KEY ASSUMPTIONS

The *Key Assumptions* portion of the FY2015–2024 Budget Forecast includes a discussion of the sources of information used to develop assumptions for revenues and expenditures that drive the ten-year forecasts for nine of the County's key funds:

- Assumptions and Forecasting
- Revenue Assumptions
    - Overview
    - Key Assumptions
    - Supporting Information
- Expenditure Assumptions
    - Overview
    - Key Assumptions
    - Supporting Information
- Other Forecast Considerations

Assumptions and Forecasting

Many academics and others have observed that economic forecasting is an art, not a science. There is no way to accurately predict the cumulative impact of the market decisions of millions of individuals who have complex and changing motivations for their actions. Unforeseen external events such as war or turmoil in foreign lands can also radically change the economic environment. As statistician Nate Silver has said, "Forecasting something as large and complex as the American economy is a very challenging task." This has been clear during the last decade, with a major boom and bust housing cycle and the most severe economic downturn since the 1930's. Few predicted the magnitude and duration of the Great Recession, and the painfully slow recovery that has followed. In the words of the great philosopher Yogi Berra, "The future ain't what it used to be."

Despite this uncertainty and recent experience, forecasting remains 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. This provides a context to view current policy decisions in light of their potential impact on the fiscal health of the County in the years to come. The forecast is a key component in supporting the fiscal sustainability principles of the Quality Pinellas Community strategic planning process.

The current consensus of leading economists anticipates continued slow growth and moderate inflation and does not include an economic downturn. 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 known risks to the forecast that could significantly impact the projections.

KEY ASSUMPTIONS

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 FY2023. 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, the Congressional Budget Office, 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. County department and agency staff provided valuable input and review of the assumptions to help ensure that they are reasonable, consistent, and reflect the best judgment of those most familiar with the subject areas.

Revenue Assumptions

Property Taxes – General Fund and EMS 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

After five years of decline, County-wide taxable values increased by 3.4% in FY2014. The assumption in the forecast is that this will be followed by a slow but sustained rate of growth.

Change in Taxable Values – County-wide									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

The County-wide taxable value is the basis for determining the County-wide revenue in the General Fund. For the purposes of this forecast, the FY2015 through FY2024 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 rate of growth in the General Fund MSTU is projected to be 0.5% less than the County-wide growth rates based on past trends, potential annexations, and the composition of the tax base in the unincorporated area.

Supporting Information

For FY2015, the overall increase of 3.0% 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, 2014, which serves as the basis for FY2015 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.

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. In Pinellas County, the number of foreclosure filings has decreased from a peak of 15,200 in FY2009 to 7,087 in FY2013. This is still about 15% higher than the FY2007 pre-recession level. As inventories of residential properties for sale have

continued to decrease and prices have continued to rise, it appears that the foreclosed properties are currently being absorbed without a significant adverse effect.

Impact of Increasing Flood Insurance Costs

In October, 2012, Congress passed the Biggert-Waters Flood Insurance Reform Act. The purpose of this legislation was to stabilize the National Flood Insurance Program (NFIP). However, as the Florida Association of Counties noted in a letter to members of the Florida congressional delegation, while the measures imposed by the law "may appear practical, they in fact burden Floridians with the lion's share of the program's financial responsibility, which is simply unfair and unreasonable."

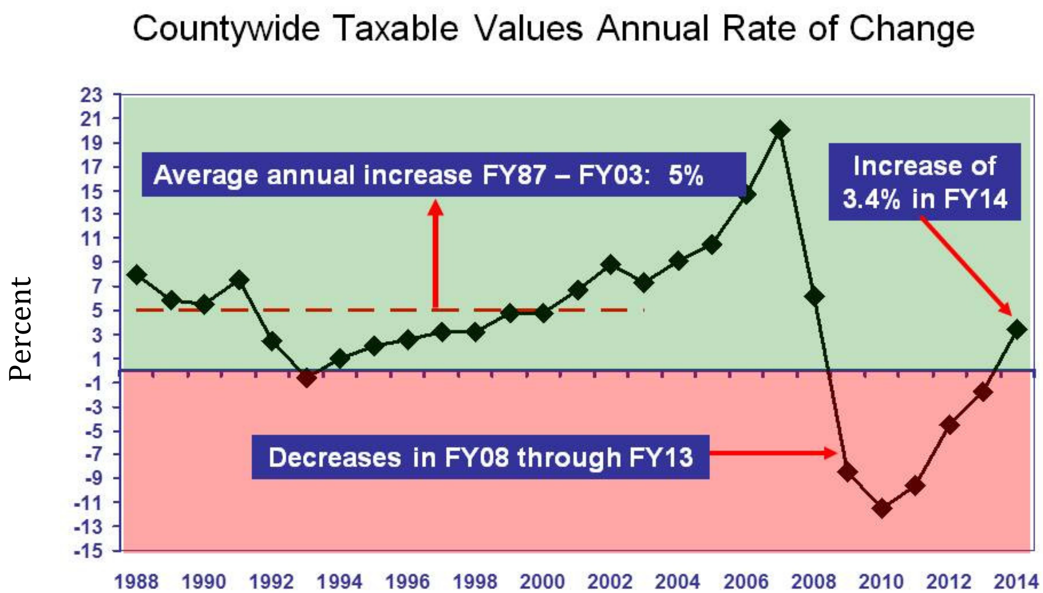
Florida's homeowners hold 37 percent of the nation's flood insurance policies and have contributed more than $16 billion in payments since 1978. Florida claims, however, have only totaled $3.7 billion during that time. Beginning October 1, 2013, home buyers, businesses and second home owners could face significant increases in flood insurance premiums. More than 250,000 property owners in Florida could be affected by these changes.

Pinellas County is potentially subject to a negative impact that exceeds any other county in the nation. According to the Property Appraiser's Office, more than 33,000 single family residences and 1,300 business properties could be affected. These properties represent 24% of the entire tax base, and that percentage does not include an additional 17,000 condominiums that may also be affected.

Efforts on both a national and state level are underway to mitigate the impact of Biggert-Waters before it undermines the modest real estate market recovery now underway. In the short term, for FY2015, it is unlikely that the tax base will be seriously hurt. The number of sales transactions involving affected properties through the end of calendar 2013 was very limited due to the uncertainty caused by the law. Sales transactions are the main basis for the Appraiser's re-evaluation process. Unless remedial action occurs during 2014, however, the tax base growth assumed in the forecast will be jeopardized and taxable values may actually decrease.

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.



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 FY2014 was the December, 2012 index, +1.7%, issued by the U.S. Bureau of Labor Statistics on January 16, 2013. The limit for FY2015 will be the December, 2013 index, 1.5%, which was issued by the U.S. Bureau of Labor Statistics on January 16, 2014.

Property Taxes are normally one of the most reliable revenue sources available to local governments. As a result, most cities, counties, and school districts have historically depended on the stability of property taxes to build their budgets. As previously discussed, the past decade has seen a marked departure from this pattern. Following the "boom and bust" cycle, FY2013 county-wide taxable values in Pinellas County were less than the taxable values for FY2005. Even after the return to positive growth in FY2014, county-wide property tax revenues will still be less than the revenue for FY 2005.

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 County-wide increases in the short term because we did not levy the maximum millage from FY2009 through FY2014. Over time, this flexibility will diminish as the tax base grows.

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. Going forward, as market values rise the Save Our Homes limitation will once again restrict increases in taxable values and be a contributing factor to the lower "new normal" pattern of revenue growth.

Fund Variances
The unincorporated area (MSTU) General 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 Fire Districts Fund, 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. In particular, because of differences in the composition of their tax base, individual fire districts are expected to vary significantly from the overall rate of change.

Sales Taxes – General Fund and Capital Projects Fund

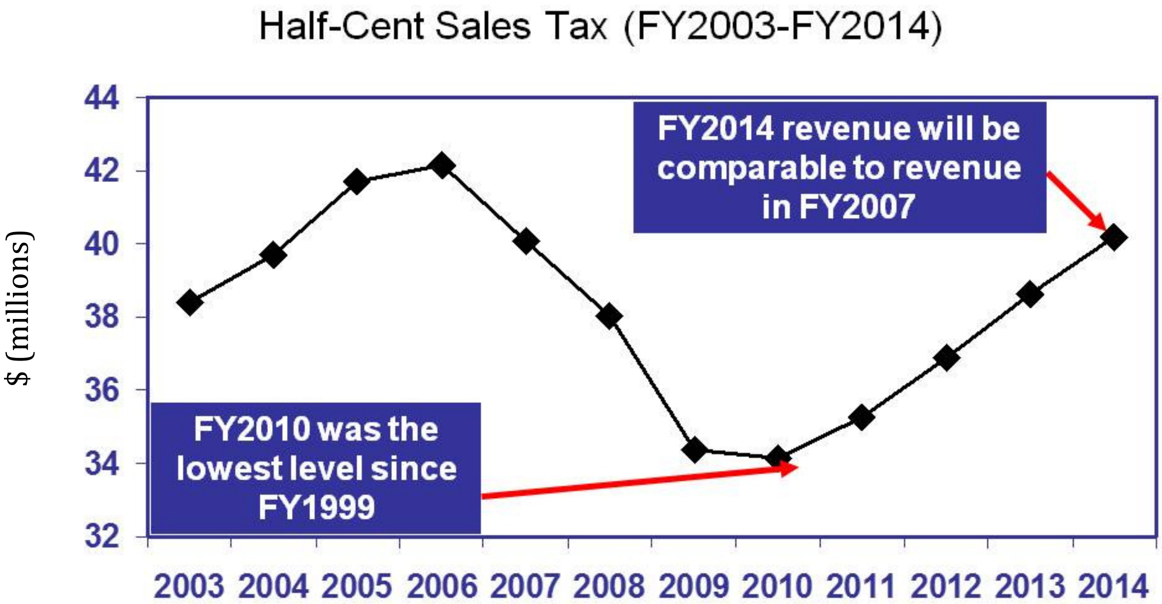
Overview

Sales tax revenues are highly elastic, increasing and falling with the health of the overall economy. In addition to food and medicine, certain other purchases are exempted from sales tax by legislation. The County receives two types of sales taxes: the Half-Cent Sales Tax and the Infrastructure Sales Tax (Penny for Pinellas).

Half-Cent Sales Tax
This General Fund revenue is a portion of the State's six cent sales tax that is shared with counties and cities. First authorized in 1982, the program generates the largest amount of revenue for local governments among the state-shared revenue sources currently authorized by the Legislature.

Sales tax revenue grew by 4.7% in FY2013. This was the third year of growth following four years of decline beginning in FY2006.

KEY ASSUMPTIONS



Infrastructure Sales Tax (Penny for Pinellas)
The Penny for Pinellas is a 1.0% 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 FY2015 and later years, we anticipate growth approaching historical patterns. A 4.0% growth rate is assumed for FY2015 through FY2017, reflecting the continuing economic recovery. This is followed by a 3.5% growth rate throughout the FY2018-FY2024 forecast period. In the near-term, our projection is more conservative than the State General Revenue Estimating Conference, which anticipates more robust FY2015 growth of 4.8%, followed by 5.6% and 5.2% in FY2016 and FY2017, respectively.

Change in Half-Cent Sales Tax Revenue									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
4.0%	4.0%	4.0%	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 slightly lower than the Half-Cent growth rate. 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.

KEY ASSUMPTIONS

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.

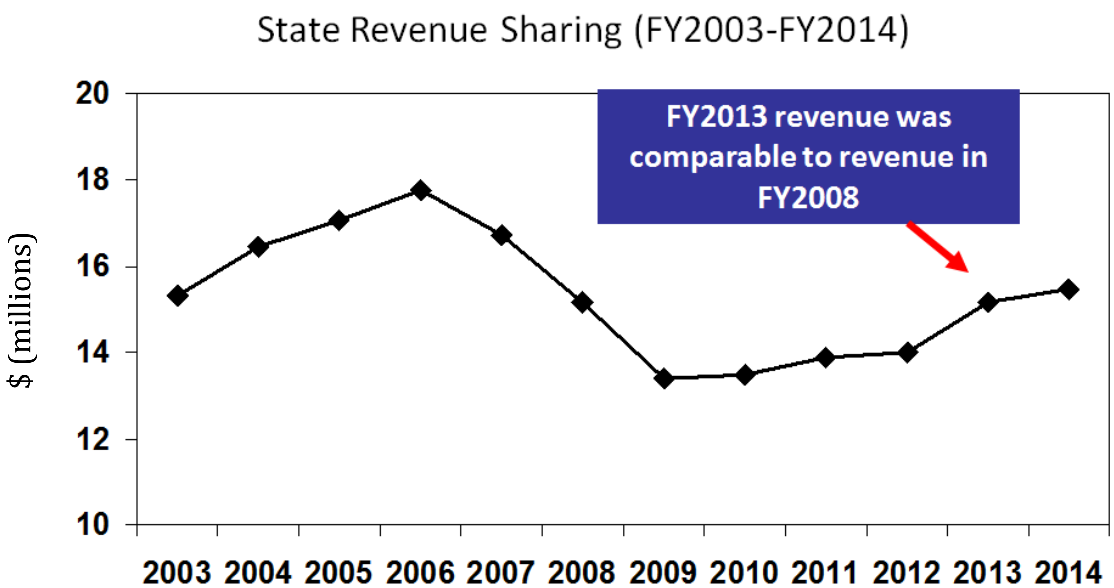
The forecast essentially reflects about 1.5% to 2.5% per year growth over the rate of price inflation. The FY2006 peak level of Half-Cent Sales Tax revenues is not projected to be reached again until FY2016.

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 third year of growth, increasing 5.6% in FY2013. Prior to FY2011, this source had declined or remained essentially flat since FY2006.



Note: FY2014 revenue is 100% of estimate.

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 3.5% in FY2015 through FY2017 and 3.0% through the remainder of the forecast period.

Change in State Revenue Sharing Revenue									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
3.5%	3.5%	3.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

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. Also, Pinellas County's population as a percentage of the total state population is anticipated to continue to decline, which will impact the distribution formula. These factors combine to reduce the potential for growth in Revenue Sharing.

Communications Services Tax – General Fund

Overview

The Communications Services Tax (CST) 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 primarily due to technological changes in the industry and changes in billing practices that have reduced the base of taxable services; FY2013 CST revenue was 1.1% lower than in FY2012.

Key Assumptions

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

Change in Communications Services Tax Revenue									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
-1.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%

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 2014 or future years.

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 FY2013 were once again minimal. The forecast reflects the short term outlook for continued low earnings, gradually increasing to earnings of approximately 2.5% on fund balances in the mid- to long-term.

Interest Earnings on Fund Balances									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
0.5%	0.5%	1.0%	2.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%

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)									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
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 FY2013, increasing 8.2% over the prior fiscal year. FY2014 revenues are estimated to grow between 3.5% and 4.5% over actual receipts for FY2013. The forecast estimates that revenue will 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*									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
**trend percentages do not reflect potential sunsetting of 4th& 5th cent authorization in 2021*									

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 1.6%, 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 by an average 0.5% during the last six fiscal years. 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*									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
-0.5%	-0.5%	-0.5%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
**trend percentages do not reflect potential sunsetting of 6 cents authorization in 2017*									

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 FY2011 to FY2013 was 2.1%. The average increase over 10 years was 3.3%, ranging from 1.4% to 7.4%. Revenues are estimated to increase by 2.0% during the forecast period.

Change in Ambulance User Fee Revenue									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

Airport Revenues

Airfield/Flight Line revenue is based on the current level of carriers and projected passenger numbers. For FY2015 through FY2024, an average increase of 3.8% per fiscal year in number of passengers and related revenue is forecast. The average annual passenger growth of 42,000 is the equivalent of two new cities served. Over the past five years, the average passenger growth was 4.1%, with six new cities added in FY2014 alone by the airport's primary carrier, Allegiant Airlines.

Rent/Leases/Concessions revenue is based on current leases/agreements through the termination of these lease agreements. Land leases have a five-year adjustment based on the CPI. 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 Total Airport Operating Revenues									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
4.5%	5.2%	3.2%	5.5%	2.5%	3.1%	3.4%	3.1%	4.0%	2.9%

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. The forecast revenues include an additional 2% (water) and 2.75% (sewer) annual increase in rates from FY2016-FY2024 as recommended in the FY2012 Utilities Rate Study performed by the County's independent rate consultant. These adjustments have not been formally adopted by the BCC.

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 FY2024 are projected to increase 3.0% (FY2017) and 2.0% (FY2018 to FY2024). 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 wastewater 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 FY2024, 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 Duke Energy contains annual escalations of 6% in revenue. The contract expires in 2024.

Change in Solid Waste Tipping Fee Revenues									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%

Surface Water Fund Revenue
The Surface Water Utility was a new fund established in FY2014. Surface water assessments are determined by a rate structure that includes Equivalent Residential Units (ERUs) based on the median impervious area of single family detached parcels. The forecast assumes no net change in ERUs and annual changes to the assessment structure that reflect the change in the Consumer Price Index.

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. The FY2014 Budget included 3% in wage adjustments for most County employees. The Sheriff's budget included a 4% wage adjustment.

Key Assumptions

Compensation adjustments are included in the forecast for FY2015 through FY2024. County employees did not receive merit pay increases for five years and in some cases, six years. This cost-saving measure was employed as the organization dealt with significant reductions and

dramatic decreases in property tax revenue. Moderate wage adjustments are expected to resume, to maintain a compensation structure that can attract and retain quality employees.

Change in Salaries (Net Adjustment)									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
1%-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. Indications are that salaries will need adjustment to remain competitive. Potential re-classifications due to reorganizations may be offset by savings due to turnover, as long-time employees at the high end of their salary range are replaced with new hires at lower pay rates.

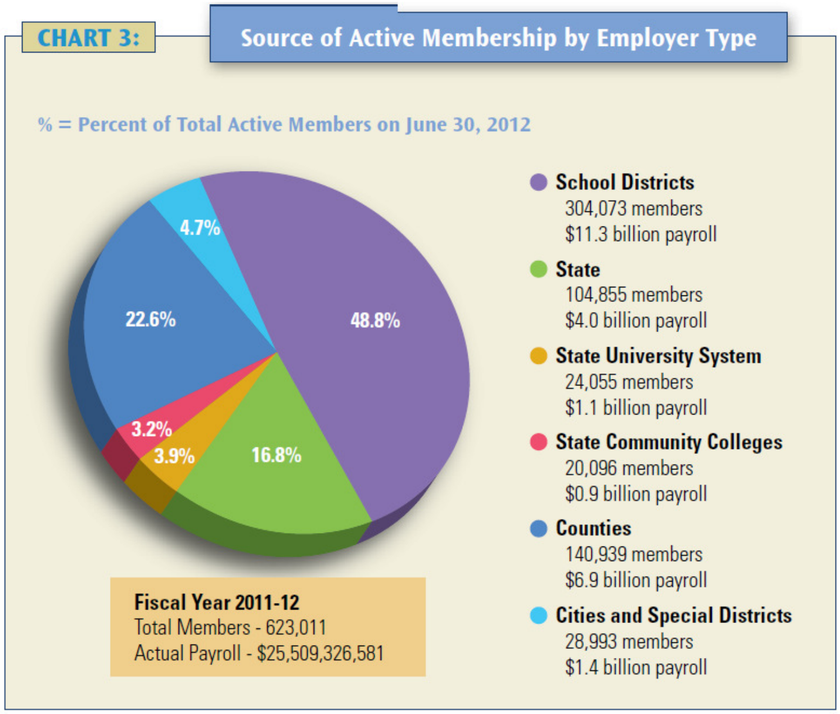
Personal Services – Employee Benefits – All Funds

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)

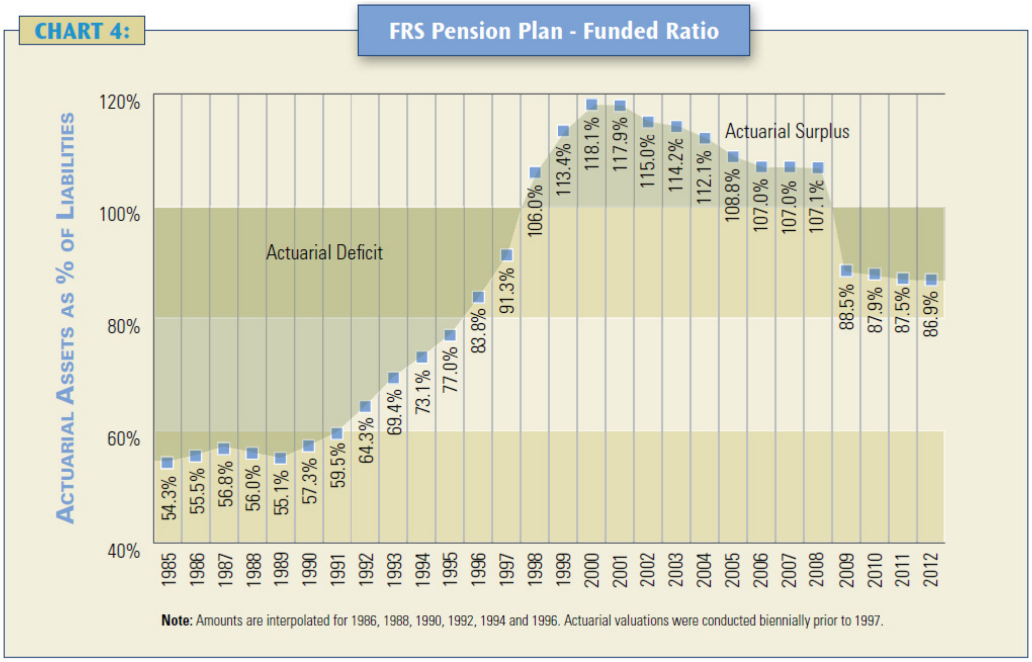
The County is required to participate in the Florida Retirement System (FRS), a State public pension plan. Cities have the option of joining the State system or creating their own pension plans. Employees of school districts and state agencies also must enroll in FRS, and comprise about two-thirds of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

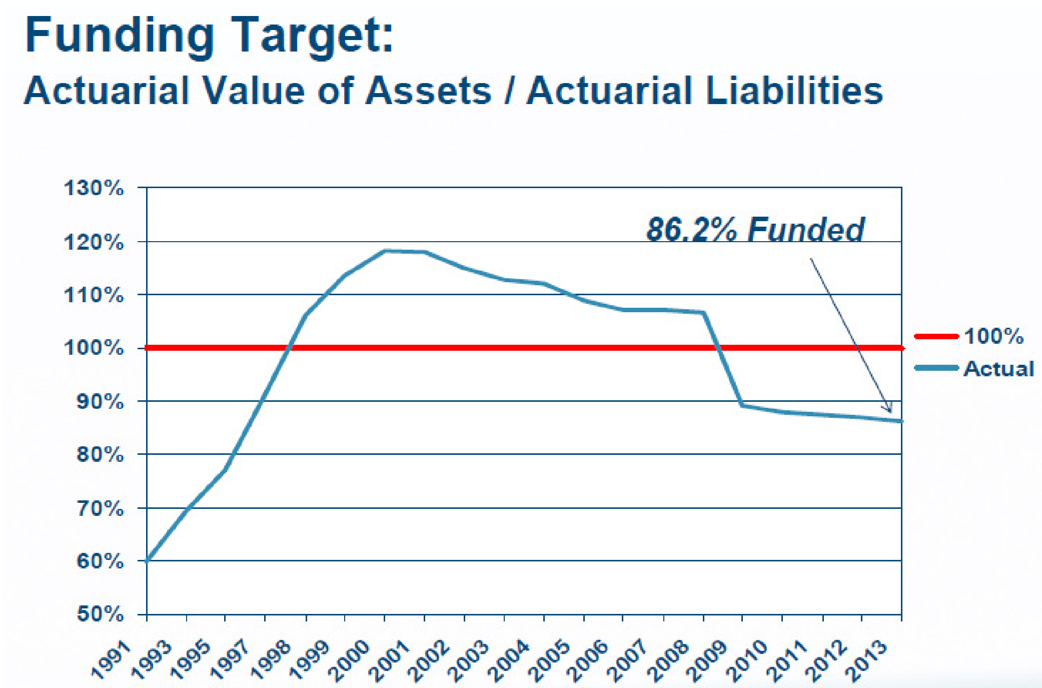
	Before	After
Employee contribution	0%	3%
Avg. final compensation	Highest 5 years	Highest 8 years
Vesting period	6 years	8 years
Normal retirement date for regular class, senior members, elected officers	62 with 6 yrs. of svc. or 30 years of service	65 with 8 yrs. of svc. or 33 years of service
Normal 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 resulted from changing FRS from a non-contributory to a contributory structure. This allowed the Legislature to reduce the employer contribution rates. 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.

Key Assumptions

As of June 30, 2013, the FRS system was 86.2% funded.



Source: Milliman presentation to FRS Actuarial Assumptions Estimating Conference, October 2, 2013

The 2013 Legislature increased the FRS rates to fully fund the system's actuarial liability based on the June 2012 actuarial report. The preliminary actuarial report as of June 2013 indicates that rates may need to be adjusted upward by approximately 0.5% to maintain the fully funded approach. 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)										
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
6.95%	7.45%	7.45%	7.45%	7.45%	7.45%	7.45%	7.45%	7.45%	7.45%	7.45%

The actual contribution rates beginning July 1, 2014 will not be known until the end of the 2014 legislative session. 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*									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
3.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
* From 2016-2024, rates are assumed to stay constant, but dollar contributions rise at the same rate as salary growth.									

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. As a result, cost increases in FY2012 and FY2013 were not as high as the preceding years.

The forecast assumes that the County's aggressive health insurance cost containment measures will continue. In the near term, increases will also support required self-insurance reserves. 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 in FY2018 and later years. 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									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
10.0%	10.0%	10.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%

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 three actives for every retiree to two 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 two months of medical claims as a reserve in the Employee Health Insurance fund. 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, Other Post-Employment Benefits (OPEB) reserves in the fund (discussed under Operating Expenses and Capital Outlay later in this section) are available to cover the deficit.

The Affordable Care Act is still in the initial stages of implementation. In the future, as this process continues, 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 ACA Health Marketplace. Detailed analysis would be needed before implementing any significant structural changes.

KEY ASSUMPTIONS

Personal Services- Combined Impact

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)									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%

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

<u>Overview</u>

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 illustrated by comparing recent increases in the MCI to increases in the CPI.

	2010	2011	2012
CPI	1.5%	3.0%	1.7%
MCI	3.8%	4.2%	2.0%

In Pinellas County, expenses such as fuel, electricity, and state mandates 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 1.01M in FY2013 for non-Sheriff units. Beginning in late FY2011, in a cooperative effort to improve efficiency of operations, the Sheriff began purchasing fuel through the Fleet Management Fund.

KEY ASSUMPTIONS

Electricity
The County's office facilities are generally charged a commercial rate for electricity by Duke 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)									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
1.7%	1.9%	1.9%	2.0%	2.0%	2.0%	2.1%	2.0%	2.0%	2.0%

Fuel - All Funds with Fleet Equipment
FY2014 budgeted fuel costs were based on a price of $3.50/gallon. The price for the County in December, 2013 was about $2.71 per gallon for unleaded and $3.39 per gallon for diesel fuel. The forecast assumes $3.50 per gallon for FY2015. For FY2016 through FY2024, increases slightly higher than the rate of inflation are forecast.

Change in Fuel Costs									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
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 Environment and Infrastructure departments have both taken steps to decrease annual cost increases by implementing measures to reduce energy consumption. Annual increases of 5% in electricity costs throughout the forecast period are projected based on the historical averages.

In the following table, the percentage increases in FY2015 through FY2019 have been adjusted to reflect the impact of cost saving measures and the addition of new facilities.

KEY ASSUMPTIONS

Change in Electricity Costs – Office Facilities									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
0.9%	6.1%	5.0%	5.0%	4.5%	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 FY2024, a growth rate of 4.7% per year is projected based on estimated medical cost inflation.

Projected Medicaid Costs - $ millions										
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Backlog	$ 2.5	$ 2.5	$ 2.5	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Current	$18.4	$17.4	$16.3	$15.2	$14.0	$12.8	$13.4	$14.0	$14.7	$15.4
Total	**$20.9**	**$19.9**	**$18.8**	**$15.2**	**$14.0**	**$12.8**	**$13.4**	**$14.0**	**$14.7**	**$15.4**

Supporting Information

Fuel efficiency gains are anticipated as new Federal Corporate Average Fuel Economy (CAFE) standards for heavy trucks and equipment take effect due to the composition of the fleet. Only 45 of 1,624 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 eight to ten miles per gallon because of idling time (for power take off units) and the gear ratio needed to haul heavy loads. The new standard increases 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.

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 FY2014 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 $29M 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. OPEB contributions for Enterprise operations are contained within their respective funds.

Projected OPEB Contributions - $ millions									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
$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 4% increase is included in the forecast from FY2015 through FY2024 to account for annual CPI increases and increases to transport volume. The contract is up for renegotiation again in FY2014. The average increase in actual contractor payments over the last four years was 2.7%.

Change in EMS Ambulance Contract Expenditures									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

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.

Change in EMS First Responder Expenditures									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
2.2%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

Purchase of Water - 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									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
2.1%	0.8%	1.6 %	1.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%

Chemicals - 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 Water and Sewer Operations									
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%

Capital Outlay - 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 – 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.

Other Forecast Considerations

Climate Change

Climate change is generally viewed as a long-term problem, but 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, but this may be re-evaluated as the County's Strategic Planning process continues and potential areas of concern are identified.

Other Funds

This Forecast includes the nine funds and fund groups that comprise the majority of the County's budget. Most of the more than 30 other funds have a limited scope that does not lend itself to extensive discussion in this document. However, several are worth noting.

The Fire Districts Fund provides fire protection services to the unincorporated area through twelve separate fire districts that are funded entirely by property taxes. Within the fund, each fire district is balanced separately and has a specific millage rate cap. Services are provided through contracts with municipalities or other independent fire districts based on the unincorporated area's pro rata share of the property values in the district. Because of variations in the composition of the tax base, in a given year some districts may require millage rate adjustments to support the required expenditure levels. One strategy that has been pursued to mitigate the need for rate increases has been competitive bidding of the service contracts in several districts. This process may be followed in other districts in the future. Potential millage increases will need to take into account the individual millage caps in each district and the overall cap of 10 mills for municipal services taxing units, which includes the General Fund MSTU millage and the Public Library Cooperative as well as the fire districts.

The Air Quality Fund accounts for fees collected by the State and returned to the County to fund vehicular air pollution programs. The Emergency Communications E911 System Fund accounts for fees on wireless and land based communication lines which are collected to help support the emergency communications system. Both funds can have an impact on the General Fund, which provides resources for the costs that are not supported by these designated revenues.

The Fleet Management Fund is an internal service fund that provides for the operation and maintenance of the County's vehicles. Variations in fuel costs impact the expenditures in the County's operating funds. The Fleet Management fund also purchases replacement vehicles. To avoid large fluctuations in the operating budgets, departments are charged replacement fees over the anticipated life of the vehicle. This provides the resources to purchase a replacement when a vehicle reaches the end of its useful life based on annual evaluations of the condition of the equipment. The projected annual replacements over the forecast period range from 46 units at an estimated cost of $2.6 million to 134 units at a cost of $5.8 million. By using the replacement charge method, these annual costs are stabilized.

The Business Technology Services (BTS) Fund is an internal service fund that provides integrated information and communications technology for the County's departments and agencies. In FY2014, about 61% of these costs are charged to the General Fund. BTS maintains existing systems and also implements new solutions as technology evolves. Besides the financial impact, the planned upgrades and replacements managed by BTS also are critical to the efficient operation of the entire organization.

Potential for Recession

The economic conditions underlying the forecast are based on the current consensus of leading economists. This consensus anticipates continued slow growth and moderate inflation and does not include an economic downturn. From a historical perspective, since the end of World War II

in 1945 there have been eleven recessions. The average length of the recessions is eleven months, with an average expansion period of 59 months – about five years – following the recession. The Great Recession from December 2007 to June 2009 was unusual in that it was the longest since the Great Depression of 1929 to 1933, and the recovery has been slower than typical as well. Under "normal" circumstances a new recession would probably be anticipated sometime before 2024, but the immediate past patterns have been anything but normal, and there is no credible basis for predicting when and how severe the next downturn will be at this time. It is reasonable to assume that the economy will slip into recession at some time in the future. When this occurs, the impact on the forecast may be significant. For example, two years of no growth in the property tax base beginning in FY2018 would yield an impact on the General Fund of $18 million annually and over $125 million for the forecast period in lost revenue. This is the primary reason for the establishment of the Service Level Continuation Account in the FY2014 General Fund budget and for maintaining adequate reserves in the other funds as well.

Population Trends

A cautionary note for long-term planning relates to the scarcity of undeveloped land in Pinellas County. We will see relatively fewer new residents in the future compared to other counties with more opportunities for expansion. Because the distribution formulas for both shared sales taxes and revenue sharing are partially based on population, Pinellas will represent a declining percentage of the state total and therefore the percentage of these revenues will decline also. For example, in the 2000 Census Pinellas represented 5.8% of the State's 16 million residents. By the 2010 Census, Pinellas' population remained virtually the same, while the State population grew to 18.8 million. As a result, Pinellas represented 4.9% of the State's population in 2010. Current State demographic projections are that this percentage will decrease to 4.2% by 2023, resulting in reductions in Pinellas' share of grants and other revenues that are allocated by population-driven formulas.

KEY ASSUMPTIONS