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Robert S. LaSala
County Administrator

July 9, 2013

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

In accordance with my statutory responsibilities, I present the **Proposed Fiscal Year 2014 Annual Operating and Capital Budget** for your consideration.

I am grateful for your guidance and support as we developed the budget with the new paradigm of slower revenue growth, a focus on sustainability and alignment with your strategic plan. The Board's leadership in working with the other Constitutional Officers and elected officials has been particularly crucial in this process. I especially appreciate the commitment and perseverance of all of the County's employees who have continued to provide high quality public services despite challenging fiscal realities.

As a result of our collaboration and planning, we made it through the "Great Recession." We did what was necessary to strategically position the organization while waiting for a recovery in taxable values. It was understood that some programs had to be eliminated and significant reductions in levels of service made to many others; not because these programs lacked value, but because we were compelled to focus on providing only those services we could afford. Our aim was to transform the organization while limiting disruption and current and future impacts. The recovery has been slow and growth has been moderate. We will not be able to bring back many of the services that we once provided. We are restructuring in order to provide the priority programs and service levels that can be sustained while structurally balancing the County's finances over the long-term.

With the 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 will still take several years to make-up for the years of negative growth, particularly in the real estate sector. Sales volume of existing homes and building permits are both back in positive territory, showing year-over-year growth reaching levels not seen since 2006. 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, further stabilizing a struggling housing market. Tourism growth now appears to be on a steady upward trajectory, a positive sign of a recovering economy. FY2013 bed tax collections are 9.0% higher through April than the same period in FY2012, which is a record year for Pinellas County.

As the national economy continues to improve, Pinellas County is poised to recover as well. However, because of the high level of unemployment, and particularly long-term unemployment, and the inventory of residential properties available on the market, the recovery is expected to be slow and long. Based upon the “new normal” rate of property value appreciation of 3%, it will take many years to erase the 34% loss of values from FY2007 to FY2013.

Linked to the County’s budget process is the strategic planning that is on-going. Substantial progress has been made during the current fiscal year on the Board’s strategic planning efforts, now known as Quality Pinellas Community (QPC). Quality Pinellas Community is best understood as an on-going sustainability planning and adaptive management process undertaken by the Pinellas County Board of County Commissioners. QPC is a visionary, mission-driven, holistic and integrated approach to sustainability and stability. The process enables the Board to:

- analyze the challenges, threats and opportunities bearing down on Pinellas County and Pinellas County Government.
- adapt to challenges through carefully-crafted goals and strategies (Strategic Initiatives) aligned with an over-arching future vision of Pinellas County and an approved organizational mission.
- link Strategic Initiatives to the Annual Budget.
- consistently evaluate progress toward achievement of desired outcomes, impacts and results of strategies.
- adjust existing initiatives and develop new ones, as circumstances require.

The broad vision of QPC is to produce a sustainable “community of communities” that meets the needs of the present without compromising the future. A Quality Pinellas Community is one that is sustainable, healthy and safe. Our citizens demand and expect governance to be transparent and accountable and service delivery to be consistent, efficient and cost effective. We must recognize constraints and respond as new conditions emerge with smart investments that mitigate unsustainable trends while staying committed to core services. Our goal is an organizational culture with a systemic approach to focusing on outcomes and results, innovation, and measuring and reporting performance.

In furtherance of the QPC vision, the County has made a number of reductions, reorganizations and realignments shifting its focus to providing core services. As an example, the County Administrator's Office has flattened its structure to drive decision making lower into the organization as part of the High Performance Organization initiative. This restructuring has resulted in savings of approximately \$400K. The plan is to invest these savings into a "toolbox" that will build additional capacity and implement best practices within the operating departments. The outcome will be economy, efficiency and effectiveness (E³). These tools, to be placed in the hands of the department directors, are detailed in the *Management Initiatives* section of the Budget Message following this letter.

We understand the difficulty in raising revenue by increasing property taxes. The organization is looking beyond the "do more with less" model and instead is innovating our way through these tough times. We have accomplished recurring savings in recent years and continue to seek ways to improve our service delivery. The County is starting to see savings from the merger that created the Department of Environment and Infrastructure (DEI). While not fully realized, efficiencies associated with the introduction of OPUS, the first new financial system in over 30 years, are underway.

In the near future, Citizens can expect to see significant savings from the new mergers that are currently being implemented. In an effort to align programs and services with the Board's new strategic direction, the Department of Health and Community Services and the Department of Safety and Emergency Services have been formed from existing departmental programs. These changes will not only yield a financial benefit, but will improve the quality of life of our residents. Additional information regarding the restructuring of the departments can be found in the *Management Initiatives* and *Health and Community Services* sections of the Budget Message following this letter.

The \$1,759,928,630 balanced budget continues the County's tradition of providing high quality services to the public while prudently managing the public's funds. The total FY2014 Budget is \$33.2 million or 1.9% more than the total FY2013 Budget, which reflects a net increase in operating, capital, reserves, and enterprise functions.

The General Fund is the primary operating fund of the County. The FY2014 budget is \$568,656,070, representing an increase of \$10.2 million or 1.8% compared to FY2013. This increase reflects the increased employer contributions to the Florida Retirement System and an employee pay increase to keep the County competitive with the labor market. Classified staff members have not had a pay increase in 4 years and many exempt staff members have gone 5 years without a pay increase. The organization is at a tipping point where issues of retention and recruitment are a major concern.

The Human Resources department has proposed a 2.8% across-the-board pay increase in FY2014 for all eligible County employees. This proposal is in line with its research as to the forecasted salary increases in the Tampa Bay area during the next year for both the public and private sector. Current pay levels within the County are on point with comparable markets, but the county faces stiff competition from the private and public sector for retention and recruitment of new talent.

The items noted above, along with other inflationary factors, require the proposed General Fund county-wide millage rate increase of 0.2650 mills from 5.0105 to 5.2755, while the unincorporated area (MSTU) millage rate remains unchanged at 2.0857 mills.

As part of the ongoing evaluation of library services in the unincorporated area and the East Lake community's request for a dedicated funding source, the BCC approved the establishment of the East Lake Library Services District MSTU. In addition, the Board approved the removal of the East Lake Library from the boundaries of the existing Library Cooperative MSTU. Removal of the East Lake Library from the Library Cooperative MSTU is consistent with the treatment of the Palm Harbor Library MSTU. In FY2014, the proposed millage rate for the East Lake Library is 0.25 mills. For the residents of East Lake, this action results in a tax savings because they will no longer pay the Library Cooperative MSTU millage.

On a related note, the agreement between the County, cities and other providers of library services expires this September. A small millage increase from 0.4437 to 0.5000 is proposed to help mitigate the impact of decreased service levels both in the unincorporated area and County as a whole. The revised agreement will be presented to the Board in September.

The millage rates for the Gandy, Pinellas Park and Safety Harbor fire districts have been increased due to legal requirements. The Emergency Medical Services (EMS) fund reflects a 0.0732 mill increase to 0.9890 mills. The EMS budget maintains the status quo with respect to level of service and the delivery model, while satisfying the Board's policy of maintaining a reserve level of 25%. The other operating and capital improvement budgets, not specifically mentioned in this letter, have all been adjusted to achieve balance and maintain as high a level of service as possible within given revenue constraints. The Budget Message following this letter presents a comprehensive overview, with detailed information contained in the budget document.

CONCLUSION

The budget that I have provided to you is balanced for the remainder of FY2014 and FY2015. It was developed with the underlying principle of sustainability. With that thought in mind, I would also like for you to consider our future. History tells us we will likely experience another recession within the next five years. The "Great

Recession" (December 2007 – June 2009) was an aberration, but we know the future holds another drop in the economy, decreased revenues and a need to reduce spending. We are recommending that the Board anticipate this eventuality and set funds aside. Those funds would be used to sustain levels of service, mitigate the need to make dramatic cuts or increase the millage to make up for the shortfall. We would live within our means, exercise fiscal discipline and plan for the future. For the forecast period, this would increase the likelihood and the ability to sustain a level of service that the citizens expect. This can be accomplished through a slight increase in the millage of 0.2154 mills.

This budget builds on a foundation of strategic planning, performance measurements, program budgeting, and the 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.

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 Proposed Budget.

Respectfully submitted,

A handwritten signature in cursive script, reading "Robert S. LaSala". The signature is written in dark ink and is positioned above the printed name.

Robert S. LaSala

County Administrator

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