



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 21, 2012

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

Re. **Mid-Year Review**

Background Information & Reports

1. Harris Health System (Harris County Hospital District)
2. Harris County General Fund Budget
3. Harris County Debt
4. Population and Economic Reports
5. Property Tax Rates
6. Departments
7. Meetings and Holidays
8. Conclusion

1. Harris Health System (Harris County Hospital District)

A report from the Harris Health System, the new name of the Harris County Hospital District, is included.

2. Harris County General Fund Budget

Harris County has recovered from the economic downturn but still faces financial challenges that need to be addressed. These challenges include funding for the 27th bi-weekly payroll period next year, funding new computer systems, increased funding of the Public Defender's Office, dealing with increased debt service requirements and rebuilding reserves. Continuing to rebuild reserves is an important part of maintaining the County's high bond ratings.

Court adopted a new policy for this budget year which allows departments to roll over up to 15% of unspent budgets to the next budget year in an effort to rebuild reserves and enhance departments' ability to withstand future economic challenges should they arise.

This new policy makes it necessary to have a two stage budget adoption process. The first step in this process will be the preliminary budget allocations which will be provided to departments in the first half of October. These preliminary allocations are expected to be approximately the same as last year's adopted budget amounts with some minor adjustments based on changes in revenue and other factors.

The secondary step in the budget process will be scheduled for April 2013 after current year results are finalized, when departments that have unspent budgets from the current fiscal year will receive additional budget for FY 2013-14.

In an effort to adopt the baseline budget before the start of the new fiscal year, the schedule for budget preparation has been advanced by a month. Budget preparation begins with the preliminary allocations leading up to the budget hearings, which will be held in December 2012. Departments will need to provide budget allocations that tie to the preliminary budget allocation and will be able to supplement their budgets when the rollover budgets are added.

- a. Revenues – General Fund revenues include property taxes, charges for services, intergovernmental funding, fines & rents and other income.

Exhibit A. shows the General Fund revenues for the first 6 months of the current year compared to budget and the prior year amounts. Revenues from property taxes, which represent 76% of General Fund revenue, are dependent on tax rates adopted by Court and the taxable value determined by HCAD. All other revenues are projected to be within estimates based on the results so far.

The taxable value of all Harris County property is estimated by HCAD to grow by 2% over last year's value which primarily will go to address the increased demands related to debt service and other items mentioned above. Rebuilding reserves is more dependent on improving efficiency and reducing expenses rather than relying on revenue growth at this point.

- b. Expenses – General Fund expenses for the first half of the current year are \$620 million, which is 46% of the total budget (which includes reserves). Many departments have the opportunity to come in under budget to take advantage of the new roll over process.

Since reserves are still below the level maintained prior to the economic downturn, it is necessary to continue to hold the line on spending to enhance the county’s financial health. Rolling over unspent budget is the best way for departments to fund and implement new projects and procedures to improve government efficiency.

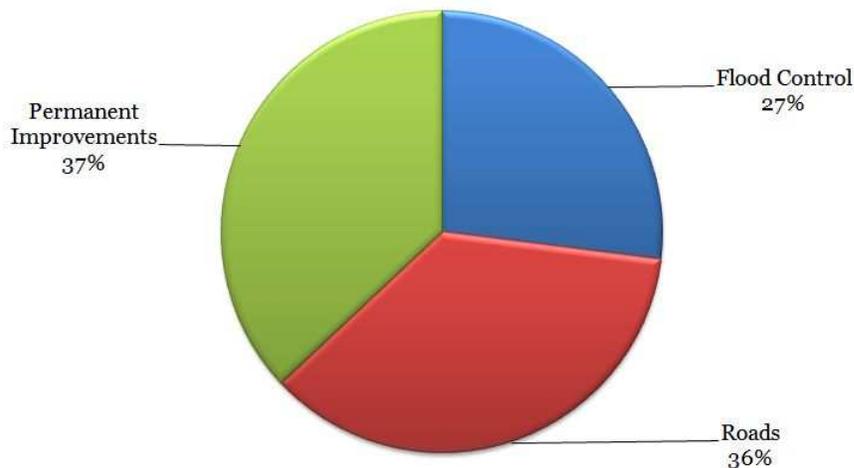
Labor and benefits expenses represent 76% of the General Fund expenditures so far this year. The total number of General Fund employees has increased by 1.9% from 12,068 on March 1, 2012 to 12,296 as of August 31. Sixty percent of the growth in personnel is in the Sheriff’s Office which is adding staff to reduce jail overtime.

The pay date for bi-weekly payroll moves from Thursday to Friday starting in January 2013 and, as a result, there will be 27 bi-weekly payroll periods next year which requires reserves of about \$40 million to pay the extra cost. These funds will be allocated to the General Administration Department until they are needed at the end of FY 2013-14. Departments should plan their budget based on 26 pay periods.

Benefits are covered in a status report from the director of Human Resources and Risk Management which is included behind the county budget tab. The overall benefit rates are not expected to change significantly with increases in retirement costs being offset by decreases in other benefit expenses.

3. Harris County Debt

Harris County’s debt service requirements for the current fiscal year are \$34 million higher than last year, which requires an increase in the component of the tax rate related to debt service. The following chart shows a breakdown of the County’s principal balance of debt outstanding by functional area.



Budget Management will continue to work with financial advisors to level out the annual debt service requirements and take advantage of the historically low interest rates.

4. Population and Economic Reports

The population of Harris County continues to grow by significant numbers and the projected total population of the county in June 2012 is 4,275,000 with an estimated 1.7 million people living in the unincorporated areas of the county. The unincorporated area would be the 5th largest US city if it were incorporated.

The economy in Harris County continues to rebound from the downturn although there remain concerns about the economic health of the nation and how it may affect the local economy including its ability to provide funding that the county relies on for needed programs.

Full reports on both the Population and the Economic environment are included behind the County Budget tab.

5. Property Tax Rates

HCAD projects that the taxable value of Harris County property will increase by about 2% over last year’s latest valuation. Debt service for Harris County, which includes funding for flood control, roads and infrastructure, requires an increase in the tax rate related to County debt.

The following tax rates are proposed for Court approval and hearings will be held for the county and Port of Houston on October 9, 2012 and October 16, 2012 and the rates will be placed on the agenda on October 23, 2012 for formal adoption.

	<u>2011</u>	<u>Proposed 2012</u>	<u>Change</u>
Harris County:			
General Fund	.33221	.32798	(.00423)
Public Contingency	.00223	.00473	.00250
Debt Service	<u>.05673</u>	<u>.06750</u>	<u>.01077</u>
Total County	.39117	.40021	.00904
Flood Control:			
General Fund	.02727	.02522	(.00205)
Debt Service	<u>.00082</u>	<u>.00287</u>	<u>.00205</u>
Total Flood Control	.02809	.02809	--
Port of Houston	.01856	.01952	.00096
Hospital District	<u>.19216</u>	<u>.18216</u>	<u>(.01000)</u>
Total	<u>.62998</u>	<u>.62998</u>	<u>--</u>

Additional information about tax rates is included behind the Tax Rates tab.

6. Departments

a. **PID**

PID has provided a letter addressing the progress on the projects started at CIP.

b. **ITC**

The Information Technology Center is working on a number of significant technology enhancement projects including projects related to the county's accounting system and the justice information system that will require some fairly significant funding but should provide tangible improvements in the systems and cost saving opportunities that will help pay for the added cost. These projects will be brought to court as needed with funding sources identified.

The county is working with the City of Houston on an inter-local agreement under which a new, jointly-owned radio shop would be constructed. The city has offered an interim location to house the county's radio shop during construction. The agreement will be brought back to Court for approval when completed.

ITC is also working on a process that would centralize and coordinate the purchasing of desktop computers to save money. This process will be considered with the budget.

c. **Law Enforcement**

Sheriff – The Sheriff's Office has grown by 136 employees in an effort to reduce overtime primarily in the jail. This effort has been successful so far as overtime in the General Fund has dropped from \$26.3 million last year to \$7.2 million for the first half of the current year. The Sheriff anticipates coming in at or under budget this year.

The jail population has continued to stay below capacity making it unnecessary to send inmates to other jails.

The Sheriff's budget and actual expenses shown in Exhibit B are separated into 3 operational areas in advance of adopting the FY 2013-14 budgets, to comply with the policy issues adopted in March.

Constables – The Precinct One Constable's Office has funded two positions for many years related to systems management to support all eight constable offices. Budget Management recommends that these positions and related budget be transferred to ITC effective November 3, 2012.

Patrol Contracts – Patrol contracts enhance law enforcement coverage and have traditionally been renewed on a calendar year basis. To enhance the budget process, Budget Management recommends changing the dates of the contracts to match the county's fiscal year and recommends that all contracts in place be extended through February 28, 2013 at existing rates.

Recommendations regarding adjustments to the rates and/or structure of the contracts will be presented with the budget.

d. **Administration of Justice**

Institute of Forensic Sciences – Progress continues in the effort to build a new forensic center. The Sheriff's Office has agreed to transfer the Sheriff's ballistics laboratory to IFS. Budget Management recommends this transfer be done at the beginning of fiscal year 2013-14 and, if approved, will work with the departments to coordinate position transfers and make necessary budget adjustments which may also involve expanding the lab staffing from 9 positions to 13 positions.

Pretrial Services – Budget Management with the Criminal Justice Coordinating Council will conduct a review of Pretrial Services and bring recommendations back to Court for approval.

Public Defender’s Office – The Public Defender’s Office has been funded through a State grant under which the county general fund has paid 20% of the cost through September 2012 and 80% of the cost for the next 24 months. The budget for this office will increase for each of the next two fiscal years as the county moves to covering 100% of the cost.

e. Purchasing & Fleet Services

Fleet Services is continuing to work with an independent firm on the study of fleet utilization and management. Budget Management and the Auditor’s Office will continue to work with Fleet Services to review any recommendations that may result from this study and any new policies or procedures will be proposed for the FY 2013-14 budgets in February.

7. Meetings and Holidays

The following calendar shows the recommended schedule for 2013 court meetings and holidays.

24 Meetings

Calendar 2013

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
6 7 8 9 10 11 12	3 4 5 6 7 8 9	3 4 5 6 7 8 9	7 8 9 10 11 12 13	5 6 7 8 9 10 11	2 3 4 5 6 7 8
13 14 15 16 17 18 19	10 11 12 13 14 15 16	10 11 12 13 14 15 16	14 15 16 17 18 19 20	12 13 14 15 16 17 18	9 10 11 12 13 14 15
20 21 22 23 24 25 26	17 18 19 20 21 22 23	17 18 19 20 21 22 23	21 22 23 24 25 26 27	19 20 21 22 23 24 25	16 17 18 19 20 21 22
27 28 29 30 31	24 25 26 27 28	24 25 26 27 28 29 30 31	28 29 30	26 27 28 29 30 31	23 24 25 26 27 28 29 30

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
7 8 9 10 11 12 13	4 5 6 7 8 9 10	8 9 10 11 12 13 14	6 7 8 9 10 11 12	3 4 5 6 7 8 9	8 9 10 11 12 13 14
14 15 16 17 18 19 20	11 12 13 14 15 16 17	15 16 17 18 19 20 21	13 14 15 16 17 18 19	10 11 12 13 14 15 16	15 16 17 18 19 20 21
21 22 23 24 25 26 27	18 19 20 21 22 23 24	22 23 24 25 26 27 28	20 21 22 23 24 25 26	17 18 19 20 21 22 23	22 23 24 25 26 27 28
28 29 30 31	25 26 27 28 29 30 31	29 30	27 28 29 30 31	24 25 26 27 28 29 30	29 30 31

Holidays:

<i>New Years Day</i>	<i>Tuesday</i>	<i>January 1</i>
<i>MLK Day</i>	<i>Monday</i>	<i>January 21</i>
<i>Good Friday</i>	<i>Friday</i>	<i>March 29</i>
<i>Memorial Day</i>	<i>Monday</i>	<i>May 27</i>
<i>Independence Day</i>	<i>Thursday</i>	<i>July 4</i>
<i>Labor Day</i>	<i>Monday</i>	<i>September 2</i>
<i>Thanksgiving</i>	<i>Thurs. & Fri.</i>	<i>November 28 & 29</i>
<i>Christmas</i>	<i>Tues. & Wed.</i>	<i>Dec. 24 & 25</i>
<i>Floating Holiday</i>	<i>Employee's Choice</i>	

8. Conclusion

Harris County continues to face the challenge of a growing population with increasing demands for county services without corresponding growth in resources available to meet these demands. It is important that county departments work together to resolve issues and improve operational efficiencies.