



Presentation to the City of Houston Budget and Fiscal Affairs Committee

FY2019 Budget Overview and
General Fund Five Year Forecast

Updated with Redline & Greenline Changes

May 9, 2018

Tantri Emo, Interim 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.



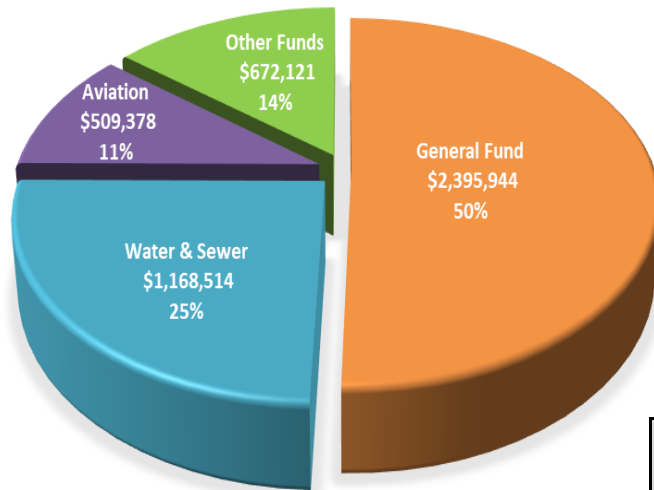
Forward Looking Statements (Cont'd.)

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.

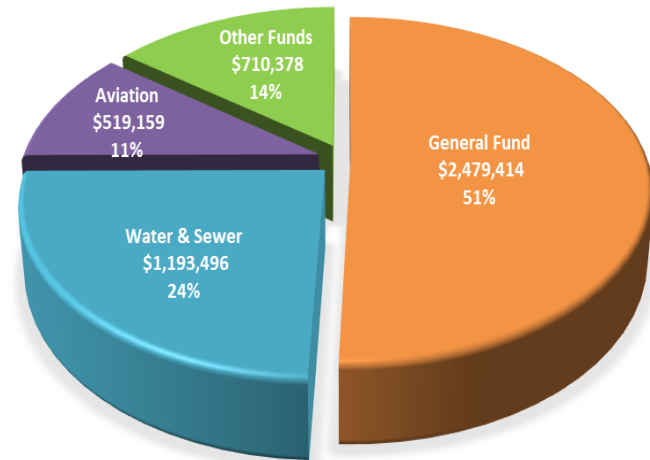
Citywide Expenditures Including Debt Service & PAYGO (\$ in thousands)



FY2018 CURRENT BUDGET
OF \$4,745,956*



FY2019 PROPOSED BUDGET
OF \$4,902,447

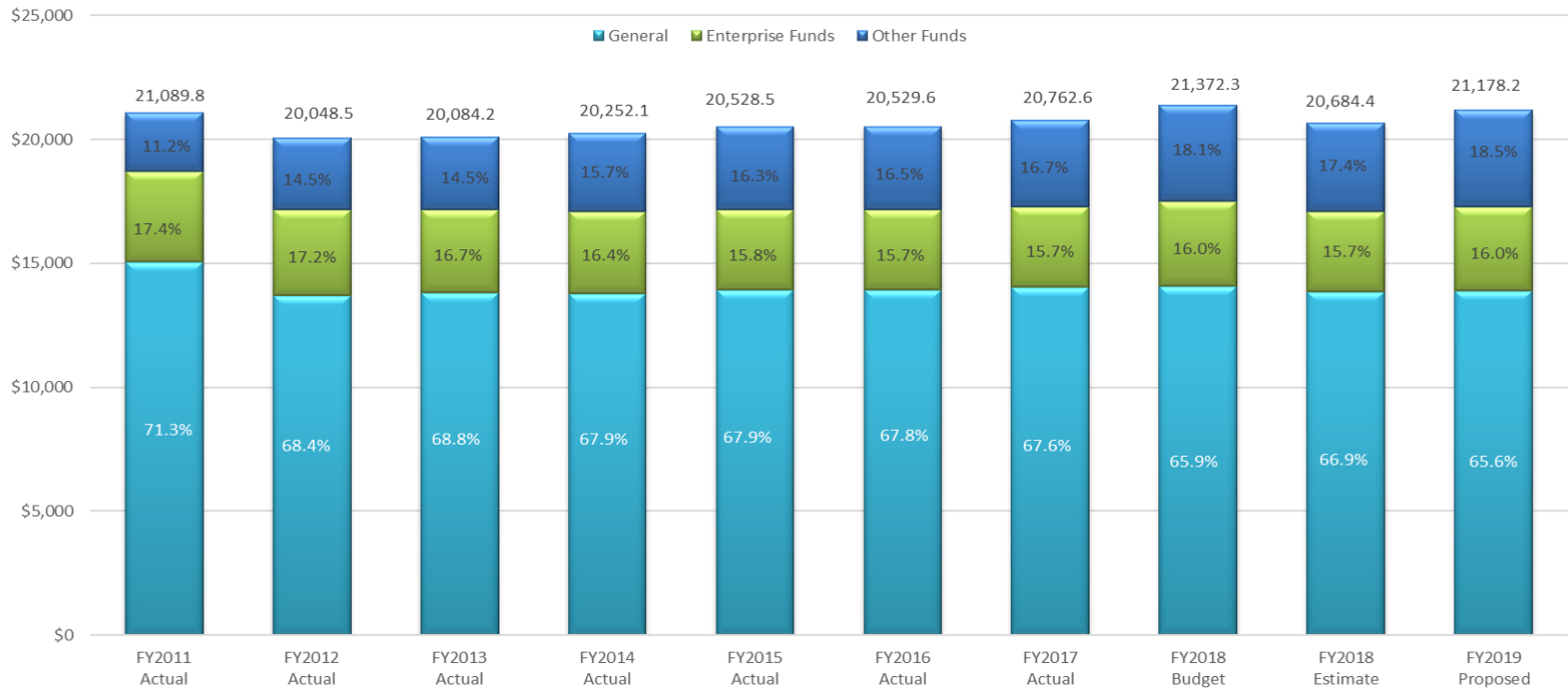


Net Change
\$156,491
3.30%

**Excludes \$1 billion in Pension Obligation Bonds proceeds and issuance.*

Note: Expenditures budget above represent the total budget including General Fund, Special and Enterprise Funds. Total do not include Service Chargeback and Internal Service Funds.

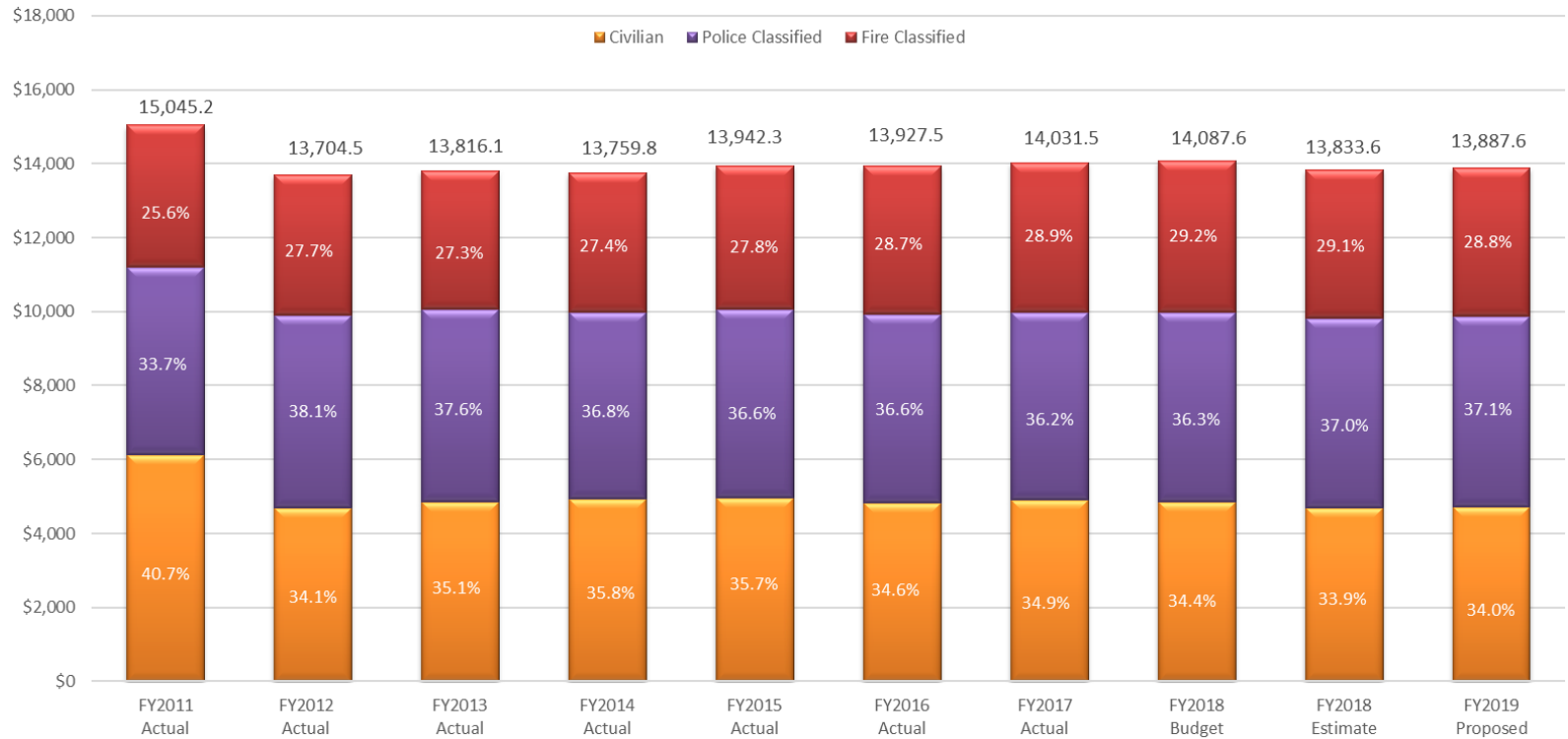
Citywide Full-Time Equivalents



	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Budget	FY2018 Estimate	FY2019 Proposed
General	15,045.2	13,704.5	13,816.1	13,759.8	13,942.3	13,927.5	14,031.5	14,087.6	13,833.6	13,887.6
Enterprise Funds	3,674.6	3,446.6	3,363.7	3,319.4	3,235.3	3,219.0	3,254.5	3,425.2	3,250.8	3,382.6
Other Funds	2,370.0	2,897.4	2,904.4	3,172.9	3,350.9	3,383.1	3,476.6	3,859.5	3,600.0	3,908.0
Grand Total	21,089.8	20,048.5	20,084.2	20,252.1	20,528.5	20,529.6	20,762.6	21,372.3	20,684.4	21,178.2

Note: Citywide FTEs include General Fund, Enterprise, Special, Internal Service/Service Chargeback Funds.

General Fund Full-Time Equivalents



	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Budget	FY2018 Estimate	FY2019 Proposed
Civilian	6,118.9	4,679.7	4,851.9	4,924.5	4,970.9	4,825.8	4,896.3	4,848.3	4,686.7	4,727.2
Police Classified	5,072.8	5,223.8	5,196.1	5,063.3	5,100.4	5,100.4	5,081.0	5,120.0	5,120.3	5,155.4
Fire Classified	3,853.5	3,801.0	3,768.1	3,772.0	3,871.0	4,001.3	4,054.2	4,119.3	4,026.6	4,005.0
Grand Total	15,045.2	13,704.5	13,816.1	13,759.8	13,942.3	13,927.5	14,031.5	14,087.6	13,833.6	13,887.6

Note:

1. Cadets are included with Civilian.
2. The reduction in FTEs in FY2012 is primarily due to addressing financial challenges and 488.3 FTEs from HPW was funded through the Dedicated Drainage and Street Renewal Fund.

Fiscal Year 2019 – General Fund Budget Overview



- This budget includes:
 - 9.12% Fund Balance of expenditures less debt service and pay-as-you-go transfers, above the minimum of 7.5% established by the financial policies
 - \$15.8 million increase in revenue from special revenue funds
 - \$7.3 million in department reductions
 - \$3.4 million debt pre-payment from Building Inspection Fund
 - Revised financial policies for the Maintenance Renewal & Replacement Fund, savings approximately \$3.6 million
 - Fully fund all three pension systems
 - Funding for contractual/mandated increases (including Police pay raises for existing meet and confer agreement and health benefit increase)
 - Funding for five Police cadet classes
 - Funding for three Fire cadet classes



FY2019 Budget Overview

This budget does not include:

- Any one-time land sales or deferrals
- \$2.1 billion in Other Post Employment Benefits (OPEB) liability
 - Based on five-year average, the net OPEB obligation has been growing by approximately \$160 million a year
- \$628 million in deferred maintenance costs
- Funding to increase HPD's police force by 500 officers over the next 5 years
 - \$70 - \$100 million
- City share of Harvey disaster recovery costs
 - 10% -15% of \$2.5 billion
- \$20 million to replenish the Budget Stabilization Fund

Note: City is currently engaged in negotiations with all three employee unions

Closing the FY2019 Gap



<i>(\$ in thousands)</i>		
Additional Revenues		
Special Revenue Funds ⁽¹⁾	\$ 15,788	Recurring
Total Additional Revenues		\$ 15,788
Expenditures Reductions		
Department Budget Reductions	7,265	Recurring
Revise MRR Transfer ⁽²⁾	3,557	Recurring
HPW Debt Prepayment ⁽³⁾	3,384	Non-Recurring
Other than Debt/PAYGO Reduction Subtotal		14,206
Total Expenditures Reduction		\$ 14,206
Fund Balance Drawdown		84,616 Non-Recurring
Total Gap Closed		\$ 114,610

Note:

- (1) Implementation of fund balance policy that requires a minimum and maximum fund balance.
- (2) Modification of the financial policies to change the General Fund transfer from annual to biennial.
- (3) Debt prepayment from Building Inspection Fund.

FY2019 General Fund Revenue Including Other Resources Net Change vs FY2018 Estimates (\$ in thousands)

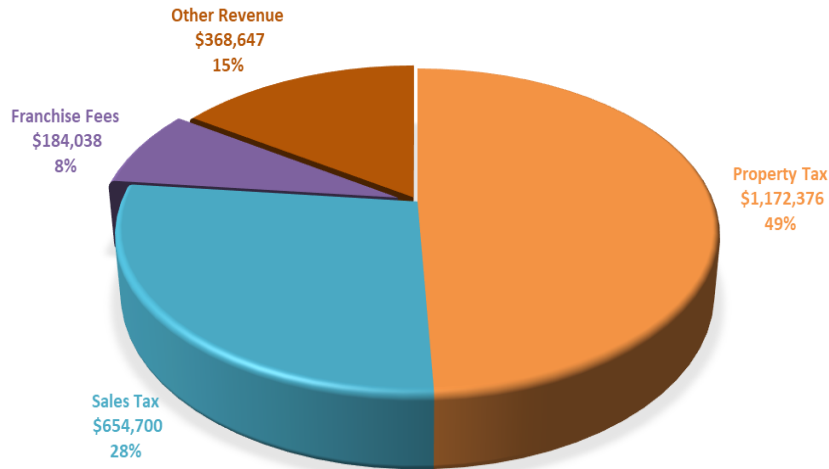


FY2019 General Fund Revenues - Net change to FY18 Estimates (\$ in thousands)	
FY2018 Estimates incl. Other Resources*	\$ 2,402,089
FY2019 Proposed Budget incl. Other Resources	2,394,797
Incremental Increase/(Decrease)	\$ (7,291)
	-0.30%
Revenue Increases/(Decreases):	
Miscellaneous ⁽¹⁾	(34,448)
Intergovernmental ⁽²⁾	(11,341)
Franchise Fees ⁽³⁾	(7,192)
Sale of Capital Assets ⁽⁴⁾	(1,891)
Property Tax ⁽⁵⁾	28,436
Transfers from Other Funds ⁽⁶⁾	9,559
Sales Tax ⁽⁷⁾	3,000
Interfund Services ⁽⁸⁾	4,639
Municipal Courts Fines & Forfeits ⁽⁹⁾	742
Licenses & Permits ⁽¹⁰⁾	625
Others	579
Net Change of Revenues	\$ (7,291)
Note:	
(1) Decrease primarily due to one-time legal lawsuit settlement.	
(2) Decrease due to a change in reimbursement for the 1115 Health Waiver offset with expenditures reductions and Ambulance Supplemental Reimbursement.	
(3) Decrease due to decline in franchise fees for telephone, gas, electric and cable TV.	
(4) Decrease due to one-time land sales in FY2018.	
(5) Property tax increase of 2.4% based on preliminary certified estimates from Appraisal Districts.	
(6) Increase primarily due to transfers from Special Revenue Fund.	
(7) Sales Tax increase of 0.5% from FY2018 Estimates due to one-time growth related to Hurricane Harvey.	
(8) Increase primarily due to Indirect Cost Allocation Plan.	
(9) Increase primarily due to court closure and lower ticket issuance related to Hurricane Harvey in FY2018.	
(10) Increase primarily due to Hurricane Harvey in FY2018.	
* Excludes \$910 million in Pension Obligation Bonds proceeds and issuance for General Fund.	

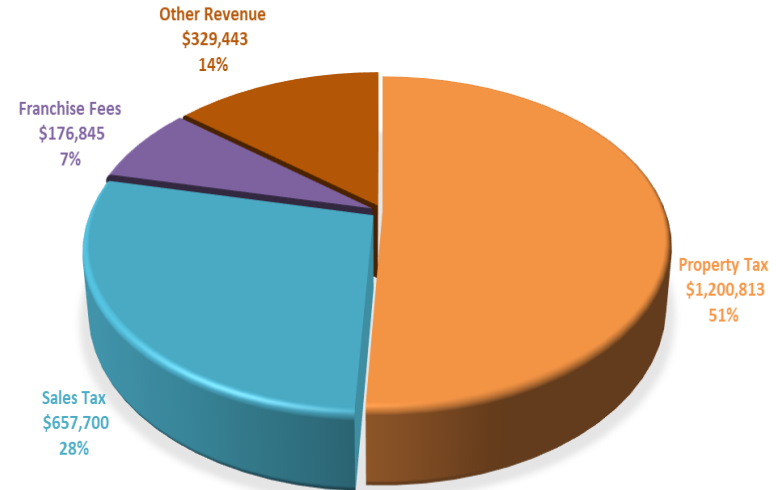
FY2019 General Fund Revenue Excluding Other Resources (\$ in Thousands)



FY2018 ESTIMATE
OF \$2,379,761



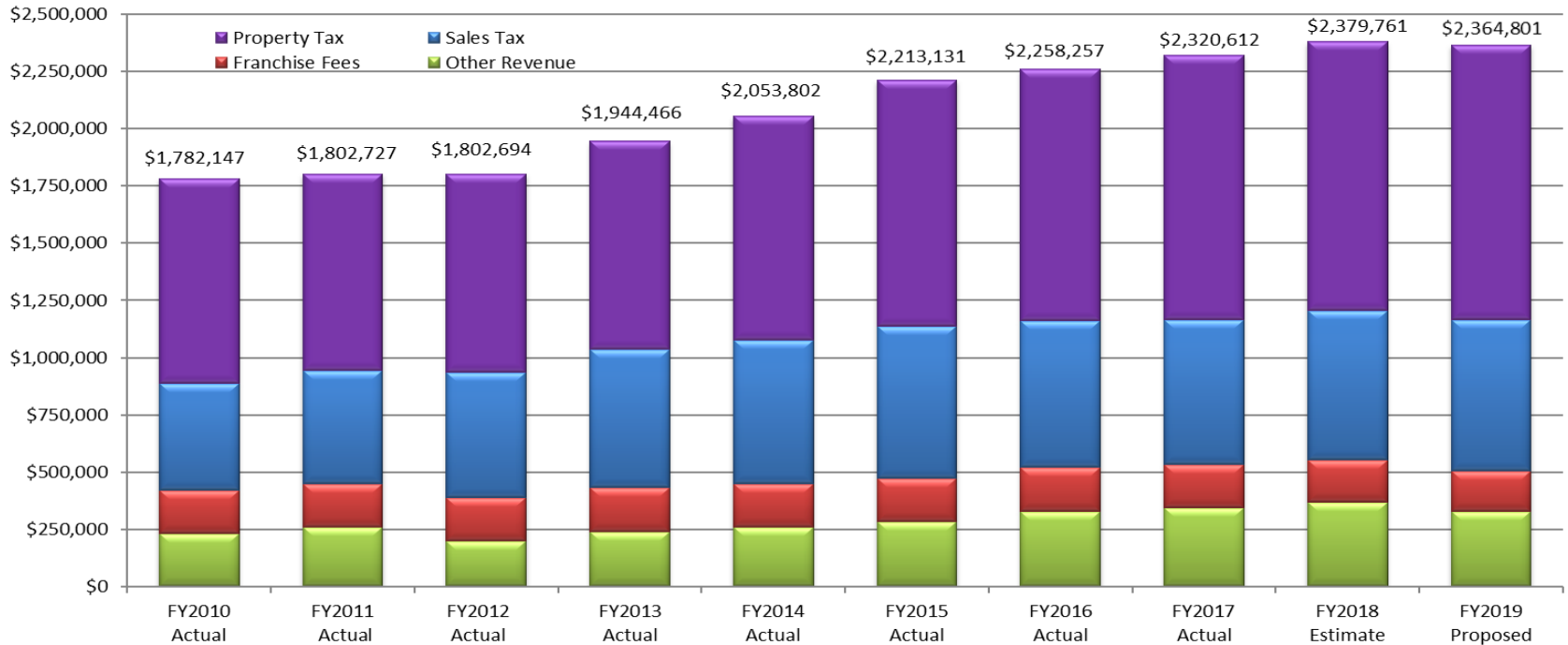
FY2019 PROPOSED BUDGET
OF \$2,364,801



Net Change
-\$14,959
-0.63%

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

General Fund Revenues Excluding Other Resources FY2010 – FY2019 (\$ in Thousands)



Property Tax	\$ 892,865	\$ 859,413	\$ 866,141	\$ 910,034	\$ 976,240	\$ 1,074,435	\$ 1,098,664	\$ 1,153,991	\$ 1,172,376	\$ 1,200,813
Sales Tax	\$ 468,965	\$ 492,824	\$ 546,543	\$ 600,256	\$ 629,441	\$ 667,061	\$ 640,476	\$ 631,993	\$ 654,700	\$ 657,700
Franchise Fees	\$ 190,869	\$ 190,564	\$ 192,760	\$ 195,304	\$ 189,989	\$ 189,837	\$ 191,168	\$ 190,586	\$ 184,038	\$ 176,845
Other Revenue	\$ 229,448	\$ 259,926	\$ 197,250	\$ 238,852	\$ 258,133	\$ 281,798	\$ 327,949	\$ 344,042	\$ 368,647	\$ 329,443
Total GF Revenues	\$ 1,782,147	\$ 1,802,727	\$ 1,802,694	\$ 1,944,446	\$ 2,053,802	\$ 2,213,131	\$ 2,258,257	\$ 2,320,612	\$ 2,379,761	\$ 2,364,801
Change YOY (\$)	\$ (42,159)	\$ 20,580	\$ (33)	\$ 141,752	\$ 109,356	\$ 159,329	\$ 45,126	\$ 62,355	\$ 59,149	\$ (14,959)
Change YOY (%)	-2.31%	1.15%	0.00%	7.86%	5.62%	7.76%	2.04%	2.76%	2.55%	-0.63%

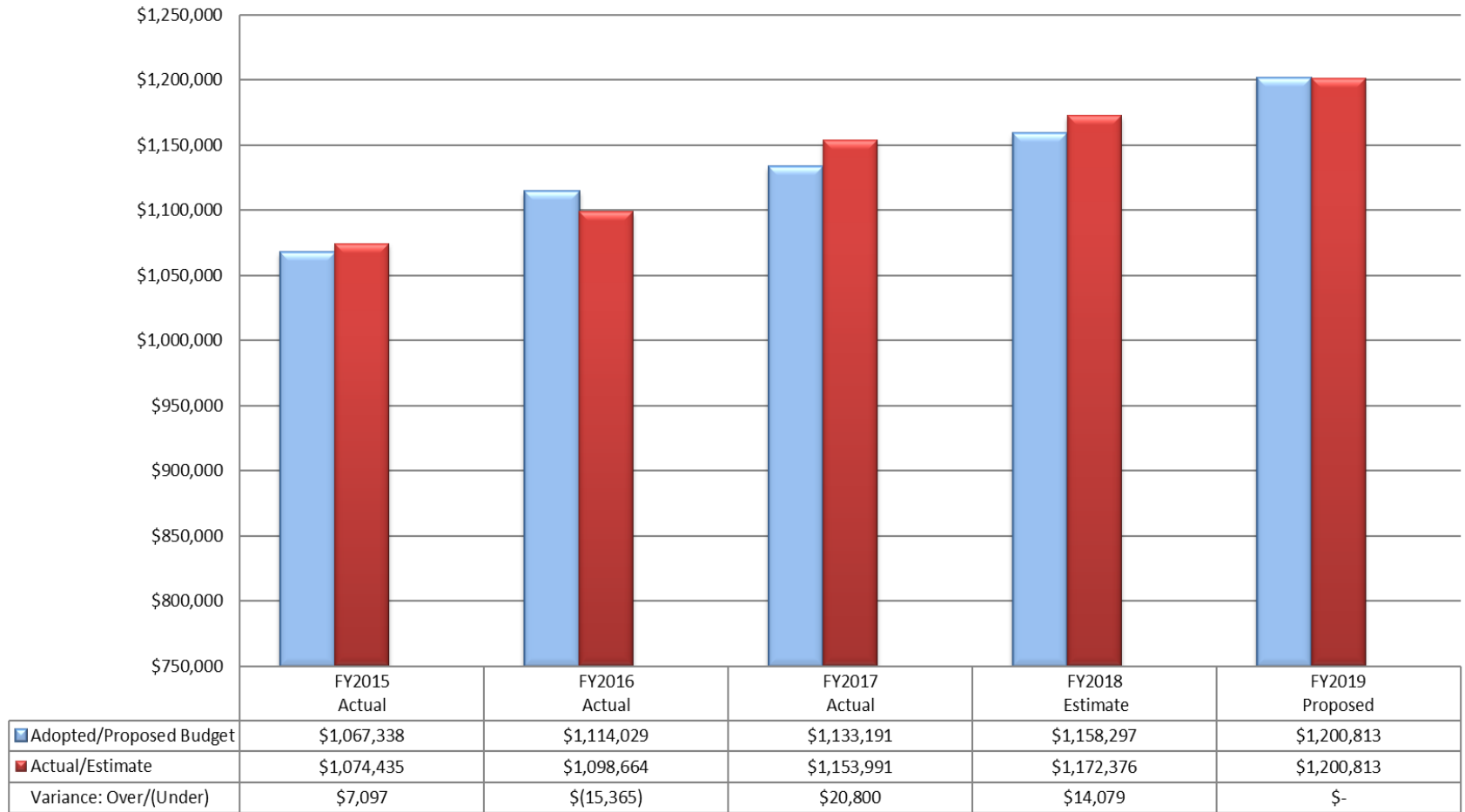


Property Tax Revenue

- Assumptions:
 - Estimated taxable value of \$234 billion, increase of 2.9%.
 - Taxable value net of tax increment agreements is \$206.1 billion.
 - Increase in property tax revenue of 2.43%, \$28 million higher than FY2018 estimates.
 - In compliance with Prop 1+H limitations and holding the senior/disabled exemption at \$160,000.
 - Collection rate of 98.5%.

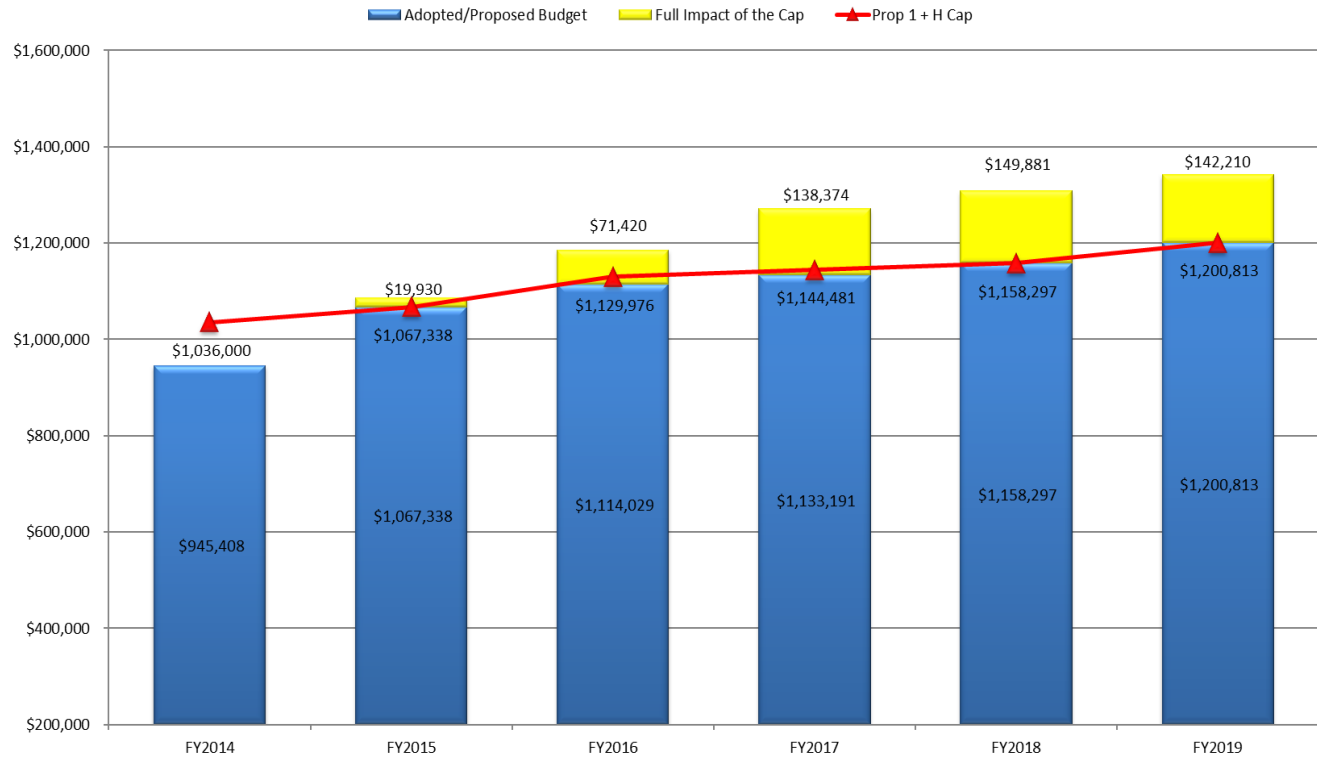
Trends in Property Tax Revenues

FY2015 - FY2019 (\$ in Thousands)



Adopted Budget vs. Charter Cap

FY2014 - FY2019 (\$ in Thousands)



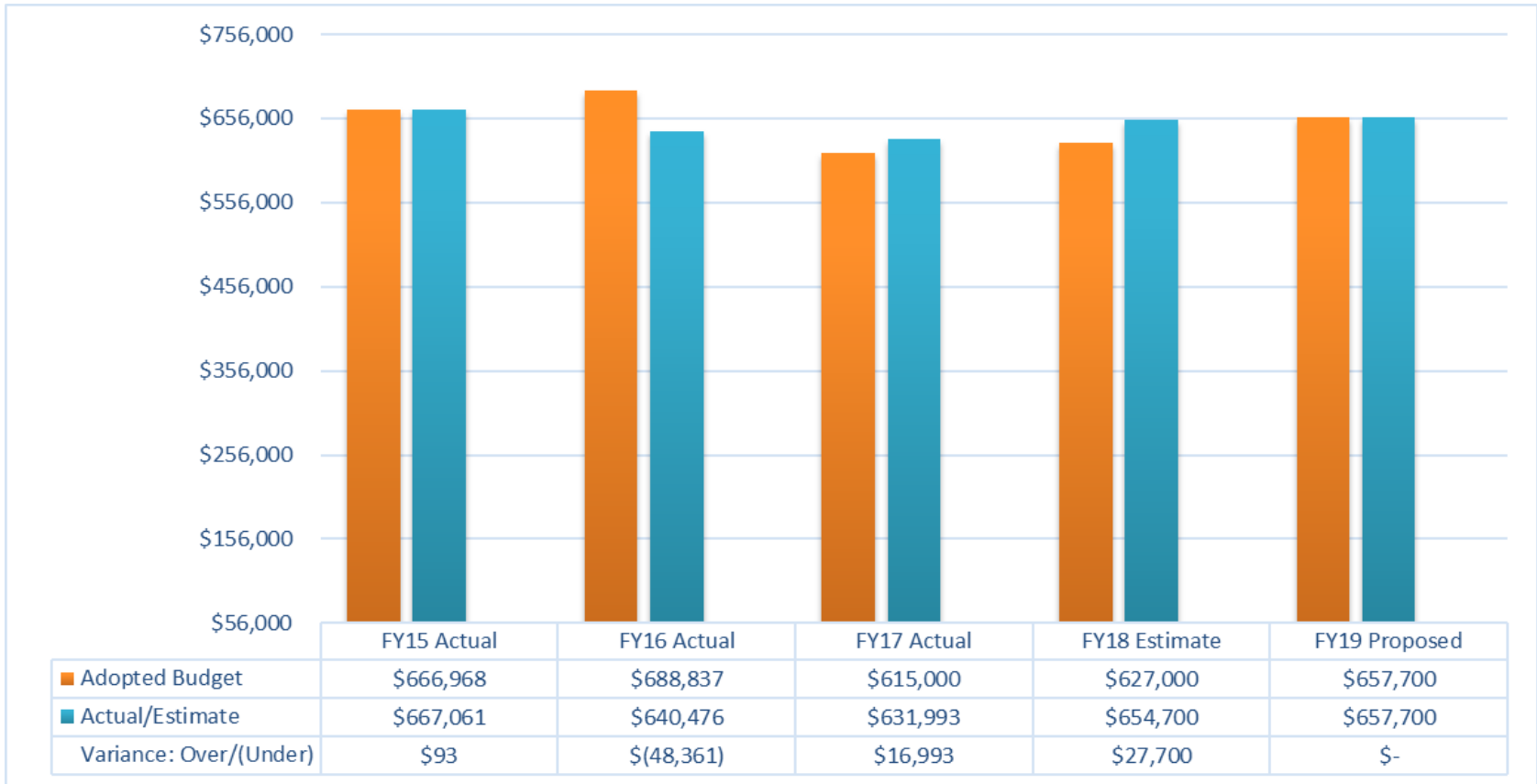
Adopted/Proposed Budget	\$ 945,408	\$ 1,067,338	\$ 1,114,029	\$ 1,133,191	\$ 1,158,297	\$ 1,200,813
Prop 1 + H Cap	\$1,036,000	\$ 1,067,338	\$ 1,129,976	\$ 1,144,481	\$ 1,158,297	\$ 1,200,813
Full Impact of the Cap		\$ 19,930	\$ 71,420	\$ 138,374	\$ 149,881	\$ 142,210

Sales Tax Revenue



- Assumption:
 - Growth of 0.46%, \$3 million higher than FY2018 estimates, derived from econometric models which take into account the sectors of the Houston economy and estimates of income, prices, population, and Primary Metropolitan Statistical Area (PMSA) retail sales.

Trends in Sales Tax Revenues FY2015 - FY2019 (\$ in Thousands)



FY2019 General Fund Expenditures Net Change vs. FY2018 Current

(\$ in Thousands)



FY2019 General Fund Exp - Net change to FY18 Current Budget	
(\$ in thousands)	
FY2018 Current Budget*	\$ 2,395,944
FY2019 Proposed Budget	2,479,414
Incremental Increase/(Decrease)	83,470
	3.48%
<u>Operating Budget Adjustments</u>	
Police Compensation ⁽¹⁾	14,174
Health Benefits	13,500
Classified Overtime Funding ⁽²⁾	10,450
Pension	8,504
Joint Processing Center	4,531
Service Chargeback	4,465
Other	994
1115 Waiver Program ⁽³⁾	(8,104)
Department Budget Reductions	(7,265)
Subtotal Operating	41,249
<u>Debt Service Adjustments</u>	
Debt Service and PAYGO ⁽⁴⁾	42,221
Subtotal Debt Service	42,221
Net Change of Expenditures	\$ 83,470
Note:	
1. Compensation based on existing meet & confer agreement.	
2. Includes \$5 million for Police and \$5.5 million for Fire.	
3. Decrease due to a change in reimbursement for the 1115 Waiver program offset with revenue.	
4. Increase mainly due to Pension Obligation Bond debt payment	
* Excludes \$910 million in Pension Obligation Bonds proceeds and issuance for General Fund.	

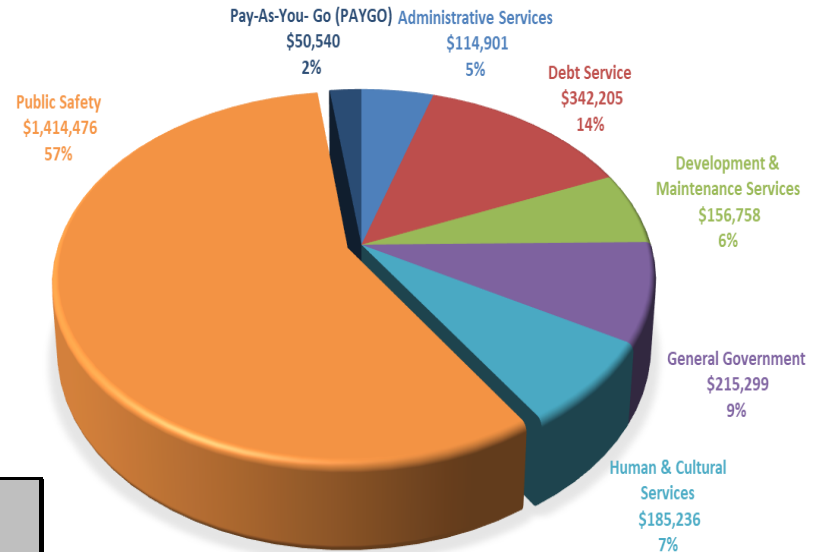
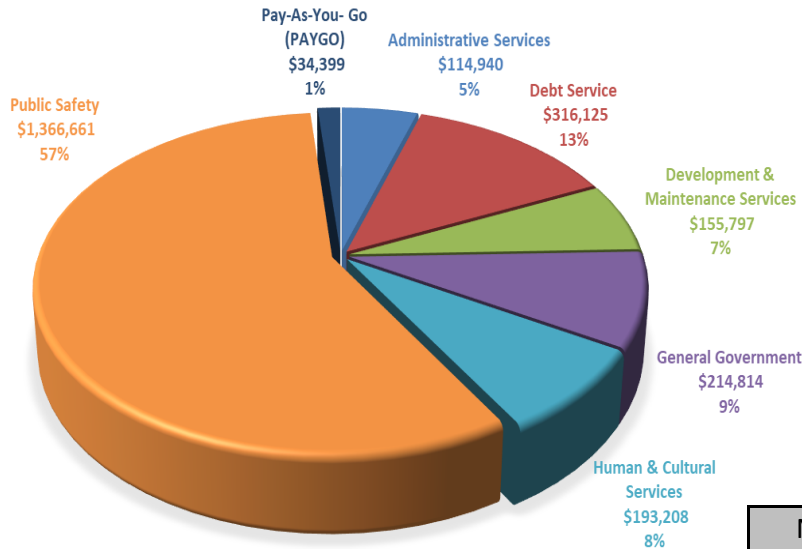
General Fund Expenditures Including Debt Service & PAYGO

(\$ in Thousands)



FY2018 CURRENT BUDGET
\$2,395,944*

FY2019 PROPOSED BUDGET
\$2,479,414



Net Change
\$83,470
3.5%

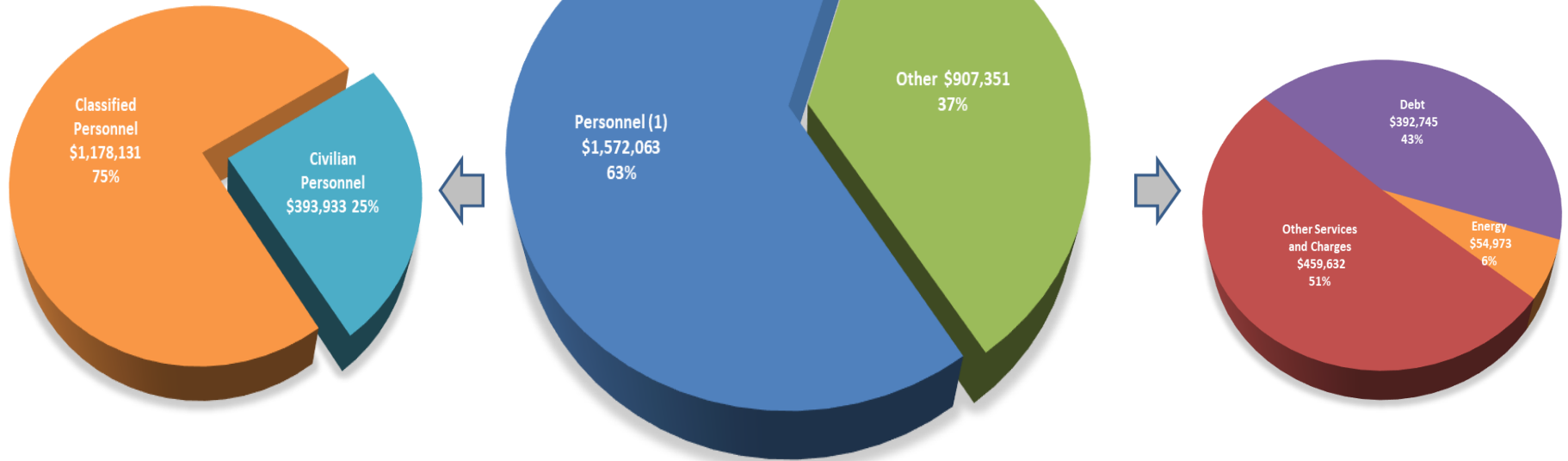
*Excludes \$910 million in Pension Obligation Bonds proceeds and issuance for General Fund.

- Public Safety: Police, Fire, Houston Emergency Center (HEC), Municipal Courts
- Development & Maint Svcs: General Services, Planning & Development, Houston Public Works, Solid Waste
- Human & Cultural Svcs: Houston Health Department, 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

FY2019 General Fund Expenditures Personnel vs. Non Personnel (\$ in Thousands)



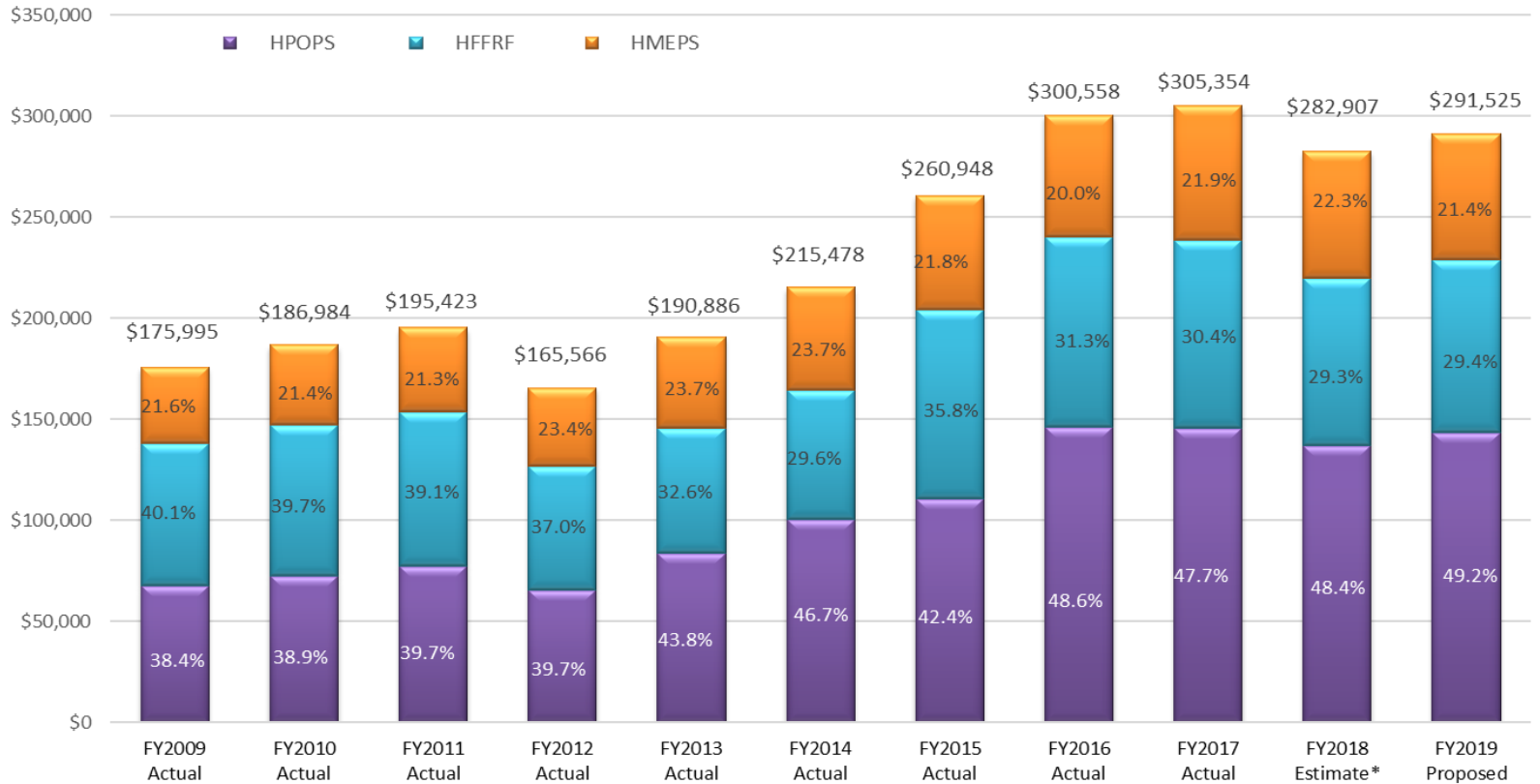
Proposed Budget
\$2,479,414



(1) Includes items such as salary, FICA, pension, health benefits, overtime, workers' comp, other pays, temp personnel, etc.

General Fund Pension Contributions

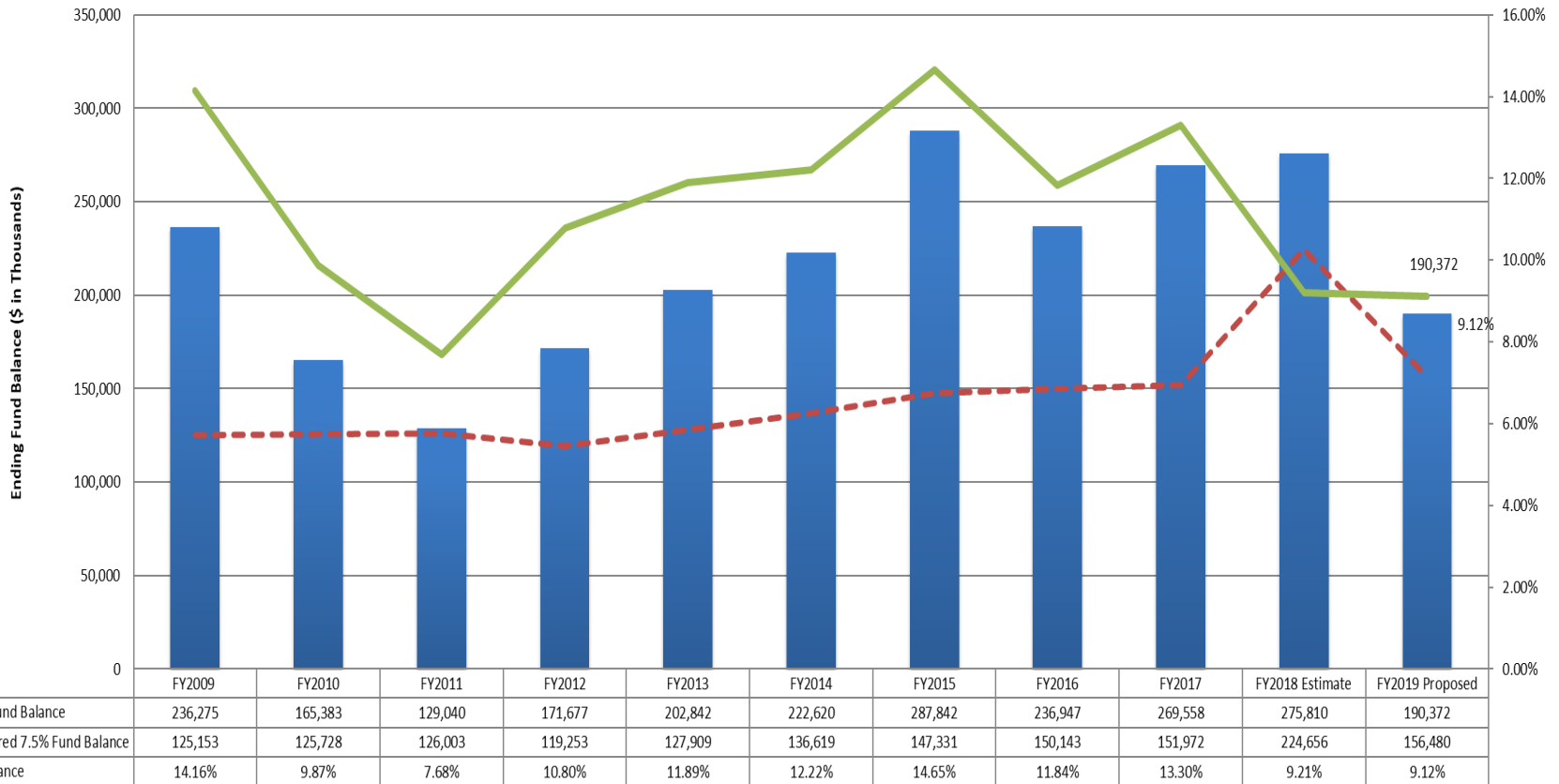
FY2009- FY2019 (\$ in Thousands)



	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Estimate*	FY2019 Proposed
HMEPS	\$ 37,994	\$ 40,017	\$ 41,537	\$ 38,662	\$ 45,219	\$ 51,106	\$ 56,813	\$ 60,221	\$ 66,750	\$ 63,072	\$ 62,529
HFFRF	70,506	74,299	76,352	61,204	62,141	63,758	93,407	94,121	92,958	\$ 83,018	\$ 85,601
HPOPS	67,495	72,669	77,534	65,701	83,526	100,614	110,727	146,216	145,646	\$ 136,817	\$ 143,394
Pension Contributions	\$ 175,995	\$ 186,984	\$ 195,423	\$ 165,566	\$ 190,886	\$ 215,478	\$ 260,948	\$ 300,558	\$ 305,354	\$ 282,907	\$ 291,525
Change YOY (\$)	24,109	10,989	8,439	(29,857)	25,320	24,592	45,469	39,611	4,796	(22,447)	\$ 8,618
Change YOY (%)	15.9%	6.2%	4.5%	-15.3%	15.3%	12.9%	21.1%	15.2%	1.6%	-7.4%	3.0%

*Excludes \$910 million Pension Obligation Bonds for General Fund

General Fund Unassigned Ending Fund Balance FY2009 - FY2019



Note: In FY2018, \$20 million was transferred to the Disaster Recovery Fund (5303). Per the Financial Policies, the Budget Stabilization Fund must be replenished by the end of FY2020.



General Fund Five Year Forecast FY2019 – FY2023



Overview

- Shows the projected budget gap range based on a conservative and optimistic growth in revenue
- Does not include one-time land sales or deferrals
- In compliance with Prop 1+H limitations and holding the senior/disabled exemption at \$160,000
- Does not include cost to address unfunded OPEB liability
- Pension assumptions based on midpoint of the corridor
- Expenditures include legal mandates, staffing for new facilities, and contractual escalators.



Key Assumptions - Revenue

Revenue Category	FY2019 Proposed	FY2020 - 2023	Comments
Property Tax Growth %	2.4%	(Low) 2.3% to 3.6% (High)	FY2019 -2023 estimate is based on the maximum allowed revenue by 2004 Proposition 1 and modified by 2006 Proposition H. Range varies using different assumption for CPI and population growth.
Sales Tax Growth %	0.5%	(Low) 2.5% to 7.3% (High)	FY2019-2023 estimate derived from econometric models which take into account the sectors of the Houston economy and estimates of income, prices, population and Primary Metropolitan Statistical Area (PMSA) retail sales Range varies using different assumptions for employment and oil prices.
Franchise Fees Growth %	-3.9%	(Low) -0.9% to 0.0% (High)	FY2019-2023 estimate based on historical growth. High range assumes slower decline in franchise fee revenue.
Other Revenue Growth % ⁽¹⁾	-10.6%	(Low) 2.0% to 1.0% (High)	FY2019-2023 estimate based on historical growth. High range assumes lower decline in Ambulance Supplemental Program.
One-time Sale of Capital Assets (\$mm)	-	-	No one-time land sales included.

(1). Other Revenue Category includes items such as Industrial Assessment, Licenses and Permits, Charges for Services, Interfund Services, Fines and Forfeits



Key Assumptions - Expenditures

Expenditure Category	FY2019 Proposed	FY2020 Forecast	FY2021 Forecast	FY2022 Forecast	FY2023 Forecast	Comments
<u>Personnel:</u>	3.48%	3.50%	3.50%	3.50%	3.50%	FY2019 includes 3.48% pay raise for police officers based on existing meet and confer agreement
<u>Pension Contribution:</u>						
HMEPS	8.27%	8.32%	8.36%	8.41%	8.44%	Based on the midpoint of the corridor
HMEPS Legacy Contribution	\$127.4	\$130.9	\$134.5	\$138.2	\$142.0	Legacy liability contribution
HPOPS	31.85%	31.82%	31.84%	31.92%	31.98%	Based on the midpoint of the corridor
HFRRF	32.99%	31.89%	31.89%	31.89%	31.89%	Based on the midpoint of the corridor
<u>Health Benefits:</u>						
Growth%	7%	7%	7%	7%	7%	Assumes reserved fund balance in Health Benefits Fund is maintained and average expenditure growth.
<u>Total Debt Service and PAYGO (\$M)</u>	\$392.7	\$406.7	\$417.8	\$428.6	\$437.2	

Budget Gap Range

(\$ in Thousands)

