



# HARRIS COUNTY, TEXAS

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## 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

January 23, 2015

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

Re. **FY 2015-16 Budget Presentation**

The proposed policy issues and budgets for FY 2015-16 are attached. The court is scheduled to consider this information on January 27 and adopt the budgets and any new policies after public hearing on February 10. The new budgets will be effective for the period of March 1, 2015 through February 29, 2016.

### **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 10.

### **Debt Service Funds**

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

### **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 2015-16. The revenue estimate for the Flood Control District will be included with the Auditor's final estimate of available resources in February.

### **Harris County Hospital District**

The budget for the Hospital District (dba Harris Health System) will be presented for court approval in February.

### **Port of Houston**

A report from the Port of Houston Authority is included. The Port's plan for capital programs will be reviewed as part of the county's Capital Improvement Plan (CIP) in June.

## **Policy Issues**

The following is presented for consideration as part of the proposed FY 2015-16 budget. A list of policy issues and final budgets will be presented for approval and adoption on February 10, 2015.

### ***Financial Policies and Condition***

Harris County government is financed with funding from property taxes, charges for services, state and federal 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 of 2008 and 2009. Sound financial policies including limiting spending growth and allowing departments to roll over unspent budgets have provided for significant growth in the General Fund cash balance. The ending cash balance is projected to be \$515 million by the end of the current fiscal year which is up from \$149 million at the end of FY 2011-12, \$252 million at the end of FY 2012-13 and \$377 million at the end of FY 2013-14.

The County's reliance on short term borrowing during the fiscal year has been reduced from \$450 million borrowed in FY 2011-12 to \$225 million borrowed in the current year. Plans are in place to continue to reduce the amount to \$150 million in FY 2015-16, and to eventually outgrow the need for any short term borrowing, which is an essential part of the County's financial strategy.

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. Financing new roads and infrastructure through a combination of operating funds and long term debt, when necessary, are essential to keeping up with an expanding population.

### ***Financial Outlook***

Harris County continues to experience significant growth in population and a strong local and regional economy. The nation's third largest county has grown from 3.4 million residents in 2000 to over 4.4 million in 2014. Most of the increase in population (75%) has occurred in the unincorporated areas in 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.

County government has primary responsibility for this large, unique unincorporated area, and population is likely to continue growing over the next several years. Continued development of the toll road system will likely cause expansion of neighborhoods and businesses in the outlying areas.

The local economy has thrived over the last five years due primarily to expansion in all phases of the energy business with oil prices remaining above \$60 per barrel. The recent decline in oil prices to under \$50 per barrel and the expectation that prices may stay at this level for an extended period of time could negatively impact the local economy. The county is well positioned financially to deal with the situation should resource limitations impact the growth in staff and services.

The latest population and economic reports are included.

## ***Property Taxes and Revenue***

Property taxes provide nearly 78% 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 over \$560 million for the Hospital District. The total taxable value of all Harris County property has grown from \$316 billion as of January 1, 2013 to estimates that exceed \$350 billion for the upcoming budget year.

The Auditor's preliminary revenue estimate includes 5% expected growth in property tax revenue while other general fund revenues are flat resulting in a 3.9% estimated increase in general fund revenues for the upcoming budget year.

## ***Expenditure Budgets***

The preliminary general fund budget allocations are included and are balanced, as required, to the preliminary revenue estimate. These budgets will be finalized and balanced to the Auditor's final revenue estimate and presented for court approval on February 10.

General Fund expenditure budgets for county departments are 6.3% higher than last year's adopted budgets. The budget includes \$594 million for law enforcement, \$403 million for the administration of justice, \$145 million for infrastructure and systems administration and \$171 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.

The budgets provide funding for the increases in cost of employee health benefits and a restoration of the 7% annual required employee contribution to the retirement plan. The budgets do not provide funding for department expansion, although departments can add new positions if they can afford them within their budget allocation.

More information on positions and benefits is included in a letter from the Director of Human Resources & Risk Management.

## ***Priorities for the FY 2015-16 Budget Year***

The budget recommendations are based on the three priorities identified last year along with a fourth priority.

Priority 1. Managing the County's short and long term debt

Priority 2. Managing jail population and the cost of indigent defense

Priority 3. Investment in human capital

Priority 4. Investment in infrastructure and information systems

## **Priority 1. Managing the County's short and long term debt**

### ***Short term debt***

Harris County annually issues tax anticipation notes (TANs) to provide interim funding during the fiscal year which is necessary due to the timing of property tax collections, which primarily are collected in the last 3 months of the fiscal year. Significant progress has been made to reduce the amount of TANs borrowing from a peak in FY 2012 of \$450 million. The County borrowed \$225 million in the current fiscal year and expects to borrow no more than \$150 million during FY 2015-16.

Court has continued to support the spending controls and allocation of resources to the General Administration budget which are necessary to continue the trend of reducing the amount borrowed.

### ***Long term debt***

The County's long term debt includes bonds issued to build roads, buildings, parks, libraries, flood control and other infrastructure projects which are repaid directly with property tax revenues. Property taxes also support repayment of bonds issued by the Flood Control 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.

Voter authorized bonds for the new Joint Processing Center and Forensic Science Center will likely need to be issued in FY 2015-16 as these new assets are under construction.

Budget Management is working on a project to develop a comprehensive debt strategy using the concepts of paying for assets over their useful lives and identifying the total cost of ownership. Identifying the timing and extent of new debt authorization and issuance will be part of the strategy so that roads, infrastructure and systems can be developed to meet the needs and demand related to the expanding population of the County.

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

## **Priority 2. Managing jail population and the cost of indigent defense**

Significant improvements have been made over the last few years to reduce county jail population. The Criminal Justice Coordinating Council continues to work on ideas and solutions to improve the efficiency and effectiveness of systems in place.

The cost of the county providing indigent defense through court appointed attorneys and the Public Defender's Office has grown to over \$50 million and continues to grow faster than the county's revenue. Budget Management proposes to work with the Criminal Justice Coordinating Council and key department officials to determine if there are any alternatives that would help control expenses while maintaining quality defense for the indigent. A committee which includes representatives from the Auditor's Office, Budget Management, Court Administration and the judiciary will also be formed to monitor indigent defense expenditures on an ongoing basis.

### **Priority 3. Investing in human capital**

Last year this priority was focused on improving salaries that had fallen behind during the economic downturn. This year the focus is on restoring retirement benefits by increasing the mandatory employee contribution to the plan from 6% to 7%. The rate dropped from 7% to 6% during the downturn. A 1% salary increase for most full-time employees was also implemented for the first January 2015 pay period to offset the increased payroll deduction.

In addition, the cost charged to departments for health benefits is increasing from \$11,116 to \$11,800 per year per employee to account for steady increases in health claims expenses, particularly for prescription drugs. The rate has not increased since it was established for FY 2011-12. Rates charged to employees are not increasing at this time due to some cost saving measures that are being implemented March 1. Both of these rates will continue to be reviewed on an annual basis.

### ***Funding Positions for FY 2015-16***

A key element in the budget approval process is making sure that positions approved by court as part of the budget are adequately funded by the department's allocation to labor and benefits. New positions and position changes proposed by departments that exceed their budget allocation and available resources for labor and benefits will not be included in the position lists provided to Court as part of the budget approval process. Existing vacant positions that lack funding will also be excluded from the approved budget list.

Departments that receive additional budget in May related to the roll over process will be able to re-establish unfunded vacant positions and create new positions to the extent that rollover funds are available. More information will also be available in May regarding oil prices that could impact the decisions on adding new positions if future budgets may be lower than expected.

Budget Management will continue to work with the Sheriff and Constables offices on a plan to provide additional step increases to longer term law enforcement officers. The plan and related funding for the additional compensation will be brought to court early in the upcoming fiscal year.

### ***Contract Patrol Services***

Court adopted a policy in February 2014 that increased the rates charged for contract patrol services by 5% starting on March 1, 2015. This increase was related to increases in law enforcement salaries. 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.

Budget Management will recommend no increase in the rates for March 1, 2016 based on estimates that fuel costs will be reduced to offset labor increases during the next 12 months.

### ***Security***

Providing a secure environment and safe facilities are important for courthouse operations, employees and customers served by the county. The budget includes funding for Constable Rosen to enhance security in the downtown complex, an initiative approved by court in 2014. The focus this year will be on improving security in county owned facilities outside the downtown area. Plans and proposed funding will be brought back to court as needed to complete this set of projects during the budget year.

#### **Priority 4. Investment in infrastructure & information systems**

Three cost centers were established in 2013 to provide funding for repair and replacement expenses for PID (Dept. 035), FPM (Dept. 297) and ITC (Dept. 293). These departments will continue to receive funding for new projects that are approved by Court during the fiscal year, as funds are available. Budget transfers will be made to cover any outstanding prior year approved projects with the final budget and any new projects approved at CIP and on regular court agendas.

#### ***Organizational Changes***

The Public Infrastructure Department (PID) will be going through some changes following the retirement of Art Storey. Budget Management recommends, as an interim solution, the PID Executive Division (030) be renamed “Public Infrastructure Coordination” with the remaining employees reporting to the Budget Officer and the County Engineer. Architecture & Engineering (208) would be renamed “Office of the County Engineer” and the Construction Programs (045) and Right of Way (040) departments would report to the County Engineer. The Directors of the Toll Road Authority (050) and the Flood Control District (090) would report directly to Commissioners Court under this interim solution.

The organization of the Information Technology Center (ITC) has been undergoing an expansion with the addition of Fleet Services and proposed enhancement of the Radio division discussed below, as well as future development of technology solutions related to security monitoring and computer connectivity. Budget Management recommends the Court consider a name change to “Central Technology Services” to better describe the expanding role of this department.

The Radio shop budget has been subsidized by transfers from the ITC budget to cover the shortfall from not charging internal customers and for charging outside customers rates that do not cover the cost of providing radios and related air time. ITC and Budget Management will recommend a plan to charge internal county departments a fee of \$39 per month for airtime starting April 1, 2015. During the current fiscal year, transfers will be made from ITC to the affected departments to cover this internal charge. Starting March 1, 2016, departments will be expected to budget for these expenses directly.

ITC and Budget Management will also recommend charging \$39 per month, starting January 1, 2016, to all non-county customers of the radio services, with the goal of making the radio shop self-sufficient by the end of FY 2015-16. The City of Houston is expected to raise their rate to the same amount or higher. Any new customers added during the year will be charged the new rate, which is up from \$12.75 per month.

Finally, ITC and Budget Management believe that ITC should be involved to a greater extent in the major acquisitions of technology equipment for related organizations such as the Hospital District and the Toll Road Authority to help gain efficiencies and potentially reduce costs. A policy covering this will also be included for Court approval with the final budget.

#### **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.