



Finance Department

Presentation to the City of Houston
Budget and Fiscal Affairs Committee

**FY2015 Budget Overview
and
General Fund Five Year Forecast**

May 27, 2014

Kelly Dowe, Director



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Forward Looking Statements

The statements contained in this presentation and made verbally in conjunction with the presentation that are not purely historical are forward looking statements, including statements regarding the City's expectations, intentions, or strategies regarding the future. Readers and viewers should not place undue reliance on forward looking statements. All forward looking statements in this presentation and made verbally in conjunction with the presentation are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward looking statements.

The forward looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or development in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward looking statements included in this presentation and made verbally in conjunction with the presentation would prove to be accurate and may be materially different.



Forward Looking Statements (Cont'd.)

Additionally, pension-related projections or forecasts, including projections of the amount of the UAAL and net pension liability and the amounts of actuarially calculated contributions by the City, constitute “forward-looking” information that reflects the judgment of the City, the boards of the Pension Systems and the actuaries as to the amount of assets that will be required to be accumulated for the payment of future benefits to both active and retired employees. Such judgments are based upon a variety of assumptions concerning future events and circumstances, any one or more of which could prove to be inaccurate and are subject to change in the future. The assumptions underlying the projections are material to the development of the projections, and variations in the assumptions may produce substantially different results. New accounting rules adopted by GASB in June 2012 may result in material changes in the City’s financial statements relating to the Pension Systems beginning in Fiscal Years 2014 and 2015, although not in the calculation of the UAAL.



Fiscal Year 2015 - Budget Redline Changes

- This presentation includes revenue and expenditure changes that occurred after the proposed budget which will be reflected in the budget ordinance.
- The redline changes include:
 - General Fund:
 - \$776,647 increase in both revenue and expenditure for Parks Department to reflect 13 contracted City of Houston FTEs for Bayou Greenways 2020 initiatives
 - \$237,500 increase in revenue from Auto Dealers Fund to reflect an increased transfer to General Fund
 - \$258,800 increase in revenue for Department of Neighborhoods primarily to reflect higher interest liens-related revenue
 - \$500,000 decrease in revenue for General Government to reflect lower transfer from the Parking Management Fund



Fiscal Year 2015 - Budget Redline Changes

- Special Revenue Funds
 - \$7.9 million increase in Dedicated Drainage Street & Renewal transfer from General Fund Revenue to true-up ad valorem captured revenue
 - \$245,000 expenditure increase in Parks Golf Special Revenue Fund for non-capital equipment purchases
 - \$50,000 expenditure decrease in Auto Dealers Fund to true-up the transfer to General Fund
 - \$400,000 increase in FY2014 revenue estimate in Health Special Revenue Fund to reflect the annual transfer from Contractor Responsibility Fund for Care Houston Project

- Other potential redline changes include:
 - General Fund
 - Potential property tax cap related adjustments as a result of lower population data recently received from U.S. Census Bureau
 - Potential funding for Houston Forensic Science LGC, Inc. to improve efficiency and effectiveness of operations



Fiscal Year 2015 - Budget Overview

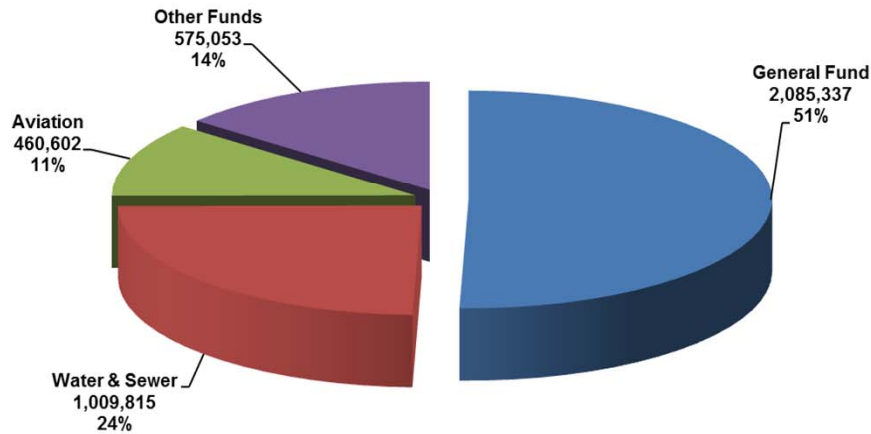
- The budget includes:
 - Maintaining the full designation of \$20 million in the Rainy Day Fund
 - Funding for pension and health benefits cost increases
 - Funding for contractual pay increases
 - Additional \$2.6 million funding for BARC
 - Additional \$2.5 million designated to asset maintenance, renewal, and replacement to a total of \$14.3 million from the General Fund
 - \$2.0 million funding for a work demands analysis for HFD
 - \$14.5 million funding for Chapter 380 payments which includes Bayou Greenways 2020 Project
 - Creation of Maintenance Renewal and Replacement Fund
 - Creation of Houston Civic Events Special Fund
 - Unassigned ending fund balance ratio in General Fund above the preferred 7.5% ratio to expenditures before debt service



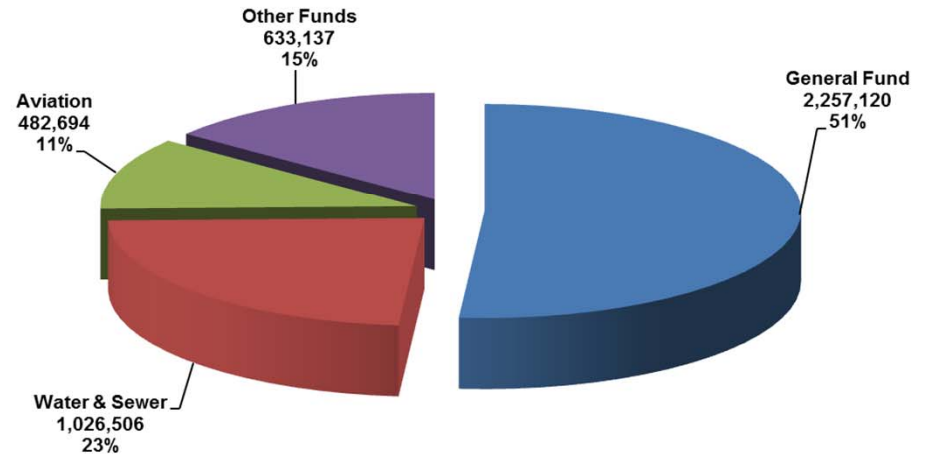
Citywide Expenditures

Including Debt Service (\$ in Thousands)

**FY2014 Estimate
of \$4,130,807**



**FY2015 Proposed Budget
of \$4,399,457**



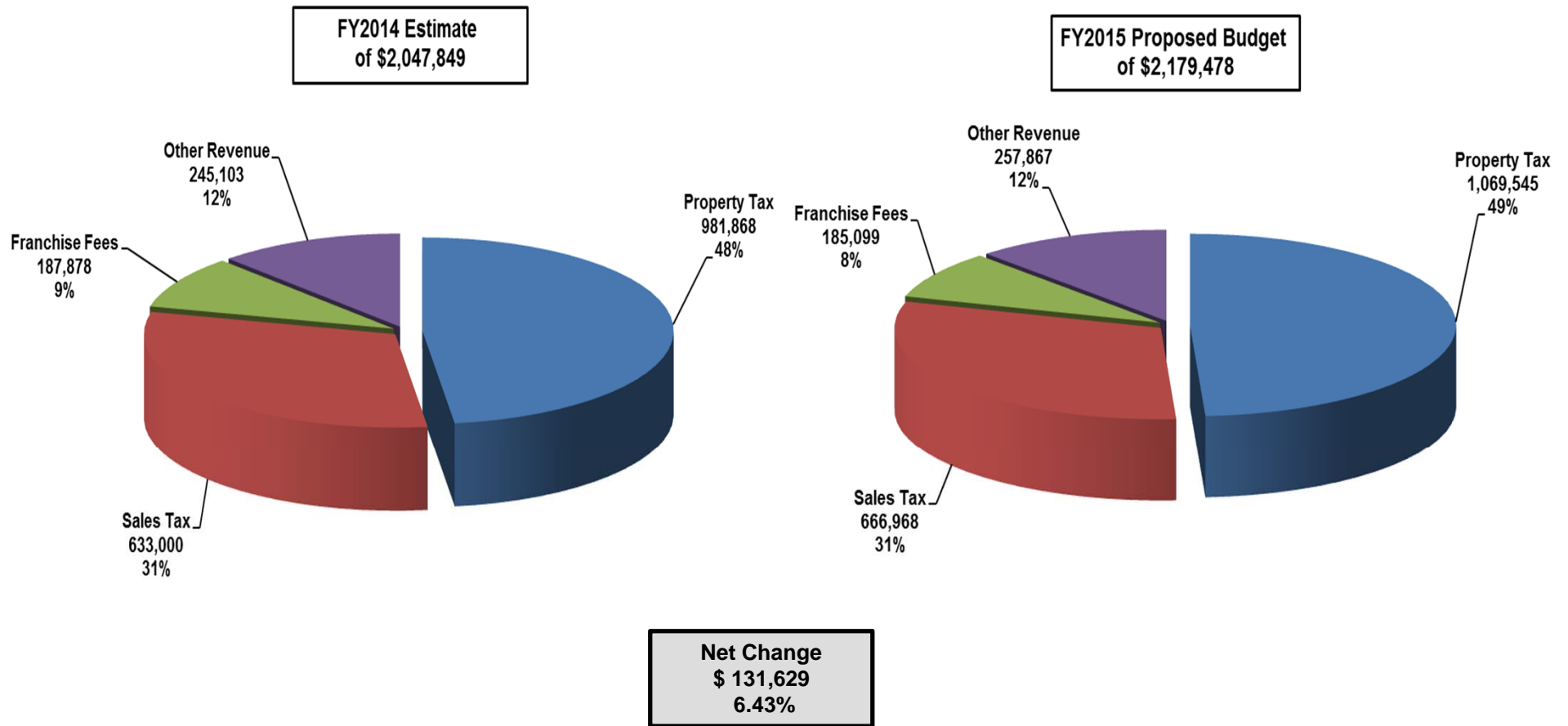
**Net Change
\$268,650
6.50%**

Note: Expenditures budget above does not represent the Total Budget. FY2015 Total Budget including ending fund balance is \$5,251,839.



General Fund Revenues

Excluding Other Resources* (\$ in Thousands)

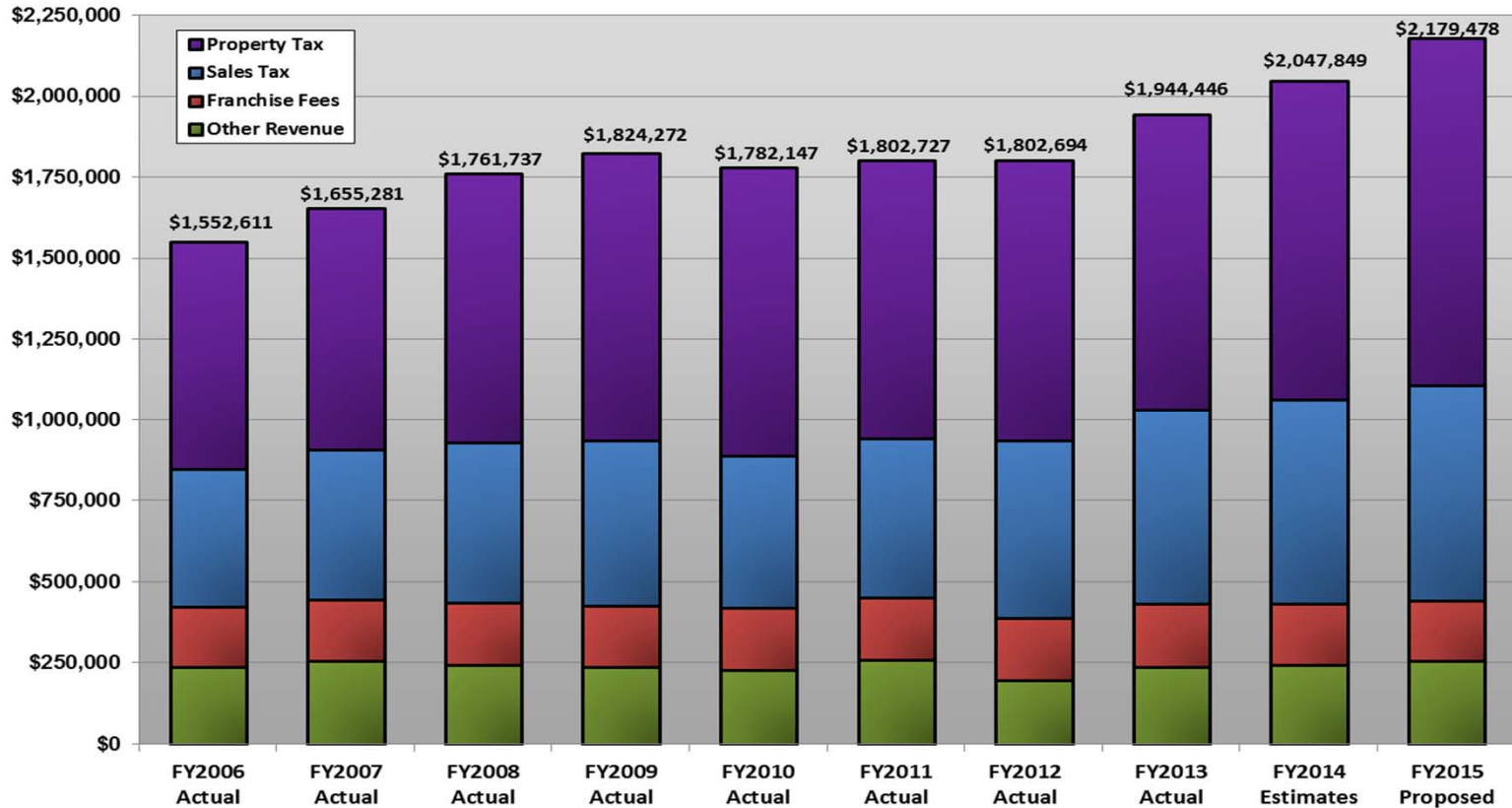


*Note: Other Resources include Sale of Capital Assets and Transfers from Other Funds



General Fund Revenues

FY2006 - FY2015 (\$ in Thousands)



	FY2006 Actual	FY2007 Actual	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Estimates	FY2015 Proposed
Property Tax	\$ 705,952	\$ 748,792	\$ 830,889	\$ 890,088	\$ 892,865	\$ 859,413	\$ 866,141	\$ 910,034	\$ 981,868	\$ 1,069,545
Sales Tax	\$ 422,598	\$ 461,417	\$ 495,173	\$ 507,103	\$ 468,965	\$ 492,824	\$ 546,543	\$ 600,256	\$ 633,000	\$ 666,968
Franchise Fees	\$ 186,508	\$ 189,551	\$ 190,196	\$ 190,322	\$ 190,869	\$ 190,564	\$ 192,760	\$ 195,304	\$ 187,878	\$ 185,099
Other Revenue	\$ 237,554	\$ 255,522	\$ 245,480	\$ 236,760	\$ 229,448	\$ 259,926	\$ 197,250	\$ 238,852	\$ 245,103	\$ 257,867
Total GF Revenues	\$ 1,552,611	\$ 1,655,281	\$ 1,761,737	\$ 1,824,272	\$ 1,782,147	\$ 1,802,727	\$ 1,802,694	\$ 1,944,446	\$ 2,047,849	\$ 2,179,478
Change YOY (\$)		\$ 102,670	\$ 106,456	\$ 62,535	\$ (42,125)	\$ 20,580	\$ (33)	\$ 141,752	\$ 103,403	\$ 131,629
Change YOY (%)		6.61%	6.43%	3.55%	-2.31%	1.15%	0.00%	7.86%	5.32%	6.43%



FY2015 General Fund Revenue

Net Change vs. FY2014 Estimate (\$ in Thousands)

Revenue Increases/(Decreases):

Property Tax	87,677
Sales Tax	33,968
Other Tax	533
Intergovernmental ¹	2,371
Indirect Interfund Services	4,503
Direct Interfund Services	2,319
Charges for Services ²	6,181
Franchise Fees	(2,779)
Others ³	(3,143)
Net Change	131,629

Note:

1. Intergovernment includes the Texas 1115 Medicaid Waiver reimbursement, offset with expenditures.
2. Increase primarily due to accounting changes in ambulance fee revenue.
3. Decrease due to one time asbestos settlement received in FY2014.



Property Tax Revenue

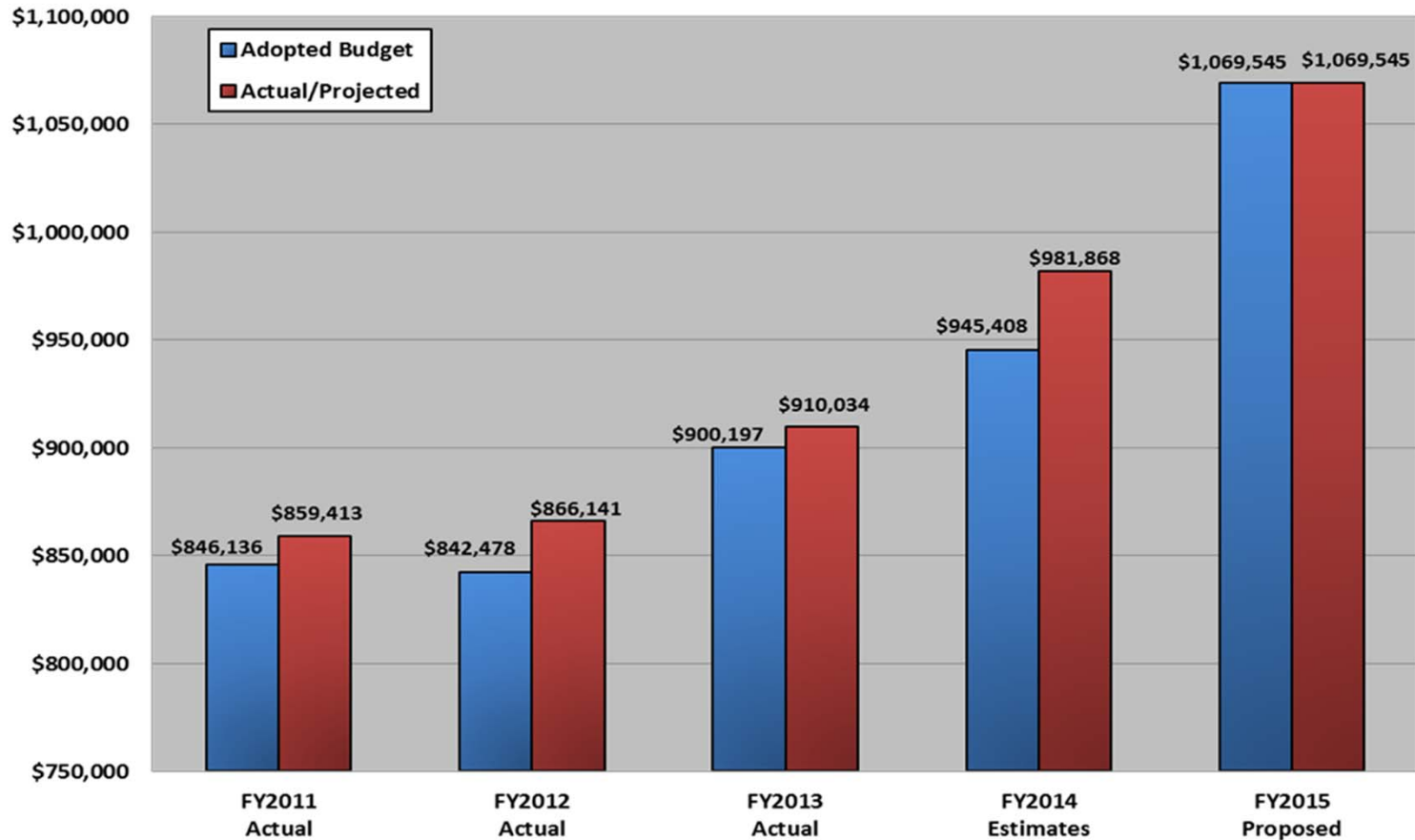
- Assumptions:

- Increase in property tax revenue of 8.93%, \$87.7 million higher than FY2014 Estimates.
- No change in the current tax rate (\$0.63875 per \$100 valuation).
- Collection rate of 97.8%.
- Estimated taxable value of \$183.5 billion.
- Taxable value net of tax increment agreements is \$167.1 billion.



Trends in Property Tax Revenues

FY2011 - FY2015 (\$ in Thousands)

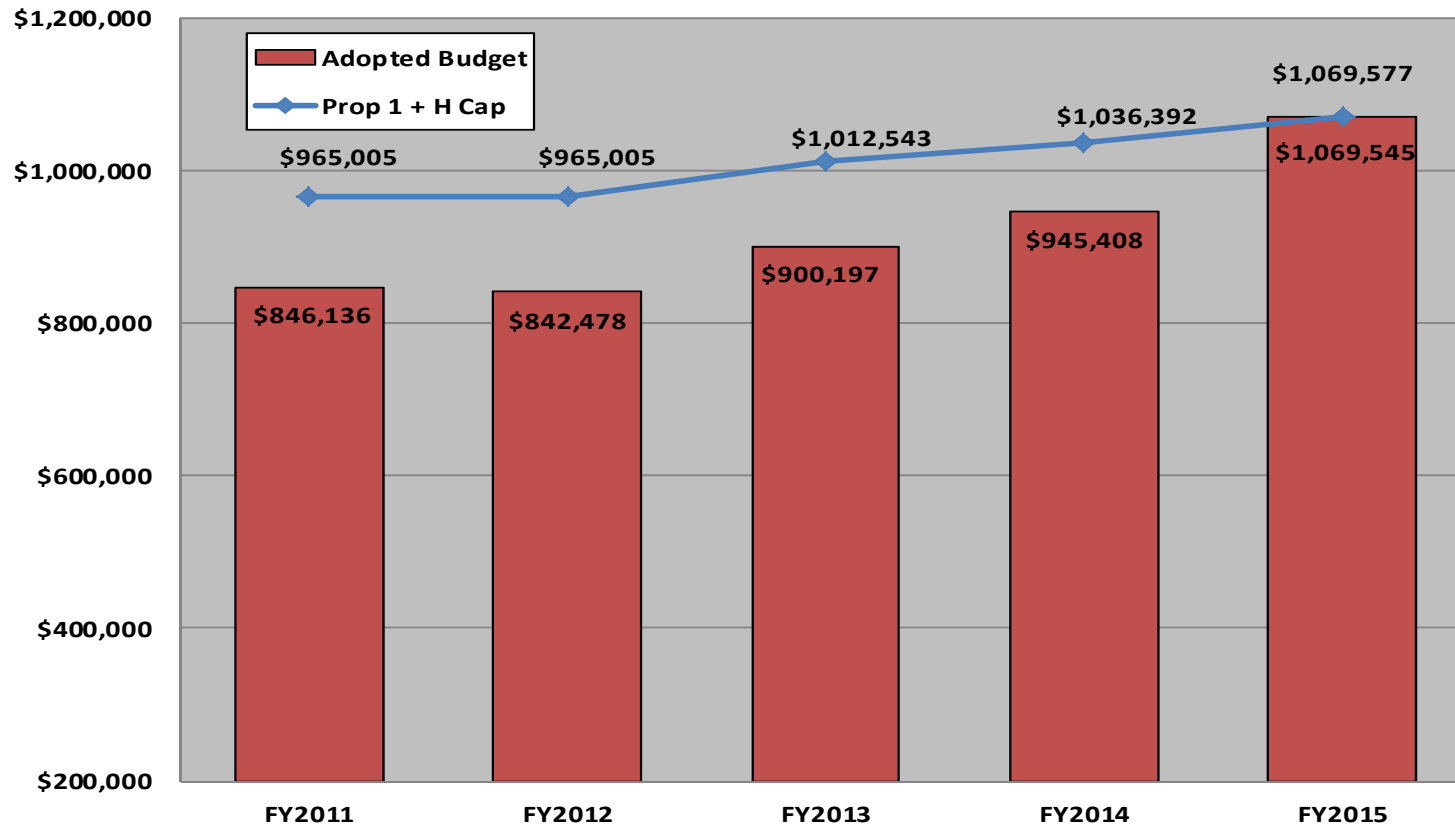


	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Estimates	FY2015 Proposed
Adopted Budget	\$ 846,136	\$ 842,478	\$ 900,197	\$ 945,408	\$ 1,069,545
Actual/Projected	\$ 859,413	\$ 866,141	\$ 910,034	\$ 981,868	\$ 1,069,545
Variance: Over/(Under)	\$ 13,277	\$ 23,663	\$ 9,837	\$ 36,460	\$ -



Adopted Budget vs. Charter Cap

FY2011 - FY2015 (\$ in Thousands)



Property Tax Revenue	FY2011	FY2012	FY2013	FY2014	FY2015
Adopted/Proposed Budget	\$ 846,136	\$ 842,478	\$ 900,197	\$ 945,408	\$ 1,069,545
Prop 1 + H Cap	\$ 965,005	\$ 965,005	\$ 995,117	\$ 1,036,069	\$ 1,069,577
Cushion	\$ 118,869	\$ 122,527	\$ 94,920	\$ 90,661	\$ 32



Sales Tax Revenue

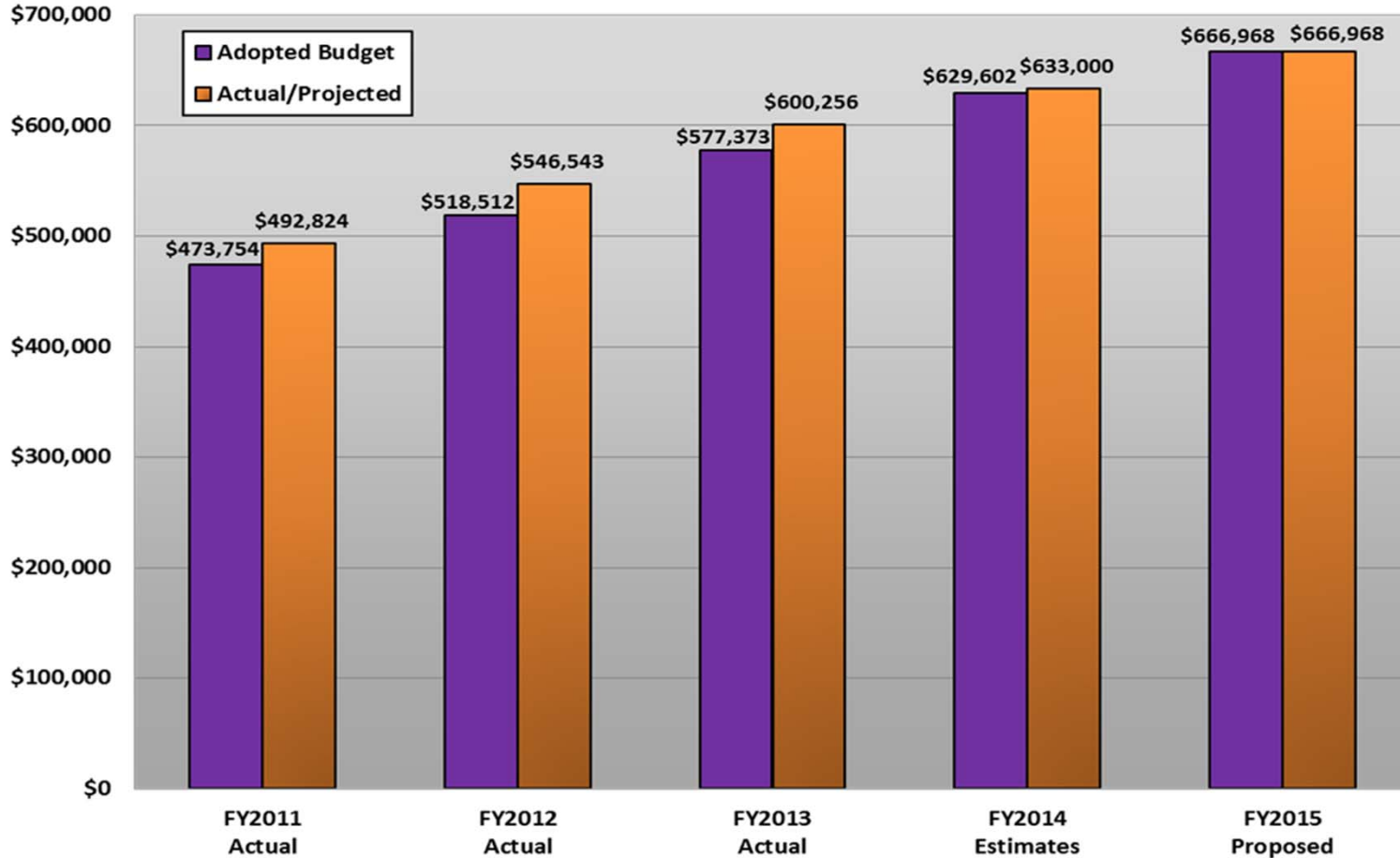
- Assumptions:

- Continued positive growth trend in FY2015. Growth of 5.4%, \$34 million higher than FY2014 Estimates.
- Derived from the forecast of University of Houston's Institute for Regional Forecasting (UH-IRF).



Trends in Sales Tax Revenues

FY2011 - FY2015 (\$ in Thousands)



	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Estimates	FY2015 Proposed
Adopted Budget	\$ 473,754	\$ 518,512	\$ 577,373	\$ 629,602	\$ 666,968
Actual/Projected	\$ 492,824	\$ 546,543	\$ 600,256	\$ 633,000	\$ 666,968
Variance: Over/(Under)	\$ 19,070	\$ 28,031	\$ 22,883	\$ 3,398	\$ -



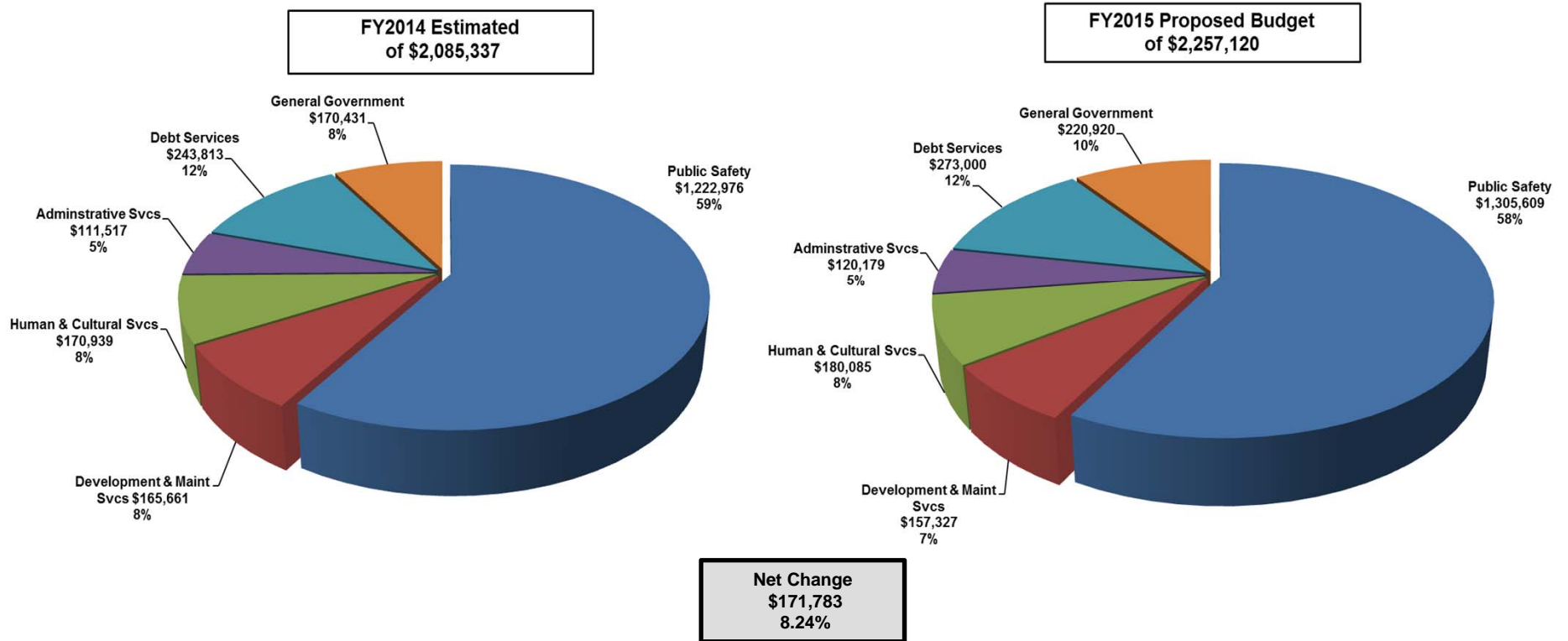
Other Revenues and Sources of Funds

- Sale of Capital Assets of \$2.5 million:
 - Recurring land sales and right-of-way sales.
 - No major one-time land sales budgeted.
 - Potential sale of Gillette property in FY2015.
- Pass-Through Funding of \$18.4 million
 - \$18.4 million pass-through funding from Houston First, mainly for arts funding and annual contribution as stated in the Interlocal Agreement.
- Ongoing Transfers of \$11.7 million, mainly due to:
 - \$1.4 million lease payment from Houston First.
 - \$1.5 million administrative payment from Houston Forensics Science LGC, Inc.
 - \$7.0 million from Parking Management Fund.
 - \$1.5 million from Police Auto Dealers Fund.



General Fund Expenditures

Including Debt Service (\$ in Thousands)



- Public Safety: Police, Fire, Houston Emergency Center (HEC), Municipal Courts
- Development & Maint Svcs: General Services, Planning & Development, Public Works, Solid Waste
- Human & Cultural Svcs: Health & Human Services, Housing, Library, Neighborhoods, and Parks
- Administrative Svcs: Administration and Regulatory Affairs, Controller, City Council, City Secretary, Finance, Human Resources, Houston Information Technology Service (HITS), Legal, Mayor's Office, Office of Business Opportunity



FY2015 General Fund Expenditures

Net Change vs. FY2014 Estimate (\$ in Thousands)

Compensation Increases:

Municipal Pay	\$	9,323
Classified Pay	\$	30,159
Health Benefits	\$	2,063
Pension	\$	45,836
Subtotal	\$	87,380

Transfers/Pass Through Increases:

Chapter 380 Agreement	\$	14,556
Limited Purpose Annexation Payment	\$	2,628
42% TX1115 Waiver Payment to State	\$	1,608
Payment for Arts 19.3% HOT Tax	\$	1,195
Captured revenue to DDSRF	\$	10,400
Subtotal	\$	30,386

Other Significant Increase:

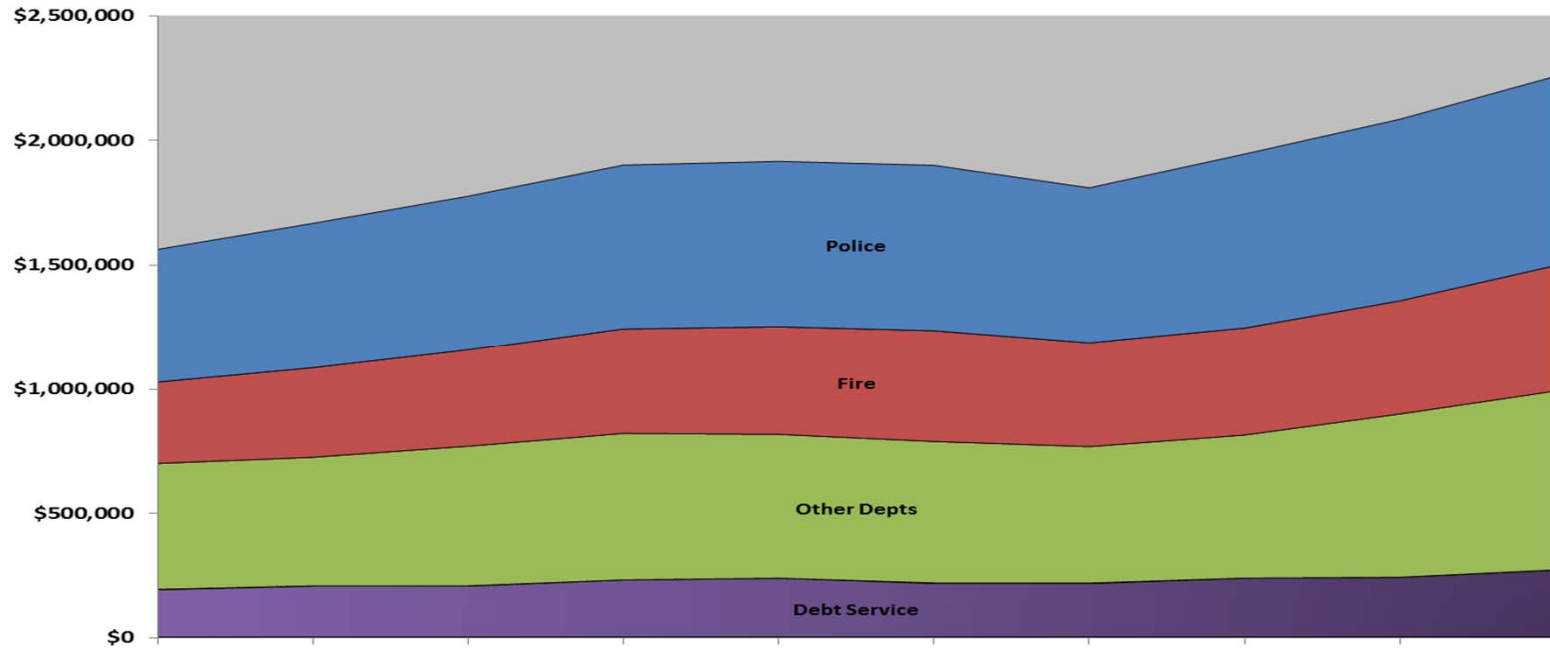
Debt Service	\$	29,187
EMS Related Cost	\$	4,194
Fire Agreement - Clothing Allowance	\$	3,644
Maintenance Replacement & Renewals	\$	2,500
BARC funding	\$	2,600
O&M Costs for new facilities	\$	2,127
Work Demands Analysis	\$	2,000
CSMART Contract	\$	1,538
Transfer to Houston Forensics Science LGC	\$	1,159
Others	\$	5,068
Subtotal	\$	54,017

Net Change	\$	171,783
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General Fund Expenditures

FY2006 - FY2015 (\$ in Thousands)

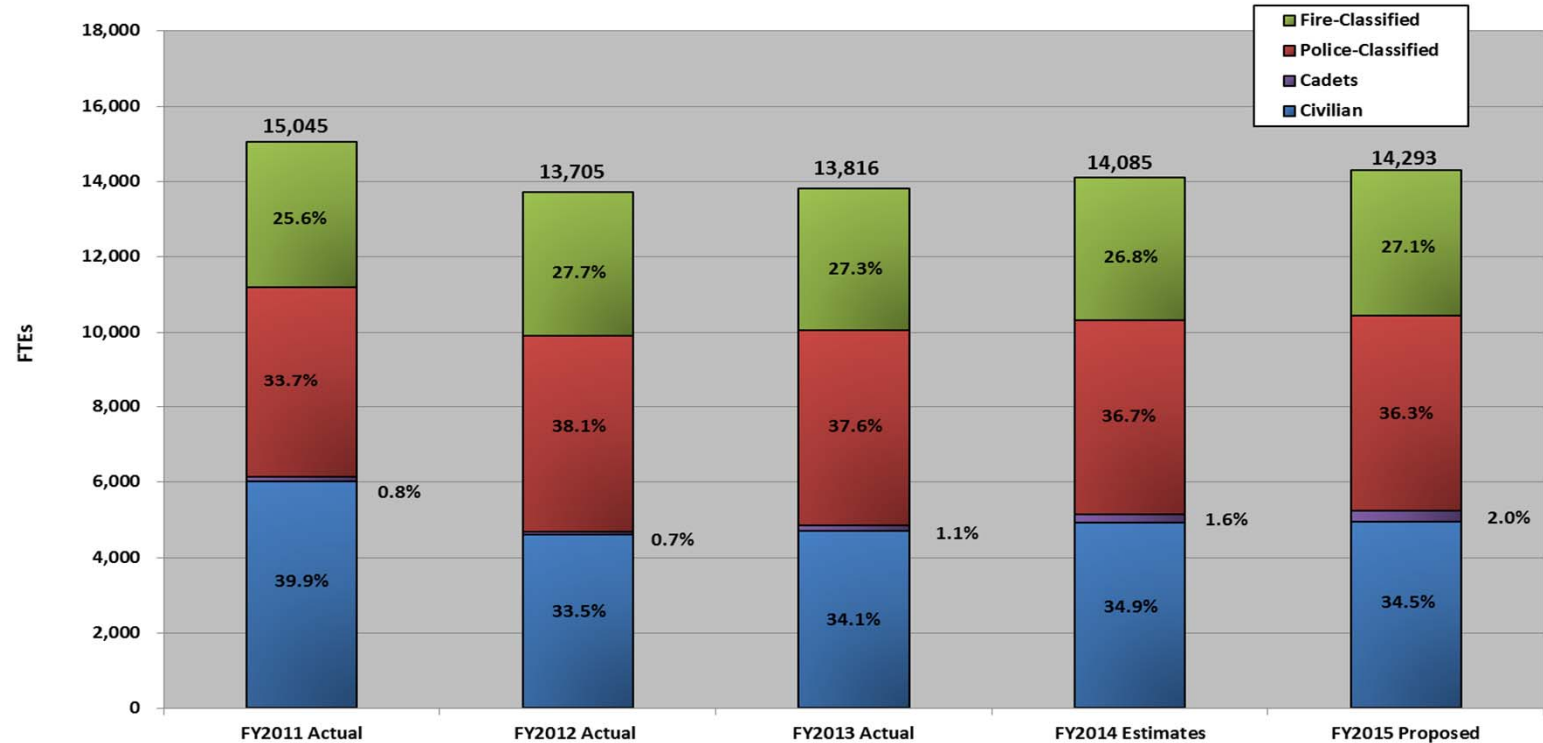


	FY2006 Actual	FY2007 Actual	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY20013 Actual	FY2014 Estimate	FY2015 Proposed
Police	\$ 535,504	\$ 581,787	\$ 618,304	\$ 657,225	\$ 662,766	\$ 663,420	\$ 621,739	\$ 697,417	\$ 727,711	\$ 758,404
Fire	\$ 327,323	\$ 360,542	\$ 388,352	\$ 422,718	\$ 435,852	\$ 448,175	\$ 420,198	\$ 433,176	\$ 457,884	\$ 506,743
Other Depts	\$ 505,919	\$ 516,747	\$ 560,828	\$ 588,757	\$ 577,750	\$ 568,443	\$ 548,106	\$ 574,856	\$ 655,929	\$ 718,973
Debt Service	\$ 195,000	\$ 209,000	\$ 209,350	\$ 232,948	\$ 240,020	\$ 220,837	\$ 220,507	\$ 240,203	\$ 243,813	\$ 273,000
Total	\$ 1,563,746	\$ 1,668,076	\$ 1,776,834	\$ 1,901,648	\$ 1,916,388	\$ 1,900,875	\$ 1,810,550	\$ 1,945,652	\$ 2,085,337	\$ 2,257,120
Change YOY (\$)		\$ 104,330	\$ 108,758	\$ 124,814	\$ 14,740	\$ (15,513)	\$ (90,325)	\$ 135,102	\$ 139,685	\$ 171,783
Change YOY (%)		6.67%	6.52%	7.02%	0.78%	-0.81%	-4.75%	7.46%	7.18%	8.24%

Police	34.24%	34.88%	34.80%	34.56%	34.58%	34.90%	34.34%	35.84%	34.90%	33.60%
Fire	20.93%	21.61%	21.86%	22.23%	22.74%	23.58%	23.21%	22.26%	21.96%	22.45%
Other Depts	32.35%	30.98%	31.56%	30.96%	30.15%	29.90%	30.27%	29.55%	31.45%	31.85%
Debt Service	12.47%	12.53%	11.78%	12.25%	12.52%	11.62%	12.18%	12.35%	11.69%	12.10%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%



General Fund Full-Time Equivalents

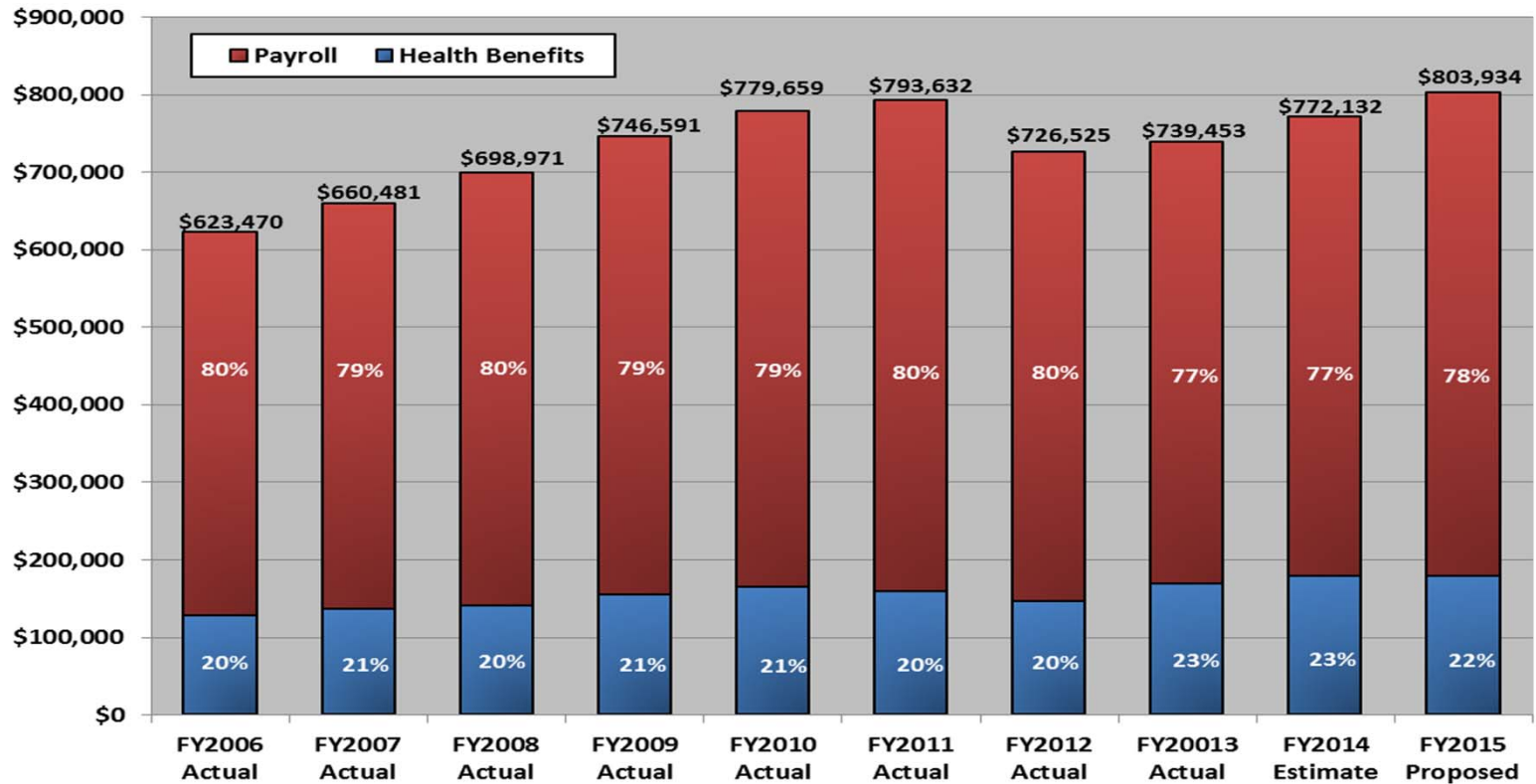


	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Estimates	FY2015 Proposed
Civilian	6,004	4,589	4,705	4,918	4,933
Police-Classified	5,073	5,224	5,196	5,168	5,194
Police-Cadets	70	77	121	89	113
Fire-Classified	3,854	3,801	3,768	3,775	3,876
Fire-Cadets	45	14	27	135	178
Total	15,045	13,705	13,816	14,085	14,293
Change YOY (FTEs)		(1,341)	112	269	208
Change YOY (%)		-8.91%	0.81%	1.95%	1.48%



General Fund Health Benefits

FY2006 - FY2015 (\$ in Thousands)



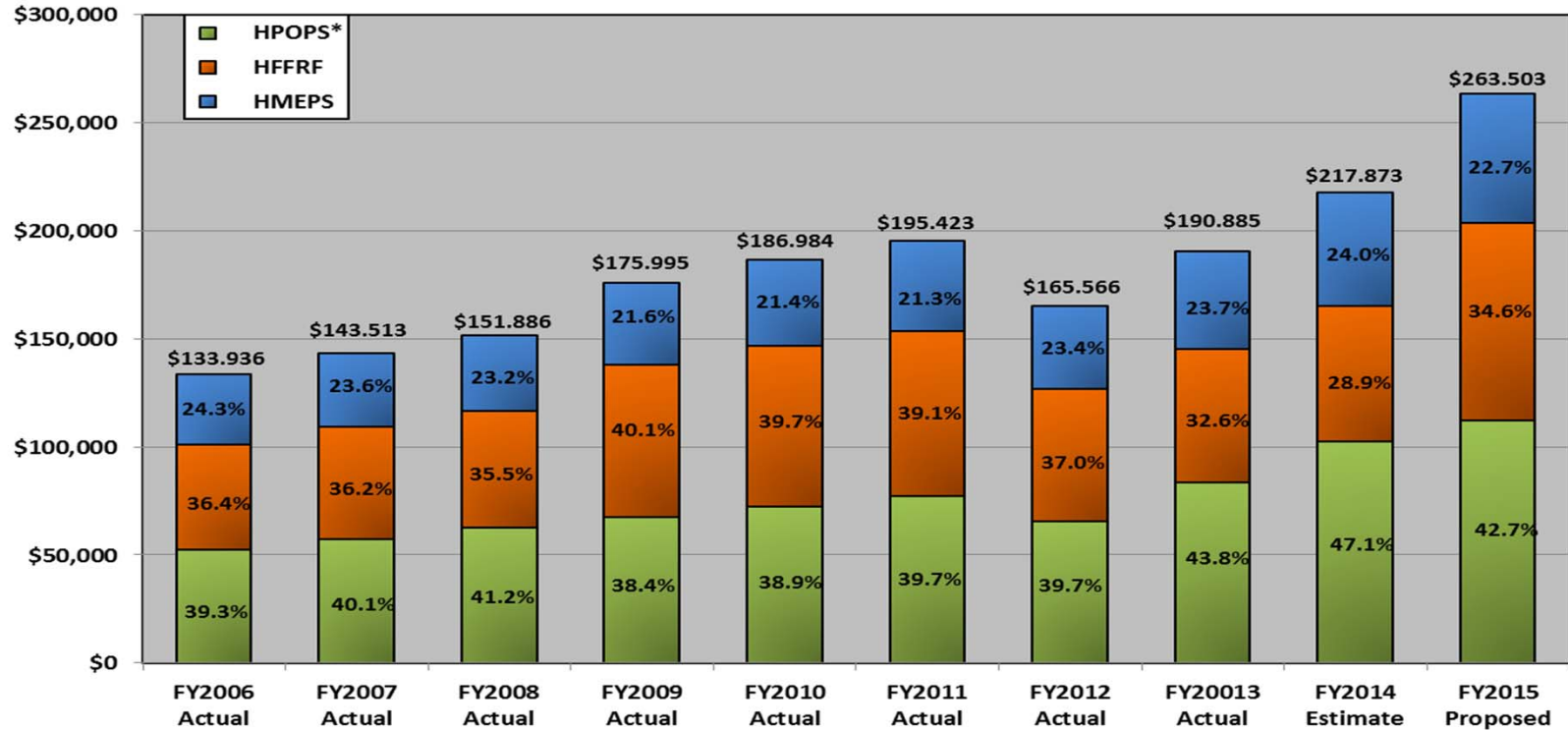
	FY2006 Actual	FY2007 Actual	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Estimate	FY2015 Proposed
Payroll	\$ 623,470	\$ 660,481	\$ 698,971	\$ 746,591	\$ 779,659	\$ 793,632	\$ 726,525	\$ 739,453	\$ 772,132	\$ 803,394
Change YOY		5.94%	5.83%	6.81%	4.43%	1.79%	-8.46%	1.78%	4.42%	4.05%
Health Benefits	\$ 127,717	\$ 136,542	\$ 140,566	\$ 155,018	\$ 165,190	\$ 159,119	\$ 147,077	\$ 169,868	\$ 179,318	\$ 179,357
Change YOY		6.91%	2.95%	10.28%	6.56%	-3.68%	-7.57%	15.50%	5.56%	0.02%
Health Benefits as % of Payroll	20%	21%	20%	21%	21%	20%	20%	23%	23%	22%

Notes:

- Health Expense includes only City contributions for HMO, PPO, and Medicare Advantage Health Care Plans and Payroll includes only Base Salary Pay.
- This chart also includes payroll and health benefits funding for Forensic Transition Special Fund in FY2015.



General Fund Pension Contributions FY2006 - FY2015 (\$ in Thousands)



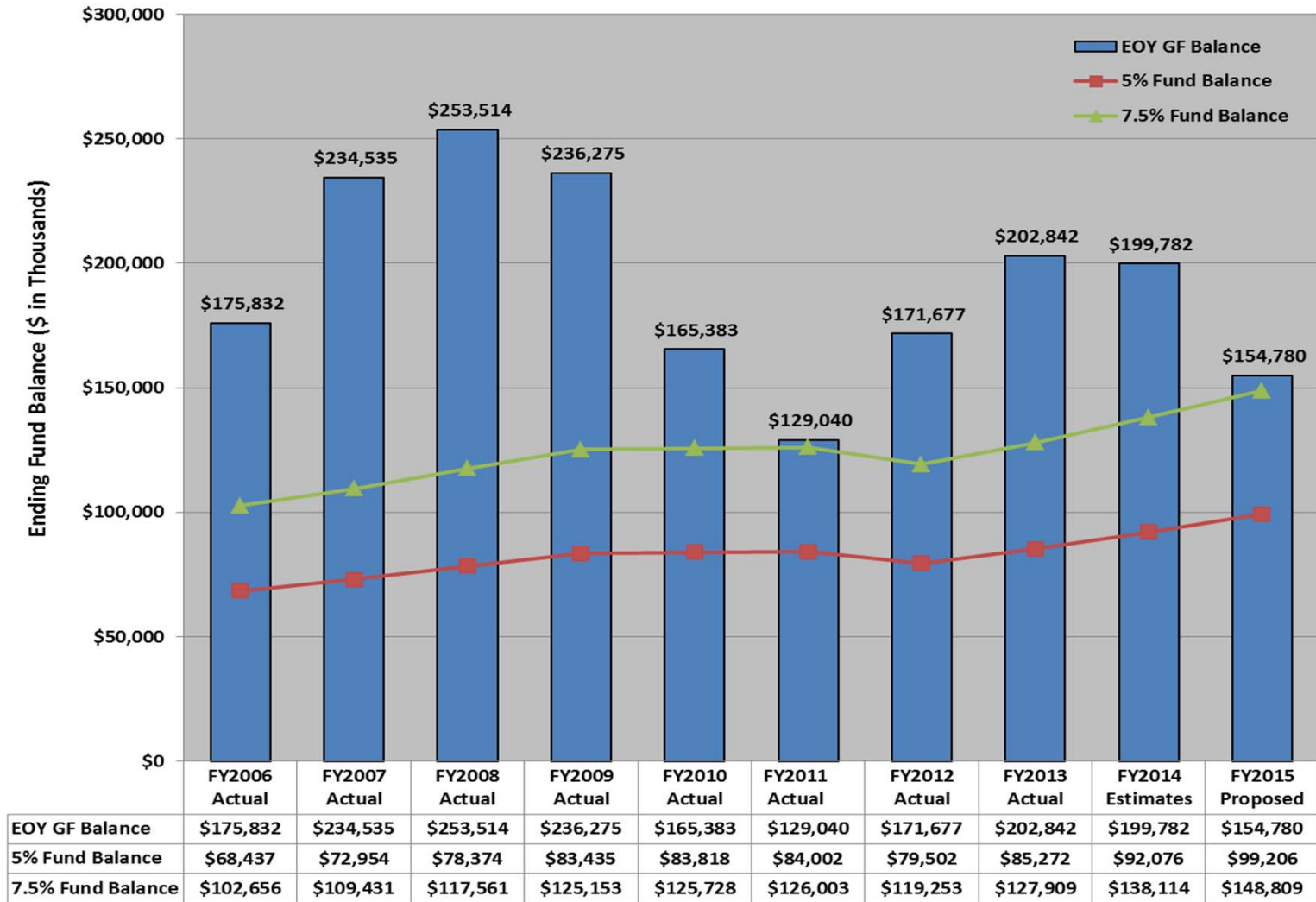
	FY2006 Actual	FY2007 Actual	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Estimate	FY2015 Proposed
HMEPS	\$ 32,501	\$ 33,932	\$ 35,278	\$ 37,994	\$ 40,017	\$ 41,537	\$ 38,662	\$ 45,219	\$ 52,365	\$ 59,765
HFFRF	\$ 48,738	\$ 51,984	\$ 53,981	\$ 70,506	\$ 74,299	\$ 76,352	\$ 61,204	\$ 62,141	\$ 62,958	\$ 91,232
HPOPS*	\$ 52,697	\$ 57,597	\$ 62,627	\$ 67,495	\$ 72,669	\$ 77,534	\$ 65,701	\$ 83,526	\$ 102,550	\$ 112,506
Pension Contributions	\$ 133,936	\$ 143,513	\$ 151,886	\$ 175,995	\$ 186,984	\$ 195,423	\$ 165,566	\$ 190,885	\$ 217,873	\$ 263,503
Change YOY (\$)		\$ 9,577	\$ 8,373	\$ 24,109	\$ 10,989	\$ 8,439	\$ (29,857)	\$ 25,319	\$ 26,987	\$ 45,631
Change YOY (%)		7.15%	5.83%	15.87%	6.24%	4.51%	-15.28%	15.29%	14.14%	20.94%
Pension as % of Payroll	21%	22%	22%	24%	24%	25%	23%	26%	28%	33%

*Notes:

- Beginning FY2014, HPOPS includes pension funding for Forensic Transition Special Fund which is budgeted in General Government.
- Decrease in FY2012 is mainly due to HPOPS deferral.




General Fund Unassigned Ending Fund Balance FY2006 - FY2015



The header image features a blue background with a blurred calculator on the left and a 3D bar chart with a line graph in the upper left. The text "Finance Department" is centered in the right half of the image.

Finance Department

The title image has a light gray background with a grid of squares. The text "General Fund Five Year Forecast FY2015 – FY2019" is centered in the middle of the image.

**General Fund Five Year Forecast
FY2015 – FY2019**



Overview

- This 5-year forecast is based on the FY2015 Proposed Budget including redline changes.
- Expenditures include legal mandates, staffing for new facilities, and contractual escalators.
- The capital budget for facilities, rolling stock, and information technology is not included.
- Includes debt service for capital projects.



Key Assumptions - Revenue

Revenue Category	Proposed Budget FY2015	Projection				Comments
		FY2016	FY2017	FY2018	FY2019	
Property Tax Revenues Growth %	8.9%	3.6%	3.6%	3.6%	3.6%	Based on 2014 estimate received from Harris County tax appraisal District for FY2015. FY2016-2019 estimate is based on the maximum allowed by 2004 Proposition 1 and modified by 2006 Proposition H.
Sales Tax Growth %	5.4%	5.2%	5.3%	5.3%	5.3%	FY2016-2019 estimate derived from UH-IRF Report.
Franchise Revenue Growth %	-1.5%	-1.3%	-1.2%	-1.1%	-1.0%	FY2016-2019 estimate based on historical growth. FY2015 decrease in growth is due to telephone and lower average consumption in gas and electricity from prior years.
Other Revenues Growth %	5.2%	2.3%	2.4%	2.5%	2.5%	FY2016-2019 estimate based on historical growth. Thereafter, it is based on CPI growth.
One Time - Sale of Capital Assets (\$mm)	-	-	-	-	-	
One Time - Transfer from Other Funds (\$mm)	-	-	-	-	-	

***Note: Other Revenue Category includes items such as Industrial Assessment, Licenses and Permits, Charges for Services, Interfund Services, Fines and Forfeits.**



Key Assumptions – Expenditure Changes

Expenditure Category	Proposed Budget FY2015	Projection				Comments
		FY2016	FY2017	FY2018	FY2019	
Personnel:						
Civilian - Base Pay	3.00%	0.00%	0.00%	0.00%	0.00%	Based on HOPE Meet & Confer
Classified - Police Base & Special Pay	3.00%	4.00%	0.00%	0.00%	0.00%	Based on HPD Meet & Confer
Classified - Fire Base & Special Pay	0.00%	0.00%	0.00%	0.00%	0.00%	Pending HFD Collective Bargaining
Pension:						
HMEPS	25.4%	27.4%	29.4%	31.4%	33.4%	Based on 2% increase each year per agreement
HFRRF	33.2%	33.2%	33.2%	33.2%	33.2%	Based on Actuarial Required Contribution (ARC)
HPOPS Annual \$ Increase (\$M)	\$10.0	\$10.0	\$10.0	\$10.0	\$10.0	Based on HPOPS Meet & Confer
HPOPS Pension Adjustment	-	\$50.0	-	(\$50.0)	-	Estimated additional contribution to maintain a minimum 80% funded ratio in accordance with the Meet & Confer Agreement
Health Benefits:						
Growth %	3.00%	5.00%	5.00%	5.00%	5.00%	Assumes reserved fund balance in Health Benefits Fund is maintained.
Services Chargeback and Energy:						
Annual \$ Increase/(Decrease) (\$M)	\$7.2	\$7.8	\$8.3	\$8.9	\$9.6	Includes cost for IT, fleet, Energy and EGIS
Other Operating Costs including debt:						
Annual \$ Increase/(Decrease) (\$M)	\$87.9	\$58.8	\$32.7	\$112.1	\$1.3	Debt payment is as scheduled.



Revenue & Expenditure Summary

(\$ in Thousands)

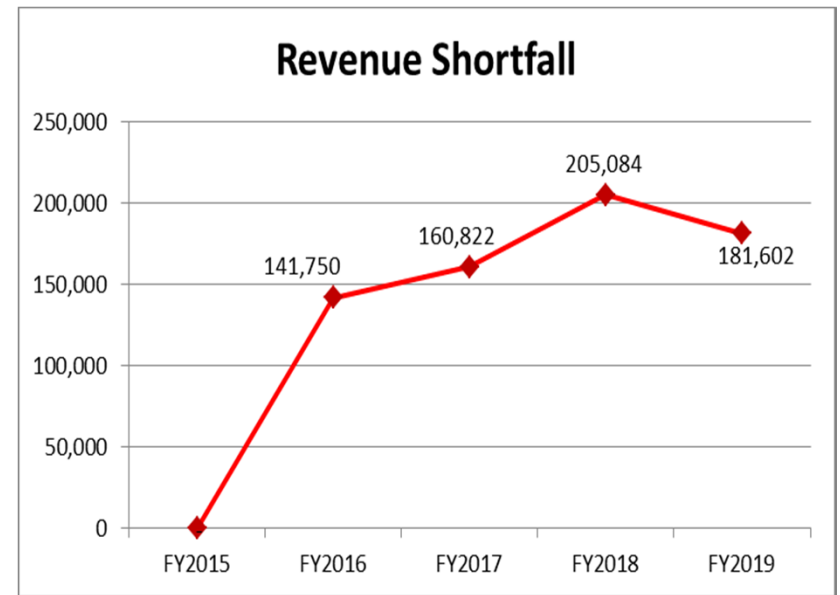
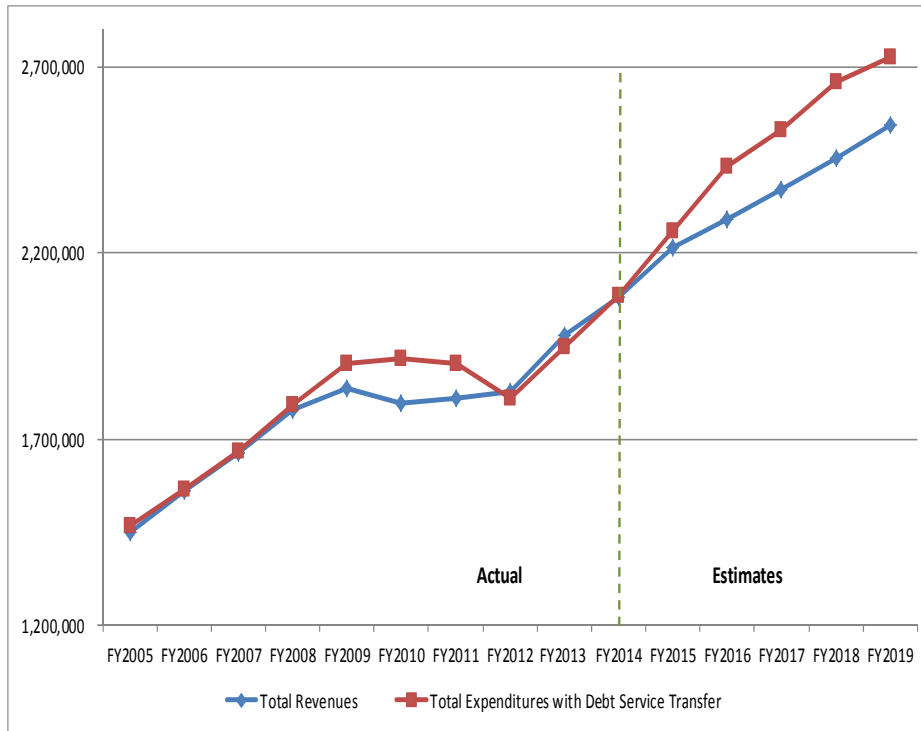
	<u>FY2013</u> Actual	<u>FY2014</u> Estimates	<u>FY2015</u> Proposed	<u>FY2016</u> Forecast	<u>FY2017</u> Forecast	<u>FY2018</u> Forecast	<u>FY2019</u> Forecast
Property Tax Revenues	910,034	981,868	1,069,545	1,108,110	1,148,187	1,189,827	1,233,100
Sales Tax	600,256	633,000	666,968	701,650	738,838	777,996	819,230
Franchise Revenue	195,304	187,878	185,099	182,605	180,368	178,362	176,565
Other Revenues	238,852	245,105	257,867	263,816	270,100	276,745	283,780
Transfers from Other Funds - Ongoing	28,500	29,230	30,139	30,139	30,139	30,139	30,139
Sale of Land - Ongoing	4,602	2,500	2,500	2,500	2,500	2,500	2,500
Total Revenues	1,977,548	2,079,581	2,212,117	2,288,820	2,370,131	2,455,569	2,545,314
<i>Growth %</i>		5%	6%	3%	4%	4%	4%
Total Operating Expenditures	1,705,452	1,834,045	1,984,120	2,091,013	2,179,406	2,279,564	2,369,776
Total Operating Expenditures	1,705,452	1,834,045	1,984,120	2,091,013	2,179,406	2,279,564	2,369,776
Transfers for Debt Service	240,203	243,813	273,000	339,556	351,547	381,089	357,141
Total Expenditures Including Debt	1,945,655	2,077,858	2,257,120	2,430,569	2,530,953	2,660,653	2,726,916
<i>Growth %</i>		7%	9%	8%	4%	5%	2%
Net Revenues Less Expenditures	31,893	1,723	(45,003)	(141,750)	(160,822)	(205,084)	(181,602)
Transfers from Other Funds - One-Time	2,242	0	0	0	0	0	0
Sale of Land - One Time	10,666	0	0	0	0	0	0
Change in Inventory/Prepaid Items	1,361	0	0	0	0	0	0
Proceeds from/(Increase in) Fund Balance	(46,162)	5,777	45,003	0	0	0	0
Other Sources and Uses	(31,893)	5,777	45,003	0	0	0	0
Net Surplus/(Deficit)	(0)	7,500	0	(141,750)	(160,822)	(205,084)	(181,602)
Redesignation of Rainy Day Fund	(15,000)	0	0	0	0	0	0
Redesignation for DARLEP	0	2,720	0	0	0	0	0
Changes to Restricted Fund Balance	(15,000)	2,720	0	0	0	0	0
Beginning Fund Balance	171,678	202,840	199,783	154,780	154,780	154,780	154,780
Ending Unrestricted Fund Balance*	202,840	199,783	154,780	154,780	154,780	154,780	154,780
Fund Balance Percent of Expenditures (less debt)	11.9%	10.9%	7.8%	7.5%	7.5%	7.5%	7.5%

* Ending Unrestricted Fund Balance figure assumes gap is eliminated in each fiscal year.



Revenue & Expenditure Summary

(\$ in Thousands)



Note: Total Revenue does not include One-Time Revenue Sources



Five Year Management Strategies

- Limitations
 - Property tax cap in City Charter
 - Debt service increases generated in past administrations
 - No excess fund balance
 - Pensions controlled by the State
 - Personnel costs make up majority of General Fund spend
- Options
 - Continued push on cost containment
 - Service reductions
 - Service eliminations
 - Address revenue limitation
 - Fee cost of service recovery
 - Continue working with Legislature on pension reform

The top section of the slide features a blue background. On the left, there is a close-up of a calculator's keypad with numbers 3, 5, 6, 8, 9, and 0 visible. The background is filled with a grid pattern and faint, glowing numbers and mathematical symbols, suggesting a financial or data-related theme.

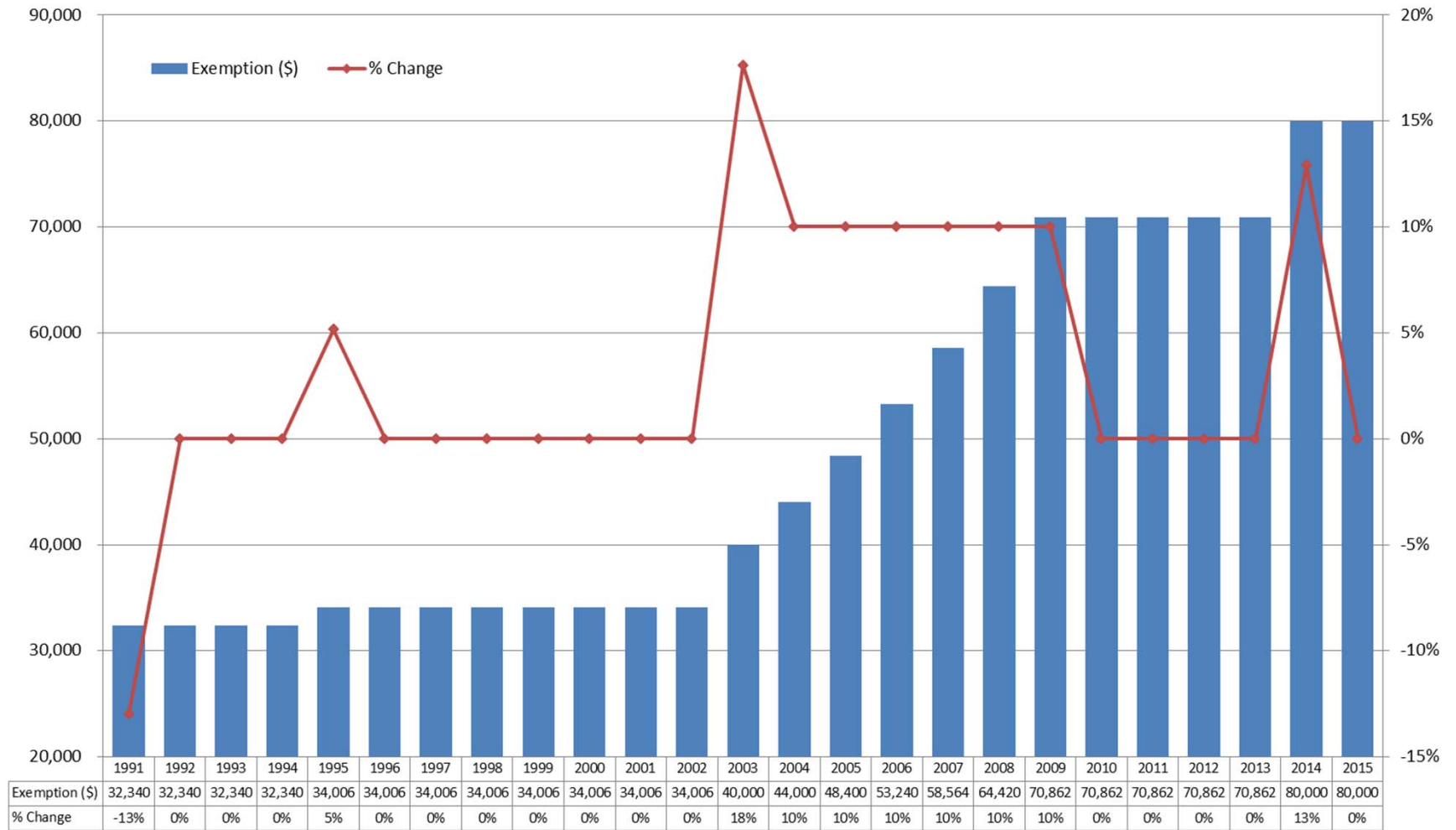
Finance Department

The bottom section of the slide has a light gray background. It features a faint, large-scale grid pattern of squares, similar to a ledger or a data table, which is centered behind the text.

Appendix



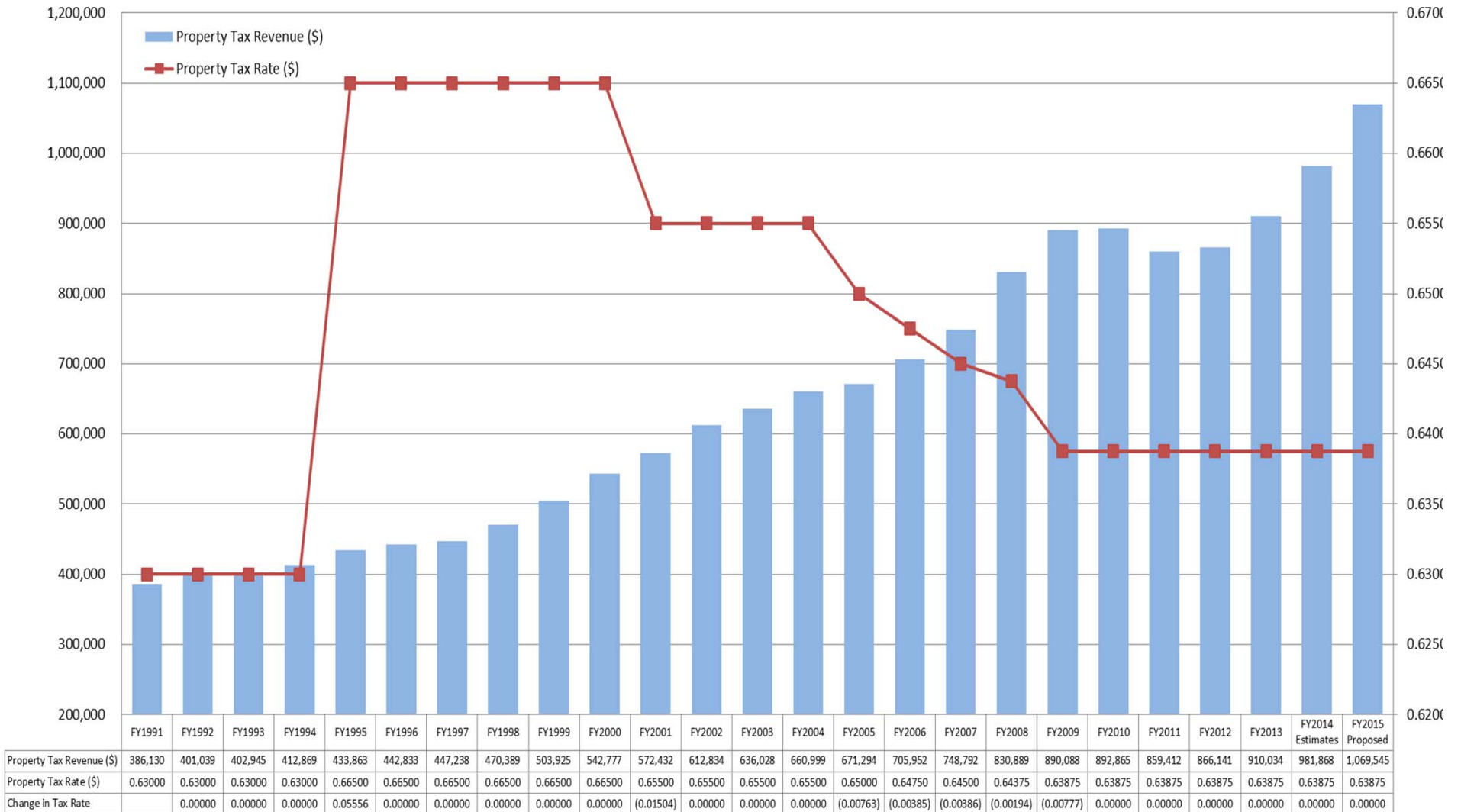
Senior and Disabled Exemption





Property Tax Revenue & Tax Rate

(\$ in Thousands)



* Property Tax Rate per \$100 of taxable value



Property Tax Revenue

Key Points

- FY2014 (TY2013) Tax Rate
 - Adopted Tax Rate = \$0.638750 / \$100 assessed value
 - Effective Tax Rate = \$0.613728 / \$100 assessed value
 - Rollback Tax Rate = \$0.641297 / \$100 assessed value
- The tax rate decreased consecutively from FY2005-09
 - Property tax receipts continued to increase during the rate cuts largely due to new construction and increasing taxable values during that time
 - Property tax receipts declined starting in FY2010 as taxable values decreased and foreclosures increased
 - Senior and Disabled tax exemption increased from FY2003-09 and FY2014



Propositions 1 & H

- Proposition 1 (Tax Cap)
 - Election held in 2004, it limits the growth of City's property tax revenue to the lesser of population and inflation growth or 4.5% growth
 - Proposition 1 is in effect and calculation is done each budget year
- Proposition H
 - Election held in November 2006, it allowed City officials to raise an additional \$90 million of revenues above the limit level for public safety issues



Tax Increment Reinvestment Zones (TIRZ)

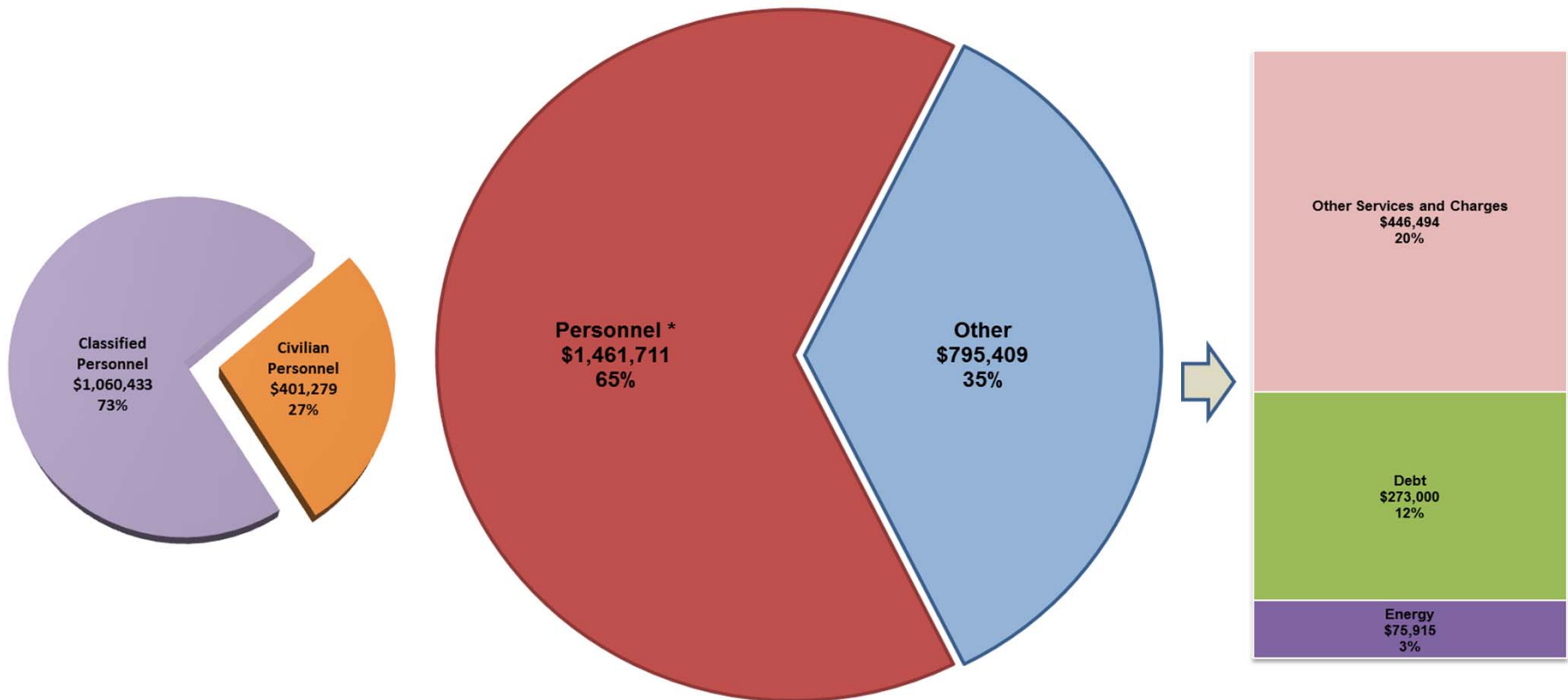
- City of Houston's Property Tax revenue is net of TIRZ
- Currently there are 25 TIRZ
- Local jurisdictions typically participate in TIRZ:
 - City, County, ISD
- Taxable Base Value remains in City of Houston
- The increment taxable value from properties within the zone goes to TIRZ for the development of the zones
 - As a result, TIRZ typically has a higher growth rate than City of Houston.
- Limit of total value amount included in TIRZ is 25% of COH property taxable value
- City funding received from TIRZ:
 - (a) Admin Fees (5%), (b) Municipal Service Fees, (c) Affordable Housing and (d) Source of funding for CIP.



FY2015 General Fund Expenditures Personnel vs. Non Personnel

(\$ in Thousands)

**Adopted Budget
\$2,257,120**

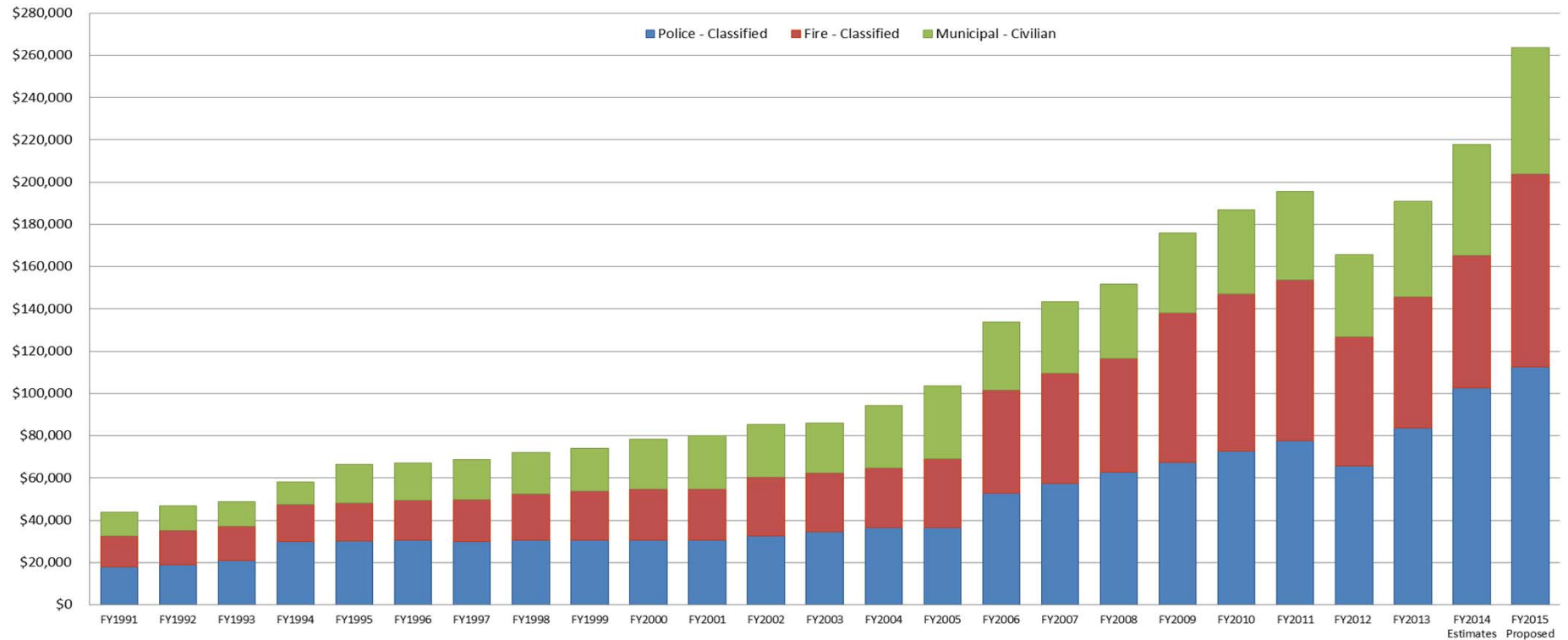


* Includes Items such as Salary, FICA, Pension, Health Benefits, Overtime, Workers Comp, Other Pays, Temporary Personnel Services, etc.



General Fund Pension Expenditures

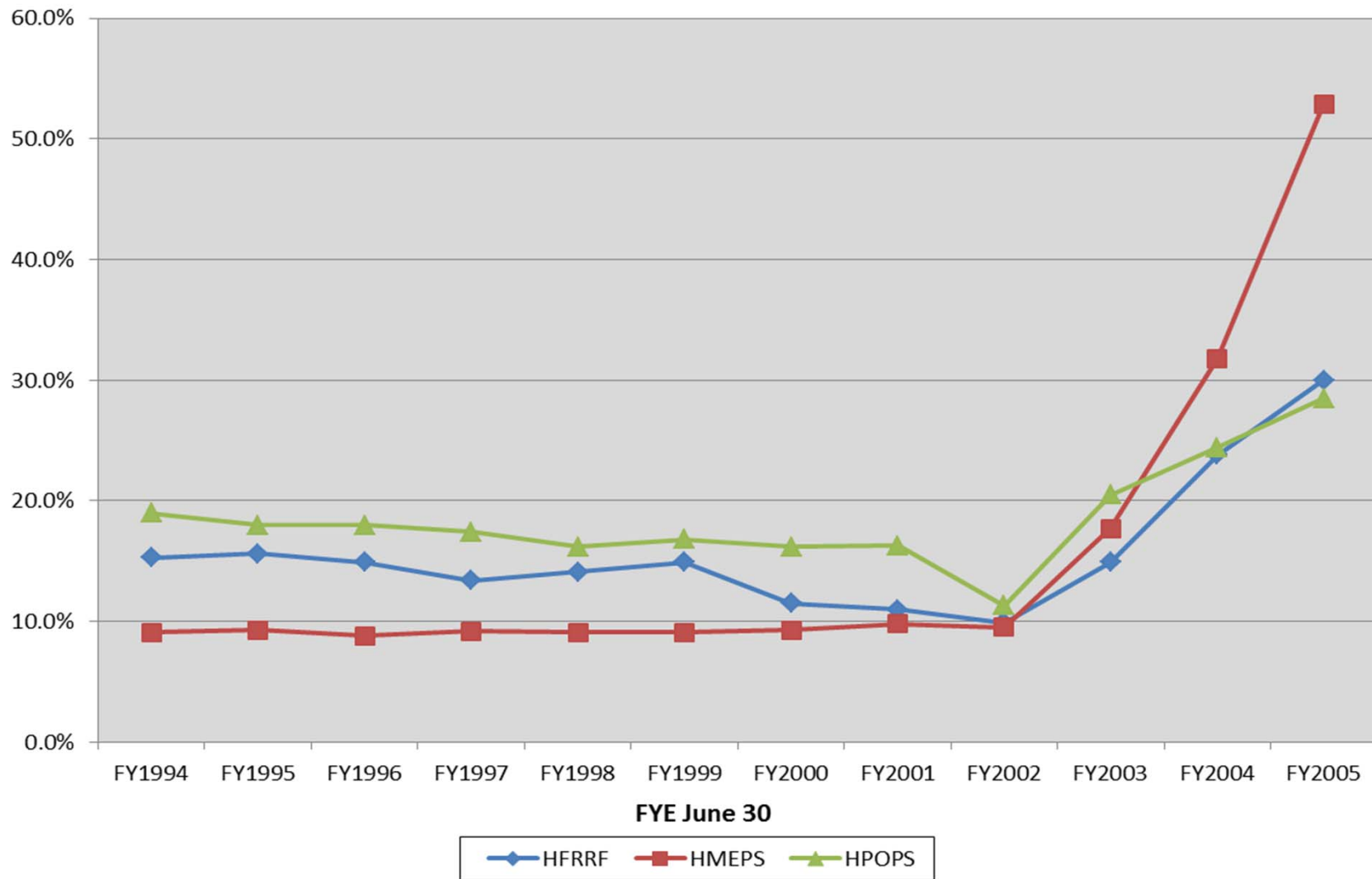
(\$ in Thousands)



Pension	FY1991	FY1992	FY1993	FY1994	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014 Estimates	FY2015 Proposed
Police - Classified	\$17,857	\$19,090	\$20,859	\$29,999	\$30,218	\$30,645	\$29,731	\$30,645	\$30,538	\$30,551	\$30,615	\$32,551	\$34,532	\$36,502	\$52,697	\$57,597	\$62,627	\$67,495	\$72,669	\$77,534	\$65,701	\$83,526	\$102,550	\$112,506	
Fire - Classified	\$14,738	\$16,086	\$16,345	\$17,357	\$17,992	\$18,904	\$20,175	\$21,884	\$23,220	\$24,093	\$24,076	\$27,979	\$27,772	\$28,325	\$32,699	\$48,738	\$51,984	\$53,981	\$70,506	\$74,299	\$76,352	\$61,204	\$62,141	\$62,958	\$91,232
Municipal - Civilian	\$11,093	\$11,499	\$11,460	\$10,871	\$18,031	\$17,485	\$18,660	\$19,610	\$20,317	\$23,675	\$25,253	\$24,812	\$23,524	\$29,317	\$34,437	\$32,501	\$33,932	\$35,278	\$37,994	\$40,017	\$41,537	\$38,662	\$45,219	\$52,365	\$59,765
Total	\$43,688	\$46,675	\$48,664	\$58,227	\$66,241	\$67,034	\$68,566	\$72,139	\$74,075	\$78,319	\$79,944	\$85,342	\$85,828	\$94,165	\$103,638	\$133,936	\$143,513	\$151,886	\$175,995	\$186,985	\$195,423	\$165,567	\$190,886	\$217,873	\$263,503
% Growth		6.84%	4.26%	19.65%	13.76%	1.20%	2.29%	5.21%	2.68%	5.73%	2.07%	6.75%	0.57%	9.71%	10.06%	29.23%	7.15%	5.83%	15.87%	6.24%	4.51%	-15.28%	15.29%	14.14%	20.94%



Actuarial City Contribution as a Percent of Payroll Increased Dramatically from FY2002 to FY2005





Pension - What Happened?

- **At HMEPS:**

- An increase in benefits was proposed in 2001
- HMEPS estimated the ongoing City contribution rate would be 15% of payroll for the proposed benefit increase
- City Council and state legislature approved and implemented the benefit increase based on that estimate
- After implementation the actuarially calculated city contribution rate increased to 53% of payroll

- **At HPOPS:**

- HPOPS statute included plan provisions allowing for individual “benefit spiking” without regard to impact on the overall plan’s liability
 - Pension benefits were based on highest pay in two week period
 - Pay included overtime and bonuses
- City/HPD administration apparently did not consider the impact on pension liabilities of bargained changes to other elements of the compensation program
- The actuarially calculated city contribution rate increased from 11% to 30% of payroll



Pension - What Happened?

- **At HFRRF:**

- The HFRRF statute allows the HFRRF board to increase benefits without city approval if the HFRRF actuary determines that the increase would not pose “a material risk of jeopardizing the fund’s ability to pay any existing benefit”
- The HFRRF board exercised the provision in 2001
- Based on information submitted by HFRRF indicating the benefit increase would have a minimal impact on the City’s funding obligations, the benefit increase was:
 - Approved by the State Pension Review Board
 - Supported by Mayor Lee Brown
- After the benefit increase was implemented the actuarially calculated city contribution rate actually increased from 10% to 30% of payroll.



Steps Taken to Mitigate the Increased Pension Funding Obligations (All Plans)

- State constitutional amendment passed in November 2003 prohibiting local municipalities from reducing accrued pension benefits
- A general election was held in May 2004 where citizens of Houston elected to opt out of the State constitutional amendment
- Although available, the option to reduce accrued pension benefits has not been utilized
- The position of Chief Pension Executive was created to enhance communication among all stakeholders and promote better decision making
- Issued approximately \$608 million in Pension Obligation Bonds from FY2004 to FY2010
 - \$482 million to HMEPS
 - \$123 million to HPOPS
 - \$3 million for underwriter's discount and related cost of issuance



Steps Taken to Mitigate the Increased Pension Funding Obligations to HMEPS

- Adopted a Meet & Confer agreement in 2004 which:
 - Reduced future benefit accrual rates
 - Increased the eligibility age for retirement from “Rule of 70” to “Rule of 75” (age + years of service)
 - Increased the mandatory employee contribution rate from 4% to 5% of pay
 - Increased assets by transferring an asset valued at \$300 million to the Pension Fund
 - Provided for a schedule of increasing dollar contributions to HMEPS for FY2005 through FY2007
- Adopted a Meet & Confer agreement in 2007 which:
 - Established a new lower liability benefit structure for employees hired after 1/1/2008
 - Provided for a schedule of increasing dollar contributions to HMEPS for FY2008 through FY2011
- Adopted a Meet & Confer agreement in 2011 which provides for future City contributions to HMEPS to increase by 2% of payroll each year until the contribution rate is equal to the GASB-ARC rate



Steps Taken to Mitigate the Increased Pension Funding Obligations to HPOPS

- Adopted a Meet & Confer agreement in 2004 which:
 - Eliminated provisions conducive to “benefit spiking”
 - Established a new lower liability benefit structure for police officers sworn in after 10/9/2004 which includes:
 - Reduced benefit levels,
 - Increased employee contributions,
 - A minimum retirement eligibility age of 55, and
 - The elimination of DROP
 - Provided for a schedule of increasing dollar contributions to HPOPS at least until June 30, 2023
- Adopted a Meet & Confer agreement in 2011 which provides for a portion of the scheduled dollar contribution for FY2012 to be made with an “in kind” contribution of real estate valued at \$17 million.



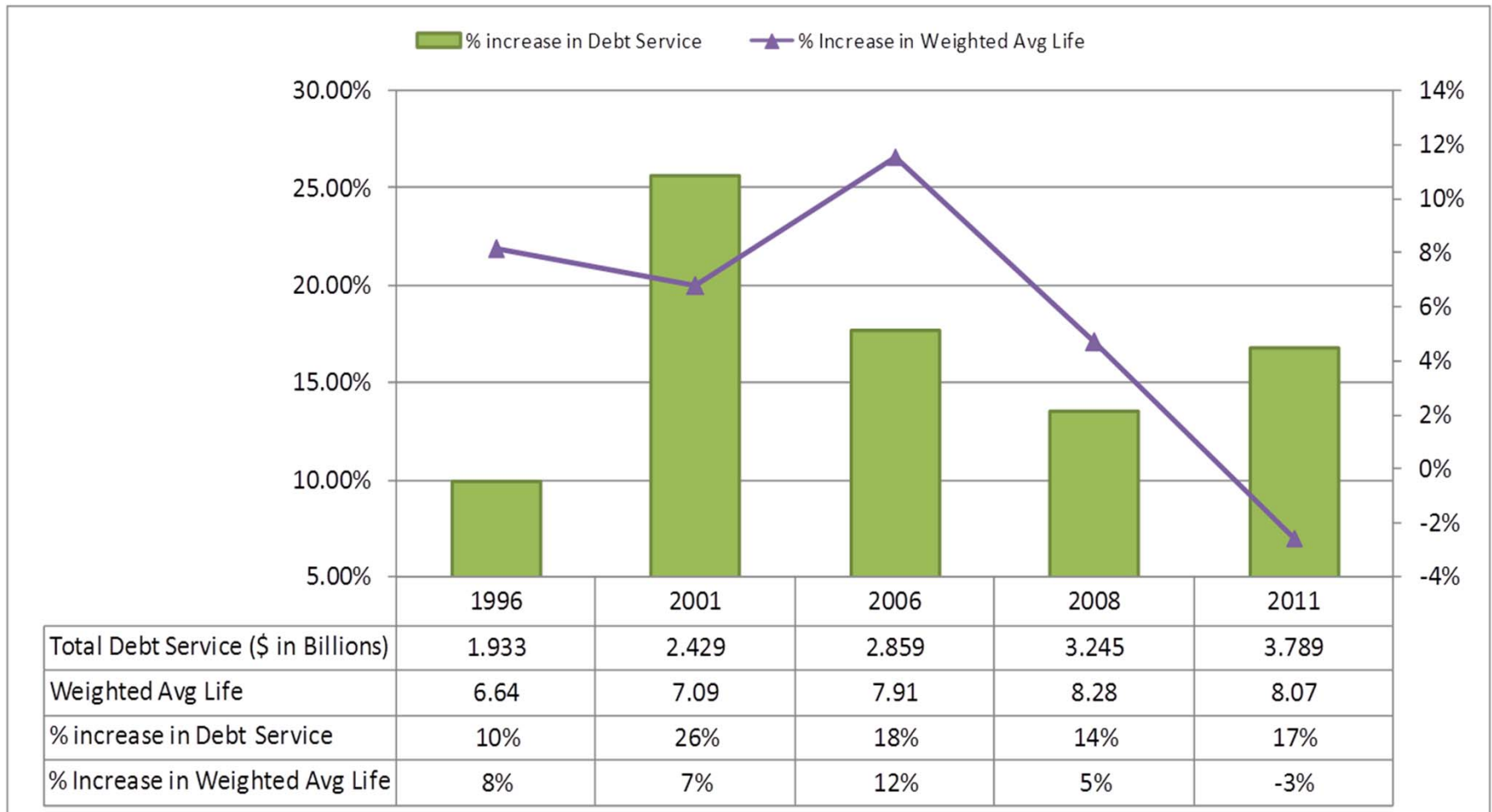
Steps Taken to Mitigate the Increased Pension Funding Obligations to HFRRF

- The City has been unable to make any benefit changes
- A change in the actuarial assumptions adopted by HFRRF resulted in a temporary reduction in the City contribution rates for FY2010-FY2012.



Debt Service Payable from Ad Valorem Taxes

Excluding Pension Obligation Bonds

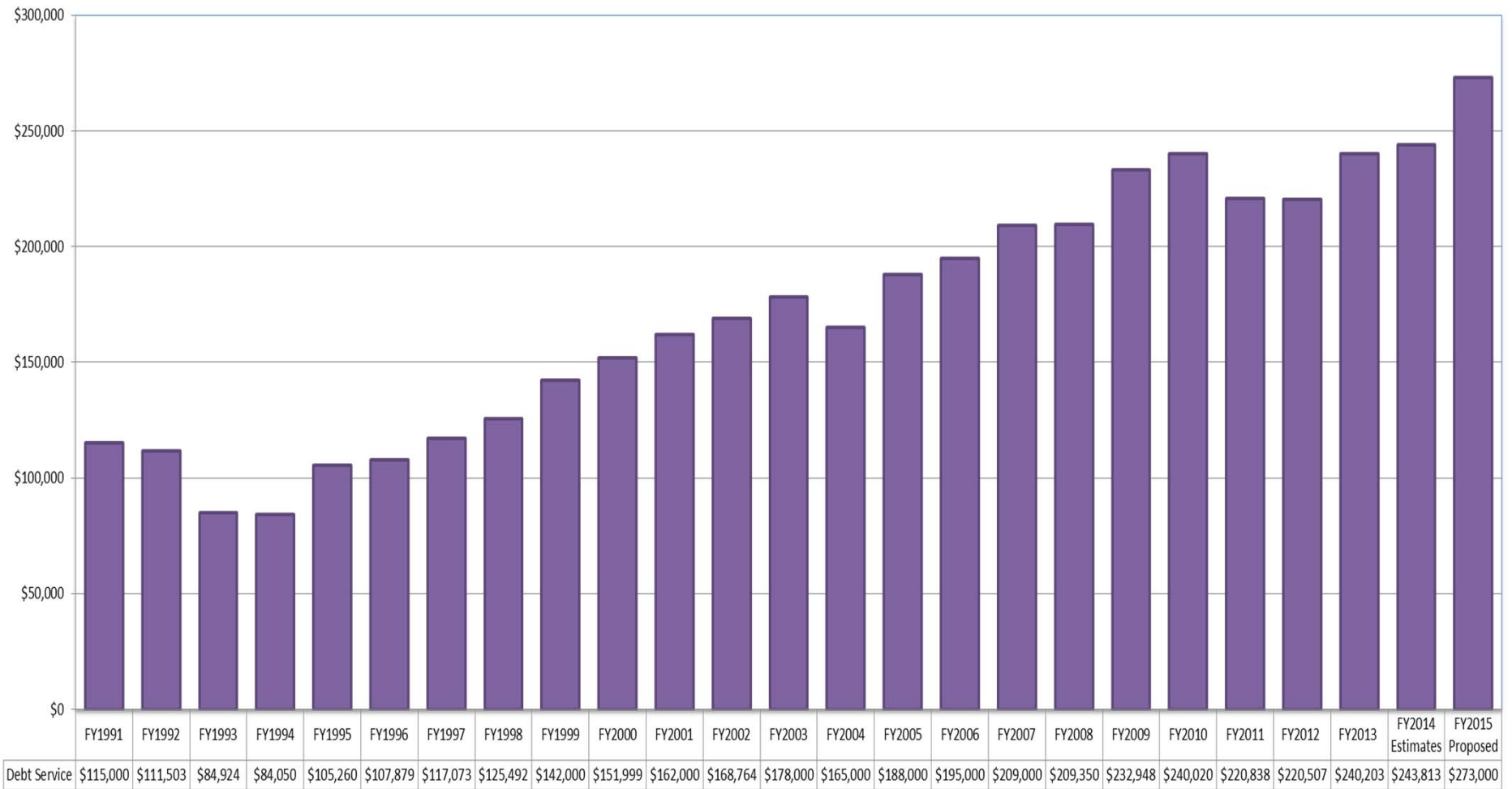


Note: Starting October 2011, the weighted average life of debt service has reduced as debt service increased.



General Fund Debt Service (\$ in Thousands)

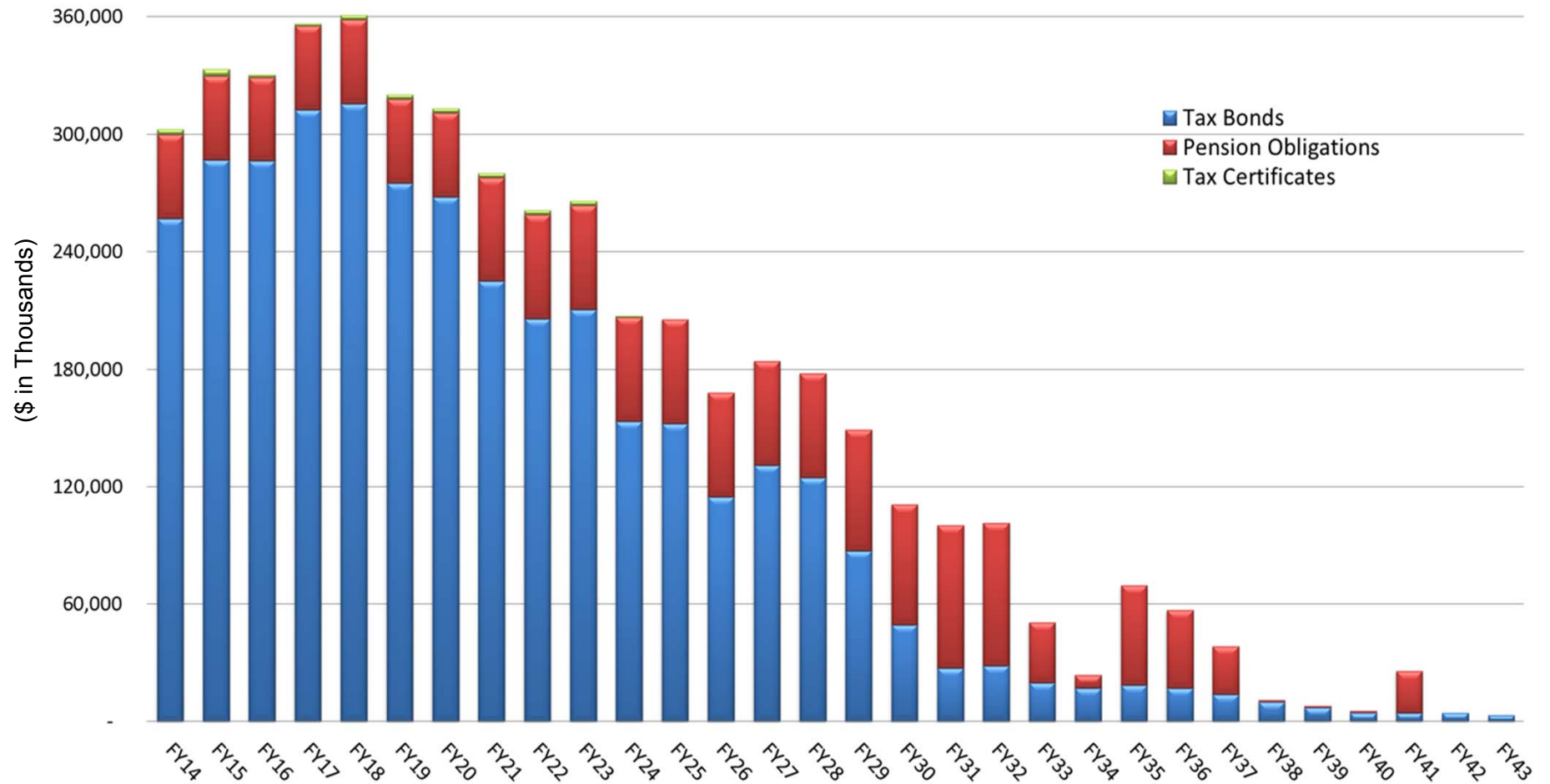
Increased Payment Due to Past Administration





General Obligation Debt Service (existing debt)

Increased Payment Due to Past Administration





Grants Management: FY2011-13 Grant Trend Analysis

	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>
Federal	\$ 284,627,747	\$ 249,866,759	\$ 269,848,265
Private	700,083	1,082,001	1,783,821
State	17,201,115	9,847,637	12,996,315
Grand Total	<u>\$ 302,528,945</u>	<u>\$ 260,796,397</u>	<u>\$ 284,628,401</u>