REPORT ON THE FINANCIAL CONDITION OF MARTIN COUNTY, FLORIDA

Prepared for Local Union No. 769

Prepared by the
Economics & Contracts Department
International Brotherhood of Teamsters
Washington, D.C.

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INTRODUCTION

Local 769 Business Agent David Renshaw requested that the International Brotherhood of Teamsters (particularly the Economics & Contracts Department) conduct a financial review of Martin County, Florida (the County). This report constitutes that review. To conduct the review the E&C department used the 2015 and 2016 Certified Annual Financial Reports (CAFR), and the 2017 Final Budget document.

The report will be split into three parts. First, we will look at the County's general economic environment. Next, we will discuss the County's annual reports and reflect on its overall financial performance. This section will include information on the County's net position, General Fund, and debt. Lastly, the discussion will cover the County's fiscal year 2017 budget, which is the most current available. Note, the County's operates on a fiscal year that begins on October 1st and ends on the following September 30th. Therefore, any year reference outside the 'General Economics' section of this report implies the fiscal year, not the traditional calendar year.

GENERAL ECONOMICS

The County is located on Florida's east coast, between Orlando and Miami, in the area designated as the Treasure Coast.[i] The County covers roughly 688 square miles, and its facilities include 14 fire stations, 12 community centers, seven libraries, 3,800 acres of park land (21 miles of ocean beaches, and 76 parks), and 528 miles of county-maintained roads.[ii]

The estimated population of the County was 158,701 in July 1, 2016, growing by 1.5% from the previous year and 8.1% since April 1, 2010.[iii] The County's unemployment rate for 2016 was 4.9%, which mirrors the State of Florida average of 4.9%.[iv] The County's unemployment rate reached a peak of 11.0% in 2010. The median value of owner-occupied housing in the County was $200,200 for 2011-2015, 20.6% more than the state average.[v] In the past ten years, assessed property values have decreased 22.9%.[vi]

The County operates under a County Manager form of government with the separation of executive and legislative functions. The legislative and governing body is the five member Board of County Commissioners, who are elected to four year terms to the districts in which they reside. Additionally, there are five independently elected constitutional officers (Sheriff, Property Appraiser, Tax Collector, Supervisor of

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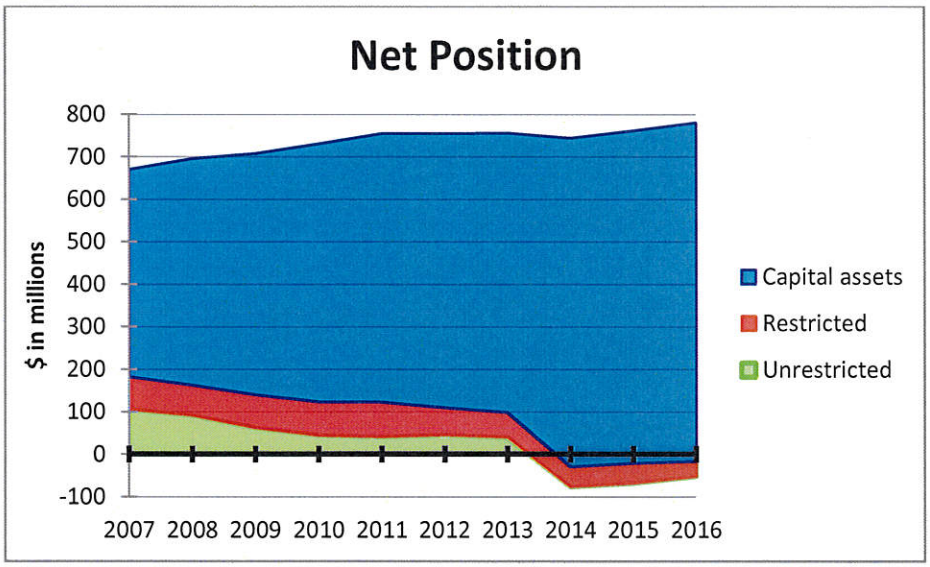
[i] "Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2016 Martin County." Carolyn Timmann, Clerk of the Circuit Court & Comptroller, Martin County. p. ii
[ii] *Ibid.*
[iii] "Martin County, Florida." *State and County QuickFacts.* U.S. Census Bureau.
[iv] "Local Area Unemployment Statistics." *Bureau of Labor Statistics, U.S. Department of Labor.* 2016 Annual Average Ratings.
[v] "Martin County, Florida." *State and County QuickFacts.* U.S. Census Bureau.
[vi] "Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2016 Martin County." Carolyn Timmann, Clerk of the Circuit Court & Comptroller, Martin County. p. iv

Elections, and Clerk of the Circuit Court and Comptroller). The commissioners and the constitutional officers constitute the primary government.

TOTAL GOVERNMENT

At the end of 2016, the County had $1,143.2 million in total assets, $92.8 million in net deferred outflow of resources, $421.0 million in total liabilities, and $34.3 million in deferred inflows of resources. This left the County with a net position (total assets less total liabilities) of $780.8 million, which is an increase of $19.1 million (2.5%) from 2015.

A common measure of a municipality's financial well-being is to look at its net position over time. Since 2007, the County has seen its net position increase by $110.9 million (16.6%). Net position has decrease just twice during this period, fiscal year 2012 and 2014, when it decreased by $10,310 (0.0%) and $12.5 million (1.7%), respectively.[vii]



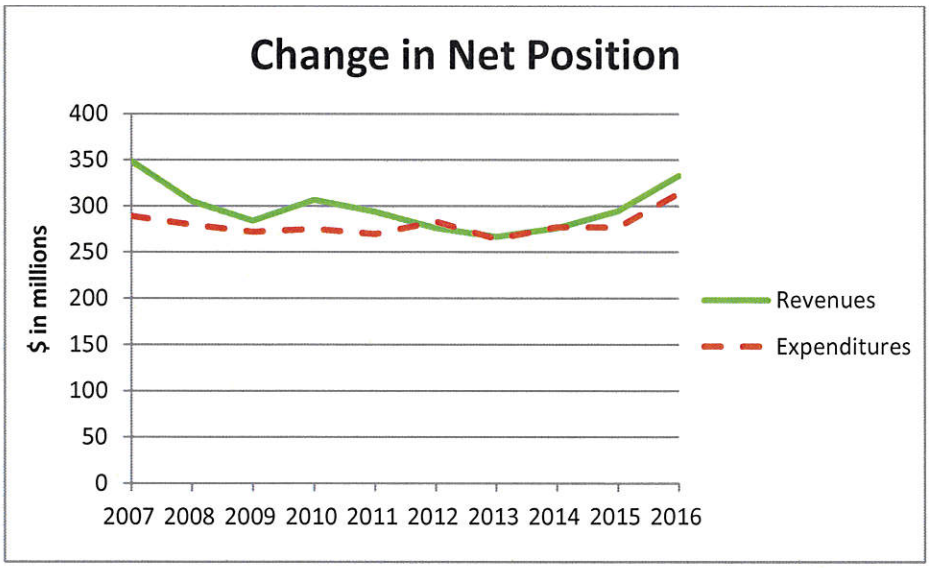
Net position is broken into three types of assets: (1) capital assets – property, plant, equipment, and infrastructure assets, less any related debt used to acquire assets still outstanding; (2) restricted assets – cash and temporary investments restricted for specific purposes by bonded debt requirements and other agreements; (3) unrestricted assets – all other items that do not meet the definitions of (1) and (2). At the end of 2016, the County had $797.0 million in Capital assets. The County uses these capital assets to provide

[vii] In 2015, the County's beginning net position was restated by $108.8 million (decrease), which resulted in a deficit in unrestricted net position for governmental activities of $97.3 million. The restatement was due to the County's application of GASB Statement No. 68, *Accounting and financial reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, for the measurement, recognition, and display of pension expenditures or expenses as discussed in a subsequent note.

services to citizens; therefore, these assets are not available for future spending. Restricted assets represent an additional $35.5 million of net position. Finally, the unrestricted portion of net position was -$51.7 million. The unrestricted portion of net assets may be used to meet the government's ongoing obligations to citizens and creditors. Before the restatement at the beginning of 2015, the unrestricted portion of net assets was consistently hovering around $40+ million between 2010 and 2013. Since the restatement in 2014, the unrestricted portion has grown by $24.6 million (32.3%).

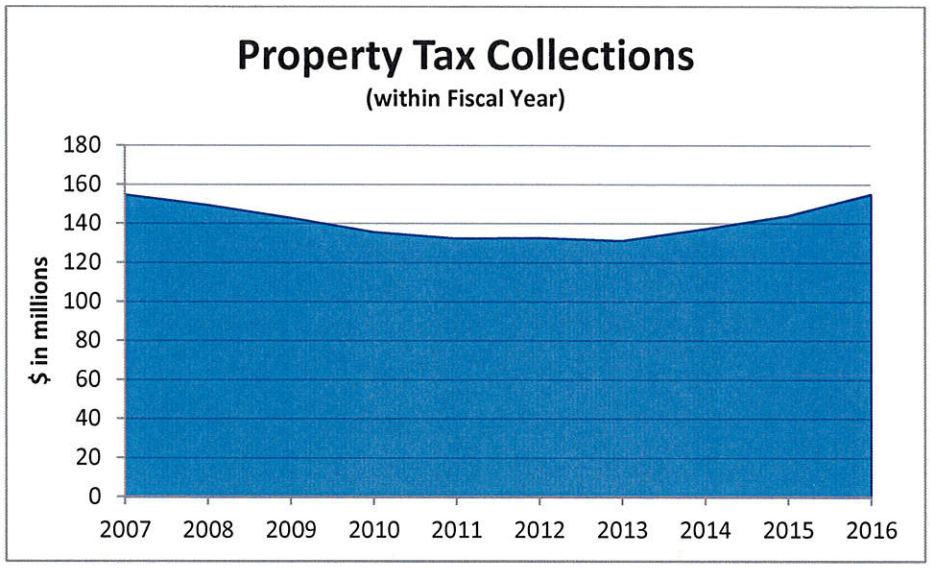
Increases (decreases) in net position typically come about when revenues are greater (less) then expenditures in a given fiscal year. In 2016, the County had $333.1 million in total revenue, and $314.1 million in total expenditure, which brought about the $19.1 million increase in the County's net position mentioned above.

As seen in the graph below, the County has run a total budget surplus (I.e., total revenues greater than total expenditures) in all but two of the last ten years. Over this ten year period, the County has produced a surplus of $184.7 million, before transfers. Between 2007 and 2013, revenues declined by $82.1 million (23.5%), and have since increased by $66.3 (24.8%). The County's 2016 revenues are just $15.8 million (4.5%) below its 2007 levels. Expenditures have been a bit more stable, falling by $24.7 million (8.5%) between 2007 and 2013, and growing by $49.7 million (18.8%) in the period since. Total expenditures in 2016 were $25.0 million (8.6%) above 2007 levels.



The county relies heavily on property tax revenue, which accounted for $153.7 million (46.1%) of total revenue in 2016. Its largest property taxpayer is the Florida Power & Light Corporation, which accounts for 11.6% of County's total assessed valuation and is almost 22 times bigger than the next-largest property-taxpayer. The County's property tax revenues were hit hard by the real estate bubble collapse. As seen below, between fiscal year 2007 and 2013, property tax collections decreased by $23.5 million (15.2%). In the years since, collections have grown by $23.8 million (18.1%), just $256,699 (0.2%) below its pre-recession peak. Property tax revenue grew by $9.4 million (6.5%) in

2016, over 2015 levels. The second-largest revenue source for the County is general charges for services, which accounted for $97.6 million (29.3%) of total revenues, and increased by $8.6 million (9.7%), over 2015 levels.



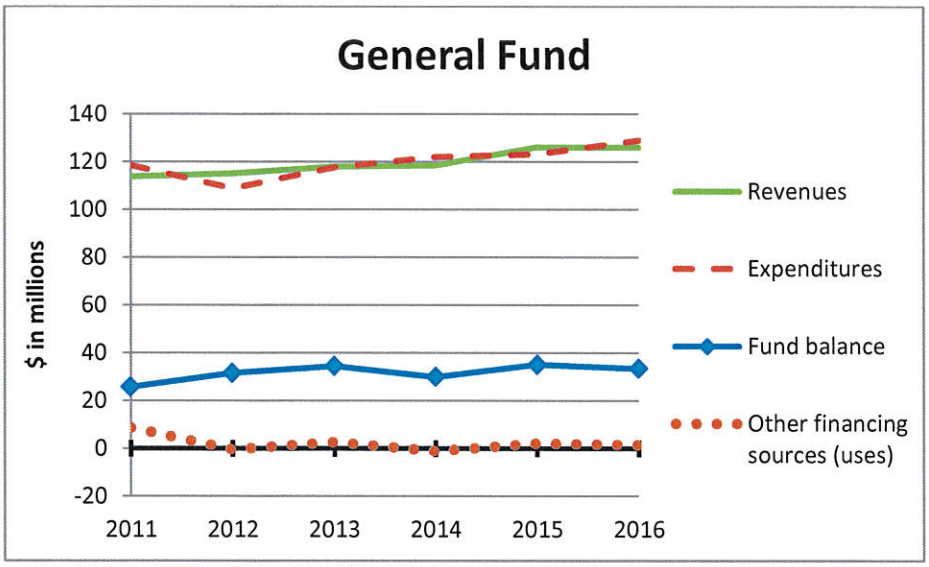
In 2016, the County's largest expense was public safety, which amounted to $233.9 million (39.1% of total expenditures). Public safety expenditures grew by $15.4 million (14.3%) from 2015 levels, accounting for 41.5% of the $37.1 million growth in expenditures. The second-largest was general government expenditures, accounting for $60.1 million (19.1%) of total expenditures in 2016.

GENERAL FUND

The General Fund is the primary fund in government accounting and provides the resources necessary to sustain the day-to-day activities and pays for all administrative and operating expenses. The County also operates another twenty-nine governmental funds and four business funds (Utilities Department, Solid Waste Department, Martin County Golf Course, and Martin County Airport), which are not included in the General Fund.

In 2016, the General Fund had $126.1 million in revenues, $129.0 million in expenditures, and $1.4 million in net other financing sources (uses).[viii] This resulted in a $1.6 million General Fund shortfall, leaving the General Fund with a balance of $33.5 million. The unrestricted portion of the fund balance (I.e. the assigned and unassigned fund balance, which excludes non-spendable and restricted expenses but includes emergency reserve funds) amounted to $20.4 million, or 60.8% of the total General Fund balance.

[viii] 'Other financing sources (uses)' consist of transfers in (out) of the General Fund into (out of) the other Governmental Fund, as well as lease purchase proceeds, and proceeds from the sale of capital assists.



As you can see in the graph above, since 2011 the General Fund has grown in fits and starts. However, it has been trending upward over that period, growing by $7.7 million (30.1%). Looking back even further shows that the General Fund has grown by $19.0 million (131.2%) over the past ten years.[ix]

A common measure of the General Fund's liquidity is to compare both unrestricted fund balance and total fund balance to total fund expenditures. At the end of 2016, the unrestricted fund balance represented 15.8% of total General Fund expenditures, which is slightly below the Governments Finance Officers Association (GFOA) best practices guideline of two months (16.7%) of the General Fund expenditures.[x] Additionally, the total fund balance represented 25.9% of the total General Fund expenditures, which is enough to cover over three months of expenditures. While the GFOA does not have any official best practice guideline for the total fund balance, typical guidance is a minimum of three months (25.0%) of General Fund expenditures. Both of these measures put the General Fund on the lower side of liquid, and therefore it would be nice to see some continued growth in the coming years.

The General Fund's revenues are dominated by taxes, which accounted for 69.3% of all General Fund revenue. There are, however, a diverse number of other sources, which include state and federal funding (14.5% of General Fund revenue), and charges for services (9.0%). Tax revenues have been basically flat since 2011, growing by just $2.0 million (2.4%), while total revenue has grown by $12.2 million (10.8%) over that same period. Most of that revenue growth has been from charges for services, which grew by $5.2 million (84.2%) since 2011. General Fund expenses have increased by $10.5 million (8.9%) over the same time period.

[ix] The graph only shows information from 2011 to 2016 because we do not have revenue and expenditure information for the years of 2007 through 2010.

[x] "Fund Balance Guidelines for the General Fund" *Governmental Finance Officers Association*

DEBT

At the end of 2016, the County had total outstanding bonded debt of $111.9 million. That was down $8.3 million (5.0%) from the end of 2015. The reduction was due to scheduled pay down of barrowing.

Both the Fitch and S&P rating agencies have assigned the County with a debt rating of AA. For Fitch, "'AA' ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events."[xi] Per S&P, "An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong."[xii]

2016-2017 BUDGET

The County Fiscal Year 2017 Adopted Budget total budget is $400.0 million, which is a $29.2 million (7.9%) net increase over its 2016 Adopted Budget. Note, the County is required to propose a balanced budget (I.e., revenues equal to expenditures). The increase is largely driven by what the Board of County Commissioners (BOCC) deemed to be its primary goal, the implementation of a comprehensive program to address deferred maintenance for the County's infrastructure (roads, bridges, drainage, and septic-to-sewer conversion program).

Revenue increases include a roughly $940 million (5.1%) increase in the tax base, which results in an $8.2 million increase in property tax revenue. Additionally, in an effort to address the BOCC's directive to fund maintenance of existing infrastructure, the BOCC approved the Florida Power & Light franchise fee for the first time, providing a new $9.8 million revenue stream in 2017, and will provide the County with an almost $9.0 million of annual revenue in the future that can be used for a variety of projects.

The County also calls for a General Fund budget of $134.4 million, $4.5 million (3.4%) increase above the 2016 budget. The increase is due to full allocation of funding for the Constitutional Officers' budget requests, replenishing restricted reserves, and anticipated increases in other major revenues contained within the General Fund.

CONCLUSION

The Audited Financial Statements for 2015 and 2016, and the 2017 Budget Summary for Martin County, Florida reflect a healthy and growing net position, and healthy levels of debt. The County was able to manage the most current recession, steadily growing both its net position and General Fund balances throughout the past ten years, despite large

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[xi] https://www.fitchratings.com/site/definitions
[xii] https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352

declines in property tax revenue. With that said, the County's unrestricted portion of net position, and the General Fund balance could use a few additional years of growth.

Both the 2016 CAFR and the 2017 Adopted Budget show continued improvement in a wide range of financial indicators, and we expect that to continue into the foreseeable future. Therefore, it is our belief that employee pay increases are appropriate at this time.