



HARRIS COUNTY, TEXAS

COMMISSIONERS COURT

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Ed Emmett
County Judge

Gene Locke
Commissioner, Precinct 1

Jack Morman
Commissioner, Precinct 2

Steve Radack
Commissioner, Precinct 3

R. Jack Cagle
Commissioner, Precinct 4

January 22, 2016

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

Re: **FY 2016-17 Budget Presentation**

The proposed policy issues and budgets for FY 2016-17 are presented for discussion. The court is scheduled to consider this information on January 26 and adopt the budgets and any new policies after a public hearing on February 9. The new budgets will be effective for the period of March 1, 2016 through February 28, 2017.

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 9.

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 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 2016-17.

Harris County Hospital District

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

Port of Houston

A letter from the Port of Houston will be included with the February 9 presentation.

Policy Issues and Proposed Budgets

The following is presented for consideration as part of the proposed FY 2016-17 budget. A list of policy issues and final budgets will be presented for approval and adoption on February 9, 2016.

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 over 4.5 million in 2015. 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.

County government has primary responsibility for this large, unique unincorporated area. The need for new roads, facilities and infrastructure throughout the county to meet the growing demand for services is expected to continue. Developing and enhancing systems is important to improve the delivery of services to the public and providing cost-effective tools for law enforcement.

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 decline in oil prices that began in late 2014 has resulted in prices lower than \$50 per barrel for over 12 consecutive months and prices dipping below \$30 per barrel in 2016. The expectation that oil prices may stay at this level for an extended period of time could negatively impact property tax revenues for the county, although the impact has been limited so far.

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 \$754 million by the end of FY 2016. This growth in resources was necessary for the county to outgrow the need to issue Tax Anticipation Notes (TANs) to fund operating expenses during the fiscal year in advance of property tax collections, which are the primary source of revenue to fund county government.

The goal of reducing TANs from \$450 million in FY 2012 to eventually eliminating the need for interim financing will likely be accomplished earlier than expected. The amount borrowed in the current fiscal year was \$100 million and Budget Management expects to discontinue TANs borrowings for the upcoming fiscal year.

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 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.

In November 2015, voters authorized the issuance of \$848 million of new property tax supported bonds for roads, parks, a building and flood control projects related to new roads. The County plans to issue these bonds over the next 7-10 years starting in FY 2017-18.

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 2016-17 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 over \$600 million for the Hospital District. The total taxable value of all property in Harris County has grown from \$225 billion in 2006 to over \$392 billion as of January 1, 2015.

The Auditor's preliminary revenue estimate includes 5% estimated growth in property tax levy which results in a 3.8% estimated increase in general fund revenues for FY 2016-17. New construction during 2015 and a stable housing market contribute to this growth in the tax levy.

The impact of low oil prices on new construction plans for 2016 and on the housing market could negatively impact the continued growth in the tax levy beginning with the 2017 values. Expectations of flat or possible declining revenues in future fiscal years create the need for a cautious approach in budgeting expenditures starting with the upcoming 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 9.

General Fund expenditure budgets for county departments are 5.7% higher than last year's adopted budgets. The proposed budgets include \$632 million for law enforcement, \$428 million for the administration of justice, \$155 million for infrastructure and systems administration and \$176 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 76% of departmental budgets.

Labor and Benefits

Over the last five years, the County has grown by just over 1,000 employees with over 90% of the growth being for law enforcement, the District Attorney and Public Defender offices. The budget allocations provide funding for departments to cover current filled positions and the increased cost of health benefits, but do not generally include additional funding to either increase staffing or provide salary increases.

Budget Management proposes to increase the maximum salary by 3% for all general fund positions effective the first pay period in June, providing the ability for departments that have available funds to increase salaries by up to that amount at their discretion. Budget Management plans to continue to work with law enforcement and other departments during the year to make sure compensation levels are fair and competitive and will include a policy issue to that effect with the final budget.

Harris County has not approved an across the board increase in salaries since 2007. However, salaries have been increased over that time frame as determined by the individual departments with law enforcement step increases, merit increases, etc.

Operational Issues

Managing Jail Population and Indigent Defense

Significant improvements have been made over the last few years to reduce the 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. Several initiatives aimed at reducing jail population, particularly related to pretrial detainees, have begun recently under the leadership of key elected officials including the District Attorney, Sheriff and others.

The budget for the District Attorney's office includes funding to begin adding additional prosecutors to attempt to help streamline the process which could help reduce the jail population.

The cost of providing indigent defense through court appointed attorneys and the Public Defender's Office has grown to \$50 million and continues to grow faster than the county's revenue. Budget Management will continue to work with court administration to explore alternatives to the current system.

Mental Health

Mental health is an important issue both in the community and in the jail system. The allocation of funds for mental health services in the General Fund has been adjusted in the proposed budget to include \$2 million for capital improvements for the Harris County Psychiatric Center, which is owned 50% by Harris County.

Investing in New Systems and Infrastructure

The County is in the process of replacing the financial and accounting systems which will be an expensive process but is expected to have a positive impact on county operations going forward. Key concepts in improving information systems include simplification and making sure the new system can be maintained and upgraded in the future. Enhanced efficiency should contribute to potential cost savings.

Plans to improve facilities both in the downtown area and in the unincorporated areas to improve service to the public are continuing. Ongoing efforts to build new roads and to improve and maintain existing county roads will be funded primarily through available mobility funding during the next fiscal year. Debt borrowing capacity for the upcoming year can be used to upgrade or replace facilities during a period of potential lower construction costs.

Providing a secure environment and safe facilities are important for courthouse operations, employees and customers served by the county. Downtown security was addressed last fiscal year and the availability of parking for downtown employees will continue to be reviewed. Improving security in county owned facilities outside the downtown area is currently being reviewed. Plans and proposed funding to address both parking and security will be brought back to court as needed during the budget year.

The Central Technology Services (CTS) department is working on improvements in providing radio and broadband technology services to law enforcement agencies and the Radio Services fund has been expanded and renamed the Public Service Technology fund. CTS also manages the Fleet Services fund where purchases, maintenance and repair of primarily law enforcement vehicles are handled. There are some procedural and accounting changes planned in the way departments pay for fleet services that have an effect on the budget. Transfers from CTS for both the Public Services Technology fund and the Fleet Services fund are included in the budget to implement these changes.

Law Enforcement and Contract Patrol Services

The policy to separate the Sheriff's office into 3 cost centers will take effect starting March 1. Budgets are included for Patrol and Administration (Dept. 540), Detention (Dept. 541) and Medical (Dept. 542) in the proposed budget. Budget Management continues to work with the Hospital District and the Sheriff's office to find improvements in the way medical services are provided and funded in the jail. These include the concepts of a standardized medical record, lowering the cost of medication and improving efficiency in the way inmates receive medical care. Recommendations will be brought to Court for consideration as they are developed.

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, 2016 and Budget Management recommends no increase in the rates for contracts starting March 1, 2017. This recommendation is based on lower fuel costs offsetting increases in employee health benefit expenses.

Other Issues

The County is in the process of improving the monthly Constable property sales by changing the venue from the steps of the courthouse downtown to an indoor location with parking at Bayou City Event Center located south of the 610 loop. Legislative changes also allow for online sales which is the next step in the ongoing effort to get property back on the tax rolls in a cost effective and timely manner.

The County Engineer and Budget Management will continue to review the formulas for allocating funds by Precinct for mobility and road bond funding as new data becomes available.

Recommendations to formalize the process to review and evaluate departmental efficiency and effectiveness and to study systems to make sure fees are collected on a timely basis will be brought to Court as they are developed.

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.