



# Presentation to the City of Houston Budget and Fiscal Affairs Committee

FY2020 Budget Overview and  
General Fund Five Year Forecast

May 8, 2019

Tantri Emo, Director

# Table of Contents

---



<b><u>Section</u></b>	<b><u>Page</u></b>
Forward Looking Statements	3
Fiscal Year 2020 Budget Overview	8
General Fund Budget Revenues	13
General Fund Budget Expenditures	21
General Fund Five Year Forecast	26
Budget Gap Range	30



# 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.)

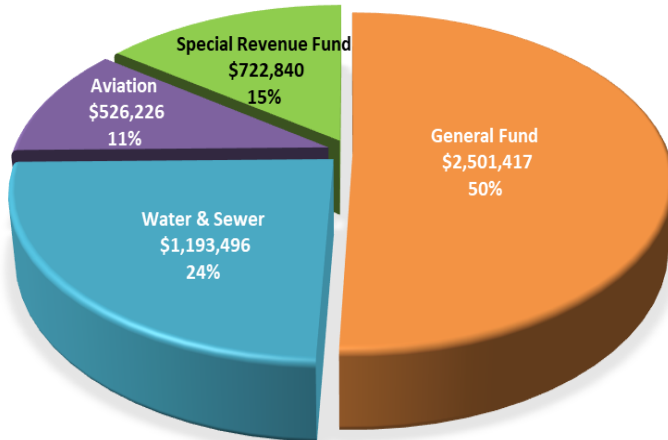
---

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.

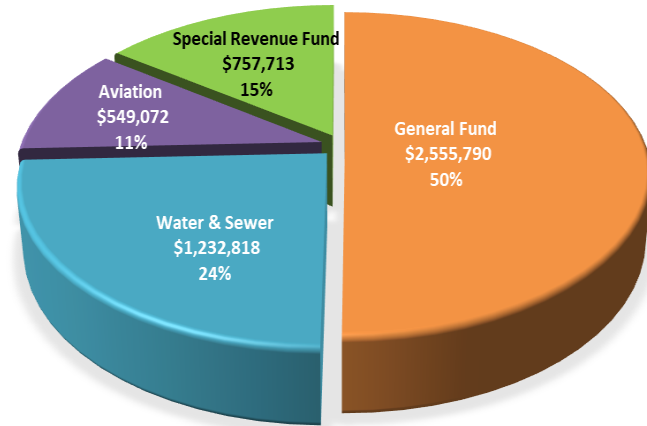
# Citywide Expenditures Including Debt Service & PAYGO (\$ in thousands)



**FY2019 CURRENT BUDGET  
OF \$4,943,979**



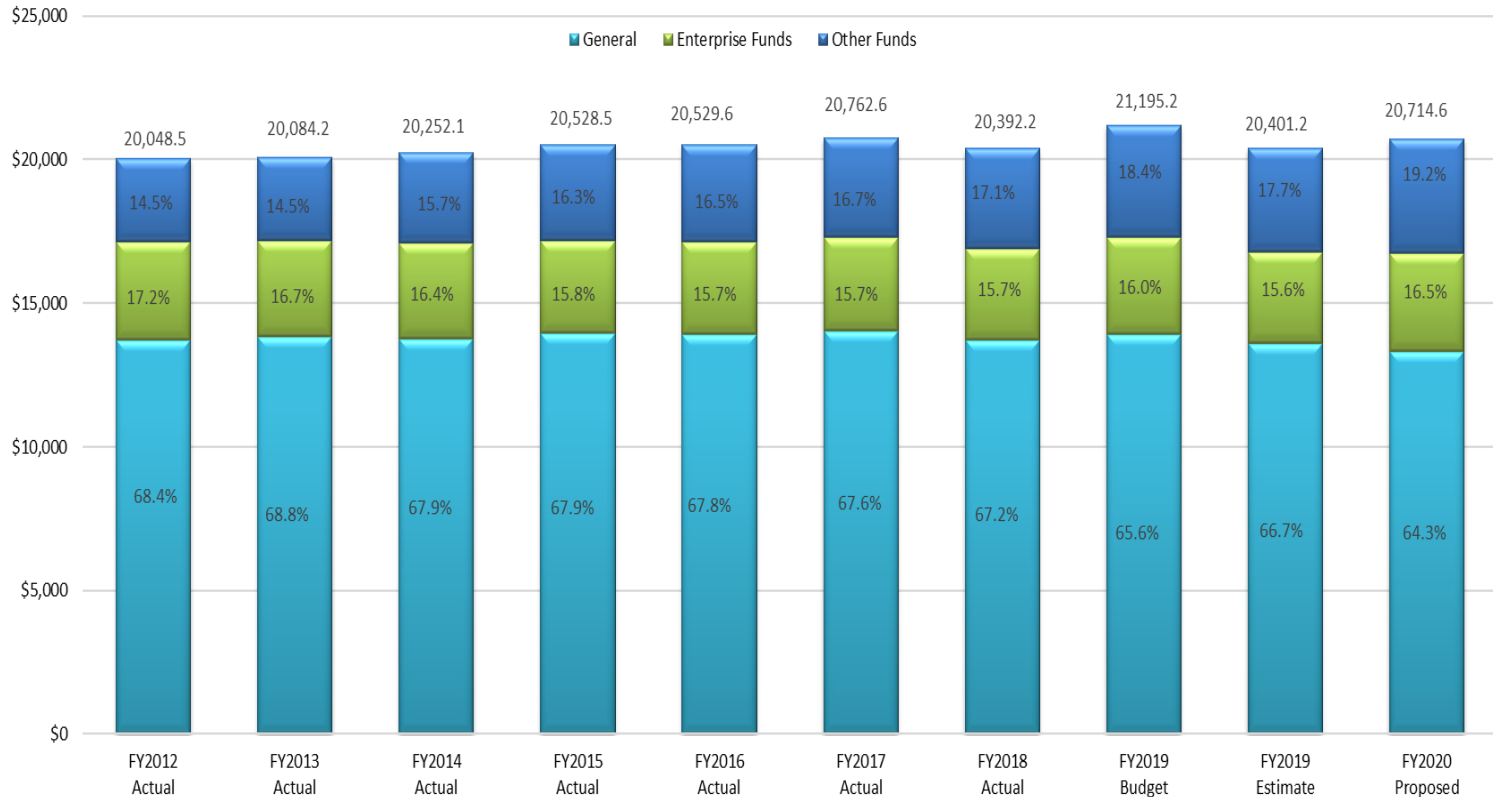
**FY2020 PROPOSED BUDGET  
OF \$5,095,392**



**Net Change  
\$151,413  
3.06%**

**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

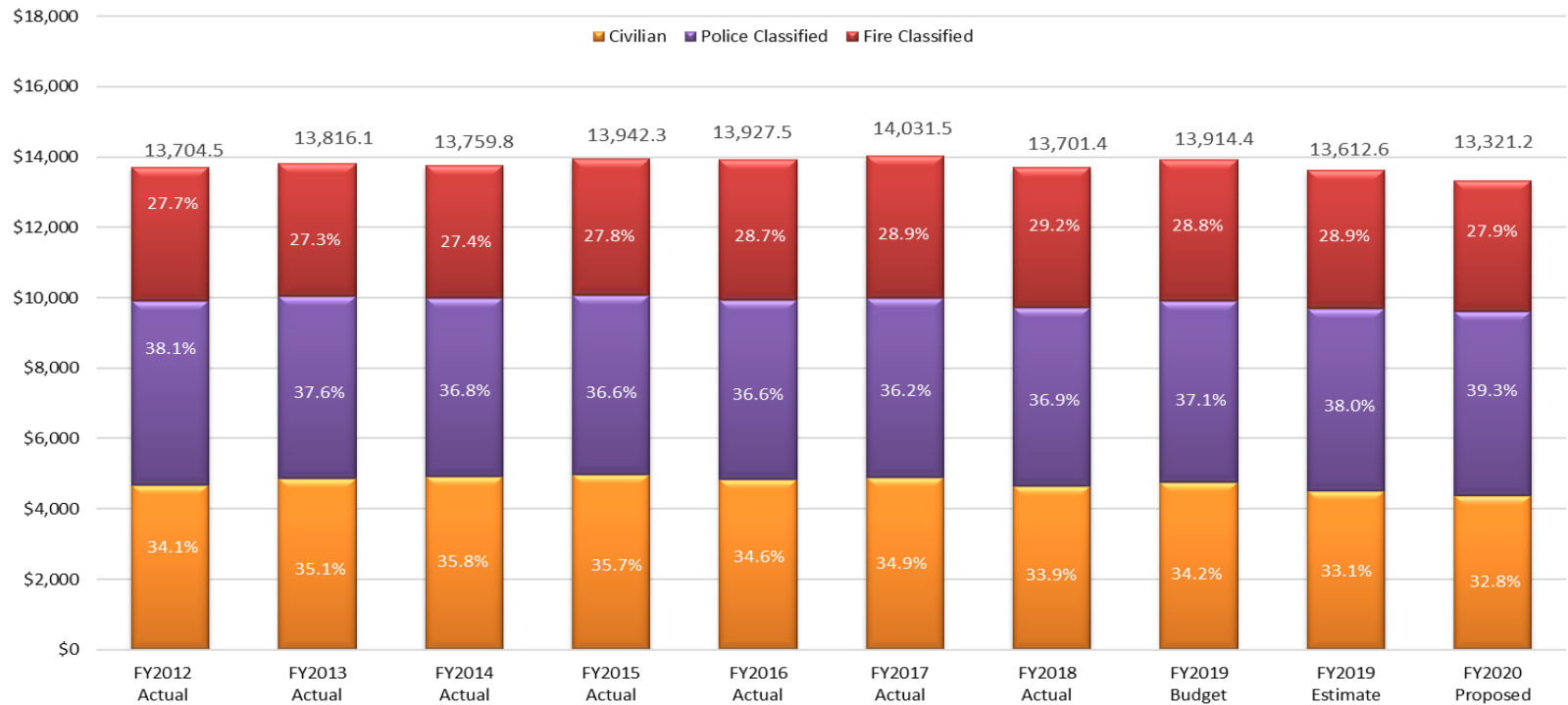


	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Budget	FY2019 Estimate	FY2020 Proposed
General	13,704.5	13,816.1	13,759.8	13,942.3	13,927.5	14,031.5	13,701.4	13,914.4	13,612.6	13,321.2
Enterprise Funds	3,446.6	3,363.7	3,319.4	3,235.3	3,219.0	3,254.5	3,206.5	3,382.6	3,177.3	3,410.5
Other Funds	2,897.4	2,904.4	3,172.9	3,350.9	3,383.1	3,476.6	3,484.3	3,898.2	3,611.3	3,982.9
<b>Grand Total</b>	<b>20,048.5</b>	<b>20,084.2</b>	<b>20,252.1</b>	<b>20,528.5</b>	<b>20,529.6</b>	<b>20,762.6</b>	<b>20,392.2</b>	<b>21,195.2</b>	<b>20,401.2</b>	<b>20,714.6</b>

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



# General Fund Full-Time Equivalents



Civilian	4,679.7	4,851.9	4,924.5	4,970.9	4,825.8	4,896.3	4,646.2	4,754.0	4,506.6	4,372.2
Police Classified	5,223.8	5,196.1	5,063.3	5,100.4	5,100.4	5,081.0	5,059.7	5,155.4	5,172.6	5,237.0
Fire Classified	3,801.0	3,768.1	3,772.0	3,871.0	4,001.3	4,054.2	3,995.5	4,005.0	3,933.4	3,712.0
<b>Grand Total</b>	<b>13,704.5</b>	<b>13,816.1</b>	<b>13,759.8</b>	<b>13,942.3</b>	<b>13,927.5</b>	<b>14,031.5</b>	<b>13,701.4</b>	<b>13,914.4</b>	<b>13,612.6</b>	<b>13,321.2</b>

**Note:**

1. Cadets are included with Civilian.



# General Fund Budget Overview

---

This budget includes:

- 7.93% Fund Balance of expenditures less debt service and pay-as-you-go transfers, above the minimum of 7.5% established by the financial policies
- Population growth assumption based on Planning Department's July 2018 estimates of 0.6789%. An increase of \$7.4 million to property tax revenue from the zero population growth assumption.
- \$5.0 million increase in revenue from special revenue funds
- \$1.0 million increase in revenue due to EMS fee adjustment
- \$5.2 million debt pre-payment from Building Inspection Fund
- \$35.9 million in department expenditure reductions
- \$4.9 million rent deferral for 611 Walker Building



# General Fund Budget Overview

---



## This budget includes:

- \$3.5 million incremental deferral of General Fund transfer to the Maintenance Renewal & Replacement Fund
- Fully fund all three pension systems
- Funding for contractual/mandated increases (including the cost of Proposition B, police and municipal pay raises for existing meet and confer agreement and health benefit increase)



# General Fund Budget Overview

---

This budget does not include:

- Any one-time land sale
- \$2.5 billion in Other Post Employment Benefits (OPEB) liability
- \$934 million in deferred maintenance costs

# Closing the FY2020 Gap



<i>(\$ in thousands)</i>		
<b>Additional Revenues</b>		
Property Tax <sup>1</sup>	\$ 7,424	Recurring
Special Revenue Funds <sup>2</sup>	\$ 5,000	Recurring
EMS Fee Increases	\$ 1,000	Recurring
<b>Total Additional Revenues</b>		<b>\$ 13,424</b>
<b>Expenditures Reductions</b>		
Department Budget Reductions	\$ 35,849	Recurring
611 Walker Deferral <sup>3</sup>	\$ 4,986	Non-Recurring
Defer MRR Transfer	\$ 3,500	Non-Recurring
HPW Debt Prepayment <sup>4</sup>	\$ 5,200	Non-Recurring
<b>Total Expenditures Reductions</b>		<b>\$ 49,535</b>
<b>Fund Balance Drawdown</b>		
Fund Balance Drawdown	\$ 116,260	Non-Recurring
<b>Fund Balance Drawdown</b>		<b>\$ 116,260 Non-Recurring</b>
<b>GAP</b>		<b>\$ 179,219</b>

**Note:**

1. Based on Planning Department July 2018 population growth of 0.6789%.
2. Implementation of fund balance policy that requires a minimum and maximum fund balance.
3. Defer 611 Walker rent payment to CUS.
4. Debt prepayment from the Building Inspection Fund.

# Closing the FY2020 Gap



Department Name	NOTES	De ferrals	Departme nt Re ductions	Vacant FTE	Fille d FTE
Administration and Regulatory Affairs		-	541,089	3.0	1.0
City Controller		-	282,479	3.0	-
City Council		-	-	-	-
City Secretary		-	-	-	-
Department of Neighborhoods		-	349,434	5.0	-
Finance Department		-	443,831	2.0	-
General Government	1	8,486,216	1,000,000	-	-
General Services		-	902,363	7.0	-
Health and Human Services		-	1,458,337	-	16.0
Housing & Community Development		-	15,200	-	-
Houston Emergency Center		-	145,688	2.0	-
Houston Information Technology Services		-	-	-	-
Houston Public Works		-	-	-	-
Human Resources		-	93,328	1.0	-
Legal		-	450,739	3.0	-
Library		-	2,034,806	23.0	15.0
Mayor's Office		-	235,601	3.0	-
Municipal Courts Department		-	1,029,021	6.5	-
Office of Business Opportunity		-	97,137	1.0	-
Parks and Recreation		-	1,626,397	6.0	15.0
Planning & Development		-	143,538	2.0	-
Solid Waste Management		-	-	-	-
<b>Total Municipal Departments</b>		<b>8,486,216</b>	<b>10,848,988</b>	<b>67.5</b>	<b>47.0</b>
<b>Police &amp; Fire</b>					
Police Department		-	5,000,000	-	-
Fire Department *	2	-	20,000,000	-	287.0
<b>Total Police and Fire</b>		<b>-</b>	<b>25,000,000</b>	<b>-</b>	<b>287.0</b>
<b>Debt service</b>					
Debt Service	3	5,200,000	-	-	-
<b>Total Debt Service</b>		<b>5,200,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>		<b>13,686,216</b>	<b>35,848,988</b>	<b>67.5</b>	<b>334.0</b>

Notes:

1. Includes 611 Walker rent deferral (\$4.9M) and MRR incremental increase deferral (\$3.5M)
2. Headcount reduction includes 220 classified employees and 67 cadets
3. Building Inspection Fund debt pre-payment

# FY2020 General Fund Revenue Including Other Resources Net Change vs FY2019 Estimates

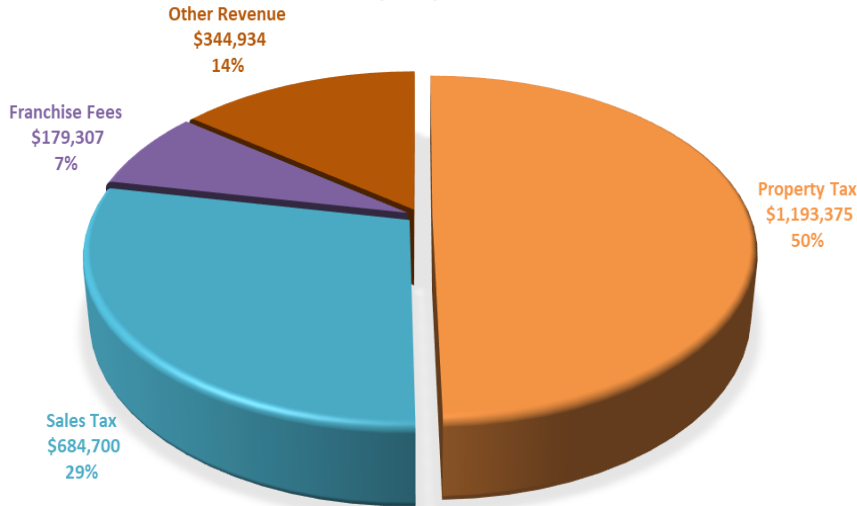


<b>FY2020 General Fund Revenues - Net change to FY19 Estimates (\$ in thousands)</b>		
FY2019 Estimates incl. Other Resources	\$	2,453,900
FY2020 Proposed Budget incl. Other Resources		2,439,527
<b>Incremental Increase/(Decrease)</b>	<b>\$</b>	<b>(14,373)</b>
		-0.59%
<b>Revenue Increases/(Decreases):</b>		
Sale of Capital Assets <sup>1</sup>		(21,535)
Transfers from Other Funds <sup>2</sup>		(12,166)
Miscellaneous <sup>3</sup>		(11,418)
Intergovernmental <sup>4</sup>		(4,221)
Franchise Fees <sup>5</sup>		(3,547)
Other Tax <sup>6</sup>		574
Sales Tax <sup>7</sup>		9,867
Interfund Services <sup>8</sup>		3,732
Property Tax <sup>9</sup>		23,691
Others <sup>10</sup>		649
<b>Net Change of Revenues</b>	<b>\$</b>	<b>(14,373)</b>
<b>Note:</b>		
1. Decrease primarily due to one-time land sales in FY2019.		
2. Decrease primarily due to one-time transfers from Special Revenue Fund in FY2019.		
3. Decrease primarily due to one-time legal settlement and prior year revenue adjustments in FY2019.		
4. Decrease due to a change in reimbursement of the 1115 Health Waiver Program to a more clinical based revenue metrics.		
5. Decrease due to decline in franchise fees for telephone and cable TV.		
6. Increase due to anticipated higher mixed beverage receipts.		
7. Sales Tax increase of 1.4% from FY2019 estimates based on assumption from econometric models.		
8. Increase primarily due to chargeback for fire and airport services at the airports and the Indirect Cost Allocation Plan.		
9. FY2020 Proposed Budget is based on Proposition 1+H.		
10. Increase primarily due to higher charges for services such as public safety report fees and external radio system fees.		

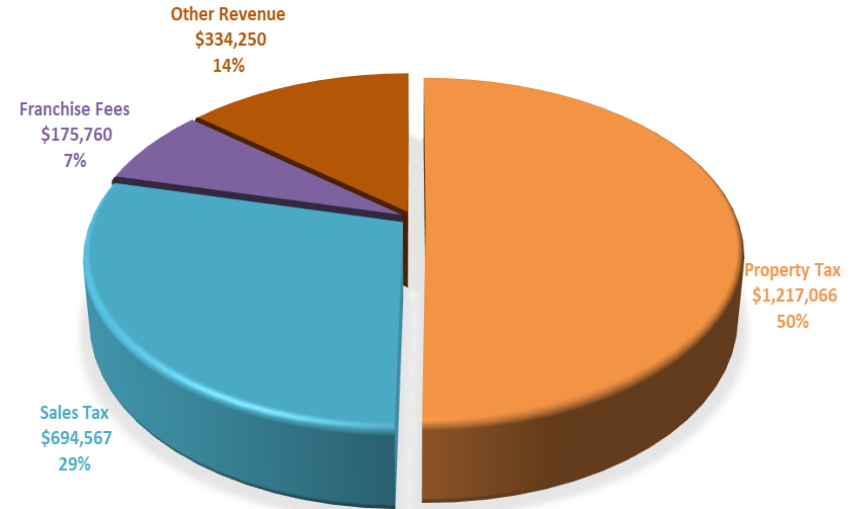
# FY2020 General Fund Revenue Excluding Other Resources (\$ in Thousands)



FY2019 ESTIMATE  
OF \$2,402,316



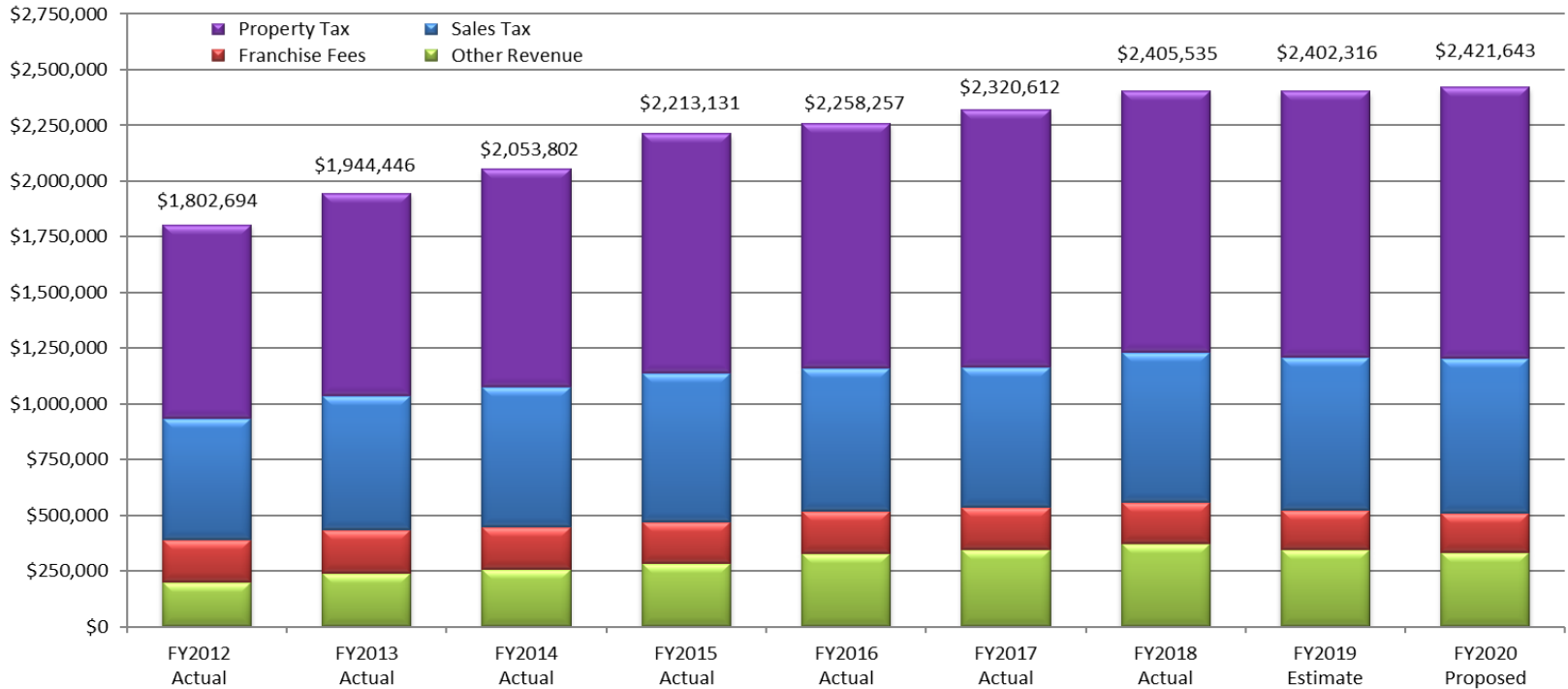
FY2020 PROPOSED BUDGET  
OF \$2,421,643



**Net Change**  
**\$19,327**  
**0.80%**

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

# General Fund Revenues Excluding Other Resources FY2012 – FY2020 (\$ in Thousands)



Property Tax	\$ 866,141	\$ 910,034	\$ 976,240	\$ 1,074,435	\$ 1,098,664	\$ 1,153,991	\$ 1,172,543	\$ 1,193,375	\$ 1,217,066
Sales Tax	\$ 546,543	\$ 600,256	\$ 629,441	\$ 667,061	\$ 640,476	\$ 631,993	\$ 674,279	\$ 684,700	\$ 694,567
Franchise Fees	\$ 192,760	\$ 195,304	\$ 189,989	\$ 189,837	\$ 191,168	\$ 190,586	\$ 185,774	\$ 179,307	\$ 175,760
Other Revenue	\$ 197,250	\$ 238,852	\$ 258,133	\$ 281,798	\$ 327,949	\$ 344,042	\$ 372,939	\$ 344,934	\$ 334,250
<b>Total GF Revenues</b>	<b>\$ 1,802,694</b>	<b>\$ 1,944,446</b>	<b>\$ 2,053,802</b>	<b>\$ 2,213,131</b>	<b>\$ 2,258,257</b>	<b>\$ 2,320,612</b>	<b>\$ 2,405,535</b>	<b>\$ 2,402,316</b>	<b>\$ 2,421,643</b>
<b>Change YOY (\$)</b>	<b>\$ (33)</b>	<b>\$ 141,752</b>	<b>\$ 109,356</b>	<b>\$ 159,329</b>	<b>\$ 45,126</b>	<b>\$ 62,355</b>	<b>\$ 84,923</b>	<b>\$ (3,220)</b>	<b>\$ 19,327</b>
<b>Change YOY (%)</b>	<b>0.00%</b>	<b>7.86%</b>	<b>5.62%</b>	<b>7.76%</b>	<b>2.04%</b>	<b>2.76%</b>	<b>3.66%</b>	<b>-0.13%</b>	<b>0.80%</b>



# Property Tax Revenue

---

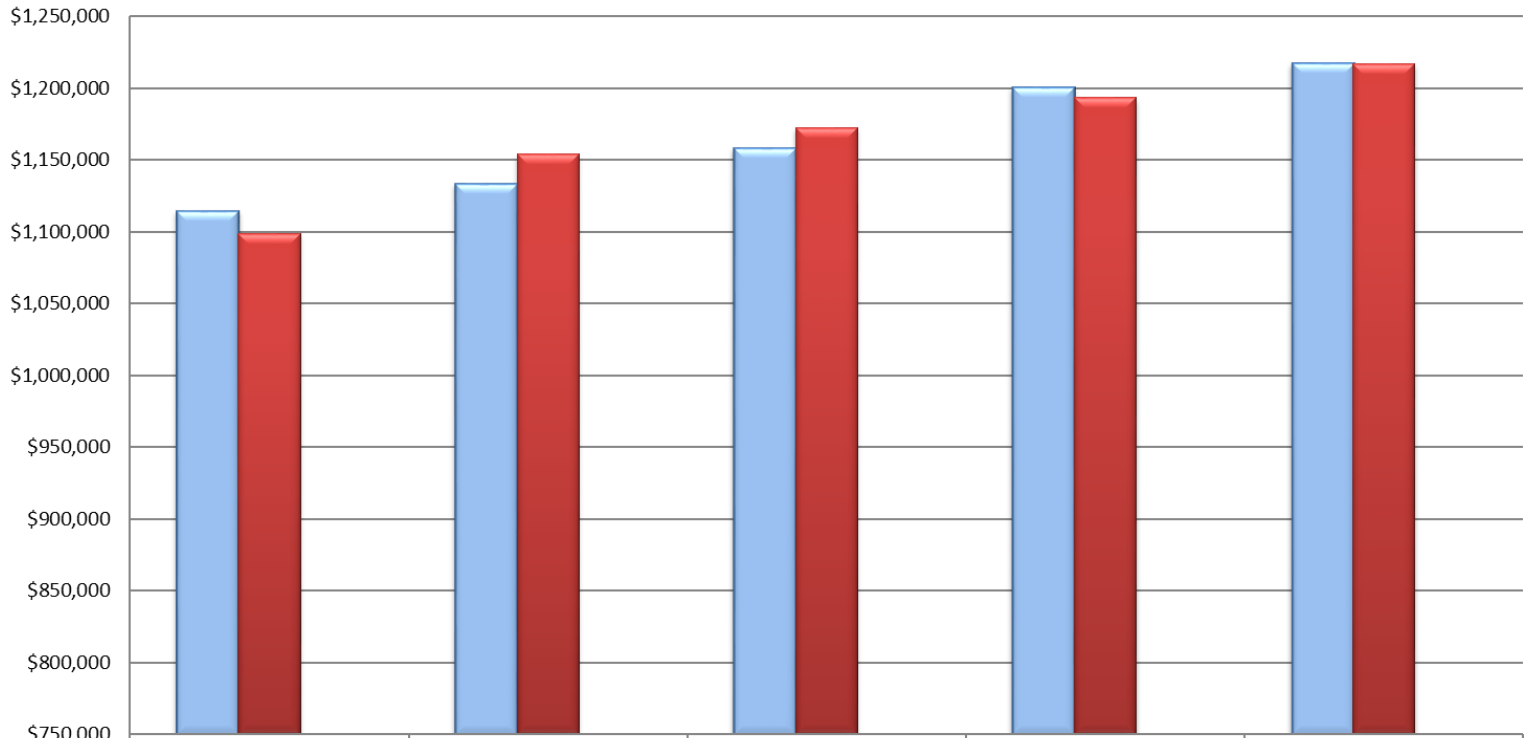
- Assumptions:

- Estimated taxable value of \$244.2 billion, which is an increase of 6.34%.
- The estimated taxable value net of the tax increment agreements is \$212.2 billion.
- In compliance with Prop 1+H limitations, CPI + Population equal to 3.07%. Annual CPI change is 2.39% and estimated population change of 0.68% based on Planning Department's estimate as of July 1, 2018.
- An increase in property tax revenue of 1.99%, which is \$23.7 million higher than FY2019 estimates.
- Over 65/Disabled exemption remains at \$160,000.
- Collection rate of 98.5%.



# Trends in Property Tax Revenues

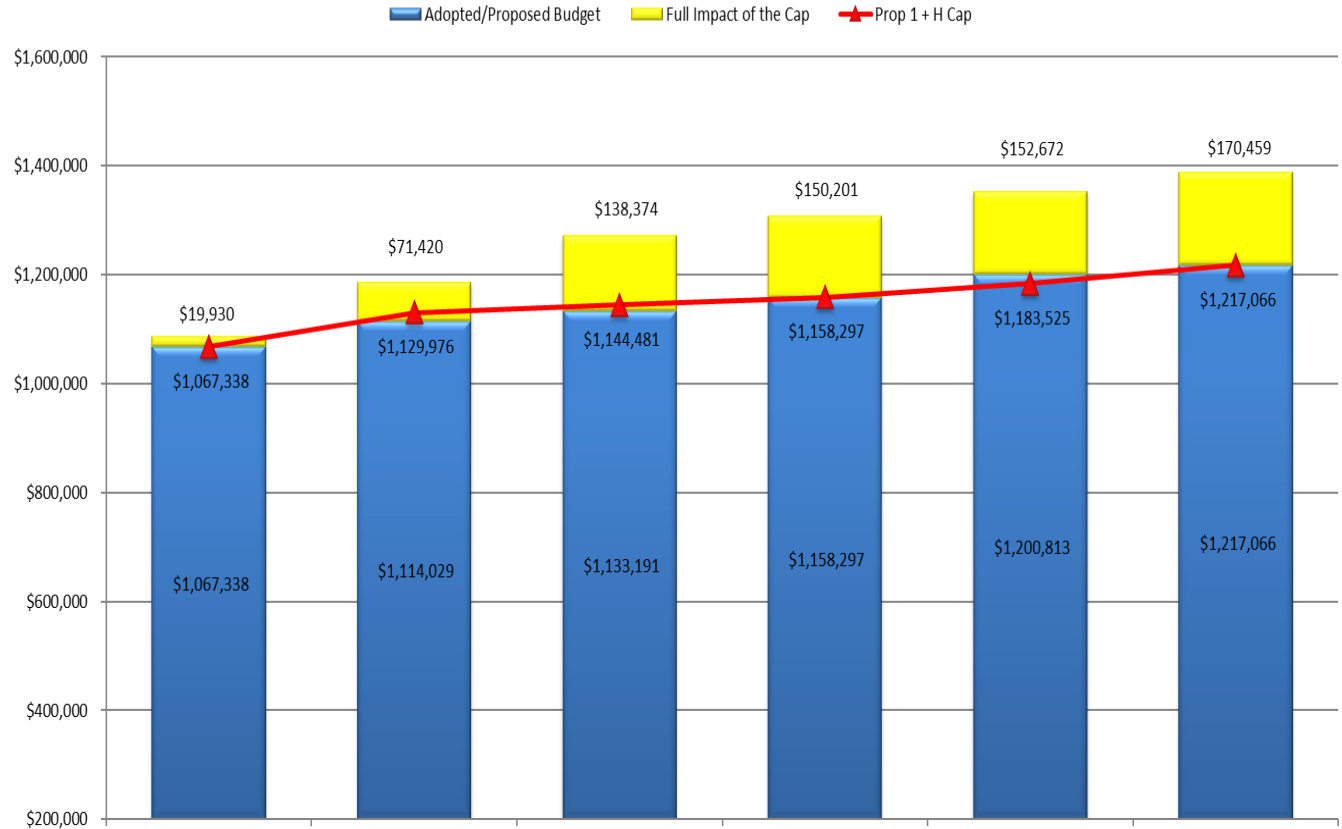
## FY2016 - FY2020 (\$ in Thousands)



	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Estimate	FY2020 Proposed
Adopted/Proposed Budget	\$1,114,029	\$1,133,191	\$1,158,297	\$1,200,813	\$1,217,066
Actual/Estimate	\$1,098,664	\$1,153,991	\$1,172,543	\$1,193,375	\$1,217,066
Variance: Over/(Under)	\$(15,365)	\$20,800	\$14,246	\$(7,438)	\$-

# Adopted Budget vs. Charter Cap

## FY2015 - FY2020 (\$ in Thousands)



	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>
Property Tax Revenue						
Adopted/Proposed Budget	\$ 1,067,338	\$ 1,114,029	\$ 1,133,191	\$ 1,158,297	\$ 1,200,813	\$ 1,217,066
Prop 1 + H Cap	\$ 1,067,338	\$ 1,129,976	\$ 1,144,481	\$ 1,158,297	\$ 1,183,525	\$ 1,217,066
Full Impact of the Cap	\$ 19,930	\$ 71,420	\$ 138,374	\$ 150,201	\$ 152,672	\$ 170,459

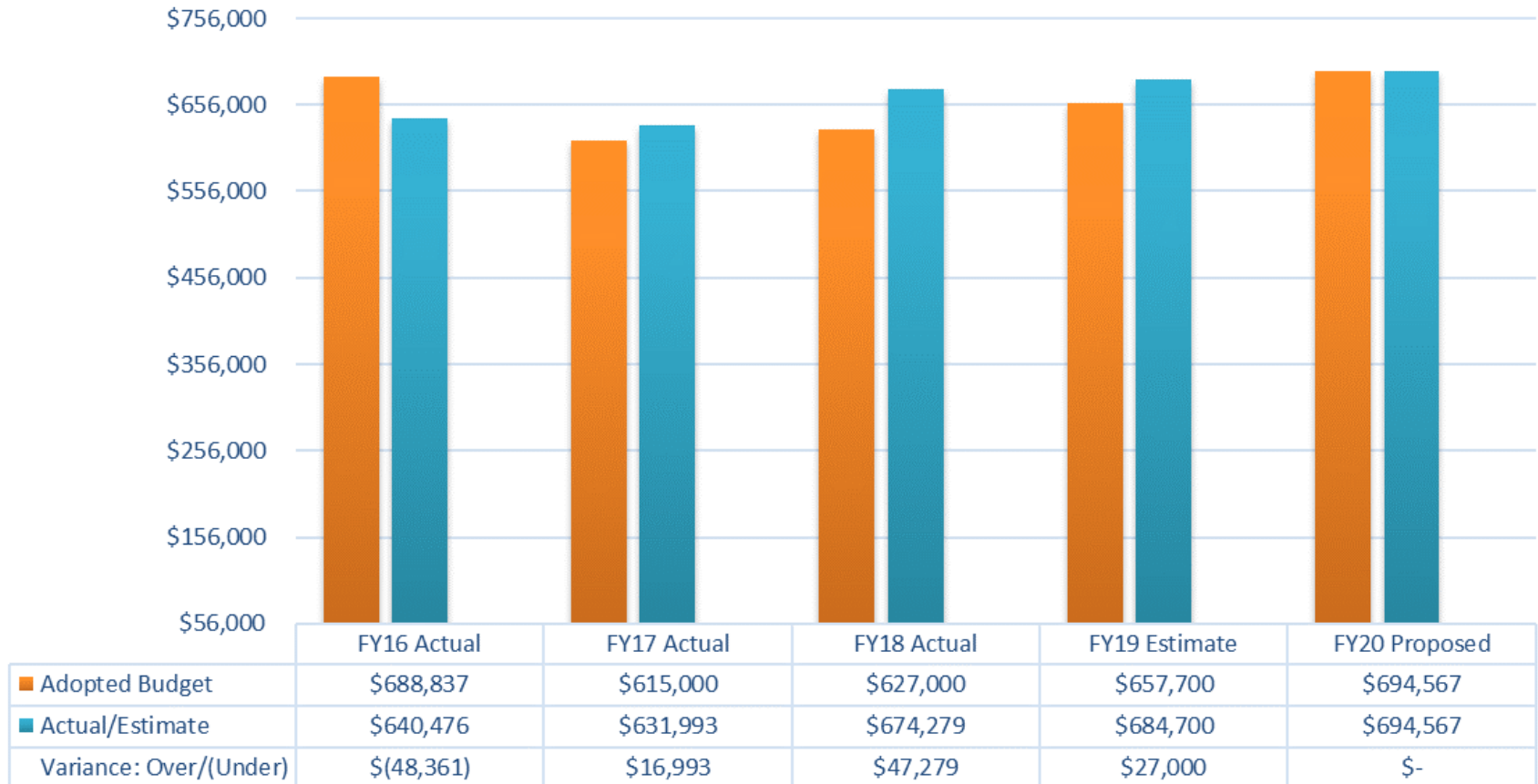


# Sales Tax Revenue

---

- Assumption:
  - Growth of 1.44%, \$9.9 million higher than FY2019 estimates. This assumption is derived from econometric models which are influenced by several factors of the Houston economy, including estimates of income, oil prices, population, and the Primary Metropolitan Statistical Area (PMSA) retail sales.

# Trends in Sales Tax Revenues FY2016 - FY2020 (\$ in Thousands)



# FY2020 General Fund Expenditures Net Change vs. FY2019 Current

(\$ in Thousands)



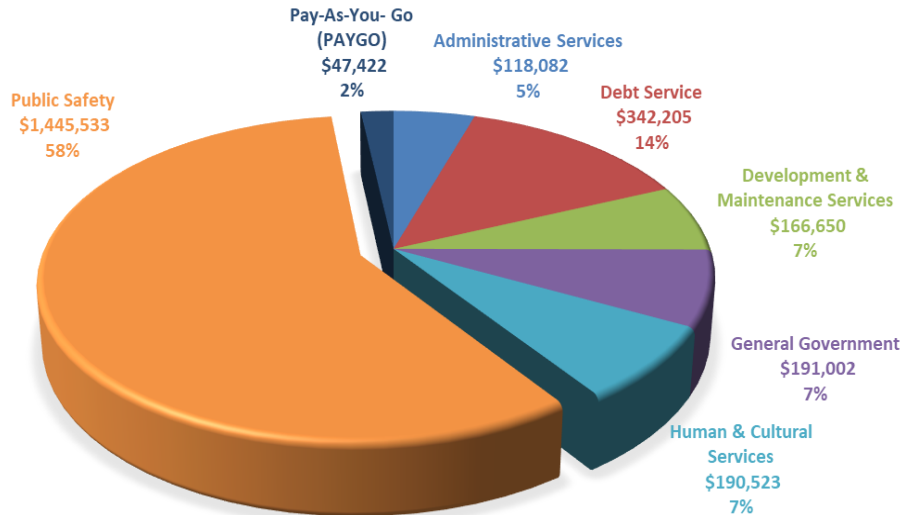
<b>FY2020 General Fund Exp - Net change to FY19 Current Budget (\$ in thousands)</b>	
FY2019 Current Budget	\$ 2,501,417
FY2020 Proposed Budget	2,555,790
<b>Incremental Increase/(Decrease)</b>	<b>54,373</b>
	2.17%
<b><u>Operating Budget Adjustments</u></b>	
Employee Compensation <sup>1</sup>	60,716
Pension	13,730
Health Benefits	10,301
Service Chargeback	4,322
Department Budget Reductions	(35,849)
611 Walker Deferral	(4,986)
MRR Transfer Deferral	(3,500)
Other	(186)
<b>Subtotal Operating</b>	<b>44,548</b>
<b><u>Debt Service Adjustments</u></b>	
Debt Service and PAYGO	15,025
HPW Debt prepayment	(5,200)
<b>Subtotal Debt Service</b>	<b>9,825</b>
<b>Net Change of Expenditures</b>	<b>\$ 54,373</b>
<b>Note:</b>	
1. Compensation based on cost of Proposition B and contractually mandated increases for police (4%) and municipal employees (2%).	

# General Fund Expenditures Including Debt Service & PAYGO

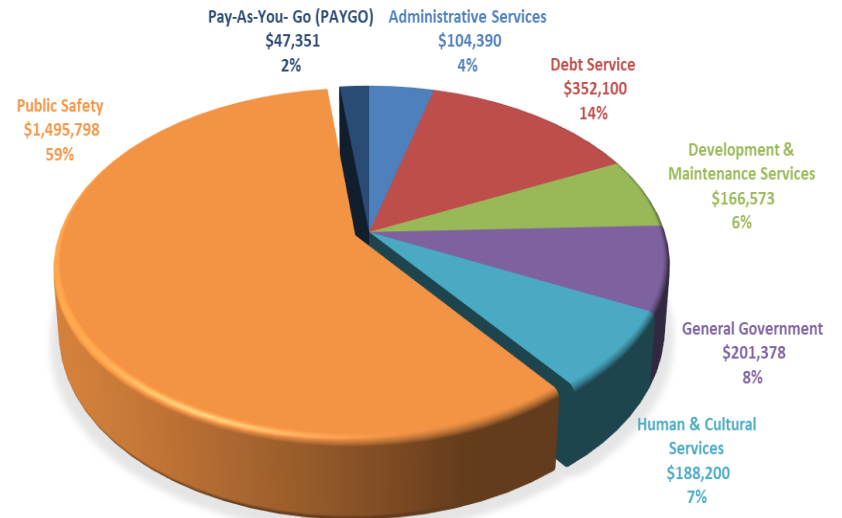
(\$ in Thousands)



**FY2019 CURRENT BUDGET**  
**\$2,501,417**



**FY2020 PROPOSED BUDGET**  
**\$2,555,790**



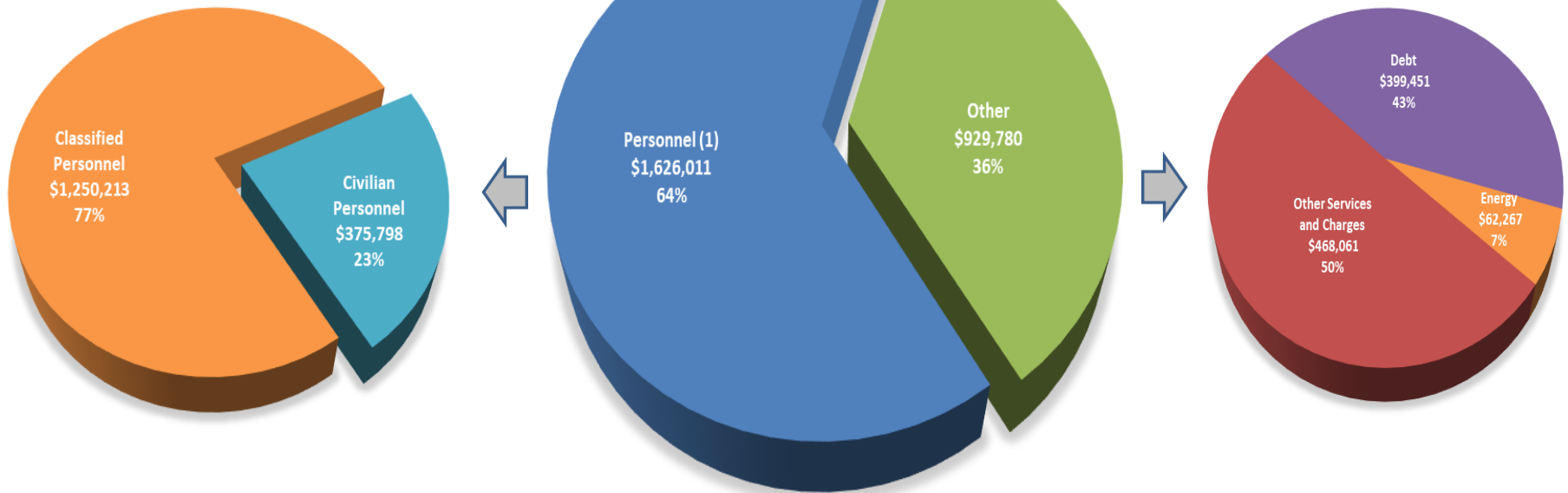
**Net Change**  
**\$54,373**  
**2.2%**

- Public Safety: Police, Fire, Houston Emergency Center (HEC), Municipal Courts
- Other: General Services, Planning & Development, Houston Public Works, Solid Waste  
Houston Health Department, Housing, Library, Neighborhoods, and Parks  
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
- Debt Service: Includes PayGO

# FY2020 General Fund Expenditures Personnel vs. Non Personnel (\$ in Thousands)



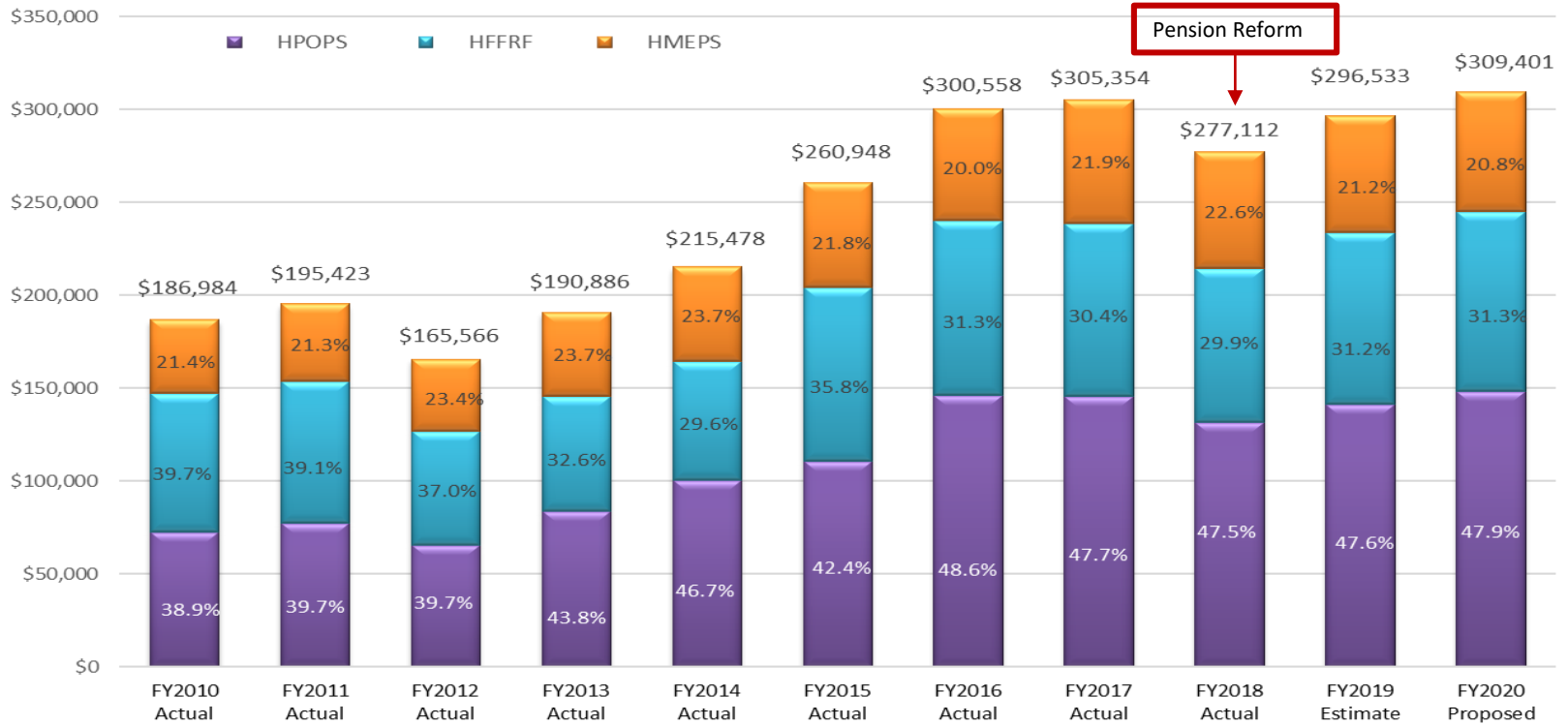
Proposed Budget  
\$2,555,790



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

# General Fund Pension Contributions

## FY2010- FY2020 (\$ in Thousands)

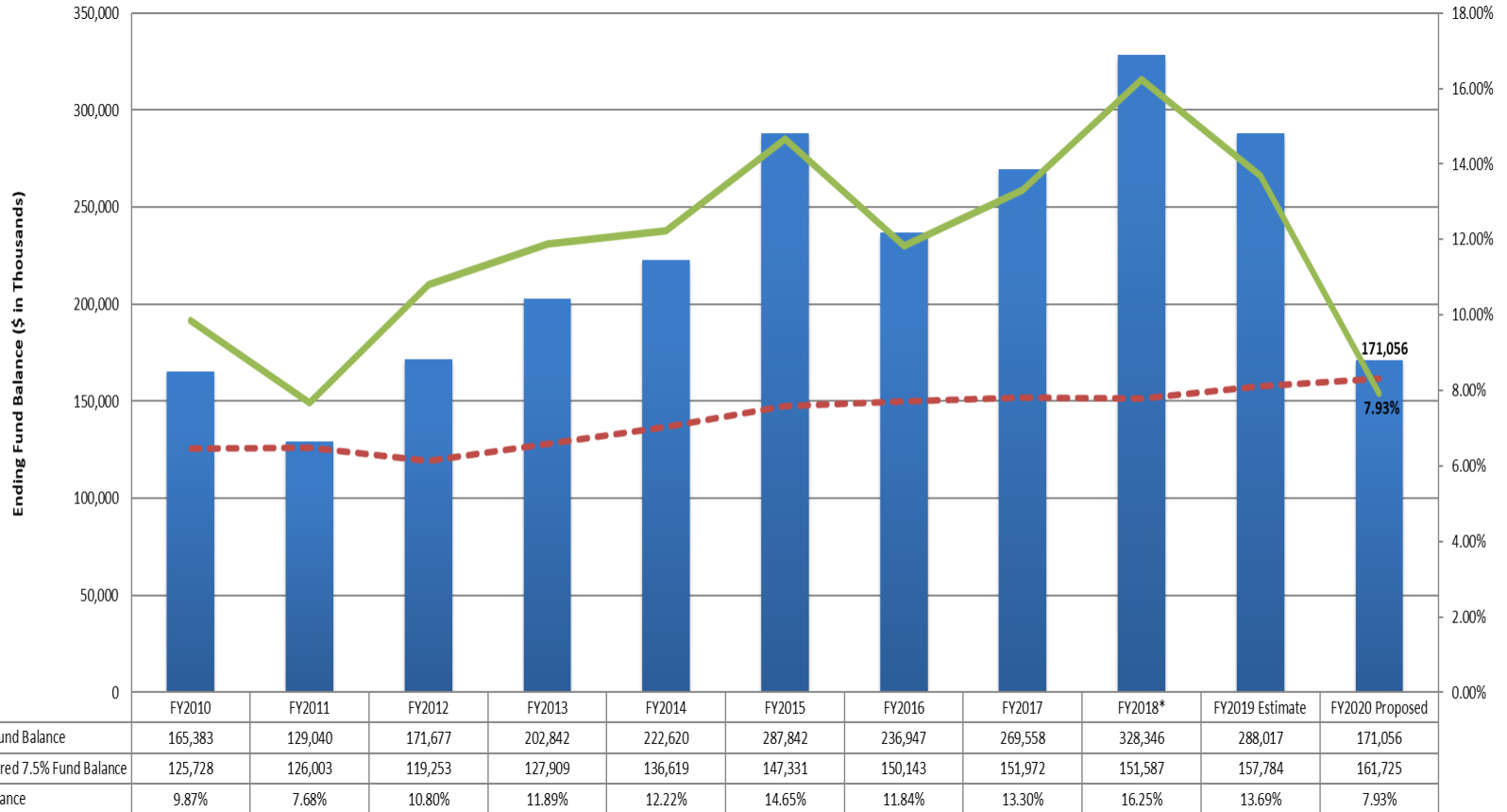


<b>HMEPS</b>	\$ 40,017	\$ 41,537	\$ 38,662	\$ 45,219	\$ 51,106	\$ 56,813	\$ 60,221	\$ 66,750	\$ 62,526	\$ 62,847	\$ 64,362
<b>HFFRF</b>	74,299	76,352	61,204	62,141	63,758	93,407	94,121	92,958	82,940	92,486	96,785
<b>HPOPS</b>	72,669	77,534	65,701	83,526	100,614	110,727	146,216	145,646	131,645	141,200	148,254
<b>Pension Contributions</b>	<b>\$ 186,984</b>	<b>\$ 195,423</b>	<b>\$ 165,566</b>	<b>\$ 190,886</b>	<b>\$ 215,478</b>	<b>\$ 260,948</b>	<b>\$ 300,558</b>	<b>\$ 305,354</b>	<b>\$ 277,112</b>	<b>\$ 296,533</b>	<b>\$ 309,401</b>
<b>Change YOY (\$)</b>	10,989	8,439	(29,857)	25,320	24,592	45,469	39,611	4,796	(28,243)	19,422	12,867
<b>Change YOY (%)</b>	6.2%	4.5%	-15.3%	15.3%	12.9%	21.1%	15.2%	1.6%	-9.2%	7.0%	4.3%

\*FY18 Actual excludes \$910 million Pension Obligation Bonds for General Fund.



# General Fund Unassigned Ending Fund Balance FY2010 - FY2020



\*FY18 amount required of 7.5% fund balance is adjusted to excludes \$910 million Pension Obligation Bonds.



# General Fund Five Year Forecast FY2020 – FY2024



# Overview

---

- Shows the projected budget gap range based on a conservative and optimistic growth in revenue
- Does not include one-time land sales
- 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	FY2020 Proposed	FY2021 - 2024	Comments
Property Tax Growth %	2.0%	(Low) 1.6% to 2.1% (High)	FY2021 - 2024 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 %	1.4%	(Low) 1.6% to 3.3% (High)	FY2021-2024 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 %	-2.0%	(Low) -0.9% to 0.0% (High)	FY2021-2024 estimate based on historical growth. High range assumes slower decline in franchise fee revenue.
Other Revenue Growth % <sup>(1)</sup>	-3.4%	(Low) -1.9% to -0.3% (High)	FY2021-2024 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 Forfeiture

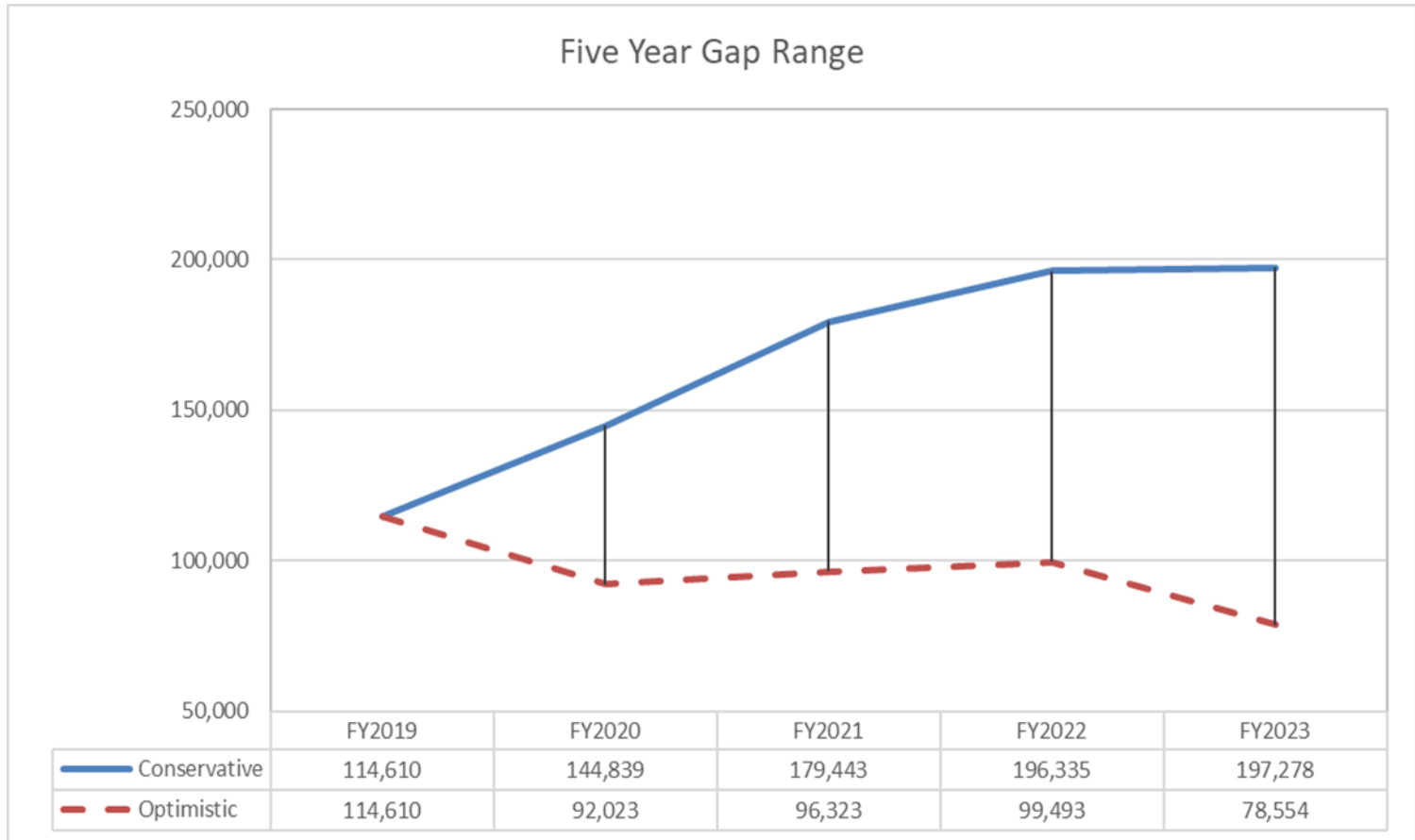


# Key Assumptions - Expenditures

Expenditure Category	FY2020 Proposed	FY2021 Forecast	FY2022 Forecast	FY2023 Forecast	FY2024 Forecast	Comments
<b><u>Personnel:</u></b>	35.00%	5.00%	1.00%	1.00%	1.00%	FY2020 includes cost of implementing Proposition B, contractually mandated increase for police (4%), and municipal employees (2%)
<b><u>Pension Contribution:</u></b>						
HMEPS	8.32%	8.36%	8.41%	8.44%	8.48%	Based on the midpoint of the corridor
HMEPS Legacy Contribution	\$130.9	\$134.5	\$138.2	\$142.0	\$146.0	Legacy liability contribution
HPOPS	31.82%	31.84%	31.92%	31.98%	32.03%	Based on the midpoint of the corridor
HFRRF	32.34%	32.34%	32.34%	32.34%	32.34%	Based on the midpoint of the corridor
<b><u>Health Benefits:</u></b>						
Growth%	2%	7%	7%	7%	7%	Assumes reserved fund balance in Health Benefits Fund is maintained and average expenditure growth.
<b><u>Total Debt Service and PAYGO (\$M)</u></b>	\$399,451	\$414,269	\$422,336	\$433,333	\$435,607	

# Budget Gap Range as Presented

## May 9, 2018 (\$ in Thousands)



# Current Budget Gap Range

(\$ in Thousands)

