



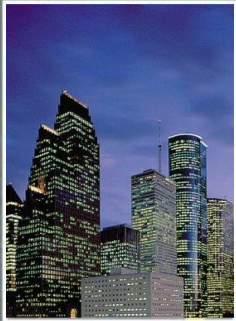
# **Finance Department**

Presentation to the City of Houston  
Budget and Fiscal Affairs Committee

## **Long Range Financial Plan – Recommendations Including Special Revenue Funds**

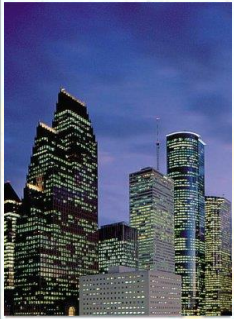
**February 21, 2018**

**Will Jones, Assistant Director**



# Overview

- Like many cities across the United States, Houston is facing a structural deficit where expenses are outpacing revenue. Additionally, Houston is the nation's fourth largest city and one of the fastest growing metropolitan areas. The demand for services have never been greater.
- Recognizing the significance of the fiscal challenges we are facing, the Administration sought to develop a Ten Year Financial Plan. Houston is the largest city to ever attempt a ten year plan.
- In early September, 2016 an independent consulting firm, PFM Consulting was selected to develop the plan for the City of Houston, working with all stakeholders including, City Departments, Controller's Office, and Council Members. The plan was completed and released the end of November 2017.



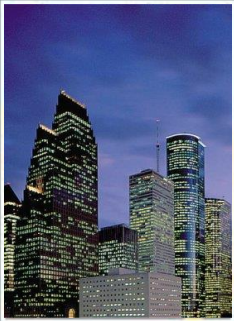
# SUMMARY OF PFM RECOMMENDATIONS



# Summary of PFM Recommendations

## Public Safety

- Reduce costs through civilianization.
- Right-size HFD and significantly reduce the number of FTEs through attrition.
- Reform the current false alarm ordinance to allow fewer “free” false alarms, utilize a progressive penalty and levy higher charges for false alarms.
- Build upon the success of ETHAN and create next stage community paramedicine initiatives.
- Consolidation of 311 with other non-emergency call centers, including re-routing of non-emergency Police calls to 311 and potential partnerships related to 211.

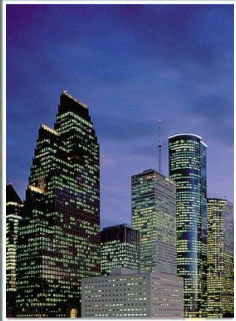




# Summary of PFM Recommendations

## Health Benefits & OPEB

- To achieve additional savings, the City should continue to implement regular dependent eligibility audits, seek to renegotiate its pharmacy benefits contract, consider a spousal carve out to limit or deny coverage to employee spouses with access to other medical benefits, phase-in increases in employee contributions for health insurance and deductibles, expand employee wellness clinics, increase the use of telemedicine and offer health benefit buyouts.
- The City needs to pursue meaningful reforms in OPEB to better position taxpayers and retirees for long-term affordability of the City's nearly \$2.1 billion in unfunded retiree health benefits.

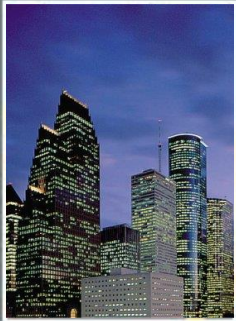




# Summary of PFM Recommendations

## City Operations, HR & Public Works

- The City should look at options for managed competition and explore opportunities related to both market based revenues and asset monetization.
- Review opportunities for consolidation of shared services between the City, Harris County, other governments and other independent local governments (e.g. school districts).
- Consolidate the City's recruitment and personnel management functions.
  - Invest in personnel development
- Reorganization of Public Works into smaller departments.
- Pursue potential savings related to better use of its fleet – including expanding the fleet share program.

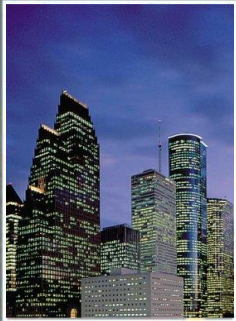




# Summary of PFM Recommendations

## Procurement & Performance Measurement

- The City needs to consolidate and professionalize the procurement function with a goal of increasing competition and reducing cost.
  - Maximize the number of qualified bidders
  - Review the impact of Hire Houston First
  - More effectively monitor contractor performance
- With a continued focus on performance measurement and management, the City should implement a program of continuous improvement through HouStat, adoption of budgeting for outcomes, performance contracts for department administrators and creation of a local productivity bank.

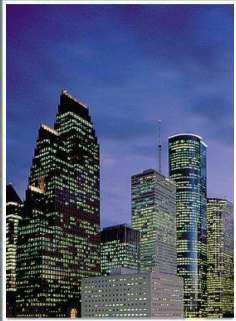




# Summary of PFM Recommendations

## Technology & Finance

- The City of Houston needs a strategic technology plan focused on technology as a form of learning, public and City access to data, improved efficiency and effectiveness, and improved performance measurement.
- Consolidation of the Finance function in City government would ensure the application of uniform policies and procedures to limit risk and more effectively manage City resources.
- City should reduce the number of special revenue funds and reduce the amount of revenue earmarked for specific functions, allowing for greater discretion in the budgeting process.







# Summary of PFM Recommendations

High = Greater than \$10M / Medium = \$5 - \$10M / Low = Less than \$5M / NA = Impact is Unknown

Ref #	Category	Initiative	Fiscal Impact PFM	Page
1	Police	Increase Civilianization	Medium	79
2	Police	Continue with Merger of Jail with Harris County - Joint Processing Center	Low	80
3	Police	Expand Arrest Diversion Options	Medium	81
4	Police	Invest in a Comprehensive Approach to Crime Control	Medium	82
5	Fire	Move to Three Platoons	High	85
6	Fire	Identify Opportunities to Reduce the Number of Fire Stations	High	85
7	Fire	Increase HFD Civilianization	Medium	89
8	Fire	Reduce Frequent Users of 911 and EMS	High	91
9	Fire	Pursue Additional EMS Collections	Medium	98
10	Fire	Revise False Alarm Policy and Fee	Medium	101
11	Workforce	Perform Dependent Eligibility Audit	High	117
12	Workforce	Renegotiate Prescription Benefits Plan Design and Contract	High	118
13	Workforce	Explore Changes to Spousal and Dependent Eligibility Coverage	High	118
14	Workforce	Phase-in Increases in Employee Share of Health Insurance	High	119
15	Workforce	Expand Employee Wellness Clinics	Low	119
16	Workforce	Increase Access to Telemedicine	Low	119

Taken from pages 177-180 in the PFM report





# Summary of PFM Recommendations

High = Greater than \$10M / Medium = \$5 -\$10M / Low = Less than \$5M / NA = Impact is Unknown

Ref #	Category	Initiative	Fiscal Impact PFM	Page
17	Workforce	Offer Health Benefits Buy Outs	Low	119
18	Workforce	Review Funding Structure	N/A	120
19	Workforce	Review Stop-loss Coverage	N/A	120
20	Workforce	Incentivize Effective and Proactive TPA Monitoring and Management	High	120
21	Workforce	Cap Annual OPEB Exposure	High	122
22	Workforce	Restructure OPEB Benefits	High	122
23	Workforce	Eliminate OPEB Coverage for Retirees or Dependents with Access to Other Coverage	High	123
24	Workforce	Fully Fund a Retiree's Share of Health Benefits through Another Employer	High	124
25	Workforce	Require Firefighters to Attain a Minimum Eligibility Age	High	124
26	Operations	Centralize the Talent Management Function	Medium	125
27	Operations	Enhance Vacancy Control	Medium	128
28	Operations	Invest in Talent Management	Increase Cost	129
29	Operations	Consolidate and Reform Procurement	Low	133
30	Operations	Increase Professional Development of Procurement Staff	Increase Cost	134
31	Operations	Use Data to Drive Competition	High	134
32	Operations	Review the Impact of Hire Houston First	N/A	135

Taken from pages 177-180 in the PFM report



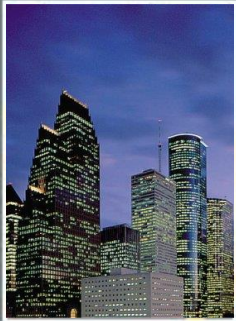


# Summary of PFM Recommendations

High = Greater than \$10M / Medium = \$5 - \$10M / Low = Less than \$5M / NA = Impact is Unknown

Ref #	Category	Initiative	Fiscal Impact PFM	Page
33	Operations	Focus on Quality Contractors	Medium	136
34	Operations	Develop a Strategic Technology Plan	N/A	139
35	Coordination	Increase Consolidation of Finance Functions	Low	144
36	Coordination	Reduce the Use of Special Revenue Funds	Medium	144
37	Coordination	Increase Coordination to Reduce Fleet and the City's Footprint	N/A	146
38	Coordination	Combine 311 and Police Non-Emergency Calls	Low	147
39	Coordination	Rethink Public Works and Engineering	N/A	147
40	Coordination	Consolidate Housing and Neighborhood Development Department	N/A	151
41	Coordination	Increase Joint Planning for Youth Services	N/A	151
42	Performance	Focus on Performance Measurement and Management	N/A	153
43	Performance	Implement Budgeting for Outcomes: Aligning Resources and Results	N/A	155
44	Performance	Implement Pay for Performance	N/A	158
45	Performance	Establish Productivity Bank	High	159
46	Partnerships	Managed Competition - Solid Waste	High	163

Taken from pages 177-180 in the PFM report



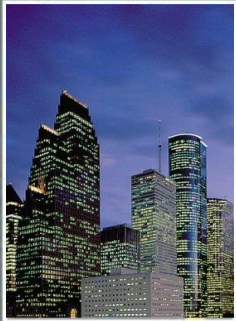


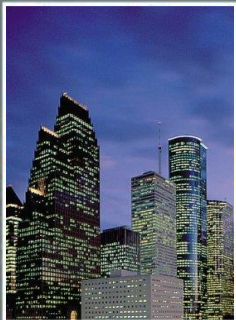
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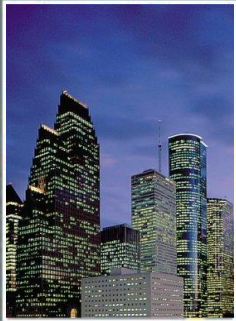
Ref #	Category	Initiative	Fiscal Impact PFM	Page
47	Partnerships	Managed Competition - General Services	Medium	165
48	Partnerships	Managed Competition - Fleet Management	Medium	165
49	Partnerships	Managed Competition - Street Maintenance	Medium	166
50	Partnerships	Market Based Revenue Opportunities	High	166
51	Partnerships	Asset Monetization	High	166
52	Partnerships	Negotiate Voluntary PILOTs with Tax Exempt Organizations	High	168
53	Partnerships	Implement Service Delivery Partnerships with Non-Profit Organizations	High	169
54	Partnerships	Renegotiate Contract with Houston Zoo	High	170
55	Consolidation	Support 311 and 211 Coordination and Collaboration	Low	171
56	Consolidation	Explore Police Consolidation and Merger	N/A	173
57	Consolidation	Create a Regional Certification of Minority, Women, Small Business, Disability and Disadvantaged Business Enterprises	Low	174
58	Consolidation	Create a Shared Services Working Group	High	175

*Taken from pages 177-180 in the PFM report*





# STRATEGY TO IMPLEMENT THE PLAN

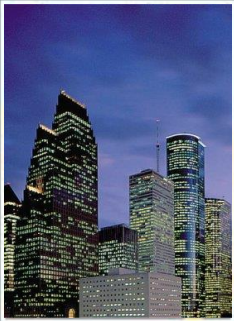


# Plan Implementation

- Based on pre-Harvey analysis PFM provided 58 initiatives and developed a high level fiscal impact for each initiative that includes a range of potential savings or revenue over the next ten years.
  - As we deep dive each initiative, we will provide recommendations with cost impact.
- Today, we are focusing on 7 initiatives that will begin in FY19.
- Some initiatives will take multiple years to implement. In most cases, implementation of initiatives will be ongoing and will require regular monitoring and oversight.
- Review baseline forecast assumptions based on up-to-date data.



# Recommendation Timeline



FY2019 Itemized Initiatives		Ref #	Estimated Timeline
1	Increase Civilianization	1	<b>21-Feb-18</b>
2	Continue with Merger of Jail with Harris County	2	
3	Pursue Additional EMS Collections	9	
4	Revise False Alarm Policy and Fee	10	
5	Enhance Vacancy Control	27	
6	Outcome Based Budget	43	
7	Reduce the Use of Special Revenue Funds	36	
FY2020 - FY2022 by Category			
1	Health Benefits		<b>1st Quarter - FY19*</b>
2	Consolidations		
3	Procurement		
FY2022 - FY2024 by Category			
1	Public Safety		<b>2nd Quarter - FY19*</b>
2	Managed Competition		
3	Shared Services		
4	Partnerships		

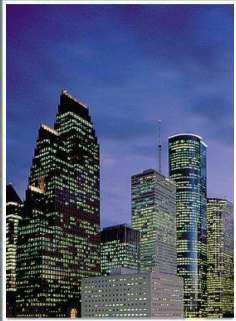
*\* Date subject to change.*



# FY2019: Recommendations

## 1. Increase Civilization - HPD

- **Background:** Due to significant reductions in civilian FTEs during the FY2011-12 budget cycle resulting in classified officers taking on some of the administrative duties.
- **Proposal:** Starting in FY2016, HPD began the civilization initiative with approval to hire approximately 75 civilians to fill administrative roles and redeploy approximately 97 police officers. Redeploying officers will increase public safety.
- **Financial Impact:** In the short-term this will not result in savings due to backfilling the administrative positions with civilians. The estimated impact will result in a cost increase of \$4.7 million in FY18. However, this initial cost increase will result in future savings.



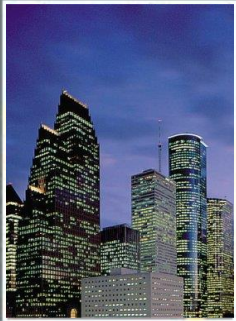




# FY2019: Recommendations

## 2. Continue merger of Jail with Harris County

- **Background:** The City of Houston and Harris County will merge jail operations upon the completion of the Joint Processing Center. This project has been underway for several years and is planned to open June 2018.
- **Proposal:** This merger will improve efficiency by eliminating existing duplication of jail services by consolidating all City of Houston and Harris County prisoner processing operations into one modern facility. In the past three years HPD Jail Operations have been impacted by budget reductions.
- **Financial Impact:** Estimated cost \$3 - \$5 million. This initial cost increase will result in future savings.

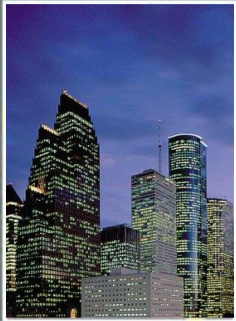




# FY2019: Recommendations

## 3. Pursue Additional EMS Collections

- **Background:** Since 2013, the City's EMS collection rate has remained 38% to 40%, well below the national baseline of 44% to 56%. Additionally, the Houston Fire Department (HFD) performed routine emergency medical services for individual who does not require hospital transportation. Due to the absence of a city ordinance, the City is unable to bill private, public insurance provider or to the individual receiving treatment for "non-transport" services.
- **Proposal:** HFD is currently working on a proposal for EMS service fees with assistance from Legal and Finance. This proposal will provide options to adjust the current transport fee to be more in line with the cost of providing the service. The proposal will include options for new fees. More details will be presented this spring.
- **Financial Impact:** Estimated revenue generated \$3 – \$5 million.



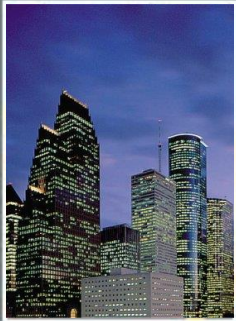


# FY2019: Recommendations

## 4. Revise False Alarm Policy and Fee

- **Background:** Chapter 11 of the City of Houston’s Municipal Code of Ordinances details the requirements, fees, and penalties pertaining to permits for anyone operating a fire alarm system (typically commercial businesses). Fire alarm permits are required by law if a residence maintains a fire alarm system and the permit, which expires after one year, is issued by the Houston Fire Department’s Permits/Revenues Division. Although there is only one type of fire alarm permit, depending on the number of actuating devices in the alarm system, there are three classification groups for the applicant (Group A, B, C).

Fire Alarm Permit Group(s)	# of Alarm Actuating Devices	# of False Alarms	New Permit Cost*	Permit Renewal Cost*	False Alarm Fee*	Late Fee – False Alarm*
Group A	<=10	5	\$83.86	\$55.91	\$402.55	\$120.76
Group B	>=11 AND <=100	15	\$83.86	\$55.91	\$402.55	\$120.76
Group C	>101	30	\$83.86	\$55.91	\$402.55	\$120.76

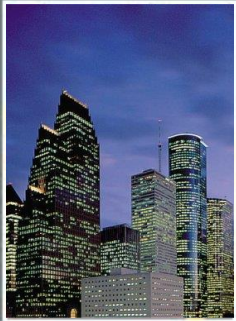




# FY2019: Recommendations

## 4. Revise False Alarm Policy and Fee (cont.)

- **Proposal:** Consider revising our false alarm policy and fee. Many Texas Cities and other large municipalities allow fewer false fire alarms than Houston and/or escalating charges such as: San Antonio (\$125 fee per call after the first alarm, then escalating fines after the fourth call), Plano (\$200 fee per call after second alarm), Dallas (uses a per month charge, and a \$100 fee per call after the first false alarm in a given month), San Francisco (\$250 fee per call after the second alarm, then escalating fines after the fifth call), and San Diego (\$85 fee per call after the second alarm, then an escalating fine after the third call).
- **Financial Impact:** The estimated increase in revenue is approximately \$1 - \$2 million.

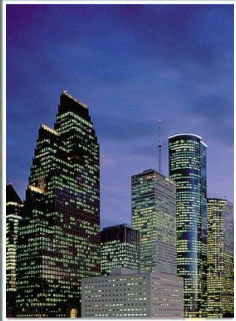




# FY2019: Recommendations

## 5. Enhanced Vacancy Control

- **Background:** The City has made concerted efforts to consider its fiscal position when requesting staff. We will continue to think critically about the organization and ensure the City's budget and payroll include only positions that are essential to delivering high quality services for our taxpayers.
- **Proposal:** With the implementation of the Staffing Efficiency Assessment (SEA) process in FY2016, we have seen significant savings over the past few years. In addition, we plan to utilize technology by implementing the second phase of the Position Budgeting Control system to track earmarked funds for vacant positions.
- **Financial Impact:** Since inception, the City saved \$5.8 million from vacancy control. In FY2019, we plan to continue this process with estimated savings of approximately \$1 - \$2 million.

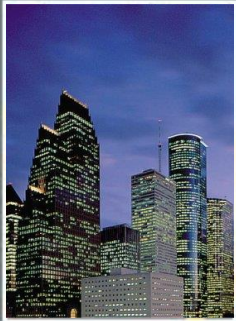


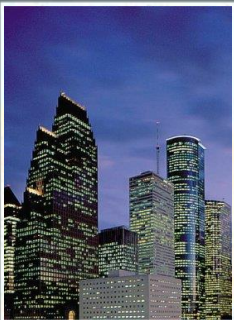


# FY2019: Recommendations

## 6. Outcome Based Budgeting

- **Background:** Like most governmental agencies the City of Houston uses an incremental approach to budgeting. Incremental budgeting is the traditional budgeting method whereby the budget is prepared by taking the previous year's budget as a basis with incremental amounts added or subtracted for the new budget.
- **Proposal:** Transition to an Outcome Based Budgeting (OBB) process. OBB is the practice of developing budgets based on the relationship between funding and expected results. It increases visibility into how government policies translate into spending and focuses on the outcomes of a funded activity. In FY2019 we will build on the progress we've made and engage a consultant on the implementation process for OBB and system requirements.
- **Financial Impact:** OBB is a major step towards a structurally balanced budget.





# Budgeting Approach Comparison

## Current Incremental

**Starting Point:**  
Last year's spending

**Funding Targets:**  
By Department

**Department Submissions:**  
How allocation will be spent

**Debate:**  
What to cut

## Future OBB

**Starting Point:**  
Next year's goals

**Funding Targets:**  
By Program

**Department Submissions:**  
Proposal to achieve results

**Debate:**  
What to Keep

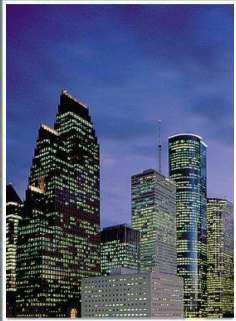




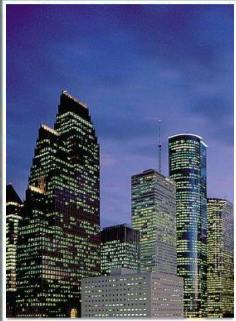
# FY2019: Recommendations

## 7. Reduce the Use of Special Revenue Funds

- **Background:** Over the past several months we have completed a deep dive on the City's use of special revenue funds. Per Motion No. 2017-0275, the Finance Department shall provide recommendations regarding the continued use of each Special Revenue Fund.
- A presentation was made to the BFA Committee on December 12, 2017 detailing the sources and uses of the City's special revenue funds. (Link: [Special Revenue Fund Presentation](#)). In that presentation, we identified that approximately 49 percent of the special funds are externally restricted and 8 of the 69 funds closed.
- **Proposal:** Close inactive funds and establish a fund balance policy, identifying the minimum and maximum levels allowed for certain non restricted funds. Additionally we will increase transparency by including non budgeted funds in our reporting.
- **Financial Impact:** In FY2019 we are projecting to recover \$13 million from special revenue funds.







# Special Revenue Fund Proposals

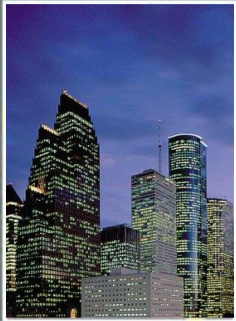
- 1. Close Inactive Funds:** Close the Tropical Storm Allison Disaster fund and transfer remaining balance of approximately \$3 million to the General Fund.
  - This fund was created for repairs, relief and recovery related to Tropical Storm Allison.
- 2. Establish a Fund Balance Policy:** The City of Houston will maintain the Unassigned Fund Balance for certain special revenue funds within range of a minimum of 2 months of expenditures and a maximum of 4 months of expenditures, relative to certain funds.
  - The year-end fund balance in excess of 4 months expenditures that are not restricted, will revert to the General Fund at year-end resulting in approximately \$10 million.
  - Will require Council action to adopt Fund Balance policy for certain Special Revenue Funds.
- 3. Reporting for Non Budgeted Fund:** Starting in FY19 we will include non budgeted funds in our financial reporting.



# Funds Impacted by Fund Balance Policy

An Unassigned Fund Balance Policy will be applied to the following funds:

No.	Fund Name
1	Building Inspection Fund
2	Fire Training Services Fund
3	Health Special Revenue
4	Housing Special Revenue
5	Laboratory Services
6	Parking Management
7	Parks Golf Special Fund
8	Parks Planting Tree
9	Parks Special Revenue Fund
10	Planning & Development (P&DD) Special Revenue
11	Police Special Services
12	Special Waste
13	Swimming Pool Safety

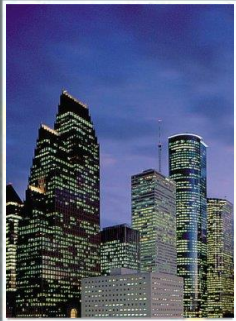


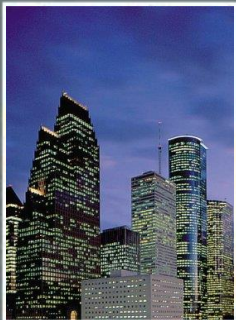


# Closed Funds

Of the 69 funds presented at BFA on December 12<sup>th</sup> , 8 of the funds closed.

Fund Name	Use of Funds	Status
Digital Automated Red Light	Tracks the financial and accounting balances from all penalties and fees collected and all costs associated with the operation and enforcement of the photographic traffic monitoring system.	Fund closed FY2015
Digital Houston	Build a citywide wireless broadband Wi-Fi mesh network that will provide affordable high-speed internet access for residents and visitors to Houston.	Fund closed FY2017
Mobility Response	Respond and mitigate significant traffic congestion resulting from malfunctioning traffic signals, accidents and other mobility issues through out the City.	Fund closed FY2013
Neighborhood Project	This fund has not been utilized since FY2007.	Fund closed
Residential Energy Efficiency Program (REEP)	Reduce energy consumption for Houstonian by installing energy efficiency upgrades.	Fund to be closed FY2018
Summer Youth Program	Provide funding to employed youth during the summer. The funding source was exhausted in FY2011.	Fund closed FY2011
Supplemental Environmental	Use for clean air, water and enhancement of the community environment impacted by criminal environment violators.	Fund closed FY2017
Tx Dot Signal Maintenance	Operate and maintain the TxDOT traffic signals on selected state owned roadways located within the City.	Fund closed FY2013





# Questions