



HARRIS COUNTY, TEXAS

COMMISSIONERS COURT

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Ed Emmett
County Judge

Rodney Ellis
Commissioner, Precinct 1

Jack Morman
Commissioner, Precinct 2

Steve Radack
Commissioner, Precinct 3

R. Jack Cagle
Commissioner, Precinct 4

January 27, 2017

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

Re: **FY 2017-18 Budget Presentation**

The proposed policy issues and budgets for FY 2017-18 are presented for discussion. The court is scheduled to consider this information on January 31 and adopt the budgets and any new policies after a public hearing on February 14. The new budgets will be effective for the fiscal year beginning March 1, 2017 through February 28, 2018.

Policy Issues and Proposed County Budgets

A discussion of the County's finances and policy issues is attached along with a summary of the Auditor's preliminary estimate of available resources and the proposed budget allocations for the General and Mobility funds. Budgets for debt service, grant, special revenue and other funds will be presented for court approval along with the Auditor's final estimate of available resources on February 14.

Debt Service Funds

Resources will be allocated to the appropriate debt service funds to meet the debt service requirements for Harris County, Harris County Flood Control District, Harris County Toll Road Authority, the Harris County Hospital District and Port of Houston Authority of Harris County.

Flood Control District

The Flood Control District will continue the plan to allocate \$60 million for operations and \$60 million for capital projects for FY 2017-18.

Harris County Hospital District

The budget for the Harris County Hospital District will be presented for court approval in February.

Port of Houston

The Port of Houston debt service will be addressed with the February 14 presentation.

Policy Issues and Proposed Budgets

The following is presented for consideration as part of the proposed FY 2017-18 budget. A list of policy issues and final budgets will be presented for approval and adoption on February 14, 2017.

Population Growth and the Local Economy

Harris County continues to experience significant growth in population. The nation's third largest county has grown from 3.4 million residents in 2000 to nearly 4.7 million by the end of 2016. Most of the increase in population (over 75%) has occurred in the unincorporated areas of the County. The unincorporated area would be the second largest city in Texas (behind Houston) and the fifth largest city in the U.S. if it were incorporated. By 2020, the unincorporated population is expected to actually exceed the City of Houston population.

The need for new roads and infrastructure to support this growing and diverse unincorporated area will continue, as will the need to deliver all manner of public services and cost effective tools for law enforcement. County government plays the primary role in making this happen.

The local economy thrived from 2011 through 2015 primarily due to expansion in all phases of the energy business with oil prices remaining above \$60 per barrel. That growth period followed a 3-4 year period of economic downturn that caused the tax levy to remain relatively flat from 2008-2011. Since 2015, oil prices have remained relatively low, which is likely to once again slow down the growth in local property values.

Since the county relies primarily on property taxes to fund operations and debt service, a slowdown in growth makes it necessary to limit the growth in spending, despite the need to serve a rapidly growing population that seems unaffected by low oil prices.

Harris County has been able to continue to grow the general fund resources, while limiting the growth in debt, without raising property tax rates over the last five years. The expansion of the local economy, including significant new construction has made this possible.

The county is well positioned financially to deal with both the continued population growth and the potential reduction in property tax revenues that could result from low oil prices. Policies including the budget rollover and the continued focus on reducing short-term borrowing have been essential to strengthening the county's balance sheet.

Maintaining a Strong Balance Sheet

Cash and Short Term Debt

Harris County has continued to make significant progress in improving the county's financial condition and strengthening its balance sheet. Cash balances in the General Fund have grown from \$149 million at the end of FY 2012 to an estimated \$927 million by the end of FY 2017. This growth in resources was necessary for the county to eliminate the need to issue Tax Anticipation Notes (TANs) to fund operating expenses during the fiscal year in advance of property tax collections, the primary source of revenue to fund county government.

Short-term borrowing, which was approaching \$500 million per year in FY 2012, was eliminated last year. The ability to continue operating without TANs borrowing is largely dependent on maintaining budgets near their current level and finding ways to save money or improve efficiencies to provide for limited growth.

Financial policies are in place to maintain financial stability and strength. Harris County currently has the highest rating from each of the major rating agencies. Continuing to control spending combined with managing debt obligations are key to maintaining these high ratings.

Long-Term Debt

The County's long-term debt includes bonds issued to build roads, buildings, parks, libraries, flood control and other infrastructure projects that are repaid directly with property tax revenues. Property taxes also support repayment of bonds issued by the Flood Control District, the Hospital District, and the Port of Houston. Other long-term debt issued by the Harris County Toll Road Authority and the Hotel Occupancy Tax are repaid by revenues or fees and do not involve property tax revenue.

In November 2015, voters authorized the issuance of \$848 million of new property tax supported bonds for roads (\$700M), parks (\$60M), a building (\$24M) and flood control projects related to new roads (\$64M). The County has not yet issued any of these bonds and plans to issue them over the next 7-10 years as needed.

Budget Management continues to work to accomplish the goals of maintaining a stable long-term debt level without any increase in the property tax rate or increase in the tax supported debt per capita. Limiting the rate of borrowing to match existing debt principal reductions each year along with a factor for population growth is a strategy to help accomplish these goals. Considering the total cost of ownership and attempting to finance new assets over their estimated useful lives will help the county continue to meet the infrastructure demands for an expanding population.

Budget Management will continue to work with the County's financial advisors with this strategy and to monitor financial markets and identify opportunities to manage existing debt obligations.

Available Resources for the FY 2017-18 Budget

Revenue Budget

Property taxes provide 80% of general fund revenues, all of the general debt service obligations, most of the Flood Control District's budget, over \$50 million for Port of Houston debt service and about \$700 million for the Hospital District. General Fund revenue has grown by an average of 5.1% per year since FY 2012. The population has grown by over 500,000 people or 14% over this same period. The tax base has expanded with new housing, significant commercial and industrial growth over this time frame along with some increases in the value of existing property.

The Auditor's preliminary revenue estimate includes a 2% decline in general fund revenues for FY 2017-18 compared to the estimated revenue for the current fiscal year. General fund revenues are likely to remain flat or decline until oil prices rebound and commercial construction in Harris County starts to grow again. The available resources for the general fund for the upcoming fiscal year are up an estimated 5.6% due to the ongoing effort to control spending growth and reduce short-term borrowing during the fiscal year.

Expenditure Budgets

The preliminary general fund budget allocations are included. These budgets will be finalized and balanced to the Auditor's final revenue estimate and presented for court approval on February 14.

General Fund expenditure budgets for county departments are 4% higher than last year's adopted budgets. The proposed budgets include \$665 million for law enforcement, \$445 million for the administration of justice, \$161 million for infrastructure and systems administration and \$181 million for county, fiscal and purchasing services. A majority of the growth in spending over the last few years has been for law enforcement and the administration of justice, which make up over 76% of departmental budgets.

Limiting the growth in general fund expenditures to about 90% of expected general fund revenues has been the biggest single reason why the county has improved the balance sheet sufficiently to no longer issues TANs.

Labor and Benefits

Labor and benefits make up 75% of all general fund expenditures. Despite the estimated decline in general fund revenues for FY 2017-18, the proposed general fund expenditure budgets have been increased and should provide funding for departments to cover at least currently filled positions. Requests to fill vacant positions or to add new positions will be considered based on the department's budget allocation and status.

The cost of health insurance is expected to increase slightly and the retirement plan contribution is expected to remain level at 14% of payroll with the possibility, based on market conditions, the rate could rise to 14.5% by the start of calendar year 2018.

Operational Issues

Increasing the Effectiveness of the Collection Process

There are a number of sources of revenue for the county, in addition to property taxes, that are needed to fund operations and enterprises that benefit the public. The first area of collections that Budget Management focused on in 2016 involved improving the auction process to enhance collection of unpaid taxes and to return properties to the tax roll. Significant progress has been made in this area with property sales generating 60% more revenue to the taxing jurisdictions. Additional steps to use online resources will likely enhance this process further.

Budget Management will focus on a variety of components of the collection process in 2017 including collection of unpaid fines or fees, review of toll road collection processes and contracts and reviewing the status of any significant receivable balances from the Harris County Sports Corporation or other entities. Recommendations will be brought back to court for approval as the project progresses.

Economic Development Activities

The Community Services Department has managed the county's economic development activities for a number of years. Economic development was a stand-alone department for budget purposes through fiscal year 2004, but since has been part of Community Services.

Plans are underway to move the responsibility of managing the county's economic development activities, budget and personnel from Community Services to Budget Management, effective March 1, 2017. Staff will be moved downtown over the next few months giving them improved access to Commissioners, the County Attorney's office, the Tax office and Auditor's office, as well as access to the latest technology systems, maps and statistical information being developed within Budget Management.

Reorganization of Facilities & Property Management (FPM)

The effort to reorganize FPM operations began last summer and is nearing completion. Budget Management and the County Engineer, along with the Director of Central Technology Services (CTS) have agreed to propose to Court that the primary functions of FPM report directly to the County Engineer, with some changes related to security, parking and utilities moving to CTS and/or Budget Management. Budget Management recommends that, effective January 31, 2017, FPM (Dept 299) report to the County Engineer and be renamed Facilities & Property Maintenance.

The preliminary budget for FPM has not yet been adjusted for the movement of personnel between FPM and other divisions of Engineering or CTS or Budget Management. Those adjustments to positions and budget should be finalized for the proposed final budget in two weeks.

The cost center set up to record and account for utilities and lease expenses (Dept 298) will continue to be used for these purposes with no rollover budget and no transfers out without Budget Management approval.

All of these departments will continue to work together to operate, maintain and improve county facilities to best serve the public efficiently.

Law Enforcement and Contract Patrol Services

Separating the Sheriff's office budget into three cost centers started March 1, 2016. Budget Management will continue to work with the Sheriff to explore ideas related to the Detention (Dept 541) and Medical (Dept 542) divisions, including consideration of hiring a jail administrator and identifying ways for medical services to be managed by a health care organization rather than jail management. Saving money by making sure county hospital resources are accessible and used for inmate emergency services, without incurring private hospital expenses, will also be addressed.

Contract patrol services help enhance the effort to provide quality law enforcement coverage in all areas of the county. A schedule of contract patrol services including any changes to the program will be included with the final budget along with adjustments to the law enforcement budgets, if necessary, to account for added or reduced contract revenues.

The rates charged for contract patrol services will not change on March 1, 2017 and Budget Management recommends that Court consider approving a 3% increase in contract patrol rates effective March 1, 2018, due to the increasing cost of labor, benefits and/or equipment for these officers.

Managing Jail Population and Indigent Defense

Important gains have been made in recent years in reducing the county's jail population. The Criminal Justice Coordinating Council continues to aggressively look for solutions and forge community alliances. Initiatives aimed at cutting the inmate population, particularly pretrial detainees, are being continuously waged under the leadership of key elected officials, including the District Attorney, Sheriff and others.

Budget Management is reorganizing and will have a division focused on Justice and Law Enforcement issues, which will support the Criminal Justice Coordinating Council, as needed. Several newly elected officials will also play a role in improving the justice system as they join the Council and its community partners.

The cost of providing indigent defense through court appointed attorneys and the Public Defender's Office has grown to \$58 million and continues to outpace county revenue. Budget Management will continue to work with court administration to explore alternatives to the current system.

Investing in New Systems

The County is in the process of replacing financial and accounting systems which, when completed, are expected to have a positive impact on county operations. Key concepts in improving these information systems include simplification and making sure the new system can be maintained and upgraded in the future.

Central Technology Services is also working on a number of other technology projects intended to enhance public service including potential changes to the Fleet operations which likely will result in recommended changes to the vehicle standards and procedures related to take home vehicles and vehicle utilization. Any changes will be brought to Court for approval.

New Facilities

The Institute of Forensic Sciences (IFS) is preparing for the move to their new facility. The new facility has room for expansion and Budget Management will continue to work with IFS on possible expansion of fee based services as well as improved efficiency with the new facility.

The new Joint Processing Center is expected to be completed over the next 12-18 months, which will likely involve some staffing adjustments for the Sheriff's office, Pretrial Services and other departments. Any changes needed will be brought to Court for approval.

Conclusion

Harris County government is well positioned to provide infrastructure and services to an expanding population base and to adjust spending plans accordingly for potential new challenges related to prolonged lower energy prices, legislative actions or weather events. Maintaining a strong balance sheet and finding ways to provide the infrastructure and services to the expanding population during a time of low oil prices will be a challenge.