

Policy Issues

The following items are presented for consideration as part of the proposed FY 2012-13 budgets. The items will be adjusted in accordance with court direction for the public hearing and adoption on March 13, 2012.

**1. Financial Outlook**

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Available Resources

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The Auditor's preliminary estimate of available resources for the general fund for FY 2012-13 is \$1.328 billion which is the total amount available for reserves and to allocate to operating budgets. General fund reserves have improved but are still significantly below the levels of annual reserves before the economic downturn. Rebuilding these reserves is the key to the county's financial stability and to maintaining high bond ratings. The best way to accomplish this goal is to limit spending to the amount of new revenue including any additional revenue that may come in during the year.

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General Fund Revenue

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Property taxes fund about 72% of the county's general fund operations. The tax base for the county grew steadily from \$167 billion in 2001 to over \$280 billion in 2009. The tax base was flat or declined during the last two fiscal years but is estimated to be back over \$280 billion for FY 2012-13.

The Auditor's preliminary estimate for general fund tax revenues of \$908 million is 3% higher than last year's revenue estimate but is lower than the estimated \$918.9 million actual revenue for FY 2011-12 due to the expected increase in the amount of taxes that will be allocated to debt service.

The preliminary estimate for all other general fund revenue is \$285.9 million, which is 10.1% lower than the current year estimated actual revenue of \$310.0 million. This projected drop in other revenues is due to a shift of \$15 million from the general fund to special revenue funds which should result in a similar reduction in those general fund expenses which will move with the revenue.

There are also sources of revenue that are not included at the beginning of the fiscal year but are added during the fiscal year, which could result in adjustments to the expenditure budget.

Total revenue in the preliminary estimate is \$1.220 billion which is 1.5% lower than the current year projected revenue of \$1.237 billion. Including the \$15 million of new funds in special revenue funds means that overall revenues are flat.

These amounts will be adjusted to reflect the Auditor's final revenue estimate for the March 13 budget adoption.

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## General Fund Expenditures

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The cost cutting measures and new budget controls implemented at the beginning of the current fiscal year have had a positive effect on the availability of funds for FY 2012-13 despite the drop in revenue. Total general fund expenses are projected to be \$1.203 billion, down \$142 million or 10% compared to total expenditures for FY 2010-11 of \$1.345 billion. Part of this decline in general fund expenditures results from better utilization of the mobility fund to cover eligible road expenses.

Cash reserves at year-end are a critical component of maintaining the current high bond ratings and provide the basis for the county to react to changes in the economy or emergencies. The preliminary estimate includes beginning general fund reserves of \$133.8 million which is about half of the amount of annual general fund reserves before the economic downturn.

Labor and benefits are about 75% of general fund expenditures and they dropped from \$986 million in FY 2010-11 to a projected \$888 million in the current fiscal year. Maintaining stability at the current level of labor and benefit expenses is critical to rebuilding reserves. Other general fund expenses decreased from \$359 million in FY 2010-11 to \$315 million in the current year.

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## Financial Policies

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Harris County will need to continue to focus on building reserves to maintain financial stability and the current high bond ratings. Over the last three fiscal years, the county has successfully reduced general fund expenditures to deal with the effects of the current economic downturn and will need to continue to limit growth in spending until the economy recovers. Funding operating expenses, debt service obligations and rebuilding reserves out of the available resources each year will continue to be a challenge until the economy and taxable values start growing.

A recommendation will be provided to court during the first quarter of FY 2012-13 for the issuance of tax anticipation notes to provide funding in advance of tax collection. Court will meet on June 26 for its annual review of capital projects and on September 25 for Mid Year Review.

A new policy will be proposed to court on March 13 that, if adopted, would allow departments that come in under budget for FY 2012-13 to roll over up to 15% of their budget to FY 2013-14. This policy would give incentive for departments to come in under budget, better manage the timing of purchases and help rebuild reserves back to desired levels.

An updated report on the current economic environment is included and there is a discussion of the advantages of building general fund reserves with the long-term goal of outgrowing the need for issuing tax anticipation notes to fund county operations.

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## Population and Redistricting

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Harris County has experienced significant growth in population from 2000 to 2010. The total population for the county grew from 3.4 million to 4.1 million during this time period. Over 75% of the growth in population occurred in the unincorporated areas of the county which saw a 50% increase from 1 million to 1.6 million residents.

### **2. FY 2012-13 Budgets and Operations**

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#### Operating Budgets

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The preliminary general fund budget allocations are included with the annual budget letter. Budget Management will bring back recommendations to adjust these budgets during the year for any new sources of revenue or expenses or changes in conditions.

Once every eleven years, the bi-weekly payroll system results in 27 checks being issued rather than the normal 26 payroll checks. Court agreed to move the pay date for bi-weekly payroll back to Fridays starting at the beginning of calendar year 2013. This change means that the extra payroll check will be issued in FY 2013-14 instead of this fiscal year. However, in order to properly plan for this extra expense, estimated to be \$40 million, an allocation of half of this amount has been included in this year's budget. This allocation is necessary to avoid budget cuts that may be needed if the entire cost of this payroll were absorbed next year.

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#### Positions and Position Control

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During the rapid growth period leading up to 2009, departments would often request new positions and court would approve them, subject to funding. During the economic downturn, departments have reduced staffing to meet funding challenges without eliminating previously approved, but unfunded positions.

Beginning this year, the County Auditor has been encumbering labor and benefit expenses to make sure departments do not exceed their budget allocations. This important step, combined with the restrictions on replacing personnel who leave county employment, have allowed departments to reduce the number of general fund employees by 7% since the beginning of FY 2011-12.

The next step in the process will be implemented with this budget. Departments have been asked to identify a budget amount for each position, that is less than or equal to their budget for labor and benefits. All positions that are not funded will be eliminated. Completing this step will allow departments to replace exiting employees without delay, as long as their budget is sufficient to fund final benefits. Departments are in the process of finalizing their position budgets and will need to complete the position budget for FY 2012-13 before any changes in salaries or positions can be approved.

If departments need to add personnel that are not fully funded in the budget, they would request the position and transfer funds if necessary as an agenda item for court approval. Positions that are funded for less than a full year will also require Budget Management and Auditor review prior to being filled to assure funds are available.

The county has contracts with temporary agencies that provide personnel to some departments which are currently coded as fees and services. Budget Management will work with the Auditor and Purchasing to change the coding of these expenditures so they can be easily identified as labor expenses for reporting purposes.

### **3. Departments**

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#### Law Enforcement

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##### ***Sheriff***

The Sheriff's Office has reduced expenditures from a peak of \$424 million in FY 2009-10 to an estimated \$392 million for the current fiscal year. The Sheriff's Office is estimated to come in within budget for the current year, due to the reduction in jail population and other factors. The preliminary budget allocation for the Sheriff is \$393 million.

Overtime, particularly in the jail, has been reduced from a peak of \$33 million in FY 2009-10 to an estimated \$21 million for the current fiscal year. The Sheriff has allocated \$15 million for overtime in the preliminary budget. Budget Management and the Auditor will continue to work with the Sheriff to add deputies to reduce overtime within the budget when it is cost effective to do so.

Jail population in January 2012 averaged 8,624 inmates, down from a peak of over 11,000. The drop in jail population below the capacity of the jail system has allowed the Sheriff to discontinue sending prisoners to outlying jails. If the jail population increases above capacity during FY 2012-13, the fees for sending inmates to other jails will be paid out of General Administration funds and will be brought to court for approval. The Sheriff spent just over \$10 million on these expenses this year.

The Sheriff's budget includes three relatively distinct different areas of operations: the jail system, medical care for the inmates, and the law enforcement operations. Budget Management recommends breaking out these three functions in separate departments starting in FY 2013-14 to help manage the funding for changes in jail population or medical expenses.

Budget Management will work with the Harris County Hospital District and MHMRA to see if there are opportunities to improve the coordination and delivery of medical services. Many jail inmates interact with these agencies when they are not in jail and there are likely opportunities to synchronize medical records and other processes to better serve people in the system.

The cost of housing an inmate in the county jail system includes both a fixed component and a variable cost that depends on the overall jail population. The daily cost of sending inmates to other jails is often higher than housing them locally unless the fixed costs can be reduced.

Breaking out the jail system as a separate department could provide a more efficient system of measuring expenses and managing fluctuations in jail population. Budget Management and the Auditor will continue to monitor jail population and bring recommendations to court if the population increases.

### ***Constables***

The constables as a group were significantly affected by last year's budget reductions with a 13% overall reduction in budget compared to prior year actual expenses. They implemented a variety of steps including layoffs, furloughs and pay cuts to meet these budgets. The preliminary allocation for the constables restores part of the funding to allow them to return the existing workforce to full time status. Contract patrol functions related to the toll road system have also been separated and are now fully funded directly by the Toll Road Authority. These patrol activities for the toll road incur much higher vehicle expenses than do many of the contract patrol activities for school districts and subdivisions.

### ***Contract Patrol***

The contract patrol program is an important aspect of crime prevention that allows the Sheriff and Constables to provide services directly to school districts, subdivisions, utility districts and other organizations to increase law enforcement coverage. The contracts provide over 700 law enforcement officers, funded by fees charged for the percentage of time these officers spend in the contract area. These officers are available to address life threatening situations outside the areas covered by the contracts.

The contracts are generally on a calendar year basis which adds complexity to the process of budgeting for these expenses. A recommendation will be brought back to court to extend the current contracts at existing rates through February 28, 2013 and then have all future contracts match the county's fiscal year of March 1 through February 28 or 29.

A comprehensive analysis of the rates and structure of the contract patrol programs will be completed by Budget Management and recommendations will be brought back to court.

### ***Fleet Services***

Fleet Services, a division of Purchasing, provides vehicles, gasoline and maintenance primarily to law enforcement agencies in the county. With the high cost of gasoline and other operating expenses, it is important that vehicle utilization is effective and well managed. Budget Management along with the Purchasing Agent recommends that an independent analysis of vehicle utilization and policies be conducted by an outside firm in advance of the contract patrol study to allow the county to better utilize the fleet of law enforcement and other vehicles managed by Fleet Services.

The administration of justice includes the court systems and related departments along with the District Attorney, the County Attorney, the Fire Marshal and the Institute of Forensic Sciences. These departments make up 19% of general fund expenditures and were allocated \$17.4 million more in the preliminary budget allocation this year compared to last year.

***Court Appointed Attorney Fees and the Public Defender***

The Public Defender's Office was established in FY 2010-11 with grant funds from the Texas Indigent Defense Commission. Over four years, the funding transitions from the grant to the General Fund. The Public Defender started in FY 2010-11 by handling some criminal appeals and mental health cases and became fully operational this year. It is important to evaluate the impact of this new office and to explore better ways to track, measure and manage indigent expenses.

A recommendation will be presented to court on March 13 to establish a new cost center to track all court appointed attorney fees and expenses for both the county and district courts.

***County Attorney***

The County Attorney's budget is typically supplemented during the fiscal year for tort claim settlements and legal fees that can't be estimated in the initial budget. Funds have been allocated in the budget for General Administration to provide for transfers to the County Attorney as cases are settled and fees are incurred.

***County Clerk***

Redistricting of congressional districts in the State of Texas has, at this point, not been resolved so that primary election dates can be established. The County Clerk is responsible for conducting elections and estimates that the cost of providing services in a presidential election year are about \$2 million higher than other years. While the Clerk's budget has been increased over last year's amount, an additional reserve has been set up in General Administration to cover potential needs that may arise due to redistricting.

***Fire Marshal***

The budget for the Fire Marshal's Office has been reduced as funding for some permit fees and the expenses related to those fees have been allocated to a new special revenue fund.

***Institute of Forensic Sciences***

Voters approved an \$80 million bond proposal in 2007 to build a new Forensic Center. When completed, the cost of expanding the operations including equipment and staffing could be offset by new sources of revenue should this office expand into a regional crime lab. The effects of increased debt on the county's tax rate structure will be analyzed in the CIP in June.

***Justice of the Peace Courts***

Budget Management is working with the JP courts to adjust the staffing based on workloads.

The preliminary general fund budget allocations for the public infrastructure and information technology departments is a combined \$126 million, which is \$10 million higher than the estimated actual expenses for FY 2011-12. It represents 10% of the general fund budget.

***Public Infrastructure***

The general fund budget for the public infrastructure departments including PID Executive, Right-of-Way, Construction Programs and Architecture & Engineering are unchanged from last year. These departments recover the cost of toll road engineering and construction directly from the Toll Road Authority as a reduction of operating expenses. Some general fund expenses have also been allocated to new special revenue funds similar to the Fire Marshal.

***Facilities & Property Management***

Facilities & Property Management (FPM) has been re-established as a separate department after a few years of being a division of PID. The budget allocation for FPM has always had a variable component related to utility expenses and lease payments. Most of the utility expenses for the county are paid by FPM, but not all.

Budget Management recommends that a separate cost center be set up for all leases and electricity expenses. This will allow Budget Management, PID and FPM to monitor and manage the rates and usage to increase efficiency.

The budget allocation for the property and building management part of FPM is based on the current size and scope of county operations and may need to be adjusted to account for significant increases or decreases in total space when those changes occur.

***Information Technology***

Information Technology Center (ITC) is looking into ways to improve the efficiency of county computer operations through consolidating services and personnel to manage the systems. Some departments which maintain separate information technology staffing and operate servers or other major systems outside of ITC should consider transitioning those services to ITC over the next two years. Budget adjustments to move positions and funding would be necessary as these changes are implemented.

ITC has identified a number of significant projects that will be discussed at the CIP meeting in June. Automating time collection systems and bringing antiquated systems up to date could significantly improve county operations. Steps to improve customer service, by potentially centralizing cash collection services in branch office locations is also under review.

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## County Services

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County services include Public Health, Youth and Family Services, Community Services, the County Library, Pollution Control and Legislative Relations. These departments are allocated \$172.4 million or 13% of the general fund budget. This allocation is \$8 million higher than the current year actual expenses.

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## Fiscal Services, Purchasing & Budget Management

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The County Auditor, Tax Assessor Collector, Treasurer and the Purchasing Agent have combined budgets of \$54.4 million, representing 4% of the general fund budget.

Management Services has been reorganized into two departments, Budget Management and Financial Services. In prior years, Management Services budgeted expenditures that either didn't fall within a specific department function or were unpredictable in nature. A new General Administration cost center, under the direction of the Budget Officer, will be used to capture these costs which include expenses like insurance, audit fees, tort claims, certain legal fees, bank charges, licensing fees, TIRZ payments, tax anticipation notes and other expenses of this type. An allocation to cover the 27<sup>th</sup> payroll expense is also included in General Administration.

The continuing effort to automate fee collections can create budget issues for departments for credit card fees. A policy issue to account for all credit card fees by department in a cost center in General Administration will be included on March 13. This will allow departments to move forward with plans to expand online services.

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## Harris County Sports & Convention Corporation

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A continuing problem is the cost of utilities at Reliant Park and the cost for operations and insurance funded by the county through the Hotel Occupancy Tax. These expenses compete with debt service requirements for HOT resources. A change could be part of a long-range plan.

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## Conclusion

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The preliminary budget allocation provides increased funding for county departments and a reserve to fund a portion of the extra payroll. Departments will be able to replace personnel who retire or leave the county as long as their budgets are adequate to fund the replacement.

All unfunded positions will be eliminated and any partially funded positions will not be activated without review. If revenues are flat next year, then the funds set aside in General Administration will cover the extra payroll period and budget cuts will not be required for this expense next year.

The proposed budget, based on the final Auditor's revenue estimate and a list of policy issues will be presented to court on March 13 for public hearing and adoption.