



HARRIS COUNTY, TEXAS

COMMISSIONERS COURT

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Ed Emmett
County Judge

El Franco Lee
Commissioner, Precinct 1

Jack Morman
Commissioner, Precinct 2

Steve Radack
Commissioner, Precinct 3

R. Jack Cagle
Commissioner, Precinct 4

September 25, 2015

To: County Judge Emmett and
Commissioners Lee, Morman,
Radack and Cagle

Re. **Mid-Year Review**

1. Harris County General Fund
2. Property Tax Rates
3. Salaries & Benefits
4. Law Enforcement
5. Administration of Justice
6. Computer Systems
7. Debt and Bond Election
8. Meetings & Holidays
9. Recommendations for Approval

1. Harris County General Fund

Harris County government continues to face the unique challenge of steady population growth in the significant unincorporated areas of the county. The strong local economy and expanding tax base have provided resources to help meet the increased demand for services and infrastructure throughout the county.

The county’s financial condition continues to strengthen with the ongoing focus on rebuilding year-end cash balances and reducing the county’s dependence on short-term borrowing using Tax Anticipation Notes (TANs). The amount borrowed on TANs has been reduced from \$450 million in FY 2012 to \$100 million for the current FY 2015-16. Continuing to reduce short term borrowing is a key element of the county’s financial plan and helps maintain the existing high bond ratings.

There are economic factors that are currently impacting the local economy and likely will slow down the growth in the tax base over the next few years. Oil prices dropped significantly at the end of 2014, going below \$70 per barrel for the first time since May 2009. A similar oil price decline in late 2008 lasted only a few months, while this weakness in oil prices is expected to last longer.

The county is well positioned financially to deal with the potential flattening out or reduction in revenue that may occur until oil prices rebound. The budget rollover policy, debt management and fiscal spending restraints in place since 2012 will continue to help the county remain financially strong even with reduced resources.

Revenues

The following chart shows a comparison of General Fund revenues:

In Thousands	Last Year	Current Fiscal Year 15-16		% Change vs Budget
		Revenue Budget	Estimated Actual	
Taxes	\$1,183,863	\$ 1,240,706	\$1,320,000	6.4 %
Intergovernmental	43,628	43,152	40,000	-2.7 %
Charges for Services	225,343	235,494	235,000	-0.2 %
Other	75,822	71,766	72,000	0.2 %
Total GF Revenue	\$1,528,656	\$ 1,591,118	\$ 1,667,000	4.8 %

Growth in the property tax levy, based on the taxable value of property as of January 1, 2015, is expected to result in tax revenue for the General Fund exceeding the Auditor’s estimate by 6.4% assuming the tax rate is adopted at the same 34 cent rate per \$100 of taxable value. The overall current year revenue for the General Fund is expected to be 4.8% above budget which is up 9% compared to last fiscal year’s revenue.

General Fund property tax revenues for next year (FY 2016-17) are dependent on taxable values as of January 1, 2016. New buildings and residential property completed during 2015 will add to the tax levy, offset by some potential reductions in the value of existing property. As a result, General Fund revenues are not expected to continue to grow at the same pace as they have over the last 4-5 years.

1. Harris County General Fund (Continued)

Expenses

The following chart shows General Fund expenditures for the first half of the current fiscal year and the percentage of the current year budget spent through August:

In Thousands	Last Year	Current Fiscal Year 15-16		% Spent to Date
		Adjusted Budget	First Half Actual	
Infrastructure & Systems	\$ 132,332	\$ 171,174	\$ 75,562	44 %
County Services	96,239	108,352	52,527	48 %
Fiscal Services	54,409	69,989	29,020	41 %
Law Enforcement	557,358	608,302	295,979	49 %
Administration of Justice	370,787	428,130	198,369	46 %
Total Departments	\$1,211,125	\$1,385,947	\$ 651,457	47 %

At the halfway point last fiscal year, departments had spent 47% of their available budgets. The rollover policy has resulted in savings of \$39 million, \$47 million and \$59 million in Fiscal Years 2013, 2014 and 2015, respectively.

Preliminary general fund expenditure budgets for the upcoming fiscal year are being developed and will be distributed in October.

2. Property Tax Rates

The proposed rates provide for tax revenue to pay debt service obligations and maintain the same overall tax rate for the county. The following tax rates are proposed for Court approval.

Hearings will be held on October 13, 2015 and October 16, 2015 and the rates will be placed on the agenda of a special meeting at 2:00 pm on October 23, 2015 for formal adoption.

	2014	Proposed 2015	Change
Harris County:			
General Fund	.34000	.34000	--
Public Contingency	.00547	.00547	--
Debt Service	.07184	.07376	.00192
Total County	.41731	.41923	.00192
Flood Control:			
General Fund	.02620	.02620	--
Debt Service	.00116	.00113	(.00003)
Total Flood Control	.02736	.02733	(.00003)
Port of Houston	.01531	.01342	(.00189)
Hospital District	.17000	.17000	--
Total	.62998	.62998	--

3. Salaries & Benefits

During the economic downturn, labor budgets were reduced and employee benefits were adjusted. The number of General Fund employees dropped from a peak of 13,673 in September 2008 to 11,306 three years later. Hiring and salary freezes were in place during part of that period. The number of General & Mobility Fund employees has increased to 14,575 as of the end of August 2015.

New positions for certain departments that have sufficient budget to fund them are included on the regular Court agenda.

Retirement Plan

Employee contributions to the retirement plan were reduced from 7% of payroll to 6% on January 1, 2011, then increased back to 7% as of January 1, 2015. The county was 86.3% funded in the state plan as of December 31, 2014. Budget Management proposes increasing the funding rate from 13.55% to 14% beginning January 1, 2016 which would start to increase the percentage funded and save money.

Health Benefits

The cost of providing the same level of health insurance has been increasing since the county established the annual rate of \$11,116 per employee four years ago. The annual rate was increased to \$11,800 per employee for FY 2015-16, and is expected to be increased to \$12,800 for the upcoming FY 2016-17 budget due to continued increased claims. Proposals to increase the rates charged to employees and retirees for dependent coverage are under consideration and any changes will be presented to Court as an agenda item in October.

Downtown Parking

New construction around the county downtown complex has significantly impacted the cost and availability of parking for county employees and visitors. Budget Management proposes to work with Facilities & Property Management and the County Engineering to develop recommendations to increase the availability of parking for employees located downtown, particularly in county-owned facilities.

4. Law Enforcement

The Sheriff's Office has been tracking expenditures for the last few years in three categories, Detention, Detention Medical and Patrol & Administration. Budget Management recommends that new departments be formed for the upcoming budget year to formally separate expenditures and budgets for Detention (Dept. 541) and Detention Medical (Dept. 542). Patrol and Administration would remain in Dept. 540 and all three departments would report to the Harris County Sheriff.

Budget Management also proposes to work with the Harris County Hospital District to consider transferring some or all of the cost and budget for managing the detention medical operations from the Sheriff's Office to the Hospital District. The effort is intended to provide a consistent level of care, cost and monitoring of medication and medical record keeping for patients who are in detention, many of whom are also patients of the Hospital District.

5. Administration of Justice

The State of Texas created what will be the 507th District Court effective January 1, 2016. The new court will require seven new staff positions and funding of \$113,932 to cover the remainder of FY 2015-16 operations. The annual cost of the new court will be included in the appropriate budgets for next year.

The cost of providing indigent defense continues to escalate with the combination of payments for court appointed attorney fees and the cost of the Public Defender's office now on pace to cost over \$50 million this year compared to \$42.6 million last year. Budget Management will continue to work with departments to look for ways to reduce expenditures in this area without impacting the quality of legal defense services.

6. Computer Systems

The effort to purchase and install a new accounting system for the county is underway. This project will likely require a significant investment to install the new system affecting all departments county-wide. A new fund will be established to capture all of the cost of the new system including county personnel, outside consultants and other expenditures. The new system is expected to improve the efficiency of county operations since the last system was installed in 1999.

7. Debt and Bond Election

A key element in maintaining the county's high bond ratings and financial strength is debt management. The need for new roads, buildings, parks and infrastructure is directly related to the continued rapid growth of Harris County's population. Paying for new assets over their estimated useful lives is a sound economic and financial strategy.

Harris County, the nation's third largest county, has a debt structure that includes road, park, permanent improvement, flood control and Port of Houston debt all repaid directly with property taxes. The property tax rates proposed for the current fiscal year include 8.831 cents to pay the current debt service obligations for these debts due over the next 12 months. This tax rate dedicated to debt service is unchanged from last year's rate.

The county and port are scheduled to repay \$1.248 billion of principal balances due on these tax supported bonds between now and FY 2022-23. Repaying debt faster than new debt is issued with a growing population has caused a continued reduction in the per capita amount of tax-supported debt obligations each year since 2012 from a high of \$776 per capita to \$687 per capita at the end of FY 2014-15.

The county is seeking voter authorization for a total of \$848 million in new bonds on the November ballot. These bonds would provide funding for new roads, parks, expansion of the animal control facility and flood control projects directly related to new roads, as well as providing funding for subdivision road projects.

The new debt, if approved, would not require an increase in the 8.831 cent property tax rate for debt service even if the levy remains flat and the local economy remains stable. The issuance of bonds, expected to occur over a 7-10 year period, could be delayed should economic conditions make that action necessary to maintain financial strength.

7. Debt and Bond Election (Continued)

Voters have approved a total of \$2.174 billion of new road bonds over the last 20 years and \$1.9 billion of these bonds have been issued, all without any increase in the overall property tax rate of 62.998 cents for the four Harris County jurisdictions (County, Flood Control, Port and Hospital District). The tax rate was reduced twice during this period by a total of 1.175 cents. Road bonds were approved in 1997, 2001 and 2007 and in each case, it has taken 7 to 10 years for the county to spend the capital funds and issue all of the approved bonds.

8. Meetings and Holidays

The following calendar shows the recommended schedule for 2016 court meetings and county holidays:

Calendar 2016 - 22 meetings

January							February							March							April							May							June								
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S		
					1	2	1	2	3	4	5	6	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	6	7	1	2	3	4	5	6	7	1	2	3	4	5	6	7
3	4	5	6	7	8	9	7	8	9	10	11	12	13	6	7	8	9	10	11	12	3	4	5	6	7	8	9	8	9	10	11	12	13	14	5	6	7	8	9	10	11		
10	11	12	13	14	15	16	14	15	16	17	18	19	20	13	14	15	16	17	18	19	10	11	12	13	14	15	16	15	16	17	18	19	20	21	12	13	14	15	16	17	18		
17	18	19	20	21	22	23	21	22	23	24	25	26	27	20	21	22	23	24	25	26	17	18	19	20	21	22	23	22	23	24	25	26	27	28	19	20	21	22	23	24	25		
24	25	26	27	28	29	30	28	29	27	28	29	30	31	24	25	26	27	28	29	30	24	25	26	27	28	29	30	29	30	31	26	27	28	29	30								
31																																											

July							August							September							October							November							December							
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	
					1	2	1	2	3	4	5	6	1	2	3	4	5	1	2	3	4	5	6	7	8	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	6	7
3	4	5	6	7	8	9	7	8	9	10	11	12	13	4	5	6	7	8	9	10	2	3	4	5	6	7	8	6	7	8	9	10	11	12	4	5	6	7	8	9	10	
10	11	12	13	14	15	16	14	15	16	17	18	19	20	11	12	13	14	15	16	17	9	10	11	12	13	14	15	13	14	15	16	17	18	19	11	12	13	14	15	16	17	
17	18	19	20	21	22	23	21	22	23	24	25	26	27	18	19	20	21	22	23	24	16	17	18	19	20	21	22	20	21	22	23	24	25	26	18	19	20	21	22	23	24	
24	25	26	27	28	29	30	28	29	30	31	25	26	27	28	29	30	23	24	25	26	27	28	29	23	24	25	26	27	28	29	27	28	29	30	25	26	27	28	29	30	31	
31																																										

Holidays:

<i>New Year's Day</i>	<i>Friday</i>	<i>January 1</i>
<i>MLK Day</i>	<i>Monday</i>	<i>January 18</i>
<i>Good Friday</i>	<i>Friday</i>	<i>March 25</i>
<i>Memorial Day</i>	<i>Monday</i>	<i>May 30</i>
<i>Independence Day</i>	<i>Monday</i>	<i>July 4</i>
<i>Labor Day</i>	<i>Monday</i>	<i>September 5</i>
<i>Thanksgiving</i>	<i>Thurs. & Fri.</i>	<i>November 24 & 25</i>
<i>Christmas</i>	<i>Fri. & Mon.</i>	<i>Dec. 23 & 26</i>
<i>Floating Holiday</i>	<i>Employee's Choice</i>	

Meetings Starting at 9 a.m.:

<i>Budget Presentation - January 26</i>
<i>CIP Meeting - June 28</i>
<i>Mid Year Review - September 27</i>

9. Recommendations for Approval

The following are recommended for approval at this time:

- A. Property Tax Rates (see page 2).
- B. Budget Management proposes to work with Facilities & Property Management and the County Engineering to develop recommendations to increase the availability of parking for employees located downtown, particularly in county-owned facilities.
- C. Reorganization of the Harris County Sheriff's Office into 3 departments.
- D. Meetings and Holidays schedule for 2016.