ECONOMIC OVERVIEW & BUDGET BACKGROUND

The *Economic Overview & Budget Background* portion of the Budget Forecast: FY16 – 21 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
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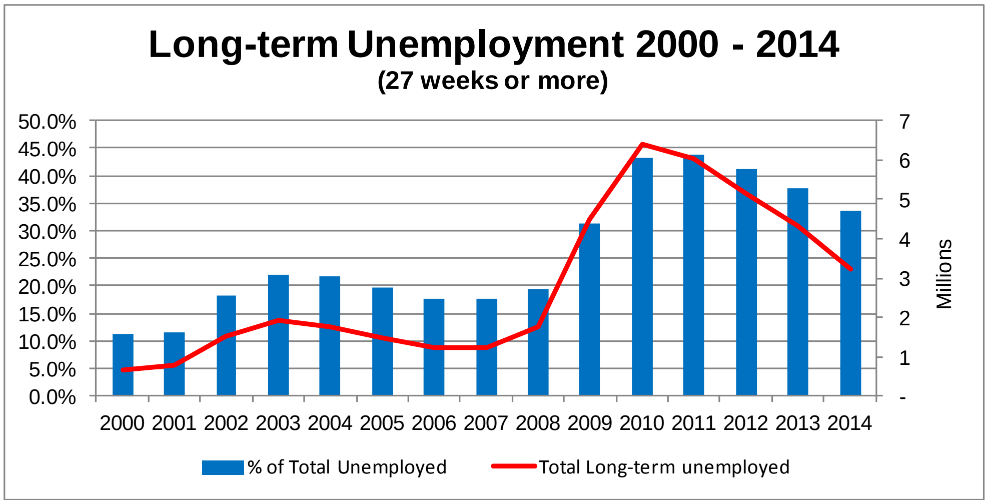
The National Outlook

Employment

The U.S. economy continued to post strong jobs numbers during 2014. For 50 consecutive months, U.S. companies added workers to their payrolls, with 321,000 jobs added in November 2014, the highest monthly number since January 2012. Since the end of the recession in June 2009, more than 9.1M jobs have been added, erasing the number of jobs lost during the 18 month-long Great Recession of 2008. However, at an average of just 142,000 jobs added per month since July 2009, it took nearly six years to regain the jobs lost, leading many to call this recovery the 'jobless recovery'. As a result, many able-bodied job-seekers dropped out of the work force. Prior to the recession, 66.1% of the labor force was either working or actively looking for work. As the recession dragged on and jobs failed to materialize following the recession, the labor force began to shrink as older workers decided to retire and unemployment benefits for younger workers ran out.

The national unemployment rate continued the nearly consistent drop since October 2009 (10.0%), falling to 5.6% in December 2014. 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. Long-term unemployment, which is unemployment lasting 27 weeks or longer, continues to plague the labor market. Those who lost their jobs during the recession are having a harder time finding a new job than following recent recessions. Following the recession of 1981-1982, long-term unemployment topped out at 26.0% seven months after the recession ended. Following the recession of 2001, long-term unemployment topped out at 15.9% one year out. The Great Recession of 2008 has had lingering effects, as long-term unemployment remains historically high at 30.7% in November

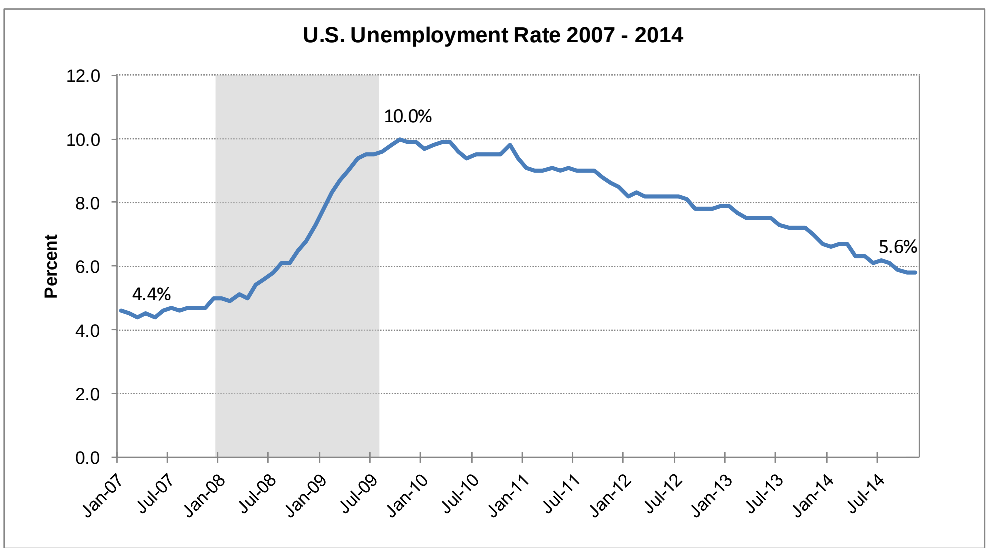
2014. As the chart below shows, more than 4.3M people were still unemployed after 27 weeks at the end of 2013.



Source: U.S. Bureau of Labor Statistics

In December 2014, there were 6.8M 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 3.0M people were classified as either 'marginally attached to the labor force' or 'discouraged' meaning they had not looked for work in the past four weeks, despite being willing and able to work. 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 (shaded area indicate recession)

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	7.4%
2014	6.2% (5.6% Dec. 2014)
2015	5.6%
2016	5.4%
2017	5.2%

Source: BLS/Federal Reserve Bank of Philadelphia
Survey of Professional Forecasters, November 17, 2014

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 5.0% in the first year of a recovery due to pent up demand. However, it is anticipated that this recovery will be 3.0% or less 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	1.8%
2008	-0.3%
2009	-2.8%
2010	2.5%
2011	1.6%
2012	2.3%
2013	2.2%
2014 (Est.)	2.2%
2015 (Est.)	3.0%
2016 (Est.)	2.9%
2017 (Est.)	2.7%

Source: U.S. Bureau of Economic Analysis/FRED
Estimates: Federal Reserve Bank of Philadelphia
Survey of Professional Forecasters, November 17, 2014

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 70.0% of the GDP. The Consumer Price Index, the generally accepted measure of overall inflation, rose by 1.6% in 2014, virtually unchanged compared to the 1.5% rise for 2013. 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, which is about two and a half years longer than originally indicated.

The State Economy

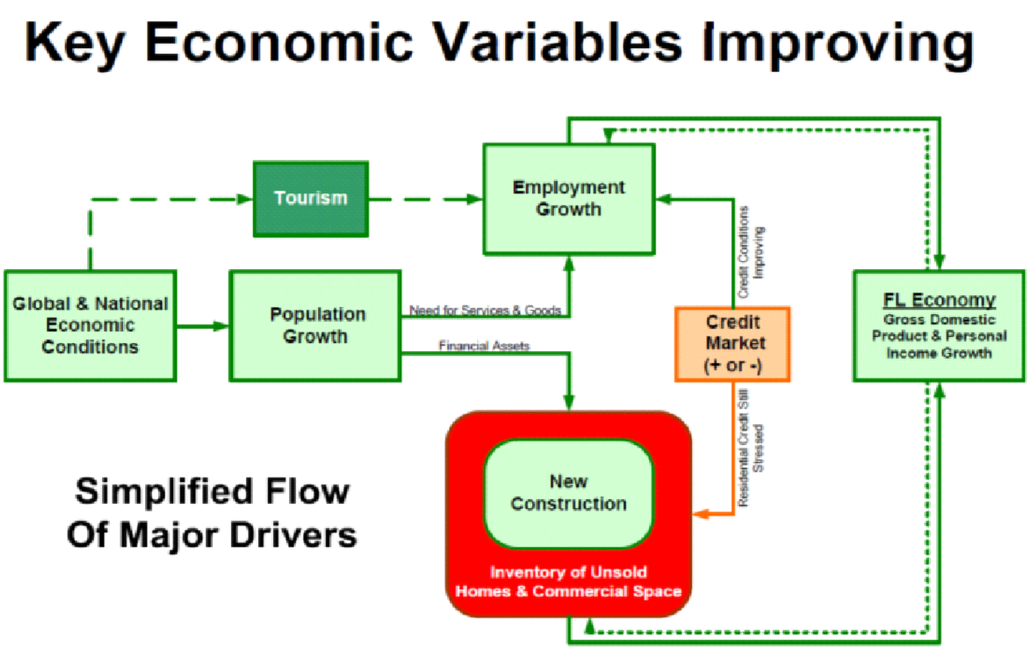
The information below for the State's economy is derived partially from the January 6, 2015 report Florida: An Economic Overview *by the Florida Legislature Office of Economic and Demographic Research.*

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.

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.



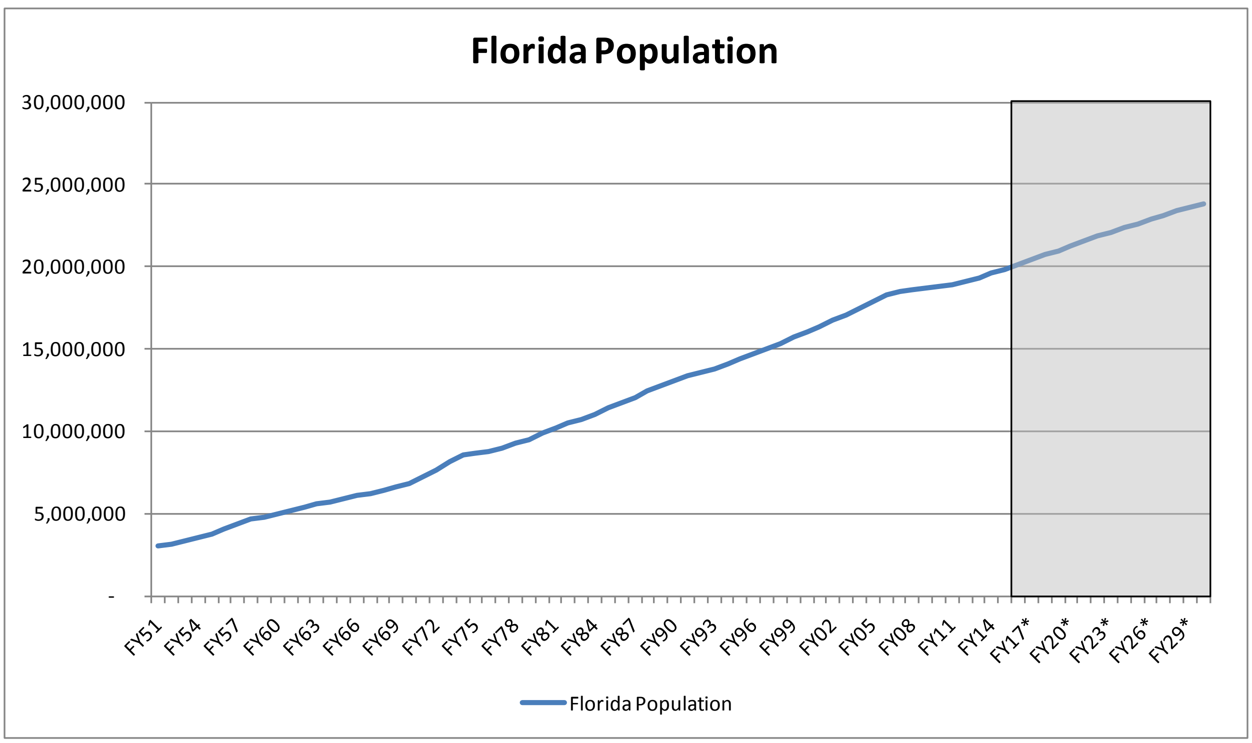
Source: Florida Legislature Office of Economic and Demographic Research

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 93.1% of the state's population growth through 2030 will come from positive net migration, primarily from people moving into Florida from other states.

Florida's long-term population growth rate between 1970 and 1995 was over 3.0%. The annual growth rate hovered between 2.0% and 2.6% from the mid 1990's to 2006, and then began slowing to less than 0.5% in 2009 and 0.6% in 2010.

In the near term, population growth is forecast to remain relatively flat, averaging 1.4% between 2014 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 286,035, between 2020 and 2025 by an annual average of 268,340, and by an annual average of 250,977 between 2025 and 2030. Despite this lower growth rate, Florida surpassed New York in 2014 to become the third most populous state, and is projected to break the 20M mark in 2016.

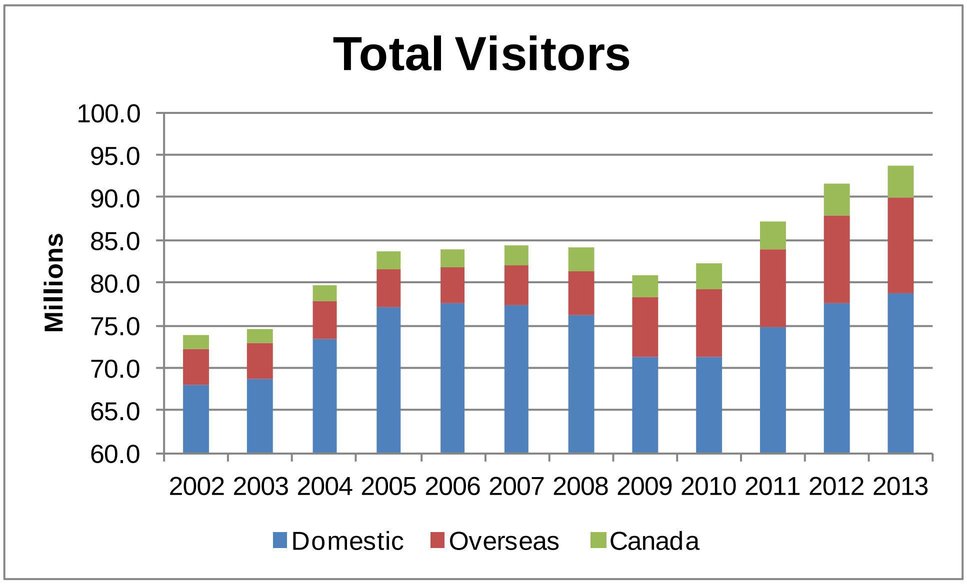


Source: Florida Demographic Estimating Conference, November 5, 2014 (shaded area indicates projections)

By FY30, Florida's population is expected to grow by more than 5.0M people from the FY10 level. The majority of this gain (55.5%) will come from those 60 and older, with those under 18 accounting for 14.2% of this gain.

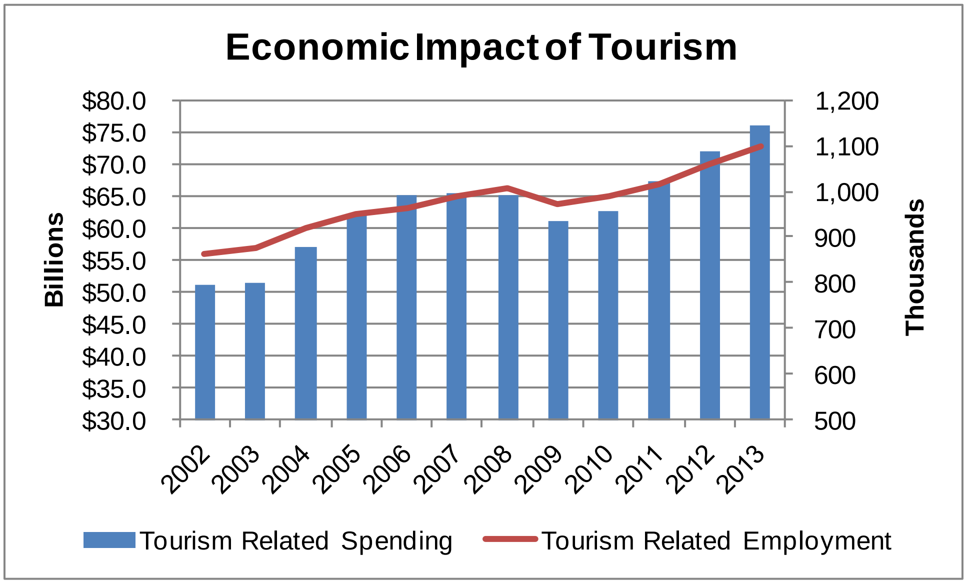
Tourism

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 is now on a steady upward trajectory, with four straight years of year-over-year growth in total visitors. Through the third quarter of 2014, visitors increased by 2.5% compared to the same period in 2013. If the fourth quarter matches the first three, Florida will have experienced a fifth straight year of visitor growth.



Source: VisitFlorida.com

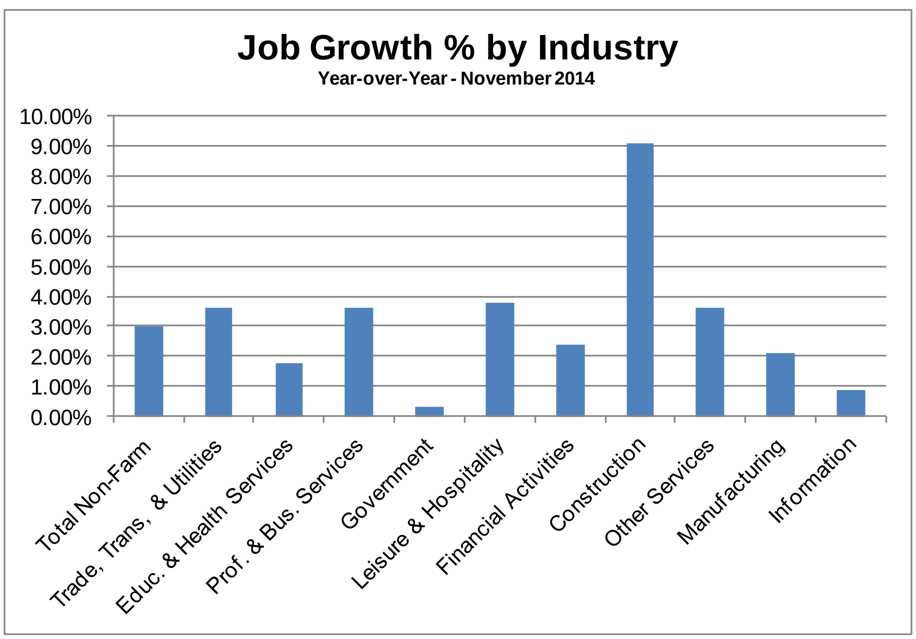
As would be expected, tourism and travel related spending in Florida has increased along with visitors. According to estimates provided by Visit Florida, the tourism marketing corporation for the state of Florida, if current performance continues through the fourth quarter, 2014 tax revenue from tourism and travel related sales will have grown for the fifth consecutive year to almost $5.0B. The jobs associated with the Leisure and Hospitality industry has been one of the top gainers in growth. According to Visit Florida, almost 1.1M jobs are tourism related, a number that has grown steadily along with the number of visitors.



Source: VisitFlorida.com

<u>Employment Growth and the Labor Market</u>

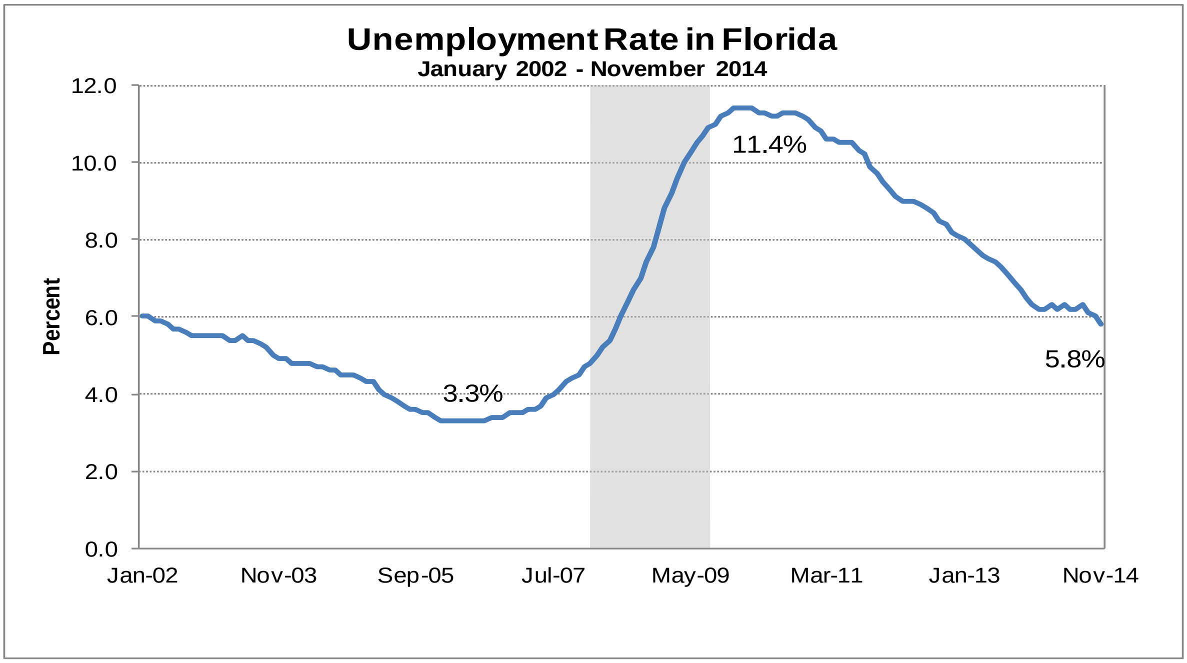
The job market showed some up-and-down movement throughout the year, with almost 278,000 jobs being added through November 2014. During 2014, nonfarm employment increased by 2.9%, with private sectors employment growing by 3.3%. This growth was led by the construction, leisure & hospitality, and business & professional services industries. The brightest star in Florida was Miami, which grew nonfarm employment by 3.7% in 2014 and is 2.8% above prerecession levels. Private sector employment in Miami is up 4.4%, and is 5.1% above prerecession levels and is one of the strongest gainers in the country.



Source: Florida Department of Economic Opportunity

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 5.8% in November 2014. This rate places Florida at 25nd best in the country.

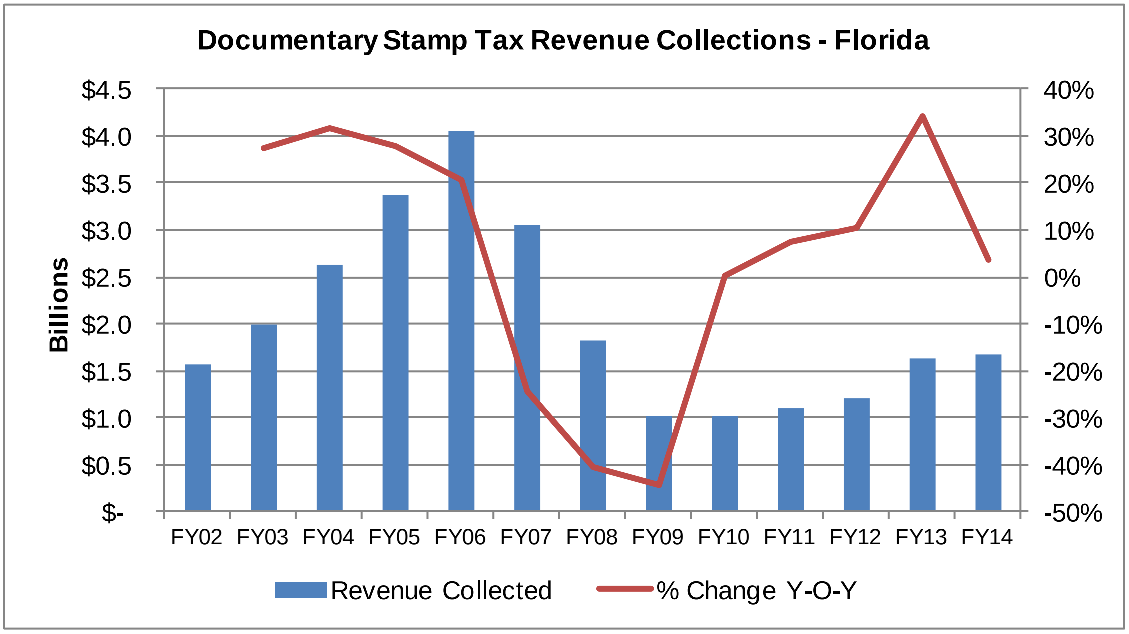
Florida's current unemployment numbers represent about 556,000 out-of-work Floridians actively looking for employment. Since the most recent peak in employment, there have been about 156,300 jobs lost. With a projection of about 4,200 new working-age people being added to the Florida labor market each month, it will take the creation of about 680,000 jobs to return to the peak level of employment.



Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of St. Louis (shaded area indicates recession)

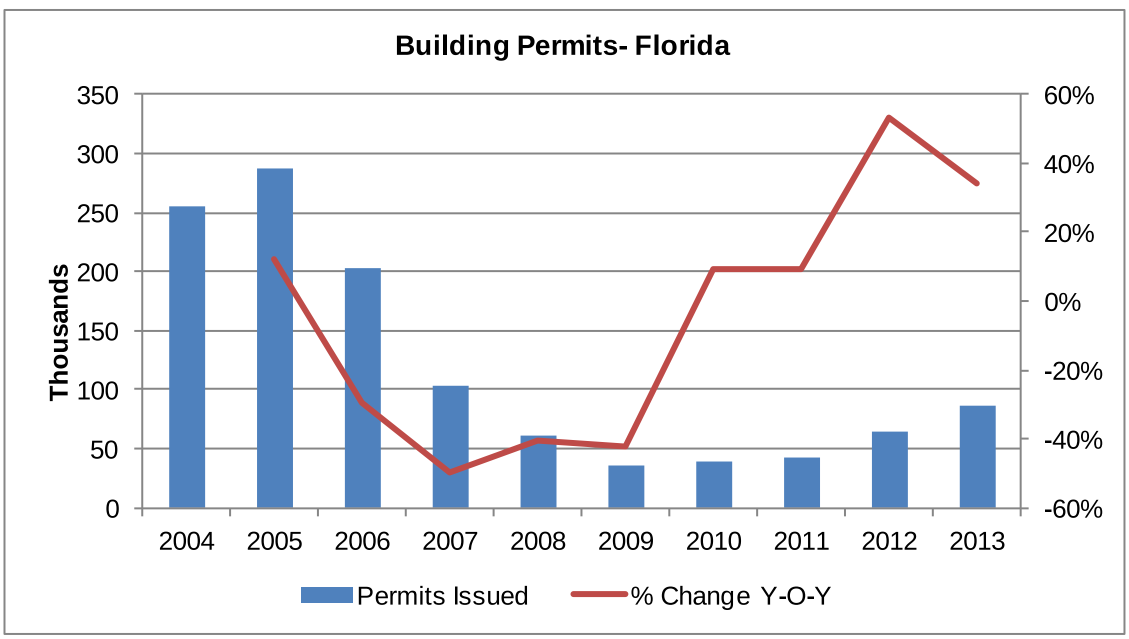
<u>New Construction, Foreclosures and Home Sales</u>

Florida's housing market continues to show signs of improving. Sales volume of existing homes and building permits are both back in positive territory, showing year-over-year growth. Revenue from documentary stamp tax collections extended its positive streak to five years, with FY14 growing by 3.8%. At $1.7B, FY14 revenue was 58.5% below the peak level during FY06, but 65.7% above the lowest level of the Great Recession in FY09.



Source: Florida Department of Revenue, Office of Tax Research

Building permit activity continues to show year-over-year improvement. According to the United States Census Bureau, building permits increased by 33.9% in 2013 compared to 2012, a fourth consecutive year of improvement. With almost 87,000 permits issued during the calendar year, 2013 was still almost 70.0% below the peak level of 2005, when more than 287,000 permits were issued throughout Florida.

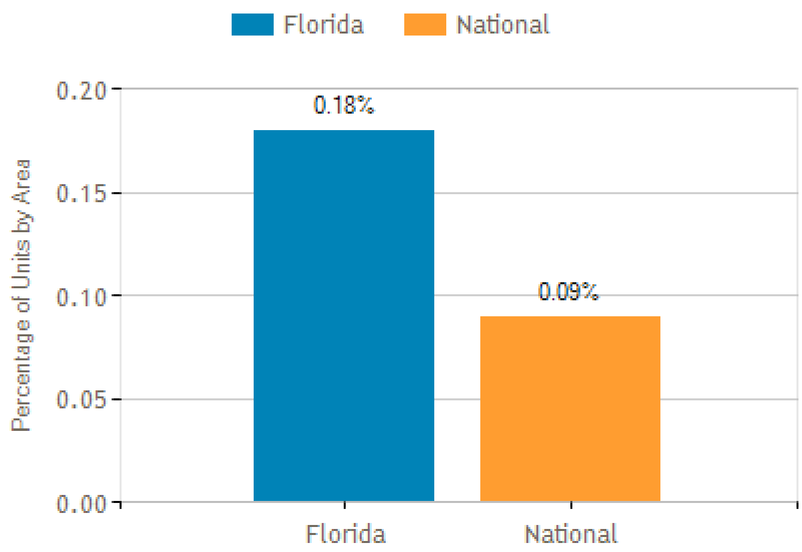


Source: United States Department of Commerce, Census Bureau

Foreclosures continue to be an issue in Florida. According to RealtyTrac, Florida had the highest foreclosure rate in the U.S. in 2014, a repeat of 2013. In December, Florida was the third highest state with 1 in 546 homes in foreclosure. As a comparison, the foreclosure rate for the U.S. as a whole was 1 in 1,153 homes during the same month. Clay (1 in 278), Pasco (1 in

348), and Hillsborough (1 in 377) counties lead the state in foreclosure rates. Pinellas County's foreclosure rate falls below the state's average, with 1 in 639 homes in foreclosure.

Percentage of Homes in Foreclosure
December 2014



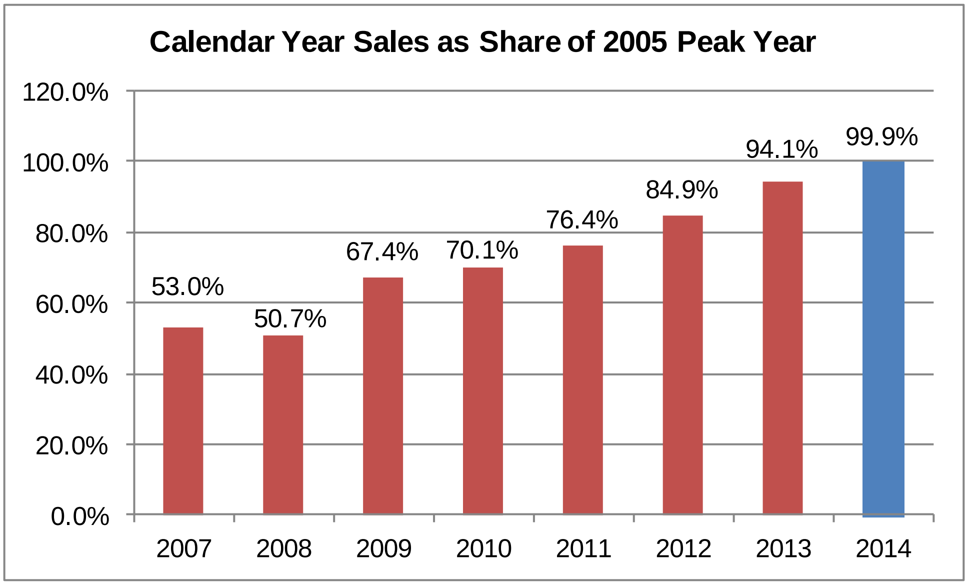
Source: RealtyTrac.com

At 925 days (2.5 years), Florida has the third longest foreclosure process in the United States, almost twice the national average of 577 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 slow recovery of the 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 most recent date, about 23.8% of all residential loans in Florida were for homes that are "underwater", that is, have mortgage debt higher than the value of the house. This is down significantly from a high of 50.0% during the worst of the housing bust. The highest level in the country is the Tampa-St. Petersburg-Clearwater metropolitan area with 25.5%

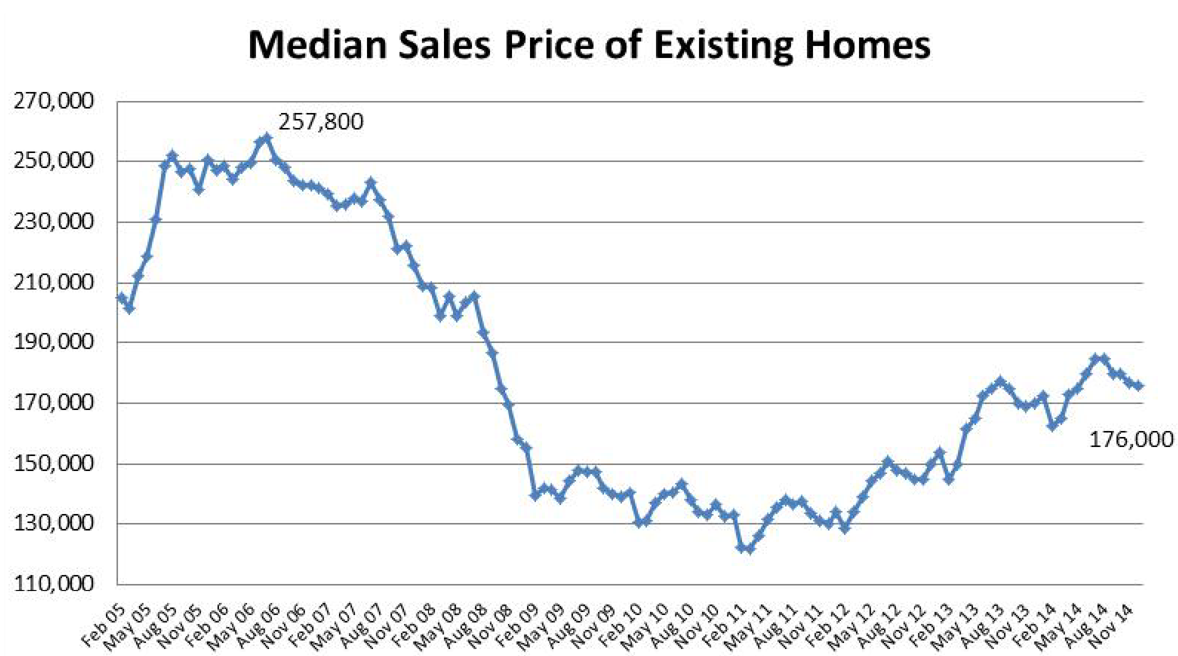
Related to the "shadow inventory" are homes that are in foreclosure or default known as "ghost" homes. These are homes whose upkeep has been neglected or are in distressed areas and will not likely recover their value in a reasonable timeframe. The effect is these homes are worth and/or will sell for much less than they would under normal conditions.

Sales of existing homes show signs of continued, but modest, recovery. While volume has been increasing since 2009, annual sales are only now nearly equivalent to the peak year of 2005.



Source: Florida Legislature Office of Economic and Demographic Research, January 6, 2015

With the increased volume, sales prices have begun to trend upwards since the post-recession bottom in early 2011. The November 2014 median sales price of existing homes was $176,000, more than $50,000 above the bottom.



Source: Florida Legislature Office of Economic and Demographic Research, January 6, 2015

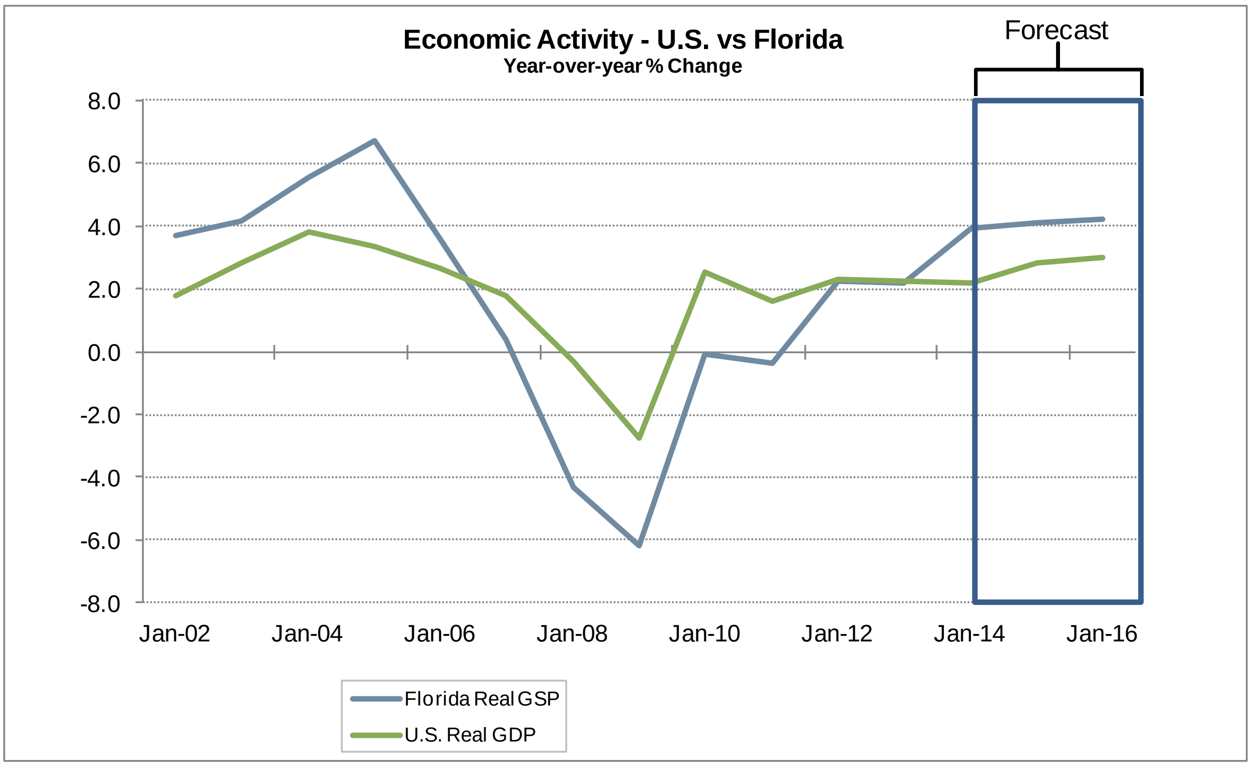
<u>State Budget</u>

The State of Florida's budget is highly dependent on sales tax revenue, accounting for more than 70.0% 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 which were addressed by expenditure reductions and by using one-time fixes such as diverting revenue from trust funds and using Federal stimulus funds to avoid larger cuts in education and other programs. For the past two years, the State budget has been experiencing positive growth, and general revenue collections is State FY15 are expected to surpass the prior peak in FY06. Preliminary estimates indicate that the 2015 Legislature will have approximately $1.0B in surplus funds available to allocate for FY16.

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 fourth year in a row in 2013, Florida's economy showed positive growth, after two years of negative growth.



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

After adjusting for inflation, Florida's real growth in GSP ranked it 13th in the nation in 2013 with a gain of 2.9%, compared to the national average of 2.6%. By way of comparison, Florida was ranked 50th in 2008 and 4th in the nation in 2005.

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 2.9% in 2013, compared to 2.6% nationally, ranking the state 13th in growth. In the first quarter of 2014, Florida ranked 23rd in personal income growth at 0.8%, matching the national growth, and earned a ranking of 13th best in the second quarter, with a growth rate of 1.7% compared to a 1.5% national average.

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%) through 2011 (0.6%). From 2015 to 2021, population growth is expected to average 1.4%. In 2014, Florida passed the State of New York to become the third most populous state.

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, increased by more than 40,000 over the last 12 months (through November) as visitors continued to visit the beaches, theme parks, and museums around the state.

The construction industry was another industry that suffered during the last several years as the economy in general, and the housing market specifically, suffered from the Great Recession and the resulting housing market collapse. Over the last 12 months, almost 35,000 jobs were added in the construction industry, a 9.1% increase.

Overall, there were over 295,000 jobs added in Florida during the last 12 months. As the recovery continues, the long-range unemployment rate is projected to fall steadily from the current level of 5.8% to 5.2% by 2021.

Florida's housing market continues to show signs of improvement. Sales volume of existing homes has climbed back to 2005 levels, the peak of the market for Florida. The median sales price for these homes has rebounded from a low of less than $130,000 in 2011 to the current level of $177,000. However, foreclosures continue to depress sales prices around the state. Florida has the highest foreclosure rate in the country, with 1 in 462 homes in foreclosure, compared to 1 in 1,170 for the nation. According to the most recent data from CoreLogic, Florida has the second highest percentage of homes with negative equity at 23.8% in the 3rd quarter of 2014, making those homes more difficult to sell when necessary and putting downward pressure on prices.

The continuing turnaround in Florida housing will be led by:

- Low home prices that continues 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.

Pinellas County's economy has taken many steps forward since the end of the Great Recession in 2009. Unemployment has fallen from a high of 11.8% to 5.6%, while the number of overnight visitors has increased 11.8% since 2009, bringing with it record setting collections in Tourist Development Tax revenues. The real estate market has had another year of growth after several years of low sale prices and volume. Taxable value has increased for the second year in a row, returning to FY05 levels that marked the beginning of the most recent real estate boom.

These developments are positive signs. However, there are many factors that will restrict the County's ability to fully realize the benefits of the economic recovery. Many of these factors are legislative mandates imposed at the state level that reduced local governments taxing abilities and placed caps on future revenues.

The following section explains the restrictions currently in place and the actions taken in Pinellas County to adjust to the new reality in which we operate.

<u>Property Value Increases</u>

From FY02 to FY07 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 FY07 countywide millage rate by 0.701 mills (over 10.0%), the first millage rate reduction since the 1997 budget year.

<u>Impact of Save Our Homes Amendment</u>

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 FY08 school property taxes, which they control, even though these taxes make up about 40.0% 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 FY08 to a point below the FY07 collections adjusted for new construction (also known as the "rolled-back rate"). This target ranged from 3.0% to 9.0% below the rolled-back rate depending on the State's calculation of how much the taxing authority's property tax revenue increased from FY02 to FY07. Independent Districts and Dependent Districts, many of which have the primary purpose of providing Fire or Emergency Medical Services, were all targeted at 3.0% 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 7.0% below rolled-back (the second-most-severe level), even though:

- The County's FY02 – FY07 percentage increase in per capita property tax was below the state's average increase for counties;
- The County's FY07 per capita property tax was less than Orange, Hillsborough, and other counties that were in the 3.0% or 5.0% cutback categories;
- A city with the same percentage increase was required to cut only 5.0%;
- 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 FY09, 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 1.0 – 3.0%. 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 110.0% 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 FY08.

The long-term impact of this cap is that property tax revenue will be constrained even if taxable values increase beyond the average increase in personal income. To date, the County has not seen an impact from this cap because values have actually declined since it was passed. However, due to the bursting of the housing bubble and the negative impact of foreclosures, the baseline of values has been set artificially low, which will keep property tax revenues constrained by a higher than anticipated margin.

Impact of Amendment One

The FY09 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 FY08 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 10.0% 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 FY09 to FY13, the countywide taxable value decreased 8.7%, 11.7%, 9.8%, 4.8% and 2.0%, 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

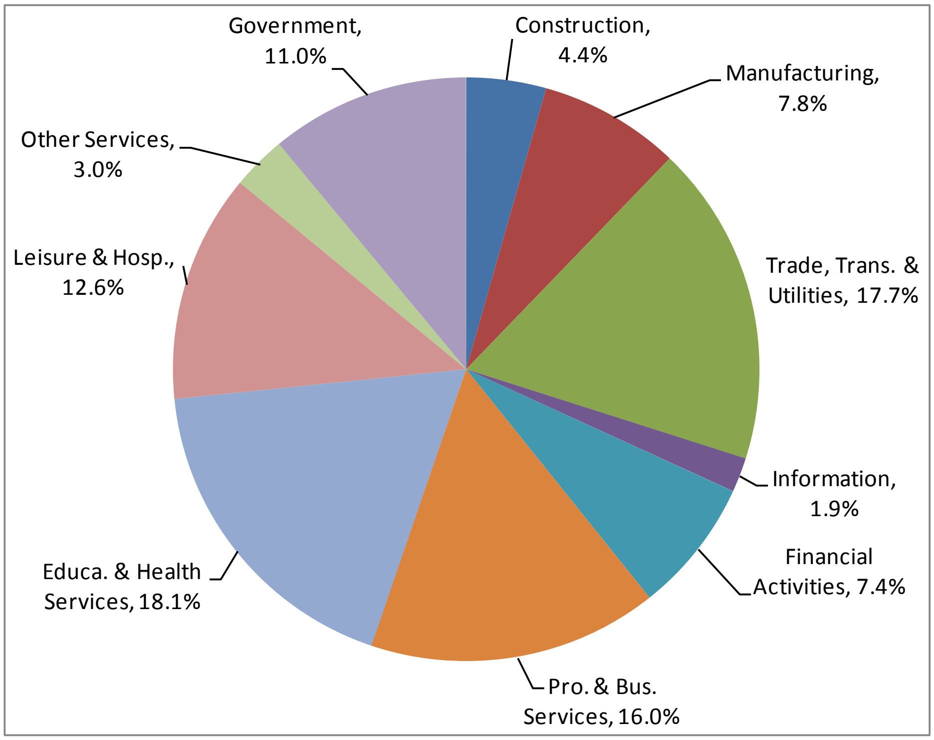
Since the recession began, the County has been faced with resizing the organization to fit the new fiscal reality stemming from legislative action, the bursting of the housing bubble, and the Great Recession. From FY07 to FY12, total positions decreased 1,618, or 25.0%. Within that number, the BCC departments decreased 985 positions or 35.0%, which yielded the lowest position count since FY85. The Constitutionals and Independents decreased 633 positions, or 17.0%, which yielded the lowest position count since FY95.

In the General Fund, which funds most of the County's non-enterprise operations, property taxes (two-thirds of total revenues) have decreased 24.1%, or $104.4M, from FY07 to FY15.

Local Outlook

Pinellas County is the 6th largest county in population (933,258) 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 14M tourists annually. Pinellas County is part of the Tampa-St. Petersburg-Clearwater Metropolitan Statistical Area (MSA) comprised of Hernando, Hillsborough, Pasco, and Pinellas counties.

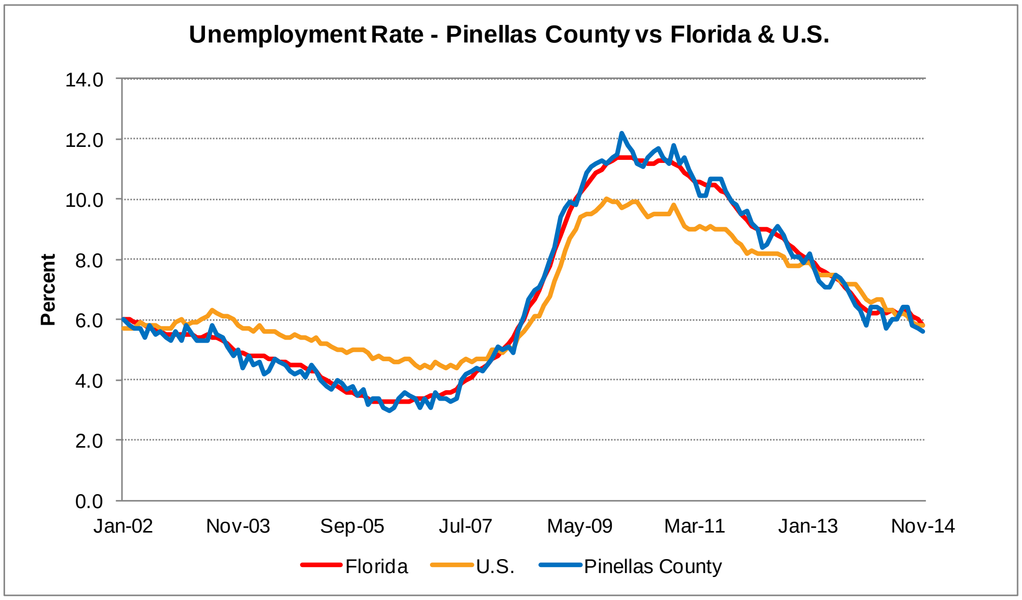
The labor market in Pinellas County covers a wide range of industries, with Professional & Business Services (16.0%), Trade, Transportation & Utilities (17.7%), Education & Health Services (18.1%) and Financial Activities (7.4%) making up 59.2% of all jobs in 2014. These industries also have some of the highest average annual wages, with Financial Activities ($59,627, 1st), Professional & Business Services ($52,737, 4th) and Education & Health Services ($44,546, 6th) all above the County's average annual wages of $43,496. The Leisure & Hospitality industry, which services the key tourism industry, employs 12.6% of all jobs in the County. However, the wages paid in this sector, $20,856, rank it 11th out of 11 in 2014.



Source: Florida Legislature Office of Economic and Demographic Research, County Profile December 2014

Unemployment

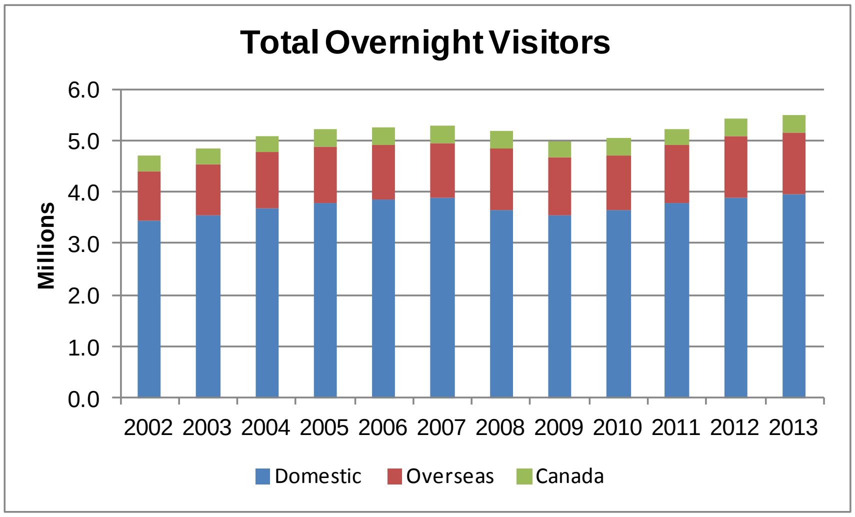
As with the State of Florida, Pinellas County's unemployment rate reached historically low levels in early 2006. In April 2006, Pinellas County recorded an unemployment rate of 3.0%. As the chart below shows, the County's unemployment rate rose to 4.7% by the time the national recession began in December 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 5.6% (November 2014).



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

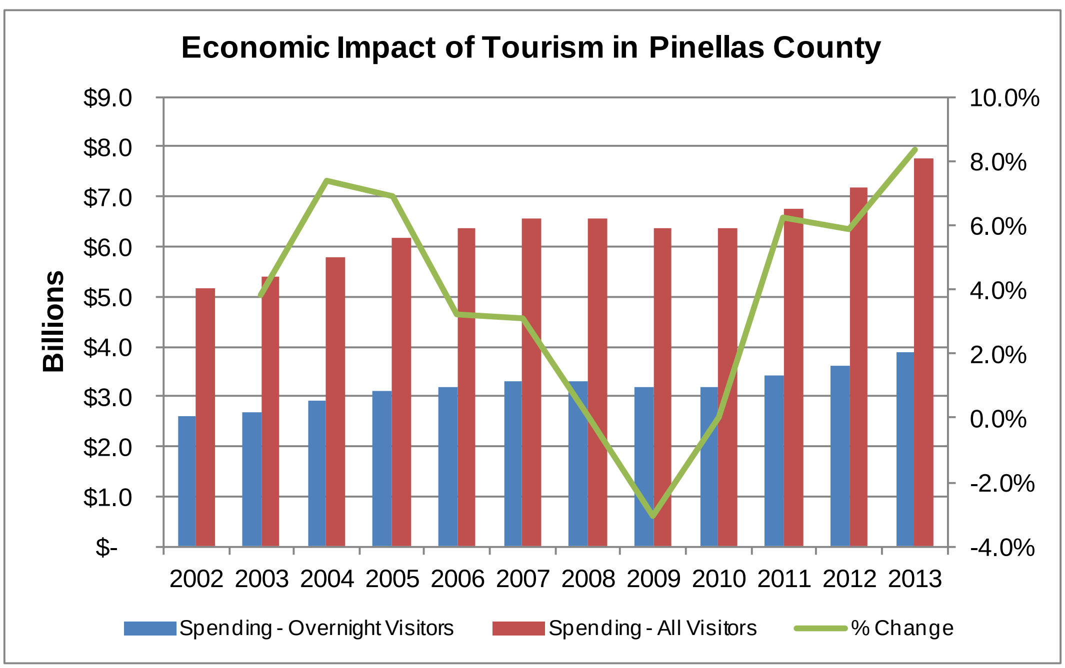
Tourism

Tourism is a key economic driver of the economy in Pinellas County. Through November 2014, the County reported more than 5.3M overnight visitors and collected $33.4M in tourist development tax revenue, also known as the 'bed tax', an increase of 12.3% compared to the same period in 2013.



Source: Research Data Services, Inc.

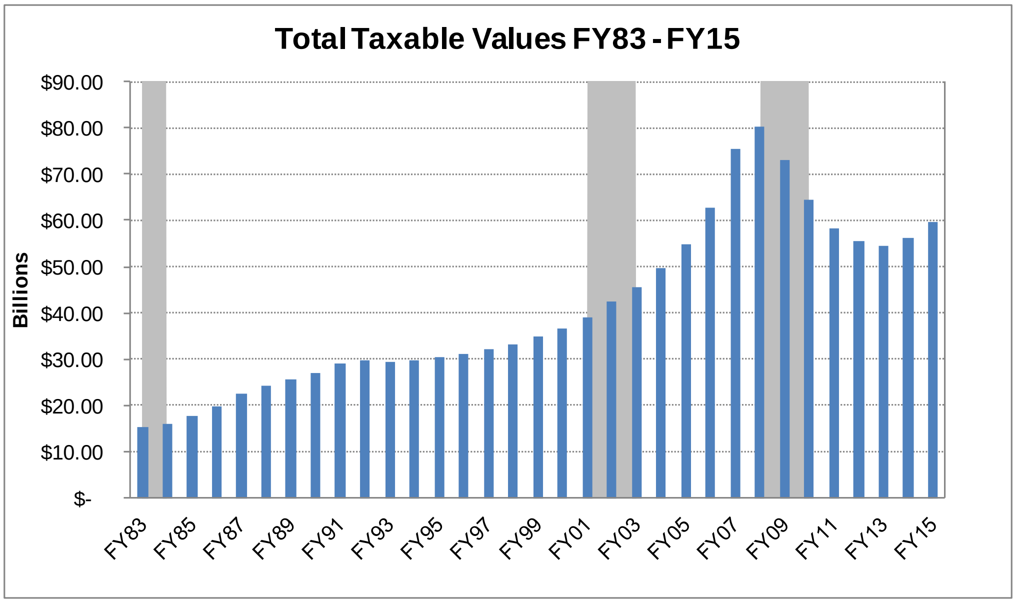
The economic impact of these visitors, in addition to the tourist development taxes collected, was more than $3.9B in 2013, 8.3% increase from 2012. Additionally, tourism helps supports more than 3,000 businesses in the leisure and hospitality industry, which makes up 12.6% of the Pinellas County employment base.



Source: Research Data Services, Inc.

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 FY09, taxable values fell for five straight years (-8.7%, -11.7%, -9.8%, -4.8%, and -2.0%). For FY15, taxable values increased by 6.2%, led by strong growth in many of the County's beach towns and communities.

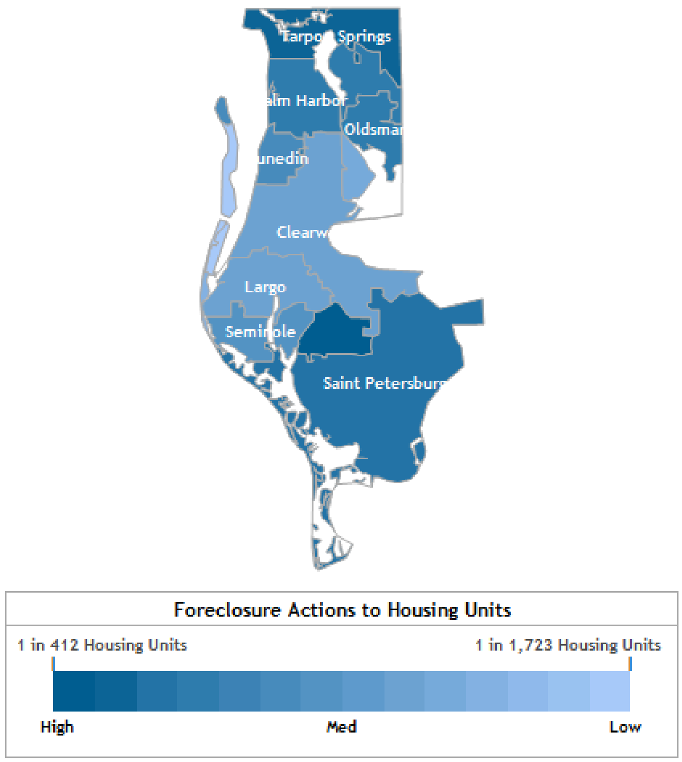


Source: Pinellas County Property Appraiser (shaded areas indicate recession)

Residential Real Estate

According to the Pinellas Realtor Organization, single-family homes sales have increased each year since 2009, reaching more than 11,000 in 2013. Over the last 12 months, single-family home sales in Pinellas County increased by 5.3%, while the average median sales price increased by 8.0% to $163,400. However, 42.8% of all sales were for cash, which potentially indicates an undervalued market, as investors are the main cash buyers when markets are low. Foreclosures, and the potential for foreclosure, continue to cause concern in Pinellas County. In 2014, there were 4,208 foreclosure cases filed, a decrease of 32.1% from 2013. The most recent data from Realty Trac, shown in the graphic below, shows that most of the foreclosure activities are in the large population centers within Pinellas County. In December, Pinellas Park (1 in (412), Tarpon Springs (1 in 527) and St. Petersburg (1 in 619) had the highest rate in the county.

Foreclosure Activity – Pinellas County
December 2014



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 2014, the Tampa Bay region had the highest percentage in the nation of mortgages considered 'underwater', with about 25.5% 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 them to put their homes on the market. As more of these homes become available, homebuyers will have more options, stabilizing a struggling housing market.

<u>Summary of Local Outlook</u>

While the national recession has been over for more than four years, the aftereffects are still being felt in Pinellas County. Unemployment, while down significantly from the post-recession high, is well above pre-recession levels and foreclosures are still a concern. However, tourism has shown signs of a strong recovery. Tourist development tax revenues were 12.7% higher than FY13, the third consecutive record-breaking year. The first two months of FY15 are showing continued signs of strength, with October and November both setting records. And after five years of decreases, real property taxable values continue to climb.

As the national economy continues to improve, Pinellas County is poised to recover as well. However, because of the slow nature of the recovery, worries about the job market 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.

Pinellas County