



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

September 23, 2016

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

Re. **Mid-Year Review**

1. Harris County General Fund
2. Property Tax Rates
3. Salaries and Benefits
4. Facilities & Property Management
5. Downtown Parking
6. Astrodome
7. Law Enforcement
8. Administration of Justice
9. Central Services
10. Debt
11. Meetings and Holidays
12. Recommendations for Approval

1. ***Harris County General Fund***

Harris County government continues to face the unique challenge of steady population growth in the significant unincorporated areas of the county. The strong local economy and expanding tax base during the first half of this decade have provided resources to help meet the increased demand for services and infrastructure throughout the county.

The goal of eliminating the need for short-term borrowing during the fiscal year using tax anticipation notes (TANs) has been achieved earlier than expected. TANs borrowing peaked in 2012 at \$450 million and has been reduced each year and eliminated this year as a key element of the county's financial plan.

There are economic factors impacting the local economy that will slow down the growth in the tax base over the next few years. Oil prices dropped significantly at the end of 2014, going below \$70 per barrel for the first time since May 2009. Oil prices have been lower now for nearly two years and the expectation is that this will continue. The oil price drop is impacting both the values of commercial property as well as slowing down new construction due to reduced demand for office space.

The county has built a strong balance sheet to prepare for reductions to or limited growth in revenue that will likely continue until oil prices rebound. The rollover policy, debt management and spending restraints in place since 2012 will continue to help the county remain financially strong even with reduced growth.

Revenues

General Fund revenue for the current FY 2016-17 may be lower than the revenue estimate by as much as 2% depending on property tax collections and changes in other revenue during the last half of the current fiscal year. Lower than expected revenues will not impact current year general fund budgets, which were approved in February.

Expenses

The following chart shows General Fund expenditures for the first half of the current fiscal year and the percentage of the current year budget spent through August:

| In Thousands | Last Year | Current Fiscal Year | | % Spent to Date |
|---------------------------|-------------|---------------------|-------------------|-----------------|
| | | Adjusted Budget | First Half Actual | |
| Infrastructure & Systems | \$ 146,744 | \$ 183,795 | \$ 82,511 | 45 % |
| County Services | 91,670 | 104,850 | 47,018 | 45 % |
| Fiscal Services | 71,417 | 84,364 | 39,117 | 46 % |
| Law Enforcement | 600,903 | 666,086 | 327,818 | 49 % |
| Administration of Justice | 408,534 | 452,556 | 215,766 | 48 % |
| Total Departments | \$1,319,268 | \$1,491,651 | \$ 712,230 | 48 % |

At the halfway point last fiscal year, departments had spent 47% of their available budgets which is up slightly to 48% this year. The rollover policy has resulted in savings of \$39 million, \$47 million, \$61 million, and \$84 million for Fiscal Years 2013 through 2016, respectively.

2. Property Tax Rates

The proposed rates provide for tax revenue to pay debt service obligations and maintain the same overall tax rate for the county. The following tax rates are proposed for Court approval.

Hearings will be held on October 4, 2016 and October 11, 2016 and the rates will be placed on the agenda of a special meeting on October 19, 2016 for formal adoption.

| | <u>2015</u> | <u>Proposed 2016</u> | <u>Change</u> |
|---------------------|---------------|--------------------------|-----------------|
| Harris County: | | | |
| General Fund | .34000 | .34000 | -- |
| Public Contingency | .00547 | .00500 | (.00047) |
| Debt Service | <u>.07376</u> | <u>.07156</u> | <u>(.00220)</u> |
| Total County | .41923 | .41656 | (.00267) |
| | | | |
| Flood Control: | | | |
| General Fund | .02620 | .02745 | .00125 |
| Debt Service | <u>.00113</u> | <u>.00084</u> | <u>(.00029)</u> |
| Total Flood Control | .02733 | .02829 | .00096 |
| | | | |
| Port of Houston | .01342 | .01334 | (.00008) |
| | | | |
| Hospital District: | | | |
| General Fund | .17000 | .17000 | -- |
| Debt Service | <u>.00000</u> | <u>.00179</u> | <u>.00179</u> |
| | <u>.17000</u> | <u>.17179</u> | <u>.00179</u> |
| | | | |
| Total | <u>.62998</u> | <u>.62998</u> | <u>--</u> |

3. Salaries and Benefits

Budget allocations for the upcoming fiscal year are expected to be limited to a 2% increase over the current year budgets. Departments will need to take this into consideration when adjusting salaries or adding personnel during the last half of the current fiscal year to ensure they have adequate resources to sustain changes through next year.

Retirement Plan

The county is 84% funded in the state retirement plan as of December 31, 2015 with plans to increase that funding percentage as resources are available. Budget Management recommends no plan changes and the funding rate of 14% for calendar year 2017.

Health Benefits

The cost of providing the same level of health insurance has been increasing since the county established the annual rate of \$11,116 per employee in 2012. The annual rate was increased to \$11,800 per employee for FY 2015-16, and increased to \$12,800 for the FY 2016-17 due to continued increased claims costs. The rates charged to employees and retirees and the cost allocation to departments are under consideration and any changes will be presented to Court as an agenda item in October.

4. Facilities & Property Management

There are five areas of responsibility related to managing existing county-owned facilities and property that can be enhanced to meet increasing demand for services and take advantage of improved technology to better utilize county resources and expertise.

Budget Management recommends the following changes:

- a. Repair & Maintenance of major building systems – Moving responsibility for making necessary repairs to major systems from FPM to the County Engineer.
- b. Real Estate transactions – Moving responsibility for leases and delinquent property sales to the Right of Way department.
- c. Building access and security – Consolidating responsibility for building security and access controls to Central Technology Services (CTS).
- d. Managing Utilities – Budget Management, Engineering, and CTS working together to manage utilities, monitor usage and pay utility bills.
- e. Parking – Budget Management will be responsible for parking management including vendor contracts, parking assignments and budgets.

If approved, all impacted departments will work together to determine how to best implement these recommendations during the current fiscal year. Any position changes and budget transfers between departments will be brought back to court for approval and budgets for the upcoming fiscal year will be adjusted as needed.

5. Downtown Parking

New construction in the downtown area around county facilities has reduced the amount of available parking for employees and customers. Budget Management recommends the following projects to increase the number of parking facilities in the area and improve the efficiency of parking management. The goal is to eventually have parking or transportation alternatives available for all county employees.

First, tearing down three buildings (the “Coffeepot” building, DA building and Lomas Nettleton garage) and adding surface parking in their place would add 200 spaces and cost an estimated \$4 million.

Second, changes in the way existing and new parking spaces are assigned and managed could increase the usable capacity of parking and generate revenue to help fund additional parking, in a budget neutral way. Budget Management will develop a plan to restructure parking management for full implementation with the new budget on March 1, 2017.

6. Astrodome

Plans to begin the process of converting the Astrodome from a sports venue to a multi-purpose facility start with a project to construct an underground parking facility that will bring the floor of the Astrodome up to ground level and add 1,400 parking spaces. The design phase of the project is estimated to cost \$10.5 million which, if approved, will be funded with a combination of parking revenue, hotel occupancy taxes and general fund resources.

7. Law Enforcement

Harris County spends over 40% of the General Fund budget on law enforcement and over 70% of the law enforcement budget is allocated to the Sheriff's office.

The biggest challenge facing the Sheriff's office continues to be managing the county jail facilities. While the jail population overall has remained fairly stable, there are challenges related to the classification of inmates, the need for increased technology for jail scheduling and the ongoing issue of adding and retaining jail staff that have contributed to budget challenges for the detention component of the Sheriff's office. Budget Management continues to work with the Sheriff to help identify cost saving opportunities both in the jail operation and in the other divisions to allow the Sheriff's office to stay within budget for the current year.

The Criminal Justice Coordinating Council continues to work on solutions to reduce jail population.

8. Administration of Justice

The Justice system accounts for 28% of the county's General Fund expenditures. Key justice issues include paying for State mandated conversion of the courts to an electronic filing system and a proposed expansion of Juvenile Probation facilities to meet increased demand. The process of implementing the electronic filing system affects several departments including the District Clerk and the District Attorney's office. The State doesn't provide funding to implement this change and fees collected that are designated for records management are currently restricted. Budget Management will work with the departments involved to work out the funding for these projects.

The proposed expansion of existing Juvenile Probation facilities on Chimney Rock in Precinct 3 has the potential to address concerns over growing demand for space, including possible new requirements for housing 17-year old offenders, while providing some cost saving opportunities that may help pay for part of the expanded facilities. Budget Management and Engineering propose approval of \$8 million for the design phase of the new facilities.

9. Central Services

Budget Management and Central Technology Services will be working on a new set of standards for vehicle purchases, cost saving measures and review potentially expanding Fleet Services' role in managing more of the county's vehicle fleet.

The effort to purchase and install a new accounting system for the county is underway. The software has been acquired and the process of selecting a firm to help manage the installation of the new system is nearly complete. The project is expected to take 18-24 months and cost a total of \$35 million.

Other technology-related projects have been identified that exceed the current year \$20 million budget for funding and a priority list is being developed to determine which projects need to be included this year and which projects can be deferred to future fiscal years.

10. Debt

A key element in maintaining the county’s high bond ratings and financial strength is debt management. The need for new roads, buildings, parks and infrastructure is directly related to the continued rapid growth of Harris County’s population. Paying for new assets over their estimated useful lives is a sound economic and financial strategy.

Harris County, the nation’s third largest county, has a debt structure that includes road, park, permanent improvement, flood control and Port of Houston debt all repaid directly with property taxes. The property tax rates proposed for the current fiscal year include 8.753 cents to pay the current debt service obligations for these debts due over the next 12 months. This tax rate dedicated to debt service is slightly lower than last year’s rate of 8.831 cents.

Budget Management recommends allocating \$30 million of budget for park capital projects to the four precincts. This represents half of the \$60 million of park bonds approved by the voters in 2015.

11. Meetings and Holidays

The following calendar shows the recommended schedule for 2017 court meetings and county holidays:

Calendar 2017 - 22 Meetings

| 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 | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | | | | 1 | 2 | 3 | 4 | | | | 1 | 2 | 3 | 4 | | | | | | | 1 | | | | 1 | 2 | 3 | 4 | 5 | 6 | | | | | | | 1 | 2 | 3 |
| 8 | 9 | 10 | 11 | 12 | 13 | 14 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | | | | |
| 15 | 16 | 17 | 18 | 19 | 20 | 21 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | | | | |
| 22 | 23 | 24 | 25 | 26 | 27 | 28 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | | | | |
| 29 | 30 | 31 | 26 | 27 | 28 | 26 | 27 | 28 | 29 | 30 | 31 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 28 | 29 | 30 | 31 | 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 |
| | | | | | | 1 | | | | 1 | 2 | 3 | 4 | 5 | | | | 1 | 2 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | | | | 1 | 2 | 3 | 4 | | | | | | | 1 | 2 |
| 2 | 3 | 4 | 5 | 6 | 7 | 8 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 9 | 10 | 11 | 12 | 13 | 14 | 15 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| 16 | 17 | 18 | 19 | 20 | 21 | 22 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 17 | 18 | 19 | 20 | 21 | 22 | 23 |
| 23 | 24 | 25 | 26 | 27 | 28 | 29 | 27 | 28 | 29 | 30 | 31 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 29 | 30 | 31 | 26 | 27 | 28 | 29 | 30 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | | | | | | | | |
| 30 | 31 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Holidays:

| | | |
|-------------------------|--------------------------|-----------------------------|
| <i>New Year’s Day</i> | <i>Monday</i> | <i>January 2</i> |
| <i>MLK Day</i> | <i>Monday</i> | <i>January 16</i> |
| <i>Good Friday</i> | <i>Friday</i> | <i>April 14</i> |
| <i>Memorial Day</i> | <i>Monday</i> | <i>May 29</i> |
| <i>Independence Day</i> | <i>Tuesday</i> | <i>July 4</i> |
| <i>Labor Day</i> | <i>Monday</i> | <i>September 4</i> |
| <i>Thanksgiving</i> | <i>Thurs & Fri</i> | <i>November 23 & 24</i> |
| <i>Christmas</i> | <i>Mon & Tues</i> | <i>December 25 & 26</i> |
| <i>Floating Holiday</i> | <i>Employee’s choice</i> | |

Court Meetings Starting at 9 a.m.:

| |
|---|
| <i>Budget Presentation - January 31</i> |
| <i>CIP Meeting - June 27</i> |
| <i>Mid-Year Review - September 26</i> |

12. Recommendations for Approval

The following are recommended for approval at this time:

A. Approval of property tax rates:

| | |
|------------------------------|---------------|
| Harris County: | |
| General Fund | .34000 |
| Public Contingency | .00500 |
| Debt Service | <u>.07156</u> |
| Total | .41656 |
| Flood Control District: | |
| General Fund | .02745 |
| Debt Service | <u>.00084</u> |
| Total | .02829 |
| Port of Houston Debt Service | .01334 |
| Hospital District: | |
| General Fund | .17000 |
| Debt Service | <u>.00179</u> |
| Total | .17179 |
| Total | <u>.62998</u> |

B. Changes related to Facilities & Property Management.

- a. Repair & Maintenance of major building systems – Moving responsibility for making necessary repairs to major systems from FPM to the County Engineer.
- b. Real Estate transactions – Moving responsibility for leases and delinquent property sales to the Right of Way department.
- c. Building access and security – Consolidating responsibility for building security and access controls to Central Technology Services (CTS).
- d. Managing Utilities – Budget Management, Engineering, and CTS working together to manage utilities, monitor usage and pay utility bills.
- e. Parking – Budget Management will be responsible for parking management including vendor contracts, parking assignments and budgets.

C. Approval of demolition of three buildings (the “Coffeepot” building, DA building and Lomas Nettleton garage) for new surface parking.

D. Approval of the design phase of the Astrodome project.

E. Approval of the design phase of the Juvenile Probation project.

F. Approval of the allocation of \$30 million of budget for parks.

G. Meetings and Holidays schedule for 2017 (shown under item 11)