REPORT ON THE FINANCIAL CONDITION OF
ST. LUCIE COUNTY, FLORIDA

Prepared for Local Union No. 769

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

June 16, 2017

INTRODUCTION

Local 769 Business Agent David Renshaw requested that the International Brotherhood of Teamsters (particularly the Economics & Contracts Department) conduct a financial review of St. Lucie 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, east of Lake Okeechobee. The County offices are located in its second-largest city, The City of Fort Pierce, population 45,295.[i] Its largest city is The City of Port St. Lucie, population 185,132.[ii] The County is roughly 688 square miles with a population of approximately 306,507.[iii] Most of the County's population is concentrated within 5-10 miles of the Atlantic Coast.[iv]

According to the U.S. census bureau, the population of the County is growing slightly, at 1.7% per year on average. The County's unemployment rate for 2016 was 6.7%, which is slightly higher than the State of Florida average of 4.9%.[v] The County's unemployment rate reached a peak of 13.8% in 2010. The median value of owner-occupied housing in the County was $125,600 for 2011-2015, 21.0% less than the state average.[vi] From the housing bubble peak in 2008 to 2013, total assessed property value had decreased by 43%.[vii] In 2014, the County was able to spur a 50% reduction in foreclosure property inventory through a reduction effort. Median household income for 2011-2015 was also less than the state average by almost 25.6%.[viii]

St. Lucie County is governed by a five-member Board of County Commissioners, who are elected at-large from the five districts within the county. The commissioners exercise

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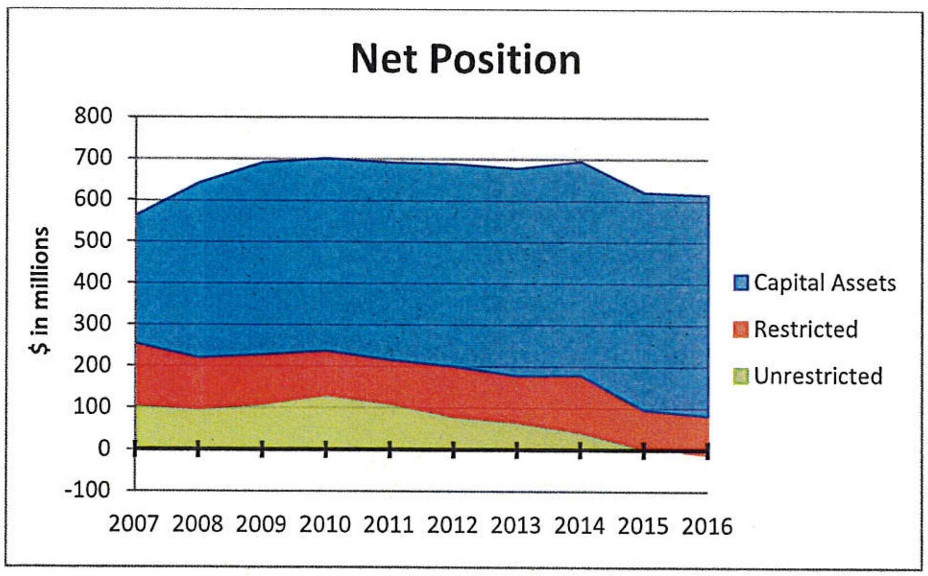
[i] "Fort Pierce City, Florida." *State and County QuickFacts.* U.S. Census Bureau.
[ii] "Port St. Lucie City, Florida." *State and County QuickFacts.* U.S. Census Bureau.
[iii] "St. Lucie County, Florida." *State and County QuickFacts.* U.S. Census Bureau.
[iv] "Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2014 St. Lucie County." Joseph E. Smith, Clerk of the Circuit Court, St. Lucie County. p. 12
[v] "Local Area Unemployment Statistics." *Bureau of Labor Statistics, U.S. Department of Labor.* 2015 Annual Average Ratings.
[vi] "St. Lucie County, Florida." *State and County QuickFacts.* U.S. Census Bureau.
[vii] "Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2016." p. viii
[viii] *Ibid.*

varying degree of budgetary control, but not administrative control, over the activities of five elected constitutional officers (Clerk of the Circuit Court, Property Appraiser, Sheriff, Supervisor of Elections, and Tax Collector). The commissioners and the constitutional officers constitute the primary government.

TOTAL GOVERNMENT

At the end of 2016 the County had $917.0 million in total assets, $49.0 million in net deferred outflow of resources, and $352.3 million in total liabilities. This left the County with a net position (total assets less total liabilities) of $613.7 million. That is a decrease of $6.1 million (1.0%) from 2015. The County points out that the decline in net position in 2016 is mainly attributed to pension liability adjustments for pension assumption, pension experience, pension investment and the change of County's proportionate share of the net pension liability.

A common measure of a municipality's financial well-being is to look at its net position over time. Since its peak at the end of 2010, the County has seen its net position decrease by $88.2 million (12.6%). Net position has only increased once during this period, fiscal year 2014, when it increased by $16.9 million (2.5%), which was immediately followed by a $74.6 million (10.7%) decrease the following year.[ix]



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

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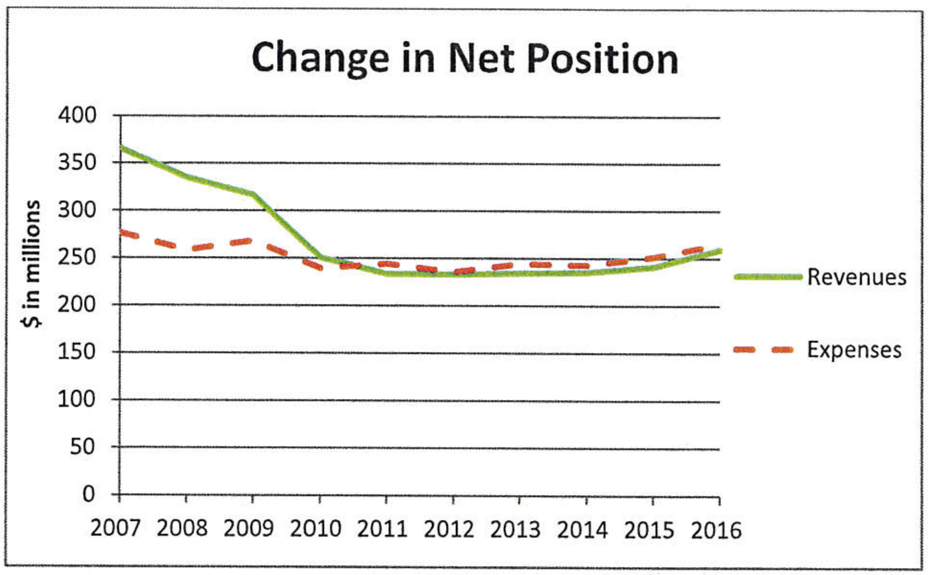
[ix] It should be noted that these numbers reflect a restatements of net position in both fiscal year 2014 and 2015. In 2014, impact fees previously collected and reported in an Agency fund were reclassified to a capital project fund, resulting in a $24.7 million increase in the fiscal year 2014 beginning balance. In fiscal year 2015, the beginning balance was reduced by $64.1 million due to the Governmental Accounting Standards Board in Statements No. 68 and No. 71, which increased pension liabilities.

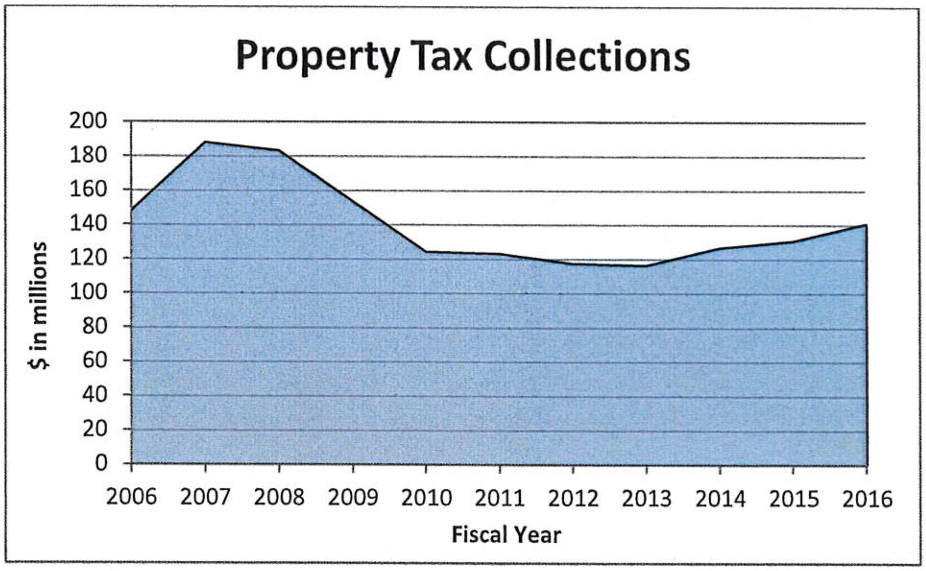
purposes by bonded debt requirements and other agreements; (3) unrestricted assets – all other items that do not meet the definitions of (1) and (2). At the end of fiscal year 2016, the County had $530.9 million in Capital assets. The County uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Restricted assets represent an additional $91.4 million of net position. Finally, the unrestricted portion of net position fell below zero, to -$8.6 million. The unrestricted portion of net assets may be used to meet the government's ongoing obligations to citizens and creditors. As you can see in the graph above, since 2010 the County has seen its unreserved balance decrease by $140.2 million. This reduction is a function of both the restatements in net position in 2014 and 2015, as well as the total budget shortfalls discussed below.

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 $259.8 million in total revenue, and $265.9 million in total expenditure, which brought about the $6.1 million decrease in the County's net position mentioned above.

As seen in the graph below, the County has run a total budget shortfall (I.e., total revenues less than total expenditures) in each of the past six years. While the shortfalls in any one year has not been significant, when summed they amount to a $47.3 million deficit. However, in 2016, revenue growth outpaced expenditure growth, with each growing by $18.5 million (7.7%) and $14.1 million (5.6%), respectively.



The county relies heavily on property tax revenue, which accounted for $136.0 million (52.3%) of total revenue in 2016. Its largest property taxpayer is the Florida Power & Light Corporation, which accounts for 10.5% of County's total assessed valuation, and is also 20 times bigger than the next-largest property-taxpayer. Unfortunately, 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 $71.5 million (38.1%). In the years since, collections have grown by $24.3 million, but the County is still $47.2 million (25.1%) below its pre-recession peak. The second-largest revenue source for the County is general charges for services, which accounted for $50.1 million (19.3%) of total revenues, and increased by $1.4 million or 3.0% over 2015 levels.



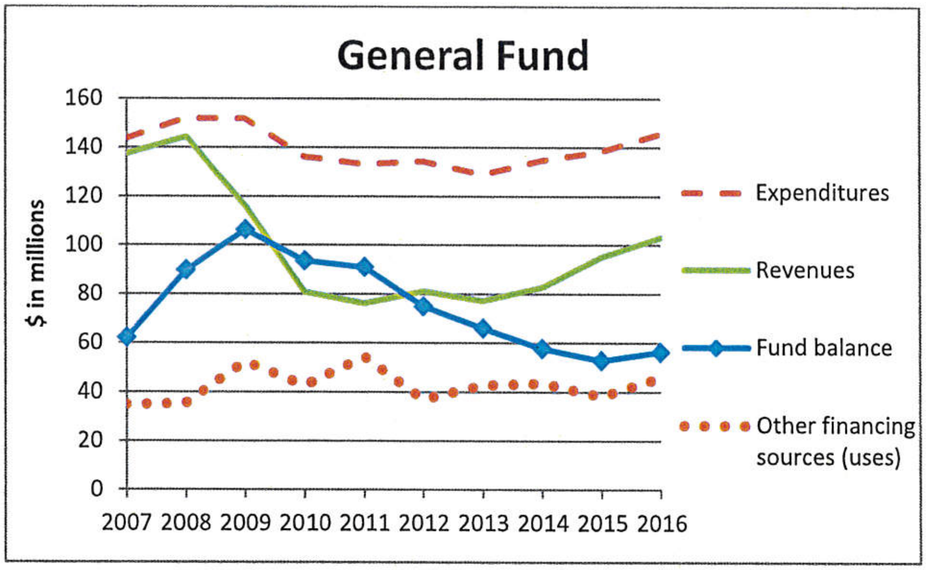
In 2016, the County's largest expense was public safety, which amounted to $94.9 million (35.7% of total expenditures). Public safety expenditures grew by 9.1% from 2015 levels, accounting for $7.9 million of the $14.1 million growth in expenditures. The second-largest was general government expenditures, accounting for $47.3 (17.8%) of total expenditures.

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 other governmental and business funds, which include bond payment funds, a Water & Sewer business fund, and a Golf Course business fund, which are not included in the General Fund.

In 2016, the General Fund had $103.4 million in revenues, $145.8 million in expenditures, and $46.0 million in net other financing sources (uses).[x] This resulted in a $3.5 million General Fund surplus, leaving the General Fund with a balance of $56.4 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 $50.2 million, or 89.0% of the total General Fund balance.

[x] '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, 2016 marked the first year in which the General Fund balance has increased since the Great Recession. Between the end of 2009 and 2015 the General Fund balance decreased by $53.4 million (50.2%). However, despite that large decline, the General Fund is still in solid shape.

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 34.4% of total General Fund expenditures, which is well above the Governments Finance Officers Association (GFOA) best practices guideline of two months (16.7%) of the General Fund expenditures.[xi] Additionally, the total fund balance represented 38.7% of the total General Fund expenditures, which is enough to cover over four 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.

Much like the total government, the General Fund's reveneus is dominated by property taxes. In 2016, property tax revenue accounted for 62.6% of the General Fund's revenues. There are, however, a diverse number of other sources, which include charges for services, state and federal funding, and franchise fees. Property tax revenues to the General Fund increased by $24.3 million (60.1%) from 2013 to 2015 and total revenues to the General Fund increased $26.1 million (33.7%) over that same period. General Fund expenses increased only $16.8 million (13.0%) over the same time period.

DEBT

At the end of 2016, the County had $133.9 million in bonds, notes and capital leases outstanding. That is up 3.1% from the $129.8 in debt it had at the end of 2015. The

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

reduction was due to $12.8 million in new debt issued, including $9.3 million capital lease and issuance of a $3.3 capital improvement bond, and an $8.7 million reduction from scheduled principal payments.

Moody's rating agency has assigned the County with a debt rating of Aa2, which is considered 'Prime', and well within investment grade. Additionally, the Moody's rating notes, "The Aa2 Issuer Rating reflects the county's sizeable tax base with average socioeconomic indices, stable financial position, and manageable debt burden with no additional borrowing plans."

2016-2017 BUDGET

The St. Lucie County Fiscal Year 2017 Budget proposes increasing General Fund expenditures by $1.9 million (5.7%) over the 2016 adopted budget. The 2017 Budget Summary for St. Lucie County estimates the General Fund Year End Balance would be $38.1 million by the end of the 2017. The Budget document has the estimated General Fund balance for 2016 at $34.7 million. Since the actual General Fund balance was $56.4 million at the end of the 2016 ($21.7 million higher than budgeted), the 2017 Budget, as presented, would result in a higher General Fund Balance than the $38.1 million proposed.

The St. Lucie County 2017 Budget Summary also predicts healthy growth in Property Tax Revenues (a 6.5% increase in 2017 over 2016). The Budget also predicts a smaller 3.8% increase in total revenues, mostly due to decreased intergovernmental revenues and miscellaneous other revenues. In addition, many departments are budgeted to increase wages through cost of living adjustments and increasing some part-time jobs to full time.

CONCLUSION

The Audited Financial Statements for 2015 and 2016, and the 2017 Budget Summary for St. Lucie County reflect a healthy General Fund and healthy levels of debt. Although the County was hit hard by the recession, it was able to pay its bills due to the very large General Fund balance. However, the County's net position, specifically the unrestricted portion, is in rough shape after six years of total budget shortfalls, and significant restatements in net position.

As stated in the 2016 CAFR, "Fiscal Year 2016, overall, is a year of continued improvement." Now that the county is doing better, its budget plans to again increase the General Fund balance. Since the General Fund is already at a healthy level, it is our belief that employee pay increases are appropriate at this time.