KEY ASSUMPTIONS

The *Key Assumptions* portion of the Budget Forecast: FY16 – FY21 includes a discussion of the sources of information used to develop assumptions for revenues and expenditures that drive the six-year forecasts for ten of the County's key funds:

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

Assumptions and Forecasting

Although we have attempted to use the best data and methodologies possible, economic forecasting remains 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. 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 for maintaining fiscal sustainability in support of the County's Mission, Vision, and Values.

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.

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 FY24. 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, 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 Overview – General Fund and EMS Fund

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 countywide 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.

The Board of County Commissioners approves millage rates annually by resolution as part of the budget process. This process must follow the State's "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, countywide taxable values increased by 3.4% in FY14 and 6.5% in FY15. The assumption in the forecast is that growth of 4.0% per year or greater in the next three years will be followed by a slightly lower sustained level of increases.

Change in Taxable Values – Countywide					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
4.5%	4.0%	4.0%	3.5%	3.5%	3.5%

The countywide taxable value is the basis for determining the countywide revenue in the General Fund. For the purposes of this forecast, the FY16 through FY21 percentage change in taxable value for the Emergency Medical Service Fund is assumed to be the same as the countywide taxable value change. The rate of growth in the General Fund MSTU is projected to

be 0.5% less than the countywide growth rates based on past trends, potential annexations, and the composition of the tax base in the unincorporated area.

Supporting Information

The overall increase of 6.5% in countywide taxable values for FY15 reflected 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 constrained by the caps put in place by the Legislature in 2007. The boost from new construction in Pinellas County will be limited compared to other counties that are not built-out. For example, Orange and Hillsborough counties have large undeveloped areas that are available for major residential, commercial and industrial expansions. On the other hand, redevelopment efforts, particularly in the core urban areas, will have a positive impact on the tax base, but this will be limited by the established Tax Increment Financing (TIF) districts which capture the increased County General Fund property tax revenue.

Impact of Foreclosures

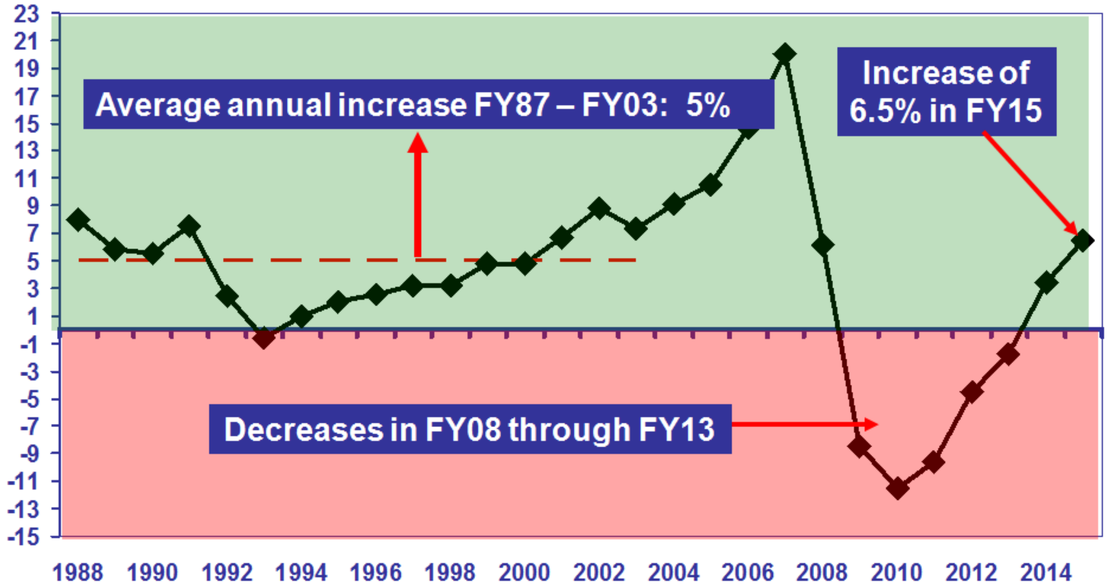
Foreclosures do not have a significant impact on current year collections of taxes levied because of the recovery mechanisms for delinquent taxes. If taxes are unpaid by June 1st, a Tax Certificate is offered for sale by the Tax Collector. The certificate is sold to an investor, and the County receives 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 70.0% from a peak of 15,200 in FY09 to 4,534 in FY14. As inventories of residential properties for sale have continued to decrease and prices have continued to rise, it appears that the foreclosed properties are being absorbed without a significant adverse effect.

Taxable values

The taxable values for FY15 were certified by the Property Appraiser on July 1, 2014. The countywide value increased by 6.5% compared to the FY14 values, the second consecutive year of tax base growth. 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 FY93. Prior to the recent recession, increases in the tax base averaged 5.0% per year.

Countywide Taxable Values Annual Rate of Change



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 3.0%, 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*									
FY06	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**
3.0%	3.0%	2.5%	3.0%	0 .1%	2.7%	1.5%	3.0%	1.7%	1.5%
*There is a two-year lag in the CPI adjustment. For example, the fiscal year 2015 factor is the CPI change percentage for calendar year 2013.									

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 FY15 was the December 2013 index, a 1.5% increase, issued by the U.S. Bureau of Labor Statistics on January 16, 2014. The limit for FY16 will be the December 2014 change of 0.8% which was issued by the U.S. Bureau of Labor Statistics on January 16, 2015.

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.

Property Tax Revenue Caps

The revenue caps approved by the Legislature in 2007 require that beginning with FY09, 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. The County has some flexibility for countywide increases in the short term because we did not levy the maximum millage from FY09 through FY15. Over time, this flexibility will diminish as the tax base grows.

During the recession, declining market values (and the "doubling" of the Homestead Exemption from $25,000 to $50,000) eroded 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. The 10.0% cap on non-homestead properties enacted as part of Amendment One will also limit revenue increases.

Fund Variances

The unincorporated area (MSTU) General Fund taxable value percentage change is assumed to be slightly less than the countywide taxable value change. Other funds not included in this forecast that are dependent on property taxes are the Fire Districts Fund, the Palm Harbor, East Lake, 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 countywide 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.

<u>Sales Taxes Overview – General Fund and Capital Projects Fund</u>

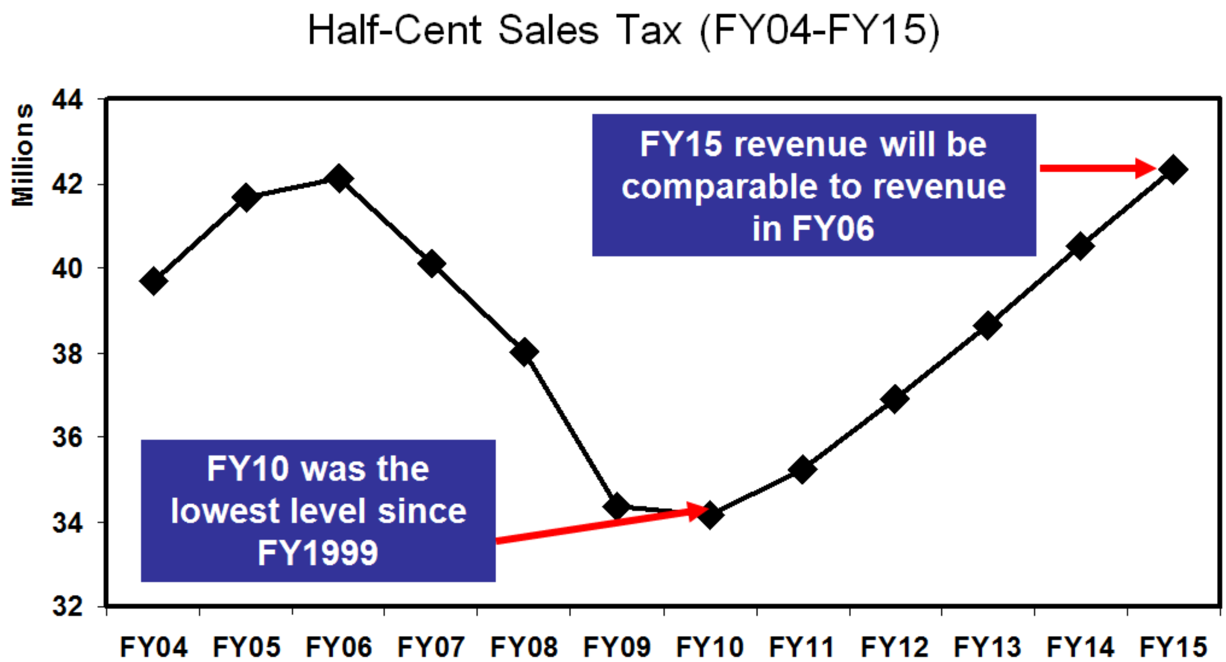
Sales tax revenues are highly elastic, increasing and falling with the health of the overall economy. In addition to food and medicine, certain other purchases are exempted from sales tax by legislation. The County receives two types of sales taxes: the Half-Cent Sales Tax and the Infrastructure Sales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

Half-Cent Sales Tax

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

Sales tax revenue grew by 4.7% in FY13 and another 5.1% in FY14. This was the fourth year of growth following four years of decline beginning in FY06.

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 and parks. Without this funding, it is estimated that property owners would have to pay another 1.4650 mills on their property taxes to support these projects. With a sales tax, an estimated 30.0% of the total Penny funds are paid by tourists and seasonal residents.

Key Assumptions

For the State Shared Half-Cent Sales Tax we anticipate growth approaching historical patterns. A 4.5% to 5.0% growth rate is assumed for FY16 through FY18, reflecting the continuing economic recovery. This is followed by a 4.0% growth rate for the remainder of the forecast period. In the near-term, our projection is in line with the State General Revenue Estimating Conference, which anticipates statewide FY16 growth of 5.0% and FY17 growth of 5.2%.

Change in Half-Cent Sales Tax Revenue					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
5.0%	5.0%	4.5%	4.0%	4.0%	4.0%

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

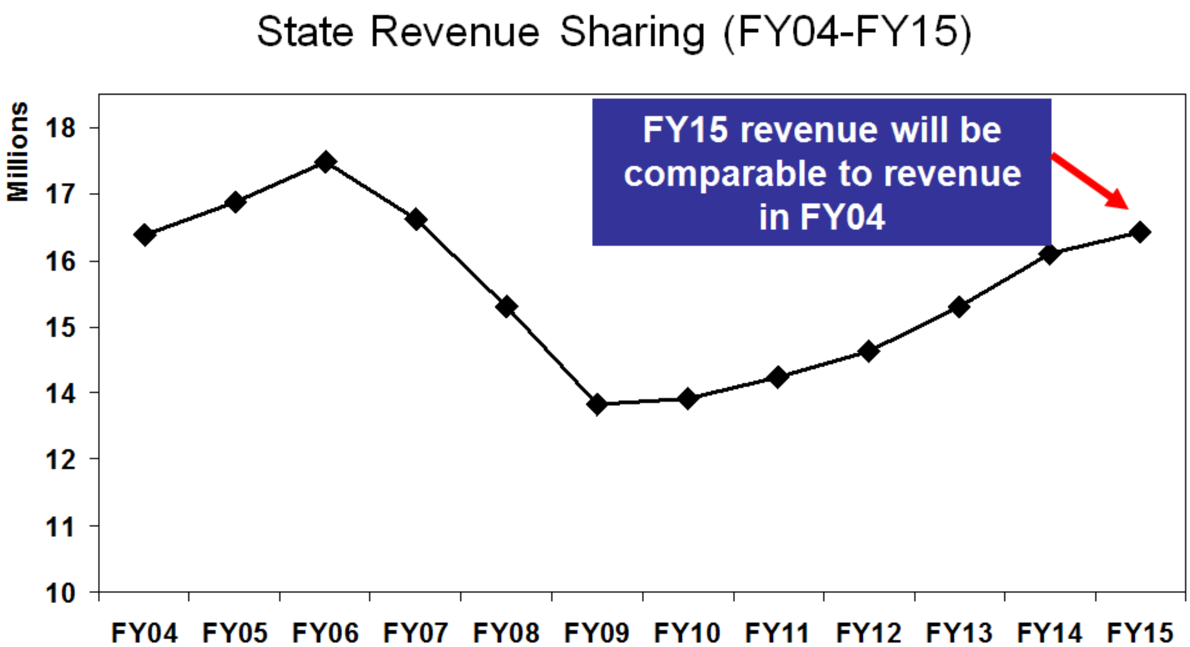
Supporting Information

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, the strengthening local economy and continuing, record-breaking growth in tourism support projections of slightly better growth in the short term.

State Revenue Sharing Overview - General Fund

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 fourth year of growth, increasing 6.3% in FY14. Prior to FY11, this source had declined or remained essentially flat since FY06.



Note: FY15 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 4.0% to 4.5% in FY16 through FY18 and 3.5% through the remainder of the forecast period.

Change in State Revenue Sharing Revenue					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
4.5%	4.5%	4.0%	3.5%	3.5%	3.5%

KEY ASSUMPTIONS

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 Overview– General Fund

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%, plus an add-on of up to 0.12% 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; FY14 CST revenue was 0.7% lower than in FY13.

Key Assumptions

The forecast projection reflects a continuation of the decline in this revenue source. In the short term, settlement of a national lawsuit regarding AT&T Mobile Wireless Data Services will result in reductions to local CST revenues. The Florida Department of Revenue has not determined the amount of reductions for each county and city. The forecast assumes an additional one-time decrease in FY16 revenues as a result of this settlement.

Change in Communications Services Tax Revenue*					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
-5.0%	4.0%	-1.0%	-1.0%	-1.0%	-1.0%
**FY16 and FY17 percentages reflect anticipated one-time decrease due to national lawsuit settlement*					

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.

In recent years, the Legislature has approved changes to the CST statutes that have negatively impacted local revenues. The Legislature may continue to study the CST and recommend further structural changes that could lead to even greater reductions in revenue.

KEY ASSUMPTIONS

Interest Earnings Overview – All Funds

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 FY14 were once again minimal. The forecast reflects the short term outlook for continued low earnings, gradually increasing to earnings of 1.9% on fund balances in FY20 and FY21.

Rate of Interest Earned on Fund Balances					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
0.4%	0.7%	1.1%	1.4%	1.9%	1.9%

Other Revenue – All Funds

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 moderate growth reflecting the anticipated continuing economic recovery.

Change in Other Revenue (non-specific)					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

Key Assumptions for Other Funds - Specific Revenues

Tourist Development Tax- TDC Fund

Tourism is a key driver of the economy in Pinellas County. The County imposes a 5.0% 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 have reached record levels. FY13 revenue increased 8.2% over the prior fiscal year, and FY14 revenue was 12.7% higher than FY13. Tourist Development Tax revenues exceeded $30.0M in FY13 and FY14, which enables the County to impose an additional (sixth) cent tax at the discretion of the BCC. FY15 revenues are estimated to grow by 7.0% over actual receipts for FY14. The forecast estimates that revenue will increase by 6.0% per year in FY16 and FY17, reflecting continuing strong growth, followed by annual increases of 4.0% through the forecast period.

KEY ASSUMPTIONS

Change in Tourist Development Tax Revenue*					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
6.0%	6.0%	4.0%	4.0%	4.0%	4.0%
**trend percentages do not reflect potential authorization of sixth cent Tourist Development Tax*					

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 and not fuel prices. The County's gas taxes are also based on gallons consumed. Revenue declined by an average 0.5% per year during the period FY06 to FY12, but increased 3.1% in FY13 and 0.9% in FY14. An improving economy and lower gas prices are positive signs, but Pinellas County's built out condition and future mandated vehicle fuel efficiency standards lead us to assume continuing slow growth 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*					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
0.1%	0.1%	0.1%	0.2%	0.2%	0.0%
*trend percentages do not reflect potential sunsetting of authorization for six cents in 2017					

Ambulance User Fee Revenue – EMS Fund

Ambulance user fee revenues are subject to a number of variables:

- Changes in transport volume (positive or negative)
- Unanticipated Medicare audit settlements (positive or negative)
- Legislation / Health Care Reform
- 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 FY12 to FY14 was 2.5%. The average increase over 10 years was 3.2%, ranging from 1.4% (FY10) to 7.4% (FY08). Revenues are estimated to increase by 2.0% during the forecast period. This is slightly less than the average increases in transport volume, reflecting changes in health care reform that may impact payments from Medicare, Medicaid, and various other payors. Medicare and Medicaid continue to be the largest payor source, comprising 63.0% of revenue collected.

Change in Ambulance User Fee Revenue					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

KEY ASSUMPTIONS

Airport Revenues

Airfield/Flight Line revenue is based on the current level of carriers and projected passenger numbers. . Over the past five years, the average passenger growth was 14.3%, with six new cities added in FY14 alone by the airport's primary carrier, Allegiant Airlines. For FY16 through FY21, an average increase of 4.0% per fiscal year in number of passengers is forecast. The average annual passenger growth of 64,000 is the equivalent of two new cities served. This growth will result in airfield / flight line revenue increases averaging 2.1% over the forecast period.

Change in Airfield/Flight Lines Revenues					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
1.4%	4.3%	2.9%	1.3%	1.1%	1.5%

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 cumulative CPI. Building leases have an annual CPI adjustment. The County General Fund leases land for the Jail, the Criminal Justice Center, and other uses from the Airport. They comprise 45.0% of the long-term industrial (non-aviation) land leases revenue.

Change in Airport Rents/Leases/Concessions Revenues					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
4.0%	4.9%	4.7%	4.8%	2.8%	3.1%

Water and Sewer Rates

During FY11, the Board of County Commissioners approved a four-year rate plan for both the Water and Sewer systems to meet projected revenue needs for FY12 through FY15. An updated rate analysis was presented to the BCC on January 13, 2015. Following public hearings, a new four-year rate plan will be proposed for adoption to meet projected revenue needs for FY16 through FY19.

Water Funds Revenue

In addition to its retail water customers, the County has provided water at wholesale rates to several cities that purchase water in bulk and distribute it to their own retail customers. The volume of water purchased declined 10.4% from FY08 to FY14, 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 growth in the economy, the forecast assumes a 3.9% increase in retail water revenues in FY16. The wholesale water demand projections reflect a decline of 44.7% in revenues in FY16 due to the projected loss of sales to Clearwater and Tarpon Springs as they develop their own water sources. For FY17 through FY21, slow annual growth of 1.7% to 1.9% is projected for both retail and wholesale water revenues.

KEY ASSUMPTIONS

Change in Water Service Charges Revenue - Retail					
FY16	FY17	FY18	FY19	FY20	FY21
3.9%	1.9%	1.9%	1.9%	1.9%	1.9%

Change in Water Service Charges Revenue – Wholesale					
FY16	FY17	FY18	FY19	FY20	FY21
-44.7%	1.7%	1.8%	1.8%	1.7%	1.8%

Sewer Funds Revenue

The volume of wastewater billed declined 12.0% from FY08 to FY12 due to economic conditions, housing and commercial vacancies, and levels of water conservation. This decline no longer exists as the economy is recovering and vacancies have decreased.

The forecast assumes a 1.5% increase in retail sewer revenue and 7.5% increase in wholesale sewer revenue in FY16. The FY15 wholesale forecast was more conservative than actual performance, causing the higher increase in FY16. From FY17 through FY21, revenues are projected to increase 1.2% each year.

Change in Sewer Service Charges Revenue - Retail					
FY16	FY17	FY18	FY19	FY20	FY21
1.5%	1.2%	1.2%	1.2%	1.2%	1.2%

Change in Sewer Service Charges Revenue – Wholesale					
FY16	FY17	FY18	FY19	FY20	FY21
7.5%	1.2%	1.2%	1.2%	1.2%	1.2%

Solid Waste Funds Revenue

Tipping fees for the Solid Waste facility are not anticipated to increase during the forecast period. Revenues are not expected to grow due to the lack of growth in volume of waste disposed. The contract for electricity sales to Duke Energy contains annual escalations of 6.0% in revenue. The contract expires in 2024.

Change in Solid Waste Tipping Fee Revenues					
FY16	FY17	FY18	FY19	FY20	FY21
0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Change in Solid Waste Electrical Capacity Revenues					
FY16	FY17	FY18	FY19	FY20	FY21
6.0%	6.0%	6.0%	6.0%	6.0%	6.0%

KEY ASSUMPTIONS

Surface Water Fund Revenue

The Surface Water Utility was a new fund established in FY14. 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. These changes are subject to approval by the BCC.

Change in Surface Water Assessment Revenues (CPI increase only)					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
1.5%	1.8%	2.3%	2.3%	2.3%	2.1%

Expenditure Assumptions

Personal Services Overview – Salaries – All Funds

The cost of Personal Services (salaries and benefits) is generally the single largest category of expense (for example, 63.2% of the General Fund including Constitutional Officers). Prior to FY09, the range of salary merit adjustments generally varied from 0.0% to as high as 7.0%. Beginning on July 1, 2012, employees are required to contribute 3.0% of salary to the Florida Retirement System, effectively reducing take-home pay. A limited, non-recurring compensation adjustment was approved for FY13. The FY14 and FY15 Budgets included 3.0% in wage adjustments for most County employees. The Sheriff's budgets included additional funding for salaries.

Key Assumptions
Compensation adjustments are included in the forecast for FY16 through FY21. County employees did not receive pay increases for four years and in some cases, five years. This cost-saving measure was employed as the organization dealt with significant staffing level reductions and dramatic decreases in property tax revenue. Moderate wage adjustments will be required to maintain a compensation structure that can attract and retain quality employees. The net adjustments projected include market cost increases as well as pay for performance increases.

Change in Salaries (Net Adjustment)					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

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. 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, may be offset by increased training needs.

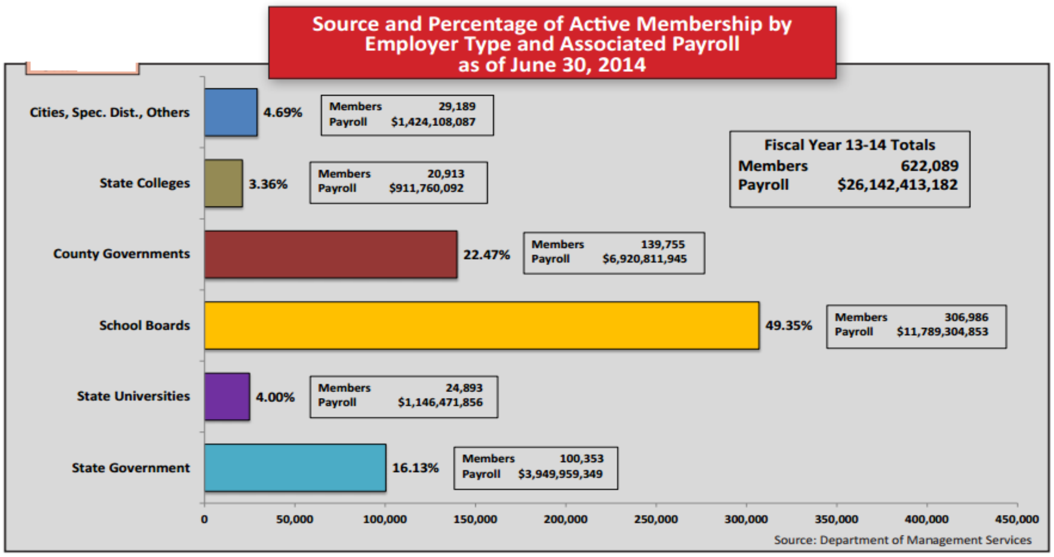
Personal Services Overview – Employee Benefits – All Funds

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)

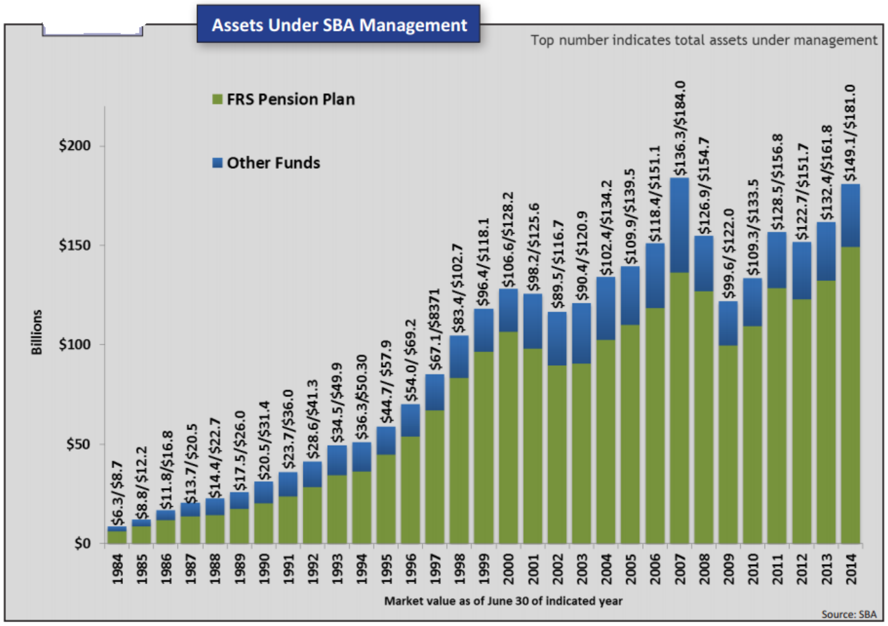
The County is required to participate in the Florida Retirement System (FRS), a State public pension plan. Cities have the option of joining the State system or creating their own pension plans. Employees of school districts and state agencies also must enroll in FRS, and comprise about two-thirds of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



Source: Florida State Board of Administration Investment Report for State Fiscal Year 2014

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. The FRS investment portfolio, which is managed by the State Board of Administration, has now recovered from this setback. As of June 30, 2014, the asset value for the FRS pension plan was higher than the previous peak value it had reached in 2007.

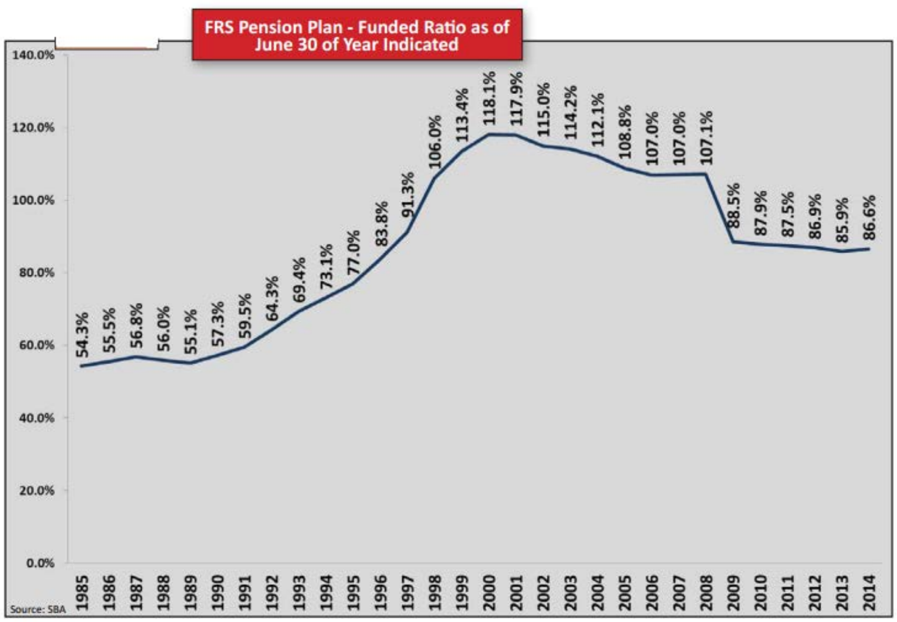


From 1984 to 1992, the total assets under SBA management reported for "Other Funds" were equal to the original cost value of investments, plus accrued interest receivable, plus or minus any pending sales or purchases of investments. Beginning in 1993, investments are reported at fair market value rather than original cost.

Source: Florida State Board of Administration Investment Report for State Fiscal Year 2014

<u>Key Assumptions</u>

As of June 30, 2014, the FRS system was 86.6% funded.

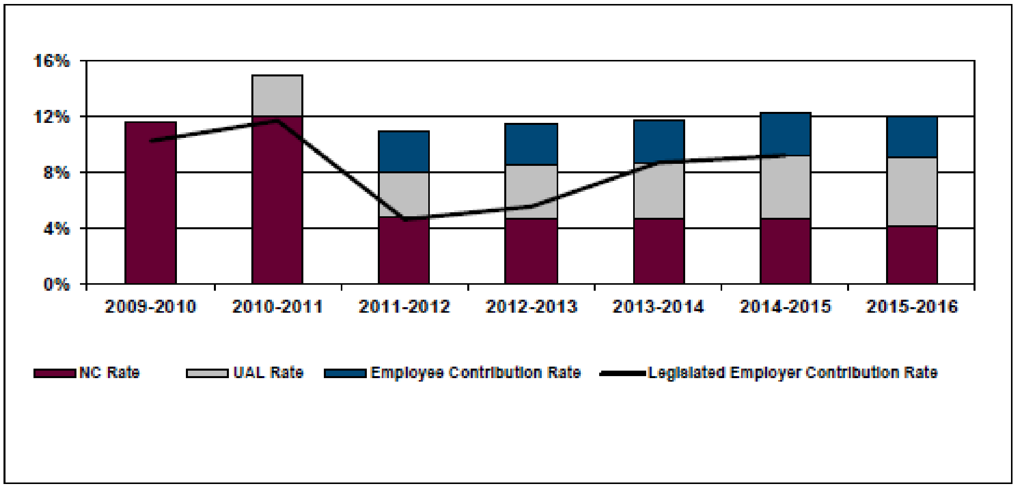


Source: Florida State Board of Administration Investment Report for State Fiscal Year 2014

The State Legislature establishes the employer contribution rates for the FRS system. Employees must also contribute to the system as part of a package of Legislative changes enacted in 2011. The 2013 Legislature increased the FRS rates to fully fund the system's actuarial liability over a multi-year period, and the 2014 Legislature made adjustments to maintain this approach. The actuarial report as of June 2014 indicates that rates may not need to be adjusted for the State's 2016 fiscal year. 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.

Actuarially Calculated vs. Legislated Employer Contribution Rates (as % of Payroll)



Source: FRS Actuarial Valuation as of July 1, 2014 (Milliman report November 26, 2014)

The actual contribution rates beginning July 1, 2015 will not be known until the end of the 2015 legislative session. The future growth in the County's FRS dollar contributions will be a combination of rate changes, if any, and the growth in the salary base to which the rates are applied.

Change in FRS Dollar Contributions*					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
* From 2016-2021, 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 FY12, FY13, and FY14 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 FY18 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					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
10.0%	10.0%	10.0%	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 Benefits 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.

Implementation of the Affordable Care Act is an ongoing process. As this 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.

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)					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
4.5%	4.5%	4.5%	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 Overview - All Funds

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.

KEY ASSUMPTIONS

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.

	2008	2009	2010	2011	2012	2013
CPI	3.8%	0.4%	1.6%	3.2%	2.1%	1.5%
MCI	5.6%	-1.8%	3.8%	4.2%	2.0%	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. Beginning in FY11, in a cooperative effort to improve efficiency of operations, the Sheriff began purchasing fuel through the Fleet Management Fund.

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 5.0%.

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 created a seven-year transition period to move counties from the previous 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.

<u>Key Assumptions</u>

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, with the exception of FY16. The State's 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. However, the State's assumption of 1.3% inflation for FY16 appeared low when compared to other sources. Therefore, we are assuming a slightly higher percentage than the State for next fiscal year.

KEY ASSUMPTIONS

Change in Other Non-Personnel Expenditures (CPI)					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
1.5%	1.8%	2.3%	2.3%	2.3%	2.1%

Fuel - All Funds with Fleet Equipment

FY15 budgeted fuel costs were based on a price of $3.50/gallon. The price for the County in November, 2014 was about $2.12 per gallon for unleaded and $2.60 per gallon for diesel fuel. The forecast assumes $3.50 per gallon for FY16. This is a conservative assumption considering the volatility of prices and the unexpected decreases during calendar year 2014. This assumption will be revisited during FY16 budget development if prices remain low. For FY17 through FY21, increases slightly higher than the rate of inflation are forecast.

Change in Fuel Costs					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
0.0%	3.0%	3.0%	3.0%	3.0%	3.0%

Electricity - General Fund and Utilities Funds

The Real Estate Management and Utilities departments have both taken steps to decrease annual cost increases by implementing measures to reduce energy consumption. Annual increases of 5.0% in electricity costs throughout the forecast period are projected based on the historical averages.

Change in Electricity Costs – Office Facilities					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

Medicaid - General Fund

The County's projected Medicaid costs through FY20 are based on the 2013 legislation. There are two components: payment of a negotiated backlog amount spread over four years, and billings for current Medicaid services. For FY21, a growth rate of 4.7% is projected based on estimated medical cost inflation.

Projected Medicaid Costs ($ millions)						
	FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
Backlog	$ 2.5	$ 2.3	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Current	$17.0	$15.9	$14.7	$13.5	$12.8	$13.4
Total	**$19.5**	**$18.2**	**$14.7**	**$13.5**	**$12.8**	**$13.4**

Supporting Information - Fuel

Fuel efficiency gains are anticipated from new Federal Corporate Average Fuel Economy (CAFE) standards for heavy trucks and equipment due to the composition of the fleet. Only 41 of 1,624 BCC units are cars (less than 3.0%); the bulk of the fleet (excluding the Sheriff's vehicles) is heavy equipment. These units usually achieve only eight to 10 miles per gallon because of idling time and the gear ratio needed to haul heavy loads. The new standard

increased mpg to 12 in 2014. Previously, there had been no federally mandated fuel economy standards for heavy trucks and equipment.

Fleet replacement costs per unit for diesel powered vehicles are expected to increase at a higher growth rate than the cost per unit for non-diesel vehicles. The number and cost of units purchased from the Fleet Management Fund varies from year to year due to the timing of purchases and life cycle extensions. The expenditures in the operating funds are smoothed over time as departments are charged annual amounts to accumulate resources for future replacements.

Other Post Employment Benefits (OPEB) Overview – All Funds

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, 2013 at $351.0M for Unified Personnel System (UPS) employees and $454.9M for Sheriff employees. The County's net Annual Required Contribution (ARC) for OPEB to fully fund this liability would be $24.7M for UPS employees and $34.2M for Sheriff's Office employees.

The FY15 Budget included a transfer of $2.0M from the General Fund to the Employee Health 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 $33.0M 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 $2.0M per year throughout the forecast period. OPEB contributions for Enterprise operations are contained within their respective funds.

Projected General Fund OPEB Contributions					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
$2.0M	$2.0M	$2.0M	$2.0M	$2.0M	$2.0M

Supporting Information

Employees hired after January 1, 2011 do 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 scheduled for October 2015.

Other Fund-Specific Expenditures

Ambulance Contract Expenditures – EMS Fund

The County contracts with Paramedics Plus for the County's SUNSTAR ambulance system. Contract payments were reduced by $2.4M in FY10. Currently, increases to ambulance contract expenditures can fluctuate to a blended medical / transportation CPI with a minimum increase of 3.0% and a maximum increase of 5.5%. The average increase over the last three years was

3.6%. The contract expires at the end of FY15. A 4.0% increase is included in the forecast from FY16 through FY21 to account for annual CPI increases and increases to transport volume.

Change in EMS Ambulance Contract Expenditures					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
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 are primarily driven by personnel costs (80.0% to 90.0% of the total budget). Effective October 1, 2014, new contracts were executed with the First Responder agencies. The forecast projects 4.3% growth in FY16 and 4.1% growth in FY17 based on the contracts and estimated budgets. Increases of 3.0% in FY18 and FY19 assume a combination of CPI adjustments and supplemental reimbursements. Increases of 3.8% in FY20 and FY21 assume growth in expenditures at a rate that exceeds the projected growth in taxable property values by 25.0%.

Change in EMS First Responder Expenditures					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
4.3%	4.1%	3.0%	3.0%	3.8%	3.8%

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*					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
-11.5%	1.9%	1.1%	1.0%	1.4%	2.6%
*FY16 includes impact of reduced wholesale customer needs					

Chemicals - Water and Sewer Funds

The increase in the cost of chemicals for Water and Sewer operations has been historically around 7.0% annually. The forecast projects this trend to continue.

Change in Cost of Chemicals for Water and Sewer Operations					
FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
7.0%	7.0%	7.0%	7.0%	7.0%	7.0%

KEY ASSUMPTIONS

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 Office of Engineering and Technical Support in the CIP ten year work plan.

Solid Waste Expenditures – Solid Waste Funds

A new Waste-to-Energy facility operator contract took effect in December, 2014. The contract has built-in escalators for operating expenses and a budget of $160.0M for repair, maintenance, and capital projects over the next three years. No net growth in tons of waste processed is projected over the forecast period due to recycling and other conservation efforts.

Other Forecast Considerations

<u>Climate Change</u>

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.

<u>Other Funds</u>

This forecast includes the ten 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, the Public Library Cooperative, and the Palm Harbor, Feather Sound and East Lake Community Services Districts, as well as the fire districts.

KEY ASSUMPTIONS

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 35 units at an estimated cost of $2.4M to 114 units at an estimated cost of $4.9M. 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 FY15, 77.2% 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.

<u>Potential for Recession</u>

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. It is reasonable to assume that the economy will slip into recession at some time in the future. This is one of the primary reasons for maintaining adequate reserves in General Fund as well as the other operating funds.

<u>Population Trends</u>

There is a limited amount 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 also decline. For example, in the 2000 Census Pinellas represented 5.8% of the State's 16M residents. By the 2010 Census, Pinellas' population remained virtually the same, while the State population grew to 18.8M. 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 4.1% by 2025, resulting in reductions in Pinellas' share of grants and other revenues that are allocated by population-driven formulas.