



HARRIS COUNTY, TEXAS

COMMISSIONERS COURT

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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 21, 2018

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

Re. **Mid-Year Review**

1. Hurricane Harvey Impact and Recovery
2. Flood Control District Bonds
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

Status of County Facilities and Harvey Financing

The four major county facilities damaged in the flooding related to Hurricane Harvey are in different stages of repair. The Criminal Justice Center has been partially repaired, with some of the top floors open, but will require significant improvements to reduce the building's exposure to damage from future flooding as well as to improve the overall functionality of the building. The Jury Assembly building is still in the design phase while the two annex locations are nearly back in operation.

The county faces a major challenge over the next several years managing the funding related to FEMA and the State of Texas for housing and community assistance, home buyouts and flood control projects, which are reimbursed after they have been paid by the county. Harris County is in sound financial condition, but historically there have been issues with local governments receiving timely reimbursement of covered expenditures. Should this occur over the next few years, there could be a strain on county resources that might impact other capital or operating budgets.

Harris County may need to seek working capital funding or possibly start issuing short term debt if the county isn't reimbursed for approved expenditures on a timely basis.

Impact on County Revenue

Taxable values are up 3.3% in the initial report from HCAD. The tax levy is based on the values as of January 1, 2018, four months after the flooding from Harvey. Some of the homes and businesses were repaired by that date, but most were not fully repaired by that date and many still are not back to normal a year after the flooding. The HCAD values include a temporary decline in market value for homes and businesses based on their marketability on January 1. By the end of 2018, significantly more property is likely to be repaired or renovated, which may result in increases in taxable value back to amounts before the flooding.

2. Flood Control Bonds

On Saturday, August 25, voters approved up to \$2.5 billion of new Flood Control bonds that the county expects to issue over the next 10-15 years. Steps are underway to establish commercial paper (CP) borrowing capacity for the Flood Control District (FCD), which is only available up to the amount of voted authority to issue bonds. Flood control projects will initially be funded using commercial paper, which will be refunded by the issuance of the bonds as necessary to restore the CP borrowing capacity.

The maintenance and operation (M&O) part of the FCD tax rate has funded most of the annual \$120 million budgets, which has been generally split \$60 million each for operations and for capital projects. With the new bonds providing substantially more capital funding, combined with the expected federal funding, the FCD will have to expand their operational spending to manage the new capital spending. The M&O rate is limited to very slow growth by state property tax rules, but it is expected to provide sufficient funding for operations each 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 the amount borrowed was reduced, then eliminated in 2016. Budget Management does not expect that TANs will be needed this year or next year.

Harris County has proven to be resilient to storm damage in prior years and this year is not expected to be different. The strong local, state and federal economy in 2018 is likely to keep Harris County and the region in a growth mode similar to the last few decades.

The county has built a strong balance sheet that may be tested over the next few years. The rollover policy, debt management and spending restraints in place since 2012 will continue to help the county remain financially strong as long as the working capital challenges can be met.

Revenues

At the halfway point of Fiscal Year 2018-19, general fund revenues are up from \$277 million last year to \$281 million this year. Property taxes billed in October make up 80% of the general fund revenue. Assuming the included property tax rates are adopted, property taxes are expected to be flat at \$1.45 billion by the end of February compared to last year.

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 | \$ 84,562 | \$ 209,535 | \$ 85,686 | 41 % |
| County Services (Note 1) | 58,423 | 106,894 | 59,709 | 56 % |
| Fiscal Services | 37,420 | 94,618 | 39,087 | 41 % |
| Law Enforcement | 305,384 | 718,855 | 340,246 | 47 % |
| Administration of Justice | 217,759 | 489,689 | 229,678 | 47 % |
| Total Departments | \$ 703,548 | \$1,619,591 | \$ 754,406 | 47 % |

Note 1. County services include some expenditures that are paid in full during the first half of the year.

At the halfway point last fiscal year, departments had spent 46% of their General Fund budget, which is up slightly to 47% this year. The General Fund rollover has grown each year from \$39 million, \$47 million, \$61 million, \$84 million, \$90 million and \$111 million for Fiscal Years 2013 through 2018, respectively.

Salaries

Budget allocations for the upcoming fiscal year are expected to be increased by 3-5% for the General Fund over the adopted budgets last year. Budget Office recommended general fund allocations will be communicated to departments in October. Departments will need to consider next year’s budget 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 92% funded in the state retirement plan as of December 31, 2017 with plans to increase that funding percentage as resources are available. Budget Management is likely to recommend no plan changes and the funding rate of 15.1% for calendar year 2019. This will cover both the required contribution along with an amount to further increase the funding percentage.

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 of \$13,650 for the FY 2018-19 is likely to be increased to \$13,800 for next year, due to continued increased claims costs.

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. No hearings or special meetings are required again this year since the proposed rates do not exceed the rates that require public hearings. The rates will be included on the October 9, 2018 agenda for formal approval.

| | <u>2017</u> | <u>Proposed 2018</u> | <u>Change</u> |
|---------------------|---------------|--------------------------|-----------------|
| Harris County: | | | |
| General Fund | .34000 | .34000 | -- |
| Public Contingency | .00500 | .01000 | .00500 |
| Debt Service | <u>.07301</u> | <u>.06858</u> | <u>(.00443)</u> |
| Total County | .41801 | .41858 | .00057 |
| Flood Control: | | | |
| General Fund | .02736 | .02738 | .00002 |
| Debt Service | <u>.00095</u> | <u>.00139</u> | <u>.00044</u> |
| Total Flood Control | .02831 | .02877 | .00046 |
| Port of Houston | .01256 | .01155 | (.00101) |
| Hospital District: | | | |
| General Fund | .17000 | .17000 | -- |
| Debt Service | <u>.00110</u> | <u>.00108</u> | <u>(.00002)</u> |
| | <u>.17110</u> | <u>.17108</u> | <u>(.00002)</u> |
| Total | <u>.62998</u> | <u>.62998</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 8.26 cents to pay the current debt service obligations for these debts due over the next 12 months.

6. Meetings and Holidays

The proposed meetings calendar, shown below, includes the Budget presentation on January 29 and a Mid Year Review on September 24 along with a recommendation that the Capital Improvements Program be updated semi-annually with both the annual budget and with the six month update that occurs at Mid Year Review. The enhanced CIP program is necessary with the new Flood Control bond activity and the efforts to continue recovery from the flooding from Hurricane Harvey in August 2017.

Calendar 2019 - 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:

| | | |
|------------------|-------------------|------------------|
| New Year's Day | Tuesday | January 1 |
| MLK Day | Monday | January 21 |
| Good Friday | Friday | April 19 |
| Memorial Day | Monday | May 27 |
| Independence Day | Thursday | July 4 |
| Labor Day | Monday | September 2 |
| Thanksgiving | Thurs. & Fri. | November 28 & 29 |
| Christmas | Tues. & Wed. | December 24 & 25 |
| Floating Holiday | Employee's Choice | |

Court Meetings Starting at 9 a.m.:

Budget & CIP Update - January 29
Mid-Year & CIP - September 24

- Commissioners Court meeting
- Holidays

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 | .01000 |
| Debt Service | <u>.06858</u> |
| Total County | .41858 |
| Flood Control: | |
| General Fund | .02738 |
| Debt Service | <u>.00139</u> |
| Total Flood Control | .02877 |
| Port of Houston | .01155 |
| Hospital District: | |
| General Fund | .17000 |
| Debt Service | <u>.00108</u> |
| | <u>.17108</u> |
| Total | <u>.62998</u> |

B. Meetings and Holidays schedule for 2019.