



Presentation to the City of Houston Budget and Fiscal Affairs Committee

FY2022 Budget Overview and
General Fund Five Year Forecast

May 12, 2021

Tantri Emo, Director

Table of Contents



<u>Section</u>	<u>Page</u>
Forward Looking Statements	3
Fiscal Year 2022 Budget Overview	8
General Fund Budget Revenues	12
General Fund Budget Expenditures	22
General Fund Five Year Forecast	27
Budget Gap Range	31



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.

Guidance from US Treasury on the use of the American Rescue Plan Act (ARPA) federal funding was received on May 10, 2021, which is currently under review. This presentation does not include full reflection of the US Treasury guidance.

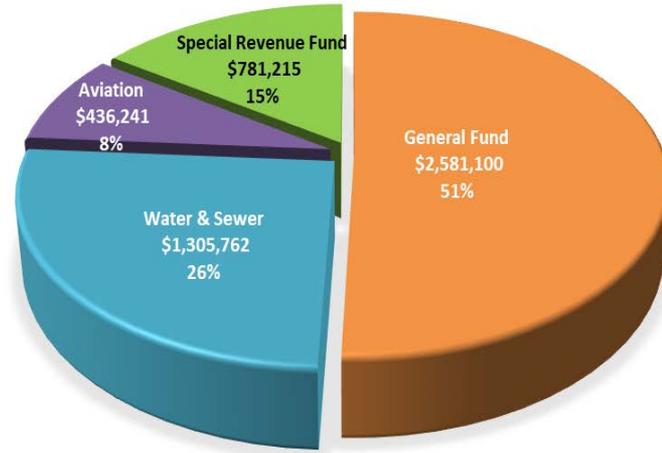
Citywide Expenditures Including Debt Service & PAYGO (\$ in thousands)



FY2021 CURRENT BUDGET
OF \$4,876,354



FY2022 PROPOSED BUDGET
OF \$5,104,318

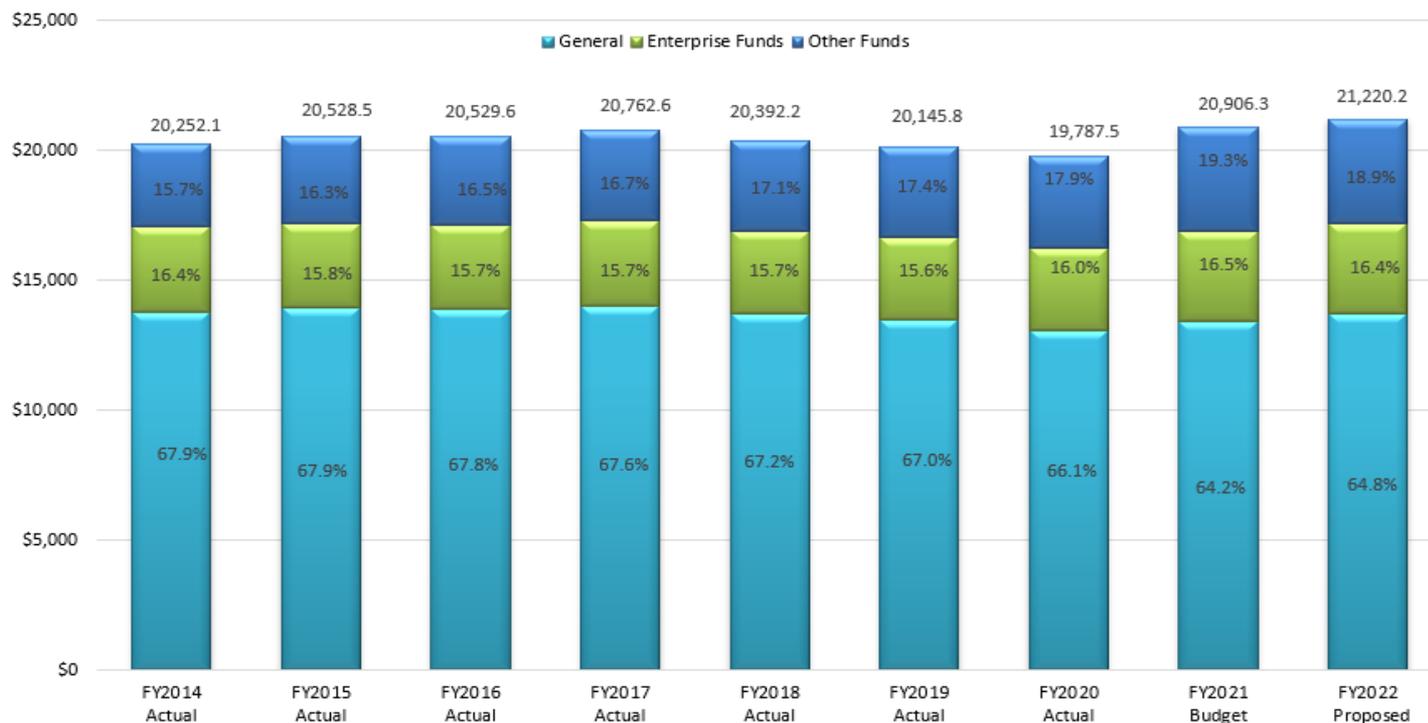


Net Change
\$227,964
4.67%

Note:

- Expenditures Budget above represent the total budget including General Fund, Special and Enterprise Funds. Total does not include Service Chargeback and Internal Service Funds.
- A net change of \$28.3 million (0.56%) from the FY2021 Citywide Adopted Budget Expenditure of \$5.08 billion.

Citywide Full-Time Equivalents Civilian and Classified

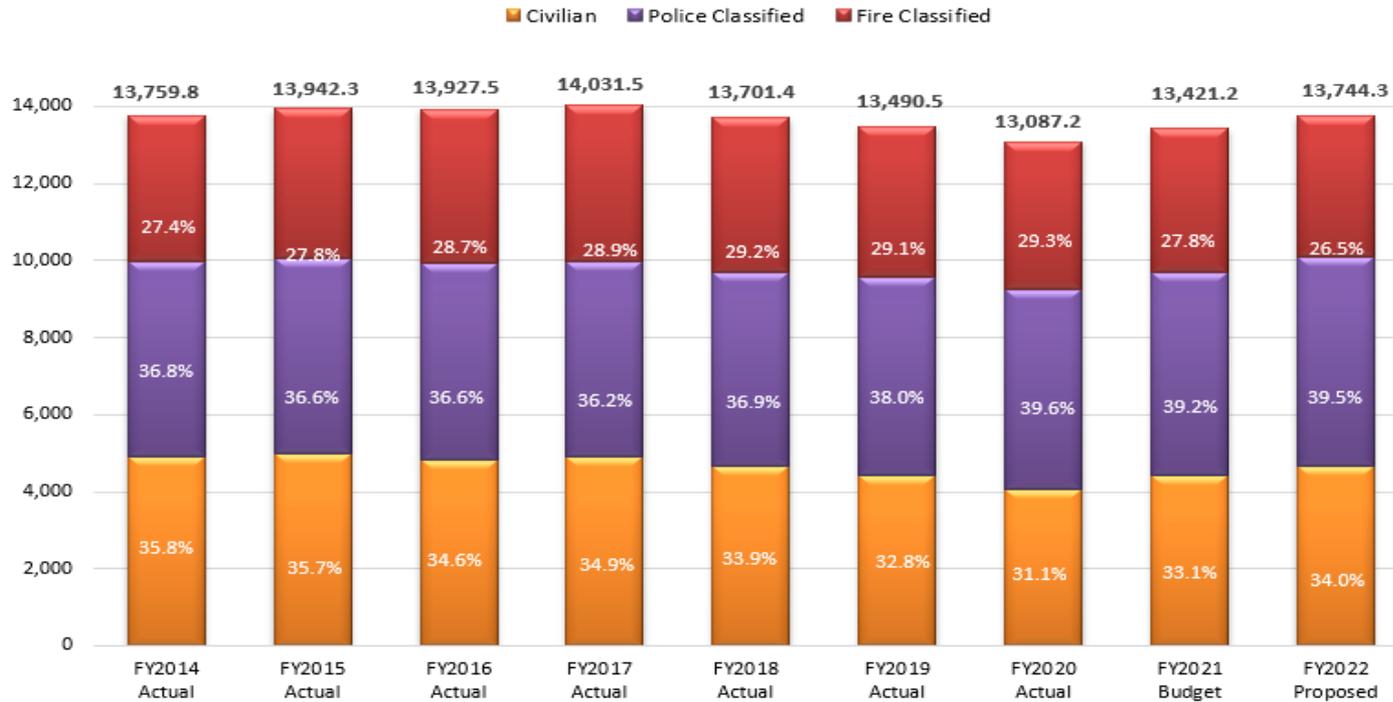


	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Budget	FY2022 Proposed
General	13,759.8	13,942.3	13,927.5	14,031.5	13,701.4	13,490.5	13,087.2	13,421.2	13,744.3
Enterprise Funds	3,319.4	3,235.3	3,219.0	3,254.5	3,206.5	3,147.2	3,166.3	3,456.5	3,471.4
Other Funds	3,172.9	3,350.9	3,383.1	3,476.6	3,484.3	3,508.1	3,534.0	4,028.6	4,004.5
Grand Total	20,252.1	20,528.5	20,529.6	20,762.6	20,392.2	20,145.8	19,787.5	20,906.3	21,220.2

Notes:

1. Citywide FTEs include General Fund, Enterprise, Special, Internal Service and Service Chargeback Funds
2. **For General Fund :**
 - FY2020 and FY2021 includes lower FTEs due to redeployment funded out of CRF
 - FY2021 Budget and FY2022 Proposed Budget included cadet classes (5 police, 4 fire in FY2021 and 6 police, 4 fire in FY2022)
 - FY2022 Proposed Budget includes temporary employees for Hire Houston Youth Program

General Fund Full-Time Equivalents



	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Budget	FY2022 Proposed
Civilian	4,924.5	4,970.9	4,825.8	4,896.3	4,646.2	4,430.4	4,071.2	4,440.6	4,666.5
Police Classified	5,063.3	5,100.4	5,100.4	5,081.0	5,059.7	5,128.0	5,177.2	5,256.0	5,429.5
Fire Classified	3,772.0	3,871.0	4,001.3	4,054.2	3,995.5	3,932.1	3,838.8	3,724.6	3,648.3
Grand Total	13,759.8	13,942.3	13,927.5	14,031.5	13,701.4	13,490.5	13,087.2	13,421.2	13,744.3

Note:

1. Cadets are included with Civilian
2. FY2020 and FY2021 includes lower FTEs due to redeployment funded out of CRF
3. FY2021 Budget and FY2022 Proposed Budget included cadet classes (5 police, 4 fire in FY2021 and 6 police, 4 fire in FY2022)
4. FY2022 Proposed Budget includes temporary employees for Hire Houston Youth Program



General Fund Budget Overview

This budget includes \$188.5 million in ARPA utilization:

- \$178 million for the provision of government services relative to revenue reduction due to the COVID-19 public health emergency
- \$10.5 million allocation to the Houston Zoo to respond to the negative economic impacts due to the COVID-19 public health emergency

Note: Guidance from US Treasury on the use of the American Rescue Plan Act (ARPA) federal funding was received on May 10, 2021, which is currently under review. This presentation does not include full reflection of the US Treasury guidance.



American Rescue Plan Act (ARPA)

- ARPA was signed into law by President Joe Biden on March 11, 2021, providing \$65.1 billion in federal funding to support municipalities as they continue to respond to the COVID-19 pandemic.
- The City of Houston is expected to receive \$607.8 million in two tranches, first half in 2021 and the second half in 2022. The City would have until December 31, 2024, to use the funds.
- Unlike the CRF, ARPA recognizes the economic impact due to the COVID-19 pandemic and provides flexibility to address the reduction in revenues due to the COVID-19 public health emergency.



General Fund Budget

- This budget includes:
 - \$7.2 million in department reductions
 - \$5.2 million debt pre-payment from the Building Inspection Fund
 - 9.6% Fund Balance of expenditures less debt service and pay-as-you-go transfers, above the desired minimum of 7.5%
 - Zero fund balance drawdown
 - Replenishes the Budget Stabilization Fund
 - Funds **for cadet classes**:
 - six (6) police cadet classes and four (4) fire cadet classes
 - Fully fund all three pension systems
- This budget **does not** include any one-time land sales nor payment deferrals



Closing the FY2022 Gap

<i>(\$ in thousands)</i>		
Additional Revenues		
Intergovernmental Revenue - ARPA ¹	\$ 177,970	Non-Recurring
Expenditure Reductions		
Zoo Reduction / Transfer ²	\$ 10,515	Non-Recurring
Approved Department Reductions	\$ 7,163	Recurring
HPW Debt Pre-payment ³	\$ 5,200	Non-Recurring
Total Expenditure Reductions	\$ 22,878	
Fund Balance Drawdown		
Fund Balance Drawdown	\$ -	
Gap	\$ 200,848	

Note:

1. The provision of government services relative to revenue reduction due to the COVID-19 public health emergency under ARPA.
2. Allocation to the Zoo to respond to the negative economic impacts due to the COVID-19 public health emergency under ARPA
3. Debt prepayment from the Building Inspection Fund.

FY2022 General Fund Revenue Including Other Resources Net Change vs FY2021 Estimates

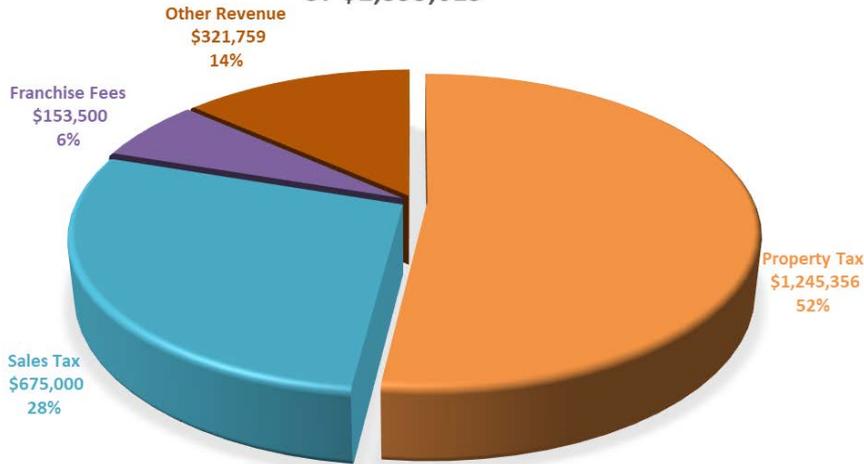


FY2022 General Fund Revenues - Net change to FY21 Estimates (\$ in thousands)		
FY2021 Estimates incl. Other Resources	\$	2,401,264
FY2022 Proposed Budget incl. Other Resources		2,581,100
Incremental Increase/(Decrease)	\$	179,836
		7.49%
Revenue Increases/(Decreases):		
Property Tax ¹		(14,371)
Franchise Fees ²		(4,181)
Interfund Services ³		(2,496)
Others ⁴		(368)
Municipal Courts Fines and Forfeits ⁵		1,877
Charges for Services ⁶		2,660
Transfers from Other Funds ⁷		3,622
Other Tax ⁸		3,983
Sales Tax ⁹		28,000
Intergovernmental ¹⁰		161,110
Net Change of Revenues	\$	179,836
Note:		
1. FY2021 Proposed Budget is based on Proposition 1+H.		
2. Decrease primarily due to decline in electric and telephone franchise.		
3. Decrease due to de-centralization of maintenance services & lower Indirect Cost		
4. Mainly to reflect lower than anticipated recoveries & refunds.		
5. Reflects higher than anticipated moving violation and non-traffic fines receipts.		
6. Increase primarily due to higher than anticipated ambulance fees.		
7. Increase primarily in transfer from ParkHouston Fund.		
8. Increase due to anticipated higher mixed beverage tax receipts.		
9. Increase due to anticipated higher sales tax receipts.		
10. Increase primarily due to ARPA receipts to cover revenue losses due to COVID-19.		

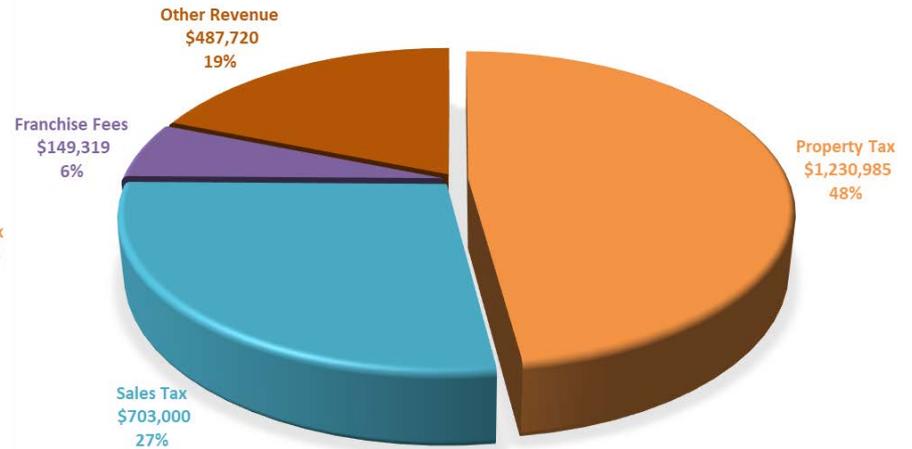
FY2022 General Fund Revenue Excluding Other Resources (\$ in Thousands)



**FY2021 ESTIMATE
OF \$2,395,615**



**FY2022 PROPOSED BUDGET
OF \$2,571,024**

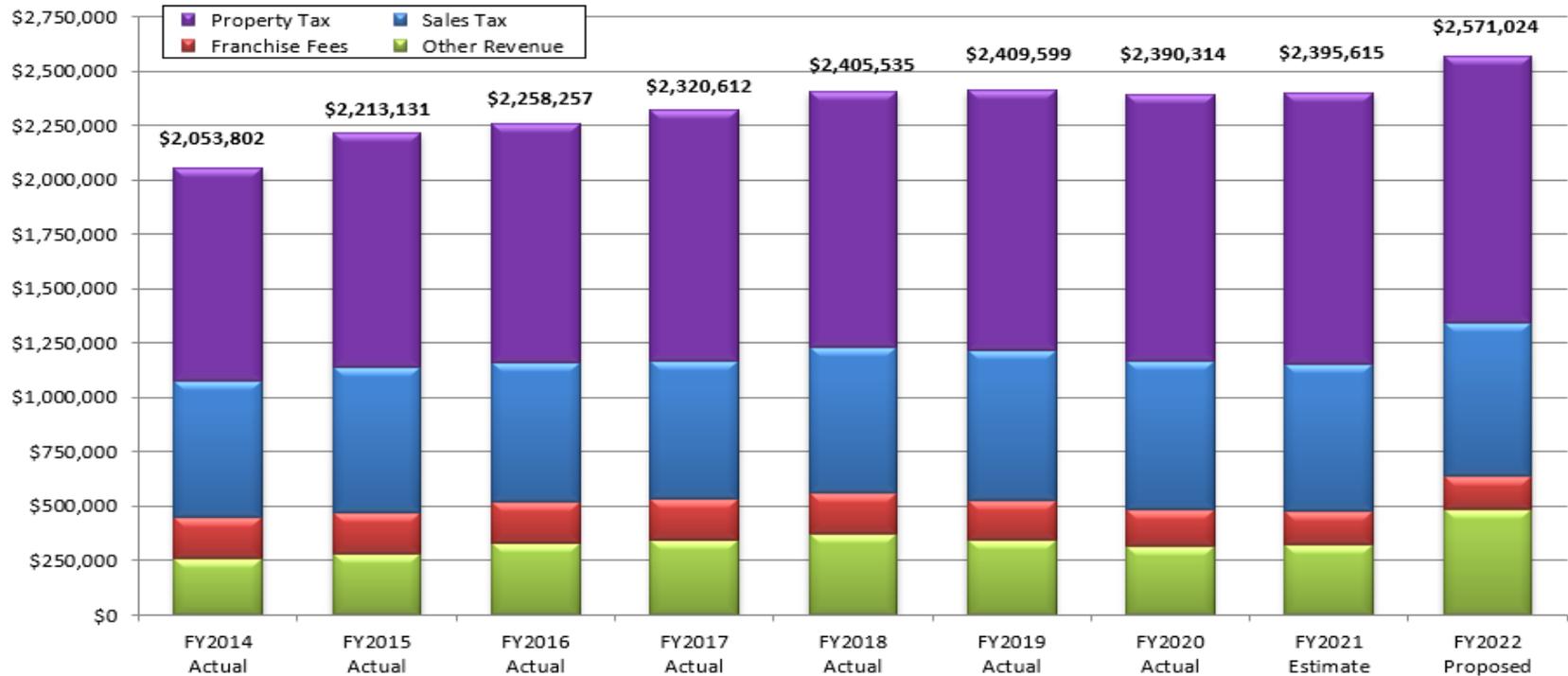


Net Change
\$175,409
7.32%

Note:

- Does not include Other Resources such as Sale of Capital Assets and Transfers from Other Funds.
- Includes \$178M ARPA Funding

General Fund Revenues Excluding Other Resources FY2014 – FY2022 (\$ in Thousands)



Property Tax	\$ 976,240	\$ 1,074,435	\$ 1,098,664	\$ 1,153,991	\$ 1,172,543	\$ 1,190,243	\$ 1,222,154	\$ 1,245,356	\$ 1,230,985
Sales Tax	\$ 629,441	\$ 667,061	\$ 640,476	\$ 631,993	\$ 674,279	\$ 692,271	\$ 684,425	\$ 675,000	\$ 703,000
Franchise Fees	\$ 189,989	\$ 189,837	\$ 191,168	\$ 190,586	\$ 185,774	\$ 179,640	\$ 168,135	\$ 153,500	\$ 149,319
Other Revenue	\$ 258,133	\$ 281,798	\$ 327,949	\$ 344,042	\$ 372,939	\$ 347,445	\$ 315,600	\$ 321,759	\$ 487,720
Total GF Revenues	\$ 2,053,802	\$ 2,213,131	\$ 2,258,257	\$ 2,320,612	\$ 2,405,535	\$ 2,409,599	\$ 2,390,314	\$ 2,395,615	\$ 2,571,024
Change YOY (\$)	\$ 109,356	\$ 159,329	\$ 45,126	\$ 62,355	\$ 84,923	\$ 4,063	\$ (19,285)	\$ 5,301	\$ 175,409
Change YOY (%)	5.62%	7.76%	2.04%	2.76%	3.66%	0.17%	-0.80%	0.22%	7.32%

Notes: FY2022 Proposed Budget includes \$178 million from ARPA relative to revenue reduction due to COVID-19 public health emergency



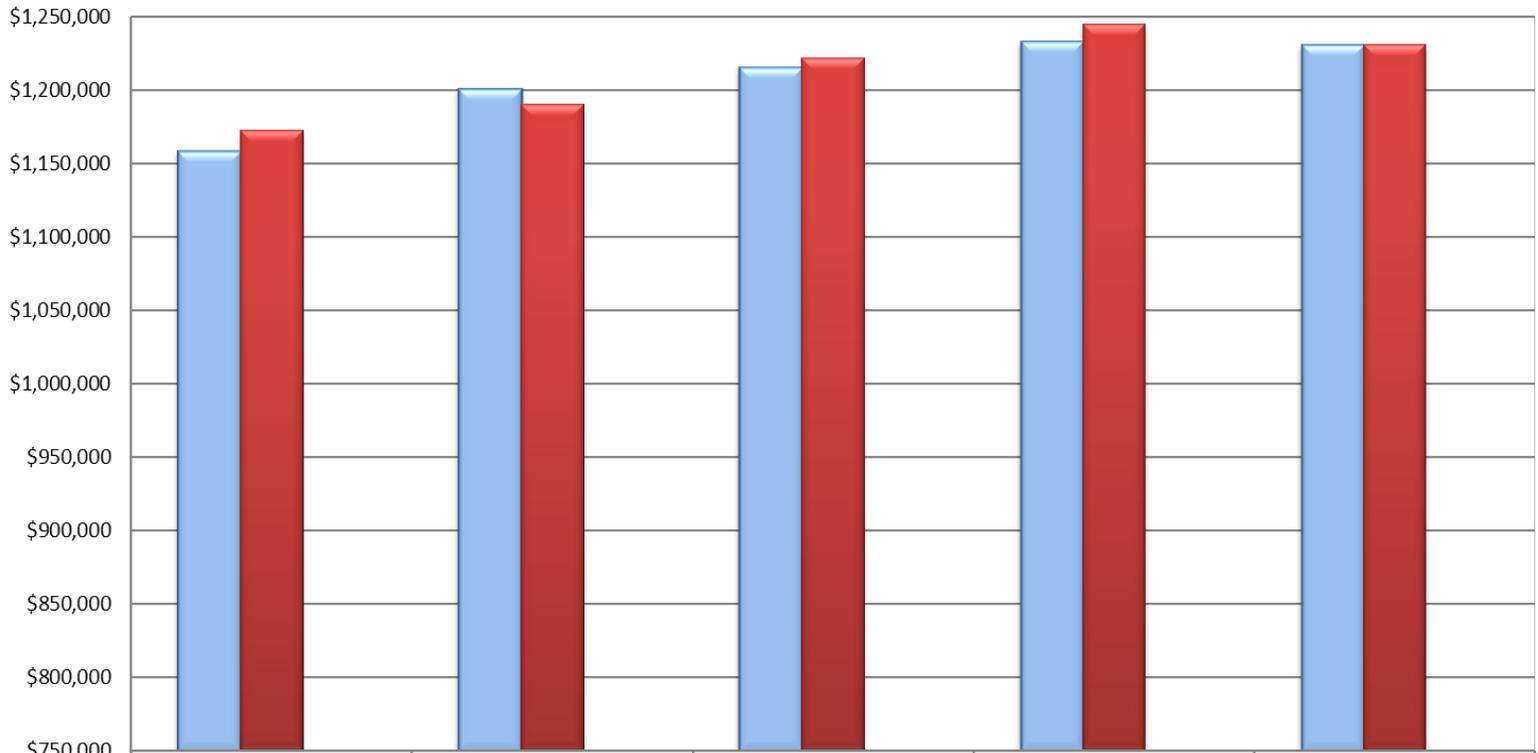
Property Tax Revenue

- Assumptions:

- Estimated taxable value of \$268.0 billion, which is an increase of 3.77%.
- The estimated taxable value net of the tax increment agreements is \$232.0 billion.
- Population data from U.S. Census Bureau as of July 1, 2020, has yet to be received. Therefore, the Finance Department applied 0% growth for population plus inflation for purposes of calculating Proposition 1
- A decrease in property tax revenue of 1.15%, which is \$14.4 million lower than FY2021 estimates.
- Over 65/Disabled exemption remains at \$160,000.

Trends in Property Tax Revenues

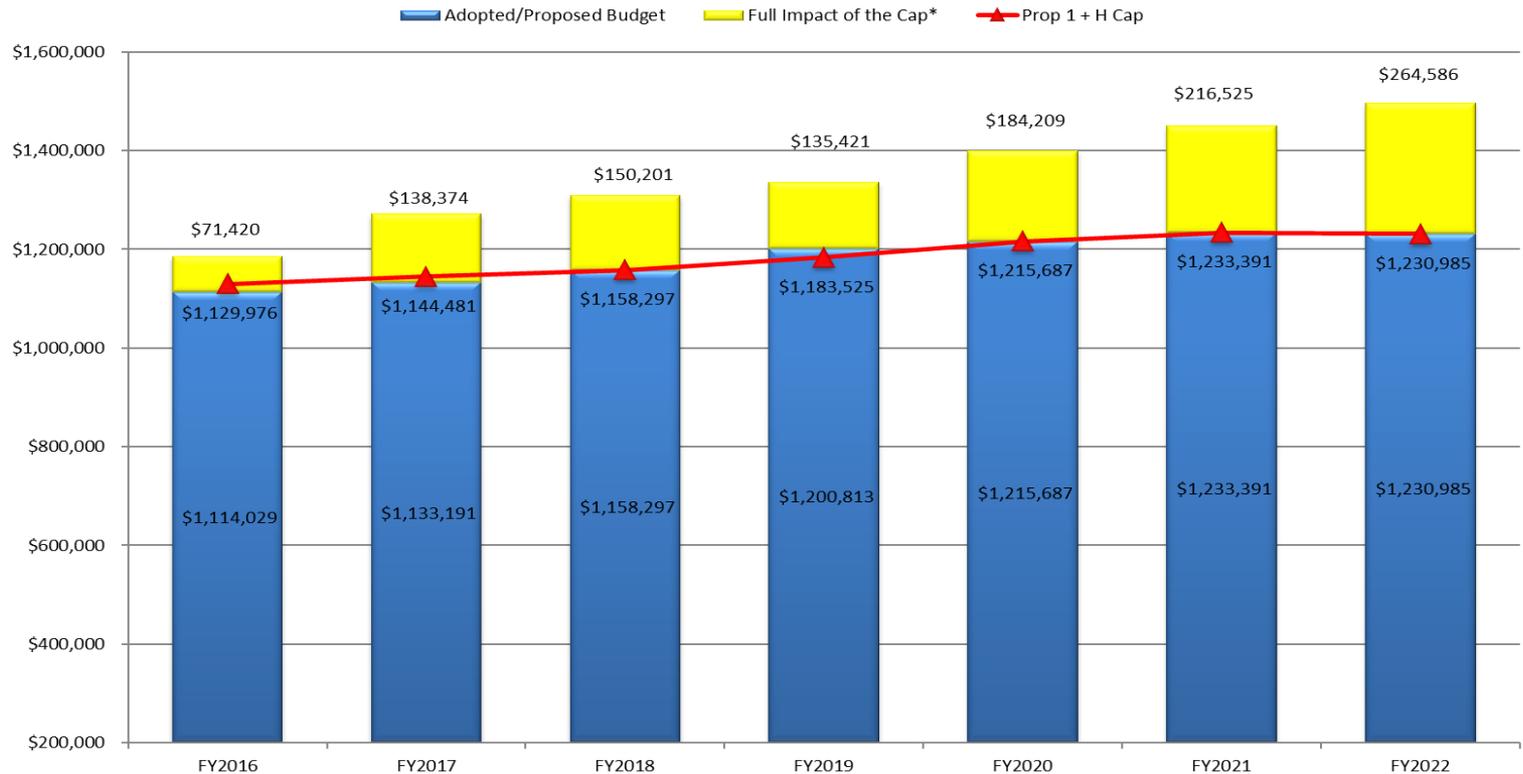
FY2018 - FY2022 (\$ in Thousands)



	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Estimate	FY2022 Proposed
Adopted/Proposed Budget	\$1,158,297	\$1,200,813	\$1,215,687	\$1,233,391	\$1,230,985
Actual/Estimate	\$1,172,543	\$1,190,243	\$1,222,154	\$1,245,356	\$1,230,985
Variance: Over/(Under)	\$14,246	\$(10,570)	\$6,467	\$11,965	\$0

Adopted Budget vs. Charter Cap

FY2016 - FY2022 (\$ in Thousands)



Property Tax Revenue	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Adopted/Proposed Budget	\$ 1,114,029	\$ 1,133,191	\$ 1,158,297	\$ 1,200,813	\$ 1,215,687	\$ 1,233,391	\$ 1,230,985
Prop 1 + H Cap	\$ 1,129,976	\$ 1,144,481	\$ 1,158,297	\$ 1,183,525	\$ 1,215,687	\$ 1,233,391	\$ 1,230,985
Full Impact of the Cap*	\$ 71,420	\$ 138,374	\$ 150,201	\$ 135,421	\$ 184,209	\$ 216,525	\$ 264,586

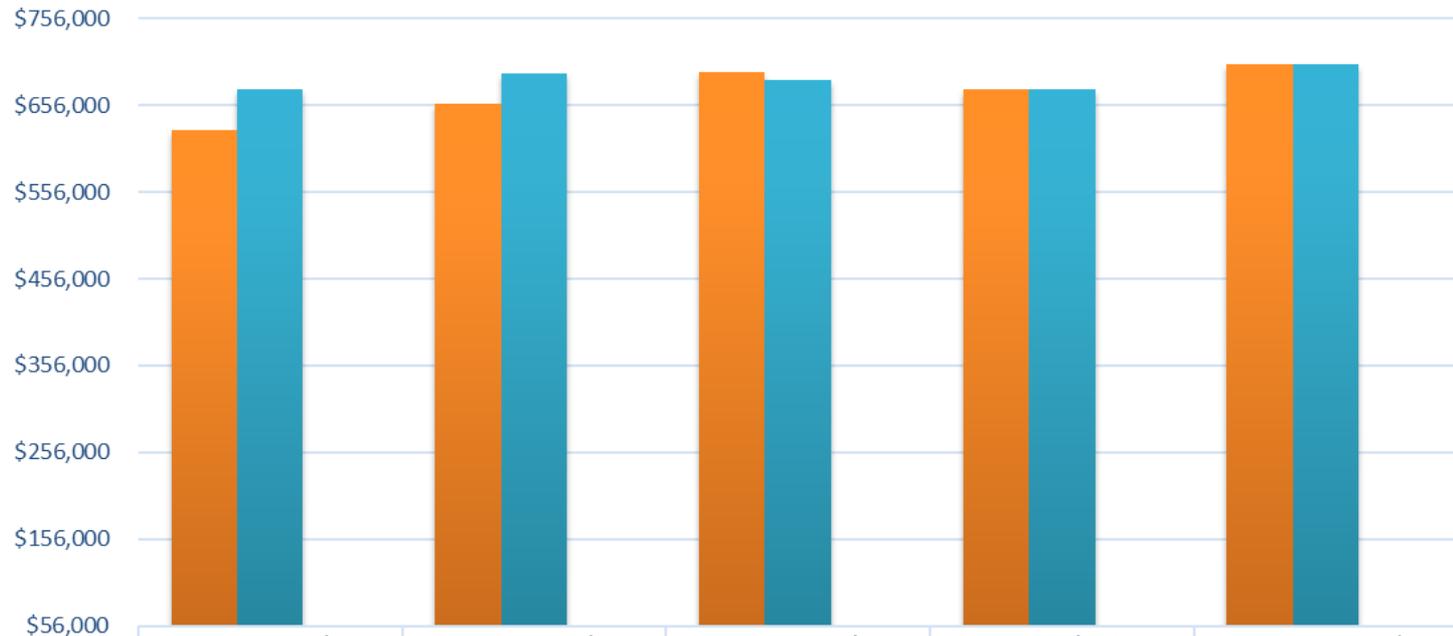
* Since FY2015, the full impact of the property tax revenue cap is \$1.18 billion.



Sales Tax Revenue

- Assumption:
 - \$28.0 million or 4.1% higher than FY2021 estimates.
 - This estimate reflects an improvement to economic conditions compared to FY2021, which was severely impacted by the COVID-19 pandemic that affected our national and global economy.
 - Pre COVID-19, the City was anticipating growth in sales tax in FY2020 with anticipated collections projected to be \$724 million. However, as a result of COVID-19, the City only collected \$684 million, a loss of approximately \$40 million. Similarly, for FY2021, pre-COVID-19 the City was anticipating collections of \$738 million, but post-COVID-19 estimates are currently \$675 million, a loss of approximately \$63 million.
 - Includes \$113 million for the provision of government services relative to revenue reduction for FY2020 and FY2021 as well as portion of FY2022 due to the COVID-19 public health emergency from ARPA.

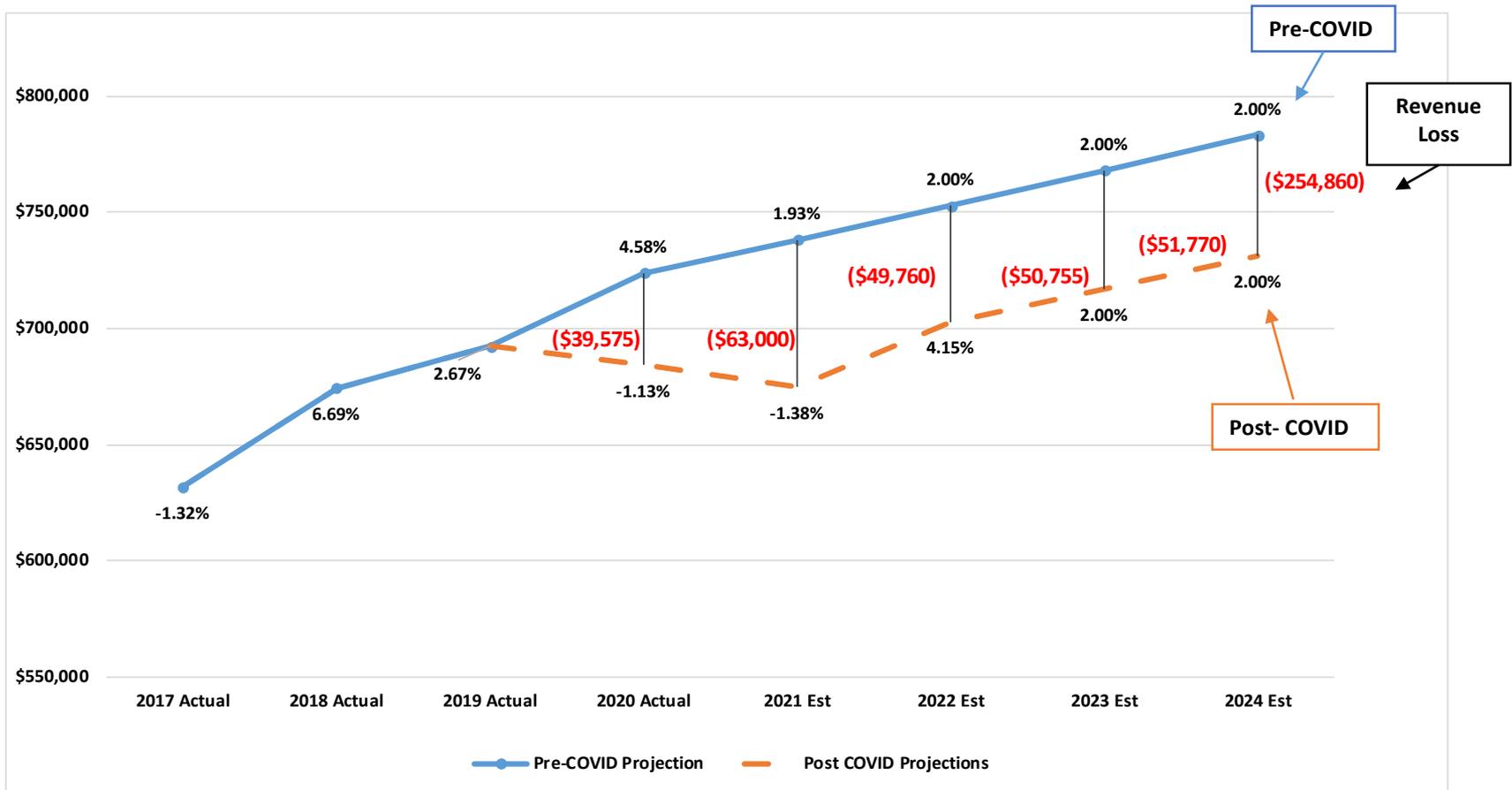
Trends in Sales Tax Revenues FY2018 - FY2022 (\$ in Thousands)



	FY18 Actual	FY19 Actual	FY20 Actual	FY21 Estimate	FY22 Proposed
Adopted Budget	\$627,000	\$657,700	\$694,567	\$675,000	\$703,000
Actual/Estimate	\$674,279	\$692,271	\$684,425	\$675,000	\$703,000
Variance: Over/(Under)	\$47,279	\$34,571	\$(10,142)	\$0	\$0



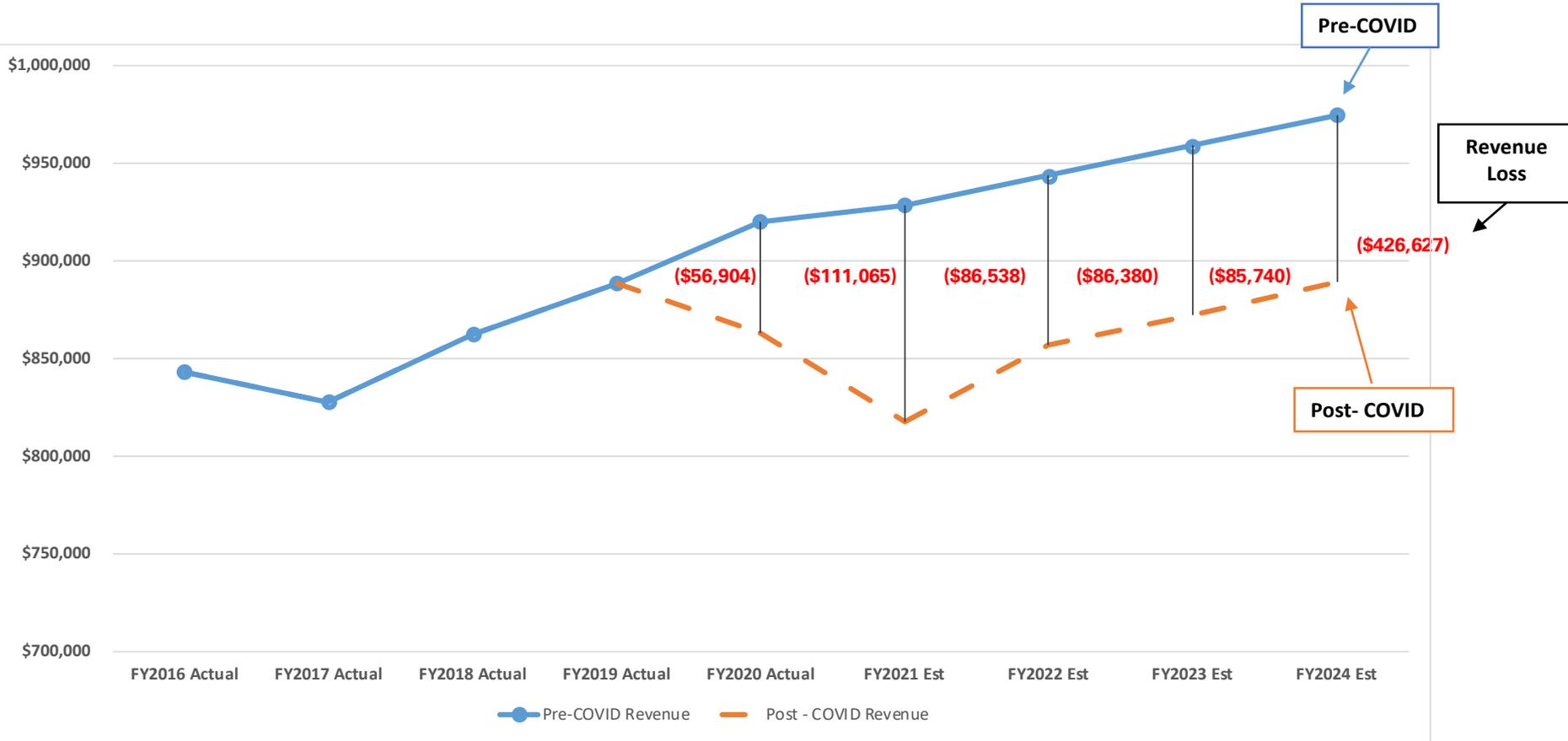
Impact of COVID-19 on Sales Tax Revenue (\$ in Thousands)



\$ Subject to change

Estimated Revenue Impact due to COVID-19

(\$ in Thousands)



\$ Subject to change

Notes:

1. Includes categories such as Sales Tax, Charges for Services, Parking Revenues, etc.

FY2022 General Fund Expenditures Net Change vs. FY2021 Current Budget



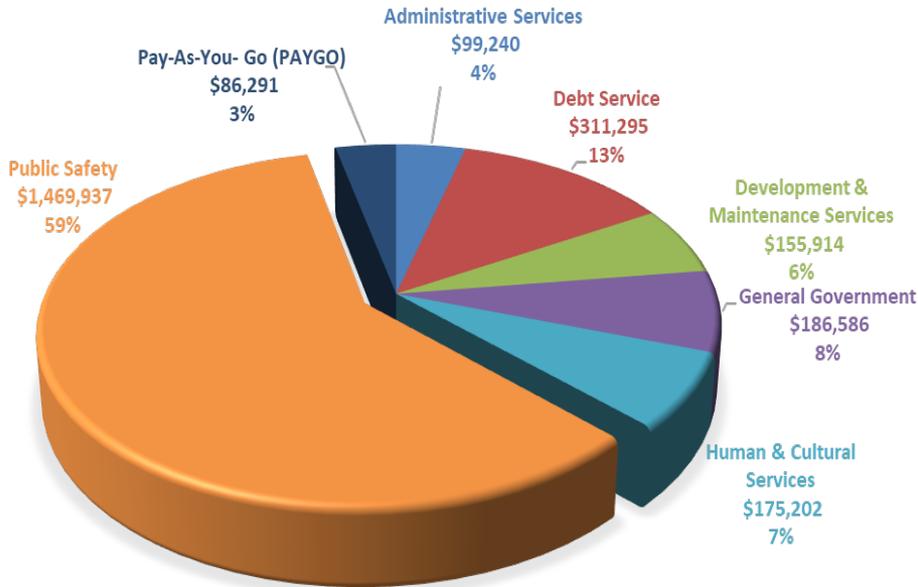
FY2022 General Fund Expenditure - Net change to FY21 Current Budget (\$ in thousands)		
FY2021 Current Budget	\$	2,484,466
One-time Cost ¹		(47,512)
FY2021 Current Budget excluding one-time cost		2,531,978
FY2022 Proposed Budget		2,581,100
Incremental Increase/(Decrease) excluding one-time cost		49,122 1.94%
Incremental Increase/(Decrease)		96,634 3.89%
<u>Operating Budget Adjustments</u>		
One-time Cost ¹		47,512
611 Walker Lease ²		11,397
HPD Classified Cost ³		11,014
Others Services & Charges ⁴		7,593
Limited Purpose Annexation Payment		2,812
Contract Escalation		2,787
Transfer to Maintenance Renewal and Replacement Fund		2,636
Approved Reductions		(7,163)
Subtotal Operating		78,588
<u>Debt Service Adjustments</u>		
Debt Service and PAYGO		18,046
Subtotal Debt Service		18,046
Net Change of Expenditures	\$	96,634
Note:		
1. Includes one-time adjustments for COVID-19 Redeployment, Health Benefits Return, and one-time transfer/adjustment.		
2. Includes prior year's rent payment for 611 Walker of \$5.6 million.		
3. Includes cost for 2% pay raise and adding a 6th police cadet class.		
4. Includes Service Chargeback costs.		

General Fund Expenditures Including Debt Service & PAYGO

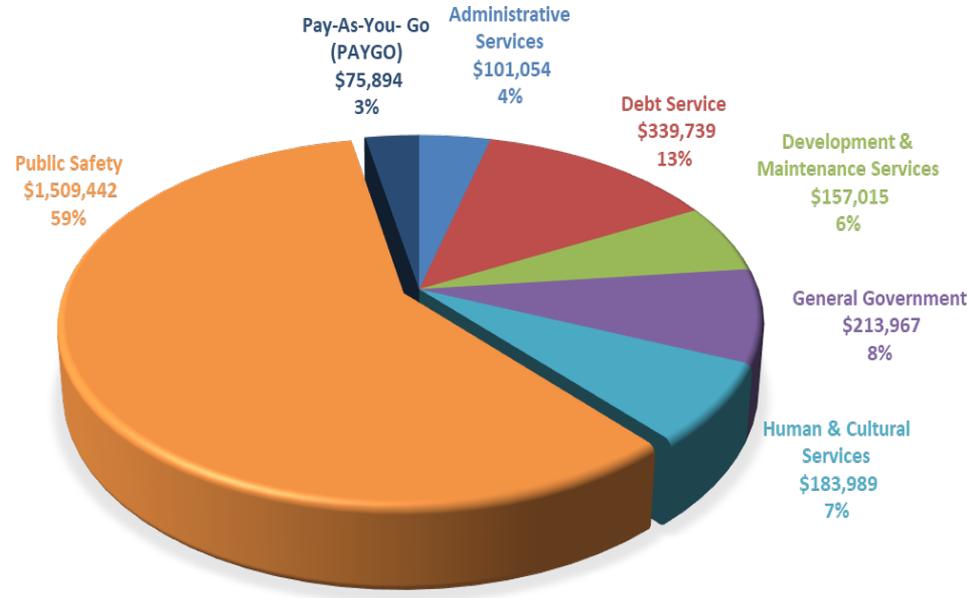
(\$ in Thousands)



FY2021 CURRENT BUDGET
\$2,484,466



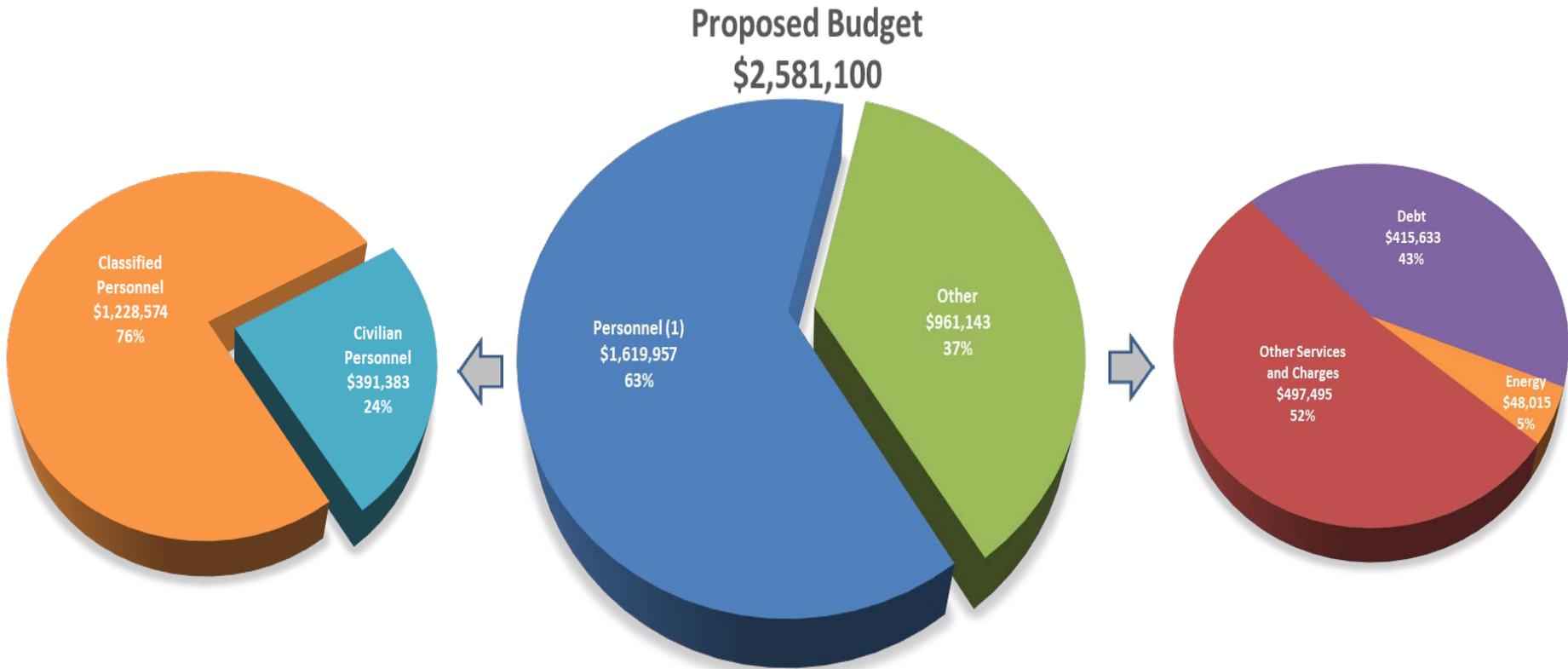
FY2022 PROPOSED BUDGET
\$2,581,100



Net Change
\$96,634
3.89%

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,
 Legal, Mayor's Office, Office of Business Opportunity

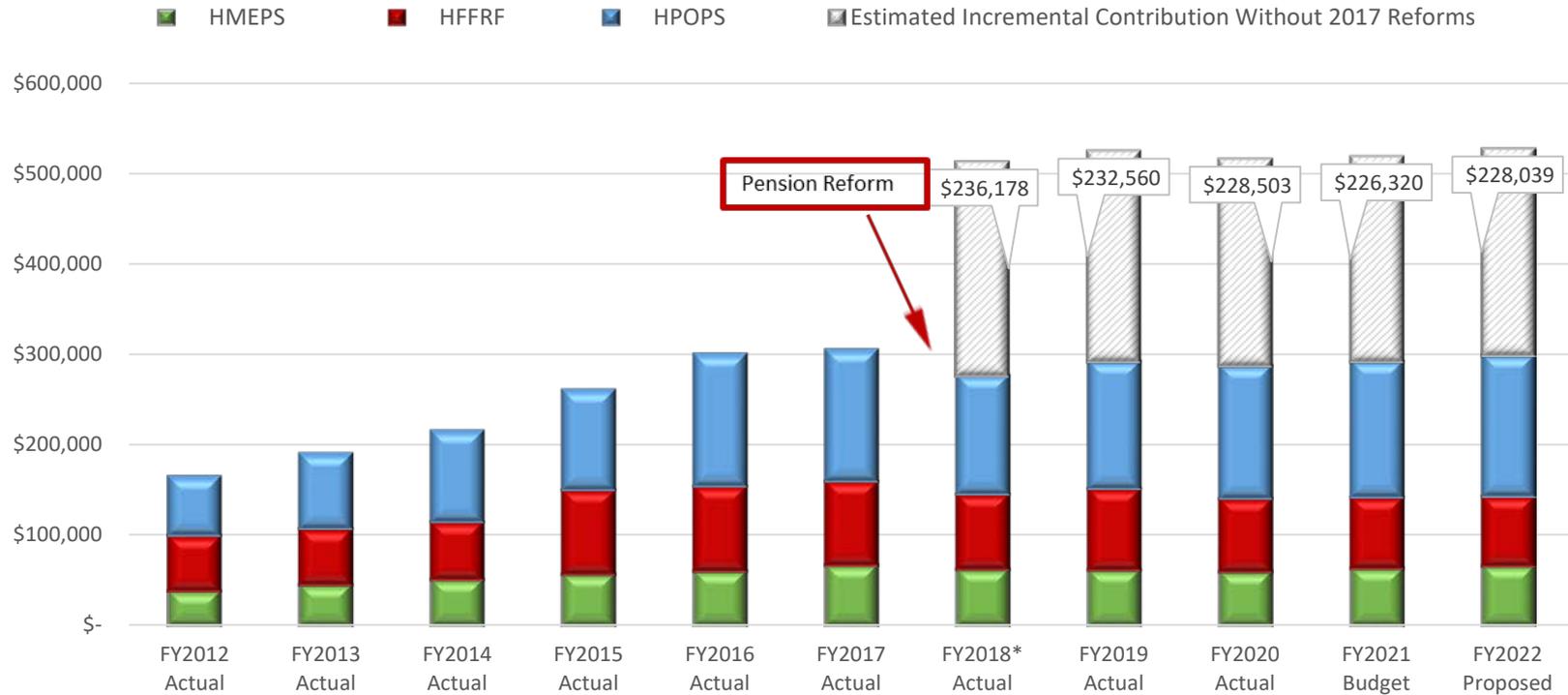
FY2022 General Fund Expenditures Personnel vs. Non-Personnel (\$ in Thousands)



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

General Fund Pension Contributions

FY2012- FY2022 (\$ in Thousands)



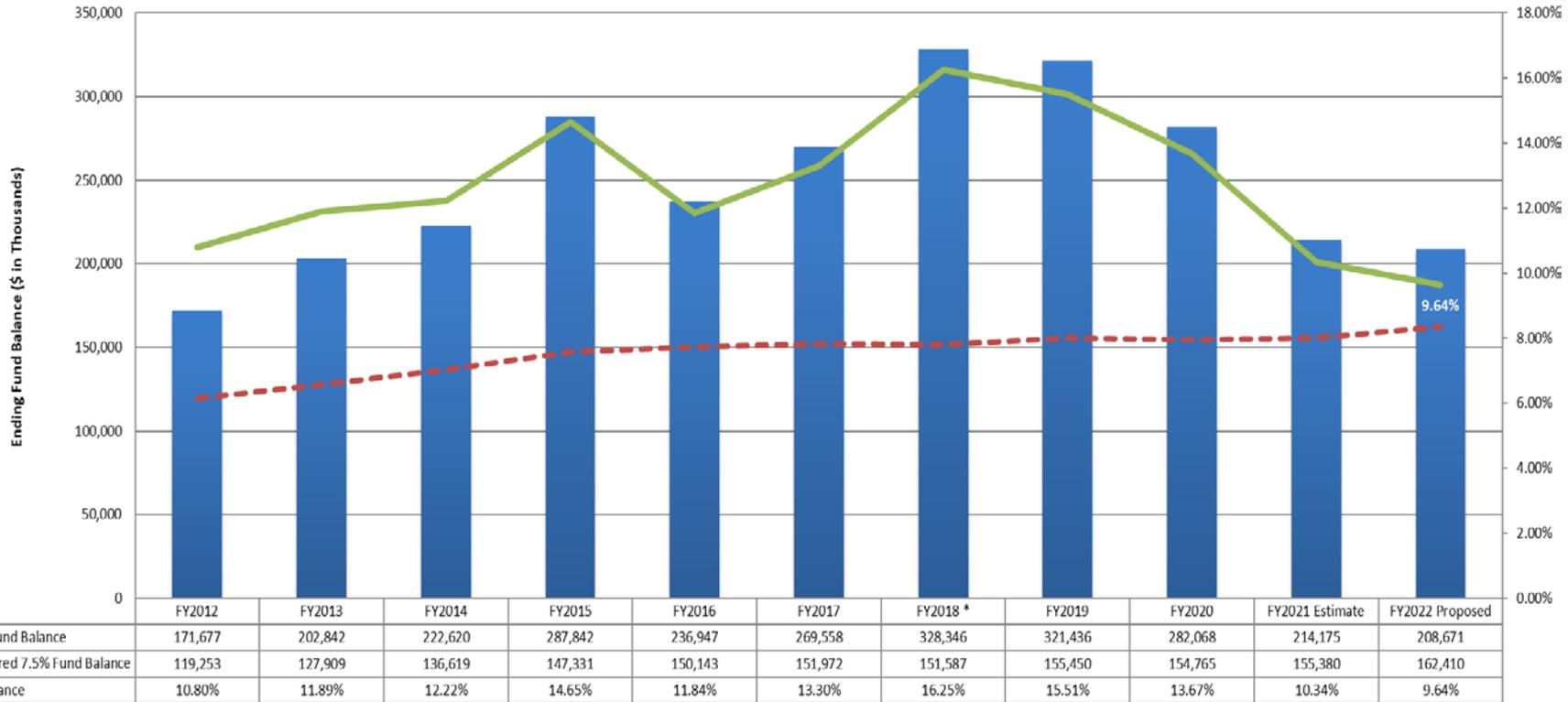
	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018* Actual	FY2019 Actual	FY2020 Actual	FY2021 Budget	FY2022 Proposed
HMEPS	\$ 38,662	\$ 45,219	\$ 51,106	\$ 56,813	\$ 60,221	\$ 66,750	\$ 62,526	\$ 61,641	\$ 59,768	\$ 63,298	\$ 66,020
HFFRF	61,204	62,141	63,758	93,407	94,121	92,958	82,940	\$ 89,902	\$ 80,760	\$ 78,787	\$ 77,159
HPOPS	65,701	83,526	100,614	110,727	146,216	145,646	131,645	\$ 141,096	\$ 147,487	\$ 150,722	\$ 156,435
Pension Contributions	\$ 165,566	\$ 190,886	\$ 215,478	\$ 260,948	\$ 300,558	\$ 305,354	\$ 277,112	\$ 292,639	\$ 288,015	\$ 292,807	\$ 299,614
Change YOY (\$)	(29,857)	25,320	24,592	45,469	39,611	4,796	(28,243)	15,527	(4,624)	4,792	6,806
Change YOY (%)	-15.3%	15.3%	12.9%	21.1%	15.2%	1.6%	-9.2%	5.6%	-1.6%	1.7%	2.3%

Estimated Incremental Contribution Without 2017 Reforms	\$ 236,178	\$ 232,560	\$ 228,503	\$ 226,320	\$ 228,039
Total Estimated Contribution Without 2017 Reforms	\$ 513,290	\$ 525,199	\$ 516,518	\$ 519,127	\$ 527,653

Note: 1. FY2018 Actual excludes \$910 million Pension Obligation Bonds for General Fund.

2. Since FY2018, the full impact of pension reform is \$1.2 billion.

General Fund Unassigned Ending Fund Balance FY2012 - FY2022



* FY2018 amount required of 7.5% fund balance is adjusted to excludes \$910 million Pension Obligation Bonds.



General Fund Five Year Forecast FY2022 – FY2026



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.
- Assumes the use of ARPA funding for revenue losses



Key Assumptions – Revenue

Revenue Category	FY2022 Proposed	FY2023-2026	Comments
Property Tax Growth %	-1.2%	(Low) 0.0% to 2.3% (High)	FY2023 -2026 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 %	4.1%	(Low) 1.0% to 2.0% (High)	FY2023 -2026 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 %	-2.7%	(Low) -3% to -1% (High)	FY2023-2026 estimate based on historical growth. High range assumes slower decline in franchise fee revenue.
Other Revenue Growth % ⁽¹⁾	52%	(Low) -2.0% to 0.0% (High)	FY2023-2026 estimate based on historical growth. High range assumes lower decline in Ambulance Supplemental Program.
ARPA Utilization	\$178M	(Low) \$0 to \$ 248M (High)	ARPA utilization until December 31, 2024 and will be based on US Treasury guidance.

Notes:

- (1) Other Revenue Category includes items such as Industrial Assessment, Licenses and Permits, Charges for Services, Interfund Services, Fines and Forfeits
- (2) One-time Sale of Land is not included

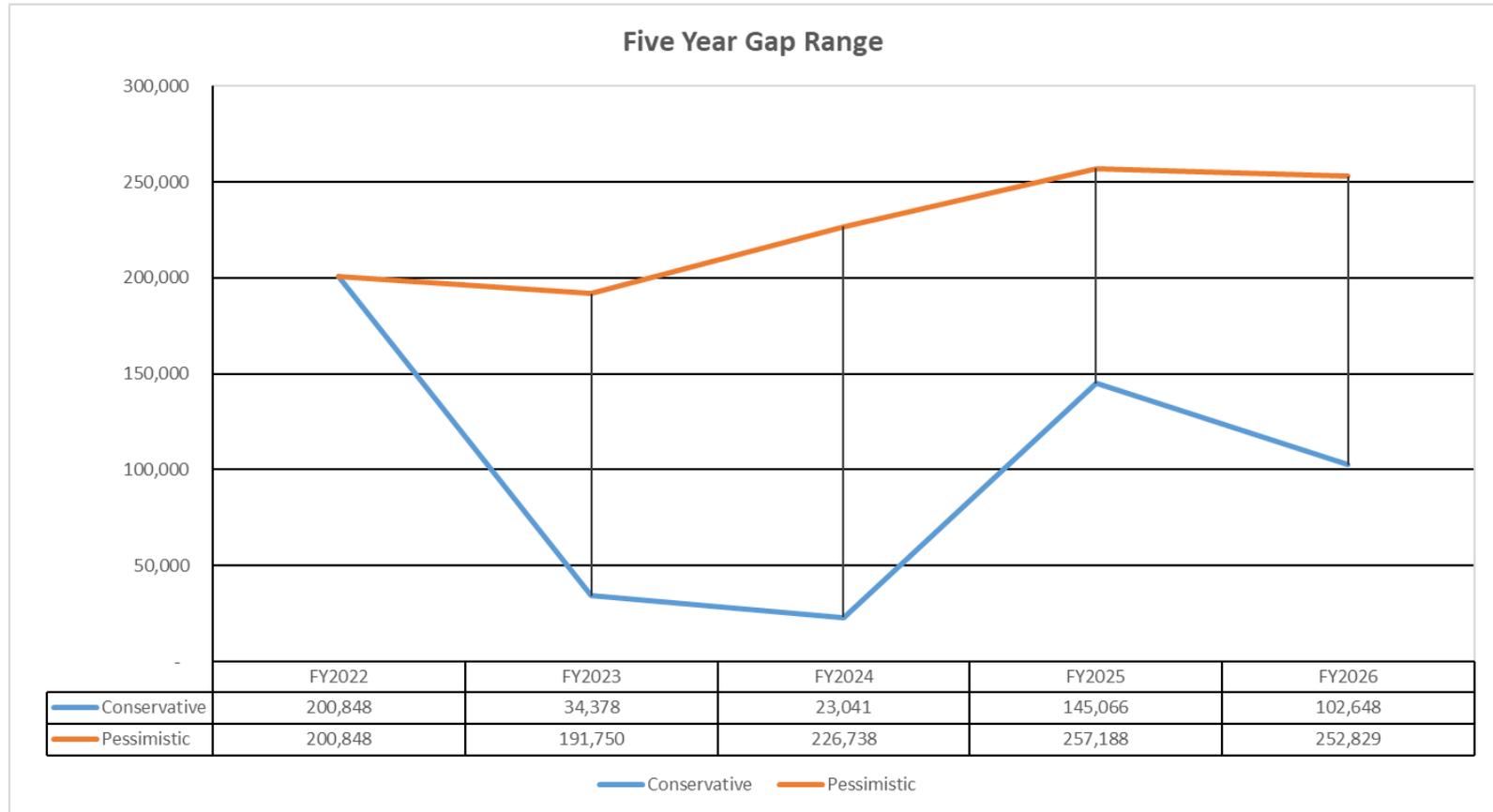


Key Assumptions – Expenditures

Expenditure Category	FY2022 Proposed	FY2023 Forecast	FY2024 Forecast	FY2025 Forecast	FY2026 Forecast	Comments
<u>Personnel:</u>	2.0%	TBD	TBD	TBD	TBD	FY2022 includes cost of contractually mandated increase for police (2%)
<u>Pension Contribution:</u>						
HMEPS	8.41%	8.44%	8.48%	8.51%	8.54%	Based on Corridor Midpoint
HMEPS Legacy Contribution	\$142.0	\$146.0	\$150.0	\$154.0	\$158.3	Legacy Liability Contribution
HPOPS	31.92%	31.98%	32.03%	32.07%	32.10%	Based on Corridor Midpoint
HFRRF	31.89%	31.89%	31.89%	31.89%	31.89%	Based on Corridor Midpoint
<u>Health Benefits Growth %:</u>	0%	5%	5%	5%	5%	
<u>Total Debt Service and PAYGO (\$M)</u>	\$415.6	\$426.5	\$439.1	\$437.7	\$407.8	

Current Budget Gap FY2022- FY2026

(\$ in Thousands)





Addressing the Gap

- Limitations
 - Property tax cap in City Charter
 - Police and Fire cost make up 57% of General Fund spend
 - Impact of COVID-19
- Short-term
 - Continue to leverage ARPA funding to address revenue losses
 - Continue hiring control
 - Continue to look for efficiencies and cost cutting opportunities
 - Develop new revenue sources
 - Continue working day one to build the fund balance
- Long-term
 - Continue to implement PFM recommendations that are supported by Mayor and City Council