

ECONOMIC OVERVIEW & BUDGET BACKGROUND

The *Economic Overview & Budget Background* portion of the FY2014 Budget Message provides important context for the various forecasts in this document 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

Jobs, Jobs, Jobs

The U.S. economy continued its positive hiring streak. For 32 consecutive months, U.S. companies added workers to their payrolls, with 175,000 jobs added in May. Since October 2010, there have been 5.7 million non-farm jobs added. While the added jobs are welcomed, the pace of job growth is anemic and will need to grow at a much faster pace to make-up for the 8.6 million jobs lost in 2008 and 2009, the worst months of the 'Great Recession'. The gains in May were lead by jobs in professional and business services, which added 57,000, the retail sector (28,000), and health care (11,000). Federal employment was a major drag on job growth, with 14,000 jobs lost during the month. Since the sequestration, as mandated by the Budget Control Act of 2011, went into effect, 45,000 Federal jobs have been lost, slowing the job growth seen in the four months prior. Since October 2010, the average monthly gain in the job market is 178,000, well below the pace of job loss during the height of the 'Great Recession' of 361,000 jobs per month.

The national unemployment rate remains below 8.0%, with May at 7.6%. The unemployment rate has been in a relative downward trajectory since the recent high of 10.0% was reached in October 2009, with minor upticks along the way. The drop in the unemployment rate precedes the turn-around in job growth by twelve months. This disconnect occurs because many of those previously counted as part of the unemployment rate stopped looking for work, thus reducing the total labor force.

Long-term unemployment, defined as those jobless for 27 weeks or more, continues to be a serious problem. The average length of unemployment is 36.9 weeks, down slightly from this time last year (41.4 weeks). The long-term unemployed make up 37.3% (4.4 million) of the total pool, with another 16.7% having been unemployed for 15 to 26 weeks. The economic damage for this segment of the labor force is enormous. In many cases, retirement savings have

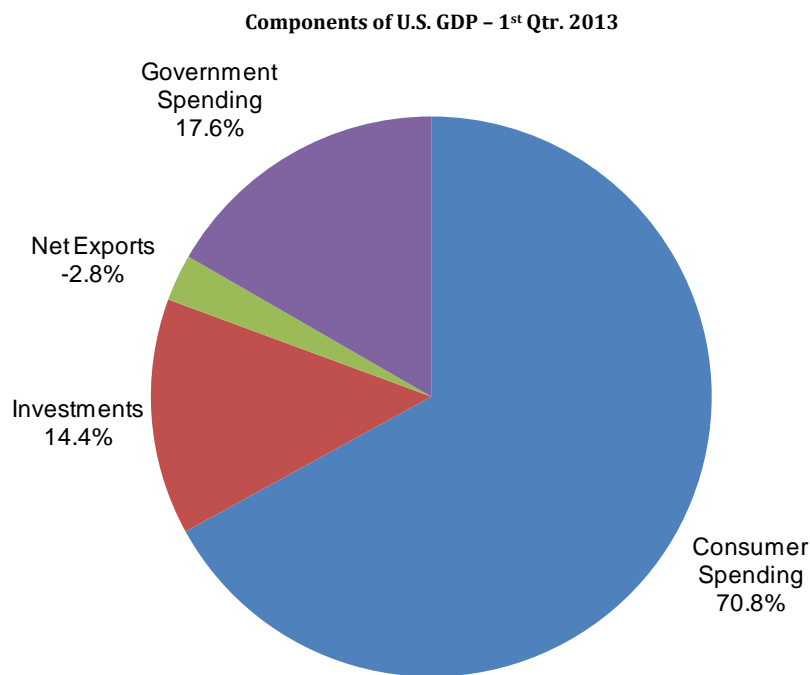
ECONOMIC OVERVIEW & BUDGET BACKGROUND

been depleted and financial ruin is a real possibility as employment prospects are diminishing with each passing week.

In addition to the long-term unemployed, there were 7.9 million workers classified as working part-time for 'economic reasons', either due to a reduction in hours due to business conditions or a lack of full-time employment opportunities.

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 (First Quarter 2013) are shown in the pie chart below.



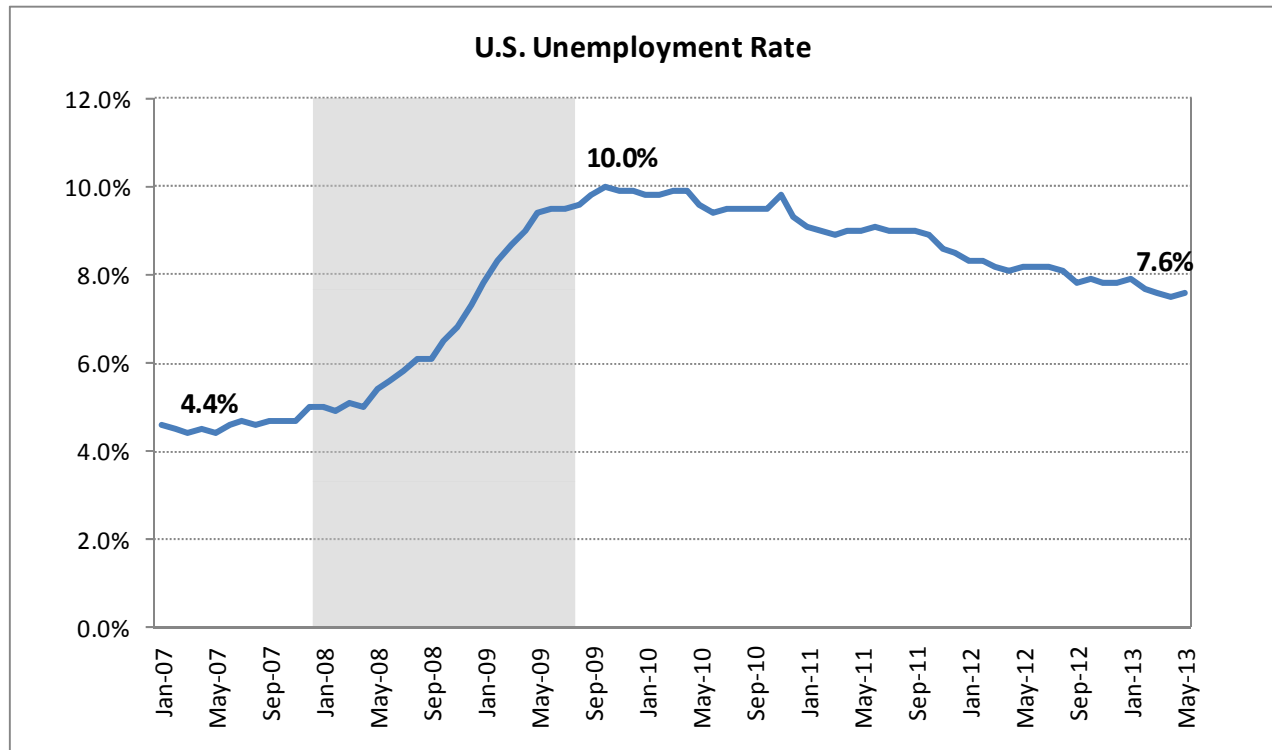
Source: U.S. Bureau of Economic Analysis

Consumer Spending

At 70.8%, consumer spending easily represents the largest portion of GDP. As consumer confidence returns, prices for goods fall and the housing markets improves, consumer spending is expected to continue to rise. A measure of consumer confidence, as measured by The Conference Board's *Consumer Confidence Survey*, rose by 7.2 points to 76.2, a five-year high. Consumers' assessment of current business and labor-market conditions was more positive in May, and they were considerably more upbeat about future economic and job prospects. The private sector of the economy rose at a 3.2% rate, more than off-setting the 1.0% contraction in the government sector.

ECONOMIC OVERVIEW & BUDGET BACKGROUND

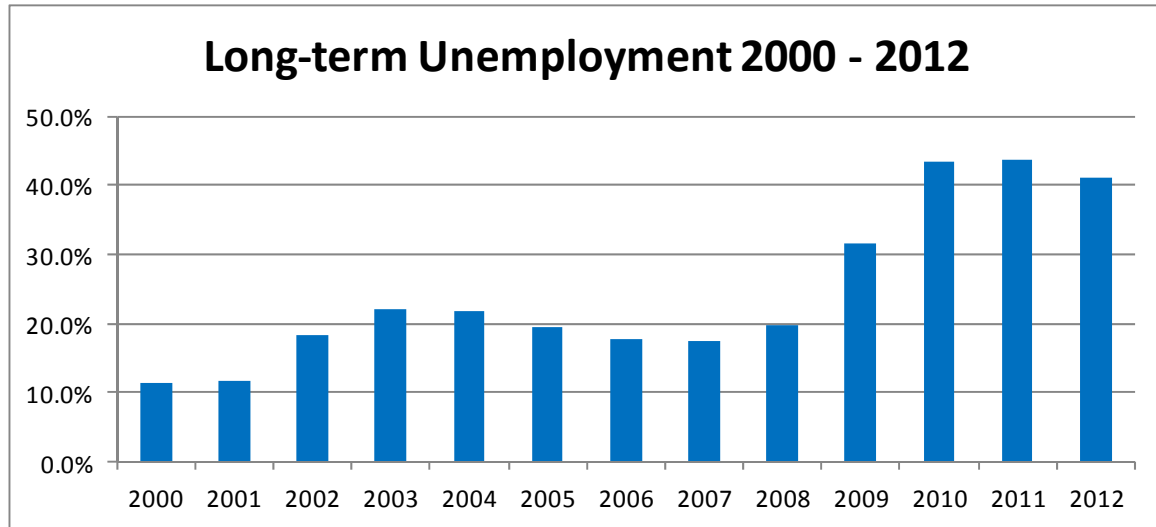
Seasonally Adjusted Unemployment Rate 2007-2013



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

While unemployment has shown improvement since the recession ended in 2009, the number of long-term unemployed, people who have been looking for employment for more than 26 consecutive weeks, has been much higher than the period following the 2001 recession. As the chart below shows, the pre-2007 recession level of long-term unemployed never returned to the pre-2001 levels and currently is above 40% of the total unemployed. One of the effects of long-term unemployment has been a depletion of savings, and the draw-down of retirement accounts, to pay monthly bills such as mortgage payments, insurance and food. The tight financial situation many families find themselves in, including working families, means there are fewer non-essential purchases being made.

ECONOMIC OVERVIEW & BUDGET BACKGROUND



Source: Congressional Budget Office, The Budget and Economic Outlook: Fiscal Years 2013 to 2023
February, 2013

Year	Unemployment %
2013	7.9% (7.6% May)
2014	7.8%
2015	7.1%
2016	6.3%
2017	5.6%
2018	5.5%
2019	5.5%
2020	5.4%
2021	5.4%
2022	5.3%
2023	5.3%

Source: Congressional Budget Office, The Budget and Economic Outlook: Fiscal Years 2013 to 2023
February, 2013

According to the U.S. Department of Commerce, retail sales for 2012 increased by 4.9% from 2011. This rise was in part due to increases in automobiles (8.6%), furniture (7.7%) and building materials (5.4%). Although these increases were driven by discounts and promotions, these figures do seem to indicate a positive trend in consumer spending. November/December retail sales were up 3.7% from the same period in 2011.

Category	December 2012	December 2011	% Growth
Retail & Food Services	\$468.7B	\$457.5B	2.4%
Retail	\$423.0B	\$414.5B	2.1%
Automobiles	\$74.9B	\$71.7B	4.5%
Gas Stations	\$42.2B	\$42.1B	0.2%
Clothing	\$31.7B	\$30.9B	2.6%

Source: U.S. Department of Commerce, January 15, 2013

Inflation also plays a role impacting the outlook for consumer spending. The Consumer Price Index, the generally accepted measure of overall inflation, rose by 2.1% in 2012, lower than the 3.2% rise for all of 2011, with the second half of 2012 rising by 1.8%. Short-term projections for CPI range from 1.5% to 2.0% through 2017. In addition, the Federal Reserve has continued

ECONOMIC OVERVIEW & BUDGET BACKGROUND

to maintain record low levels on short-term interest rates, and is expected to keep them close to zero at least through 2015, which is about two and a half years longer than originally indicated.

Government Spending

The second largest component of GDP is Government Spending at 17.6%. With the implementation of mandatory spending cuts and economic pressures, 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. For FY13, sixteen states and the District of Columbia projected a combined gap of \$16.2 billion, down from the high of \$174.1 billion in FY10. Although some states are forecasting budget gaps over the next two years, the number of states and the size of the gaps have continued to decline.

Local government budgets are very dependent on the housing market, from tax revenue from home sales to property taxes based on taxable values. As the housing market boomed, revenues from these sources rose at exceptional rates. When the bubble burst, so did the revenues. While the housing market in general has seemingly hit bottom, property values are still below pre-boom levels in many areas as excess inventory and foreclosures continue to suppress housing prices. The National Association of Realtors estimates the inventory of existing homes at approximately 1.93 million units, a 4.7 month supply. Sales of distressed homes, both foreclosure and short sales, accounted for 21% in March. On average, foreclosures sold for a discount of 15% below market value, while short sales were discounted 13%. Areas where the real estate market is showing improvement include 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 mandated 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 was not approved for reducing spending by that amount. These cuts would be spread out over ten years and contribute to more restrained federal spending than in years past and detract from economic growth. However, the American Taxpayer Relief Act of 2012, which was signed into law by President Obama on January 2, 2013, delayed the implementation of the sequestration from January 1, 2013 to March 1, 2013. This delay did not result in a resolution and most of the cuts went into effect, with Congress passing a continuing resolution to reverse the cuts to defense and veterans programs.

Investment

The third largest component of GDP is Investment at 14.4%. This component is made up of Non-Residential Fixed Investment and Residential Fixed Investment.

ECONOMIC OVERVIEW & BUDGET BACKGROUND

According to the Congressional Budget Office, business and residential investment are growing strongly. Business investment in nonresidential structures, equipment, and software grew at an annual rate of 8.7% in the first quarter of 2013.

Net Exports

The definition of net exports is exports minus imports. Current net exports make up -2.8% 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 2013 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 2% to 3% range due to lingering high levels of unemployment, the bottoming out of the housing market, the continued decline of the commercial real estate market, decreases in both federal and state & local government spending, and uneasiness about Europe.

Gross Domestic Product (GDP)	GDP Growth
2006	2.7%
2007	1.9%
2008	-0.3%
2009	-3.5%
2010	3.0%
2011	1.7%
2012	2.2%
2013 (Est.)	2.0%
2014 (Est.)	2.8%
2015 (Est.)	3.0%
2016 (Est.)	2.9%

Source: Federal Reserve Bank of Philadelphia
Survey of Professional Forecasters, May 10, 2013

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.

ECONOMIC OVERVIEW & BUDGET BACKGROUND

The State Economy

BACKGROUND

The background information below for the State's economy is derived primarily from the April 23, 2013 report Florida: An Economic Overview by the Florida Legislature Office of Economic and Demographic Research.

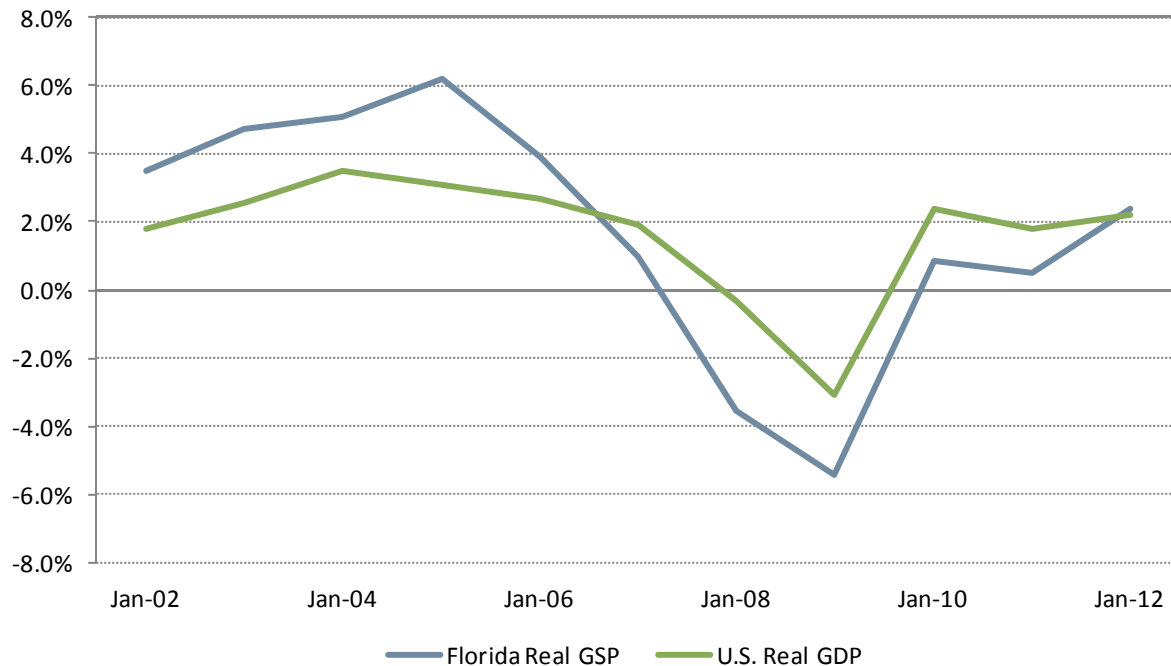
Until a few years ago, Florida was one of the nation's fastest growing states. With the end of the housing boom and the beginning of the real estate market correction, the state slipped to virtually no growth on a year-over-year basis. While Florida was not the only state to experience a significant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

Gross State Product

Gross State Product (GSP), 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. 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 total GSP in 2007 was \$760 billion, but dropped to about \$726 billion in 2009, before climbing back up to \$754 billion in 2011 (the last full year data is available).

Economic Activity - U.S. vs Florida

Year-over-year % Change



Source: Federal Reserve Bank of St. Louis/U.S. Bureau of Economic Analysis

ECONOMIC OVERVIEW & BUDGET BACKGROUND

After adjusting for inflation, Florida's real growth in GSP ranked it 14th in the nation in 2012 with a gain of 2.4%. By way of comparison, Florida was ranked 50th in 2008 and 4th in the nation in 2005. For Arizona, Nevada and Florida, losses in the construction sector accounted for a significant portion of the decline as it subtracted more than one percentage point from real GSP 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.

According to the Florida Legislature Office of Economic and Demographic Research, Florida's per capita personal income grew by 3.2% in 2012, compared to 3.5% nationally, ranking the state 31st in growth. Due to the expected income tax increase in 2013, the 4th quarter of 2012 saw a boost from dividends and bonuses that were shifted into tax year 2012.

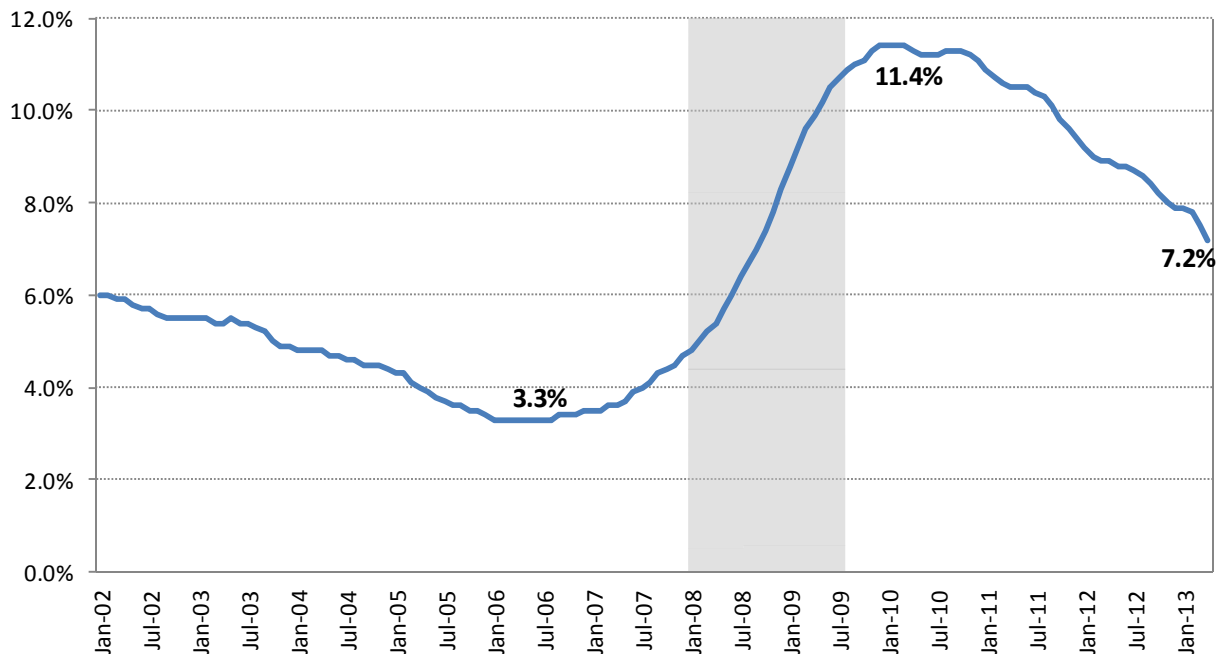
Job Growth and Unemployment

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% 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 8.0% in December 2012. This rate places Florida at 41st in the country. At 7.2%, approximately 680,000 residents are unemployed.

Since the State's peak in employment, more than 557,600 jobs have been lost. To recover from this loss, and to accommodate for the additions made to the work force from population growth, more than 900,000 jobs will need to be created to return Florida to its peak level.

ECONOMIC OVERVIEW & BUDGET BACKGROUND

Florida Unemployment Rate 2002 - April 2013



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

Housing Market

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 qualify for loans 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 furnish 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.

ECONOMIC OVERVIEW & BUDGET BACKGROUND

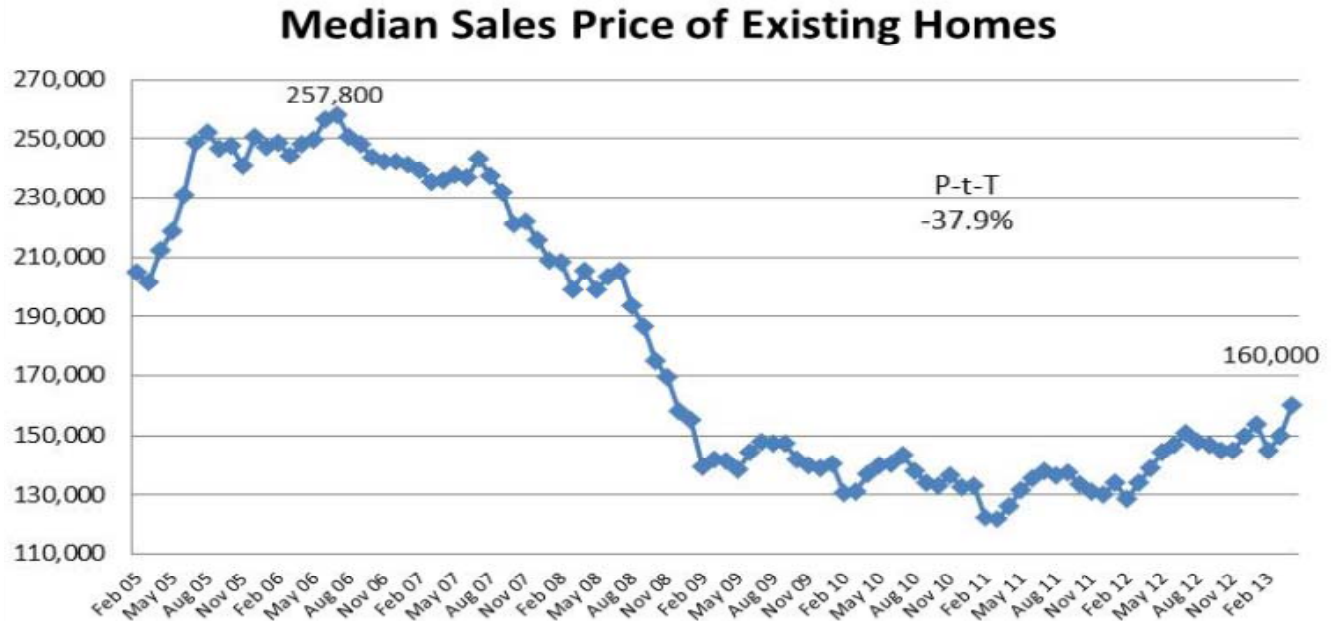
By the fall of 2008, Florida's homegrown problems with the housing market were giving way to several worldwide phenomena: a national recession that was spreading globally and a credit crisis that was threatening to bring down the world's largest financial institutions. As the sub-prime mortgage difficulties 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.

During 2012, the increase in volume continued, but still remained at 82% of the sales level during the high-water year of 2005. Median sales prices, however, have not seen the same increase as volume. As the chart on the next page shows, prices began to fall very quickly beginning in the last quarter of 2007 before reaching a bottom range between \$110,000 and \$130,000 in early 2011. From peak to trough, prices fell 37.9%.

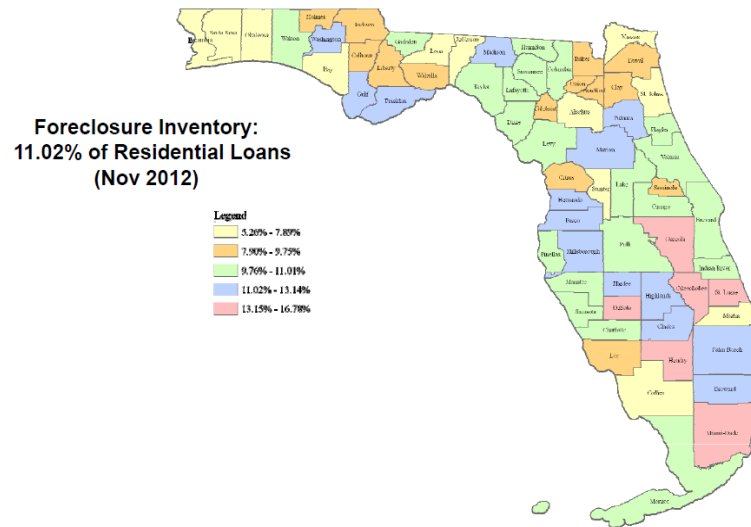
ECONOMIC OVERVIEW & BUDGET BACKGROUND



While the housing market is showing signs of improvement, foreclosures remain a problem. Florida had the highest foreclosure rate in the U.S. for the first time since the housing crisis began, with 3.1% of all housing units receiving at least one notice of foreclosure. According to the January 24, 2013 Florida Legislature Office of Economic and Demographic Research report *Florida: An Overview of Foreclosures*, 11.02% of residential loans were in some state of foreclosure, with Okeechobee (16.78%), Miami-Dade (15.65%), and DeSoto (15.36%) counties leading the state. As illustrated in the map below, Pinellas falls between 9.76% and 11.01%, just below the State's level. The economic impact of the large number of foreclosures is great. As more homes were foreclosed, they flooded an already weakening housing market, further depressing values and pushing more homes 'underwater'. During the first quarter of 2013, about 38% of all Florida homes with a mortgage are 'underwater', the second highest rate behind Nevada.

ECONOMIC OVERVIEW & BUDGET BACKGROUND

Percent of Loans in Foreclosure



Source: Florida Legislature Office of Economic and Demographic Research, January 24, 2013

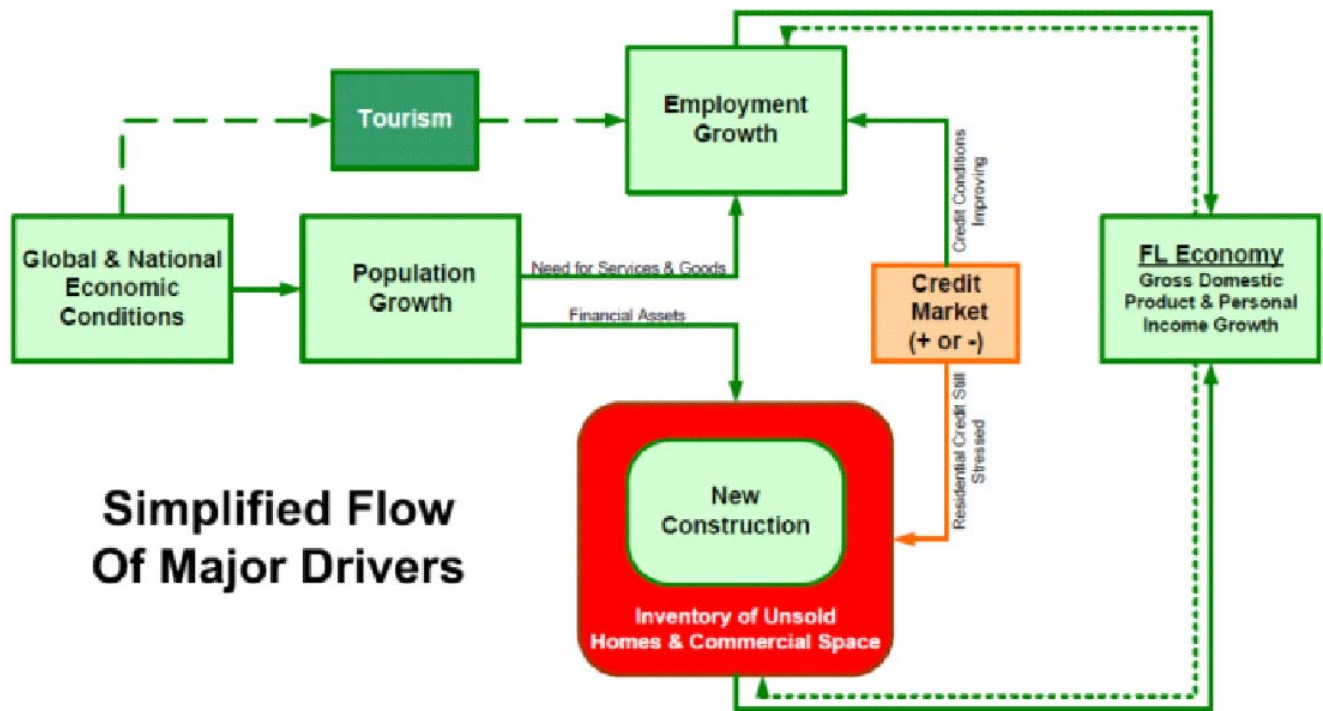
FLORIDA OUTLOOK

The background information below for the State's economy is derived primarily from the April 23, 2013 report Florida: An Economic Overview by the Florida Legislature Office of Economic and Demographic Research.

With the national recession four years behind us, Florida's economy is starting to show sustained improvement. Growth rates are beginning to return to levels seen during 'normal' periods, but it will still take several years to make-up for the years of negative growth; particularly in the real estate sector.

ECONOMIC OVERVIEW & BUDGET BACKGROUND

Key Economic Variables Improving



Source: Florida Legislature Office of Economic and Demographic Research

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.

Population Growth

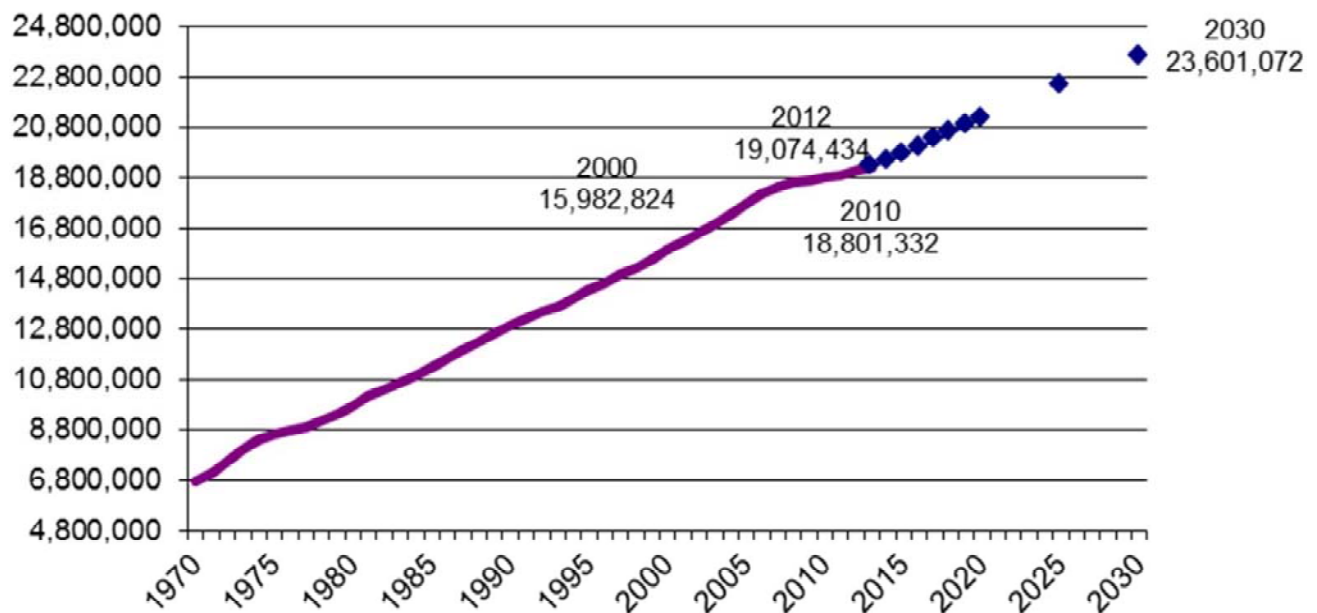
Population growth continues to be the state's primary engine of economic growth, fueling both employment and income growth, and impacting the amount of new construction activity. The national economic contraction significantly slowed Florida's population gains, but this was not unexpected. Over 80% of 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, and then began slowing to less than 0.5% in 2009 and 0.6% in 2010.

ECONOMIC OVERVIEW & BUDGET BACKGROUND

In the near term, population growth is forecast to remain relatively flat, averaging 1.2% between 2012 and 2015. However, over the forecast horizon, population growth will improve – averaging 1.4% between 2015 and 2020, with 88.5% of the growth coming from net migration. This compares to a 0.74% average annual growth rate nationally. While this is still significant growth, from 2000 to 2006 Florida averaged a net annual increase in population of 361,942. From 2007 to 2012, the average growth in population was down to 125,533 annually, a 65% decrease. 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.



Source: Florida Legislature Office of Economic and Demographic Research, April 23, 2013

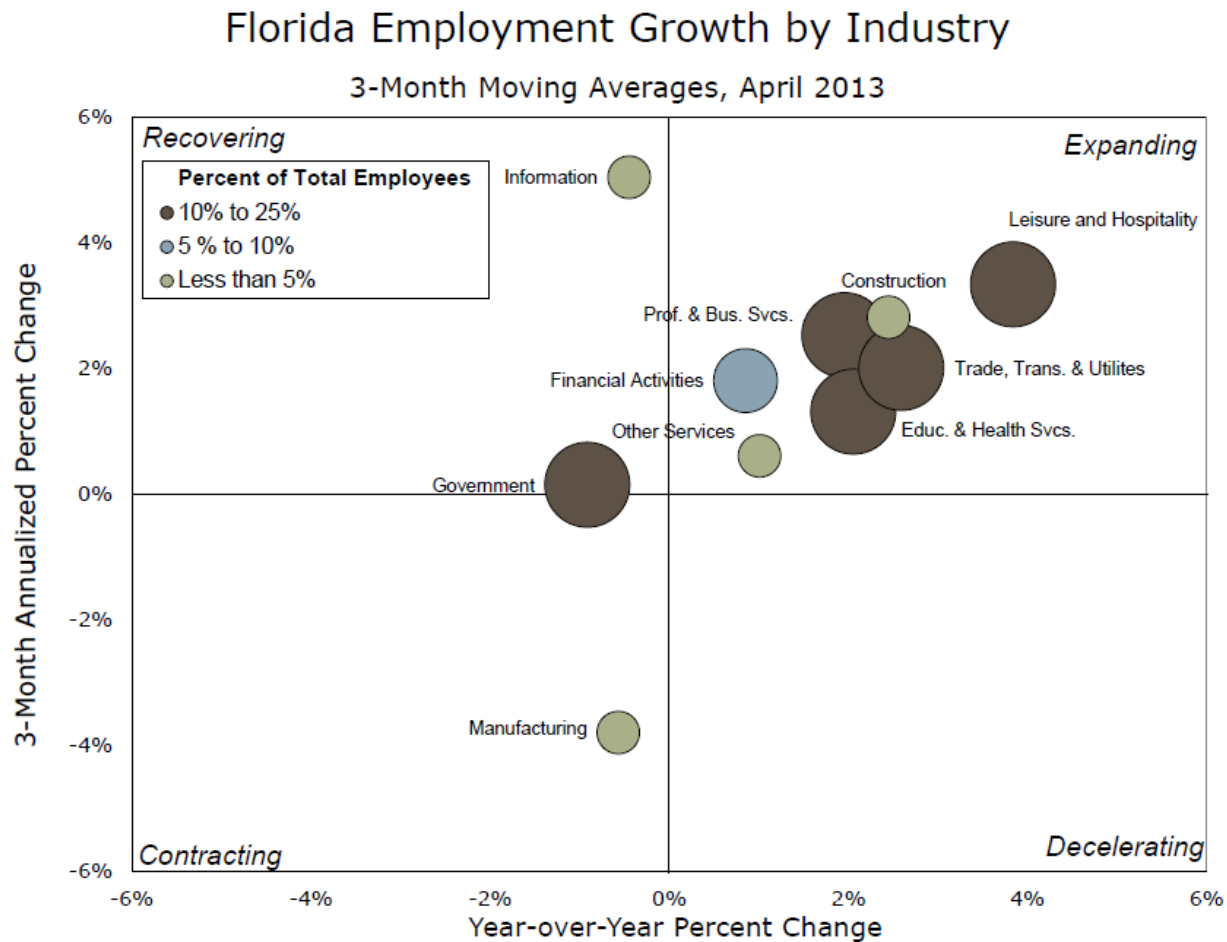
By 2030, Florida's population is expected to grow by almost 4.8 million people. The majority of this gain (56.4%) will come from those 60 and older, with those under 18 accounting for 14.8% of this gain.

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 was also impacted by 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. In 2012, an estimated 85.8 million people visited Florida, spending more than \$5.5 billion at restaurants, theme parks and sporting events. According to Wells Fargo Securities,

ECONOMIC OVERVIEW & BUDGET BACKGROUND

this figure is expected to top more than \$6 billion in 2013. The jobs associated with the Leisure and Hospitality industry has led the state in growth.



Source: U.S. Department of Labor and Wells Fargo Securities, LLC May 31, 2013

Employment Growth and the Labor Market

Florida's current unemployment numbers represent about 706,000 out-of-work Floridians actively looking for employment. Since the most recent peak in employment, there have been about 557,600 jobs lost. With a projection of about 2,500 new working-age people being added to the Florida market each month, it will take the creation of about 900,000 jobs to return to the peak level of employment.

The job market showed some strength throughout the year, with more than 224,000 jobs being added in during 2012. This growth was lead by the leisure and hospitality, business and professional services, trade and education and healthcare industries, which performed strongly. Negative job growth in government and manufacturing continue to slow the growth in Florida.

ECONOMIC OVERVIEW & BUDGET BACKGROUND

Nonfarm Private Sector Job Growth: 10 Largest States

	Employment	Present Employment	Percent Change	Absolute Change	Share of Total Change
	Feb-10	Apr-13			
United States*	106,011	112,709	6.3%	6,698	-
California	11,407	12,230	7.2%	823	12.3%
Texas	8,405	9,337	11.1%	932	13.9%
New York	6,991	7,452	6.6%	461	6.9%
Florida	6,037	6,441	6.7%	404	6.0%
Illinois	4,733	4,944	4.5%	211	3.2%
Pennsylvania	4,810	5,037	4.7%	227	3.4%
Ohio	4,221	4,437	5.1%	217	3.2%
Michigan	3,195	3,451	8.0%	256	3.8%
Georgia	3,139	3,342	6.4%	202	3.0%
North Carolina	3,123	3,338	6.9%	215	3.2%

*Using sum of states data

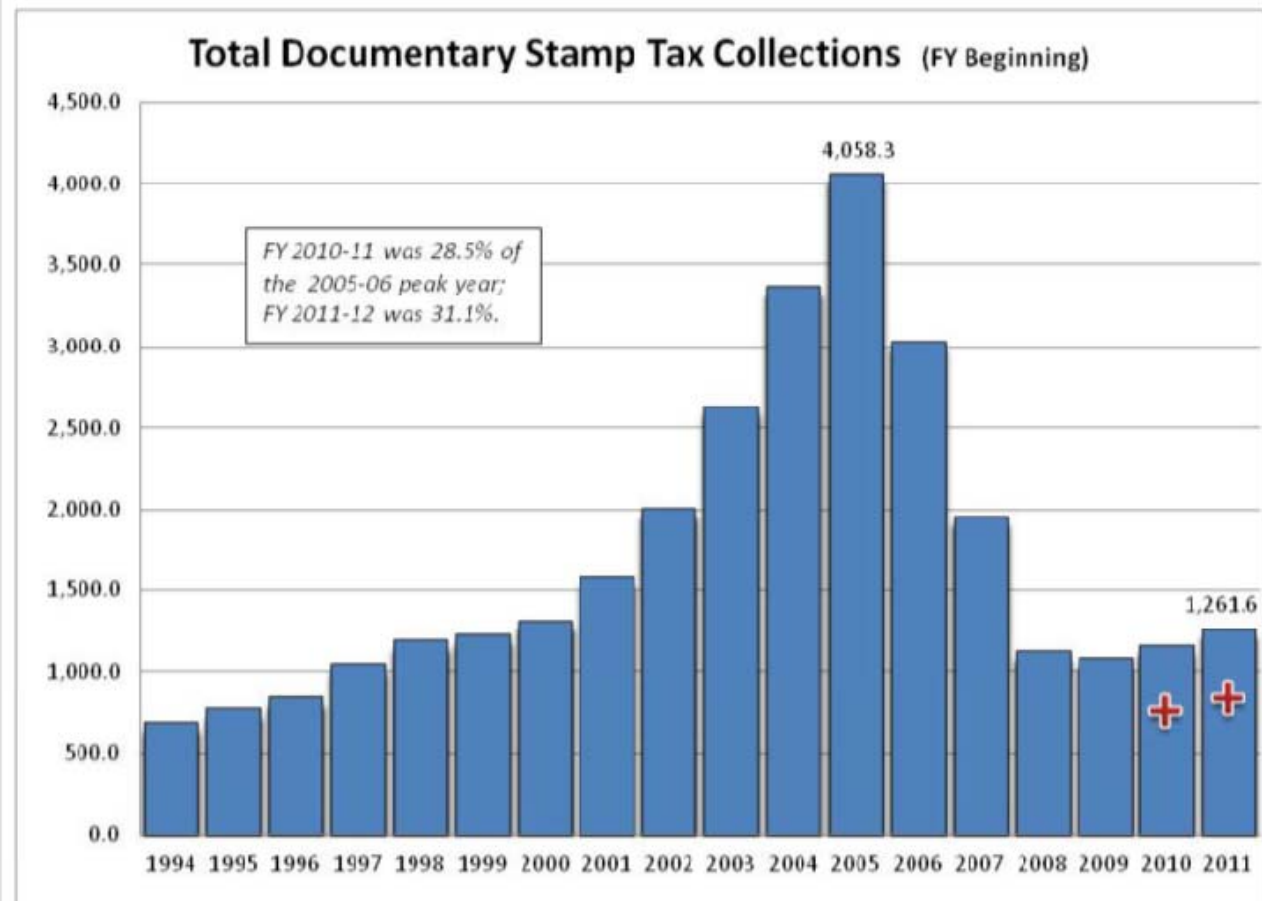
Source: U.S. Department of Labor and Wells Fargo Securities, LLC May 31, 2013

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. Projections for unemployment show a gradual reduction over the next eight or nine years for Florida, dropping from the current level of 7.2% to 6.0% by 2015 and 5.5% by 2020.

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 revenue from documentary stamp tax collections has shown very strong growth in 2013. Through April, revenue is up 33.1% from the same period in 2012.

ECONOMIC OVERVIEW & BUDGET BACKGROUND



Source: Florida Legislature Office of Economic and Demographic Research, Dec. 5, 2012

Recent building permit activity has come in better than expected. Building permit activity showed a strong 32.4% growth rate in 2012, with a 50.0% increase year-over-year for the first two months of 2013.

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 drop in home values and the continuing high level of unemployment, and more specifically, long-term unemployment. In 2012, Florida had the highest foreclosure rate in the country, displacing Nevada at the top of this dubious list. At 853 days, Florida has the second longest foreclosure process in the United States, more than twice the national average of 414 days. These two factors, along with the struggling economy, suggest that the foreclosure problem will remain with Florida for several more years as the existing inventory, and inventory soon to be added, slowly makes its way through the process.

A related problem is the "shadow inventory" of homes that are not on the market but are at risk of foreclosure. About 40% of all residential loans in Florida are for homes that are "underwater", that is, have mortgage debt higher than the value of the house. However, rising home prices in 2012 helped more than 700,000 previously underwater homeowners return to

ECONOMIC OVERVIEW & BUDGET BACKGROUND

a position of equity in their homes. There is also a significant percentage of homeowners who are not current with their mortgage payments.

	Delinquent	Foreclosed	Non-Current
National	7.1%	3.5%	10.6%
Florida	7.9%	11.8%	19.7%

Source: Florida Legislature Office of Economic and Demographic Research, January 24, 2013

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									
	Oct '12 %	July '12 %	Apr '12 %	Jan '12 %	Oct '11 %	July '11 %	Apr '11 %	Jan '11 %	Oct '10 %
Tightened considerably	0.0%	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tightened somewhat	3.1%	1.6	5.6	0.0	4.2	5.7	3.8	3.7	13.0
Remained basically unchanged	92.2	93.4	90.7	94.3	91.7	86.8	92.5	94.4	83.3
Eased somewhat	4.7%	3.3	3.7	5.7	4.2	7.5	2.0	1.9	3.7
Eased considerably	0.0%	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	100.0

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

The end result of these factors is that in the residential property market, sales volume is expected to increase while prices appear to have begun the recovery from their historic lows.

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 is 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 budget. 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.

ECONOMIC OVERVIEW & BUDGET BACKGROUND

As the 2013 Legislature ended, the House and Senate passed a \$74.5 billion budget for FY2014, more than \$4 billion higher than the FY2013 budget. The State's *Revenue Estimating Conference* is projecting general revenues to increase by \$1.1 billion, or 4.5%, the first increase since 2008.

Summary of Florida Outlook

Florida's economy appears to have turned around. The major drivers of economic growth are showing signs of improvement. The state's primary source of economic growth, population growth, has improved from the very low rates of 2009 (<0.5%) and 2010 (0.6%). From 2012 to 2015, population growth is expected to average 1.2%, then increase to 1.4% through 2020.

Tourism, which was hit hard by both the global recession and the 2010 BP Deep Horizon oil spill, has improved greatly. The jobs associated with tourism, especially in the leisure and hospitality industry, grew more than any other industry in 2012 as visitors returned to the beaches and theme parks around the state. As the recovery continues, the long-range unemployment rate is projected to fall steadily from the current level of 7.2% to 5.5% by 2020.

Florida's housing market continues to show signs of improvement. Sales volume of single family homes increased by 8.5% in 2012, while median sales prices were up 9.0%. However, foreclosures continue to depress sales prices around the state. In 2012, Florida had the highest foreclosure rate in the country, with 19.7% of all residential mortgages non-current on their mortgage payments.

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.

ECONOMIC OVERVIEW & BUDGET BACKGROUND

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 Pinellas County 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 was the systematic inequity 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 was achieved, there were 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

ECONOMIC OVERVIEW & BUDGET BACKGROUND

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 cap requires 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, the County has some flexibility for increases above the property tax revenue cap in the short

ECONOMIC OVERVIEW & BUDGET BACKGROUND

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 as well as revenues from other important sources.

Amendment One made many 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%, and 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

Since the recession began, 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%

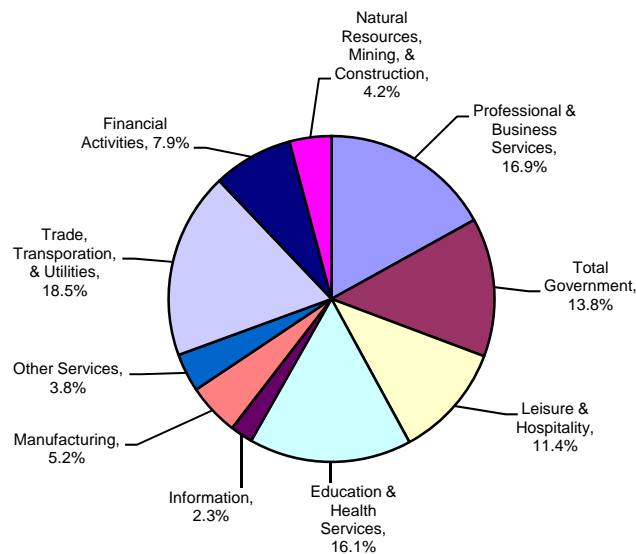
ECONOMIC OVERVIEW & BUDGET BACKGROUND

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 FY2013.

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 more than 14 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. On the next page 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 2013 Florida Economic Outlook: Employment growth in Tampa has been relatively strong and broad-based. Employment growth has boosted retail sales. Automobiles contributed the most to the headline number, while building and business investment jumped considerably from a year ago. Payrolls in leisure and hospitality as well as education and health services are rising much faster than the national average. Education and

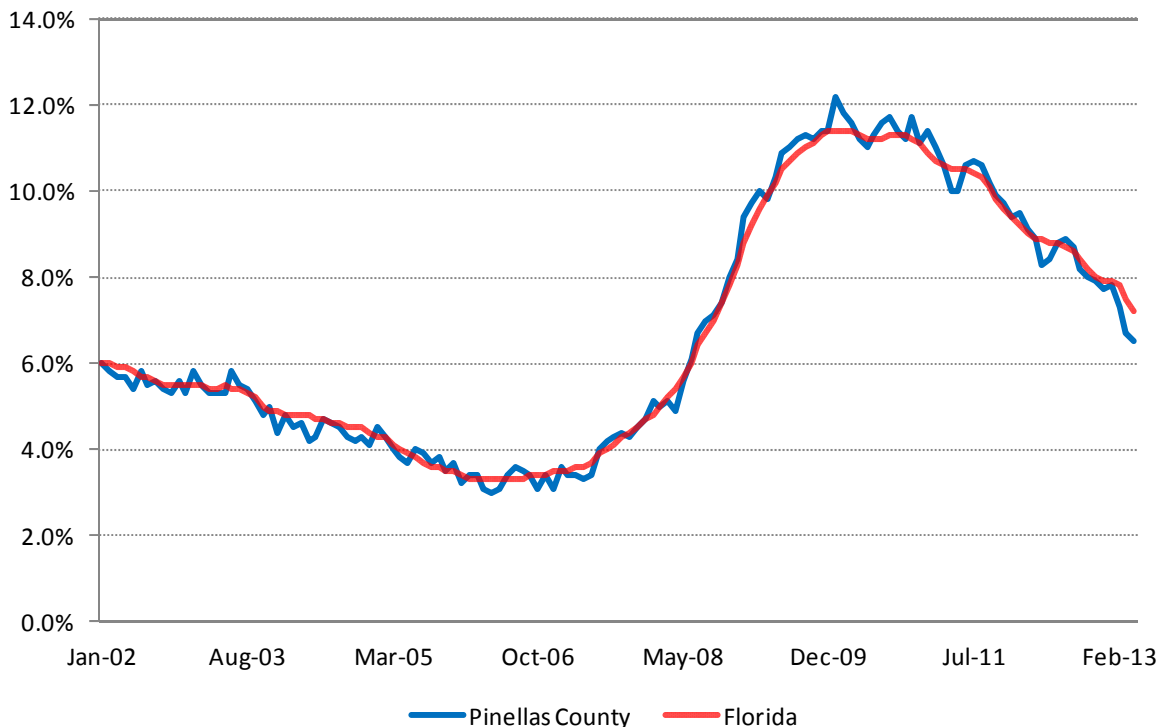
ECONOMIC OVERVIEW & BUDGET BACKGROUND

health services payrolls jumped 4.4 percent from a year ago and will continue their upward trajectory. However, growth in financial activities is slowing and will continue to do so as financial services and insurance firms lay off workers and shutter operations. Furthermore, federal budget cuts remain as a downside risk for the metro area.

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 on the next page 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 months after the official end of the recession. Since then, the County's unemployment rate has fallen to 6.5% (April 2013).

Unemployment Rate - Pinellas County vs. Florida 2002 - 2013



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 \$7.3 billion annually. In FY2012, the County reported more than 5 million overnight visitors and collected \$28.7 million in tourist development tax revenue, also known as the 'bed tax'. A positive sign of a recovering economy, FY2013 collections are 9.0% higher through April than the same period in FY2012, which was a record year for Pinellas County.

ECONOMIC OVERVIEW & BUDGET BACKGROUND

Real Estate

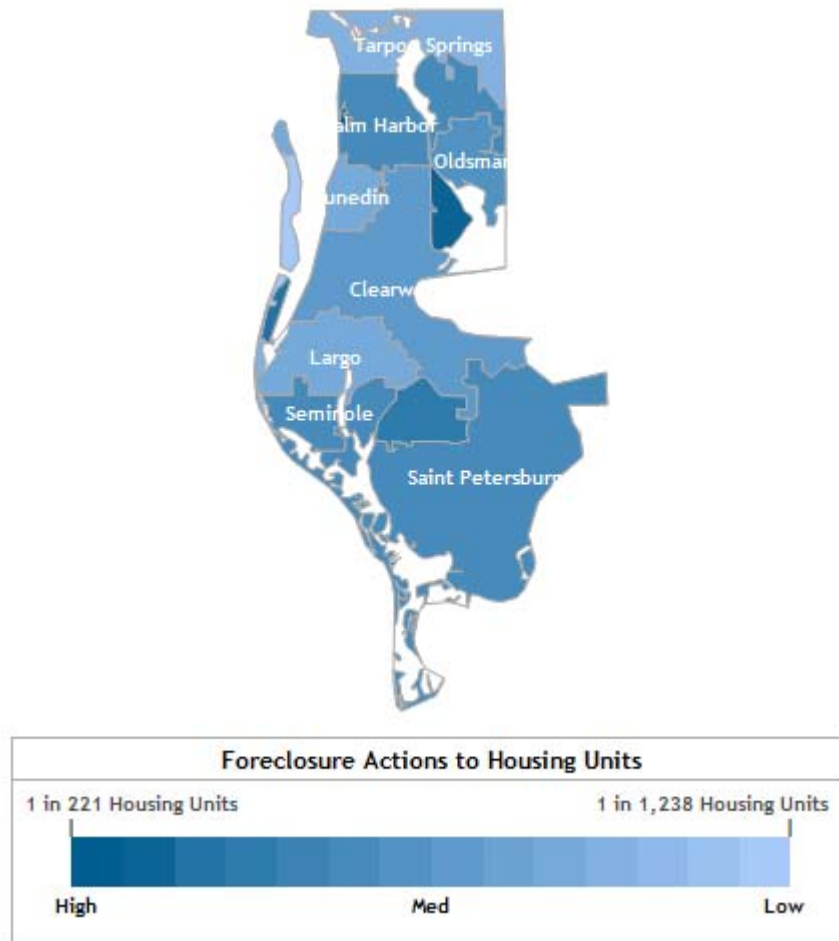
The real estate market in Pinellas County is struggling to recover from the bursting of the housing bubble. Pinellas, like the rest of Florida, experienced a dramatic rise in housing values for several years during the housing boom. Starting in FY2009, taxable values fell for five straight years (-8.4%, -11.4%, -9.7%, -4.5%, and -1.8%). In FY2014, taxable values are increasing by about 3.0%, led by strong growth in many of the County's beach towns and communities.

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. Foreclosures continue to hold down the residential real estate market. In 2007, there was an average of 628 foreclosure activities per month. As unemployment increased and the economy slipped into recession, foreclosure activity almost doubled in FY2008 to 1,110 per month. Activity remained extremely high through FY2009 and FY2010 before dramatically dropping off to 522 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 822 per month in FY2012 through September. The most recent data from Realty Trac, shown in the graphic below, shows that most of the foreclosure activities are in the large population centers within Pinellas County.

ECONOMIC OVERVIEW & BUDGET BACKGROUND

Foreclosure Activity – Pinellas County April 2013



Source: RealtyTrac.com

In addition to the drag on the market caused by foreclosures, the number of homes with negative equity, or ‘underwater’, remains high. Through the first three quarters of 2013, the Tampa Bay region leads the nation in mortgages considered ‘underwater’, with about 255,000 homes, or 41%, according to data from CoreLogic. While this figure is the highest in the nation, it is well below the level seen in late 2010 when more than 340,000 were ‘underwater’. The recent increase in home values has reduced the number of homeowners who considered themselves trapped in their current homes because of negative equity, allowing them to put their homes on the market. As more of these homes become available, homebuyers will have more options, stabilizing a struggling housing market.

Summary of Local Outlook

While the national recession has been over for more than four years, the effects are still being felt in Pinellas County. Unemployment is well above pre-recession levels and foreclosures have remained stubbornly high in the past several months. However, tourism has shown signs of a strong recovery. FY2012 tourist development tax revenues were 12.4% higher than FY2011, and each month in FY2013 has been higher than the same month in FY2012, with March

ECONOMIC OVERVIEW & BUDGET BACKGROUND

reaching almost \$5 million, an all-time high for any single month. And real property taxable values have begun to climb after five years of decreases.

As the national economy continues to improve, Pinellas County is poised to recover as well. However, because of the high level of unemployment, and more importantly long-term unemployment, and the inventory of residential properties available on the market, the recovery is expected to be slow and long.
