ECONOMIC OVERVIEW

The *Economic Overview* portion of the Budget Forecast: FY2015-2024 provides important context for the various forecasts in this document and includes the following sections:

- The National Outlook
  - Employment
  - The National Economy
- The State Economy
  - Major Economic Drivers
  - State Budget
  - Florida Gross State Product
  - Personal Income Growth
  - Florida Outlook
- The Local Economy
  - Property Values
  - Save Our Homes Amendment
  - Legislative Property Tax Roll-Backs
  - Property Tax Revenue Cap
  - Amendment One
  - The Great Recession
  - Local Outlook

The National Outlook

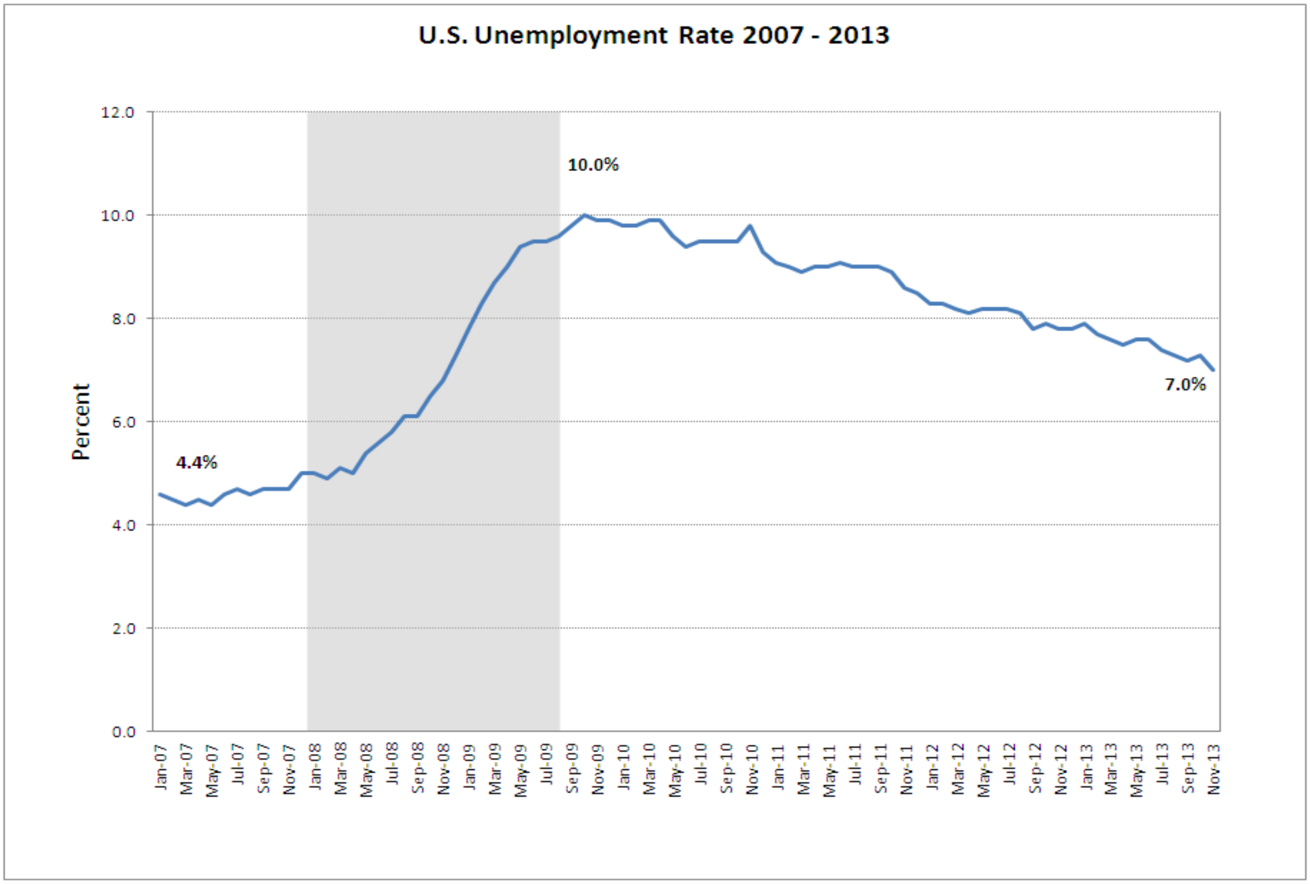
Employment

The U.S. economy continued its positive hiring streak. For 38 consecutive months, U.S. companies added workers to their payrolls, with 203,000 jobs added in November 2013. Since January 2010, there have been 7.4 million non-farm jobs added. Compared to 2008 and 2009, when a total of 8.7 million jobs were lost, the job market is still below pre-recession levels, but showing signs of sustained, albeit anemic, growth. Since January 2010, the average monthly gain in the job market has been 157,000, well below the pace of job loss of 361,000 jobs per month during the height of the "Great Recession".

According to the Bureau of Labor Statistics (December 2013), total employment is projected to increase from 2012 levels by 10.8% by 2022, with health care (5 million jobs) and construction (1.6 million jobs) leading the way with an average annual increase of 2.6%.

The national unemployment rate has continued dropping since November 2009 (10.0%), falling to 7.0% in November 2013. This remains higher than the 'boom years' level of an average of 4.6% in the years immediately preceding the Great Recession, but the numbers do not paint the true employment picture. There are more than 5.8 million (53.6%) people in the labor market that have been unemployed 15 weeks or longer, while the average number of weeks for the whole group is 37.2 weeks. In November 2013, there were 7.7 million people classified as being employed 'part time for economic reasons', meaning their hours were either reduced below full-time status or they were unable to find a full-time job. Another 2.1 million people were classified as 'marginally attached to the labor force'. These individuals were not counted in the labor force, thus not adding to the monthly unemployment rate.

The economic damage for this segment of the labor force is enormous. In many cases, retirement savings have been depleted to pay monthly bills such as mortgage payments, insurance, utilities and food. The tight financial situation many families find themselves in, including working families, means there are fewer non-essential purchases being made and financial ruin is a real possibility.



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

Year	Average Unemployment %
2006	4.6%
2007	4.6%
2008	5.8%
2009	9.3%
2010	9.6%
2011	8.9%
2012	8.1%
2013	7.5% (7.0% Nov)
2014	7.0%
2015	6.4%
2016	6.0%

Source: BLS/Federal Reserve Bank of Philadelphia
Survey of Professional Forecasters, November 25, 2013

ECONOMIC OVERVIEW

The National Economy

As measured by the Gross Domestic Product (GDP), the U.S. economy continued its slow-but-steady pattern of growth through the end of 2013. Most economists agree that the national economy hit bottom in 2009 and that we are on track for a sustainable recovery. Under normal conditions, the economy will grow around 5% in the first year of a recovery due to pent up demand. However, it is anticipated that this recovery will be less than 3% per year for the next three years 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, state and 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.)	1.7%
2014 (Est.)	2.6%
2015 (Est.)	2.8%
2016 (Est.)	2.7%

Source: Federal Reserve Bank of Philadelphia
Survey of Professional Forecasters, November 25, 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.

Inflation also plays a role impacting the outlook for consumer spending, which makes up almost 70% of the GDP. 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. In the first half of 2013, the CPI rose by 1.5%, with the second half (excluding December) rising only 1.4%. Short-term projections for the CPI are a 2.1% average annual increase through 2017, with long-term projections of 2.3% annual average increases through 2022. In addition, the Federal Reserve has continued to maintain record low levels on short-term interest rates, and is expected to keep them close to zero at least through 2015.

The State Economy

The information below for the State's economy is derived primarily from the December 16, 2013 report Florida: An Economic Overview *by the Florida Legislature Office of Economic and Demographic Research.*

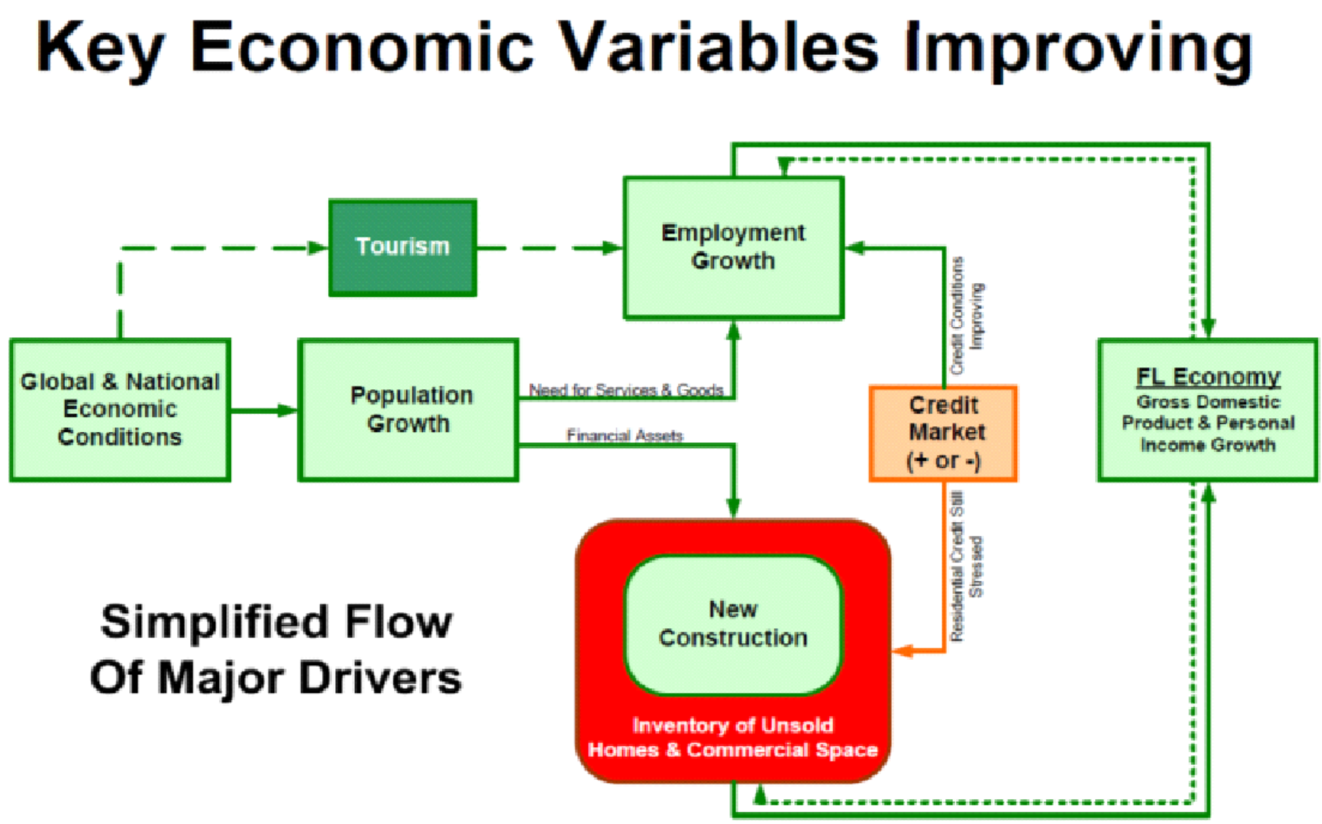
FLORIDA OUTLOOK

With the national recession more than 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

Major Economic Drivers

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



Source: Florida Legislature Office of Economic and Demographic Research

Population Growth

Population growth continues to be the state's primary engine of economic growth, fueling both employment and income growth, and impacting the amount of new construction activity. The national economic contraction significantly slowed Florida's population gains, but this was not unexpected. It is projected that over 90% of the state's population growth through 2030 will come from positive net migration, primarily from people moving into Florida from other states.

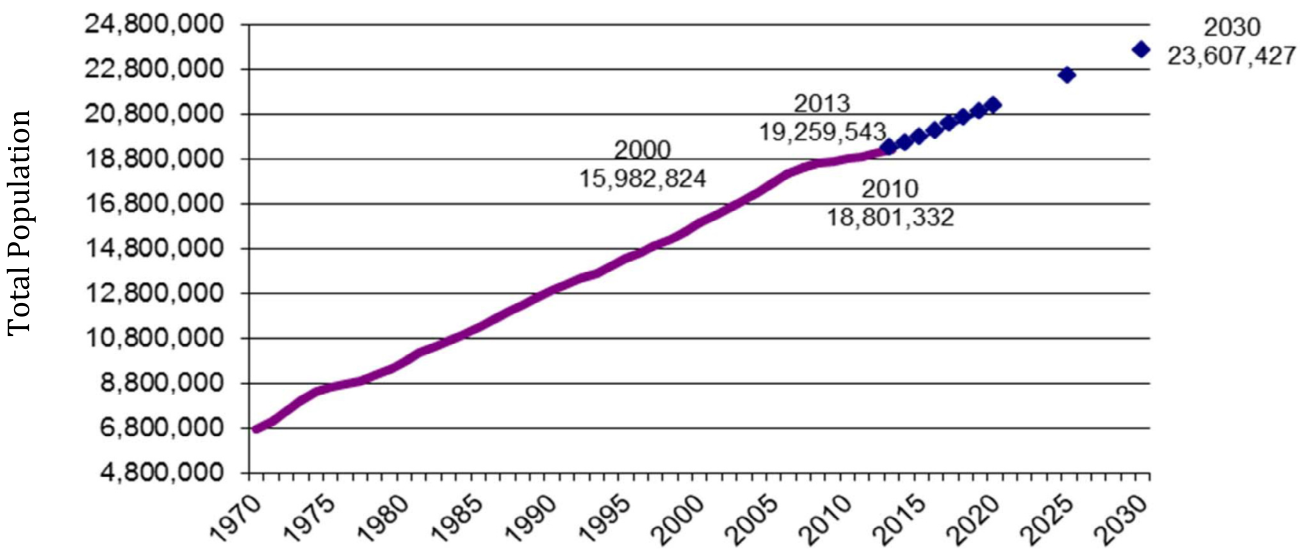
From past studies, it is clear that people are reluctant to move during recessions – first, because of the inability to sell their homes, and second, because of the difficulty in finding new jobs. Florida's strong international migration, which had been a bulwark, was also affected by the global economic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

Florida's long-term population growth rate between 1970 and 1995 was over 3%. The annual growth rate hovered between 2% 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.

In the near term, population growth is forecast to remain relatively flat, averaging 1.3% between 2013 and 2015, and 1.4% between 2015 and 2020. 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 2013, the average growth in population was down to 135,463 annually, a 62.6% decrease. Between 2015 and 2020, population is forecast to increase an average of 280,504, between 2020 and 2025 by an annual average of 258,657, and by an annual average of 233,202 between 2025 and 2030. Despite this lower growth rate, Florida is still on track to becoming the third most populous state in 2014, surpassing New York, and to break the 20 million mark in 2016.

Florida's Population (as of April 1, 2013)

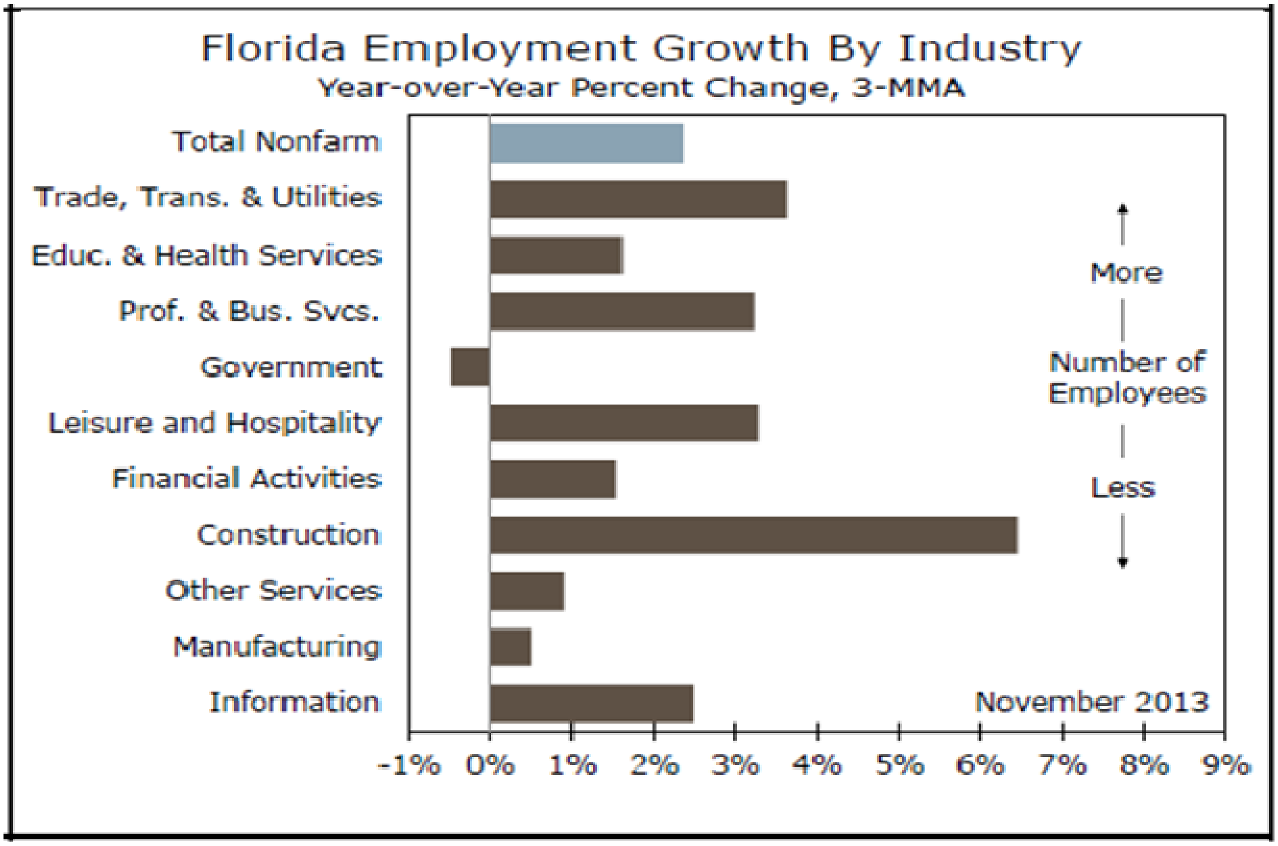


Source: Florida Legislature Office of Economic and Demographic Research, December 16, 2013

By 2030, Florida's population is expected to grow by almost 4.8 million people from the 2010 level. The majority of this gain (56.9%) will come from those 60 and older, with those under 18 accounting for 13.8% 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, this figure is expected to top more than $6 billion in 2013. During the third quarter of 2013, more than 22.9 million visitors came to Florida, an increase of 1.7% from the same period in 2012. The jobs associated with the Leisure and Hospitality industry has been one of the top gainers in growth.



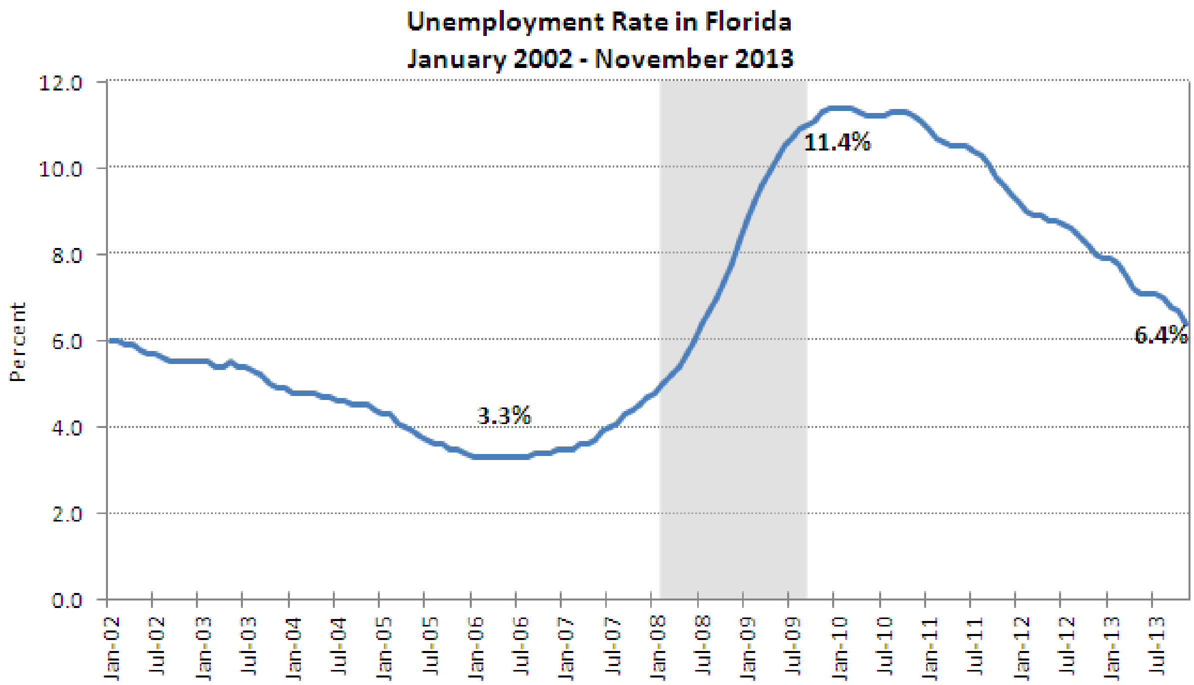
Source: U.S. Department of Labor and Wells Fargo Securities, LLC December 20, 2013

Employment Growth and the Labor Market

The job market showed some up-and-down movement throughout the year, with more than 127,000 jobs being added through November 2013. In October, Florida led the nation in job growth, with the Tampa-St. Petersburg-Clearwater metropolitan area leading all large metropolitan areas with a 3.4% year-over-year increase. This growth was led by the construction, leisure and hospitality, business and professional services, trade and education and healthcare industries.

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 slowdown 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 6.4% in November 2013. This rate places Florida at 22nd in the country.

Florida's current unemployment numbers represent about 600,000 out-of-work Floridians actively looking for employment. Since the most recent peak in employment, there have been about 445,800 jobs lost. With a projection of about 3,400 new working-age people being added to the Florida labor market each month, it will take the creation of about 850,000 jobs to return to the peak level of employment.



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

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 had very strong growth in 2013. For the fiscal year beginning in 2012, documentary stamp tax collections were up 30.3% from the previous twelve-month period, the third consecutive increase since collections hit their recent bottom in 2009. While the increase is good news, the total collections were only 40.5% of the collections during the peak year of 2005. At the current rate of increase, a return to levels indicative of historical levels of collection is still a few years away.

Recent building permit activity has come in better than expected. Building permit activity showed a strong 32.4% growth rate in 2012, with a 36.9% increase year-over-year for the first ten 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 944 days (2.6 years), Florida has the third longest foreclosure process in the United States, almost twice the national average of 551 days. In 2007, just before the start of the Great Recession and the bursting of the housing bubble, Florida's foreclosure process lasted just 169 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.

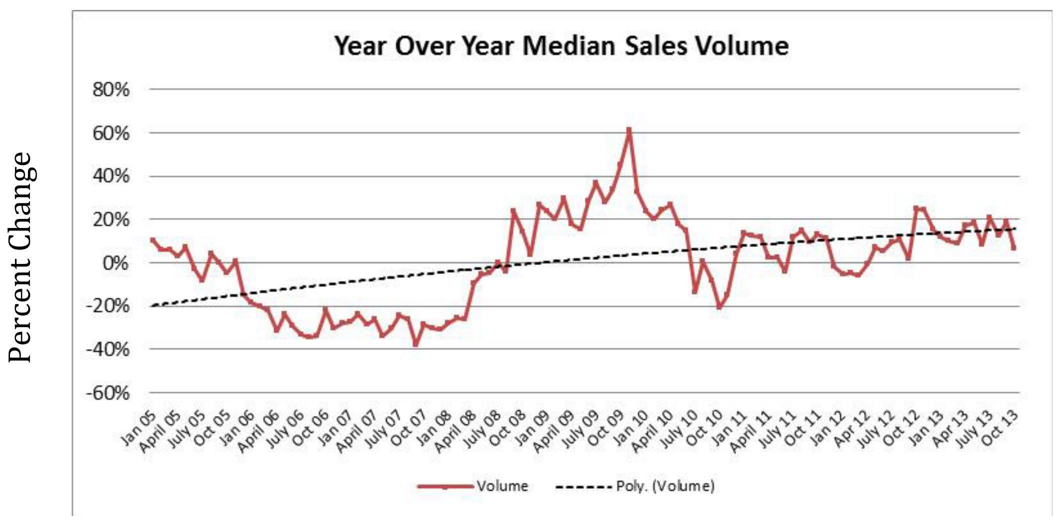
A related problem is the "shadow inventory" of homes that are not on the market but are at risk of foreclosure. In the 3rd quarter of 2013, about 29% of all residential loans in Florida were for homes that are "underwater", that is, have mortgage debt higher than the value of the house. However, rising home prices in 2013 helped more than 500,000 previously underwater homeowners return to a position of equity in their homes. There are also a significant percentage of homeowners who are not current with their mortgage payments. After many months of having the highest percentage of non-current mortgages, Florida is now the second highest state in this measure, with only Mississippi having a higher percentage.

Foreclosures and Shadow Inventory

	Delinquent	Foreclosed	Non-Current
National	6.3%	2.5%	8.8%
Mississippi	13.0%	2.1%	15.1%
Florida	6.9%	7.7%	14.6%

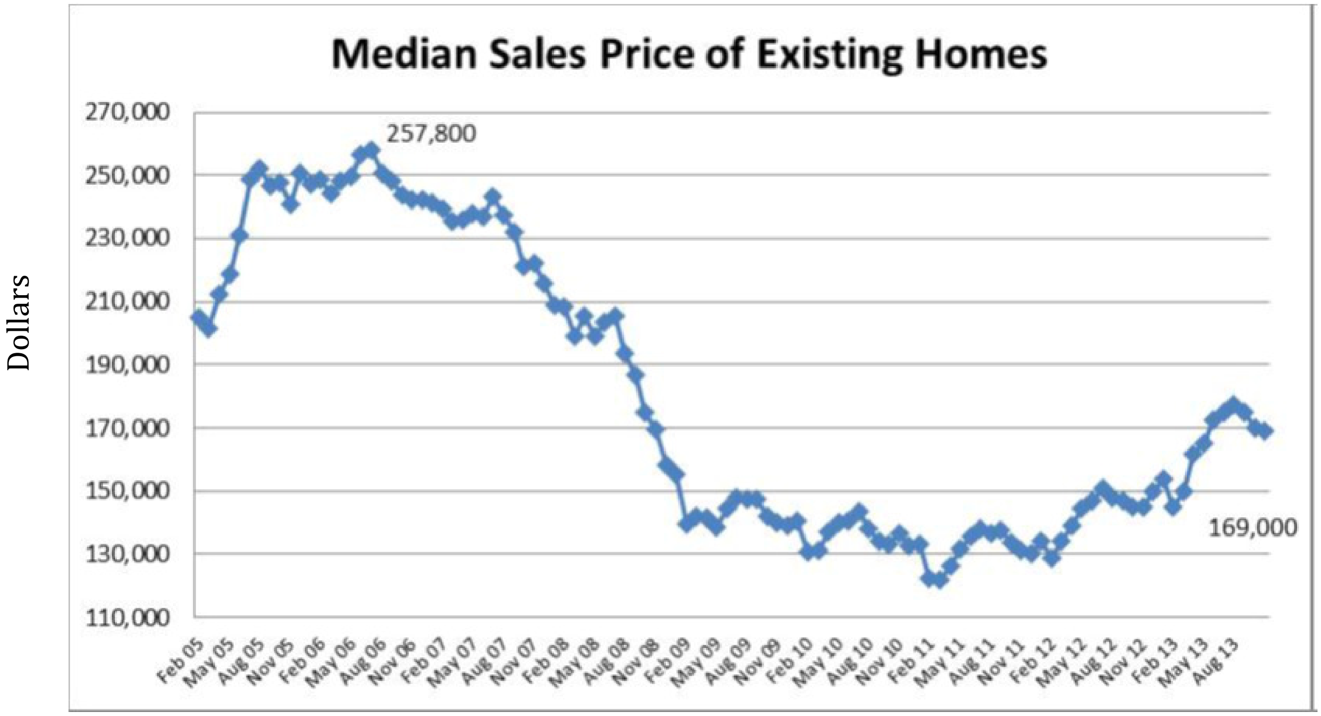
Source: Florida Legislature Office of Economic and Demographic Research, December 16, 2013

Sales of existing homes are also showing signs of continued, but modest, strength. While volume has been increasing since early 2012, annual sales are still below the pre-recession peak level from 2005.



Source: Florida Legislature Office of Economic and Demographic Research, December 16, 2013

With the increased volume, sales prices have begun to trend upwards since the post-recession bottom in early 2011. The October 2013 median sales price of existing homes was $169,000, more than $50,000 above the bottom.



Source: Florida Legislature Office of Economic and Demographic Research, December 16, 2013

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.

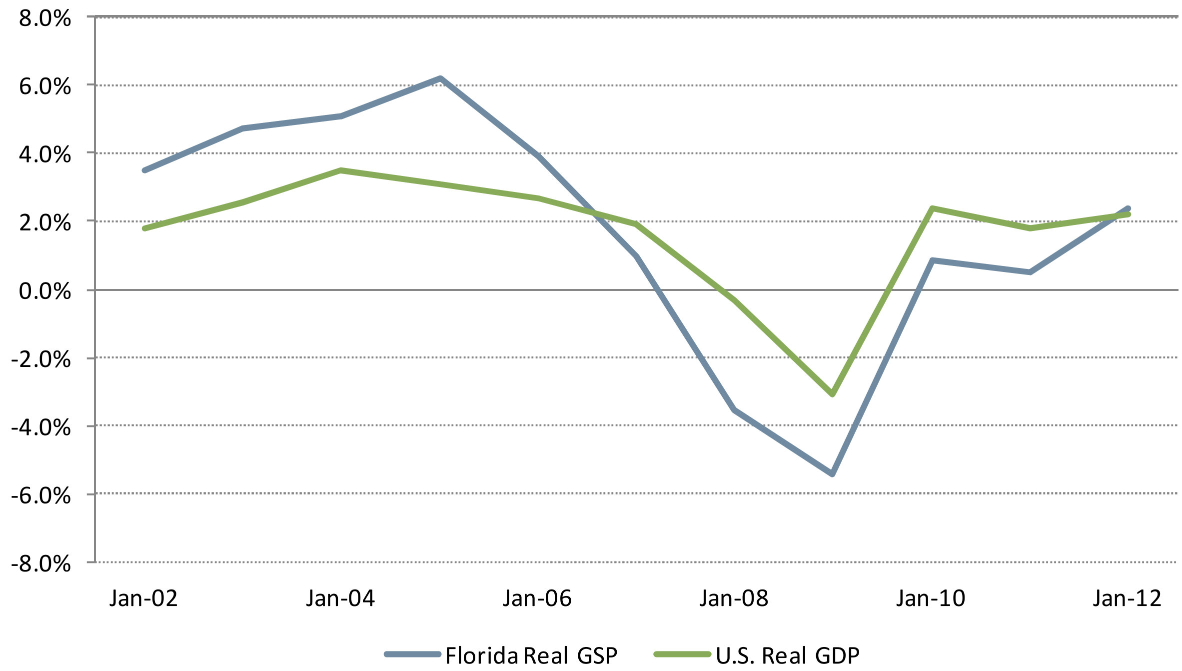
As the 2013 Legislature ended, the House and Senate passed a $74.5 billion budget for FY2014, more than $4 billion higher than the FY2013 budget. The State's *Revenue Estimating Conference* is projecting general revenues to increase by $1.1 billion in FY2014, or 4.5%, the first increase since 2008.

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. For the third year in a row in 2012, Florida's economy showed positive growth, after two years of negative growth.

Economic Activity - U.S. vs Florida

Year-over-year % Change



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

After adjusting for inflation, Florida's real growth in GSP ranked it 14th in the nation in 2012 with a gain of 2.4%, compared to the national average of 2.5%. By way of comparison, Florida was ranked 50th in 2008 and 4th in the nation in 2005. For Arizona, Nevada and Florida, losses in the construction sector accounted for a significant portion of the decline as it subtracted more than one percentage point from real 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. During the first quarter of 2013, Personal Income dropped 1.5% from the fourth quarter of 2012. The expiration of the payroll tax holiday beginning in January 2013 and the acceleration of dividend and other payments in anticipation of higher income tax rates were the main drivers of this loss. The second quarter of 2013 saw a turnaround, with Personal Income increasing by 1.5% after the artificial decline in the first quarter.

ECONOMIC OVERVIEW

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 2013 to 2015, population growth is expected to average 1.3%, then increase to 1.4% through 2020.

Tourism, which was hit hard by both the global recession and the 2010 BP Deepwater 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, theme parks and state parks around Florida. Third quarter results show a 1.7% increase in visitors statewide, with hotel occupancy up 1.9% for the same period. 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. In October, that percentage dropped to 14.6%, making Florida the second highest state in non-current mortgages, behind only Mississippi.

The continuing 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.

The Local Economy

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 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 mandate 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 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. The exception is the EMS Fund that experienced millage increases since the introduction of the cap. 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. Prior to the Great Recession, the average annual increase in taxable value had been about 5%. From FY2009 to FY2013, the County-wide taxable value decreased 8.4%, 11.4%, 9.7%, 4.5% and 1.8%, respectively. 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 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. From FY2007 to FY2012, total positions decreased 1,618 or 25%. Within that number, the BCC departments decreased 985 positions or 35%, which yielded the lowest position count since FY1985. The Constitutionals and Independents decreased 633 positions or 17% which yielded the lowest position count since FY1995.

In the General Fund, which funds most of the County's non-enterprise operations, property taxes (two-thirds of total revenues) have decreased 26.6% or $102.2 million from FY2007 to FY2014.

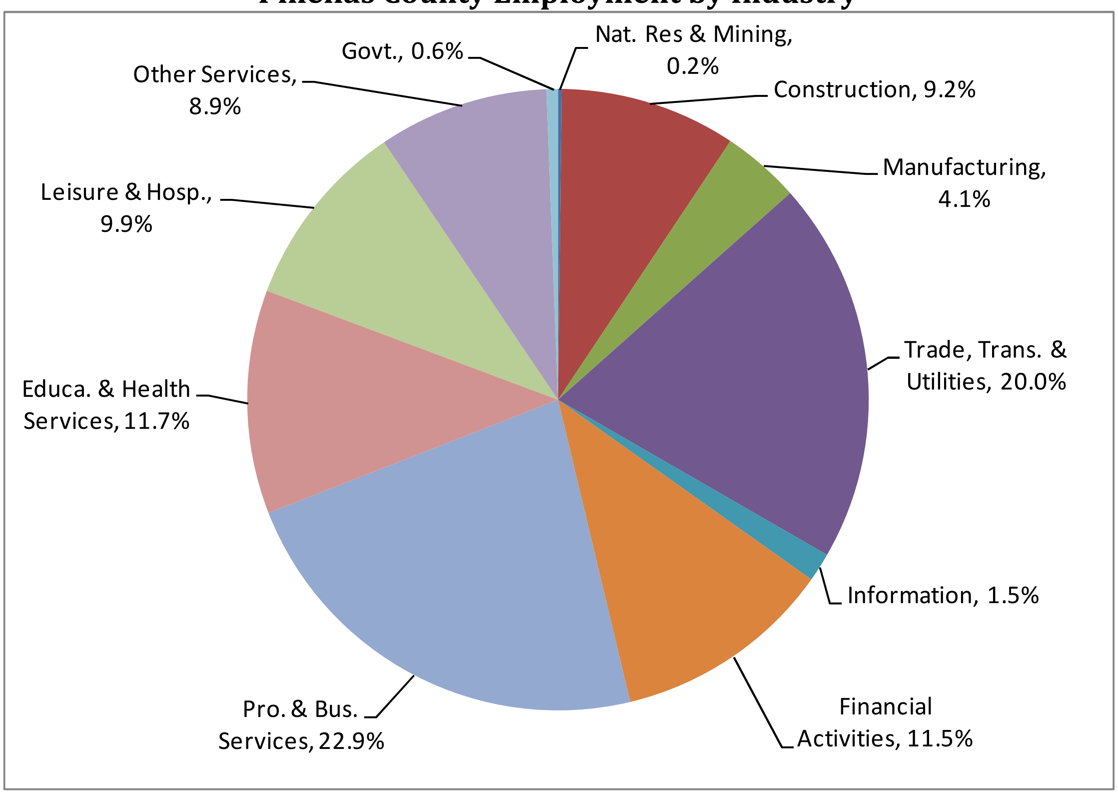
ECONOMIC OVERVIEW

LOCAL OUTLOOK

Pinellas County is the 6th largest county in population (926,610) 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.

The labor market in Pinellas County covers a wide range of industries, with Professional & Business Services (22.9%), Trade, Transportation & Utilities (20%), Education & Health Services (11.7%) and Financial Activities (11.5%) making up about 2/3rds of all jobs in 2012. These industries also have some of the highest average annual wages, with Financial Activities ($62,387, 1st), Professional & Business Services ($54,860, 4th) and Education & Health Services ($44,528, 6th) all above the County's average annual wages of $43,976. The Leisure & Hospitality industry, which services the key tourism industry, employs 9.9% of all jobs in the County. However, the wages paid in this sector, $20,910, ranks it 11th out of 11 in 2012.

Pinellas County Employment by Industry

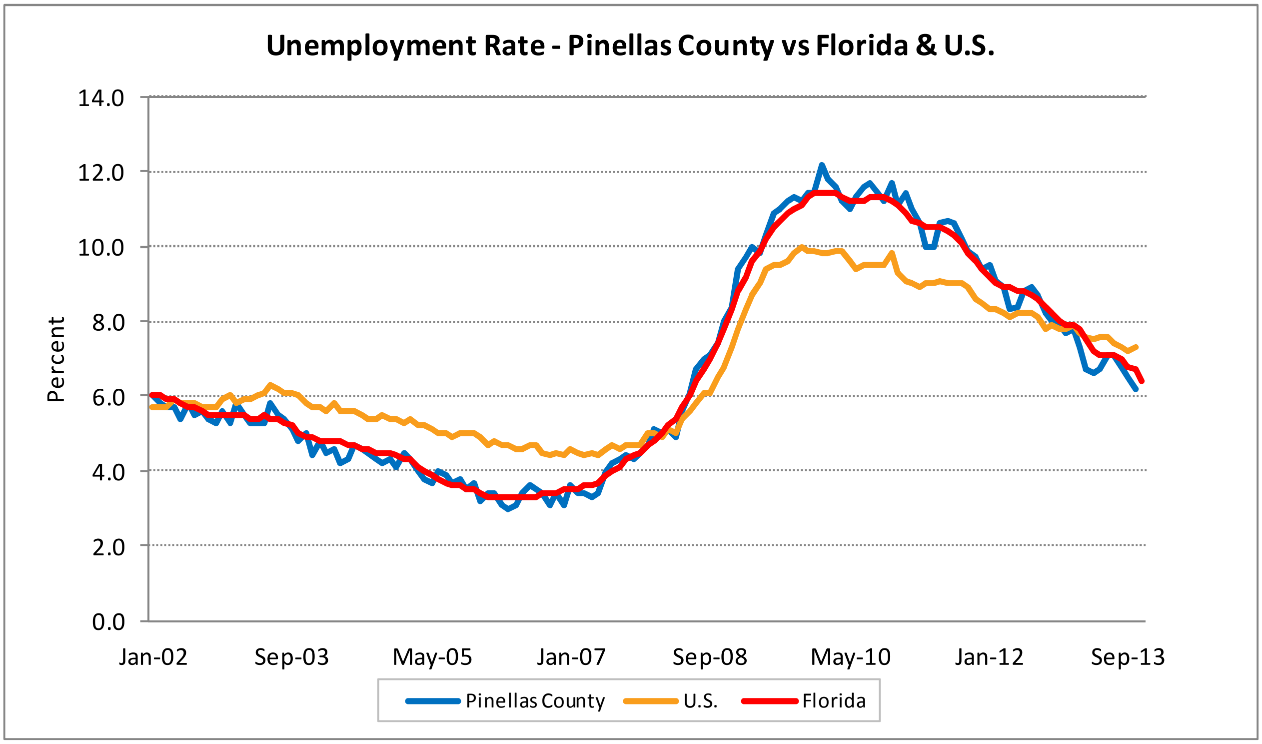


Source: Florida Legislature Office of Economic and Demographic Research, County Profile December 2013

Unemployment

As with the State of Florida, Pinellas County's unemployment rate reached historically low levels in early 2006. In April 2006, Pinellas County recorded an unemployment rate of 3.0%. As the chart below shows, the County's unemployment rate rose to 4.7% by the time the national recession began in December 2007, reaching a high of 12.3% in January 2010, seven months

after the official end of the recession. Since then, the County's unemployment rate has fallen to 6.2% (October2013).



Source: U.S. Department of Labor: Bureau of Labor Statistics/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 $7.8 billion annually. In FY2013, the County reported more than 5 million overnight visitors and collected $31.1 million in tourist development tax revenue, the second year in a row of record-breaking collections, also known as the 'bed tax', an increase of 8.2% compared to FY2012.

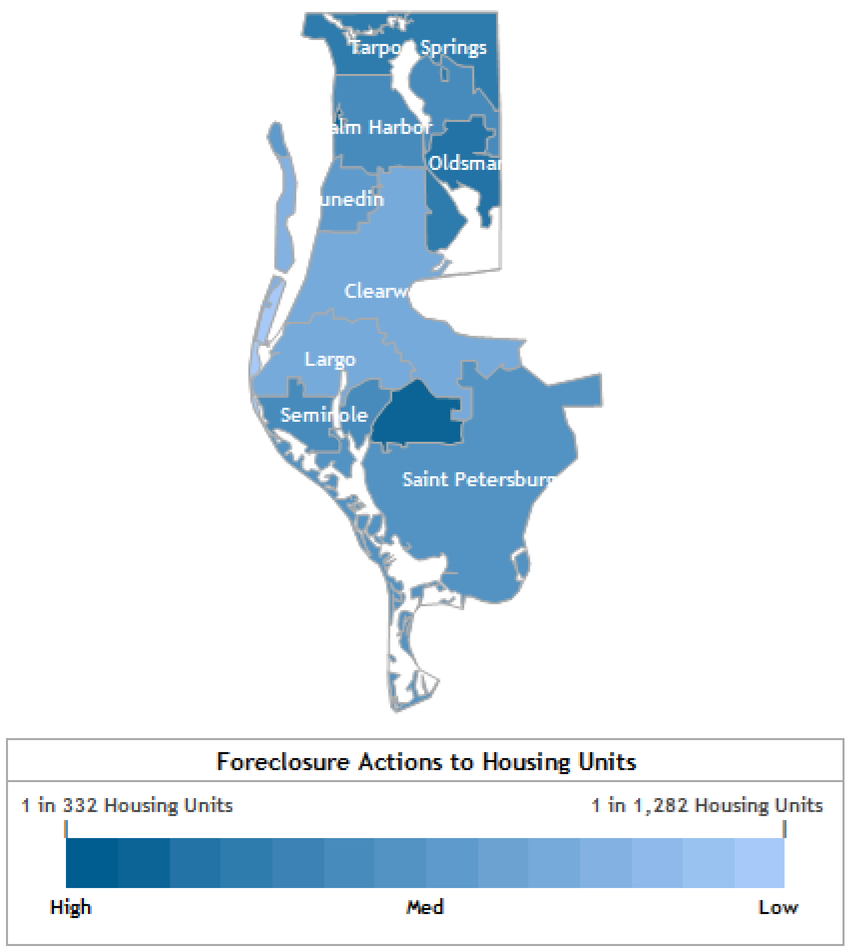
Real Estate
The real estate market in Pinellas County is struggling to recover from the bursting of the housing bubble. Pinellas, like the rest of Florida, experienced a dramatic rise in housing values for several years during the housing boom. Starting in FY2009, taxable values fell for five straight years (-8.4%, -11.4%, -9.7%, -4.5%, and -1.8%). For FY2014, taxable values increased by about 3.4%, led by strong growth in many of the County's beach towns and communities.

While strong growth along the coasts of Pinellas County helped lead the real estate turnaround, the recently implemented Biggert-Waters Flood Insurance Reform Act may reverse those gains. This act is further discussed in the *Key Assumptions* section of this document.

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 FY2007, there was an average of 512 foreclosure activities

per month. As unemployment increased and the economy slipped into recession, foreclosure activity almost doubled in FY2008 to 1,027 per month. Activity remained extremely high through FY2009 and FY2010 before dramatically dropping off to 484 per month in FY2011. This drop-off coincided with the federal investigations of 'robo-signing' of foreclosure documents. As part of a settlement with federal regulators, banks and others involved in the foreclosure process agreed to improve their procedures. Since the settlement was signed in April 2011, foreclosure activity started increasing, averaging 792 per month in FY2012. FY2013 was the most promising year in recent years for foreclosure activity. The twelve month average of 591 was the lowest level since FY2007. The most recent data from Realty Trac is shown in the graphic below.

Foreclosure Activity – Pinellas County
December 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 had the second highest percentage in the nation of mortgages considered 'underwater', with about 30.1% of residential properties according to data from CoreLogic. 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 these homeowners to put their homes on the market without the immediate prospect of a short-sale situation.

Sales of existing single family homes showed signs of strength throughout 2013, increasing 9.9% from 2012. Median sales price in December increased 15.7% year-over-year, while average sales price increased by 4.7%. At the current pace of sales, the supply of homes for sale would last 4.7 months, down from 4.9 months a year ago.

Summary of Local Outlook

While the national recession has been over for more than four years, the aftereffects are still being felt in Pinellas County. Unemployment is well above pre-recession levels and foreclosures are still a concern. However, tourism has shown signs of a strong recovery. FY2013 tourist development tax revenues were 8.2% higher than FY2012, the second consecutive record-breaking year. The first two months of FY2014 are showing continued signs of strength, with October and November both setting records. And after five years of decreases, real property taxable values have begun to climb.

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.