

Policy Issues

The following information is presented for consideration as part of the proposed FY 2014-15 budget. A final report adjusted in accordance with court direction will be presented for adoption on February 11, 2014.

Financial Policies and Condition

Harris County government financing is large and complex with funding from property taxes, charges for services, federal and state grants and proceeds from issuing debt along with other revenue sources. Financial policies are in place to maintain financial stability and the current high bond ratings. Meeting the challenges of providing services to an expanding population, building and maintaining infrastructure and facilities to help fuel the growth, while keeping short and long term debt under control are key to maintaining the current stability.

The General Fund cash balance was negatively impacted by the economic downturn a few years ago. Sound financial policies including limiting spending, allowing departments to roll over unspent funds and reduced borrowing have provided for anticipated growth in the General Fund ending cash balance to an estimated \$401 million as of February 28, 2014. This balance is up from \$149 million in 2012 and \$252 million at the end of fiscal 2013.

The County's reliance on short term borrowing during the fiscal year has been reduced from \$450 million in fiscal 2012, \$375 million in fiscal 2013 to \$295 million in the current fiscal year. The proposed budget should allow for borrowing in the upcoming fiscal year to be as low as \$225 million. Continuing to outgrow the need for any short term borrowing is an essential part of the County's financial strategy.

Financial Outlook

Population Growth and the Local Economy

Harris County continues to experience significant growth in population and a strong regional economy. The nation's third largest county has grown from 3.4 million in 2000 to nearly 4.4 million by the end of 2013. Most of the increase in population (75%) has occurred in the unincorporated area in the County. The unincorporated area would be the fifth largest city in the US if it were incorporated.

County government has primary responsibility for this large, unique unincorporated area, and it is likely that the growth trends will continue over the next several years. Continued development of the toll road system including the Grand Parkway over the next few years will likely cause expansion of neighborhoods and industry in these outlying areas.

The local economy continues to thrive with strong growth in energy and health care among other industries. The region is well positioned with the potential growth related to the Port of Houston.

The latest reports on Population and on the Economy are included.

Property Taxes and Revenue

Property taxes provide over 70% of the County General Fund, all of the general debt service obligations, most of the Flood Control District's operations and debt service, over \$50 million for the Port of Houston's debt service and \$515 million for the Hospital District. The total tax roll for Harris County has grown to over \$316 billion as of January 1, 2013 and is estimated to grow to over \$330 billion for the upcoming budget year.

The increased revenue from property taxes provide the ability for the County to meet the challenges related to providing services, building and maintaining roads and infrastructure, providing law enforcement and administration of justice as well as health care for the public.

General Fund revenues for the County are up an estimated 4.1% based on the Auditor's preliminary estimate and are shown in Exhibit A.

Expenditure Budgets

The preliminary general fund budget allocations are included with the annual budget letter and are based on the Auditor's preliminary estimate of available resources. These budget allocations will be finalized and balanced to the Auditor's final estimate and presented for approval on February 11, 2014.

General Fund expenditure budgets for county departments are 9% higher than the estimated actual spending for the current year, and 4% higher than the adjusted budgets for the current year.

The budget includes \$554 million for law enforcement, \$377 million for administration of justice, \$137 million for administration of infrastructure and systems and \$162 million for fiscal and other services. Exhibit A shows the allocated amounts by department.

The benefits rates charged to departments have been adjusted to account for increases in the cost of retirement with no change in the other rates. Information about approved positions will be included with the final budget adoption information on February 11. Grant positions by department will be presented to the Court as part of the February 25 Agenda.

Priorities for the Fiscal Year 2014-15 Budget

The budget recommendation for FY 2014-15 is based on three priorities that are essential to allow the County to effectively serve the public. The following sections cover each of the following priorities:

Priority 1. Reducing the County's dependence on short and long term debt.

Priority 2. Investment in human capital.

Priority 3. Investment in infrastructure and information systems.

Priority 1. Reducing dependence on short and long term debt

Short term debt

Short term debt refers to the annual issuance of tax anticipation notes (TANs) to provide interim funding during the fiscal year that is necessary since most of the County's revenue from property taxes isn't collected until the last few months of the fiscal year, while expenses are incurred relatively evenly throughout the year. As indicated, significant progress has been made since the economic downturn to reduce TANs borrowing from \$450 million to the expected \$225 million for the upcoming budget year.

The way to continue this trend is to allocate additional resources each year to the General Administration accounts until the need for interim borrowing is eliminated.

Long term debt

The County's long term debt includes bonds issued to build roads & bridges, buildings, parks, libraries, flood control and other infrastructure projects which are repaid with property taxes each year. As indicated, the annual debt service for the Port of Houston is also repaid with property taxes. Other long term debt related to the Harris County Toll Road Authority and the Hotel Occupancy Tax do not involve property taxes for their repayment.

Voters authorized \$70 million in new bonds for the Joint Processing Center in November 2013. Once the new center is built and the bonds are issued, the debt service will be repaid using property taxes but the resulting improved efficiencies in operations will help offset the cost.

The only other significant building project in progress is the new Forensic Science Center expected to open in a few years.

The Mobility Fund, established in 2009 has continued to provide pay-as-you-go funding for road & bridge design, construction and maintenance reducing the need for the County to borrow money for this purpose.

The continued modernization of systems will include new debt to acquire and develop financial, law enforcement and justice related information systems.

Budget Management will continue to work with our financial advisors to monitor financial markets and identify opportunities to manage outstanding debt obligations.

Priority 2. Investment in human capital

Harris County has not adopted an across the board salary increase since 2008. Budget Management believes that providing more specific salary increases based on job requirements, market conditions and performance results in a more productive work force. The HRRM Division of Budget Management has worked with departments to make adjustments and position reclassifications. Each department received additional funding which can be used to provide for salary increases in the proposed budget. It is up to the elected official or appointed department head to determine how to allocate their resources to provide efficient services to the public.

Budget Management will continue to work on recommending policies that help balance the need to retain valuable, experienced employees with the need to attract new employees in a competitive job market.

Law enforcement salaries and benefits make up nearly half of total General Fund labor expenses. Budget Management has worked with the nine county law enforcement agencies to increase law enforcement compensation and will continue to work with these agencies on salary and classification issues during the fiscal year.

Contract Patrol Services

The increases in labor costs for law enforcement officers has an impact on the County's cost of providing contract patrol services. The Court adopted a policy last year to provide notice one year in advance for any contract patrol rate increases. The rates have not increased since the economic downturn. Budget Management recommends a 5% increase in the rates for Contract Patrol services that, if approved, would be effective on March 1, 2015.

Facility Improvements and Parking

In addition to salary and benefits, the workplace facilities are an important aspect of attracting and keeping a solid workforce. Budget Management working with Facilities & Property Management (FPM) and the Public Infrastructure Department (PID) will continue to review county facilities to make sure they are safe, secure and well maintained. Funding for minor improvements or repairs to these facilities will be identified and allocated in the Facilities repair and replacement cost center as needed.

Budget Management will continue to work on identifying solutions to address issues related to parking for all downtown employees and/or other lower cost transportation solutions.

Priority 3. Investment in infrastructure and information systems

Harris County has a significant investment in buildings, parks and equipment as well as the systems used to manage the financial, law enforcement and judicial activities.

Last year, Court approved a recommendation that changes the funding process for repair and replacement projects. Separate cost centers were established at the beginning of the current fiscal year in FPM, PID and ITC (Information Technology Center), so that funds for repairs and replacement could be allocated to these departments without affecting their normal operating budgets.

This year, a recommendation will be included to establish an R&R Committee, composed of the directors of A&E, FPM, ITC and the Budget Director, to accumulate, evaluate and prioritize these projects and make recommendations to Court.

Projects approved at the Capital Improvements Plan (CIP) meeting last June were funded using these three cost centers. New projects will be brought to Court at the next CIP meeting in June 2014 with some individual projects brought to Court on regular agendas. Budget transfers to the appropriate repair & replacement funds will be made as Court approves the projects or plans.

Summary of Auditor's Preliminary Estimate of Available Resources
General Fund

In Thousands	Last Year FY 2012-13	Current Year FY 2013-14		Preliminary Estimate FY 2014-15
		Original Estimate	Projected Final	
Estimated Beginning Cash	148,954	240,000	255,887	401,067
Revenues				
Taxes	964,787	1,006,023	1,091,511	1,152,761
Intergovernmental	36,546	34,357	39,818	38,888
Charges for Services	198,410	200,209	207,641	214,638
Fines & Fees	18,731	18,173	19,571	19,847
Leases	4,371	5,608	1,206	1,211
Interest	1,368	1,931	916	1,019
Misc.	47,707	40,192	49,409	47,190
Gain on Sale of Assets	-	-	1,109	-
Transfers In	10,088	-	6,503	-
Total Revenue	1,282,008	1,306,493	1,417,684	1,475,554
Available Resources - General Fund		1,546,493	1,673,571	1,876,621

Expenditures	Actual FY 2012-13	Current Year FY 2013-14		Proposed Budget FY 2014-15
		Adopted Budget	Estimated Actual	
Infrastructure & Systems	120,379	133,693	133,704	136,650
County Services	83,212	86,750	82,503	90,900
Fiscal Services	58,786	64,314	58,578	70,960
Law Enforcement	489,063	514,535	516,214	553,620
Administration of Justice	329,015	345,851	337,465	376,570
Total Departments	1,080,455	1,145,143	1,128,464	1,228,700
Court & General Admin	106,420	401,349	143,829	647,921
Total General Fund	1,186,875	1,546,492	1,272,293	1,876,621

Budget Presentation - January 28, 2014

Exhibit A

General Fund Budget

ORG	DEPARTMENT	Actual FY 2012-13	Current Year FY 2013-14		Proposed Budget FY 2014-15
			Adopted Budget	Estimated Actual	
<i>Infrastructure & Systems</i>					
30	Public Infrastructure	2,736,000	3,707,000	2,500,000	2,750,000
35	PID Repair & Replacement	-	750,000	6,884,000	-
40	Right of Way	1,641,000	1,985,000	1,710,000	2,300,000
45	Construction Programs	5,858,000	8,465,000	7,900,000	8,500,000
208	Architecture & Engineering	22,496,000	25,300,000	24,000,000	26,800,000
Total Public Infrastructure		32,731,000	40,207,000	42,994,000	40,350,000
299	Facilities & Property Mgmt.	27,108,000	29,856,000	28,400,000	32,800,000
298	FPM - Utilities & Leases	25,393,000	28,100,000	25,000,000	25,100,000
297	FPM Repair & Replacement	-	-	788,000	-
Total Facilities & Property Mgmt		52,501,000	57,956,000	54,188,000	57,900,000
292	Information Technology	35,147,000	35,530,000	33,500,000	38,400,000
293	ITC Repair & Replacement	-	-	3,022,000	-
Total Information Technology		35,147,000	35,530,000	36,522,000	38,400,000
Total Infrastructure & Systems		120,379,000	133,693,000	133,704,000	136,650,000
<i>County Services</i>					
204	Legislative Relations	1,167,000	1,400,000	1,200,000	1,300,000
272	Pollution Control Dept	3,528,000	3,650,000	3,540,000	3,850,000
275	Public Health Services	18,880,000	20,200,000	18,500,000	21,800,000
285	Library	23,429,000	23,800,000	23,500,000	24,800,000
286	Domestic Relations	2,345,000	2,700,000	2,450,000	3,100,000
289	Community Services	8,499,000	8,800,000	7,600,000	9,250,000
296	M.H.M.R.A.	20,248,000	20,600,000	20,493,000	20,600,000
821	Texas A&M Agrilife	615,000	750,000	620,000	900,000
885	Children's Assessment	4,501,000	4,850,000	4,600,000	5,300,000
Total County Services		83,212,000	86,750,000	82,503,000	90,900,000
<i>Fiscal Services & Purchasing</i>					
91	Appraisal District	8,854,000	8,978,000	8,978,000	9,400,000
201	Budget Management	7,352,000	6,050,000	5,600,000	8,700,000
517	County Treasurer	1,006,000	1,025,000	1,000,000	1,100,000
530	Tax Assessor-Collector	22,072,000	22,850,000	22,300,000	25,100,000
610	County Auditor	13,065,000	18,116,000	14,000,000	19,000,000
615	Purchasing Agent	6,437,000	7,295,000	6,700,000	7,660,000
Total Fiscal Services & Purchasing		58,786,000	64,314,000	58,578,000	70,960,000

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ORG	DEPARTMENT	Actual FY 2012-13	Current Year FY 2013-14		Proposed Budget FY 2014-15
			Adopted Budget	Estimated Actual	
<i>Law Enforcement</i>					
301	Constable, Precinct 1	21,704,000	22,802,000	22,300,000	25,400,000
302	Constable, Precinct 2	5,524,000	5,900,000	5,800,000	6,600,000
303	Constable, Precinct 3	11,029,000	11,576,000	11,600,000	13,100,000
304	Constable, Precinct 4	30,975,000	31,900,000	32,700,000	35,400,000
305	Constable, Precinct 5	27,049,000	29,111,000	28,000,000	32,000,000
306	Constable, Precinct 6	6,869,000	7,800,000	7,400,000	8,500,000
307	Constable, Precinct 7	7,586,000	8,491,000	8,500,000	9,500,000
308	Constable, Precinct 8	5,444,000	5,820,000	5,700,000	6,900,000
Total Constables		116,180,000	123,400,000	122,000,000	137,400,000
540	Sheriff				
	Jail Operations	170,150,000	173,360,000	171,000,000	180,000,000
	Medical	43,970,000	46,050,000	49,000,000	52,000,000
	Patrol & Administration	158,570,000	171,520,000	174,000,000	184,000,000
540	Total Sheriff	372,690,000	390,930,000	394,000,000	416,000,000
845	Sheriff's Civil Service	193,000	205,000	214,000	220,000
Total Law Enforcement		489,063,000	514,535,000	516,214,000	553,620,000
<i>Administration of Justice</i>					
311	Justice of the Peace, 1-1	1,483,000	1,643,000	1,540,000	1,850,000
312	Justice of the Peace, 1-2	1,957,000	2,024,000	1,900,000	2,100,000
321	Justice of the Peace, 2-1	780,000	823,000	810,000	930,000
322	Justice of the Peace, 2-2	735,000	780,000	760,000	891,000
331	Justice of the Peace, 3-1	1,358,000	1,493,000	1,360,000	1,700,000
332	Justice of the Peace, 3-2	1,014,000	1,033,000	1,020,000	1,100,000
341	Justice of the Peace, 4-1	2,181,000	2,360,000	2,110,000	2,600,000
342	Justice of the Peace, 4-2	1,212,000	1,280,000	1,190,000	1,400,000
351	Justice of the Peace, 5-1	1,728,000	1,820,000	1,700,000	2,000,000
352	Justice of the Peace, 5-2	2,521,000	2,667,000	2,590,000	2,910,000
361	Justice of the Peace, 6-1	542,000	605,000	570,000	680,000
362	Justice of the Peace, 6-2	644,000	705,000	680,000	780,000
371	Justice of the Peace, 7-1	733,000	880,000	860,000	1,080,000
372	Justice of the Peace, 7-2	798,000	840,000	820,000	950,000
381	Justice of the Peace, 8-1	963,000	1,055,000	1,030,000	1,200,000
382	Justice of the Peace, 8-2	883,000	940,000	915,000	1,050,000
Total JPs		19,532,000	20,948,000	19,855,000	23,221,000

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			Adopted Budget	Estimated Actual	
213	Fire Marshal	4,803,000	5,250,000	4,800,000	5,640,000
270	Institute of Forensic Science	19,511,000	22,556,000	21,800,000	25,800,000
510	County Attorney	16,699,000	17,920,000	18,500,000	19,800,000
515	County Clerk	25,115,000	24,110,000	20,400,000	26,689,000
545	District Attorney	56,165,000	58,700,000	57,400,000	66,000,000
550	District Clerk	25,958,000	27,350,000	24,900,000	29,600,000
560	Public Defender	3,974,000	6,250,000	6,405,000	8,000,000
601	Community Supervision	690,000	690,000	690,000	750,000
605	Pre-Trial Services	6,505,000	6,632,000	6,460,000	7,000,000
700	District Courts	50,433,000	19,206,000	18,400,000	20,500,000
701	DC- Court Appointed Attn	-	27,920,000	35,000,000	32,000,000
840	Juvenile Probation	59,852,000	67,000,000	63,000,000	67,000,000
880	Protective Services	19,042,000	19,699,000	19,000,000	22,000,000
930	1st Court of Appeals	46,000	85,000	85,000	85,000
931	14th Court of Appeals	46,000	85,000	85,000	85,000
940	County Courts	14,507,000	11,899,000	10,900,000	12,200,000
941	CC - Court Appointed Attn	-	3,351,000	3,770,000	3,400,000
991	Probate Court No. 1	1,033,000	1,100,000	1,070,000	1,200,000
992	Probate Court No. 2	1,042,000	1,100,000	1,030,000	1,200,000
993	Probate Court No. 3	3,039,000	2,900,000	2,900,000	3,200,000
994	Probate Court No. 4	1,023,000	1,100,000	1,015,000	1,200,000
Total Administration of Justice		329,015,000	345,851,000	337,465,000	376,570,000
Total General Fund-Departments		1,080,455,000	1,145,143,000	1,128,464,000	1,228,700,000
Commissioners Court & Budget					
100	County Judge	3,810,000	4,920,000	4,200,000	5,900,000
101	Commissioner, Pct 1	23,886,000	39,861,000	18,900,000	41,566,000
102	Commissioner, Pct 2	16,989,000	42,955,000	23,300,000	39,399,000
103	Commissioner, Pct 3	26,540,000	37,084,000	31,300,000	33,573,000
104	Commissioner, Pct 4	14,648,000	40,468,000	16,300,000	44,459,000
105	Tunnel & Ferry	3,842,000	4,700,000	4,000,000	5,200,000
Total Commissioners Court		89,715,000	169,988,000	98,000,000	170,097,000
202	General Administrative	16,705,000	231,361,000	45,829,000	415,934,214
202	Estimated Rollover Allocation	-	-	-	61,890,000
Total Budget & Admin		16,705,000	231,361,000	45,829,000	477,824,214
Total Court, Budget & Admin		106,420,000	401,349,000	143,829,000	647,921,214
Total General Fund		1,186,875,000	1,546,492,000	1,272,293,000	1,876,621,214