatives recently affirmed by the Board reflect egregious trends bearing down on the County's distressed communities. Other challenges include: surface water quality and drainage; supply and demand for water and wastewater services; a structural imbalance in the County's Transportation Trust Fund; continued pressures on demands for health and human services; rising costs of criminal justice and public safety; and escalating concerns about employee morale, recruitment and retention.

We now face a new challenge. That challenge comes in the form of a State requirement that the County fund additional Medicaid payments. The State is trying to solve its budget problem by laying the bill at the County's feet and forcing us to pay it. This unplanned expense could not be built in to our budget planning. The amount of the unplanned and unwanted bill from the state is $55.8 million over the next 10 years. These represent reduced impacts as compared with the Proposed Budget. The reduced impacts are a result of revisions by the State to correct inaccurate billings and the County's acceptance of the certified backlog that yielded a 15% discount for payments of backlog billing amounts. For the upcoming fiscal year, the unanticipated impact is $10.3 million. The impact for the next four years will be similar. In fact, the

State started to bill the County for this unwanted expense in July, resulting in a direct and negative impact of $4.8 million in FY2012.

Despite our best planning, we do not have the capability to fund this unwanted bill and continue to serve the core functions of County government. Therefore, the budget includes a 0.1997 mill increase in the countywide millage rate. This is the first millage increase in 11 years. The amount of the increase directly offsets the Medicaid bill from the State. The Truth in Millage (TRIM) notices included an insert to explain the reason for the increase to our taxpayers.

There were alternatives to this increase. However, I do not believe they would have been in the best interest of the citizens nor the organization. For example, further reductions could be made to county departments. However, in light of the reductions that have already been made over the course of the last five years, further cuts would cripple this organization and seriously compromise the services provided to the public. They would take us beyond the tipping point. The Medicaid bill is quite literally the "straw that broke the camel's back."

To place the use of further reductions into perspective, we would need to eliminate the entire indigent health care program in order to offset the impact of the Medicaid bill from the State. Alternatively, reductions could be made within the Sheriff's budget, potentially compromising public safety. Within the Real Estate Management department, should we allow our facilities to fall into disrepair, not make our lease payments and not pay our electric and other utility bills? Of course not. Further reductions could be made within Parks and Conservation Resources. However, in order to match the magnitude of the Medicaid bill, these reductions would entail closing parks and not maintaining our stewardship over environmentally endangered lands. Beyond the Sheriff, Health and Human Services, Real Estate Management, and Parks and Conservation Resources, there are no other viable opportunities for savings as these functions represent the largest portion of the General Fund.

Another option would entail using a portion of our savings account, the service level stabilization account, to cover the Medicaid bill. But our strategy was to use these monies in FY2013 and FY2014 as a bridge to an economic recovery. To use these funds to offset the Medicaid bill would apply one-time funds to a recurring need. This would be in opposition to the Board's budget policy of using recurring revenues to match recurring expenditures. Further, to deplete this savings account for Medicaid expenses in FY2013 would require a property tax rate increase of approximately one-half mill in FY2014. This is an instance where I believe it is better to meet the challenge head-on and address it rather than kicking the can down the road. Raiding our savings account would simply magnify the needed property tax increase and be more impactful.

Based on your direction subsequent to the presentation of the Proposed Budget, a number of service level enhancements and other requests that fell outside of the Forecast targets have been included in the adopted budget. These items are captured within the Budget Message and have been funded using our service level stabilization account. The consequence is that this account will not have sufficient funds to bridge the entire anticipated gap in FY2014. Strategies to bridge the anticipated gap will be subject to Board discussion as we develop the FY2014 budget next spring.

The $1,696,815,790 balanced budget continues the County's tradition of providing high quality services to the public while prudently managing the public's funds. The total FY2013 Budget is $38.6 million or 2.3 percent, more than the total FY2012 Revised Budget, which reflects a net increase in operating, capital, reserves and enterprise functions. This is due to non-recurring capital expenditures reflected in the budget. The operating budget, excluding non-recurring capital expenditures, shows a decrease of 2.0 percent.

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 2011, the FY2013 General Fund budget decreased by $26.0 million or 4.6 percent from the FY2012 Revised Budget. The General Fund countywide millage rate reflects the 0.1997 mill increase at 5.0105 mills to offset the impact of Medicaid. The unincorporated area (MSTU) millage rate is unchanged at 2.0857 mills.

The millage rates for other property tax supported budgets remain the same except for the EMS fund, the Palm Harbor Recreation & Library special district, Feather Sound Community Service District, and several fire districts. EMS reflects a 0.0652 mill increase to 0.9158 mills. The EMS budget maintains the status quo with respect level of service and the delivery model. The proposed millage increase is required to fund the system, but does not maintain the fund's reserve level at 25 percent pursuant to Board policy. A higher increase would be required to move the reserve level from 18.7 percent to the desired level. Despite this increase, a higher property tax increase will still be needed in FY2014 to maintain the current system status quo. The following Fire District millages have been increased due to legal requirements: Clearwater, Dunedin, Largo, Safety Harbor, and Tierra Verde. Based on a change in service providers, the South Pasadena fire district millage decreased from 3.1257 to 0.9137 mills. Our other operating and capital improvement budgets have all been adjusted to achieve balance and maintain as high a level of service as possible given the revenue constraints. The Budget Message following this letter presents a comprehensive overview of the detailed information contained in the budget document.

As your County Administrator, I am honored to have worked with you in the development of the FY2013 Budget. Raising the millage rate does not reflect a "tax and spend" mentality. Our record of spending reduction recommendations and the avoidance of tax increases during the "Great Recession" attests to this fact. Rather, this action is based upon a strong belief that the Board has established a responsible direction deserving of the public trust. This course should be maintained through transformational leadership at the County level of government even as the state level shirks its responsibilities and the federal level struggles with its own distinctive problems. Leadership that transforms the roles, strategic and policy direction, and the management arrangements of public organizations requires vision and courage. County government shows both of these virtues in its track record of responding to the challenges of the economic downturn. But much more remains to be done. This FY2013 Budget is transmitted to the Board recognizing that we must stay the course, adapting smartly to unexpected challenges.

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.

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

Pinellas County

FY2013 BUDGET MESSAGE TABLE OF CONTENTS

OVERVIEW OF THE FY2013 BUDGET PROCESS

The *Overview of the FY2013 Budget Process* portion of the FY2013 Budget Message provides an overview of the budget process including:

- FY2013-2022 Forecast
- Balancing the FY2013 Budget
- Citizen Engagement
- Appropriations Included after Proposed Budget
- Future Fiscal Issues

Stay the Course

The overall strategy employed in building the FY2013 Annual Operating & Capital Budget is to provide a balanced budget that is consistent with the Board's strategic direction and to "stay the course" with our multi-year budget plan that is intended to maintain a consistent, reliable set of sustainable services. The Board has engaged the citizens through a diverse set of tools and used this input during vigorous strategic planning sessions and "deep dive" discussions with individual departments and agencies throughout the winter and spring (see Management Initiatives section). The strategic direction focuses on the core services identified by the Board and services valued by the citizens (based on statistically valid surveys and other inputs) and maintaining a vibrant community that will be resilient as the economy slowly recovers.

A multi-year budget strategy has been developed based on the 10-year budget forecast and that strategy recognized and reconciled the new reality that Pinellas County government faces as a result of the real estate market correction, Great Recession, voter initiatives, and state legislative actions that have reduced revenue streams in the short term and will limit revenue growth in the long term. As a result of these factors, Board departments have reduced staffing levels by 35% (nearly 1,000 positions) since FY2007. This represents the lowest position count since FY1985. Property tax revenue, which represents approximately 2/3 of the General Fund budget, has dropped 35% or $151M since FY2007 and is below FY2003 level.

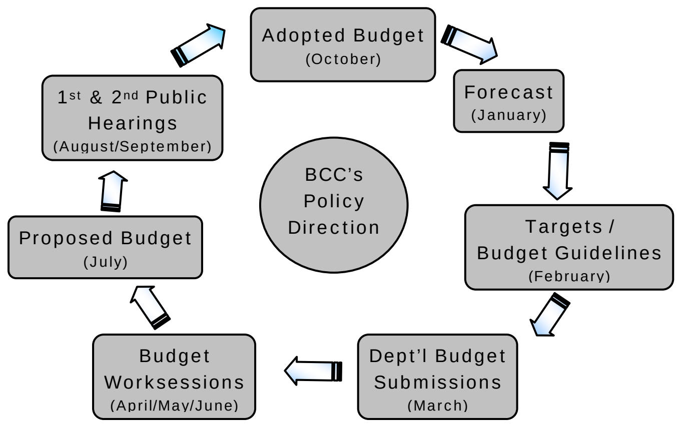
Through these reductions, the County continues to make decisions with a focus on the services that can be provided consistently and reliably in the long term. This has required significant shifts in approach, such as revamping the indigent healthcare services model to be proactive rather than reactive. This new approach is not sustainable if subjected to further reductions and a return to the previous model may yield short-term savings, but has already been proven to cost significantly more in the long term.

The ability to sustain the services provided by the County and deliver them in a consistent, reliable manner that is consistent with the Board's strategic direction is dependent upon stability in resources. Therefore, the FY2013 Budget does not include service level reductions. Any savings represented in the balanced budget are the direct result of efficiencies and business process improvements.

OVERVIEW OF THE FY2013 BUDGET PROCESS

FY2013-2022 Forecast

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 FY2013 budget process.



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 FY2011 with actual revenue and expenditure information following the year-end closeout of the fiscal year as of September 30, 2011. At the same time, the current FY2012 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 FY2013 budget year forecast is based on available information and forms the underlying basis for developing the strategy to balance the budget. In addition to focusing on the upcoming fiscal year, the Forecast's ten-year horizon helps determine the long-term financial position of the County's funds as well as the impact of today's budget decisions on the future. The out years through FY2022 are forecasted using various projection methods such as trend analysis, linear regression, and moving averages.

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 sustain-ability of the County's Funds and (2) under-standing 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)

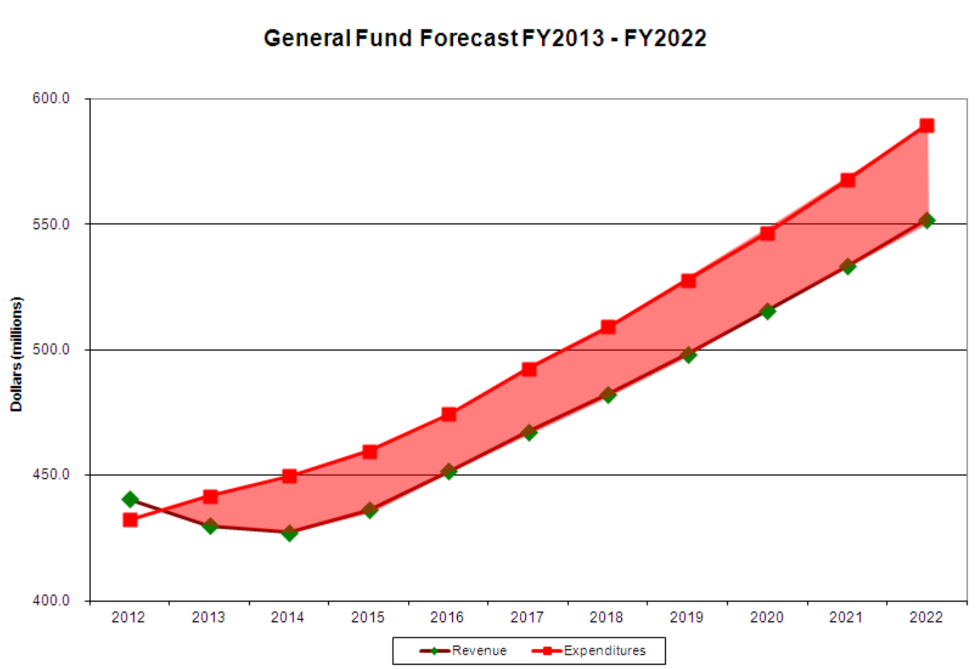
will have a significant impact on the operating budget, that impact can be anticipated several years in advance and strategies can be developed and implemented to manage the impact to the budget. Conversely, if debt service on a bond is due to expire in the near future, additional funds may become available to increase service levels to certain programs or bolster reserves.

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 capacity. 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.

Results of the FY2013-22 Forecast

The ten-year forecast for the General Fund presented in February showed a structural imbalance (where projected recurring expenditures exceed recurring revenues) of $11.9 million in FY2013 and an additional $22.6 million shortfall projected in FY2014.



Based on this forecast, 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 or to increase reserves. Although no formal target was set, departments and agencies were encouraged to spend less wherever possible.

Balancing the FY2013 Budget

Balancing Strategy

As the County sustained reductions over the past several years as a result of the Great Recession and state-mandated revenue caps, the Forecast has been utilized to predict when a recovery in revenues would be realized. The Board set a strategy to stabilize the services provided by the County until the time at which growth in revenues and expenditures are aligned.

One of the key financial strategies employed over the past three years has been the creation of a Service Level Stabilization Account (SLSA) in the General Fund. The SLSA represents non-recurring funds generated by taking reductions in FY2010, 2011, and 2012 over and above what was necessary to balance the budget. The current balance in the SLSA is $28.6M and none of the SLSA has been reallocated by the Board of County Commissioners to be expended in FY2012. The SLSA is intended to bridge the gap between the final years of reductions and the recovery, thereby providing 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. By utilizing this funding instead of sustaining additional reductions, the community should experience the benefits of achieving organizational stability and service level sustainability.

Based on the imbalance identified in the initial forecast and the anticipated beginning of the recovery in FY2015, the SLSA would be utilized to completely cover the shortfall in FY2013 and partially cover the shortfall in FY2014. As a result, County government would remain stable for three years or more (FY2012 through FY2014) provided that the shortfall not covered by the SLSA in FY2014 can be mitigated without reductions in services.

General Fund Budget Targets

The Forecast included key assumptions related to inflation of expenditures, including employee benefits, commodities, fuel, and utilities. Therefore, departments under the County Administrator were instructed to submit FY2013 budgets that were consistent with FY2012 recurring budget appropriations. This translated into no net changes in staffing levels and a 1.7% increase in non-personal services expenditures. This increase is consistent with the forecast revenues and reserve target and accommodates the forecast inflation.

Constitutional officers and independent agencies dependent upon General Fund appropriations were also provided budget targets reflecting a 1.7% increase in appropriation request, to include adjustments for changes in revenues generated by each.

All departments and agencies met the defined targets.

Forecast Updates

In balancing the FY2013 Budget, the forecast has been updated to reflect new and updated information. The significant changes are summarized below and detailed in the "General Fund Forecast" section of the Budget Message.

Taxable Values

Per statutory guidelines, the Property Appraiser releases certified taxable values for all taxing authorities no later than July 1 each year. The General Fund county-wide taxable values for 2012 are utilized to determine the tax bill that provides revenue to support FY2013 General Fund expenditures. While the forecast released in February predicted a 4.0% decrease in taxable values from 2011 to 2012, the Property Appraiser certified taxable values reflected a 1.8% decrease. This yielded a net gain in General Fund revenues of $5.6M. In consideration of the risks to the forecast (see "General Fund Review" section of the Budget Message), the predicted change in taxable values for each year from FY2014-22 has not been revised for purposes of preparing the balanced FY2013 Budget.

Juvenile Detention Costs

Under Chapter 985.686 of Florida Statutes, counties and the State have a shared responsibility for funding juvenile detention. Counties are mandated to pay for pre-dispositional youth detention days and the state is responsible for paying for post-dispositional youth detention days. The funding is charged monthly with funding deposited in the Juvenile Detention Trust Fund. Often times, Pinellas has seen reimbursements from billing disputes and reconciliation. Under the current model, a county's cost can vary with adjustments shifted back and forth between jurisdictions.

Currently, based upon an overall reduction in the Florida Department of Juvenile Justice budget allocation, counties are expected to see a reduction in the annual costs. Of the $30 million in budget reductions, $20 million has been adjusted out of the annual trust fund allocation. This reduction, at the current bed usage, is expected to provide a savings of $800K for Pinellas County in FY2013, decreasing the budget from $5.5M to $4.7M. This savings is anticipated to be recurring, but is contingent on current usage rates and state rules that must be managed and maintained for continued savings. This savings demonstrates progress in juvenile justice reform, however further reform and billing model correction is needed to ensure long term fiscal stability for this budget item.

House Bill 5301 – Medicaid

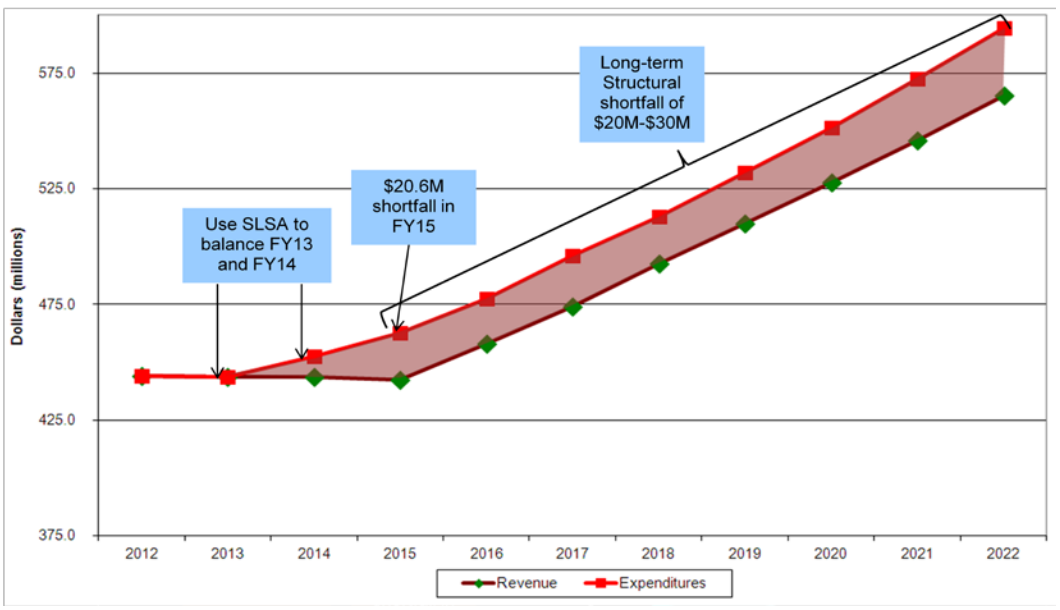
On March 29, the Governor signed House Bill 5301. This bill shifts additional Medicaid costs to Florida counties. As a result, the forecast was updated in May to reflect this unexpected bill from the State. The revised forecast showed a structural imbalance of $21.4M in FY13 (increase of $12.2M) and $33.1M in FY14 (increase of $10.5M). The overall projected adverse impact to the Forecast was $68.9M over the ten-year period.

The additional burden of $22.7M over the next two fiscal years seriously disrupts the budget, obliterates the budget balancing strategy described above, and virtually wipes out all of the $28.6M in the SLSA, that had been set aside to bridge the organization into the recovery.

The Proposed Budget was balanced using a 0.25 mill increase to offset the Medicaid bill. This approach maintains integrity of the multi-year balancing plan and stays the course by continuing to execute the adopted budget strategy. After the presentation of the Proposed Budget, the State certified the Medicaid billings and the County accepted the billings along with a 15% discount for billings related to past obligations. As a result of both changes, the ten-year impact was reduced to $55.7M. The FY13 Budget was balanced by offsetting the adverse impact for FY13 of $10.3M with a millage increase of 0.1997 mills.

Please see the "Medicaid" section of the Budget Message for additional details regarding background, strategic options, and impacts.

Revised General Fund Forecast



NOTE: Graph does not reflect anticipated fiscal impact of $2.6M in FY2013 for one-time cost-of-living wage disbursement approved by Board on September 18.

Additional Funding Requests

While departments and agencies met their budget targets, several requests for additional funding were presented to the Board as part of the Proposed Budget. The Board directed staff to include selected requests (see "Appropriations Included after Proposed Budget" section of the Budget Message for details) in the FY2013 Budget. The $1.5M in appropriations were allocated from the Service Level Stabilization Account (SLSA). The revised General Fund forecast is shown in the graph above and reflects an $8.6M anticipated shortfall in FY2014.

At the second public hearing on September 18, the Board approved a one-time cost-of-living wage disbursement for employees with an anticipated General Fund fiscal impact of $2.6M in

FY2013. Funding will be appropriated from SLSA via budget resolution during the fiscal year. After accounting for this change, the anticipated shortfall in FY2014 is $11.2M.

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 property tax (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 4% decrease in property tax revenue in FY2013. Deviations for each entity between the forecast change and the actual change based on the certified taxable values provided by the Property Appraiser are noted in the Independent Agencies section below.

In Utilities, the Water and Sewer systems were directed to meet expenditure targets that were consistent with the four-year rate plan approved by the Board in September, 2011.

Citizen Engagement

Community Input
The County incorporates considerable public and employee input into each year's budget process. Vehicles for input include community meetings, e-Town Hall, a statistically valid citizens values survey, citizen suggestions through the County's website, and employee suggestions through the Better Way website.

Community Forum – April 10, 2012 @ St. Petersburg College, Seminole Campus
For the first time, the Pinellas County Community Forum fused traditional and virtual outreach in an open house and eTownHall format for the convenience of all citizens. Presented in partnership with the Seminole campus of St. Petersburg College, the overall event afforded the commissioners the opportunity to personally connect and interact with residents and hear the concerns and ideas they have for the budget. Residents could learn about the budget via a video that was simultaneously broadcast during the open house on two monitors in the reception area, on the digitorium presentation screen, on the eTownHall webpage and on PCC-TV channels. The open house preceded the eTownHall.

During the eTownHall event, the Board of County Commissioners and the County Administrator answered selected citizen questions from the audience, telephone participants, online blog and Twitter. Moderator Dick Crippen posed questions to the panel and guided the conversation.

Questions posed by the moderator were received via various avenues of communication, including live audience, website blog, telephone, and Twitter. The online engagement vehicles generated over 1,000 contacts. The telephone interaction started with the County calling nearly 60,000 residents and resulted in over 8,000 contacts.

Budget Information Sessions

In addition to three Budget Information Sessions held in the Board's regular meeting room in downtown Clearwater, the Board held two remote Budget Information Sessions to accommodate residents who might not be able to travel to Clearwater but might want to participate in the budget process. In addition to providing an opportunity for feedback on the budget, the meetings were promoted as a vehicle for sharing the views, values and vision of the community. Since the meetings were noticed and conducted as County Commission Budget Information Sessions, a board reporter was present to record the proceedings and citizens' comments were accepted.

The first remote budget information session was held on May 10 at Safety Harbor City Hall. The agenda was comprised of three parts:

- Fiscal Year 2013-2022 Financial Forecast Summary
- Citizen Preference Survey Results
- Public Input

OVERVIEW OF THE FY2013 BUDGET PROCESS

The second meeting was held on May 15 at St. Petersburg City Hall. The agenda included four parts:

- Fiscal Year 2013-2022 Financial Forecast Summary
- Citizen Preference Survey Results
- 2013 Sheriff Budget Proposal
- Public Input

Telephone Citizen Values Survey

Based on the value gained during last year's budget process, the County once again engaged an independent consultant to conduct a telephone survey from March 23 to April 4. The survey was designed to ensure representation from various age groups, genders, unincorporated residents, and other demographic factors in four distinct geographic areas (north, mid and south County and beaches). The statistically valid survey (4% margin of error) reached 800 county residents using a random digit dial telephonic process to understand what is important to residents, what they value about the county and if they think that current initiatives are aligned. The information gathered will help market Pinellas County effectively and is being used in setting budget and strategic planning priorities. The survey results are available on the County website at:
http://www.pinellascounty.org/bcc_work/2012_05_15/02-pm.pdf

On-line Survey of Citizen Values

Another input mechanism enabled citizens to participate in an on-line version of the citizen values survey. Launched at the close of the telephonic survey, the online survey was made available to residents on the County website at www.pinellascounty.org.

Residents learned about the survey via Facebook and Twitter postings, website story, and coverage by print and TV media. Over 1,500 respondents participated and while the online survey was closed to non-residents, business owners and other shareholders were directed to a submittal form so that they could offer input. To promote diversity of results, participation was limited to one submittal per computer (tracked by IP address; County-owned computers excluded). The survey results are available on the County's website at:
http://www.pinellascounty.org/budget/13budget/presentations/Online_Citizen_Values_Survey.pdf

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 one dozen suggestions to date. Since January 2009, over 1,700 people have signed up to receive budget news via email. And since January, there have been over 39,000 aggregate hits on the Citizen's Guide to the Budget Website.

Employee Input

In 2009, the County created an internal website called **"A Better Way"** to communicate with employees regarding the budget process and set up a suggestion box to tap the wisdom of our employees. Since then, over 1,000 cost-saving and revenue ideas have been submitted, leading to many initiatives to generate savings, optimize business processes, and identify new or enhanced revenues. 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-Saving Ideas

Starting with the FY2012 budget development process, staff has been working hard to address high priority cost saving ideas identified through citizen and employee suggestions. Below is a list of ideas in progress.

- Centralized Chiller Facility: This cost-saving project will construct a chilled water facility that will 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. 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 per year.

- 911 Consolidation: Currently, the Public Safety Services Emergency Communications Center answers all 911 calls in Pinellas County, performs Emergency Medical Dispatch (EMD) and

dispatches all EMS and Fire agencies. Law enforcement calls are transferred to the appropriate law enforcement agency.

Consolidating certain 911 functions has been discussed extensively as part of the Commission's Strategic Long Term Planning process. Following discussions with County Administration and the Sheriff's Department, a committee has been formed to begin the process of consolidating the call-taking function for the County's 911 Center and the Sheriff's Communications Center. While a complete timeline has not yet been developed, the agreed upon goal is to have all call-taking for both agencies consolidated at the opening of the new Public Safety Complex in 2014. County Administration and the Sheriff have tentatively endorsed a functional consolidation and an organizational structure with the Director coming from County Public Safety Services and the Assistant Director coming from the Sheriff's Office.

Initially, the committee consists of staff members from the Department of Public Safety Services and the Sheriff's Office. As the planning phase progresses, this committee will be expanded to include representatives from fire and municipal law enforcement agencies. Outreach to other stakeholders has already begun. The committee will review various areas such as structure, management, standard operating procedures, Computer Aided Dispatch Systems (CAD), shift schedules, training and the overall implementation plans.

- Merger of Public Works and Utilities: A cost saving idea that had been submitted several times is the merger of the Public Works and Utilities departments into the new Department of Environment & Infrastructure (DEI). The combined department represents nearly half of the total staff under the County Administrator. Work teams have been established within DEI to identify opportunities for business process improvements and efficiencies.

- Reorganization of Fleet into Real Estate Management: Fleet Management was reorganized from a stand-alone department to a division of the Real Estate Management Department. Efficiencies have been gained related to common administrative functions. Additional opportunities for synergy continue to be sought.

- Creation of Enterprise GIS Bureau: An Enterprise GIS Bureau was created in early 2011 as 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 provides countywide GIS support and will result in cost savings, enhanced services, and data quality improvements. The bureau is embarking on a project to enhance their essential software platform. Such external entities as municipalities will be able to leverage the software, thereby providing additional sharing of GIS data among interested parties.

- Potential Consolidation and/or Sharing of Governmental Services: We continue to receive citizen and employee suggestions regarding the potential consolidation and/or sharing of governmental services between the County, cities, and other entities. In 2011, the County and Sheriff fleet management functions established a partnership whereby County provides fuel and light and heavy duty vehicle repair and maintenance and the Sheriff provides

passenger vehicle repair and maintenance. County staff continues to engage other entities to identify potential areas of consolidation or sharing of services.

Revenue Ideas

Several revenue ideas were included in the FY2012 Budget. Please see the "Management Initiatives" section of the FY2012 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 had 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 brought these two parks in-line with the County's other beach access parks and preserved maintenance standards throughout the parks system while also enhancing visitor services at Fort De Soto and Fred Howard Parks. The new parking fee is consistent with the results of the statistically valid Citizens' Preference Survey performed last year, which showed that two-thirds of total respondents were in support of a parking fee at Fort De Soto Park. The new parking fees were enacted in early January 2012. Through mid-June, total revenues were $975K, including $144K in annual parking passes, which is consistent with forecasted annual gross revenues of $2.2 million.

- Fees Analysis for Building, Development, and Review Services (BDRS): The FY2012 Budget Message indicated one of the Better Way revenue ideas was to review BDRS fees to ensure that they represent an optimal level of cost recovery. The BDRS Cost Recovery Study prepared by KPMG, October 14, 2011, stated that the County fully recovers operating costs for Building Services and collects 41 cents on the dollar for DRS (see footnote below). This compares to peer averages of $0.86 for Building and $0.16 for DRS. Peer agencies included in the study were Seminole and Brevard Counties, and Clearwater, Largo, Orlando, Pinellas Park and St. Petersburg. The study further states that there are opportunities to drive further efficiencies for Building Services and DRS, including new fees, fee adjustments, recovery of "in-kind" and inter-departmental fees, and other suggestions not related to fees.
  For FY2013, BDRS proposed changes to its fee structure to realign current fees to the cost of providing services and to adjust current fees. BDRS broke out specific inspections or review types from currently collected fees for a better correlation between fees and costs. This results in a permit/service fee decrease. Development Review Division proposed a major restructuring of its Habitat Management fees to simplify the current fee structure. In addition, several new fees have been introduced and are expected to increase revenues by $49,890. Of that increase, $45,000 is derived by requiring contractors to update their information in Permit Plus biennially and charging a $15 fee.
  BDRS will be working on a plan in the coming year to further increase DRS cost recovery.
  NOTE: These are "normalized" rates that have been adjusted to be comparable with the other organizations surveyed in the study. The actual recovery rate was 99 cents on the dollar for Building Services and 30 cents on the dollar for DRS.

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

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 FY2013 budget as expenditures will be covered by fee revenue.

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 FY2013, the taxable value of the district decreased by 1.0% resulting in a $1K reduction in ad valorem revenue. The FSCSD will continue to support necessary ongoing operational requirements totaling $170K by drawing down reserves ($48K) 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.

At the Board budget information session on May 24, the FSCSD requested a millage increase to support future funding of planned capital improvements. The Board provided direction to maintain the current millage rate and requested that the FSCSD deliver a multi-year capital improvement plan to justify the requested increase as part of their FY2014 budget submission.

At the first public hearing for adoption of the budget on September 6, the Board voted to reduce the millage rate to 0.5000 for FY2013.

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 FY2013, the taxable value of the district decreased by 1.8% resulting in a $60K decrease in ad valorem revenue. The Health Department plans to adjust its State budget to accommodate the reduction in County funding.

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 met the budget request target provided.

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 met the budget request target.

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 met the budget request target.

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 FY2013, the taxable value of the district decreased by 2.6% resulting in a $36K decrease in ad valorem revenue.

The Proposed Budget includes a millage rate increase to the full 0.5 mill (from current rate of 0.4378) for the district based upon the request from the Palm Harbor Community Services Agency and Board direction at the May 8 budget information session. The additional revenue will be used to mitigate additional service reductions in FY2013 and to partially restore services reduced over the last several years. The increased millage for FY2013 would generate an additional $189K in ad valorem revenues.

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 3.6% in the collections of FY2013 MSTU ad valorem revenues. While this would result in decreased revenue support for East Lake Community Library, the Board approved a request last year from the Palm Harbor Community Services Agency to provide additional funding of $50,000 a year in FY2012 and FY2013 to adequately meet the East Lake Community Library's operating budget and to fully participate with the Pinellas Public Library Cooperative. As a result, the Proposed Budget reflects a total appropriation of $243K in FY2013. This matches the FY2012 funding. Going forward, the funding for the East Lake Community Library will be addressed as part of the Pinellas Public Library Cooperative interlocal agreement currently being negotiated.

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 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 FY2013, the taxable value for the PPC millage

decreased by 1.8% resulting in a $12K decrease in ad valorem revenue. The PPC continues to draw down reserves to fund ongoing operations and is anticipated to have $120K at the end of FY2013. This is the fourth year of 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 FY2013, the taxable value for the PPC millage decreased by 3.6% resulting in a $169K decrease in ad valorem revenue. Due to this reduction in revenue, the PPLC has reduced its budget for funding available to membership libraries and increased fees associated with services.

At the Board budget information session on May 24, the PPLC requested a millage increase to mitigate additional support reductions in FY2013 and to partially restore support and service reductions over the last several years. The Board provided direction to maintain the current millage rate, in part due to the ongoing negotiations on the Cooperative's funding agreement with partner municipalities.

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 met the budget request target that was applied to its enterprise-wide services. The agency presented several new funding requests on behalf of its customers and these are detailed in the "Appropriations Included after Proposed Budget" section of this budget message.

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. The Clerk met the budget request target. A new funding request for $149K detailed in the "Appropriations Included after Proposed Budget" section of this budget message was included in the FY2013 Budget.

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 Property Appraiser met the budget request target for the portion of the budget that is funded by the General Fund.

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 agency 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 met the budget request target.
The Sheriff has appropriated $1.6M of the agency's funding to operate Pinellas Safe Harbor, a jail diversion program located on 49th Street in the former Pinellas County Jail Annex II. This location was re-configured in 2010 to serve as a 400-bed shelter for homeless persons who otherwise would be involved in the criminal justice system. At a housing cost of approximately $13 per day per person, Pinellas Safe Harbor is a cost-effective alternative to the more than $106 per day per person cost for incarceration in the Pinellas County jail. The Sheriff's office estimates savings exceeding $2.9M in FY2013. The Sheriff continues to seek funding support from municipalities and the private sector.

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 met the budget request target.

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 Tax Collector met the budget request target for the portion of the budget that is funded by the General Fund.

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. The Judiciary's budget submission met the budget request target.

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 Public Defender met the budget request target.

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. The State Attorney met the budget request target.

Appropriations Included after Proposed Budget

While departments and agencies were provided budget targets to maintain consistency with the Forecast and facilitate the presentation of a balanced budget, several requests were presented for additional funding. The requests included in the FY2013 Budget are detailed in the "Appropriations Included after Proposed Budget" section of the Budget Message. Per Board direction, the requests impacting the General Fund were accommodated by using Service Level Stabilization Account funds.

Future Fiscal Issues

The County employs a multi-year strategy to align the Board's strategic direction with available resources. This multi-year approach is dependent upon the 10-year forecast. In building the forecast, several factors have been identified as potential risks that may yield future fiscal issues to the Board's strategic direction. These threats are discussed in the "General Fund Review" section of the Budget Message.

MEDICAID

The *Medicaid* portion of the FY2013 Budget Message provides background, impacts, and actions associated with Medicaid costs.

Background

Medicaid is a health program for certain people and families with low incomes and resources. It is a means-tested program jointly funded by the state and federal governments, and is administered by the states. In Florida, Medicaid is administered by the Agency for Health Care Administration (AHCA). A portion of Florida's share of Medicaid costs is covered by the counties. Counties are responsible only for services provided to residents of that particular county. A county's share of cost is currently limited to a portion of inpatient hospital costs and nursing home costs. Inpatient hospital costs are defined in terms of days and nursing home payments are defined in terms of months. A county's responsibility for inpatient hospital days is 35% of the cost paid by the State starting with day 11 and ending with day 45. Inpatient hospital costs are further defined in terms of rate as individual hospitals have different per diem rates which are set by AHCA and adjusted annually. A county's responsibility for nursing home rates is currently capped at $55 per month per person. Counties are billed on a monthly basis.

In 2008, the AHCA launched a new computer system which caused a significant increase in the number of billing errors in the state's data. Since 2008, we have experienced billing errors such as incorrect address information, duplicative charges, and incorrect rates which lead to a number of denied bills, later explained in the retrospective section. Errors in the system include:

- Any individual for whom an address was unknown automatically got billed to Alachua County because they are the first county when sorting alphabetically;
- Counties are charged based on residency, yet counties were only able to view a mailing address rather than a living address in the system;
- Counties are unable to view addresses and address history in the Florida system, meaning there is no way for a county to verify an address, forcing them to use outside resources to verify addresses;
- The Florida system does not recognize that a zip code may cover more than one county;
- Counties continue to receive duplicate bills that are sent due to hospital rate adjustments. While AHCA contends many of these are simply adjusted and not duplicate, none of the backup materials are available for counties to view and verify.

In 2009, 45% of the invoices received by Pinellas County were erroneous. In both 2010 and 2011, just over 20% were erroneous (percentages reflect erroneous claims in dollars). These billing errors resulted in a "backlog" of denied payments, and therefore a deficit which inspired legislative action and intervention.

Medicaid Legislation of 2012

During the 2012 Legislative Session, House Bill 5301, sponsored by Representative Matt Hudson (R) of Naples, passed out of the Legislature despite the advocacy efforts of the Board of County Commissioners, legislative coordination team, and Health & Human Services Department. The bill was signed in to law by Governor Rick Scott on March 29, 2012. The law has three main components: guidelines on retrospective bills, processes for prospective bills, and determining proof of residency.

Established Guidelines for Retrospective Bills

The law requires counties to pay retrospective bills dating from November 1, 2001 through April 30, 2012. These retrospective bills had been previously denied by the counties and were considered outstanding by the State. Many of the denied payments were a result of AHCA's erroneous billing system, and as mentioned above, Pinellas County historically denied approximately 20% of Medicaid claims due to insufficient evidence of county residence. AHCA's original estimated retrospective bill backlog amount for Pinellas County was $33,129,310.00. AHCA allowed counties to review these claims and after several months of review, further reduced county backlogs by nearly 50% statewide. On August 1st, AHCA certified Pinellas County's backlog to be $17,863,545.00. Counties were given one month to review this certified backlog amount and either accept or challenge the total amount. If counties accepted the certified amount, the State would provide a 15% discount on their bill. If counties challenged the certified amount, they would be given the opportunity to appear before the Department of Administrative Hearings, and would have to pay whatever amount DOAH determined, which could be more or less than their certified backlog amount.

Process for Prospective Bill Payment

For prospective bills, the law provides a new payment mechanism for current and future bills by allowing the State to deduct funds for Medicaid invoices directly from counties' revenue sharing or half-cent sales tax revenue *before* counties had a chance to audit the invoices. Counties are given the chance to review bills *after* their revenue is withheld by the State and will need to request a credit towards future payments if discrepancies are found.

Proof of Residency

The law shifts the burden of proof of residency from the State to the counties, requiring a county to demonstrate that a claimant is not a county resident in order to dispute an amount on a bill. This task is further complicated by the reduced time-frame provided by the law to conduct a thorough review of the claims to determine residency. Pinellas County developed a thorough review process, using technology through an already-existing contract with LexisNexis to verify residency of claimants on our Medicaid bills. The County utilized this review process for the certified backlog of retrospective bills and was able to find $2,191,340.00 in inaccurate claims and will continue to use this review process for future Medicaid claims to ensure that the County is only paying for claims stemming from county residents.

Actions Taken by Pinellas County

Upon receiving AHCA's original estimated retrospective backlog amount of $33,139,310.00, Pinellas County embarked on a four-prong approach to address the systemic problems with the new law and to prepare the County for future increased Medicaid payments. The Board of County Commissioners discussed the implications of the legislation with fellow policymakers and actively joined the Florida Association of Counties in their opposition of the bill. The Department of Health and Human Services staff and the county's legislative team participated in various meetings and phone calls with AHCA, worked with the other Florida counties to seek a legislative solution to the law and testified at a Medicaid rule hearing to express our concerns on the record. The County Attorney's Office worked with staff to gather data to prepare Pinellas County to join 54 other Florida counties and the Florida Association of Counties in litigation to overturn the legislation. And in July, the County Administrator approved a new review process to audit the over 200,000 claims that were included in the County's backlog bill. The County engaged LexisNexis to provide research of publicly available databases and a customized searchable, electronic report. LexisNexis researched various databases that included unique identifying information in order to provide the best possible match for the bills. They also developed a custom report of the research results to assist our efforts of either validating or disputing the individual Medicaid certified backlog charges based on county residency.

Facing increasing pressure from counties across the State, AHCA began to review the individual county Medicaid retrospective bills. The review process revealed significant deficiencies in the State's billing process and validated many reasons that counties had been denying payment of Medicaid charges all along. Even after months of re-verifications and corrections of charges by AHCA staff, almost half of the original backlog of invoices needed to be adjusted off of the county bills because the charges could not be substantiated.

On August 1st, AHCA certified a backlog of charges totaling $17,863,545.05 to Pinellas County for the period November 1, 2001 through April 30, 2012. That amount was a 46% reduction from the original estimated backlog amount of over $33 million. Shortly after receiving the County's certified backlog amount, the Department began a new review of the claims. The results from the original LexisNexis report were combined with research by Health and Human Services staff to further identify questionable charges within the Pinellas County backlog and research those claims using the Florida Department of Children and Families Medicaid database. The Department identified $2,191,340 in inaccurate hospital and nursing home claims and asked AHCA to review these questionable charges.

On August 14th, the Department of Health and Human Services recommended to the Board of County Commissioners that the County accept the certified backlog amount of $17,863,545.05 and receive a 15% discount. The Department agreed to continue working with AHCA to review the $2.1 million in questionable claims and receive a future credit against our Medicaid payments. The Board accepted the recommendation, resulting in a final certified Medicaid backlog bill of $15,184,013.00, a 54% reduction from the original backlog estimate by AHCA.

Financial Impact on Pinellas County

As shown in the chart below, the County was already responsible for escalating Medicaid costs ranging from $13.0M in FY2013 to $24.7M in FY2022. Based on the final certified backlog bill, an additional cost totaling $55.8 million over the ten-year forecast period is projected as a result of the new legislation. The backlog of outstanding billings is front-loaded in the first five years (FY2013-17) with this period reflecting the greatest adverse impact on the Forecast. An impact of $10.3 million and $7.7 million is expected in FY2013 and FY2014, respectively. It is important to note, that in addition to the impact on future budgets, there was also a negative $4.8 million impact to the FY2012 budget because Medicaid legislation began in May, 2012.

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Original	$13.0M	$13.9M	$14.9M	$16.0M	$17.2M	$18.5M	$19.9M	$21.4M	$23.0M	$24.7M
Revised	$18.3M	$19.0M	$19.8M	$20.6M	$21.6M	$22.6M	$23.6M	$24.7M	$25.9M	$27.1M
Difference	**($10.3M)**	**($7.7M)**	**($7.4M)**	**($7.1M)**	**($6.9M)**	**($4.1M)**	**($3.7M)**	**($3.3M)**	**($2.9M)**	**($2.4M)**

The additional burden of $18.0 million over the next two fiscal years is substantial. It seriously disrupts the budget and could not be absorbed without draconian service level reductions, increased revenues, or both. The scale of the unfunded mandate obliterates the budget strategy to use funds accumulated in the Service Level Stabilization Account to cover gaps in the budget and forecast in FY2013 and FY2014, respectively. The strategy was to cover these gaps until a projected recovery in FY15. To preserve the multi-year strategy, the Board adopted an increase in the countywide millage rate of 0.1997 (from 4.8108 to 5.0105 mills) for FY2013 commensurate with the unanticipated Medicaid impact of $10.3M.

APPROPRIATIONS INCLUDED AFTER PROPOSED BUDGET

The *Appropriations Included after Proposed Budget* portion of the FY2013 Budget Message provides an overview of expenditure issues that the Board directed staff to add after presentation of the Proposed Budget. Each of these was presented as an additional funding request in the Proposed Budget. Some of these issues are one-time expenditures; others involve recurring expenses. This section discusses the options grouped by Fund.

General Fund

Health & Human Services

- Homeless Initiatives ($840K recurring): Continuation of support for homeless initiatives. This request has been presented in each of the past three years and supported on a one-time basis. The appropriation totaled $1.0M in FY2010 and FY2011 and was reduced to $840K in FY2012. The funding supports Pinellas Hope ($500K), homeless street outreach activities ($300K) in the south, mid, and north regions of the County, and Turning Point ($40K). The Board directed staff to include as a recurring expenditure in future budgets.

Clerk of the Circuit Court

- Finance Division ($149K recurring): Augment staff by three positions due to centralization of business processes from individual departments to Finance as part of Oracle Project Unified Solution (OPUS) project implementation. Positions support such core functions as processing vendor payments in accordance with statutory timelines within the Clerk's Accounts Payable system.

Business Technology Services

- Justice Consolidated Case Management System project ($3.9M one-time): 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. Of the $11.6M total estimated cost for this project, $7.7M was budgeted through FY2012. The final anticipated allocation of $3.9M is budgeted in FY2013. This project began implementation in December of 2010. A separate cost center was created in the BTS Fund to account for this project.
- WiFi Connectivity Project ($360K one-time; $110K recurring increase starting in FY14): Per customer requests to meet demand related to increasing wireless connectivity capacity, appropriated funding will replace and expand the wi-fi infrastructure to provide wireless capacity in County offices. Current infrastructure has reached capacity and requests for increases are being held. Recurring maintenance of $140K would commence in FY14, representing a net increase of $110K versus current recurring maintenance.
- Oracle Project Unified Solution (OPUS) Support ($250K recurring): Augment staff by two positions to support Hyperion and Business Intelligence applications. The proposed addition of these positions is consistent with the business case presented to Board to support approval of the project. Hyperion applications are utilized for production of the annual budget and

performance measurement. Business Intelligence applications are used for reporting and analysis from Oracle, Hyperion, and other applications.

- Wide Area Network Redundancy ($78K recurring): Establish redundancy for enterprise network connections between sites that are not part of the County's internal fiber network. By introducing redundancy, if the carrier providing network connectivity experiences an outage, a backup carrier will prevent impact to County operations. Redundancy costs are estimated at $6K for each site. Proposed sites include such 24/7 operations as Emergency Medical Services and DEI-Utilities operations. Additional sites include constitutional officer locations in north and south County.

Transfer to Capital Projects Fund (General Government)

- Centralized Chiller Project ($1.5M one-time): This cost-saving project will construct a chilled water facility that will 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. 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 per year. FY2013 includes the first of five $1.5M transfers to the Capital Projects Fund to support this project, which had been advance-funded from other sources.

Other Funds

Department of Environment & Infrastructure

- Advanced Traffic Management System/Intelligent Transportation System (ATMS/ITS) ($40K recurring savings): Augment staff by four positions to operate and maintain ATMS/ITS. Due to the planned expansion of the system throughout the implementation phase that will continue through 2020, four additional positions are necessary to operate and maintain the system at the level of service intended. This is consistent with the multi-year implementation plan. One additional position to perform construction activities, previously planned to be contracted, will supplement existing and above-requested staffing and will yield recurring savings. The total cost of the five requested positions is $302K and savings are estimated at $342K based on the findings from a consultant study. This yields net recurring savings of $40K. Funding source is the ITS program dedicated Ninth Cent Gas Tax in the Transportation Trust Fund.

Business Technology Services

- Computer Aided Drafting & Design (CADD) Support ($160K recurring): Augment staff by two positions to support CADD software and technical support. Two temporary contract positions were approved by BCC Technology Steering Committee and are being funded in FY12 from BCC Strategic Project Funds (non-recurring funding). CADD software is a tool utilized by County engineering staff in the Department of Environment & Infrastructure and Real Estate Management. The positions may be capitalized such that costs are charged to the Capital Improvement Program.

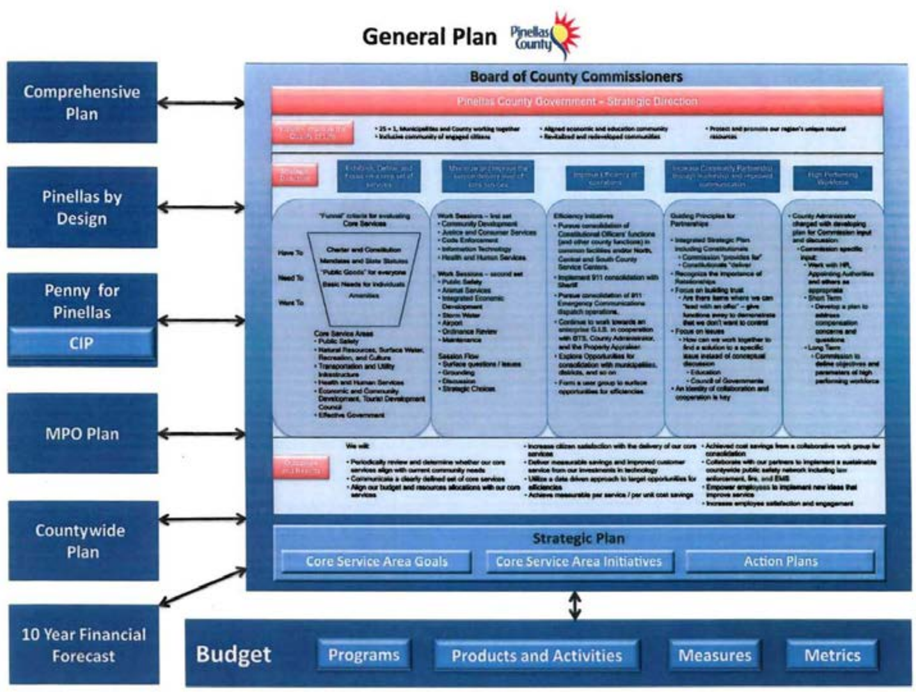
MANAGEMENT INITIATIVES

The *Management Initiatives* portion of the FY2013 Budget Message provides an overview of various management initiatives that the County has implemented over the last several years. These initiatives are intended to facilitate efficiency, effectiveness, stability and reliability in the provision of services while Pinellas County continues to adapt to a new normal in terms of revenues to support services. This section discusses the following initiatives:

- Strategic Planning
- Multi-Year Forecasting
- Program-Based Budgeting
- High Performing Workforce
- Volunteerism

Strategic Planning

To help chart the organization's course into FY2013 and beyond in this state of new fiscal reality—otherwise known as the "new normal"—the Pinellas County Board of County Commissioners is engaged with County Administration and its staff in a process to produce on-going policy and strategic direction in a visionary and innovative manner. The BCC envisions a General Plan that integrates the County's major planning and policy-making efforts, as depicted in the chart below.



Work on the General Plan began in 2011. The BCC established concepts for an over-arching vision of Pinellas County, set strategic direction, and outlined desired outcomes and results. The BCC also decided to pursue during early 2012 a series of "deep dives" into several areas of strategic interest in preparation for budget decision-making later in the year. The following functions involving one of the BCC's Core Service Areas (CSA) are the subject of these deep dives:

- Health and Human Services
- Community Development
- Justice and Consumer Services
- Code Enforcement

Separate presentation workshops centered on these functions were conducted during January and February. An additional "deep dive workshop" took place in May for the purpose of considering, in an integrated manner, the goals and strategies encompassing policies, programs, and projects (strategic initiatives) within the CSA. In order for the county to see a reduction in service costs associated with at-risk communities, departments must re-align their core services and work collectively rather than independently. This holistic approach is taken because the combined initiatives are designed to serve a similar overall visionary purpose: to help foster Healthy Communities.

Healthy Communities

To keep its competitive edge, Pinellas County must simultaneously address three aspects of urban regeneration and redevelopment:

1. Economic development and opportunity;
2. Social cohesion and stability; and
3. Condition of the natural and built environment.

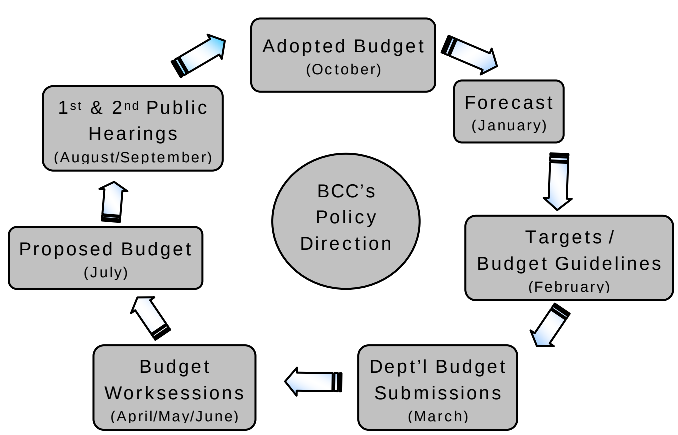
If the components are understood holistically and are in reasonable harmony, communities and the individuals that inhabit them are able to stay healthy and self-sufficient; and are empowered to meet the needs of the present without compromising the future.

There is no single cause and no simple solution to the challenges facing distressed communities and individuals. Furthermore, disadvantaged citizens are mired in vicious feedback loops that drive them into a quality of life below the standards of healthy vitality necessary to be productive and self-sufficient. Healthy Communities is embodied in the Board's vision and values, its strategic direction, and its leadership philosophy. Healthy Communities is the first initiative toward a transformation from a government-centric to a community-centric model recognizing that while county government has an important role to play; it must play it within the context of a broader network of collaborative partners.

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.

Developing the Forecast

The Forecast is developed by the Office of Management & Budget (OMB) during November and December for presentation to the Board 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 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.

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. 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.

MANAGEMENT INITIATIVES

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.

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.

Transition

For the first time, the FY2013 Budget is presented from a programmatic perspective within each department. This differs from the prior presentation that was based on line-item detail within each department's functional units.

The FY2013 Budget also represents a transition as departments and agencies under the Board amended their programs as originally structured for FY2012 with a renewed focus on presenting programs that are aligned with strategic priorities and services that are understood by citizens. As a result, while departmental totals are comparable, the programs defined for each department in FY2013 may be significantly different from those presented in FY2012. One of the impacts is that year-to-year comparisons at a program level may not yield valuable information. The program-based budgets within each department have also been enhanced for the Adopted Budget by including performance measures. This addition provides additional context to each program's budget by linking resources and service levels.

This transition is a result of the Oracle Project Unified Solution (OPUS) project, 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). The project replaced legacy software and integrated the County's financial, purchasing, human resources, and budget systems, thereby facilitating program and performance-based budgeting.

High Performing Workforce

The County is working toward creating a culture of high performance within our workforce. A High Performance Organization constantly assesses challenges and problems; designs and implements responses; monitors, measures, and evaluates performance; and makes adjustments as more is learned. A High Performance Organization will contribute optimally to Healthy Communities, advance the Board's broad vision, serve its strategic direction, and successfully deploy strategic

initiates though time. The two main training initiatives are: High-Performance Organization (HPO) and Achieve Global.

High Performance Organization
The purpose of HPO training is to understand and begin to implement six change levers: leadership, vision, values, strategy, structure, and systems and processes within the organization. We are in the process of answering the following high level questions:

1. What is high performance for us?
2. How would we know if we were high performing?
3. According to whom are we high performing?
4. Why do we need to be high performing?
5. Are we doing the "right" what?
6. How good are we at it?
7. How are we going to treat each other, our partners, our customers, and our other stakeholders?

As of May 2012, 176 employees have participated in HPO training.

Achieve Global
Whereas HPO is conceptual, Achieve Global deals with the day-to-day aspects of working with others and both tools are complementary. Achieve Global is organized into four competency topics:

- Problem-Solving Results: Solutions, Improvements, and Innovations;
- Coaching Others for Top Performance;
- Reaching for Stellar Service; and
- Accelerating Team Productivity.

As of May 2012, 239 employees have participated in Achieve Global training.

Volunteerism
Since FY2007, fiscal challenges have resulted in the elimination of many full-time positions for the BCC departments; we are currently at 1984 staffing levels. To help offset a portion of this impact to levels of service experienced by the public, the County continues an initiative to better leverage volunteers. This initiative is underway and significant progress has taken place. Approximately 4,000 volunteers are currently contributing and over 100 new volunteers are added each month. Additionally, volunteer hours worked increased by 76% and 34% over the first and second quarters of the calendar year, respectively. The value of volunteer hours worked in the second quarter is $1.09 million (based on $21.36 an hour as determined by Independent Sector), reflecting an increase of $278K over the first quarter. As our volunteer initiative continues to progress, we expect the community to see even more value added.

Pinellas County

ECONOMIC OVERVIEW & BUDGET BACKGROUND

The *Economic Overview & Budget Background* portion of the FY2013 Budget Message provides important context for the FY2013 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

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 recession 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; impacts from the European debt crisis; and the looming threat of 'Taxmageddon' on December 31, 2012, when several tax cuts are scheduled to expire, including the George W. Bush-era income tax cuts and the two-percentage point reduction in the Social Security payroll tax.

Debt Ceiling Crisis
Under the United States Constitution, Congress has the authority to appropriate funds for numerous activities, including national defense, education and payment of the nation's debt obligations. When annual revenues fall short of the level required to pay for these activities, the Government must then borrow money through the issuance of debt instruments, such as short-term bills and notes and long-term bonds. In an effort to provide flexibility while still maintaining some control, Congress imposed the first debt ceiling in 1917, limiting the amount of debt the federal government can legally borrow to $11.5 billion. Previously, Congress had to sign off each time the Department of the Treasury issued debt. To meet the growing obligations of the federal government, Congress must approve a new debt ceiling level before the accrued debt meets the imposed cap. This has been done more than 70 times since 1962, with the current debt limit exceeding $16 trillion. Increasing the debt ceiling does not authorize new spending, but allows the government to raise the necessary funds to pay for previously incurred obligations.

During the Spring and Summer of 2011, President Obama and leaders of both the House and Senate faced the need for another increase in the debt ceiling. What is usually a routine vote turned into a policy showdown between congressional Republicans and Democrats over how to reduce federal spending and long-term debt. After several months of negotiations, the House and Senate passed the

Budget Control Act of 2011, which was signed into law by President Obama on August 2, 2011, the day the Treasury Department said the United States would begin to default on their obligations without further action.

Budget Control Act of 2011

The Act established a procedure for increasing the debt limit by $400 billion initially and an additional $500 billion after September 2011. The Act also mandated at least $2.1 trillion in spending cuts, with immediate caps on domestic and defense spending resulting in over $900 billion deficit reduction over ten years. To determine the remaining $1.2 trillion in cuts, the Congressional Joint Select Committee on Deficit Reduction (the "Super Committee") was established. The Super Committee consisted of 12 members of Congress, with six coming from the House and six from the Senate, split evenly between Democrats and Republicans. The committee was charged with issuing recommendations by November 23, 2011 for at least $1.5 trillion in deficit reductions over ten years, which could include both revenue increases and spending cuts.

Downgrade of Federal Government Credit Rating Despite averting default, Standard & Poor's (S&P) downgraded the government's credit rating one notch from AAA (highest) to AA+. Citing "political brinksmanship", S&P determined the U.S. government's ability to manage its financial house is "less stable, less effective, and less predictable", and the *Budget Control Act of 2011* "fell short" of what was needed to bring the nation's debt under control over time. S&P also did not feel the political leaders would be able to achieve the mandated savings in the future.

Failure of the Super Committee

After several months of hard work and intense deliberations, the Super Committee was unable to reach agreement. The failure of the Super Committee to forge a deficit reduction deal triggers $1.2 trillion in automatic across-the-board spending cuts starting in 2013, evenly divided between military and non-military spending. While most government programs are subject to the automatic cuts, programs that assist low-income Americans will be exempt, including Social Security, Medicaid, veterans' benefits and food stamps.

European Sovereign Debt Crisis

Since late 2009, fear of a European sovereign debt crisis has continued to rattle investors around the world. In 2009, the newly-elected government of Greece revealed that the previous government had hidden an enormous amount of debt, immediately calling into question the country's ability to repay their outstanding debt and their credit-worthiness. Concerns intensified in early 2010 and Greece was unable to borrow on the open market at an affordable rate, pushing the county to the brink of default. To try to prevent this from happening, and the possibility of the crisis spreading throughout rest of Europe and around the world, the European Union, International Monetary Fund and the European Central Bank, known as the troika, provided Greece with a bailout package worth €110 billion. As a condition of the bailout, Greece was required to dramatically slash public spending and raise taxes to gain control of their deficits. In May of 2010, European leaders approved a contingency fund of €500 billion for the union as a whole.

In November 2010, Ireland, still suffering from the collapse of the housing bubble, received a €67 billion bailout, while Portugal received their own bailout of €78 billion in May 2011. The bailouts were politically unpopular and the governments of both countries were soon replaced.

By the end of summer 2011, both Italy and Spain were on the brink of needing bailouts or risking default. Italy was dealing with debt incurred prior to its joining the euro and Spain's unemployment rate had jumped to over 20% with the collapse of their housing market. European leaders struggled to increase the size of the available bailout fund, with German Chancellor Angela Merkel pushing for more austerity in exchange for access to the bailout funds. However, before the crisis hit the tipping-point, the European Central Bank flooded the market with cheap loans than many countries used to prop up their governments.

As the economic recovery stalls in Europe, the continent is approaching a second recession, with countries like Greece and Spain still experiencing soaring unemployment and large budget deficits. In March 2012, Greece received a second bailout package of €130 billion, and the troika managed an orderly default on most of Greece's private debt in exchange for more cost-cutting and privatization of public assets. By June 2012, Spain became the fourth country in Europe to receive assistance from the bailout fund. European finance leaders provided an aid package of €125 billion to help bailout the cash-starved Spanish banks.

As of this writing, the situation in Europe is far from resolved. The biggest fear in Europe is the financial panic spreading far beyond Greece. On June 17, 2012, voters in Greece narrowly elected the conservative party which supported the bailout packages and the drastic cuts needed to fulfill the obligations of those packages. Should Greece's economy continue to decline, they may be forced to leave euro, threatening the structural integrity of the common-currency zone and the strength of the worldwide recovery.

'Taxmageddon' and Mandatory Spending Cuts

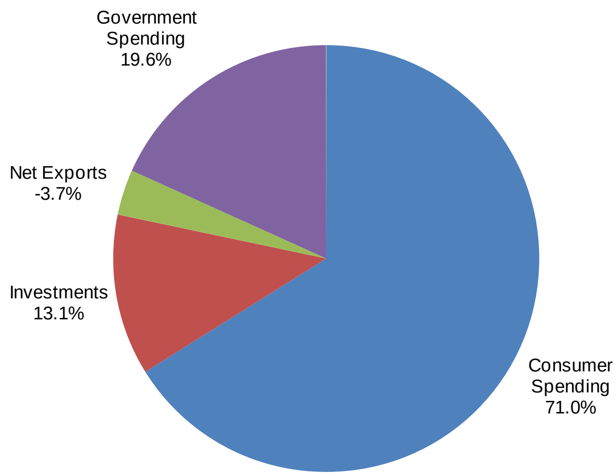
In December 2010, President Obama signed an extension of the Bush-era tax cuts. The legislation extended the current income, dividend, and capital gains tax rates through December 31, 2012. The legislation also included a 13-month extension of unemployment benefits and a decrease in Social Security payroll taxes from 6.2% to 4.2% for 2011, which was later extended through 2012. The bill also provided 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.

With the scheduled expiration of these tax cuts, and several more, in addition to the new Medicare taxes enacted as part of President Obama's Affordable Care Act, an estimated $500 billion could be taken out of the economy in 2013. Add this to the mandated cuts in defense and non-defense spending by the *Budget Control Act of 2011*, an already fragile U.S. economy may be pushed back into recession. Many economists and political experts expect negotiations to avert this scenario to begin in earnest after the presidential election in November.

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 (Second Quarter 2012) are shown in the pie chart below.

Components of U.S. GDP – 2nd Qtr. 2012

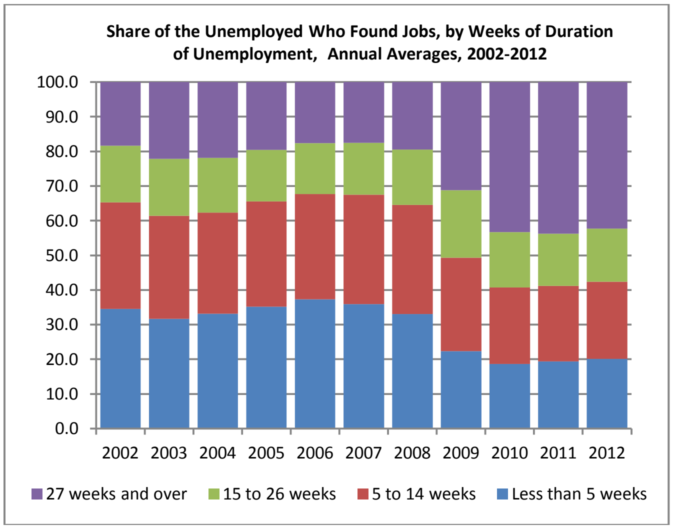


Source: U.S. Bureau of Economic Analysis

Consumer Spending

At 71.0%, 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, financial market volatility, government debt ceiling and debt downgrade, an increase in household savings, a restrictive supply of credit, increases in food and energy prices, and potential tax increases.

The recent recession has had a profound effect on the length of unemployment. The chart below shows that prior to the recent recession, more than 35% of the unemployed found work in less than five weeks, with almost 70% finding work in less than 15 weeks. By 2009, it took an unemployed person more than 14 weeks over 50% of the time. Since 2010, 43% of the unemployed took more than 26 weeks to find employment.



Source: US Bureau of Labor Statistics

The September 2012 unemployment rate was 7.8%, the lowest level since January 2009. Job growth, which showed signs of strength in the first quarter of 2012, has slowed over the last two months. Through September of this year, the economy has added an average of 146,000 jobs per month.

Seasonally Adjusted Unemployment Rate 2007-2012

Source: U.S. Bureau of Labor Statistics/FRED

High unemployment continues to characterize the weakest post-recession job recovery on record. Hindering job growth is a structural challenge in the labor market. There is a disconnect between skills that are in demand and the skills available in the current labor market. The chart below shows that the Congressional Budget Office forecasts that unemployment will remain high until at least 2015. High unemployment will likely continue to restrain consumer spending for the next few years.

Year	Unemployment %
2011	8.9%
2012	8.8% (7.8% YTD)
2013	9.1%
2014	8.7%
2015	7.4%
2016	6.3%
2017	5.7%
2018	5.5%
2019	5.5%

Source: Congressional Budget Office, Budget & Economic Outlook
January, 2012

ECONOMIC OVERVIEW & BUDGET BACKGROUND

According to the U.S. Department of Commerce, retail sales for 2011 were higher in many key categories over the previous year as shown in the chart below. Although these increases were driven by discounts and promotions, these figures do seem to indicate a positive trend in consumer spending. November/December holiday sales were up 4.1%.

Category	December 2011	December 2010	% Growth
Retail & Food Services	$400.6B	$376.2B	6.5%
Retail	$358.0B	$336.9B	6.3%
Automobiles	$71.9B	$66.0B	8.8%
Gas Stations	$44.8B	$41.1B	8.9%
Clothing	$19.2B	$18.1B	6.0%

Source: U.S. Department of Commerce

Inflation also plays a role impacting the outlook for consumer spending. The Consumer Price Index, the generally accepted measure of overall inflation, rose by 2.35% over the first half of 2012, lower than the 3.2% rise for all of 2011. In addition, the Federal Reserve has continued to maintain record low levels on short-term interest rates, and are expected to keep them close to zero at least through 2015, which is about two and a half years longer than originally indicated.

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. Since 2007, the average American family's net worth dropped almost 40%, dropping them to 1992 levels. 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 2012 through 2015 is anticipated to be just 2.1%. To put this in perspective, the average annual growth in consumption from 2003 to 2007 was 2.9%.

Year	% Change in Consumption Growth
2003	2.8%
2004	3.3%
2005	3.4%
2006	2.9%
2007	2.3%
2008	-0.6%
2009	-1.9%
2010	2.0%
2011	2.2%
2012 (Est.)	2.0%
2013 (Est.)	2.2%
2014 (Est.)	2.2%
2015 (Est.)	2.2%

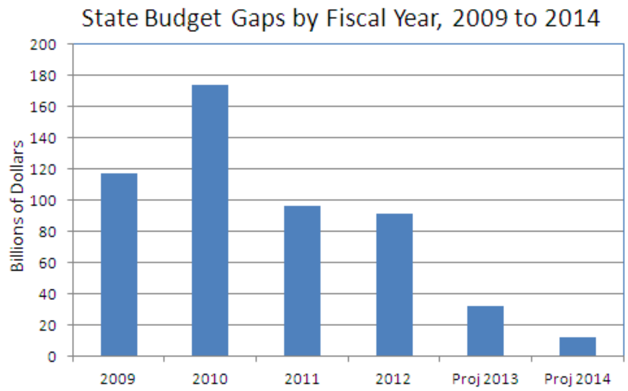
Source: UCF Institute for Economic Competitiveness
U.S. Forecast, March, 2012

Government Spending

The second largest component of GDP is Government Spending at 19.6%. The government sector will likely remain a drag on economic growth. The state and local government sector represents approximately 60% of total government spending.

State government budgets have been challenged over the last several years. As shown in the chart below, state budget deficits peaked in FY2010 at $174.1 billion and have decreased since then.

Although some states are forecasting budget gaps over the next two years, the number of states and the size of the gaps are projected to decline.



Source: National Conference of State Legislatures, Summer 2011

Local government budgets are heavily dependent on property tax revenues. Residential construction continues to struggle across much of the country due to a glut of excess single-family homes and condominiums. The National Association of Realtors estimates the inventory of existing homes at approximately 2.86 million units and estimates the shadow inventory made up of homes in the foreclosure process at an additional 2.0 million units. Areas where the real estate market is showing improvement includes the Northeast, the Washington D.C. region, Texas, and California. A sustainable recovery will not truly occur until the backlog of distressed properties is cleared. Until real estate markets 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. Federal spending is anticipated to decrease over the next few years as the stimulus winds down and spending reductions take place from the Budget Control Act passed in 2011. The Act specified automatic procedures for reducing spending by as much as $1.2 trillion if legislation is not approved for reducing spending by that amount. These cuts would be spread out over the ten years and contribute to more restrained federal spending than in years past and detract from economic growth. Federal government spending is anticipated to decrease by 2-3% over the next four years.

Investment

The third largest component of GDP is Investment at 13.1%. This component is made up of Non-Residential Fixed Investment and Residential Fixed Investment.

Non-Residential Fixed Investment is fairly strong as businesses have large amounts of cash and take advantage of low interest rates. In 2010 and 2011, investments increased significantly in Transportation Equipment, Computers & Peripherals, Equipment & Software, and Industrial Equipment. The composition of business fixed investment is expected to shift toward Structures as the commercial real estate market stabilizes.

Residential fixed investment growth has been negative since 2006, but should finally see positive growth beginning in 2012. Housing starts bottomed out in 2009 and are expected to accelerate in the near term.

Net Exports

The definition of net exports is exports minus imports. Current net exports make up -3.7% of GDP. A key factor driving net exports is the value of the dollar. The value of the dollar has gradually weakened and depreciated through much of 2011 due to the Federal Reserve's policy of quantitative easing which helped decrease the dollar exchange rate against other currencies. A depreciated dollar helps increase exports by making the costs of U.S. goods more competitive in the global marketplace and reduces the negative net exports calculation. The weakening of the dollar was interrupted by the European Debt Crisis, but is anticipated to continue for several years.

The pace of export growth is expected to decrease slightly as a result of the anticipated modest recession in Europe. However, exports to emerging markets should continue to help domestic global producers. Import growth will likely be constrained by the slow pace of consumer spending.

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 recovery will be in the 3% range due to lingering high levels of unemployment, the bottoming out of the housing market, the continued decline of commercial real estate market, decreases in both federal and state & local government spending, and uneasiness about Europe.

Gross Domestic Product (GDP)	GDP Growth
2003	2.5%
2004	3.5%
2005	3.1%
2006	2.7%
2007	1.9%
2008	-0.3%
2009	-3.5%
2010	3.0%
2011	1.7%
2012 (Est.)	2.3%
2013 (Est.)	2.7%
2014 (Est.)	3.1%
2015 (Est.)	3.4%

Source: Federal Reserve Bank of Philadelphia
Survey of Professional Forecasters, May 11, 2012

While the national economy appears to have stabilized, the lack of job-growth and continued high unemployment, in addition to the on-going financial crisis across much of Europe, still poses a significant threat to the recovery, both nationally and globally.

The State Economy

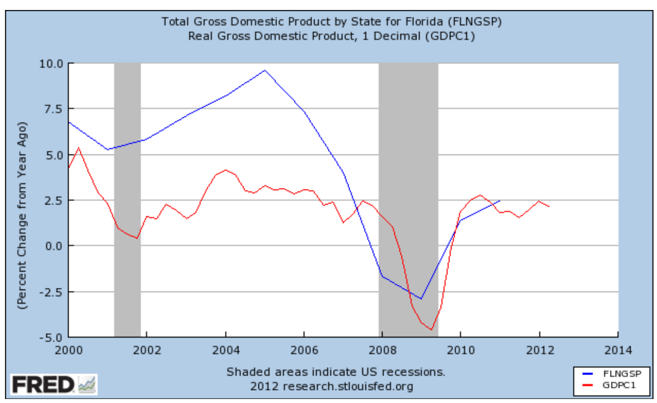
BACKGROUND

The background information below for the State's economy is derived primarily from the Florida Economic Estimating Conference which met in December 2011 and January 2012 to revise the 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 outperformed the nation as a whole in seven of the past eleven 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: Federal Reserve Bank of St. Louis

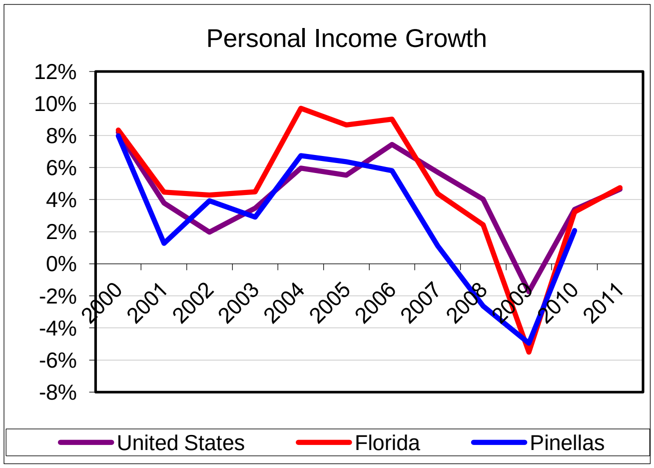
After adjusting for inflation, Florida's real growth in GDP ranked it tied for 39th in the nation in 2011 with a gain of 2.5%. By way of comparison, Florida was ranked 50th in 2008 and 4th in the nation in 2005. For Arizona, Nevada and Florida, losses in the construction sector accounted for a significant 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.

ECONOMIC OVERVIEW & BUDGET BACKGROUND

According to The Florida Legislature Office of Economic and Demographic Research, Florida's per capita personal income grew 3.5% in 2011 compared to 2010, ranking the state 45th in growth. Nationally, average growth was 4.3%.

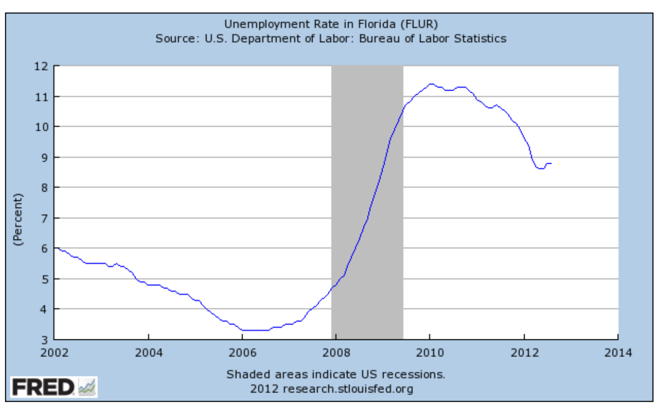


Note: 2011 data not available for Pinellas County
Source: U.S. Bureau of Economic Analysis

Job Growth and Unemployment

In the years leading up to the recent recession, unemployment in Florida started increasing from the very low rates of 3.3% in early 2006 to 4.5% in November 2007. As the economic slow-down turned into a recession in December 2007, Florida's unemployment rate rose from 4.7% in December 2007 to a high of 11.4% in February 2010, eight months after the official end of the recession. Since that time, the rate has fallen to 8.8% in August 2012. This rate places Florida at 41st in the country. At 8.8%, approximately 817,000 residents are unemployed.

Since the State's peak in employment, more than 749,000 jobs have been lost. To recover from this loss, and to accommodate for the additions made to the work force, more than 1,000,000 jobs will need to be created to return Florida to its peak level.



Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of St. Louis

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.

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.

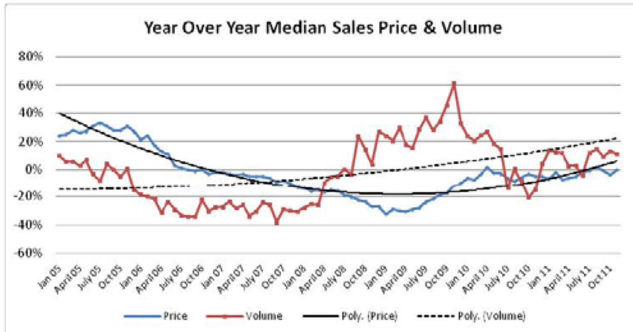
At first, the end of the housing boom brought lower activity and employment in the construction and financial fields, as well as
spillover consumption effects in closely related industries: landscaping and sales of appliances, carpeting, and other durable goods used to equip houses. This began in the 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 began in December 2007.

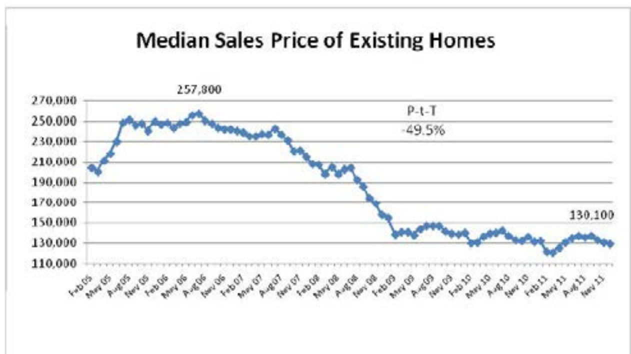
By the fall of 2008, Florida's homegrown problems with the housing market were giving way to several worldwide phenomena: a national recession that was spreading globally and a credit crisis that was threatening to bring down the world's largest financial institutions. As the sub-prime mortgage difficulties 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. 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. During FY2010, there were 36,000 private housing starts for the year statewide, but this was just 13.3% of the FY2006 level. Single family starts managed to post a positive gain, but multi-family starts worsened the percentage drop they made in FY2009 over FY2008. In yet another manifestation of the significant housing market adjustment still facing Florida, existing single family home sales ended FY2010 nearly 30% below the peak volume of the 2005 banner year.

During 2011, the volume of sales edged up slightly, to a level about 25% lower than the peak volume year.



As of November 2011, median sales prices for existing homes had been essentially flat since January 2009 - 34 months - with a slight downward drift.



FLORIDA OUTLOOK

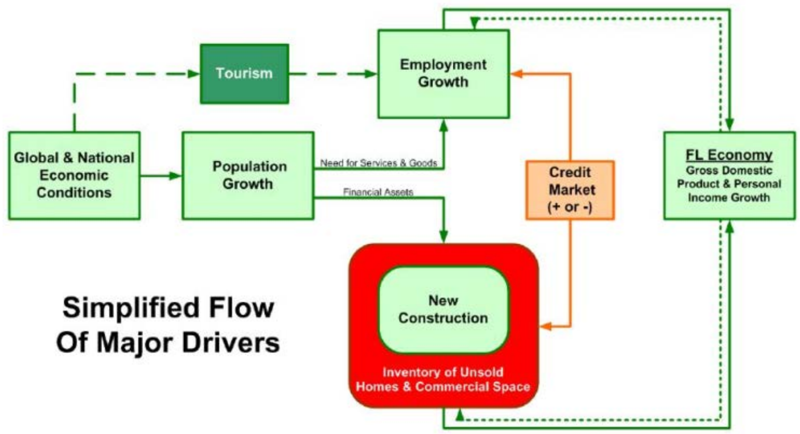
The forecast information below for the State's economy is derived primarily from the Florida Economic Estimating Conference which met in December 2011 and January 2012 to revise the forecast for the State's economy.

The outlook for Florida's economy is for sluggish growth through mid-2012. Absent any U.S. or global economic shocks, economic growth should then moderately increase through mid-2013. Solid growth is expected thereafter.

From Wells Fargo's May 2012 Florida Economic Outlook: Florida's economic recovery gained considerable momentum during 2011, and all indications point to stronger gains this year. Hiring has picked up across the state, in-migration from other states has increased and more businesses are expanding their operations or relocating facilities to the state. Progress is also being made at addressing some of the more pressing challenges ahead for the real estate market. The shadow inventory of homes is gradually being whittled away, and prices for non-distressed properties have firmed up a bit. While Florida will still need a few more years to fully recover all of the jobs lost during the 2007-2009 recession, a change in direction is clearly evident across much of the state. Instead of wondering when and how Florida's economy will recover, the debate is shifting to which areas will lead the state's economic revival and which will lag behind.

Major Economic Drivers

In addition to global and national economic conditions, there are several major drivers that are key to the performance of Florida's economy. Those drivers include population growth, tourism, employment growth, and new construction.



Source: Florida Legislature Office of Economic and Demographic Research

Population Growth

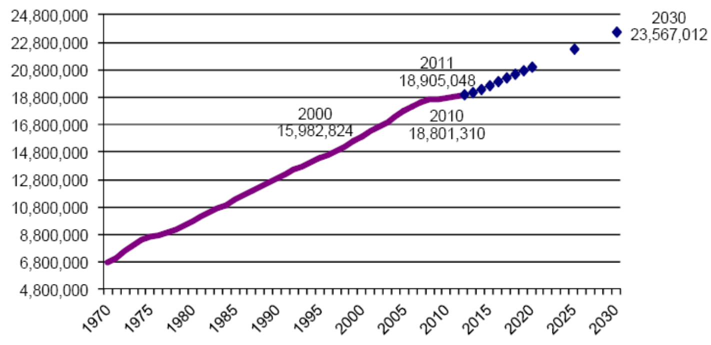
Population growth continues to be the state's primary engine of economic growth, fueling both employment and income growth, and impacting the amount of new construction activity. The national economic contraction significantly slowed Florida's population gains, but this was not unexpected. Over 80% of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

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 had been a bulwark, was also affected by the global economic slowing.

Florida's long-term population growth rate between 1970 and 1995 was over 3%. The annual growth rate hovered between 2.0% and 2.6% from the mid 1990's to 2006, then began slowing to less than 0.5% in 2009 and 0.6% in 2010.

In the near term, population growth is forecast to remain relatively flat, averaging 0.85% between 2011 and 2014. However, over the forecast horizon, population growth will improve – averaging 1.1% between 2015 and 2030 with 86% of the growth coming from net migration. While this is still significant growth, before the recession Florida was adding a city roughly the size of Miami every year; in the future, it will be a city more like St. Petersburg. Despite this lower growth rate, Florida is still on track to break the 20 million mark in 2016, becoming the third most populous state sometime before then, surpassing New York.

Florida Population History and Projection



Source: Florida Legislature Office of Economic and Demographic Research

Tourism

The tourism industry is another key driver of Florida employment growth and economic strength. Like other sectors of the economy, tourism was hit hard by the recession as job losses and uncertainty coupled with other stresses caused potential visitors to be more conservative in their spending and cut back on their travel plans. The industry also had to deal with the negative publicity that resulted from the 2010 Deepwater Horizon oil spill in the Gulf of Mexico (although actual beach damage in Florida was limited to the Panhandle area). During 2011, the impact of these factors declined. Tourism growth now appears to be on a steady upward trajectory.

Florida Total Visitors (Seasonally Adjusted)

Source: Florida Legislature Office of Economic and Demographic Research

Note: In these charts from the Economic Estimating Conference, the solid red line represents the estimates as of August 2011 (the previous conference) and the dashed blue line represents the revised estimates as of the December, 2011 conference.

Employment Growth and the Labor Market

The outlook for total Florida nonfarm employment for State FY2012 is 7.26 million jobs. This represents a net increase of 64,000 jobs or 0.9% over the prior fiscal year.

Florida's current unemployment numbers represent a loss of 749,500 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 0.9% in State FY2012 and then increase by 1.3% in

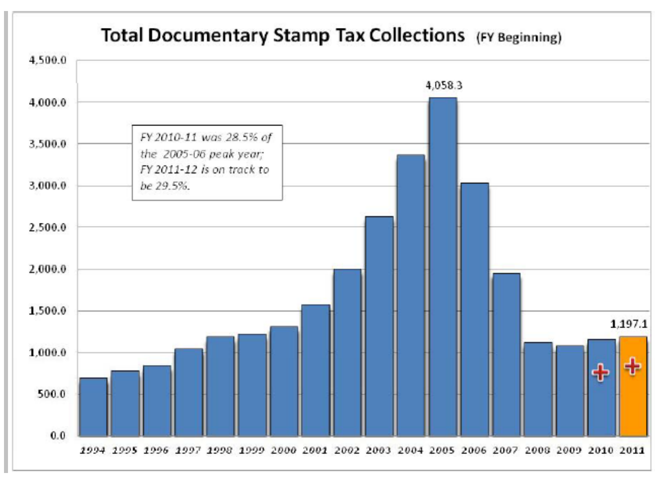
FY2013, 1.9% in FY2014, and 2.1% in FY2015. Job restoration in the construction and information technology sectors will lag behind the other areas and are not anticipated to experience positive annual growth until FY2013 and FY2014 respectively.

Personal Income growth averaged about 3.8% from 1991-2008. Total Florida personal income in FY2012 is estimated at $763.3 billion, a 3.3% increase over the prior fiscal year. Personal income growth for FY2013 through FY2021 is expected to range between 3.3% and 6.0% per year.

For wages and salaries, Florida's long-term growth prospects essentially match 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.

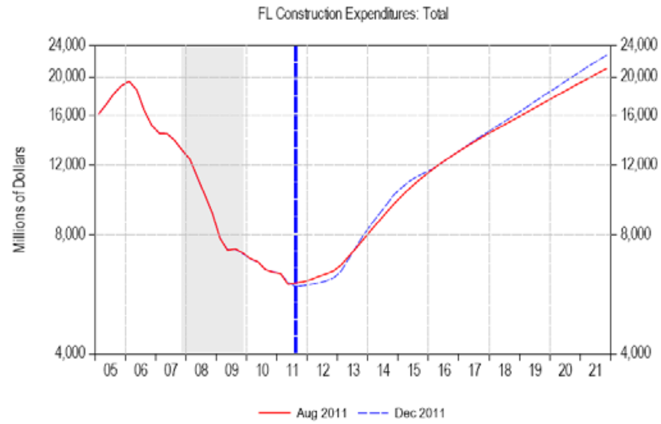
New Construction and Housing

Florida's housing markets are generally improving. Sales volume of existing homes and building permits are both back in positive territory, showing year-over-year growth. The number of documentary stamp tax collections reflects this trend.



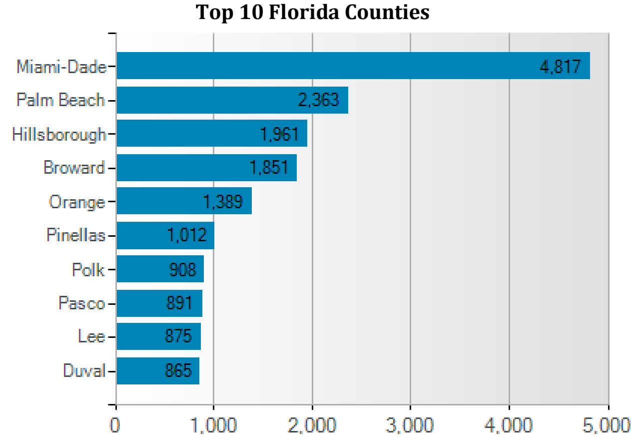
Source: Florida Legislature Office of Economic and Demographic Research

Recent building permit activity has come in better than expected. The forecast of private residential construction expenditures for State FY2012 is $9.6 billion, a 16.9% increase over FY2011. Similar growth is anticipated for FY2013, followed by significant increases in this category beginning in FY2014.



Foreclosures have further swelled Florida's unsold inventory of homes. Originally related to mortgage interest rate resets and changes in financing terms that placed owners in default, activity was also affected by the continuing high level of unemployment. In CY2011, Florida had the second highest number of foreclosure filings and the sixth highest foreclosure rate. At 806 days, Florida has the third longest foreclosure process in the United States. These two factors, along with the struggling economy, suggest that the foreclosure crisis will remain with Florida for several more years as the existing, and inventory soon to be added, slowly makes its way through the process.

Foreclosure Activity April 2012
Top 10 Florida Counties



Source: RealtyTrac.com

A related problem is the "shadow inventory" of homes that are not on the market but are at risk of foreclosure. About half of all residential loans in Florida are for homes that are "underwater", that is, have mortgage debt higher than the value of the house. There is also a significant percentage of homeowners who are not current with their mortgage payments.

	Delinquent	Foreclosed	Non-Current
National	7.1%	4.1%	11.3%
Florida	7.4%	13.9%	21.3%

Source: Florida Legislature Office of Economic and Demographic Research

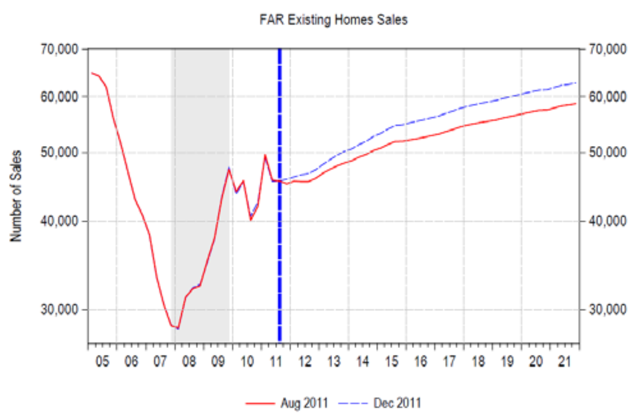
The credit market impacts both employment growth and new construction. Although interest rates continue to remain at record low levels, credit conditions for those seeking to buy a home or homeowners seeking to refinance remain tight.

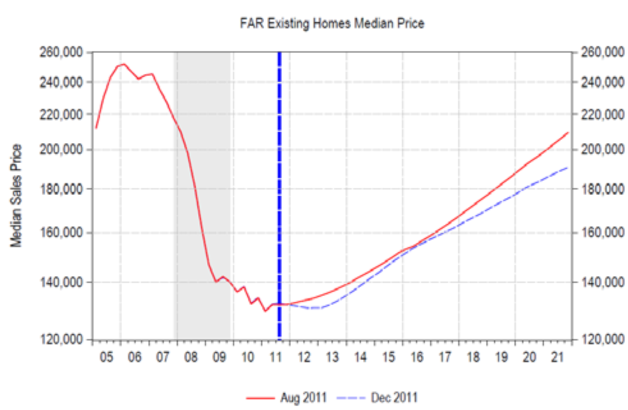
Question to Senior Loan Officers:
Over the past three months, how have your bank's credit standards for approving applications from individuals for **prime residential mortgage loans** to purchase homes changed?

	All Respondents							
	Apr '12 %	Jan '12 %	Oct '11 %	July '11 %	Apr '11 %	Jan '11 %	Oct '10 %	July '10 %
Tightened considerably	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tightened somewhat	5.6	0.0	4.2	5.7	3.8	3.7	13.0	3.6
Remained basically unchanged	**90.7**	**94.3**	**91.7**	**86.8**	**92.5**	**94.4**	**83.3**	**87.3**
Eased somewhat	3.7	5.7	4.2	7.5	2.0	1.9	3.7	9.1
Eased considerably	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

April 2012 Senior Loan Officer Opinion Survey on Bank Lending Practices (Federal Reserve Board)

The end result of these factors is that in the existing home market, sales volume is expected to increase as prices continue to fall over the next eighteen months.





Source: Florida Association of Realtors and Florida Legislature Office of Economic and Demographic Research

State Budget

The State of Florida's budget is highly dependent on sales tax revenue, accounting for more than 70% of revenues. In times of economic distress, consumers tend to cut back on discretionary spending, which in a state dependent on sales tax, will have an immediate effect on revenue. Unlike many other states, Florida does not have a state personal income tax, which are a more stable source of revenue because wages tend to fall at a slower rate than consumption. As a result, the recession caused major

State budget shortfalls and the effects are still being felt in this year's process. In recent years, the State made heavy use of one-time fixes such as diverting revenue from trust funds ($4.1 billion over 10 years) and using Federal stimulus funds to avoid larger cuts in education and other programs. On the expenditure side, the single largest driver in State obligations is Medicaid, which is projected to increase at an annual rate of 7.9% over the next 10 years. This does not include the potential impact of Federal Health Care Reform.

As the 2012 Legislature began its deliberations, the projected State FY2013 gap between available revenues and the cost of critical and other high priority needs was $3.62 billion. To fill this gap, the Legislature shifted costs (mandates and funding formulas) to local governments in an effort to deal with fiscal pressures at the state level.

Summary of Florida Outlook

Florida growth rates are slowly returning to more typical levels. But drags are more persistent than past events, and it will take several years to climb completely out of the hole left by the recession. Overall, the national economy is still in recovery (albeit weak) and, more importantly, the credit markets are still recovering stability – although they remain sluggish and difficult to access.

The subsequent turnaround in Florida housing will be led by:

- Low home prices that begin to attract buyers and clear the inventory.
- Long-run sustainable demand caused by continued population growth and household formation.
- Florida's unique demographics and the aging of the baby-boom generation (2011 marked the first wave of boomers hitting retirement age).

Looking ahead, the pace of the economic recovery depends heavily on how quickly the job market recovers from the Great Recession, the capacity for personal income growth to move ahead of inflation, and a substantial reduction in the supply of unsold residential properties. At this point, Florida's major headwinds match the nation as a whole: the Eurozone's ability to quickly contain and resolve their debt crisis, and Congress's ability to extend the payroll tax cut past 2012. If either event fails to materialize as assumed, Florida's economy will be negatively impacted.

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 had been placed on properties that were 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 had 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. Effective FY2009, property tax revenue increases are limited to new construction plus the statewide percentage increase in per capita personal income. This percentage has averaged about 3.8% from 1991-2008. From 2009-2012, growth in personal income was 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%. Since 2009, the County-wide taxable value has decreased 8.4%, 11.4%, 9.7%, 4.5% with another 1.8% decrease in FY2013. 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.

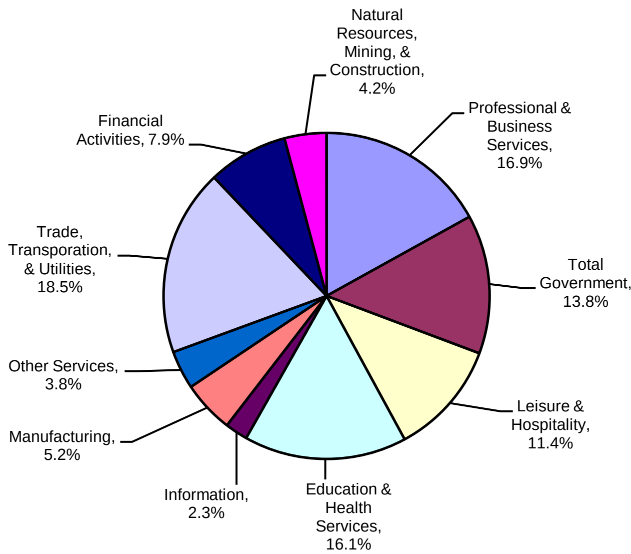
Impacts to the Pinellas County Budget

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. Since FY2007, total positions have decreased 1,618 or 25%. Within that number, the BCC departments have decreased 985 positions or 35%, which yields the lowest position count since FY1985. The Constitutionals and Independents have decreased 633 positions or 17% which yields the lowest position count since FY1995. The total position count is currently the lowest since FY1989.

In the General Fund, the County's largest fund that funds most of its operations, property taxes (two-thirds of total revenues), have decreased 35% or $151 million from FY2007 to FY2012.

LOCAL OUTLOOK

Pinellas County is the 6th largest county in population (916,542) 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. Pinellas 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 for Pinellas County.



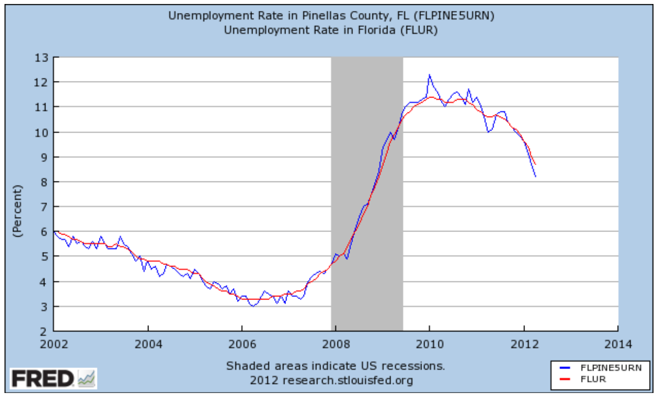
Source: Florida Labor Market Statistics

Over the last five years, several of these areas have seen substantial decreases: Natural resources, mining, and construction decreased 46%; Manufacturing decreased 26%; Information decreased 22%; Financial Activities decreased 14%; Trade, Transportation, & Utilities decreased 11%; Professional & Business Services decreased 9%; Other Services decreased 7%; and Leisure and Hospitality decreased 4%. The only areas that have shown growth since 2006 is Education & Health Services which increased 11% and Total Government which increased 4%.

From Wells Fargo's May 2012 Florida Economic Outlook: Tampa's labor market continues to post strong gains. The professional and business services sector remains the top performing sector, accounting for more than 50 percent of the jobs added since the Bay area's labor market bottomed, despite representing only 17 percent of Tampa's overall employment base. Part of that improvement reflects strong growth at employment staffing companies. The recovery has broadened across many other sectors more recently, including leisure and hospitality, financial services and trade, transportation and utilities. Construction remains an obvious impediment, however, as payrolls continue to contract and are now down nearly 53 percent from their peak in April 2006.

Unemployment

As with the State of Florida, Pinellas County's unemployment rate reached historically low levels in early 2006. In April 2006, Pinellas County recorded an unemployment rate of 3.0%. As the chart below shows, the County's unemployment rate rose to 4.7% by the time the national recession began in December 2007, reaching a high of 12.3% in January 2010, seven month after the official end of the recession. Since then, the County's unemployment rate has fallen to 8.2% (May 2012).



Source: Federal Reserve Bank of St. Louis

Tourism

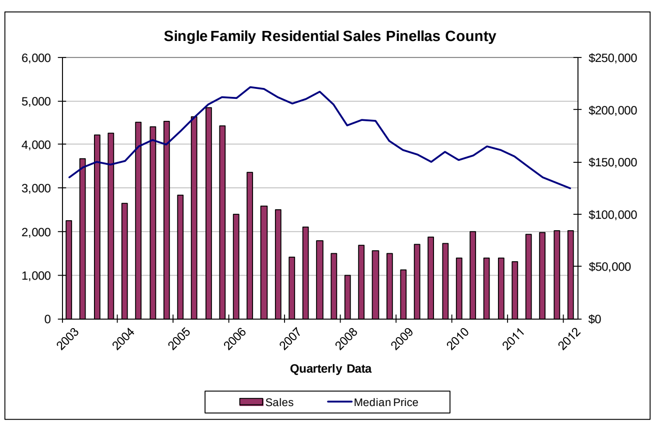
Tourism is a key economic driver of the economy in Pinellas County and contributes direct and indirect visitor expenditures of $6.3 billion annually. In FY2011, the County reported more than 5 million overnight visitors and collected $25.5 million in tourist development tax revenue, also known as the 'bed tax'. A positive sign of a recovering economy, FY2012 collections are 12% higher than the same period in FY2011, with both March and April reporting record collections of the bed tax.

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 FY2008, property assessments have fallen each year (8.4%, 11.4%, 9.7%, and 4.5%) with another 1.8% decrease expected in FY2013.

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 $125,000 which is 44% lower than the median price of $221,500 from 2006.

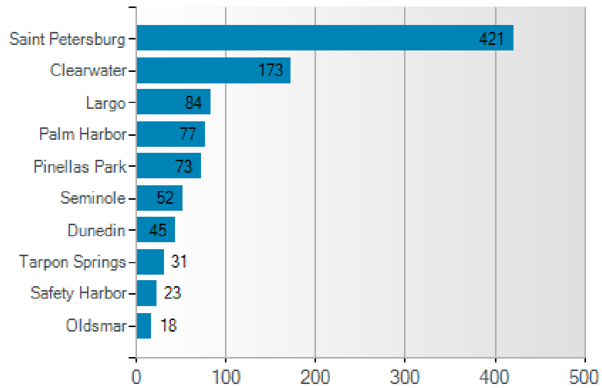


Source: Pinellas County Property Appraiser's Office

Foreclosures continue to hold down the residential real estate market. In 2007, there was an average of 512 foreclosure activities per month. As unemployment increased and the economy slipped into recession, foreclosure activity doubled in FY2008 to 1,027 per month. Activity remained extremely high through FY2009 and FY2010 before dramatically dropping off to 484 per month in FY2011. This

drop-off coincided with the federal investigations of 'robo-signing' of foreclosure documents. As part of a settlement with federal regulators, banks and others involved in the foreclosure process agreed to improve their procedures. Since the settlement was signed in April 2011, foreclosure activity has begun to increase, averaging 770 per month in FY2012 through April.

Foreclosure Activity – Pinellas County
April 2012



Source: RealtyTrac.com

Commercial Real Estate

According to Cushman & Wakefield Research, the vacancy rate in Tampa Bay decreased to 19% in the region, which is a figure comparable to 2003. Normal vacancy rates hover between 10% and 20% in the bay area. The rate in downtown Tampa is 16.5% and downtown St. Petersburg's is 16.8%. The vacancy rate is an indicator of the health of the economy because vacancy rates decrease as employment improves. As job growth continues and as corporate confidence strengthens, demand is expected to continue to rise slowly in 2012 resulting in lower vacancy rates and stability in asking rental rates.

Summary of Local Outlook

While the national recession has been over for three years, the effects are still being felt in Pinellas County. Unemployment is well above pre-recession levels and foreclosures have steadily increased in the past several months. Additionally, the median sales price for single family homes is down 44% from 2006 levels, leading to five consecutive years of declining assessments in the County. However, the biggest industry in Pinellas County, tourism, has shown signs of a strong recovery. FY2011 tourist development tax revenues were 7.7% higher than FY2010, and each month in FY2012 has been higher than the same month in FY2011, with March and April at record levels.

As the national economy continues to improve, Pinellas County is poised to recover as well. However, because of the high level of unemployment and the glut of homes available on the market, the recovery is expected to be slow and long.

KEY FORECAST ASSUMPTIONS

The *Key Forecast Assumptions* portion of the FY2013 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
    - Overview
    - Key Assumptions
    - Supporting Information
- Expenditure Assumptions
    - Overview
    - Key Assumptions
    - Supporting Information

Assumptions and Forecasting

In establishing revenue and expenditure assumptions, we reviewed data and forecasts from a variety of economists, government agencies, industry associations, and other sources. In particular, we referenced the State of Florida's Revenue Estimating Conferences frequently. 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 state planning and budgeting actions. The current Conference projections end at FY2021. The projections are available online at http://edr.state.fl.us/Content/conferences/index.cfm

We also referenced federal agencies such as the Bureau of Labor Statistics, the Census Bureau, and several Federal Reserve banks; as well as private research firms and educational institutions, such as The Conference Board, Thompson Reuters, University of Central Florida, and University of Florida. The County is not required to use this data, but it provides useful background information for projecting changes in revenues and expenditures.

Revenue Assumptions

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

Overview

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.

KEY FORECAST ASSUMPTIONS

The Florida Constitution imposes a cap of 10 mills on the total of all County-wide 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).

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.

Key Assumptions

The assumption in the forecast is that the decline in taxable values will taper off through 2014 before returning to a slow but sustained rate of growth thereafter:

Change in Taxable Values – County-wide				
2013	**2014**	**2015**	**2016**	**2017**
-1.8%	-2.0%	2.0%	4.0%	4.0%
2018	**2019**	**2020**	**2021**	**2022**
4.0%	4.0%	4.0%	4.0%	4.0%

The County-wide taxable value is the basis for determining the County-wide revenue in the General Fund. For the purposes of this forecast, the FY2014 through FY2022 percentage change in taxable value for the Emergency Medical Service Fund and the Fire Districts Fund is assumed to be the same as the County-wide taxable value change.

Supporting Information

For FY2013, the overall taxable value decrease of 1.8% in countywide taxable values reflects 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).

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 built-out will enjoy. For example, Orange and

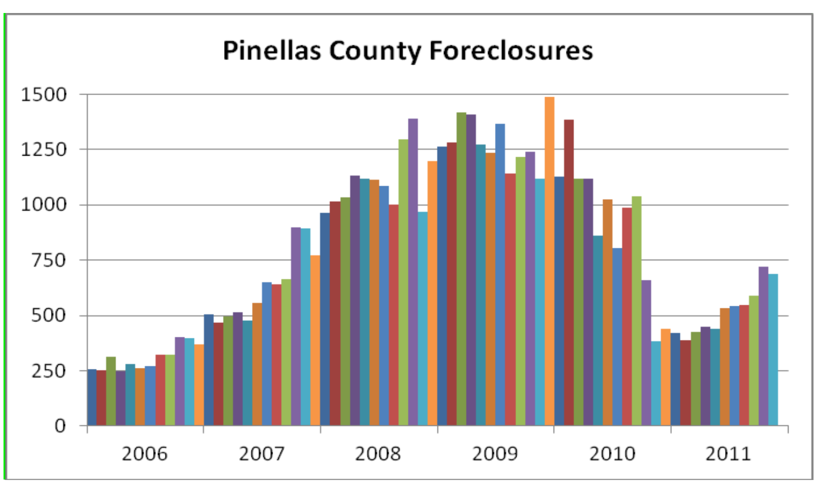
Hillsborough counties have large undeveloped areas that are available for major residential, commercial and industrial expansions. In FY2008, the new construction in Orange County essentially offset the mandated Legislative property tax rollback.

Impact of Foreclosures
In determining the values as of January 1, 2012, which serve as the basis for FY2013 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.

However, although foreclosures do not affect the percentage of property taxes collected during the fiscal year, they 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 before falling dramatically back to 2007 levels throughout FY2010.

Foreclosure inventory increased again throughout 2011 and the first half of 2012. This additional inventory is the result of the resolution of chain-of-title issues and the resumption of foreclosure proceedings in the courts. As of October 1, 2011, Pinellas County still had a backlog of over 14,500 foreclosure cases; however, some portion of these will result in a mediated settlement between the note-holder and the occupant, and will therefore not translate to inventory for sale.

For the time being, demand is such that new foreclosure inventory is being absorbed fairly efficiently. A "glut" of non-mediated rulings could lead to a surge in inventory, which, given the relative normalcy of the supply-demand relationship this year, would probably reverse the current trend and place downward pressure on median sales prices, which in turn would negatively impact the tax base. The forecast assumes that the foreclosure inventory will not experience this type of surge.

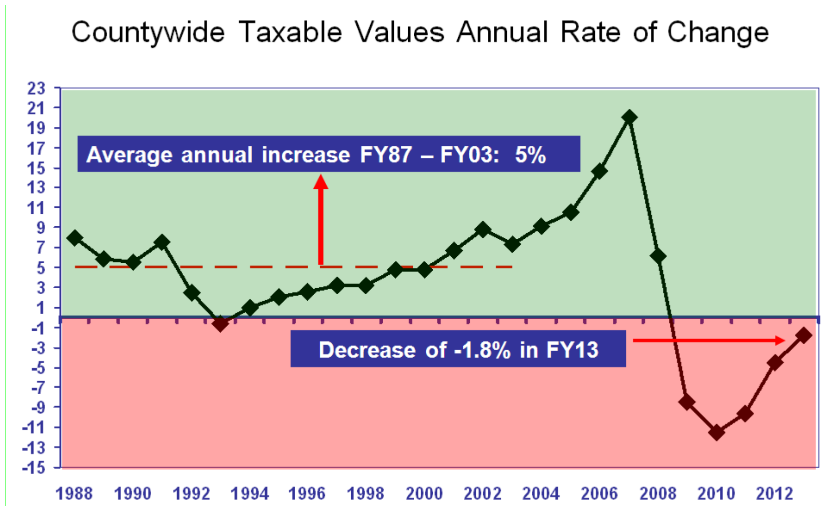


Source: Clerk of the Court data

KEY FORECAST ASSUMPTIONS

Taxable values

The taxable values for FY2013 were certified by the Property Appraiser on July 1, 2012. The county-wide value decreased by 1.8% compared to the FY2012 values. It was the fifth 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.



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				
2004	**2005**	**2006**	**2007**	**2008**
2.4%	1.9%	3.0%	3.0%	2.5%
2009	**2010**	**2011**	**2012**	**2013**
3.0%	0.1%	2.7%	1.5%	3.0%

Source: Florida Department of Revenue, U.S. Bureau of Labor Statistics

The factor used is the annual change in the CPI as of December each year. For example, the limit for FY2013 is the December, 2011 index, +3.0%, which was issued by the U.S. Bureau of Labor Statistics on January 19, 2012.

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 has some flexibility for increases in the short term because we did not levy the maximum millage in FY2009, FY2010, FY2011, or 2012.

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 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 FY2013.

Fund Variances
Because of differences in the composition of their tax base, individual fire districts are 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 County-wide 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 County-wide change depending on the composition of the tax roll in each area.

Sales Taxes – General Fund and Capital Projects Fund

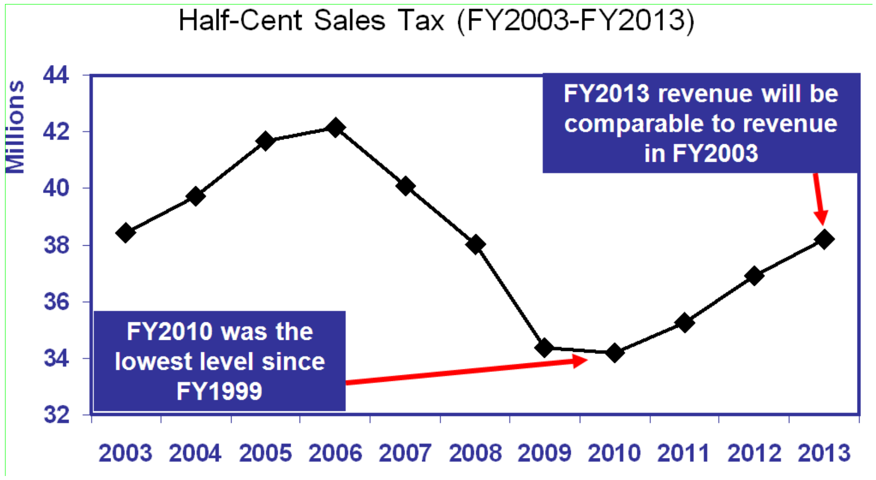
Overview

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: the Half-Cent Sales Tax and the Infrastructure Sales Tax (Penny for Pinellas).

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.

Sales tax revenue grew by 3.2% in FY2011 - the first increase since FY2006. We believe this is indicative of a return to moderate but sustained sales tax revenue growth.

KEY FORECAST ASSUMPTIONS



Infrastructure Sales Tax (Penny for Pinellas)
The Penny for Pinellas is a 1 percent sales tax which is dedicated to capital improvement projects in Pinellas County, such as facilities, storm water improvements, preservation land purchases, roads, bridges, public safety, parks and community centers. The Penny makes capital projects and improvements possible without having to raise property taxes. Without this funding, it is estimated that property owners would have to pay another 1.5 mills on their property taxes. With a sales tax, approximately one-third of the total Penny funds are paid for by tourists and seasonal residents.

Key Assumptions

For the State Shared Half-Cent Sales Tax, in FY2013 and later years, we anticipate growth approaching historical patterns. A 3.5% growth rate is assumed throughout the FY2013-FY2022 forecast period. In the near-term, our projection is more conservative than the State General Revenue Estimating Conference, which anticipates more robust FY2013 growth of 5.4%, followed by 6.3% and 6.6% in FY2014 and FY2015, respectively.

Change in Half-Cent Sales Tax Revenue				
2013	**2014**	**2015**	**2016**	**2017**
3.5%	3.5%	3.5%	3.5%	3.5%
2018	**2019**	**2020**	**2021**	**2022**
3.5%	3.5%	3.5%	3.5%	3.5%

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 3% growth from FY2013 to FY2022. 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.

Supporting Information

The statewide number from the State General Revenue Estimating Conference reflects population growth that will not be as significant a factor in Pinellas County as in other, less built-out counties. However, we are confident that a strengthening local economy and stronger tourism will result in slightly better growth than the 3.0% forecast for FY2012. Data on potential future job creation growth (provided by Economic Development) and projected tourism growth (provided by the Convention and Visitor's Bureau) support this view.

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 FY2006 peak level of our Half-Cent Sales Tax revenues until FY2015.

Communications Services Tax – General Fund

Overview

The Communications Services Tax (CST), which is 2% of total General Fund revenues, 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 revenue has declined due to the recession and to technological changes in the industry that have reduced the base of taxable services; FY2011 CST revenue was 3.4% lower than in FY2010.

Key Assumptions

The forecast projection uses the percentages developed by the State Gross Receipts Tax and CST Revenue Estimating Conference. The expectation is an essentially flat year followed by a return to normal moderate growth patterns

Change in Communications Services Tax Revenue				
2013	**2014**	**2015**	**2016**	**2017**
-0.1%	0.8%	1.6%	1.8%	1.9%
2018	**2019**	**2020**	**2021**	**2022**
2.0%	2.2%	2.0%	2.0%	2.0%

KEY FORECAST ASSUMPTIONS

Supporting Information

The CST is levied on communication services that originate *and* terminate within the state. Technological advances have allowed for increased competition from communication service providers (particularly wireless providers) which do not meet this definition and whose services are therefore not subject to the CST.

The 2012 Legislature approved changes to the CST statutes. The negative impact of these changes on the County's revenue is undetermined at this time.

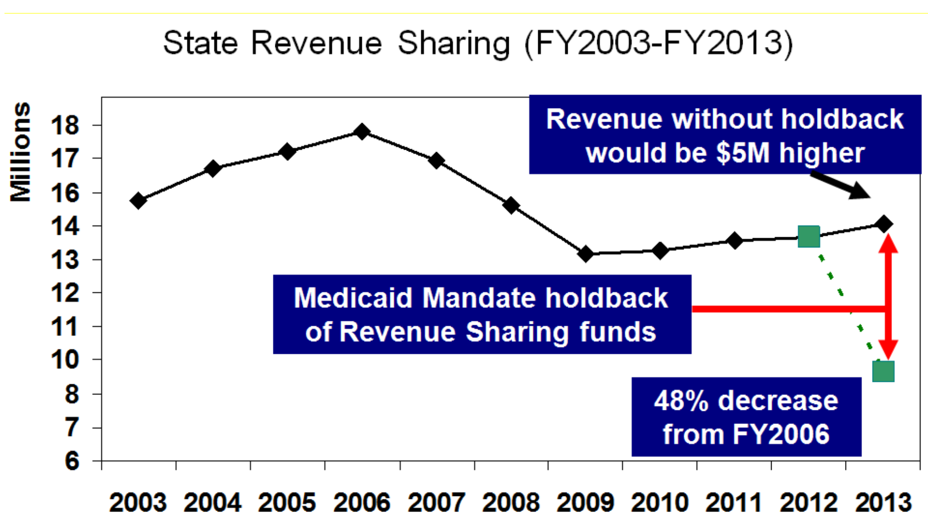
State Revenue Sharing - General Fund

Overview

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.

Similar to the Half-Cent Sales Tax, Revenue Sharing revenue finally demonstrated real growth of 2.9% in FY2011 after declining or remaining essentially flat since FY06.

As discussed in detail in the "Medicaid" section of this Budget Message, the 2012 Legislature, as part of the unfunded Medicaid mandate, directed that Revenue Sharing distributions to the counties be reduced in order to cover the alleged "backlog" of Medicaid charges. This will result in Pinellas County receiving only about two-thirds of the normal Revenue Sharing allocation in FY2013.



Key Assumptions

For the underlying sources that support State Revenue Sharing, the forecast assumes a return to the pattern of moderate growth in this revenue source that predated the economy's boom and bust cycle, resulting in an annual increase of 2.5% through the forecast period. However, the actual amount the County receives will be reduced in FY2013 through FY2017.

Change in State Revenue Sharing Revenue (before Medicaid mandate reductions)				
2013	**2014**	**2015**	**2016**	**2017**
2.5%	2.5%	2.5%	2.5%	2.5%
2018	**2019**	**2020**	**2021**	**2022**
2.5%	2.5%	2.5%	2.5%	2.5%

Supporting Information

State Revenue Sharing has historically grown at a somewhat lower rate than Half-Cent Sales Taxes. In addition to differences in the distribution formulas for these two revenues, a portion of Revenue Sharing is derived from Cigarette Taxes, which have been a declining revenue source for years. These factors combine to reduce the potential for growth in Revenue Sharing.

Interest Earnings and Other Revenue – All Funds

Overview

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

Key Assumptions

Market conditions, including record low interest rates, were such that interest earnings in FY2011 once again fell below the relatively conservative projections assumed in the budgeting process. The forecast reflects this situation; the short term outlook is for continued minimal earnings, gradually increasing to earnings of approximately 3% on fund balances in the mid- to long-term.

Interest Earnings on Fund Balances				
2013	**2014**	**2015**	**2016**	**2017**
0.5%	0.7%	1.0%	2.0%	3.0%
2018	**2019**	**2020**	**2021**	**2022**
3.0%	3.0%	3.0%	3.0%	3.0%

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

Change in Other Revenue (non-specific)				
2013	**2014**	**2015**	**2016**	**2017**
2.0%	2.0%	2.0%	2.0%	2.0%
2018	**2019**	**2020**	**2021**	**2022**
2.0%	2.0%	2.0%	2.0%	2.0%

Key Assumptions for Other Fund-Specific Revenues

Tourist Development Tax- TDC Fund

Tourism is a key driver of the economy in Pinellas County. The County imposes a 5% tourist development tax (i.e. bed tax) on rents collected for temporary lodgings. The revenue, highly sensitive to general economic and other conditions, is driven by several factors, including the number of visitors, the length of stay, and the Average Daily Rate (ADR) that hotels are able to collect for rentals. Collections appear to have bottomed out at the beginning of 2010, and have been rapidly increasing again as the economy has begun to rebound. Over the past year, the rebound in tax revenue has outpaced the overall economy.

The revenue forecast for tourist development taxes assumes an increase of 3.0% throughout the forecast period, reflecting the anticipated growth in the economy.

Change in Tourist Development Tax Revenue				
2013	**2014**	**2015**	**2016**	**2017**
3.0%	3.0%	3.0%	3.0%	3.0%
2018	**2019**	**2020**	**2021**	**2022**
3.0%	3.0%	3.0%	3.0%	3.0%

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 2.1%. 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 us to assume 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.

KEY FORECAST ASSUMPTIONS

Change in Gas Tax Revenues				
2013	**2014**	**2015**	**2016**	**2017**
0%	0%	0%	0%	0%
2018	**2019**	**2020**	**2021**	**2022**
0%	0%	0%	0%	0%

Ambulance User Fee Revenue – EMS Fund

Ambulance user fee revenues are subject to a number of variables:

- Unanticipated changes in transport volume (positive or negative)
- Unanticipated Medicare audit settlements (positive or negative)
- Potential reductions to Medicare fee schedules (negative)
- Decreasing mix of private insurance payments and increasing mix of lower-reimbursement Medicare and Medicaid payments (negative)
- Increased Medical Necessity verification requirements (negative)

Ambulance user fee revenues are primarily driven by patient demand (transport volume). The average increase in transport volume in the prior 5 years is 3.4%, ranging from 1.4% to 7.4%. Revenues are estimated to increase by 2.0% during the forecast period.

Change in Ambulance User Fee Revenue				
2013	**2014**	**2015**	**2016**	**2017**
2.0%	2.0%	2.0%	2.0%	2.0%
2018	**2019**	**2020**	**2021**	**2022**
2.0%	2.0%	2.0%	2.0%	2.0%

Flight Operations Revenues – Airport Fund

Airfield/Flight Line revenue for FY2013 is based on the current level of carriers and passenger numbers. For FY2014 through FY2022, an increase of 2.0% per fiscal year is forecast. The forecast is conservative, as no new carriers or agreement renewals have been included.

Change in Airport Flight Operations Revenues				
2013	**2014**	**2015**	**2016**	**2017**
2.0%	2.0%	2.0%	2.0%	2.0%
2018	**2019**	**2020**	**2021**	**2022**
2.0%	2.0%	2.0%	2.0%	2.0%

KEY FORECAST ASSUMPTIONS

Airport Rental Revenues – Airport Fund

Rent/Surplus/Refunds revenue for FY2013 is based on current leases/agreements through the termination of these lease agreements. Although most of the available land is leased, given commercial vacancy rates throughout the County and the fact that the leases are only subject to an annual CPI adjustment, growth of only 2.0% is projected throughout the forecast period.

Change in Airport Rental Revenues				
2013	**2014**	**2015**	**2016**	**2017**
2.0%	2.0%	2.0%	2.0%	2.0%
2018	**2019**	**2020**	**2021**	**2022**
2.0%	2.0%	2.0%	2.0%	2.0%

Water Revenues – Utilities Water Funds

The volume of water purchased declined 17% from FY2007 to FY2012. 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% to 0.27% 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 70% decline in demand FY2007 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 billed has declined 11% from FY2007 to FY2012. The amount of sewage processed is affected by economic conditions, housing and commercial vacancies, and levels of water conservation.

The Sewer revenue forecast assumes no increase from FY2013 to FY2014 and a 0.07% to 0.21% annual increase from FY2017 to FY2022 in retail and wholesale sewer demand.

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 of 6% in revenue. The contract expires in 2024.

Change in Solid Waste Tipping Fee Revenues				
2013	**2014**	**2015**	**2016**	**2017**
0.5%	0.5%	0.5%	0.5%	0.5%
2018	**2019**	**2020**	**2021**	**2022**
0.5%	0.5%	0.5%	0.5%	0.5%

KEY FORECAST ASSUMPTIONS

Expenditure Assumptions

Personal Services – Salaries – All Funds

Overview

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.

Key Assumptions

No salary adjustments are included in the forecast for FY2013 through FY2015. County employees have not received merit pay for four years and in some cases, five years. This cost-saving measure was employed as the organization dealt with significant reductions and dramatic decreases in property tax revenue. 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.

Change in Salaries (Merit Increases – Net)				
2013	**2014**	**2015**	**2016**	**2017**
0%	0%	0%	0%-3%	0%-3%
2018	**2019**	**2020**	**2021**	**2022**
0%-3%	0%-3%	0%-3%	0%-3%	0%-3%

Supporting Information

The short-term assumptions are based on projected budget shortfalls in FY2013 and FY2014. However, non-recurring compensation adjustments, such as one-time, flat-amount payments could be implemented without negatively impacting the forecast.

Personal Services – Employee Benefits – All Funds

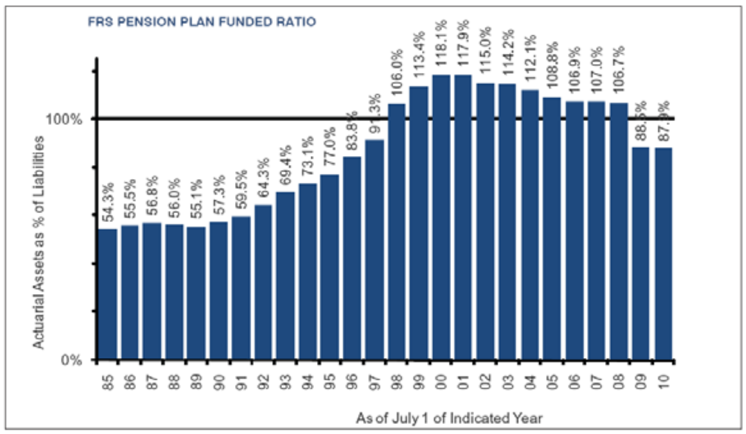
Overview

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)

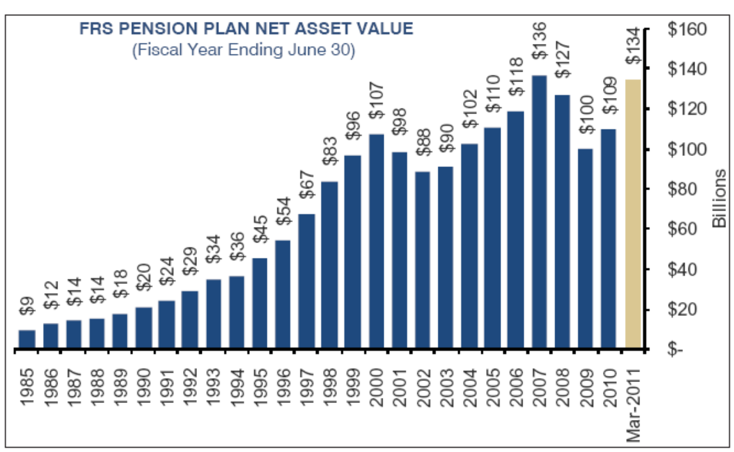
The County is required to participate in the Florida Retirement System (FRS), a State public pension plan. From 1998 to 2008, FRS had been one of the few state systems that had an actuarial surplus. This lowered the required contributions set by the Legislature that are based on an employee's salary 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 affected the future retirement benefits for County employees on the payroll prior to July 1, 2011, as well as those hired after that date when these provisions took 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.

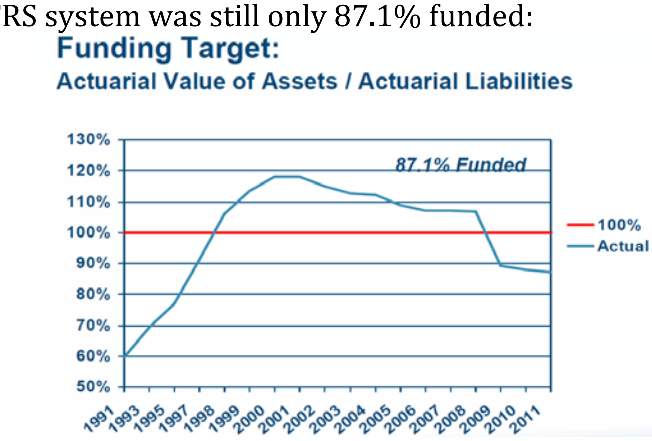
The rate reductions also resulted in substantial FY2012 cost savings for the County, amounting to $13M in the General Fund alone as compared to earlier projections. The 2012 Legislature approved rates for the State's 2013 fiscal year (June 2012 to July 2013) that were essentially the same as the previous year. Looking ahead, employer rates are scheduled to increase in July, 2013 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.

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.

<u>Key Assumptions</u>

As of June 30, 2011, the FRS system was still only 87.1% funded:



Source: Milliman presentation to FRS Actuarial Assumptions Estimating Conference, September 27, 2011

KEY FORECAST ASSUMPTIONS

Due to the reduced value of the State's pension fund investments, we are assuming increases in the FRS contribution requirements. The forecast assumes that the State will increase rates to address the unfunded liability over the next two years, as contemplated in the 2012 legislation, after which the rates should stabilize.

Change in FRS Pension Contribution Rates*				
2013	**2014**	**2015**	**2016**	**2017**
6.0%	3.0%	0.0%	0.0%	0.0%
2018	**2019**	**2020**	**2021**	**2022**
0.0%	0.0%	0.0%	0.0%	0.0%
* From 2015-2022, rates are assumed to stay constant, but dollar contributions rise at the same rate as salary growth.				

The forecast assumes that the County's aggressive health insurance cost containment measures will continue, but that the near-to-mid-term need to supplement required self-insurance reserves, as well as longer-term cost increases and employee / retiree mix changes, will still result in expenditure growth well in excess of CPI throughout the forecast period.

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.

Change in Health Insurance Contributions				
2013	**2014**	**2015**	**2016**	**2017**
10.0%	10.0%	10.0%	10.0%	10.0%
2018	**2019**	**2020**	**2021**	**2022**
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)				
2013	**2014**	**2015**	**2016**	**2017**
2.5%	2.1%	2.1%	3.8%	3.8%
2018	**2019**	**2020**	**2021**	**2022**
3.8%	3.8%	3.8%	3.8%	3.8%

Supporting Information

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 other than the Sheriff is billed by the State to the General Fund.

Change in Personal Services Expenditures (Net Total Salary and Benefit Changes) General Fund				
2013	**2014**	**2015**	**2016**	**2017**
1.7%	1.8%	2.1%	3.8%	3.8%
2018	**2019**	**2020**	**2021**	**2022**
3.8%	3.8%	3.8%	3.8%	3.8%

Health insurance costs are 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.

Because the County is self-insured, we are required to maintain the equivalent of 2 months of medical claims as a reserve. Higher-than-average claims in recent years have led us to draw on our reserves such that they are below the required level. This is exacerbated by the employee / retiree mix changes discussed above. In the near-term, OPEB reserves are available to cover the deficit.

Note that the actual change in Personal Service costs in a department, agency, or fund may differ from these overall percentages due to reorganizations, changes in the number of positions, vacancies, and other factors specific to the entity.

Operating Expenses and Capital Outlay- All Funds

Overview

The cost of services, commodities, and equipment (Operating Expenses and Capital Outlay) are driven by inflation. Many costs will track closely with the Consumer Price Index (CPI), but items such as 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 inflationary 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 2.6%, versus the 1.7% increase in the CPI. In Pinellas County, expenses such as fuel, electricity, and state-mandated Medicaid charges reflect the MCI / CPI disparity, demonstrating historical and projected growth exceeding CPI growth.

Fuel
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 had been declining (from 1.36M in FY2008 to 1.14M in FY2010), although fuel consumption rose to 1.21M in FY2011. FY2012 BOCC fuel consumption may decrease somewhat due to budget reductions, but overall consumption is expected to rise when Sheriff's Department consumption is factored in. Beginning in late FY2011, the Sheriff began purchasing fuel through the Fleet Management Fund which increased total expenditures in that fund but was offset by an equivalent amount of revenue.

Electricity
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%.

Medicaid
The County is billed by the State for a portion of Medicaid costs. The County pays the State for County resident in-patient hospital care for days 11 through 45. The days do not have to be consecutive. Because patient stays of 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.

In the past, the County has been able to review the bills for patients that are not County residents and reject paying bills for non-county residents. However, as discussed in the "Medicaid" section of the Budget Message, this procedure was changed by the Legislature in 2012 to shift the burden of proof for this determination to the County.

Key Assumptions

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)				
2013	**2014**	**2015**	**2016**	**2017**
1.3%	1.9%	2.2%	2.0%	1.9%
2018	**2019**	**2020**	**2021**	**2022**
1.7%	1.8%	1.6%	1.8%	2.0%

Fuel - All Funds with Fleet Equipment
The FY2012 Budget baseline was based on a price of $3.50/gallon. The price in December, 2011 was about $3.75/gallon; the average for FY2011 was closer to $3.27.

Change in Fuel Costs				
2013	**2014**	**2015**	**2016**	**2017**
3.0%	3.0%	3.0%	3.0%	3.0%
2018	**2019**	**2020**	**2021**	**2022**
3.0%	3.0%	3.0%	3.0%	3.0%

Electricity - General Fund and Utilities Funds
The Real Estate Management and Utilities departments have both taken steps to decrease annual cost increases by implementing measures to reduce energy consumption. The forecast assumes flat percentage increases in electricity costs based on the historical averages.

Change in Electricity Costs - Commercial				
2013	**2014**	**2015**	**2016**	**2017**
5.0%	5.0%	5.0%	5.0%	5.0%
2018	**2019**	**2020**	**2021**	**2022**
5.0%	5.0%	5.0%	5.0%	5.0%

Medicaid - General Fund
The 2012 Legislature changed the State's method of billing the County for Medicaid, shifting the burden of proof to demonstrate that a claimant is not a county resident in order to dispute an amount on a bill. The State is also reducing the County's Revenue Sharing funds to cover an alleged backlog in billings dating back to 2001.

The negative impact of these changes on the forecast is discussed in detail in the_"Medicaid" section of the Budget Message.

Supporting Information

Some departments have an increase in fleet replacement costs in the FY2013 budget as units are replaced that are not currently paying into the Fleet fund due to deferral of purchases and life cycle extensions.

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.

National health care legislation will impact Medicaid billing beginning in 2014. Even if Florida does not participate in the Affordable Care Act's expanded Medicaid program, state estimating conferences have projected continued increases in the current Medicaid program's expenditures. It is unclear how much of this increase will be passed on to counties; HHS will continue monitoring related federal and state legislation.

Other Post Employment Benefits (OPEB) – All Funds

Overview

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 FY2013 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.

Key Assumptions

The forecast assumes that OPEB funding in the General Fund will continue at the current level of $2M per year throughout the forecast period, pending the analysis of the latest OPEB valuation. OPEB contributions for Enterprise operations are contained within their respective funds.

Projected OPEB Contributions - $ millions				
2013	**2014**	**2015**	**2016**	**2017**
$2.0M	$2.0M	$2.0M	$2.0M	$2.0M
2018	**2019**	**2020**	**2021**	**2022**
$2.0M	$2.0M	$2.0M	$2.0M	$2.0M

Supporting Information

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.

Other Fund-Specific Expenditures

Ambulance Contract Expenditures – EMS Fund

The County contracts with Paramedics Plus for the County's SUNSTAR ambulance system. Contracts with the County's ambulance provider were renegotiated in FY2012 with an annual reduction to base service payments of $2 Million. A 6% increase was included in the forecast from FY2014 through FY2022 to account for annual CPI increases and increases to transport volume. However, once the contract is up for negotiation, expenditures may change as the economy rebounds and fuel and labor costs and other factors change.

Change in EMS Ambulance Contract Expenditures				
2013	**2014**	**2015**	**2016**	**2017**
7.4%	6.0%	6.0%	6.0%	6.0%
2018	**2019**	**2020**	**2021**	**2022**
6.0%	6.0%	6.0%	6.0%	6.0%

First Responder Expenditures – EMS Fund

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. First responder contractual expenditures increased 5.1% from FY2012 to FY2013 and are estimated to increase at 4% through the forecast period.

Change in EMS First Responder Expenditures				
2013	**2014**	**2015**	**2016**	**2017**
5.1%	4.0%	4.0%	4.0%	4.0%
2018	**2019**	**2020**	**2021**	**2022**
4.0%	4.0%	4.0%	4.0%	4.0%

Purchase of Water - Utilities Water Funds

A major expense to the Water System is the purchase of water from Tampa Bay Water. The annual change in the cost of water reflects the combined impact of changes in Tampa Bay Water rates and/or changes in consumption including decreases in wholesale customer base. The actual cost in dollars will be dependent on the amount of water purchased.

KEY FORECAST ASSUMPTIONS

Change in Cost of Water Purchased from Tampa Bay Water				
2013	**2014**	**2015**	**2016**	**2017**
-3.0%	-9.1%	0.5%	-9.2 %	1.1%
2018	**2019**	**2020**	**2021**	**2022**
0.5%	2.7%	2.7%	2.7%	2.7%

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				
2013	**2014**	**2015**	**2016**	**2017**
7.0%	7.0%	7.0%	7.0%	7.0%
2018	**2019**	**2020**	**2021**	**2022**
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 Pinellas County Department of Environment and Infrastructure engineering section. The Water forecast does not include any future costs of a water blending facility.

Solid Waste Expenditures – Utilities Solid Waste Funds

Solid Waste operating expenditures are projected to generally follow overall inflationary trends. The Solid Waste capital outlay forecast reflects the construction and purchase needs as estimated by the consulting engineering services report by CDMSmith, Inc. There is a large capital need forecasted for FY2016, FY2017 and FY2018 to install additional air pollution measures, in anticipation of tighter regulatory requirements.