KEY ASSUMPTIONS

The *Key Assumptions* portion of the FY2014 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

Forecasting is not a precise science. This is particularly true for forecasts that involve the economy. Statistician Nate Silver, in his recent book *The Signal and the Noise: Why So Many Predictions Fail – but Some Don't*, notes the performance of the highly-respected Survey of Professional Forecasters in predicting the one-year growth or decline in Gross Domestic Product (GDP). Silver cites a study which revealed that the actual change in GDP has fallen outside the range of the group's predictions almost half the time. The most recent example was in 2007, where all of the economists predicted growth in GDP even though the Great Recession was already under way. As Silver says, "Forecasting something as large and complex as the American economy is a very challenging task."

Despite this uncertainty, forecasting is a useful tool for identifying potential problems and the need for future action. The forecasts in this document are a baseline using past trends, current policies, and assumptions about future conditions based on reasonable expectations. We have not attempted to project significant future events such as recessions, oil embargos, or natural disasters. However, in each of the fund reviews we have identified the risks to the forecast that could significantly impact the projections.

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 FY2022. 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, Wells Fargo, Conway Pedersen Economics, Inc., the University of Central Florida, and the 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.

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 after five years of decline, the 3.4% increase in taxable values in FY2014 will be followed by a slow but sustained rate of growth.

Change in Taxable Values – County-wide									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
3.4%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

KEY ASSUMPTIONS

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 FY2015 through FY2023 percentage change in taxable value for the Emergency Medical Service Fund is assumed to be the same as the County-wide taxable value change. The rates of growth in the General Fund MSTU and the Fire Districts Fund are projected to be 0.5% less than the County-wide growth rates based on past trends and the composition of the tax base in the unincorporated area.

<u>Supporting Information</u>

For FY2014, the overall increase of 3.4% in countywide taxable values reflects differing 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).

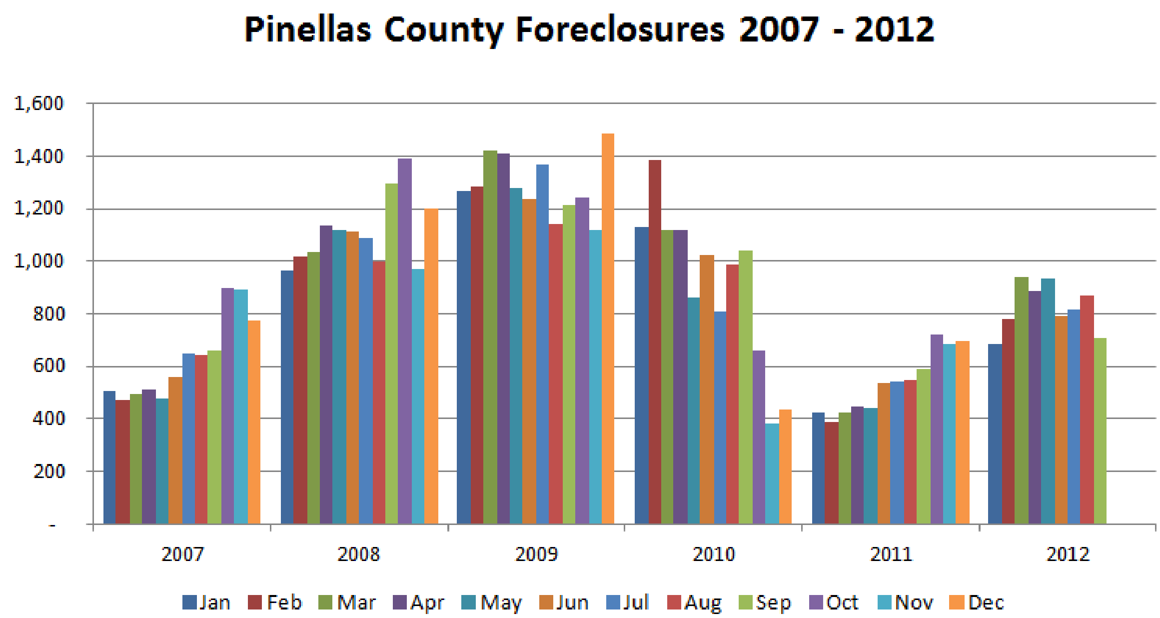
In the future, the growth in property tax revenues will be restrained by the caps put in place by the Legislature in 2007. The amount of new construction in Pinellas County will not provide the boost that other counties that are not built-out will enjoy. For example, Orange and Hillsborough counties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

Impact of Foreclosures

In determining the values as of January 1, 2013, which serve as the basis for FY2014 calculations, the Property Appraiser will factor 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. As a result of the recession, recent years have 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 through 2009. After a decrease in 2010 due to chain-of-title issues and the delay of proceedings in the courts, foreclosures once again increased in 2012 to a level about 50% higher than the pre-recession norm.

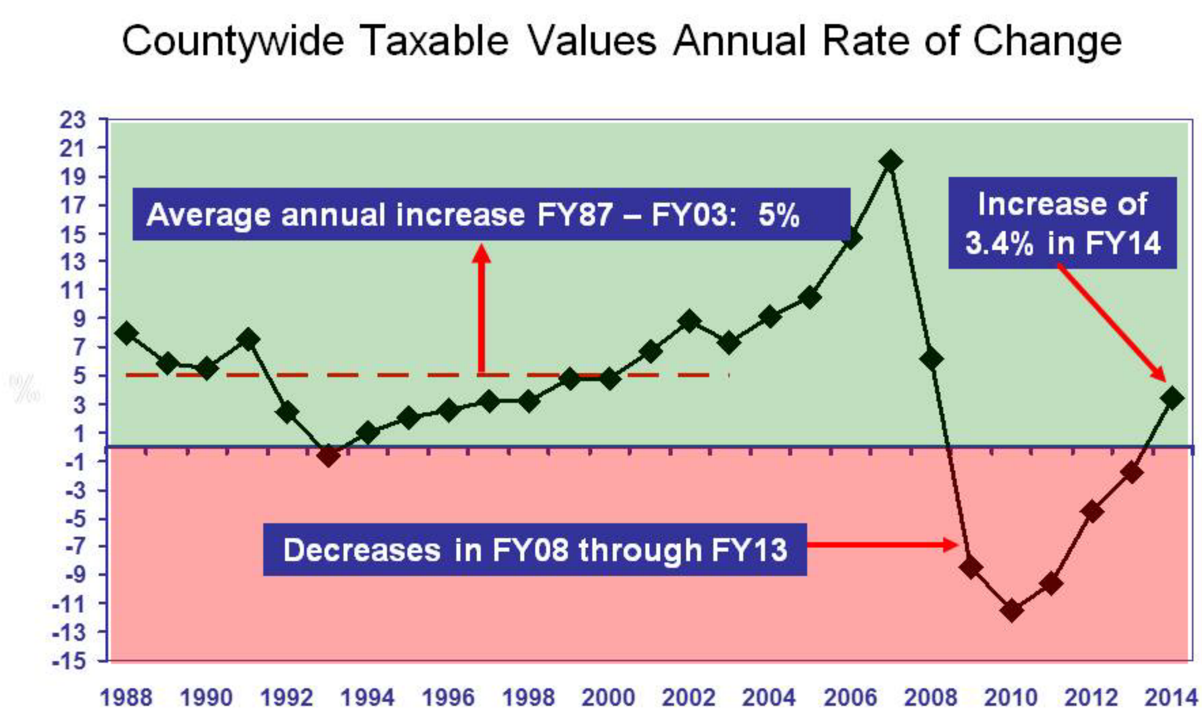
For the time being, demand is such that new foreclosure inventory is being absorbed fairly efficiently. A "glut" of non-mediated rulings could lead to a surge in inventory, putting downward pressure on median sales prices, which in turn would negatively impact the tax base. The forecast assumes that the foreclosure inventory will not experience this type of surge.



Source: Clerk of the Court data

Taxable values

The taxable values for FY2014 were certified by the Property Appraiser on July 1, 2013. The county-wide value increased by 3.4% compared to the FY2013 values. This is the first year that the tax base has grown since FY2008. The preceding five years of tax base decline were unprecedented; prior to this the tax base only decreased once since World War II, a small -0.6% dip in FY1993.



KEY ASSUMPTIONS

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*									
2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
1.9%	3.0%	3.0%	2.5%	3.0%	0 .1%	2.7%	1.5%	3.0%	1.7%
*There is a two-year lag in the CPI adjustment. For example, the fiscal year 2014 factor is the CPI change percentage for calendar year 2012.									

Sources: Florida Department of Revenue and 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 The limit for FY2014 will be the December, 2012 index, 1.7%, which was issued by the U.S. Bureau of Labor Statistics on January 16, 2013.

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, FY2012, or FY2013.

Another aspect of the declining market values (and the "doubling" of the Homestead Exemption from $25,000 to $50,000) was the erosion of the amount of value shielded from taxes due to Save Our Homes. As market values begin to rise again, the Save Our Homes limitation will restrict the amount of growth in taxable values.

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 and Fire Districts Fund taxable value percentage change is assumed to be slightly less than 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.

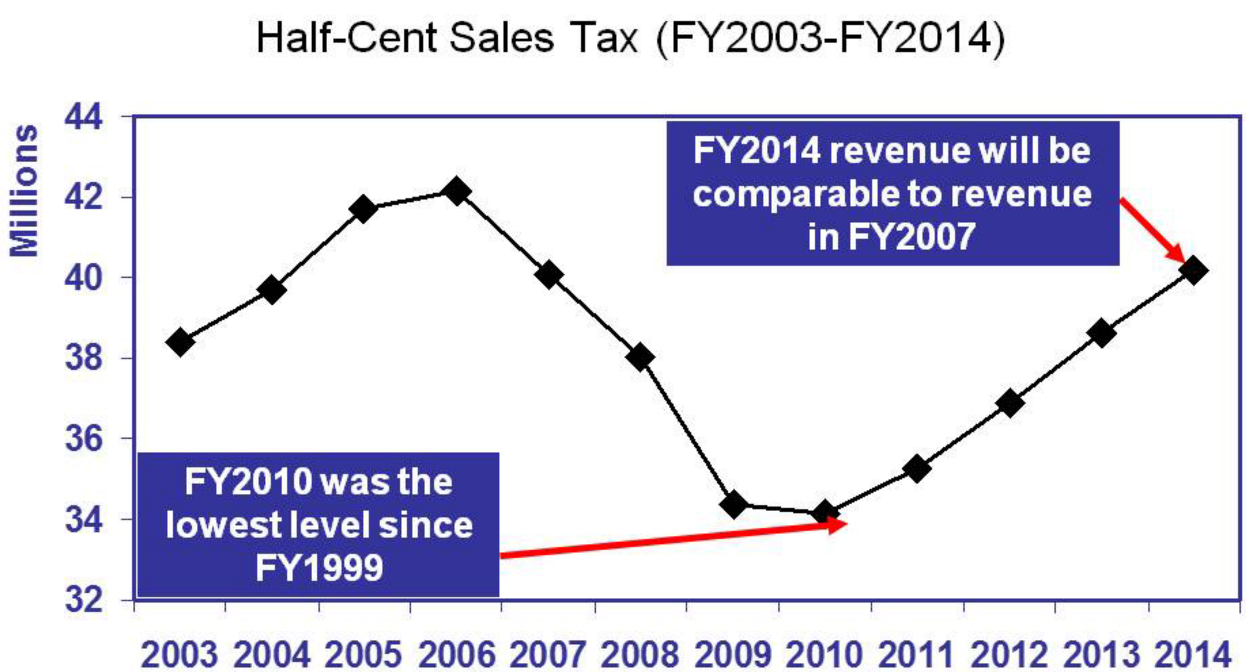
Sales Taxes – General Fund and Capital Projects Fund

<u>Overview</u>

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 4.9% in FY2012. This was the second year of growth following four years of decline beginning in FY2006. We believe this is indicative of a return to sustained sales tax revenue growth.



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 30% of the total Penny funds are paid for by tourists and seasonal residents.

Key Assumptions

For the State Shared Half-Cent Sales Tax, in FY2014 and later years, we anticipate growth approaching historical patterns. A 4.0% growth rate is assumed for FY2014 reflecting the continuing economic recovery. This is followed by a 3.5% growth rate throughout the FY2015-FY2023 forecast period. In the near-term, our projection is more conservative than the State General Revenue Estimating Conference, which anticipates more robust FY2014 growth of 4.9%, followed by 5.5% and 5.4% in FY2015 and FY2016, respectively.

Change in Half-Cent Sales Tax Revenue									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
4.0%	3.5%	3.5%	3.5%	3.5%	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 3.5% growth in FY2014 and 3.0% growth from FY2015 to FY2023. 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 in the short term. 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 1.5% to 2.5% 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 FY2016.

KEY ASSUMPTIONS

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; FY2012 CST revenue (excluding audit adjustments) was 2.8% lower than in FY2011.

Key Assumptions

The forecast projection reflects a continuation of the decline in this revenue source.

Change in Communications Services Tax Revenue									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%

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.

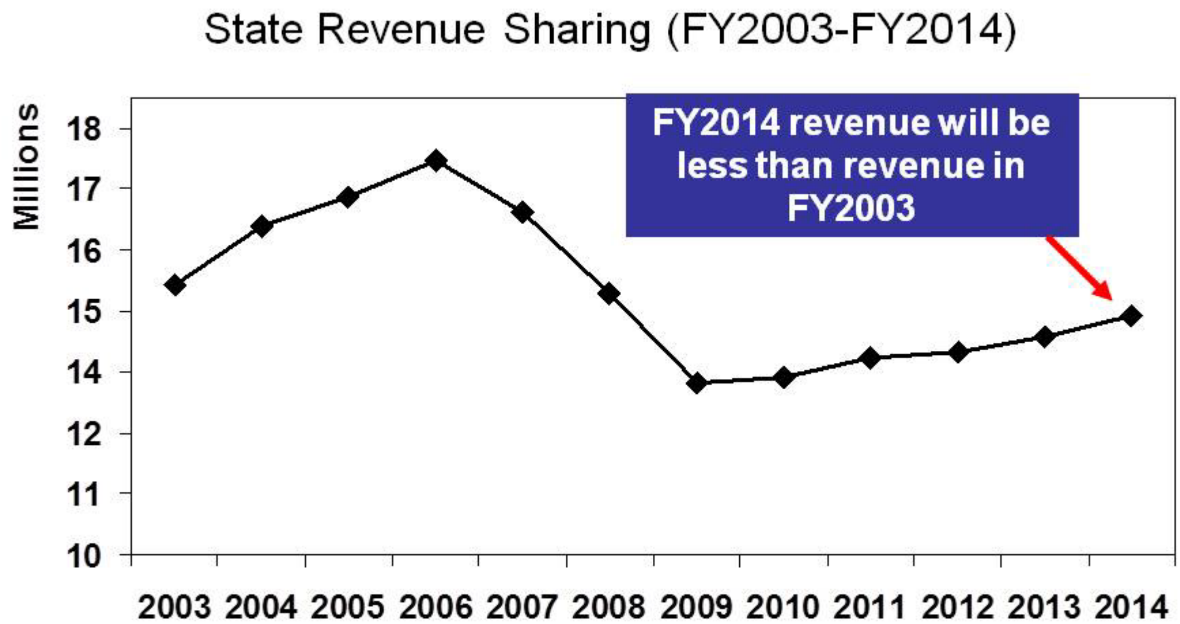
The 2012 Legislature approved changes to the CST statutes, and a State commission, the Communications Services Tax Working Group, was appointed to study the CST and recommend further structural changes that could lead to even greater reductions in revenue. The Legislature did not act on restructuring the CST in 2013, but may revisit this idea in future years.

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 demonstrated a second year of growth, increasing 3.4% in FY2012. Prior to FY2011, this source had declined or remained essentially flat since FY2006.



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.

Change in State Revenue Sharing Revenue									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
2.5%	2.5%	2.5%	2.5%	2.5%	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 FY2012 were once again minimal. The forecast reflects the short term outlook for continued low earnings, gradually increasing to earnings of approximately 3% on fund balances in the mid- to long-term.

Interest Earnings on Fund Balances									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
0.7%	1.0%	1.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

In each fund forecast, the major revenue sources that comprise most of the available resources are specifically analyzed. Depending on the fund, the remaining revenues may include licenses and permits, charges for services, fines and forfeitures, rents, surplus, refunds, reimbursements, and other miscellaneous revenues. For these other revenues, the forecast assumes the same flat to moderate growth which reflects the anticipated gradual economic recovery.

Change in Other Revenue (non-specific)									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
2.0%	2.0%	2.0%	2.0%	2.0%	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.

Tourist Development tax revenues have been steadily improving since Spring 2010 and reached record levels in FY2012. FY2013 revenues are estimated to grow 6.3% over actual receipts for FY2012, and increase by an additional 0.8% in FY2014. Beyond FY2014, projections continue to increase by 3.0% annually through the forecast period, matching anticipated gradual growth as part of the recovery in the broader U.S. economy.

Change in Tourist Development Tax Revenue									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
0.8%	3.0%	3.0%	3.0%	3.0%	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. The State Transportation Revenue Estimating Conference forecasts annual average revenue growth of 1.9%, but this is based on the forecast of total gallons of motor fuel pumped annually in Florida. The County's gas taxes are based on gallons consumed and not fuel prices, and revenue has declined 0.3% in FY2011 and 0.2% in FY2012. Pinellas County's built out condition, and future mandated vehicle fuel efficiency standards, leads us to assume a continuing slow decline 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.

Change in Gas Tax Revenues									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%

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 from FY2010 to FY2012 was 2.0%. The average increase over 10 years was 3.13%, ranging from 0.5% to 7.4%. Revenues are estimated to increase by 2.0% during the forecast period.

Change in Ambulance User Fee Revenue									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
2.0%	2.0%	2.0%	2.0%	2.0%	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 FY2023, an increase of 2.0% per fiscal year is forecast. The forecast assumes no new carriers over the ten year period.

Change in Airport Flight Operations Revenues									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

KEY ASSUMPTIONS

Airport Rent/Leases/Concessions Revenues – Airport Fund

Rent/Leases/Concessions revenue for FY2013 is based on current leases/agreements through the termination of these lease agreements. Land leases have a five-year adjustment based on the CPI. For FY2014 through FY2023, an increase of 2.0% is forecasted for each fiscal year. The County General Fund leases land for the Jail, the Criminal Justice Center, and other uses from the Airport. They comprise 45% of the long-term industrial (non-aviation) land leases.

Change in Airport Rental Revenues									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

Water and Sewer Rates

In FY2012, the Board of County Commissioners approved a four-year rate plan for both the Water and Sewer systems to meet projected revenue needs through FY2015.

Water Funds Revenue

In addition to its retail water customers, the County has provided water at wholesale rates to six cities that purchase water in bulk and distribute it to their own retail customers. The volume of water purchased declined 30% from FY2008 to FY2012, partially due to several of the cities beginning to develop alternative sources of water. The amount of water purchased is also affected by economic conditions, housing and commercial vacancies, and levels of conservation.

Due to expected slow growth in the economy, the forecast assumes a 1% decrease in FY2014 and a 4.0% increase in FY2015. In FY2016 revenues return to negative growth, with a 4% decrease. FY2017 to FY2023 are projected to increase 3.0% (FY2017) and 2.0% (FY2018 to FY2023). The wholesale water demand projections reflect a decline in revenues from FY2015 through FY2016 due to the projected loss of sales of three cities (Clearwater, Tarpon Springs, and Oldsmar), as they develop their own water sources.

Sewer Funds Revenue

The volume of waste billed has declined 12% from FY2008 to FY2012. The amount of sewage processed is affected by economic conditions, housing and commercial vacancies, and levels of water conservation.

The forecast assumes a 6.2% increase in revenue in FY2014 compared to FY2013 estimate and 7.5% in FY2015. From FY2016 through FY2023, revenues are projected to increase 3.0% each year.

Solid Waste Funds Revenue

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									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%

Expenditure Assumptions

Personal Services – Salaries – All Funds

Overview

The cost of Personal Services (salaries and benefits) is generally the single largest category of expense (for example, 50% of the General Fund). Prior to FY2009, the range of salary merit adjustments generally varied from 0 to as high as 7%. Beginning on July 1, 2012, employees are required to contribute 3% of salary to the Florida Retirement System, effectively reducing take home pay. A limited non-recurring compensation adjustment was approved for FY2013.

Key Assumptions

Compensation adjustments are included in the forecast for FY2014 through FY2023. County employees have not received merit pay increases 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. For FY2013, a one-time cost of living wage disbursement was approved. In FY2014 and future years, moderate wage adjustments are expected to resume, to maintain a compensation structure that can attract and retain quality employees.

Change in Salaries (Merit Increases – Net)									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
0%-3%	0%-3%	0%-3%	0%-3%	0%-3%	0%-3%	0%-3%	0%-3%	0%-3%	0%-3%

Supporting Information

The annual market survey of salaries and benefits for comparable area organizations is being reviewed at this time. We have already seen indications that salaries for current employees are becoming non-competitive. Additional funds may be required for potential re-classifications due to the reorganizations and reductions in force which have occurred over the past several years. Non-recurring compensation adjustments, such as one-time, flat-amount payments, could also be implemented without negatively impacting the forecast.

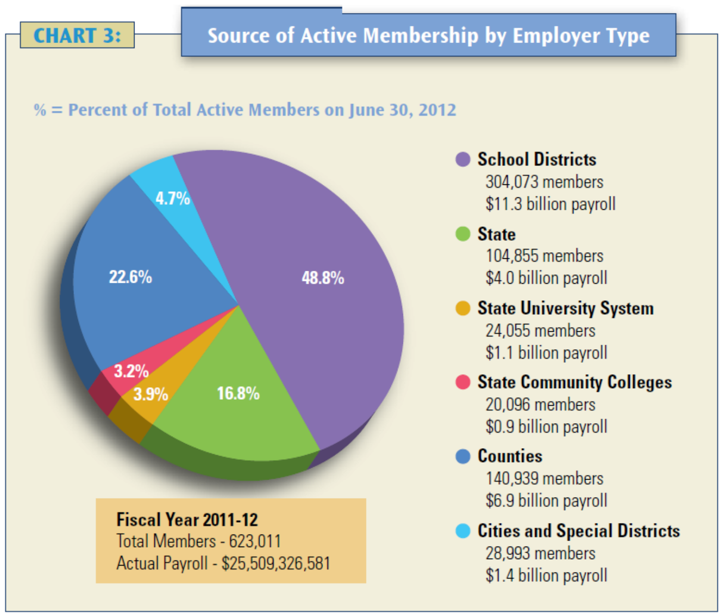
Personal Services – Employee Benefits – All Funds

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.

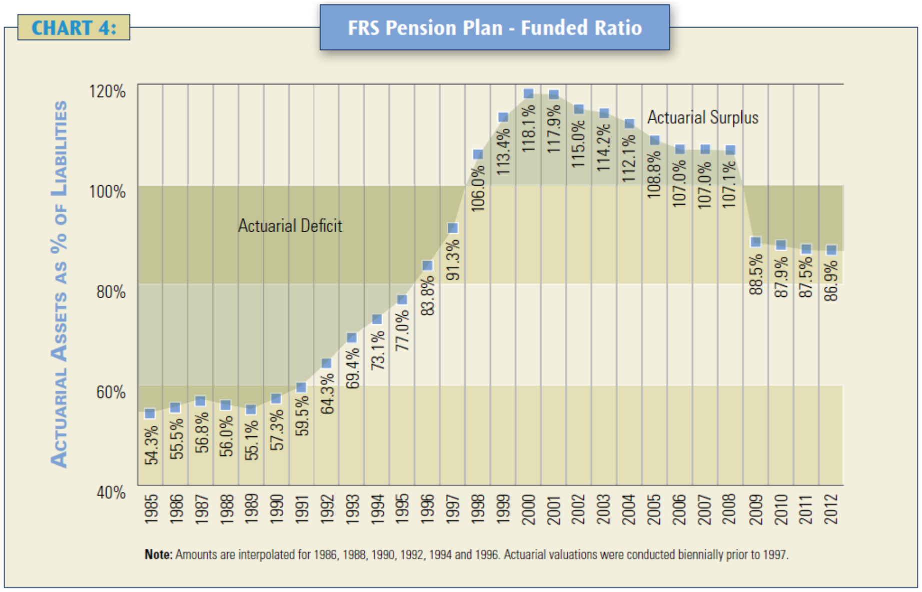
Florida Retirement System (FRS)
The County is required to participate in the Florida Retirement System (FRS), a State public pension plan. Cities have the option of joining the State system or creating their own pension plans. Employees of school districts and state agencies also must enroll in FRS, and comprise about two-thirds of the total active membership.



Source: State Board of Administration
Investment Report for State Fiscal Year 2012

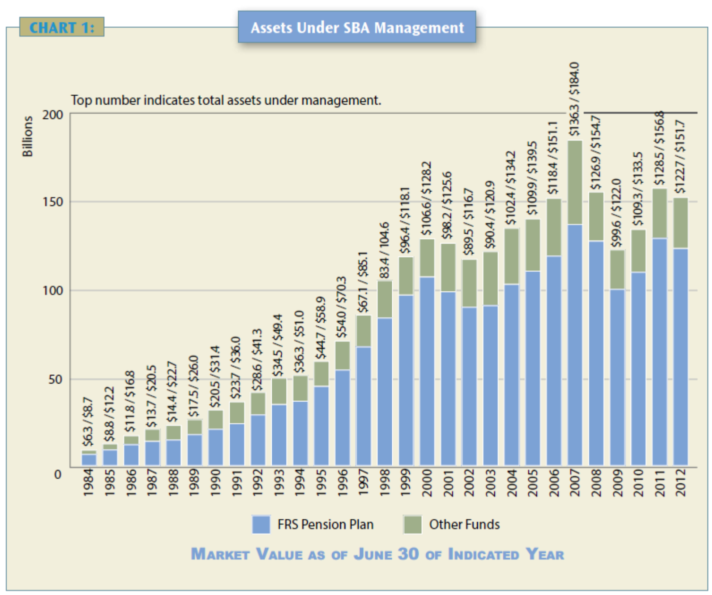
From 1998 to 2008, the FRS had been one of the few state systems that had an actuarial surplus. This lowered the required contributions set by the Legislature that are based on an employee's salary and benefit category (public safety employees and elected officials have higher benefits).

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, beginning in 2009 the FRS system has had an unfunded liability.



Source: State Board of Administration
Investment Report for State Fiscal Year 2012

The FRS investment portfolio, which is managed by the State Board of Administration, 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
Investment Report for State Fiscal Year 2012

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 requirement for employee contributions to FRS had been challenged by a lawsuit filed on behalf of public employees by several labor organizations. On January 17, 2013, the Florida Supreme Court issued its ruling in this case which upheld the employee contribution requirement. This avoided potential increases to employer contributions which could have negatively impacted personnel costs.

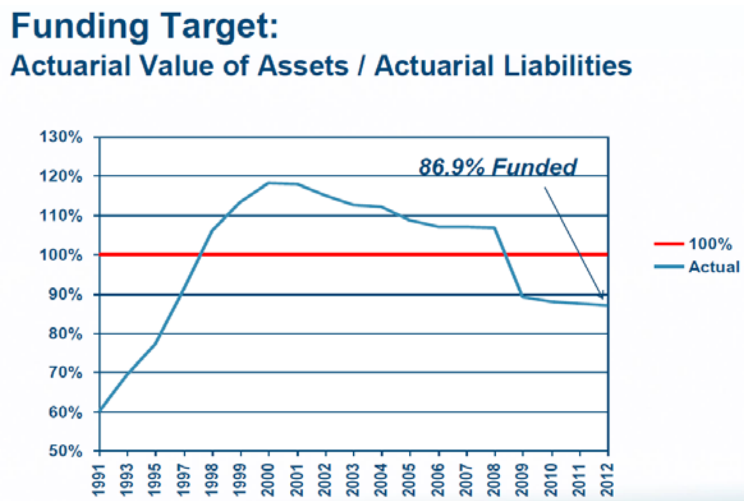
The 2012 Legislature approved rates for the State's 2013 fiscal year (June 2012 to July 2013) that were essentially the same as the previous year. The 2013 Legislature then increased the rates significantly as of July 1, 2013 to fully fund the actuarial liability.

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, increased wellness programs and incentives for employees, and the introduction of a fully insured Medicare Advantage Group plan for Medicare-eligible retirees.

Key Assumptions

As of June 30, 2012, the FRS system was still only 86.9% funded:



Source: Milliman presentation to FRS Actuarial
Assumptions Estimating Conference, October 1, 2012

The 2013 Legislature increased the FRS rates to fully fund the actuarial liability. The forecast assumes that having reached a fully funded level, the rates should stabilize. There is still a degree of uncertainty in that the Legislature and Governor have demonstrated that they are willing to make major structural changes to the pension system.

Actual and Projected FRS Employer Blended Contribution Rates (Regular Class)										
2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
5.18%	6.95%	6.95%	6.95%	6.95%	6.95%	6.95%	6.95%	6.95%	6.95%	6.95%

The Legislature's action resulted in a significant increase in the County's FRS employer contributions for FY14. The impact in the General Fund alone was more than $5 million. The future growth in the County's FRS dollar contributions will be a combination of rate changes and the growth in the salary base to which the rates are applied.

Change in FRS Dollar Contributions*									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
20.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
* From 2015-2023, 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 (ACA) passed in 2010 on the national level to restructure and contain health insurance costs could have a significant impact. The forecast does not assume

any changes in the current situation; some of the potential implications of the ACA are discussed in the Supporting Information below.

Change in Health Insurance Contributions									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
10.0%	10.0%	10.0%	10.0%	10.0%	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)									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
4.1%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

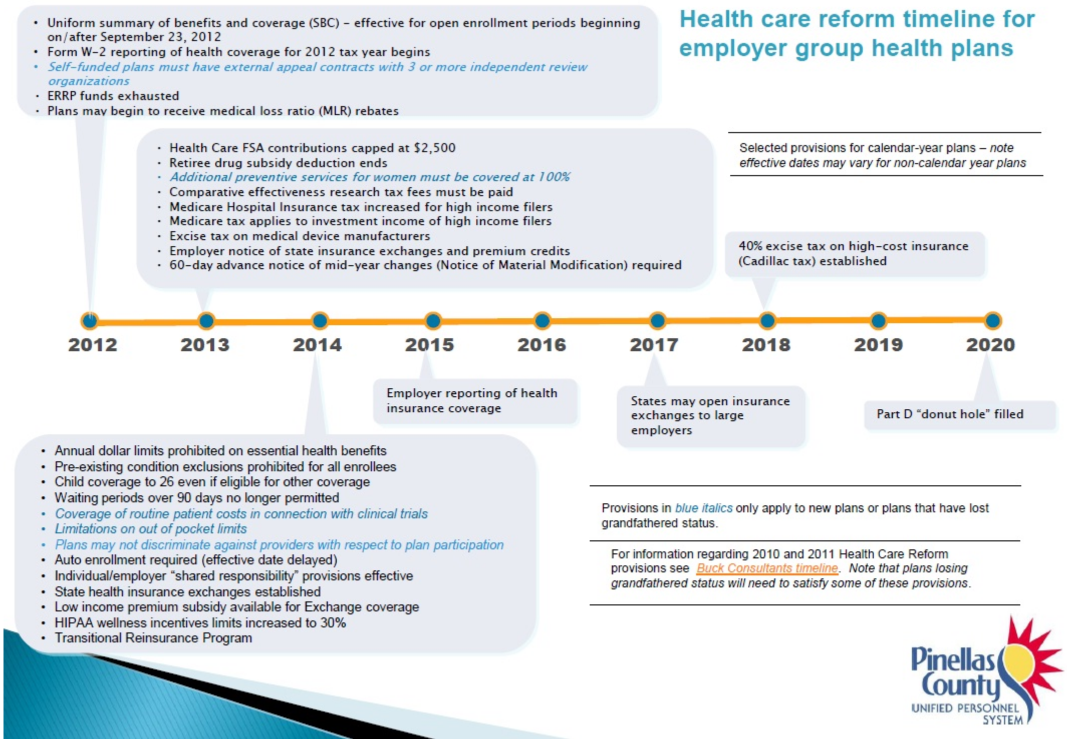
Supporting Information

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.

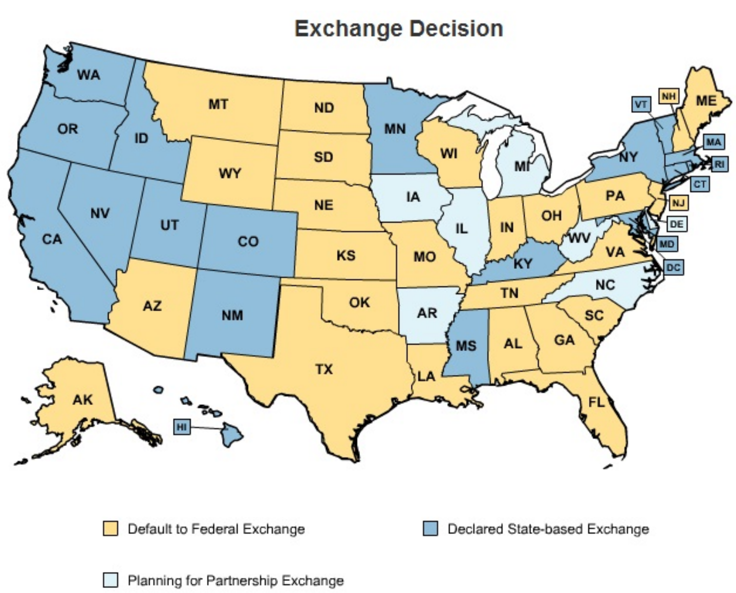
The details of how the Affordable Care Act (ACA) will be implemented in Florida are still being determined. The following graphic illustrates the overall timeline of events that will impact employer group health plans such as the County's.

KEY ASSUMPTIONS



Timeline Source: Buck Consultants
Presentation – July, 2012

Florida will be one of a number of states that will not set up a State-run Health Exchange, at least initially. Instead, implementation will default to a Federal-run Exchange.



Source: Kaiser Family Foundation - Health Reform website
(Data as of January 4, 2013)

In the future, as the ACA is fully implemented, the County may be able to consider new structural options. For example, the County could eliminate the self-insurance system and provide employees an amount to purchase coverage on the Health Exchange. Detailed analysis would be needed before implementing any significant structural changes.

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 report issued by American City and County for December, 2012. Compared to the same period last year, the Municipal Cost Index increased 2.0%, 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 have declined from 1.36M in FY2008 to 1.03M in FY2012 for non-Sheriff units. Beginning in late FY2011, the Sheriff began purchasing fuel through the Fleet Management Fund which added 1.02M gallons in FY2012. This change increased total gallons purchased, but the expenditures in the Fleet Management fund were offset by an equivalent amount of revenue from the Sheriff's budget.

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 process for Medicaid billings was an ongoing dispute between the counties and the State. Prior to the passage of Senate Bill 1520 in 2013, the County's share of costs was based on usage. The new legislation creates a seven-year transition period to move counties from the current billing process to paying based on their respective percentage shares of Medicaid-enrolled Florida residents. This will result in significant savings for Pinellas County over the next several years.

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. These projections were reviewed against those from various other sources, including the Survey of Professional Forecasters, the University of Central Florida, and the Federal Reserve. While there are variations in the specific percentages, all of these sources projected continuing low to moderate cost inflation over the forecast period.

Change in Other Non-Personnel Expenditures (CPI)									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
1.5%	1.8%	1.7%	2.0%	1.9%	2.1%	2.0%	2.0%	2.0%	2.0%

Fuel - All Funds with Fleet Equipment
FY2013 budgeted fuel costs were based on a price of $3.50/gallon. The price for the County in June, 2013 was about $3.30/gallon, an average of diesel and unleaded fuel. The forecast assumes $3.50 per gallon for FY2014. For FY2015 through FY2023, increases slightly higher than the rate of inflation are forecast.

Change in Fuel Costs									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
0%	3.0%	3.0%	3.0%	3.0%	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 electricity costs in FY2014 due to recent Duke Energy rate reductions. Percentage increases in later years are based on the historical averages.

Change in Electricity Costs - Commercial									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

Medicaid - General Fund
The County's projected Medicaid costs through FY2020 are based on the 2013 legislation. There are two components: payment of a negotiated backlog amount spread over the next four years, and billings for current Medicaid services. For FY2021 through FY2023, a growth rate of 4.7% per year is projected based on estimated medical cost inflation.

Projected Medicaid Costs - $ millions										
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Backlog	$ 2.5	$ 2.5	$ 2.5	$ 2.5	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Current	$18.0	$18.4	$17.5	$16.4	$15.2	$14.0	$12.8	$13.4	$14.0	$14.7
Total	**$20.5**	**$20.9**	**$20.0**	**$18.9**	**$15.2**	**$14.0**	**$12.8**	**$13.4**	**$14.0**	**$14.7**

Unemployment Compensation – General Fund
Unemployment Compensation for all County operations other than the Sheriff is billed by the State to the General Fund. Historically, these expenses were less than $0.1M annually. However, costs peaked at $1.2M in FY2010 due to Reductions in Force (RIFs), and declined over the next two years to $0.2M in FY2012. Future years' costs are expected to be closer to the historical average in the absence of another major RIF.

Supporting Information

Fuel efficiency gains are anticipated as new Federal Corporate Average Fuel Economy (CAFÉ) standards for heavy trucks and equipment take effect due to the composition of the fleet. Only 47 of 1,726 BCC units are cars (less than 3%); the bulk of the fleet (excluding the Sheriff's vehicles) 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. The new standard will increase mpg to 12 in 2014. Previously, there had been no federally mandated fuel economy standards for heavy trucks and equipment.

Some departments will have increased fleet replacement costs as units are replaced that are not currently paying into the Fleet fund due to deferral of purchases and life cycle extensions. However, where feasible some future purchases of replacement equipment may be deferred to take advantage of the new fuel economy standards.

Other Post Employment Benefits (OPEB) – All Funds

Overview

Consistent with Government Accounting Standards Board directives, the County's actuarial consultants computed the unfunded Other Post Employment Benefits (OPEB) liability as of October 1, 2011 at $392M for Unified Personnel System (UPS) employees and $315M for Sheriff employees. The County's net Annual Required Contribution (ARC) for OPEB to fully fund this liability would be $27.7M for UPS employees and $24.1M for Sheriff's Office employees.

The FY2013 Budget included 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. This will be reviewed following analysis of the next OPEB actuarial report, which will provide valuations as of October, 2013. OPEB contributions for Enterprise operations are contained within their respective funds.

Projected OPEB Contributions - $ millions									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
$2.0	$2.0	$2.0	$2.0	$2.0	$2.0	$2.0	$2.0	$2.0	$2.0

Supporting Information

Effective January 1, 2011, new hires will not further increase the OPEB liability 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 FY2023 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									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
6.0%	6.0%	6.0%	6.0%	6.0%	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 will increase 2.2% in FY2014. Expenditures are projected to increase at 5% per year through the remainder of the forecast period.

KEY ASSUMPTIONS

Change in EMS First Responder Expenditures									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
2.2%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

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.

Change in Cost of Water Purchased from Tampa Bay Water									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
1.0%	2.1%	0.8%	1.6 %	1.0%	2.5%	2.5%	2.5%	2.5%	2.5%

Chemicals - Utilities Water and Sewer Funds

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

Change in Cost of Chemicals for Utilities									
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
7.0%	7.0%	7.0%	7.0%	7.0%	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 Division in the CIP ten year work plan.

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 from FY2014 through FY2018 in anticipation of tighter regulatory requirements and additional required improvements.

<u>Other Forecast Considerations</u>

While climate change is generally viewed as a long-term problem, recent events show that we may already have begun to see an increase in the frequency and intensity of storms such as hurricanes and unseasonable weather. Should this trend continue, it may be prudent to consider increasing fund reserves to provide adequate resources to deal with the cost of responding to these events.

As a coastal community, rising sea levels due to climate change may require expenditures to reconstruct or relocate facilities that are in low-lying areas. At this time, it appears that these costs would not be incurred during the timeframe of the forecast.