



# HARRIS COUNTY, TEXAS

## COMMISSIONERS COURT

1001 Preston, Suite 934 • Houston, Texas 77002 • (713) 274-1111

**Ed Emmett**  
*County Judge*

**Rodney Ellis**  
*Commissioner, Precinct 1*

**Jack Morman**  
*Commissioner, Precinct 2*

**Steve Radack**  
*Commissioner, Precinct 3*

**R. Jack Cagle**  
*Commissioner, Precinct 4*

September 22, 2017

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

Re. **Mid-Year Review**

1. Hurricane Harvey Impact and Recovery
2. Flood Control
3. Harris County General Fund
4. Property Tax Rates
5. Debt
6. Meetings and Holidays
7. Recommendations for Approval

## **1. Hurricane Harvey Impact and Recovery**

### *Impact in Harris County*

Hurricane Harvey impacted a significant number of homes and property in Harris County including some county facilities and operations. This was primarily a flooding event that will end up as one of the most expensive storms in history.

County facilities most damaged by the flooding were the downtown Criminal Justice Center and Jury Assembly facility, along with two annex locations in northwest Harris County. Alternate facilities have been secured to accommodate repairs. The courts and justice-related activities were back in business by mid-September. However, repairs to damaged facilities could take several months as could a complete return to normal court operations.

Many of the county buildings in the downtown complex and remote locations were not open for several days after the storm hit and several key roads were flooded for up to a week making it difficult to travel within the county. A busy section of the Sam Houston toll road was underwater for more than a week and tolls were waived as a result.

Most of the roads that were underwater have been reopened and the toll system has returned to normal. Accommodations were made for employees unable to work in their normal workplace during that week including alternate work assignments, online training and other solutions to work around this issue.

Significant flooding occurred in all 22 watersheds in Harris County with many creeks and bayous rising to record or near record levels. The extended onslaught of excessive rainfall over the entire county, coupled with record flows of water in the system, resulted in extensive damage to the Flood Control District's infrastructure.

### *Working with FEMA and Insurance*

The Federal Emergency Management Administration (FEMA) provides significant assistance to individuals and local governments following disaster events like Harvey. FEMA generally reimburses the county for most of the cost of debris removal and emergency operations during the storm and for some period of time after the storm.

Procedures are in place to gather all of the labor and benefit expenses recoverable from FEMA through codes in the payroll system. Debris removal contracts are in place for the unincorporated areas of the county. FEMA already provided approximately \$44 million for debris removal advance payments. Property insurance coverage for the county will also provide funding for some of the repairs needed to the buildings.

### *Funding the recovery*

Harris County government is well prepared to respond to and recover from hurricanes, tropical storms and flooding events. Local topography and the proximity to the Gulf of Mexico make such preparation a necessity. The Public Improvement Contingency Fund (PIC Fund) was established years ago to provide funding for these events, because they often include expenses that aren't reimbursed by FEMA or insurance. There are also expenses that must be paid out in advance of reimbursements. Court has already approved a total of \$45 million for debris removal, building repairs and road and bridge repairs. Additional funding is expected in all three areas.

While the PIC fund provides cash resources, should capital spending be necessary to repair damaged buildings, the county will fund those using commercial paper. Commercial Paper funds provide a relatively low cost way to fund capital projects in advance of issuing long-term debt. During the Capital Improvements Program meeting in June, court approved spending up to \$45 million for facility improvements and \$20 million for system-related capital projects. The priority of projects is likely to be adjusted so that damages can be repaired on a timely basis with other projects delayed until next year. Additional funding may be needed and requests will be presented to Court for approval, if necessary.

### Potential impact on Property Taxes

Harris County relies primarily on property tax revenues to fund operations. Upcoming appraisals, particularly of the damaged homes and buildings, could be significantly affected resulting in lower revenues for not only the County but also Flood Control and the Hospital District, all of which rely significantly on property taxes to fund their operations.

At this early date, estimates are that more than 50,000 single family homes in the county were flooded, which likely will result in material reductions in the taxable value of these damaged homes on the January 1, 2018 HCAD valuation. It is estimated that it will take 6-12 months before most of these homes are repaired, including those covered by flood insurance.

The Budget Office will likely recommend flat General Fund budgets for Harris County departments for next fiscal year, with some departments absorbing reductions of up to 5%. The goal will be to maintain current levels of staffing and services despite declining revenues. Adjustments will be made to cover the increasing costs related to employee health care, retirement and other benefits as needed.

## **2. Flood Control**

A number of changes are under consideration as part of the response to recent flooding events that affected Harris County and surrounding counties. Solutions may include new reservoirs, fundamental changes or enhancements to waterways and a change in housing developments including the buyout of homes that flood during each event. A master plan needs to be developed and funding these initiatives is likely to involve Federal, State and Local resources.

The County has the borrowing capacity with voter approval to initiate these programs, but it will require collaboration with the State of Texas and Federal government help to provide the resources needed to make some of the larger scale repairs and improvements.

Harris County, in the early 2000's, issued Flood Control bonds supported by the County's property tax rate which has been partially repaid and has \$650 million of principal outstanding as of the beginning of the current fiscal year.

The Harris County debt service tax rate proposed for the current year includes 1.2 cents of debt service payments on the flood control related debt, so the actual amount of the proposed tax rate of 2.8 cents would be 4 cents per \$100 of taxable value if these outstanding bonds could be moved over to the Flood Control District. The 1.2 cents represents approximately \$51 million in property taxes, so effectively, the Flood Control District is receiving \$172 million in property taxes for the current tax year.

### 3. 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) was achieved earlier than expected. TANs borrowing peaked in 2012 at \$450 million and has been reduced each year and eliminated last year. While it is possible the TANs may be issued again in future years, Budget Management does not expect that they will be needed this year.

There are economic factors including oil prices continuing to be low and the impact on the demand for commercial office space that have contributed to a slowdown in the growth of the tax base, which impacts the growth of county revenue.

Harris County has proven to be resilient to storm damage in prior years and this year is not expected to be any different. Once repairs are made and operations get back to normal, the economic engine that has helped this region to grow is likely to be back in business.

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 2017-18 is expected to come in on budget assuming the proposed property tax rates are approved by Court.

#### 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	\$ 153,842	\$ 188,475	\$ 84,562	45 %
County Services	95,745	104,315	58,423	56 %
Fiscal Services	73,791	91,928	37,420	41 %
Law Enforcement	649,985	688,286	305,384	44 %
Administration of Justice	429,990	467,227	217,759	47 %
Total Departments	\$1,403,353	\$1,540,231	\$ 703,548	46 %

At the halfway point last fiscal year, departments had spent 48% of their available budgets which is down slightly to 47% this year. The rollover policy has resulted in savings of \$39 million, \$47 million, \$61 million, \$84 million and \$90 million for Fiscal Years 2013 through 2017, respectively.

### Salaries

Budget allocations for the upcoming fiscal year are expected to be the same as the General Funds adopted last year. Departments will need to take this into consideration when adjusting salaries or adding personnel during the remainder of the current fiscal year to ensure they have adequate resources to sustain changes through next year.

### Retirement Benefits

The county is 88% funded in the state retirement plan as of December 31, 2016 with plans to increase that funding percentage as resources are available. Budget Management recommends no plan changes and the funding rate is 14.35% for calendar year 2018. This will add about \$3 million to the cost of this benefit.

### 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 \$13,000 for the FY 2017-18 due to continued increased claims costs. Due to rising health care expenses, the rate charged to departments per employee is expected to go up to \$13,500 per year starting March 1, which is about \$8 million higher. Budgets for next year will be adjusted for this change and other benefit cost changes.

## 4. Property Tax Rates

The Budget Office recommends **no change** in the combined property tax rates for the four Harris County jurisdictions. The following proposed tax rates provide for tax revenue to pay debt service obligations and are proposed for Court approval.

The rates will be included on the October 10, 2017 agenda for formal adoption.

	<u>2016</u>	<u>Proposed 2017</u>	<u>Change</u>
Harris County:			
General Fund	.34000	.34000	--
Public Contingency	.00500	.00500	--
Debt Service	<u>.07156</u>	<u>.07301</u>	<u>.00145</u>
Total County	.41656	.41801	.00145
Flood Control:			
General Fund	.02745	.02736	(.00009)
Debt Service	<u>.00084</u>	<u>.00095</u>	<u>.00011</u>
Total Flood Control	.02829	.02831	.00002
Port of Houston	.01334	.01256	(.00078)
Hospital District:			
General Fund	.17000	.17000	--
Debt Service	<u>.00179</u>	<u>.00110</u>	<u>(.00069)</u>
	<u>.17179</u>	<u>.17110</u>	<u>(.00069)</u>
Total	<u>.62998</u>	<u>.62998</u>	<u>--</u>

## 5. 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 8.762 cents to pay the current debt service obligations for these debts due over the next 12 months.

## 6. Meetings and Holidays

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

### Calendar 2018 - 22 Meetings

January	February	March	April	May	June
S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28	S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30	S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30
July	August	September	October	November	December
S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30	S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30	S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

#### Holidays:

<i>New Year's Day</i>	<i>Monday</i>	<i>January 1</i>
<i>MLK Day</i>	<i>Monday</i>	<i>January 15</i>
<i>Good Friday</i>	<i>Friday</i>	<i>March 30</i>
<i>Memorial Day</i>	<i>Monday</i>	<i>May 28</i>
<i>Independence Day</i>	<i>Wednesday</i>	<i>July 4</i>
<i>Labor Day</i>	<i>Monday</i>	<i>September 3</i>
<i>Thanksgiving</i>	<i>Thurs &amp; Fri</i>	<i>November 22 &amp; 23</i>
<i>Christmas</i>	<i>Mon &amp; Tues</i>	<i>December 24 &amp; 25</i>
<i>Floating Holiday</i>	<i>Employee's choice</i>	

#### Court Meetings Starting at 9 a.m.:

<i>Budget Presentation - January 30</i>
<i>CIP Meeting - June 26</i>
<i>Mid-Year Review - September 25</i>

7. **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>.07301</u>
Total County	.41801
Flood Control:	
General Fund	.02736
Debt Service	<u>.00095</u>
Total Flood Control	.02831
Port of Houston	.01256
Hospital District:	
General Fund	.17000
Debt Service	<u>.00110</u>
	<u>.17110</u>
Total	<u>.62998</u>

B. Meetings and Holidays schedule for 2018.