

Population Study

Introduction

This is the twelfth report in an ongoing study of population changes in Harris County and their impact on demand for County services. The Census bureau released 2010 count data in late February and this report is a comparison of the 2010 count to the previous 2000 and 1990 census counts.

Harris County is Growing Fast

Harris County continues to be the nation's third most populous county with 4.1 million residents as of April 1, 2010 and one of the fastest growing counties in the US with a population increase of 20% since 2000 and 45% since 1990. Harris County contains all or part of 34 cities including Houston, the nation's fourth largest city. The following chart shows the population for Houston, the other cities in Harris County and the Unincorporated area of the County.

	2000 Census	2010 Census	Increase	Growth Percentage
City of Houston	1,919,789	2,057,280	137,491	7.2%
Other cities	439,615	473,716	34,101	7.8%
Unincorporated Area	1,041,174	1,561,463	520,289	50.0%
Total County	3,400,578	4,092,459	691,881	20.3%
<i>Percent Unincorporated</i>	<i>31%</i>	<i>38%</i>	<i>75%</i>	



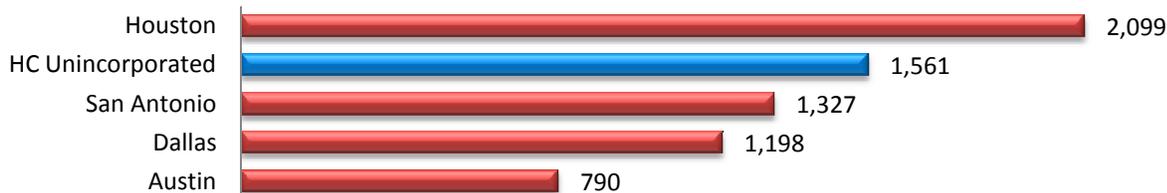
The unincorporated area now represents 38% of the total county population, up from 31% in 2000. Between 2000 and 2010, 75% of the growth in the county was in the unincorporated area.

Unique Unincorporated Area

Harris County is essentially home to the 2 largest cities in Texas if you consider the unincorporated area as a stand-alone city. The Census Bureau has not yet released 2010 count data for Arizona but there is a chance that Harris County Unincorporated may pass Phoenix in population which would make it the fifth most populous "city" in the US.

Harris County is the only county in Texas and likely the only county in the US with such a significant unincorporated area. The following chart shows the data for the top five "cities" in Texas.

	2000 Census	2010 Census	Increase	Growth Percentage
City of Houston (entire city)	1,953,631	2,099,451	145,820	7.5%
Harris County Unincorporated	1,041,174	1,561,463	520,289	50.0%
San Antonio	1,144,646	1,327,407	182,761	16.0%
Dallas	1,188,580	1,197,816	9,236	0.8%
Austin	656,562	790,390	133,828	20.4%

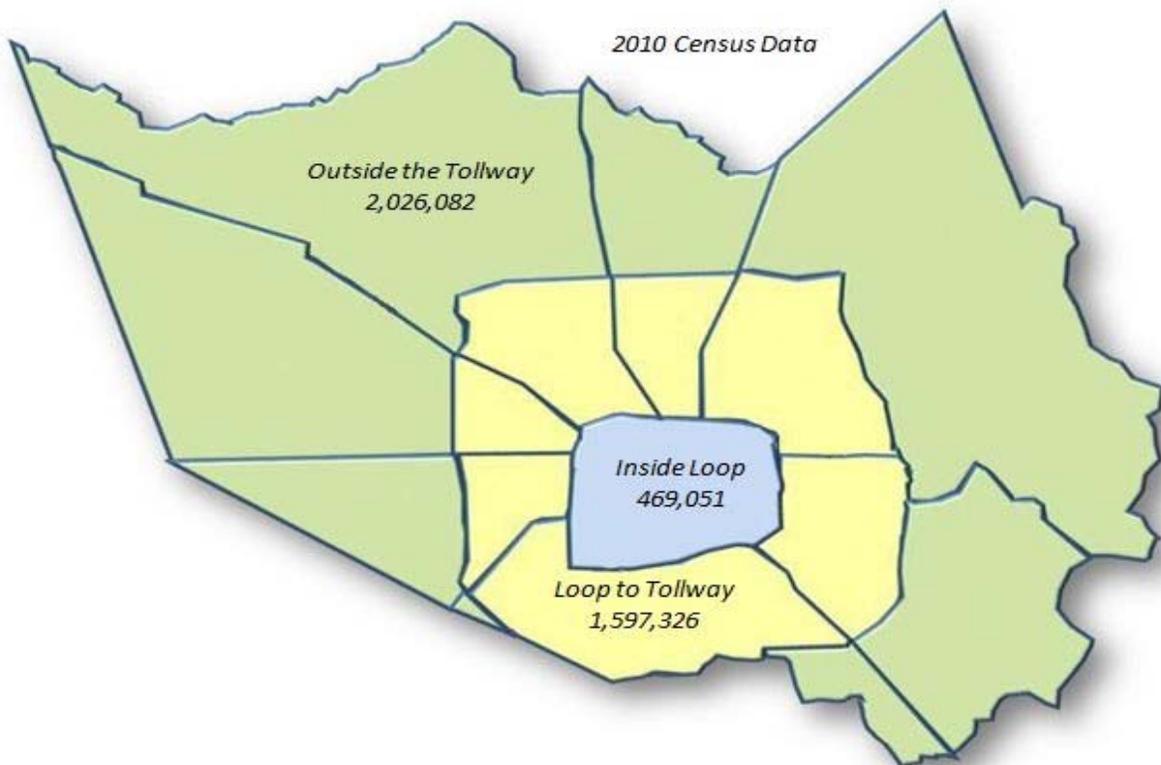


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Population Spreading Out

Over the last decade, the population of Harris County has spread out considerably. With the recent completion of the last segment of the tollway system in northeast, the tollway now forms a complete outer loop within the County. The following chart shows how the population outside the Tollway has grown significantly faster than the area inside the Tollway:

Population	1990	2000	2010	Growth Since 2000 Census	
	Census	Census	Census	Population	Percent
 Inside Loop 610	428,982	456,649	469,051	12,402	2.7%
 Loop to Tollway	1,281,787	1,493,635	1,597,326	103,691	6.9%
Subtotal Inside Tollway	1,710,769	1,950,284	2,066,377	116,093	6.0%
 Outside Tollway	1,107,430	1,450,294	2,026,082	575,788	39.7%
Entire County	2,818,199	3,400,578	4,092,459	691,881	20.3%
<i>Percent Outside Tollway</i>	<i>39%</i>	<i>43%</i>	<i>50%</i>	<i>83%</i>	



Infrastructure and Growth

Harris County is primarily responsible for the infrastructure maintenance and development outside the Tollway. This area is growing at a rate more than six times that of the growth inside the Tollway and the County relies primarily on property taxes to fund this development. Harris County does not receive general sales taxes like the cities and METRO.

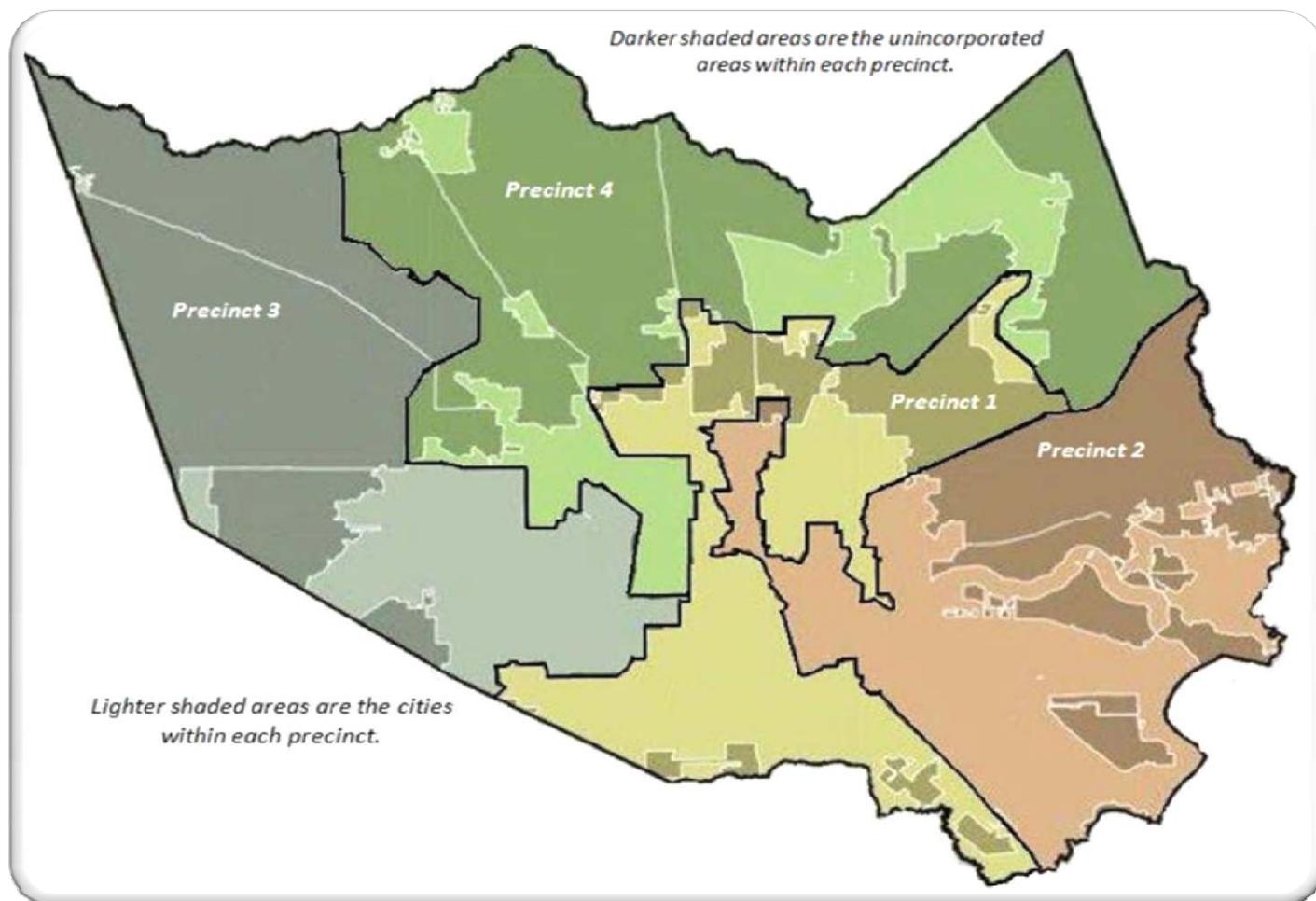
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Harris County Precincts and Redistricting

Each of the four Commissioner precincts in Harris County has a significant population in the unincorporated area. The following chart shows an estimate of the 2010 population in each of the precincts. The data is estimated because it is based on the census data for the 2,144 census blocks located in Harris County and about 50 of these areas fall within more than one precinct.

Data for the upcoming redistricting process for the Commissioner precincts will involve a more detailed look at census data, but the amounts in the table below should provide a reasonable picture of the current spread of population between the precincts.

Commissioner Precinct	Within City Limits	Unincorp. Area	Total	Percent in Cities	Share of Unincorp.
Precinct 1	780,956	160,226	941,182	83%	10%
Precinct 2	737,657	145,768	883,425	83%	9%
Precinct 3	667,734	478,402	1,146,136	58%	31%
Precinct 4	344,649	777,067	1,121,716	31%	50%
	2,530,996	1,561,463	4,092,459	62%	100%



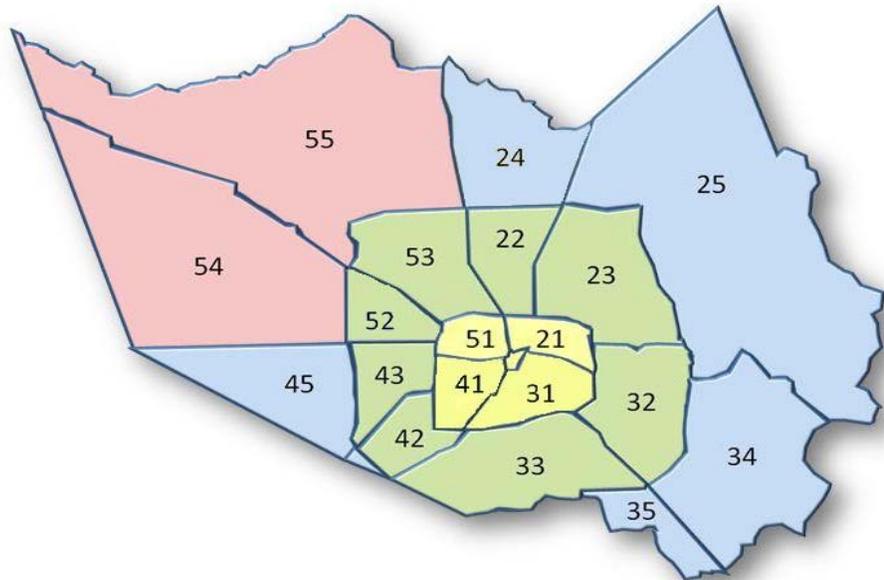
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Growth Trends by Area

The following map and data are by groups of Census Tracts. Tract 54 is the fastest growing area having nearly tripled in population since 1990.

Tract 55 has more than doubled in population since 1990 and has grown by more than 183,000 in the last 10 years.

When you add tract 45, the three tracts on the west side, 45, 54 and 55, have more population in the 2010 Census than the city of Dallas.



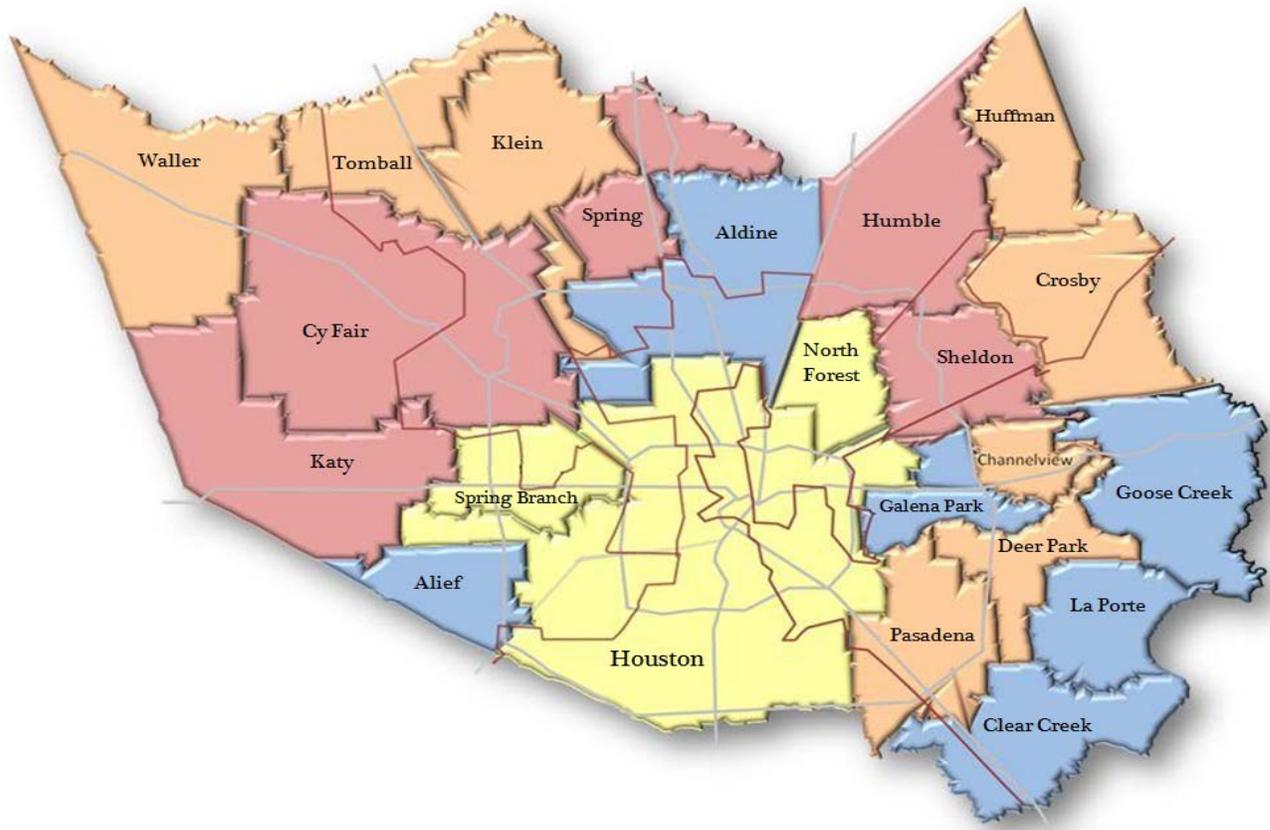
Census Tract Group	1990	2000	2010	% since 1990	% since 2000
10	7,005	6,678	4,690	-33%	-30%
21	82,060	87,747	82,863	1%	-6%
31	164,560	174,168	171,337	4%	-2%
41	106,766	120,085	133,604	25%	11%
51	68,591	67,971	76,557	12%	13%
Inside 610 Loop	428,982	456,649	469,051	9%	3%
22	132,054	160,360	168,240	27%	5%
23	179,196	195,978	210,010	17%	7%
32	166,368	189,380	200,164	20%	6%
33	172,204	192,110	239,957	39%	25%
42	172,331	210,909	201,950	17%	-4%
43	165,235	199,827	215,946	31%	8%
52	106,780	127,010	126,744	19%	0%
53	187,619	218,061	234,315	25%	7%
Loop to Tollway	1,281,787	1,493,635	1,597,326	25%	7%
24	72,284	80,515	141,673	96%	76%
25	212,651	255,176	341,034	60%	34%
34	145,410	179,184	192,512	32%	7%
35	46,756	51,250	69,659	49%	36%
45	242,273	313,170	364,338	50%	16%
54	120,428	186,295	348,989	190%	87%
55	267,628	384,704	567,877	112%	48%
Outside Tollway	1,107,430	1,450,294	2,026,082	83%	40%
Entire County	2,818,199	3,400,578	4,092,459	45%	20%

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School Enrollment Trends

The following shows the total student enrollment for each of the public school districts in Harris County comparing the 2009-10 school year with the 2000-01 year.

West Side Districts		Central Districts		Northeast Districts		Southeast Districts	
District	Growth %	District	Growth %	District	Growth %	District	Growth %
Cy-Fair	54.3%	Aldine	17.7%	Crosby	24.9%	Deer Park	10.5%
Katy	57.3%	Alief	4.2%	Huffman	19.8%	La Porte	1.0%
Klein	31.0%	Galena Park	11.3%	Humble	37.9%	Clear Creek	19.8%
Spring	44.1%	Houston	-3.9%	Sheldon	61.5%	Pasadena	20.1%
Tomball	33.5%	North Forest	-34.6%			Goose Creek	14.3%
Waller	18.8%	Spring Branch	-0.2%			Channelview	23.0%
Total Enrollment							
2000-2001	175,977		371,662		36,052		119,029
2009-2010	258,999		372,821		49,679		139,450
Change	83,022		1,159		13,627		20,421
%	47.2%		0.3%		37.8%		17.2%



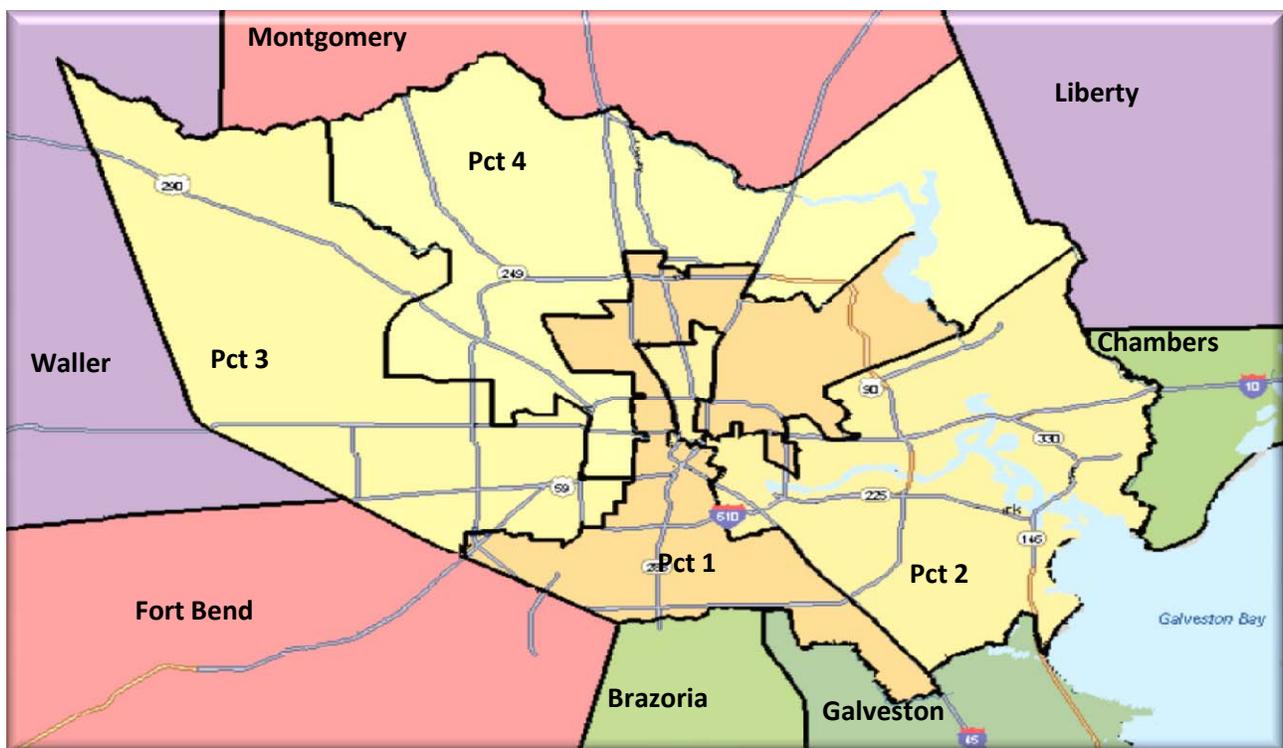
The 4 largest school districts in the western half of the County (Katy, Cy Fair, Spring and Klein) had 164,000 students enrolled 8 years ago which increased to over 244,000 this past year. These districts had only 78% as many students as HISD in 2001. Now they have 21% more students than HISD. Cy Fair alone has grown from 68,000 students in 2001 to 104,000 students enrolled in 2010, representing an increase from 32% of the size of HISD in 2001 to 52% in 2010. If these trends continue, Cy Fair could become the largest school district in the County by the year 2020.

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Growth of Surrounding Counties

Harris County sits at the center of a dynamic region. The 7 adjacent counties have experienced a 42% growth in population over the last 10 years compared to 50% for unincorporated Harris County.

A significant number of the new residents of these surrounding Counties actually work in Harris County, either by commuting to downtown Houston or to one of the growing number of suburban business centers. The two fastest growing counties, Fort Bend at 65% and Montgomery at 55% now have a combined population of over 1 million in the 2010 Census compared to just over 648,000 in 2000. These 2 counties have significant traffic flow to support toll roads into Harris County. Galveston and Brazoria Counties each have around 300,000 in population and have grown by 16% and 30%, respectively, since 2000. The smaller counties of Liberty, Chambers and Waller have grown by an average of 19% from 2000 to 2010.



The growth of the Harris County Toll Road system has contributed to the rapid growth in the unincorporated areas of the County as well as the surrounding counties. The Tollway has created increased mobility in the outlying areas of the County.

Increased mobility will continue to be a factor in the growth of new single and multi-family housing, retail centers and commercial development in the unincorporated areas.

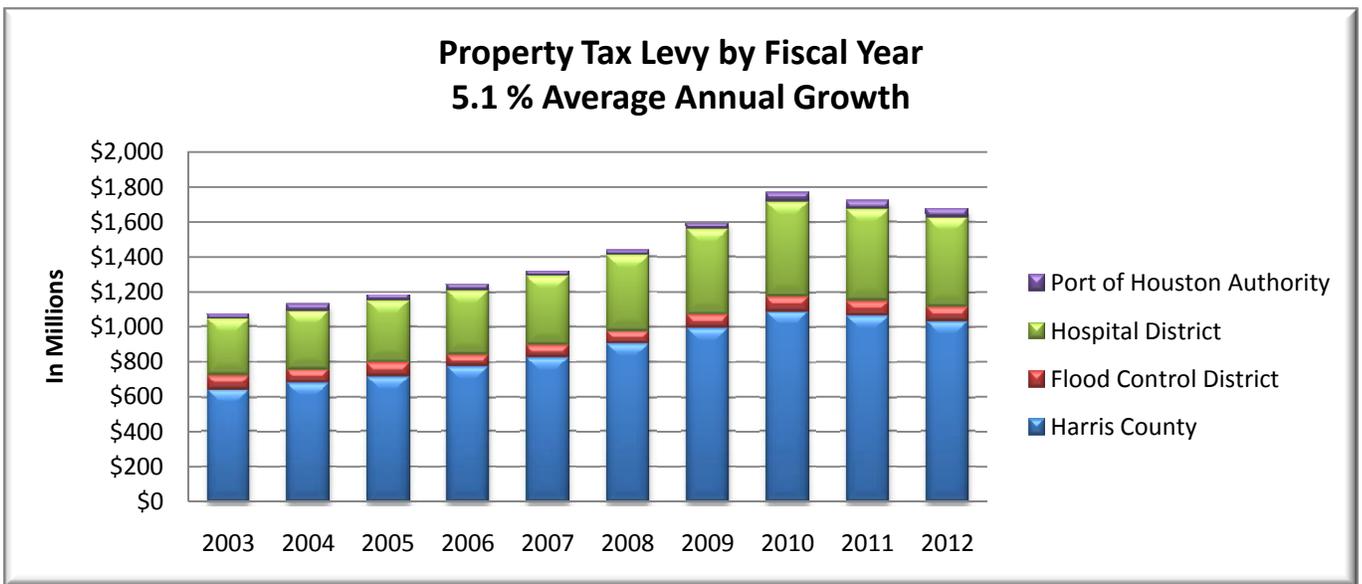
As these outlying communities continue to grow, there is increased demand for businesses to move to these suburban areas along with the development of retail outlets and grocery stores. Harris County is requested to provide roads, flood control, parks and county service annexes. Also, there are calls for increased law enforcement, fire safety inspections, libraries, public health, and other public services.

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Sources of Revenue - Property Tax Levy

Harris County relies on property taxes as its primary source of revenue to fund general operations and debt service. The city of Houston and other cities located in the County receive both property taxes and sales taxes to fund their operations.

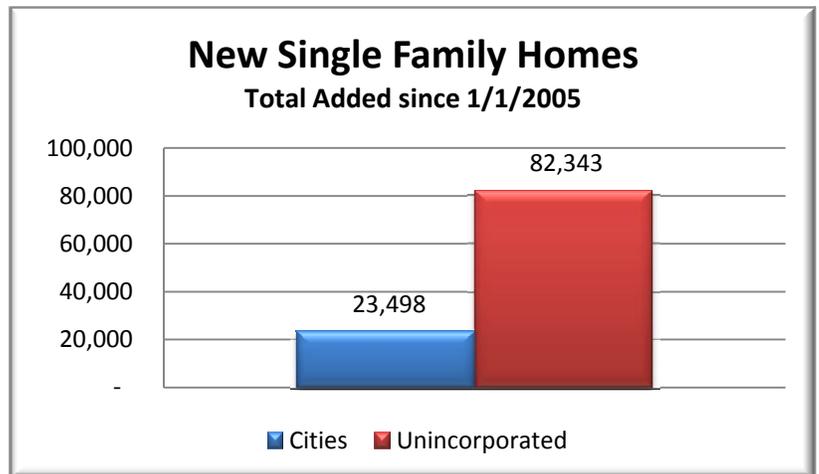
The following shows the property tax levy for Harris County and the 3 related taxing jurisdictions for which Commissioners Court sets tax rates, the Flood Control District, the Port of Houston and the Harris County Hospital District. The tax levy for the last two fiscal years has dropped by 3% each year. The tax rate has remained constant since the 1 cent reduction in fiscal 2008 to \$0.62998 per \$100 of valuation. Declining property values have resulted in property taxes being almost \$100 million less in the upcoming fiscal year compared to the peak in fiscal year 2010.



Growth in Number of Single Family Homes

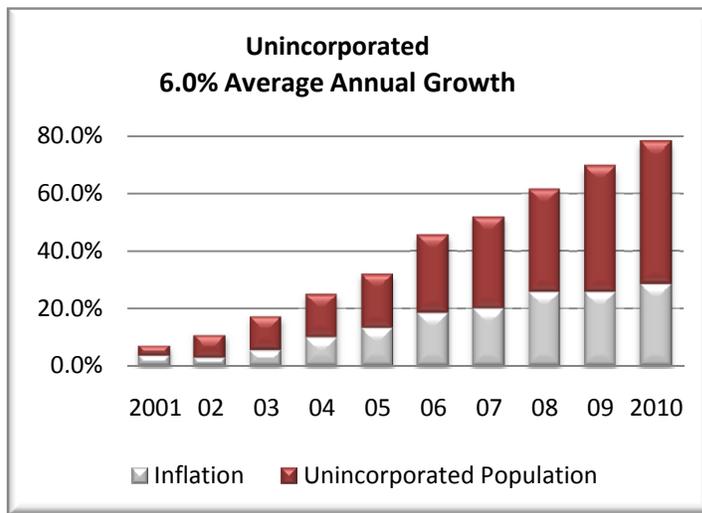
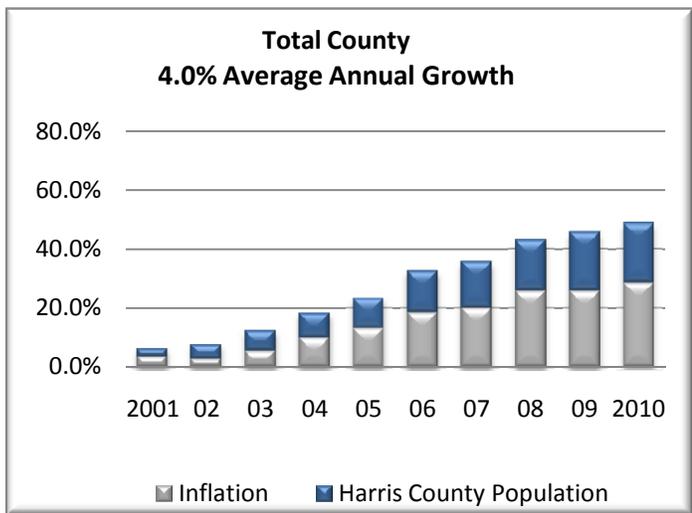
The number of single family homes in Harris County increased by over 105,000 in the last five years according to Harris County Appraisal District data.

Since January 1, 2005, the number of single family homes in the unincorporated area of the County increased by 82,343 homes or 24%, while the number of single family homes in Houston and the other cities increased by 23,498 homes or 4%. Overall, 78% of homes added since 2005 are in the unincorporated area.



Inflation plus Population Growth

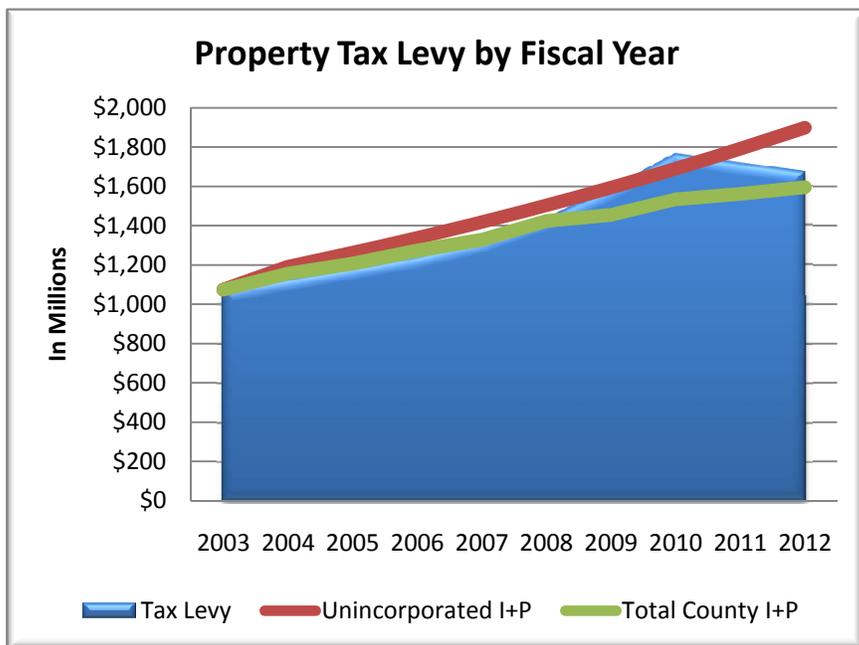
The United States Bureau of Labor Statistics publishes consumer price index data by Metropolitan Service Area (MSA). The CPI for the Houston-Baytown-Sugar Land MSA, which includes Harris County, the seven surrounding counties shown on page 6 and Austin and San Jacinto counties, shows total inflation of 28.3% from 2000 to 2010. The following charts show inflation plus population growth since 2000 for both the entire Harris County and for the unincorporated areas of the County using the local area MSA rate of inflation.



The following shows a comparison of the total tax levy for Harris County, including Flood Control, the Port and the Hospital District, to the amount that would have been levied if taxes were tied to the rate of inflation plus population growth both on a total county basis and just considering the unincorporated area.

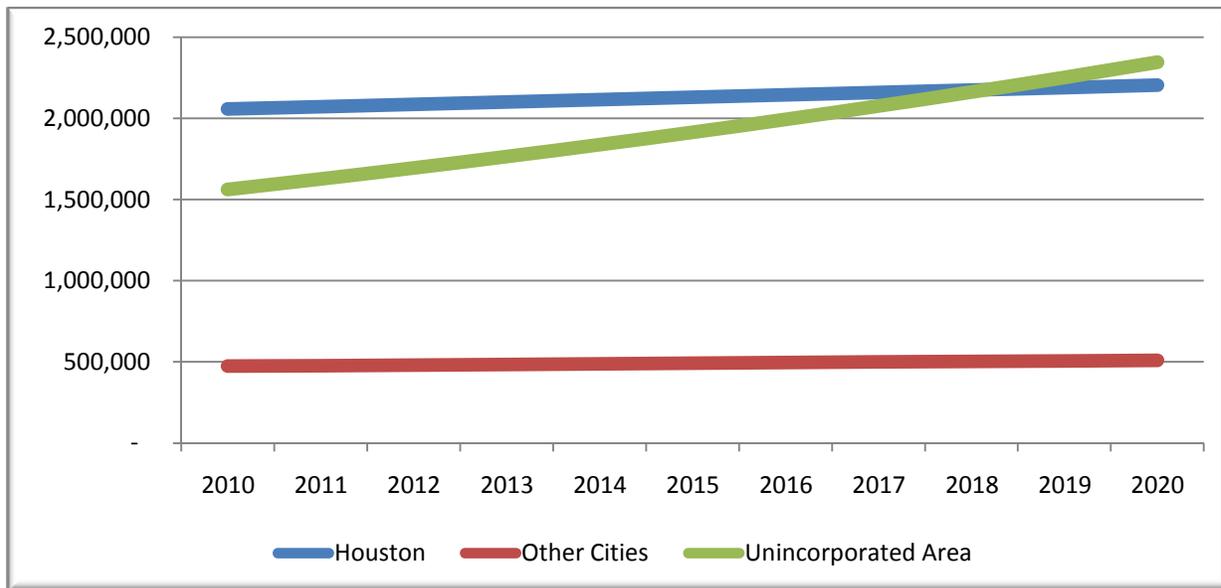
The 5.1% annual growth rate in property tax levy over the last 10 years falls between the inflation plus population growth rates for the county as a whole and the inflation plus population growth rate for just the unincorporated area.

The ability to meet the demands of an increasing population with fewer resources is the primary challenge facing Harris County at this time.



The Next Ten Years

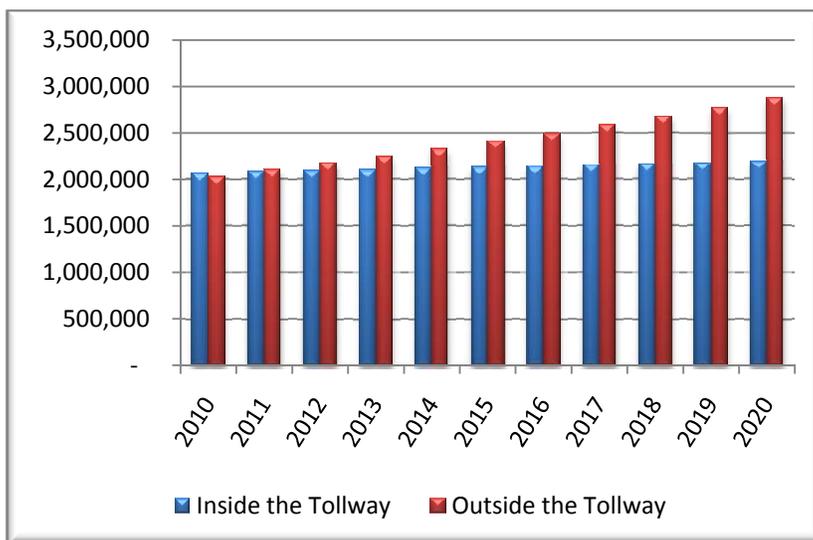
The following shows the projected growth in population during the next 10 years assuming that the growth patterns from 2000 to 2010 continue for Harris County with no significant areas being annexed by the city of Houston.



The unincorporated area would pass the city of Houston in population by 2018 if the current trends continue. Total Harris County population would pass the 5 million mark in 2019. The next chart shows the population inside and outside the tollway assuming the same trends continue.

Over 86% of the growth in population over the next 10 years would be outside the tollway.

Harris County government provides much of its services to residents throughout the County including people living in Houston and surrounding cities and towns. There are some services, such as law enforcement and public safety, public health and animal control, and libraries that are provided primarily to the unincorporated areas of the County.



While nothing is certain, all indications are that Harris County will continue to experience significant growth throughout the County in all 4 County Commissioner precincts and especially in the unincorporated areas. The demand for infrastructure to support this growth, as well as increased demand for services such as law enforcement and health care, will make it necessary to maintain adequate sources of revenue for budgetary purposes.

Economic Environment

Introduction

The purpose of this report is to update our analysis of the current economic environment and how it might affect the ongoing plans for the fiscal 2011-12 budget at the end of the first quarter.

National Economy

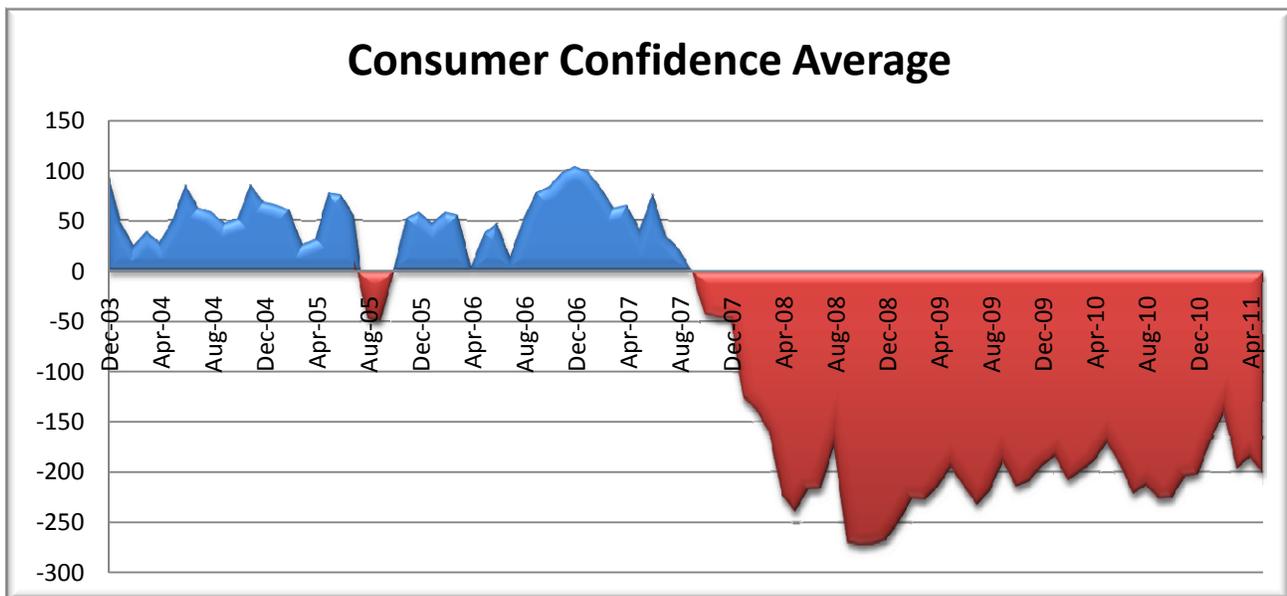
The United States economy is going through a period of uncertainty that started in 2007 and has continued into 2011. Significant fluctuations in energy prices combined with historically high levels of federal government spending, ongoing military conflicts and fundamental changes in the financial and credit markets have contributed to a high level of concern about the future.

Problems in the housing industry resulting from some aggressive and questionable lending practices over the last few years have led to declining home prices and increased foreclosure rates in many parts of the country. Interest rates have declined significantly as the federal funds rate is near zero and mortgage interest rates continue to be at 50 year lows.

While there are some signs of improvement, it does not appear that the economy has reached the bottom of this current cycle and there are a number of ongoing concerns about major industries, local and state government funds and the potential impacts that inflation and historically high federal deficits could have on the economy over the next few years.

Consumer Confidence is Low

Consumer confidence, as measured by three groups (The Conference Board, University of Michigan and ABC News), has remained significantly negative since September 2007. The average of these three indexes has trended up and down over this 3-4 year period but has not come close to showing a positive outlook throughout this economic downturn.



Restoring consumer confidence in the economy is a key ingredient to reestablishing growth, reducing unemployment and improving the conditions of the financial markets in the US.

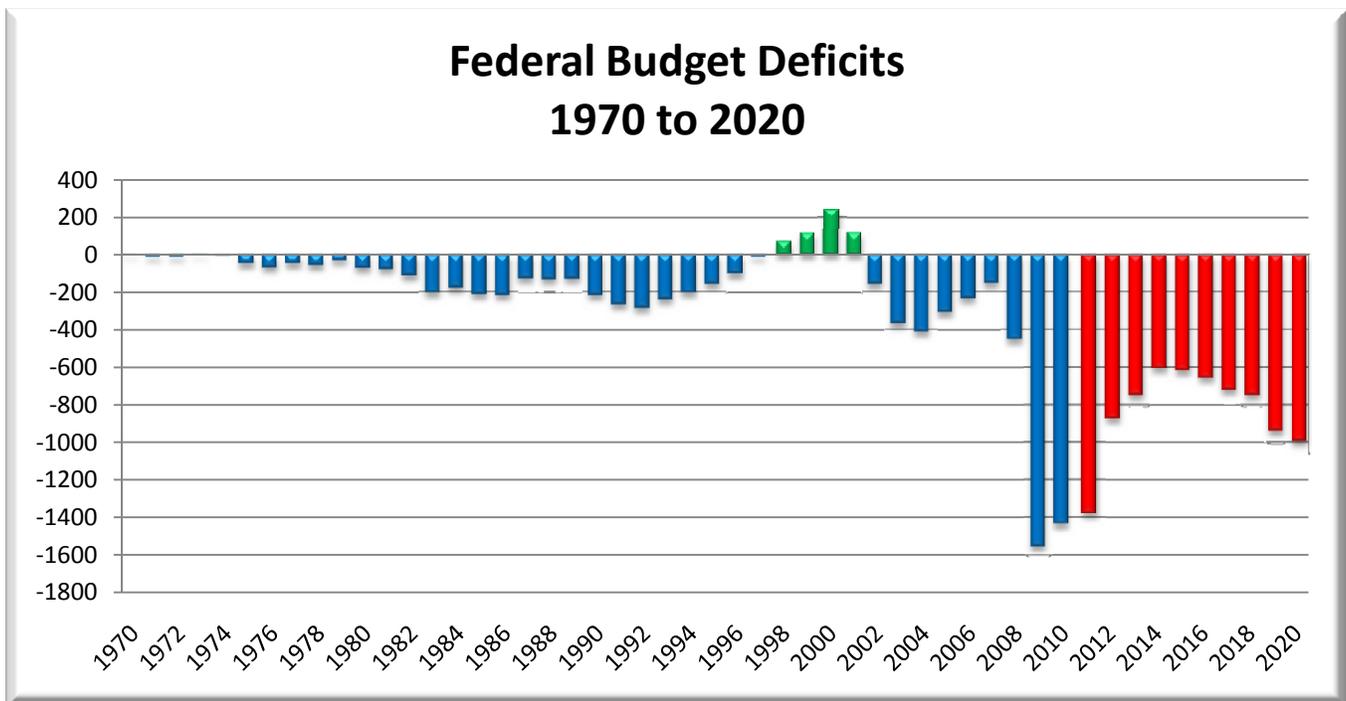
Challenges for Government at all Levels

State and local governments throughout the US have faced significant budget challenges over the last 2-3 years. The State of Texas, despite the relative strength of its economy, has not been immune to the effects of this economy. The State is facing significant budget cuts over the next few years.

County government relies on a combination of property taxes, fees and funding from federal and state governments to conduct operations. This economy has put significant pressure on those sources of county revenue while the need to provide services is increasing.

The current economic downturn could force delays in capital spending programs and has required reductions in staffing and discretionary spending for Harris County and most other governments.

The Federal Government has responded to this crisis by significantly increasing federal spending through stimulus programs and industry bailouts, which, coupled with war-related expenditures, are resulting in historic increases in the federal budget deficit using the Congressional Budget Office estimates for the next 10 years:



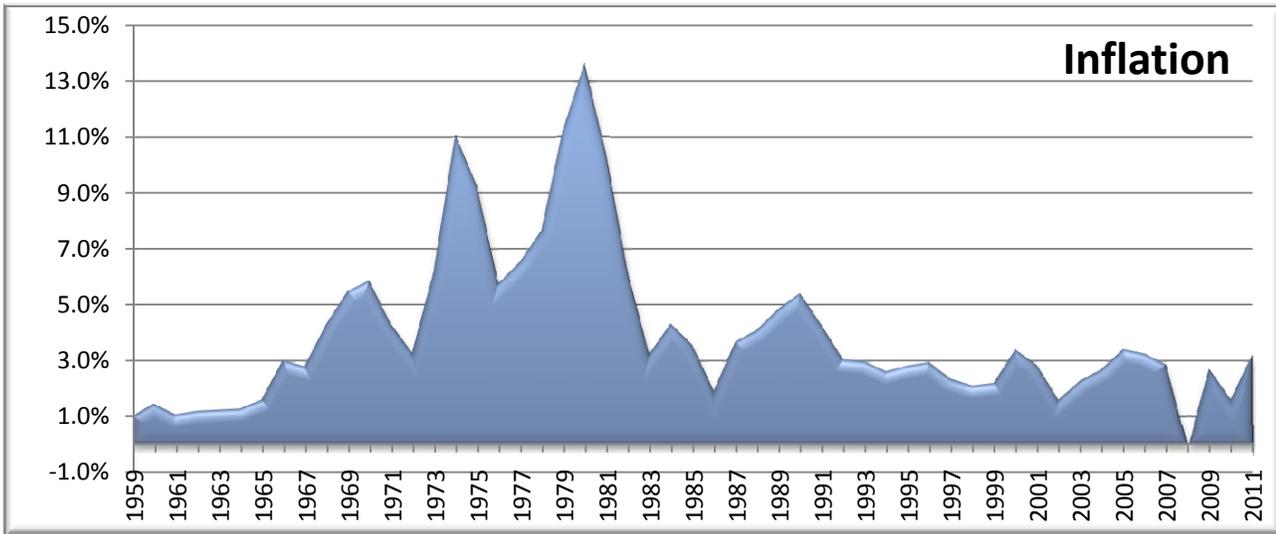
The impact that these deficits will have on interest rates, inflation, taxes and the value of the US dollar are uncertain. The deficits in 2009 and 2010 were more than three times higher than the worst federal deficits on record.

Federal spending in excess of tax revenue cannot continue at this pace without having a negative effect on state and local governments. Harris County's access to federal funds and ability to raise money by issuing bonds and other indebtedness could be affected by these deficits.

Key Economic Indicators

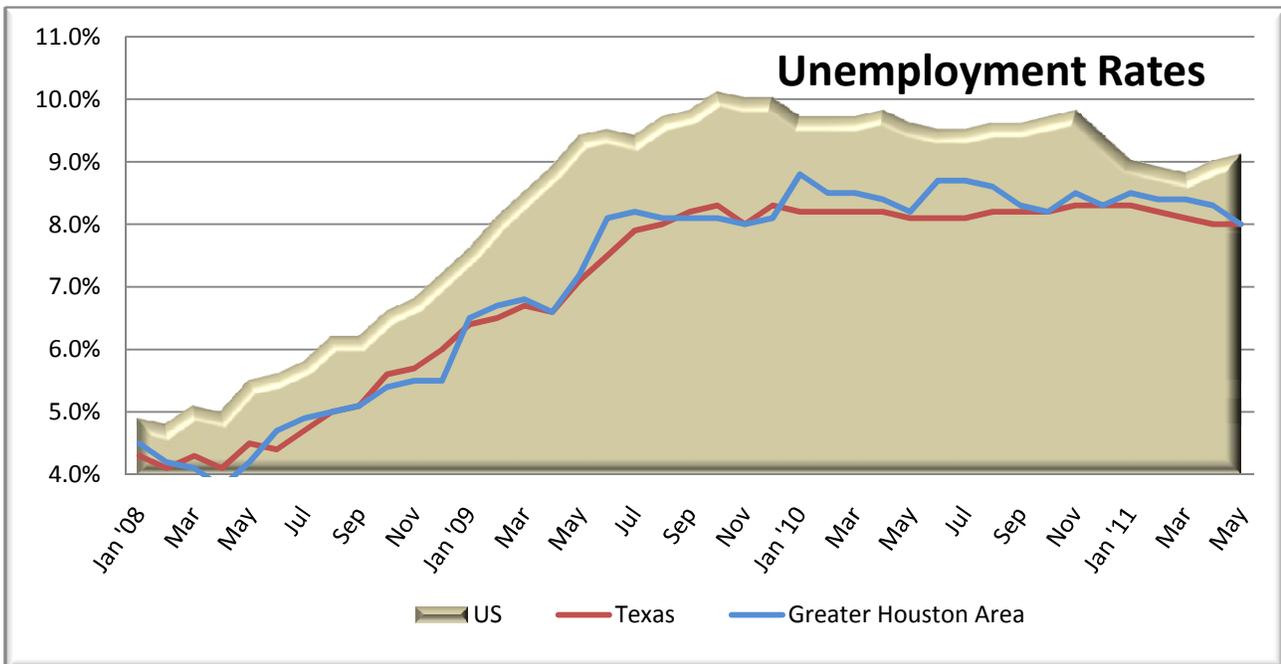
Inflation

In 2008, the United States had its lowest rate of inflation since 1954. The two years since then have seen modest increases in inflation and the 2011 rate is 3.2% through April due to higher gas and food prices. Inflation at the local level has been similar to the national level.



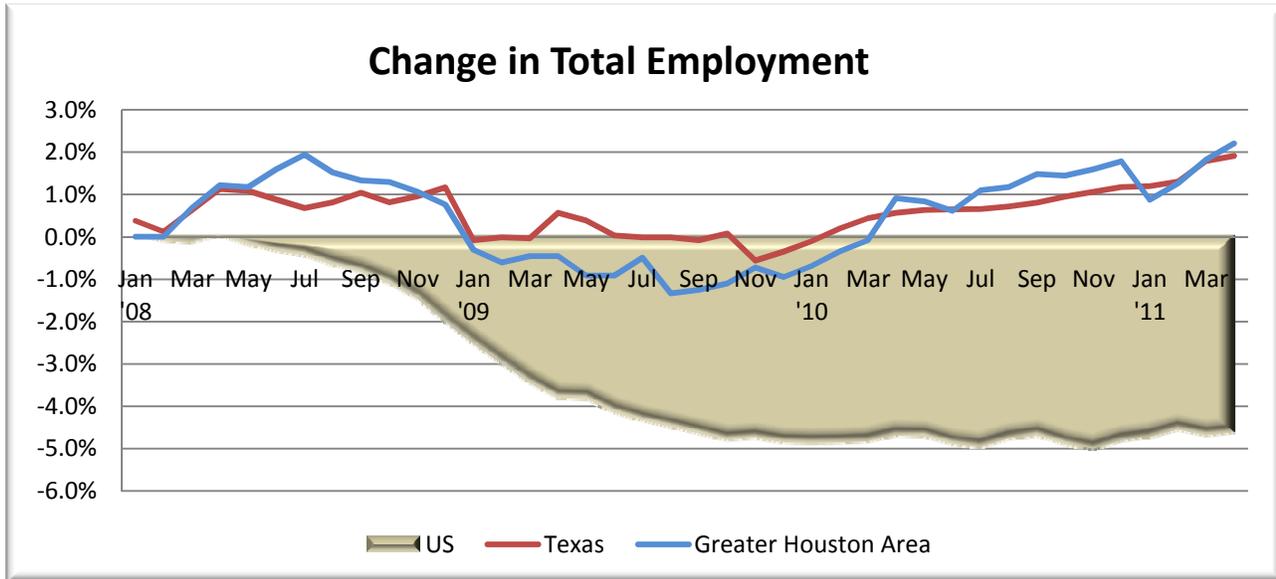
Jobs

The job market and unemployment rate is probably the most important factor contributing to the economic downturn. The national unemployment rate has been at 8.8% or higher for 26 consecutive months and averaged 9.5% over that period, while the unemployment rates for the State of Texas and the Greater Houston Area have averaged 8.0% and 8.2% respectively.



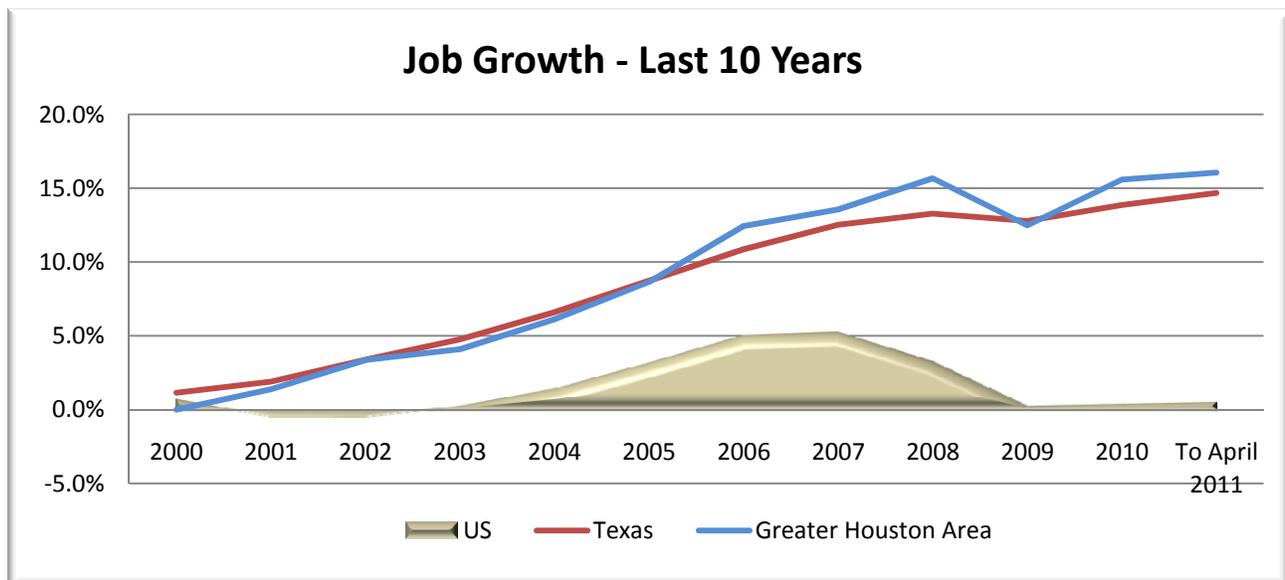
Jobs (continued)

The following chart shows the change in total employment since December 2007 for the US, the State of Texas and the Greater Houston Area. While the state and local employment figures show a 2% increase through April 2011, total employment nationally has dropped by nearly 5% over the last 2 years and 4 months.



Total employment in the US from December 1999 through April 2010 has grown by 721,000 jobs (0.5%) while the State of Texas has grown by 1.45 million jobs (14.7%) and the Greater Houston Area has grown by 372,000 jobs (16.1%). Outside of Texas, the other 49 states actually saw a decline of more than 724,000 jobs in this decade.

Texas now accounts for 8.2% of all US jobs, up from 7.1% in 2000 and Harris County has 1.94% of all US jobs, up from 1.7% ten years ago.



The Local Economy

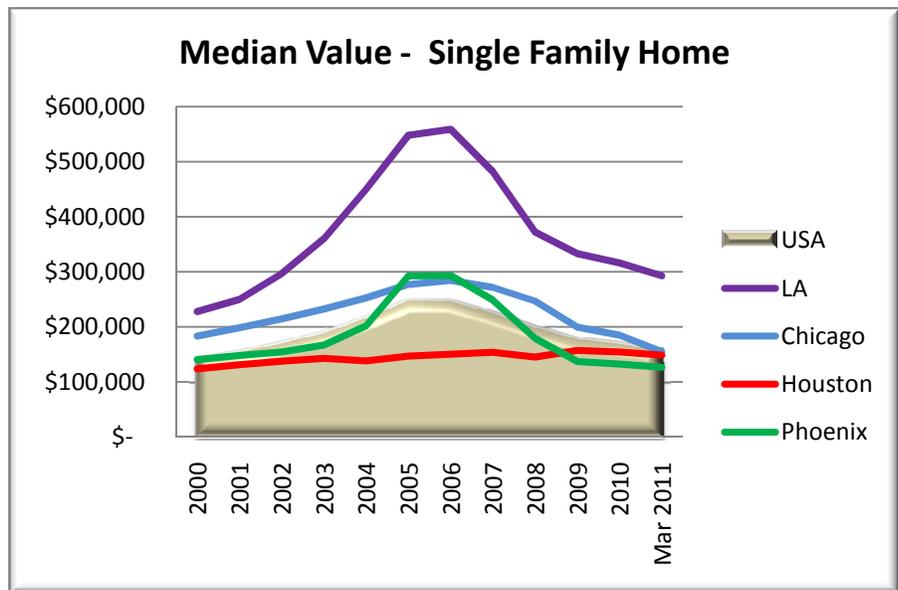
The local Houston and Harris County economy has been relatively stable during this economic downturn due to several factors.

Real Estate Stability

Harris County did not participate in the so-called real estate "bubble" like many of the other large counties and metropolitan areas. Local real estate prices have traditionally been lower than the national average and did not increase significantly during the 2003-2006 time period.

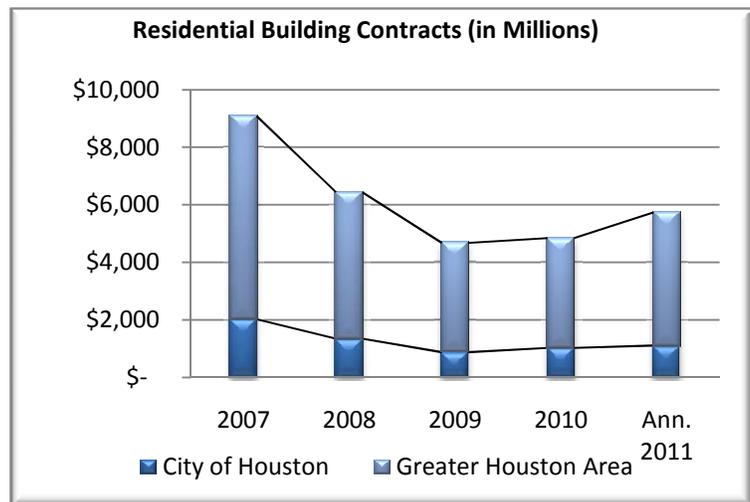
The chart below shows the median value of a single family home for the cities located in the four largest counties in the U.S. as well as the average for the U.S. as a whole. Home prices in Houston did not increase nearly as fast as they did in LA, Phoenix or the rest of the country. As a result, Houston did not experience significant drops in home values during the last few years.

The median value of a single family home in Houston is now higher than the median value in Phoenix and is almost the same as the median value in Chicago.



The number of foreclosures in Houston and Harris County have been less than 1% compared to double digit foreclosure rates in other parts of the Country.

One reason this area was able to avoid the more severe effects of the downturn on real estate values is that builders and developers significantly slowed down building new homes in 2008 and 2009. During the last significant downturn in Houston during the mid-1980s, home building did not slow down and the market declined significantly.

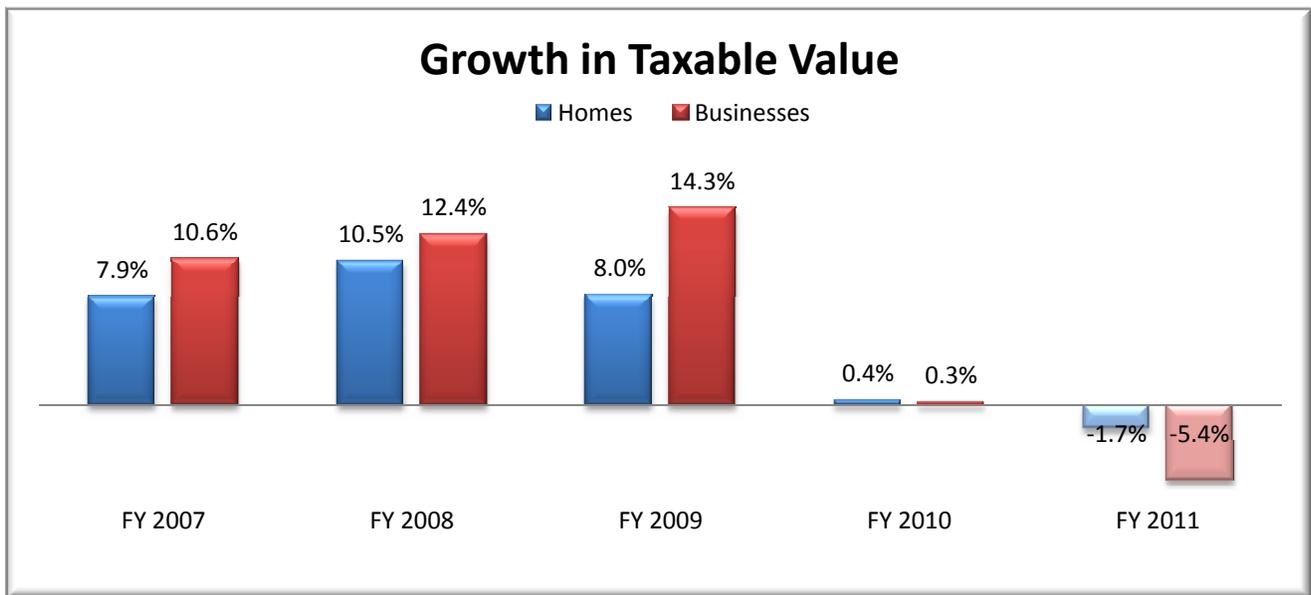


Residential construction through April 2011 on an annualized basis is rebounding. Around 80% of all new residential construction throughout this period has been outside the city limits of Houston.

Real Estate Appraisal Data

Property appraisals conducted by the Harris County Appraisal District (HCAD) each year can be a good indicator of economic stability and growth. The following analysis is based on HCAD data from January 1, 2005 through the latest appraisals done as of January 1, 2010 along with preliminary estimates by HCAD of the 2011 taxable values.

Due to the dynamic growth in population and the number of new homes and businesses in Harris County, the market value of all property grew by double digits from 2005 through 2008 but flattened considerably in 2009 and declined in 2010. Harris County's fiscal year ends at the end of February, so, for example, homes appraised on January 1, 2010 are billed in October 2010 and are part of the fiscal 2011 revenue. The chart below shows the growth rate for homes and for businesses in Harris County for each of the last 5 fiscal years. The county adopted a partial hiring freeze in September 2009 as it became apparent values would be flat for fiscal 2010. A full hiring freeze became necessary at the beginning of fiscal year 2011 as the values declined.



Property taxes for the current fiscal year 2012 are included in the County Auditor's revenue estimate which is based on a tax base of \$266.2 billion for Harris County down from \$273.5 billion for fiscal year 2011. This represents a 2.66% decrease in expected revenues for fiscal 2012. This estimate is based on January 2011 estimates from the Harris County Appraisal District (HCAD).

Market trends have improved since January, and, as of June 3, 2011, HCAD now estimates that the tax base for Harris County for the current fiscal year 2012 will be flat or slightly higher than the tax base for fiscal year 2011. Harris County sets property tax rates for the county general fund, county debt service, the flood control district, the Hospital District and the Port of Houston Authority in September of 2011. If these rates remain flat and the June HCAD estimate holds true, then property tax revenues for the county should be relatively flat for the current fiscal year.

Real Estate Appraisal Data (continued)

In their April 2011 report to taxing jurisdictions, HCAD had some other positive information:

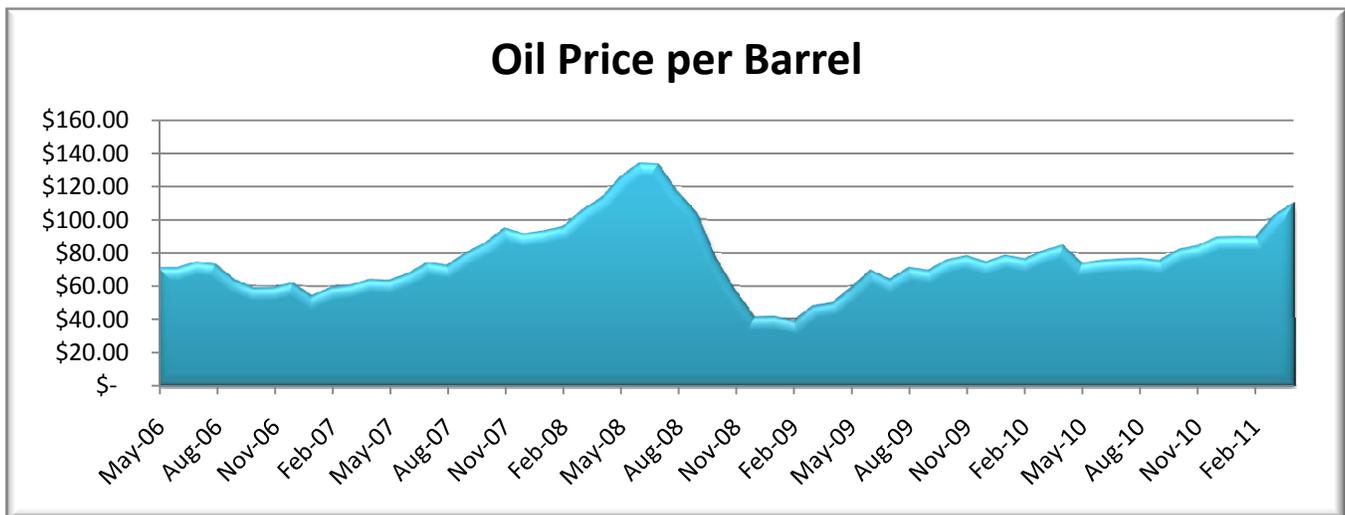
- Overall office vacancies decreased 13.5% comparing the fourth quarter of 2010 to 2009.
- Apartments have experienced a 1.9% growth in rental rates.
- Increased occupancy in retail with vacancies dropping from 8.2% to 7.3% in 2010.
- Medical office buildings have seen increases in new construction.
- Warehouse space rental rates and occupancy have stabilized in 2010.
- Refineries are expected to remain flat or increase for 2011.

New developments including the reported move of Exxon's corporate headquarters to northern Harris County and the construction of sections of the Grand Parkway could help increase the property tax base for the upcoming 2013 and 2014 fiscal years.

The Energy Capital

The Greater Houston Area remains the energy capital of the US. Oil prices peaked in 2008 with the price of West Texas Intermediate reaching \$100 per barrel for the first time in March 2008. After dropping significantly in 2009, the price is once again hovering around \$100 per barrel.

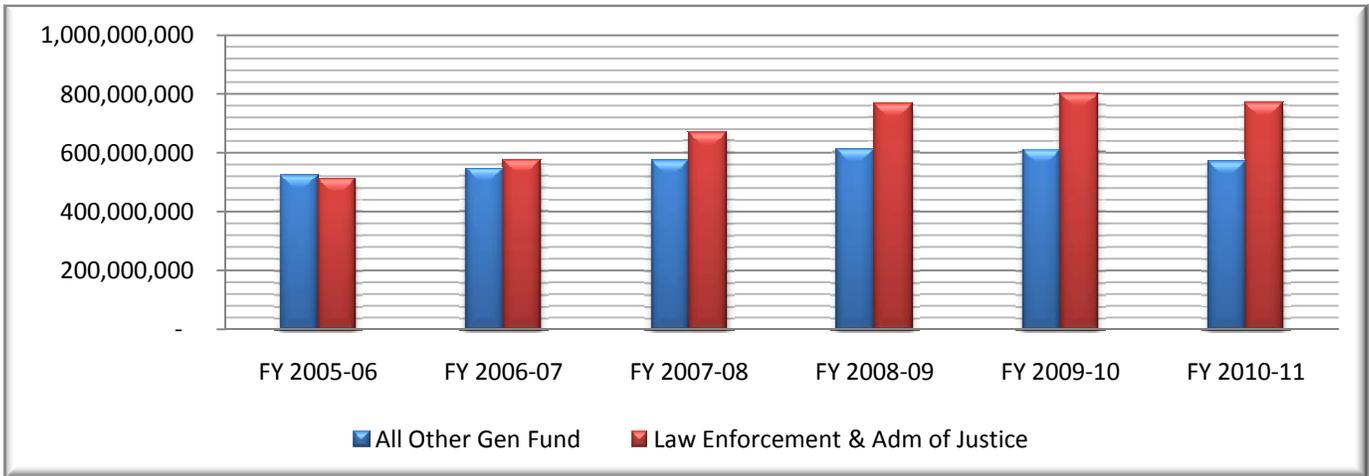
High oil prices help the local economy as energy companies have been able to maintain and, in many cases, expand their workforce during the economic downturn. Following the BP blowout in April 2010, there has been a slowdown in offshore drilling, but the restrictions seem to be easing and there have been some encouraging discoveries in the Gulf of Mexico in recent weeks.

***International Trade***

Harris County has also seen growth in international trade and commerce. According to data reported by the Greater Houston Partnership, Port of Houston Authority shipments are up 8.5% for the first quarter of 2011 compared to the first quarter of 2010. Foreign trade is up 27% for the first quarter of 2011 and international air traffic is up by 6.9%.

Law Enforcement and the Administration of Justice

Harris County government has a primary role in virtually all aspects of law enforcement and the administration of justice in this region. Since 2005, the cost of providing these services from patrol to arrest to prosecution to conviction and incarceration has grown significantly faster than cost of other county services. The following chart shows the growth in county spending related to the Sheriff's office, the Constables, the District Attorney, the County Attorney, Fire Marshal, Juvenile Probation and the cost of providing court-appointed attorneys compared to the growth of other county general fund spending.



The cost of law enforcement and justice has grown by 51% from \$508 million to more than \$765 million over this period of time. All other general fund spending has only gone up 9%, from \$520 million to \$568 million, since 2005. The percentage of general fund resources spent on law enforcement and justice has grown from 49% in fiscal year 2005-06 to over 57% in the current fiscal year.

Until the economy starts to improve, it is likely that property taxes and other revenues will be relatively flat for the next few fiscal years. The trend for rapidly growing law enforcement expenditures may need to be tempered or new sources of revenue identified to fund this need.

Harris County has already taken steps to address this problem by adopting alternatives to detention for juveniles and alternative sentencing for some adults as well as forming a council to look at criminal justice coordination and alternatives. The pressures of increasing jail populations and the need to provide services to a rapidly growing unincorporated area will cause this issue to remain at the forefront until the economy turns around and the growth in available resources returns.

Conclusion and Recommendation

The continued high unemployment rates along with the growing federal deficit have contributed to the ongoing lack of consumer confidence in the economy. Until confidence can be restored and job growth re-established, there is a need to be cautious in county spending both for operations and capital projects. Local trends are promising but the national uncertainty remains a big concern.