



Finance Department

Presentation to the City of Houston Budget and Fiscal Affairs Committee

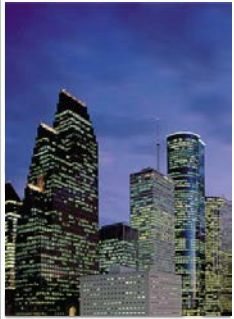
Bridging the Budget Gap FY2016-FY2019
December 9, 2014

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As Reported – July 29, 2014:

- Conservative projection of FY2016 gap was approximately \$144 million
- Contributing factors include:
 - Property tax revenue cap
 - Contractual obligation for employee compensation and benefits (including rising pension contributions and potential pay increases)
 - \$50 million HPOPS pension in FY2016 to maintain minimum 80% funded ratio in accordance to Meet & Confer Agreement
 - Debt service payment
- Gap does not include full funding for:
 - Unfunded liabilities (pensions, other post employment benefits, accrued leave)
 - Unmet service needs (e.g., increased illegal dumping cleanup, increased animal control, Police body cameras, after school programs, etc.)
 - Full funding for needed facilities maintenance, renewal, and replacement
- Administration proactively taking steps to narrow the gap:
 - Administration approval required for filling departmental vacancies: estimated impact \$5-8 million in FY2015
 - Departments identify cost savings above or possible revenue opportunity: target 1%
- “No silver bullet” – solution requires combination of methods



General Fund Updates to Narrow the Gap

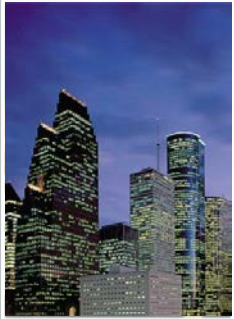
(\$ in thousands)

• Projected gap as of July 29, 2014.....	\$ 144,052
• Forecasted Revenue update:	\$ (1,404)
• \$1.4 million higher than projected on July 29, 2014	
• Approved property tax rate by lowering rate from \$0.63875 to \$0.63108 per \$100 taxable value of tax year 2014 to comply with revenue cap	
• Trend adjustment based on FY2015 projection	
• Forecasted Expenditure update:	\$ (79,871)
• \$80 million lower than projected on July 29, 2014	
• Removal of the “catch-up” payment of \$50 million HPOPS pension in FY2016/17 as a result of change in actuarial methodology	
• Recognition of saving in health benefits	
• Departmental efficiencies	
• Updated gap as of December 9, 2014	<hr/> \$ 62,777



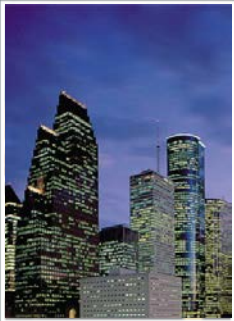
General Fund Updates

- Projected one-time sale of land in FY2015 of \$20 million
- Ending Fund Balance favorable trend
 - Unaudited FY2014 Ending Fund Balance - \$18 million higher than projected on July 29, 2014 mainly due to departmental savings
- Gap does not include full funding for:
 - Unfunded liabilities (pensions, other post employment benefits, accrued leave)
 - Unmet service needs (e.g., increased illegal dumping cleanup, increased animal control, Police body cameras, after school programs, etc.)
 - Needed facilities maintenance, renewal, and replacement
 - Justice Complex or public safety facility repair
 - \$25 million HPOPS deferred payment in FY2016
 - Council District Service Funding





Key Assumptions - Revenue

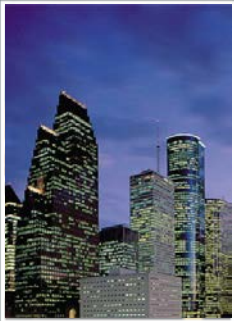


Revenue Category	FY2015 Forecast	FY2016 Forecast	FY2017 Forecast	FY2018 Forecast	FY2019 Forecast	Comments
Property Tax Revenues Growth %	9.3%	3.5%	3.5%	3.6%	3.6%	FY2016-2019 estimate is based on the maximum allowed revenue by 2004 Proposition 1 and modified by 2006 Proposition H.
Sales Tax Growth %	6.0%	5.1%	4.4%	4.9%	4.9%	FY2016-2019 estimate derived from UH-IRF Report as of 9/2014
Franchise Revenue Growth %	-2.0%	-1.3%	-1.2%	-1.1%	-1.0%	FY2016-2019 estimate based on historical growth. Continued decrease in growth in the out years is mainly due to telephone
Other Revenues Growth %	1.0%	2.3%	2.3%	2.4%	2.5%	FY2016-2019 estimate based on historical growth. Thereafter, it is based on CPI growth.
One Time - Sale of Capital Assets (\$mm)	20,000	-	-	-	-	

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



Key Assumptions – Expenditure



Expenditure Category	FY2015 Forecast	FY2016 Forecast	FY2017 Forecast	FY2018 Forecast	FY2019 Forecast	Comments
<u>Personnel:</u>						
Civilian - Base Pay	3.00%	0.00%	0.00%	0.00%	0.00%	Based on HOPE Meet & Confer
Classified - Police Base & Special Pay	3.00%	4.00%	0.00%	0.00%	0.00%	Based on HPD Meet & Confer
Classified - Fire Base & Special Pay	0.00%	0.00%	0.00%	0.00%	0.00%	Based on HFD Collective Bargaining
<u>Pension:</u>						
HMEPS	25.4%	27.4%	29.4%	31.4%	33.4%	Based on 2% increase each year per agreement
HFRRF	33.2%	33.2%	33.2%	33.2%	33.2%	Based on Actuarial Required Contribution (ARC)
HPOPS Annual \$ Increase (\$M)	\$10.0	\$10.0	\$10.0	\$10.0	\$10.0	Based on HPOPS Meet & Confer
<u>Health Benefits:</u>						
Growth %	3.00%	5.00%	5.00%	5.00%	5.00%	Assumes reserved fund balance in Health Benefits Fund is maintained.
<u>Other Operating Costs including debt:</u>						
Annual \$ Increase/(Decrease) (\$M)	(\$5.4)	\$57.8	\$31.4	\$53.7	(\$4.2)	Debt payment is as scheduled.



FY2015-2019 General Fund Forecast

(\$ in thousands)



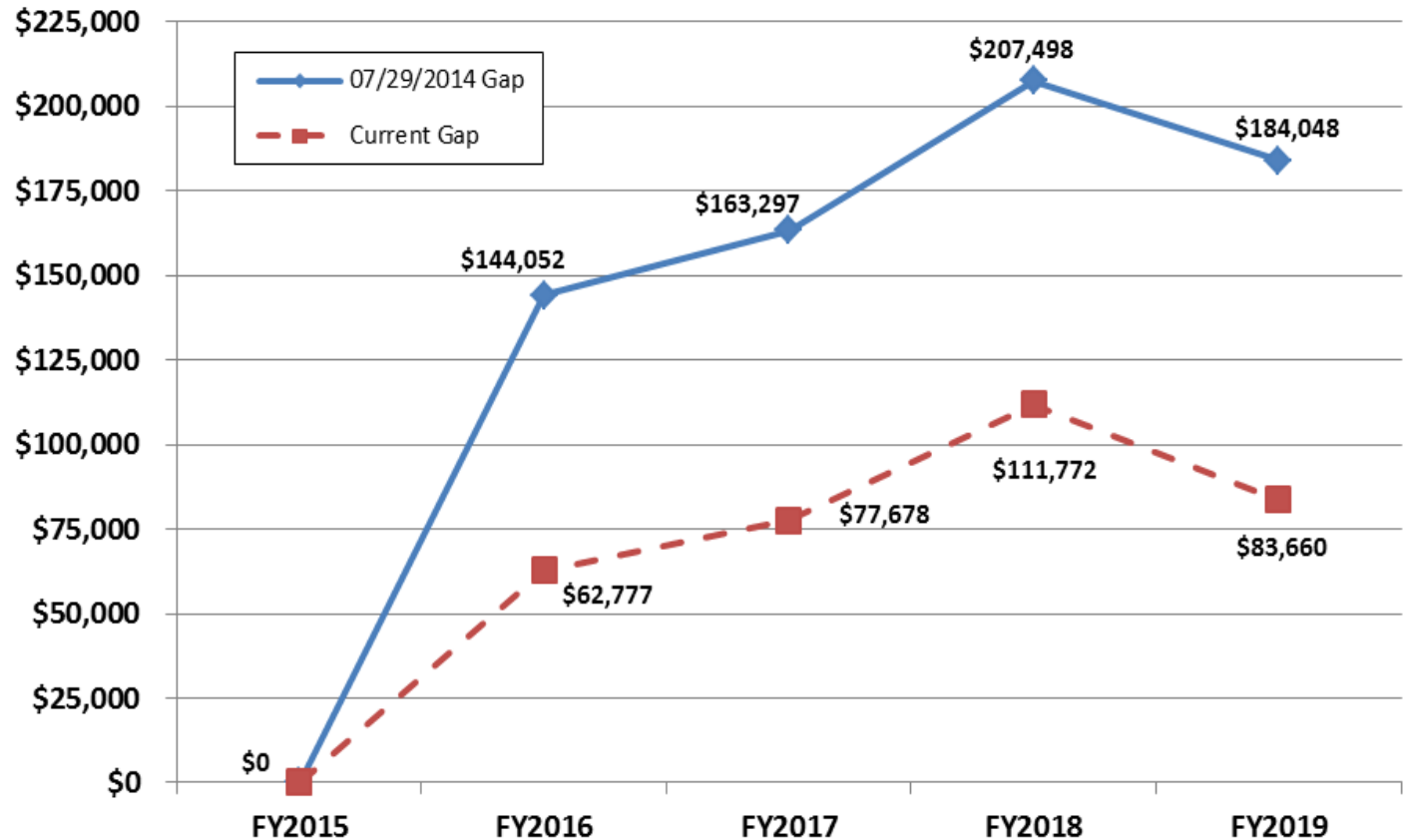
Five Year Forecast	FY2015 Forecast	FY2016 Forecast	FY2017 Forecast	FY2018 Forecast	FY2019 Forecast
Property Tax (1)	1,067,338	1,104,762	1,143,608	1,184,992	1,227,989
Sales Tax	666,968	701,300	732,000	768,100	805,980
Franchise Revenue	186,267	183,793	181,575	179,590	177,813
Other Revenues	260,688	266,563	272,781	279,366	286,350
Transfers from Other Funds - Ongoing	30,139	30,139	30,139	30,139	30,139
Sale of Land - Ongoing	2,500	2,500	2,500	2,500	2,500
One Time Revenue	20,000	0	0	0	0
Total Revenues and Other Sources	2,233,899	2,289,057	2,362,603	2,444,686	2,530,771
<i>Growth %</i>	<i>7%</i>	<i>2%</i>	<i>3%</i>	<i>3%</i>	<i>4%</i>
Total Operating Expenditures Net of Pension	1,698,816	1,725,012	1,784,458	1,848,646	1,909,473
Pension	263,613	280,977	297,626	319,497	340,652
Transfers for Debt Service	273,000	345,844	358,197	388,316	364,305
Total Expenditures Including Debt	2,235,430	2,351,834	2,440,281	2,556,458	2,614,431
<i>Growth %</i>	<i>8%</i>	<i>5%</i>	<i>4%</i>	<i>5%</i>	<i>2%</i>
Net Revenues Less Expenditures	(1,530)	(62,777)	(77,678)	(111,772)	(83,660)
Use of Fund Balance	1,530	0	0	0	0
Other Sources and Uses	1,530	0	0	0	0
Net Surplus/(Deficit) - the Gap	(0)	(62,777)	(77,678)	(111,772)	(83,660)
Beginning Fund Balance	222,622	221,092	221,032	220,271	219,410
Ending Fund Balance	221,092	221,092	221,032	220,271	219,410
Assigned Fund Balance for Stabilization Fund (2)	0	60	761	861	820
Ending Unrestricted Fund Balance (3)	221,092	221,032	220,271	219,410	218,590
Budget Stabilization Fund (2)	20,000	20,060	20,821	21,681	22,501
Budget Stabilization Fund Percent of Expenditure	1.0%	1.0%	1.0%	1.0%	1.0%
Fund Balance Percent of Expenditures (less debt) (4)	11.3%	11.0%	7.5%	7.5%	7.5%

Notes:

- (1) Property Tax Estimate for FY2016 – 2019 is based on the maximum allowed by charter cap. ☐
- (2) Budget Stabilization Fund of the greater of 1% of total expenditures less debt or \$20 million in any given year.
- (3) Assumed gap is eliminated in each fiscal year.
- (4) Ending Unrestricted Fund Balance figure is set at 7.5 percent of total expenditures less debt.



FY2015-2019 General Fund Forecast: Funding Gap Comparison (\$ in thousands)



	FY2015	FY2016	FY2017	FY2018	FY2019
07/29/2014 Gap	\$0	\$144,052	\$163,297	\$207,498	\$184,048
Current Gap	\$0	\$62,777	\$77,678	\$111,772	\$83,660
<i>Change/Better (Worse)</i>	\$0	\$81,275	\$85,619	\$95,726	\$100,388



Potential Next Steps

Options to close the gap:

1. Expenditure cuts – will result in service cuts
2. New revenue – Solid Waste Enterprise
3. Ask voters to revisit property tax cap
4. One-time sources of revenue, such as use of fund balance and property sales

Goal remains identification of recurring revenues or savings: one-time or non-recurring revenues or savings help in short term but do not resolve longer-term concerns

