



# **Finance Department**

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

**FY2018 Budget Overview  
and  
General Fund Five Year Forecast**

**Updated with Redline Changes**

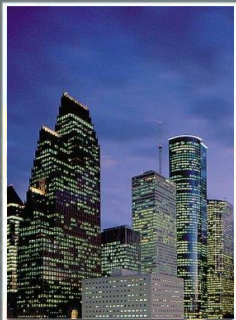
**May 10, 2017**

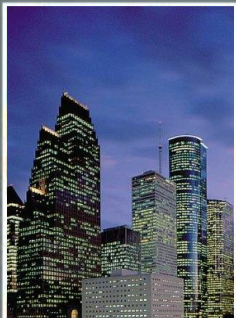
**Kelly Dowe, Director**



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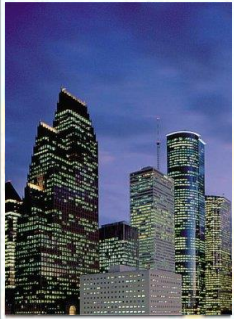




# Forward Looking Statements

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.

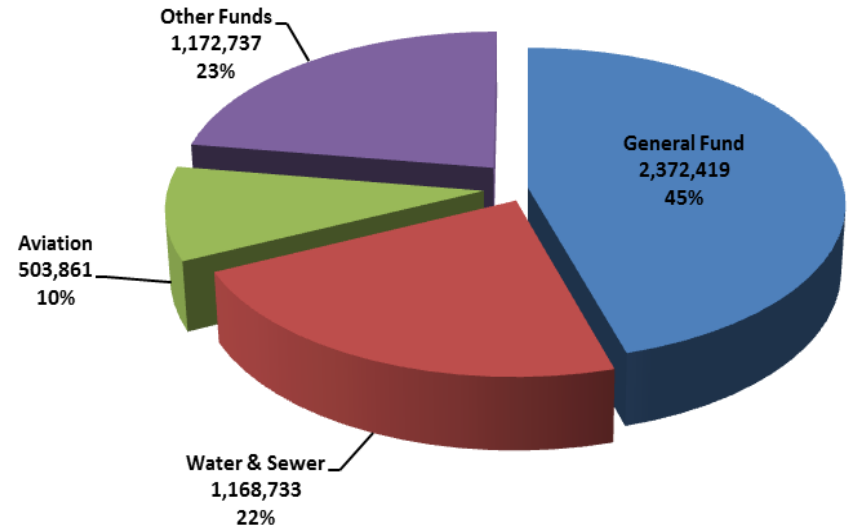
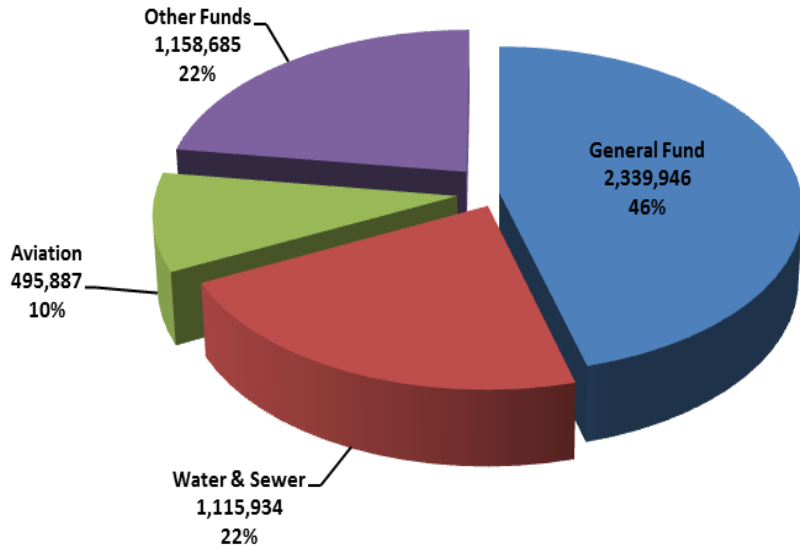


# Citywide Expenditures

## Including Debt Service & PAYGO (\$ in Thousands)

**FY2017 Current Budget  
of \$5,110,453**

**FY2018 Proposed Budget  
of \$5,217,750**

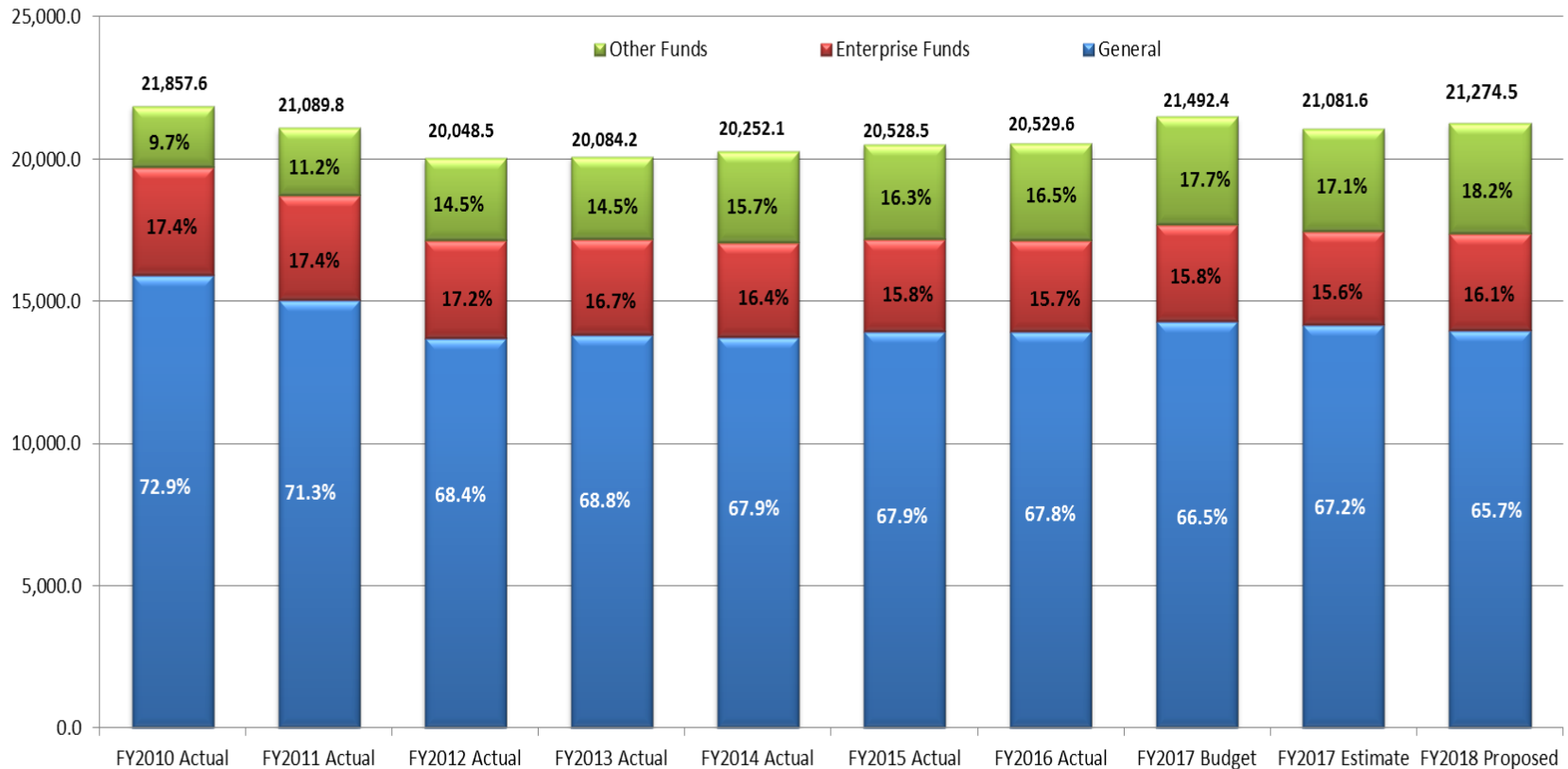


**Net Change  
\$107,297  
2.1%**

**Note:** Expenditures budget above represents the Total Budget includes General Fund, Special and Enterprise Funds. Totals do not include Service Chargeback and Internal Service Funds.



# Citywide Full-Time Equivalents

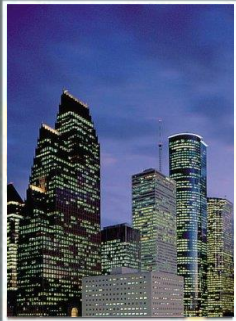


	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Budget	FY2017 Estimate	FY2018 Proposed
General	15,936.9	15,045.2	13,704.5	13,816.1	13,759.8	13,942.3	13,927.5	14,298.0	14,175.1	13,969.3
Enterprise Funds	3,799.0	3,674.6	3,446.6	3,363.7	3,319.4	3,235.3	3,219.0	3,394.9	3,294.2	3,425.2
Other Funds	2,121.7	2,370.0	2,897.4	2,904.4	3,172.9	3,350.9	3,383.1	3,799.5	3,612.3	3,880.0
<b>Grand Total</b>	<b>21,857.6</b>	<b>21,089.8</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>21,492.4</b>	<b>21,081.6</b>	<b>21,274.5</b>

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



# Fiscal Year 2018 – General Fund Budget Overview



- The budget includes:
  - \$49.6 million in departmental cost savings initiatives
  - \$12.5 million one-time land sale
  - \$6.1 million one-time transfer from special funds excess reserves
  - \$5 million Zoo deferral
  - \$4.7 million 611 Walker lease deferral
  - Reduce projected MRR transfer by approximately \$3.1 million
  - Additional \$52 million for Debt Service
  - Funding for contractual pay increases
  - Continues funding for the following programs:
    - \$2.5 million Council District Service Fund
    - \$1.5 million Summer Jobs Program
  - \$1.9 million net reduction in Licenses and Permits due to passage of HB 100 which removes the City's authority to regulate Transportation Network Companies (TNCs).
  - \$2 million decrease in General Government contingency to offset Property Tax decline and maintain fund balance.
  - Unassigned ending fund balance ratio in General Fund above the required 7.5% ratio at 8.9%.



# Closing the FY2018 Gap



(\$ in thousands)		
<b>Additional Revenues</b>		
One-Time Land Sale	\$ 12,500	Non-Recurring
One-Time Transfer from Special Funds	6,107	Non-Recurring
Other Revenue Adjustments <sup>(1)</sup>	847	Recurring
<b>Total Additional Revenues</b>	<b>\$ 19,454</b>	
<b>Expenditures Reductions</b>		
Department Budget Reductions	49,607	Recurring
Zoo Deferral <sup>(2)</sup>	5,000	Non-Recurring
611 Walker Lease Deferral <sup>(3)</sup>	4,650	Non-Recurring
Reduce Projected MRR Transfer <sup>(4)</sup>	3,126	Non-Recurring
BARC Reduced Transfer <sup>(5)</sup>	1,500	Non-Recurring
Debt Service <sup>(6)</sup>	1,100	Non-Recurring
<b>Other than Debt/PAYGO Reduction Subtotal</b>	<b>64,983</b>	
<b>Total Expenditures Reduction</b>	<b>64,983</b>	
<b>Fund Balance Drawdown</b>	<b>46,207</b>	<b>Non-Recurring</b>
<b>Total Gap Closed</b>	<b>\$ 130,644</b>	

**Note:**

- (1) Dumpster Permit Fee restructuring.
- (2) Deferral of a portion of the City's annual zoo subsidy. (\$5 million, or about half the \$10.6 million payment for FY18)
- (3) Deferral of lease payment to CUS for 611 Walker Lease.
- (4) Reduced transfer for the maintenance/repair/renewal. Transfer will be less than what is called for in financial polices, but we are still providing more money than last year for maintenance and upkeep of City Facilities.
- (5) Reduced General Fund transfer to BARC. (Covered by BARC fund balance, so no operating impact).
- (6) Remaining debt service refinance savings.





# FY2018 General Fund Revenue Including Other Resources Net Change vs. FY2017 Estimates

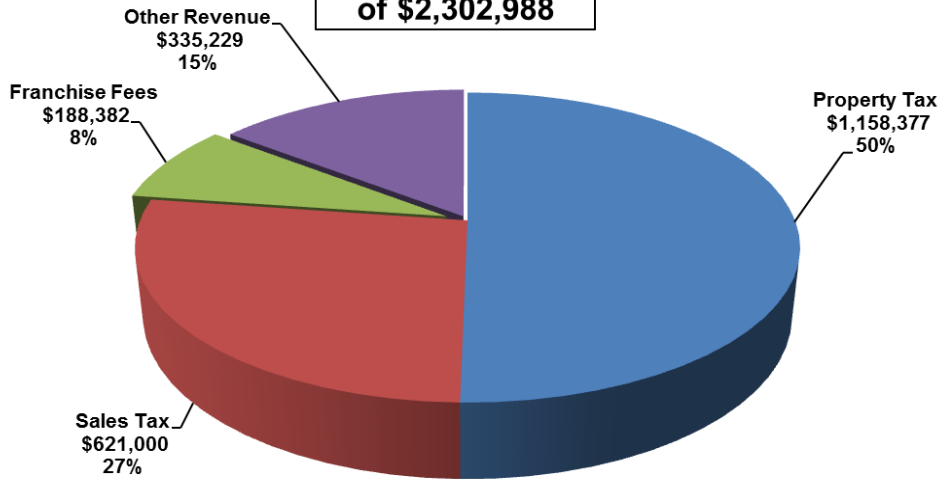
FY2018 General Fund Revenues - Net change to FY17 Estimates (\$ in thousands)		
FY2017 Estimates incl. Other Resources	\$	2,324,766
FY2018 Proposed Budget incl. Other Resources		2,326,211
<b>Incremental Increase/(Decrease)</b>		<b>1,446</b>
		0.06%
<b>Revenue Increases/(Decreases):</b>		
Transfers from Other Funds <sup>(1)</sup>		6,056
Sales Tax <sup>(2)</sup>		6,000
Sale of Capital Assets <sup>(3)</sup>		4,971
Interfund Services <sup>(4)</sup>		1,106
Franchise Fees <sup>(5)</sup>		(8,301)
Miscellaneous <sup>(6)</sup>		(5,857)
Licenses & Permits <sup>(7)</sup>		(2,277)
Others		(253)
<b>Net Change of Revenues</b>		<b>\$ 1,446</b>
<b>Note:</b>		
(1) Includes one-time transfers from Special Revenue Fund.		
(2) Sales Tax increase of 1% from FY2017 Estimates due to a slow growth economy.		
(3) Includes a one-time land sale of \$12.5 million offset by a \$5 million sale of "The Center" in FY2017.		
(4) Increase primarily due to Indirect Cost Allocation Plan.		
(5) Decrease due to decline in franchise fees for telephone, gas and cable TV.		
(6) Decrease due to a one-time Super Bowl LI reimbursement in FY2017.		
(7) Decrease due to passage of HB 100, removing City's authority to regulate Transportation Network Companies (TNCs).		



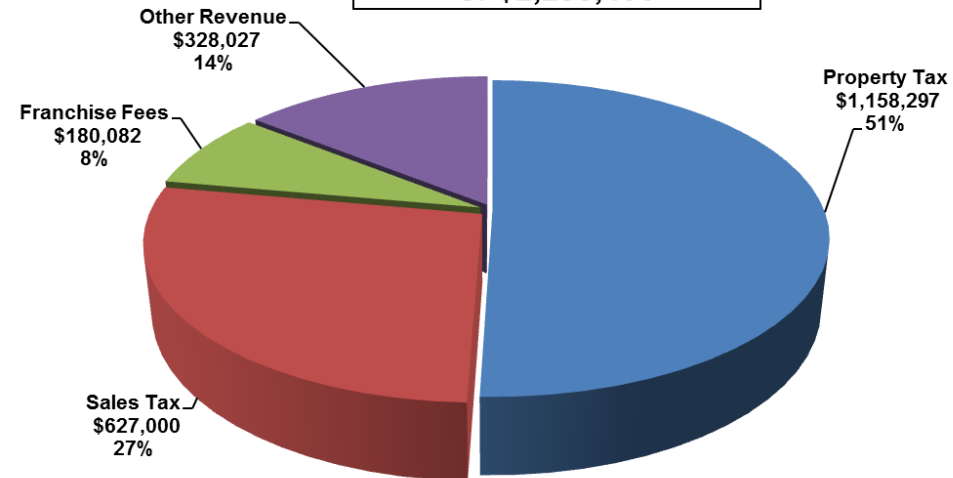
# General Fund Revenues

## Excluding Other Resources (\$ in Thousands)

**FY2017 Estimate  
of \$2,302,988**



**FY2018 Proposed Budget  
of \$2,293,406**

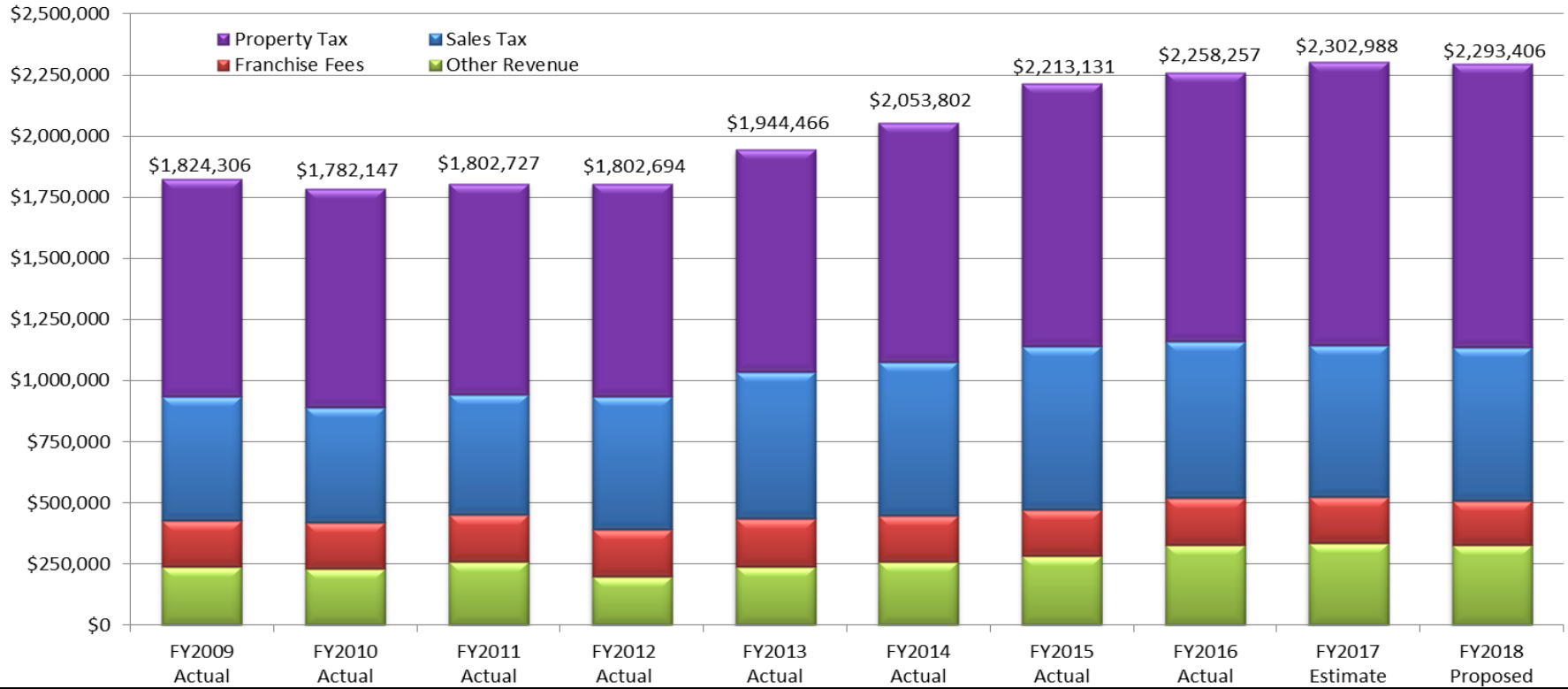


**Net Change  
(\$9,582)  
(0.42%)**

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



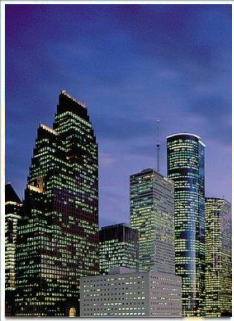
# General Fund Revenues Excluding Other Resources FY2009 - FY2018 (\$ in Thousands)



Property Tax	\$ 890,088	\$ 892,865	\$ 859,413	\$ 866,141	\$ 910,034	\$ 976,240	\$ 1,074,435	\$ 1,098,664	\$ 1,158,377	\$ 1,158,297
Sales Tax	\$ 507,103	\$ 468,965	\$ 492,824	\$ 546,543	\$ 600,256	\$ 629,441	\$ 667,061	\$ 640,476	\$ 621,000	\$ 627,000
Franchise Fees	\$ 190,322	\$ 190,869	\$ 190,564	\$ 192,760	\$ 195,304	\$ 189,989	\$ 189,837	\$ 191,168	\$ 188,382	\$ 180,082
Other Revenue	\$ 236,794	\$ 229,448	\$ 259,926	\$ 197,250	\$ 238,852	\$ 258,133	\$ 281,798	\$ 327,949	\$ 335,229	\$ 328,027
<b>Total GF Revenues</b>	<b>\$ 1,824,306</b>	<b>\$ 1,782,147</b>	<b>\$ 1,802,727</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>\$ 2,302,988</b>	<b>\$ 2,293,406</b>
<b>Change YOY (\$)</b>	<b>\$ 62,569</b>	<b>\$ (42,159)</b>	<b>\$ 20,580</b>	<b>\$ (33)</b>	<b>\$ 141,752</b>	<b>\$ 109,356</b>	<b>\$ 159,329</b>	<b>\$ 45,126</b>	<b>\$ 44,731</b>	<b>\$ (9,582)</b>
<b>Change YOY (%)</b>	<b>3.55%</b>	<b>-2.31%</b>	<b>1.15%</b>	<b>0.00%</b>	<b>7.86%</b>	<b>5.62%</b>	<b>7.76%</b>	<b>2.04%</b>	<b>1.98%</b>	<b>-0.42%</b>



# Property Tax Revenue

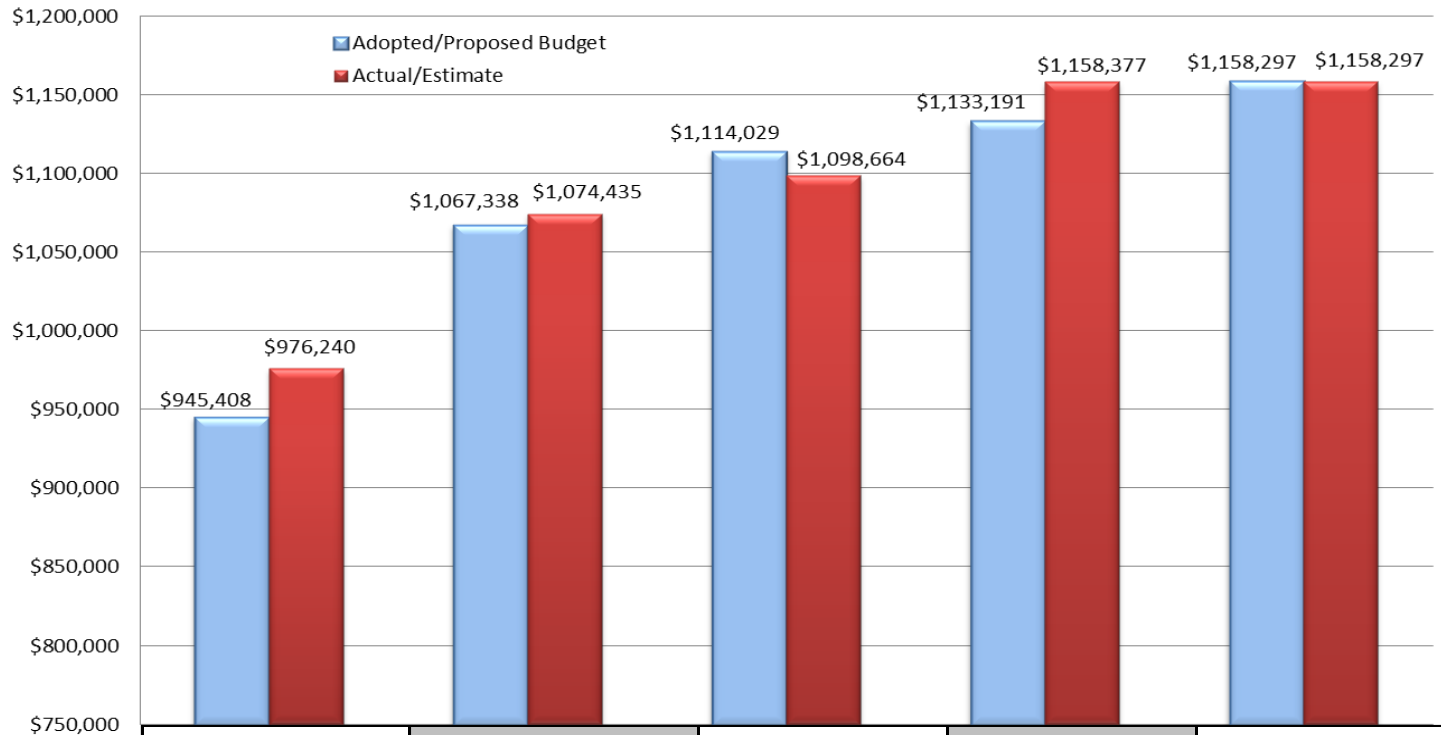


- Assumptions:
  - Decrease in property tax revenue of 0.01%, \$80 thousand lower than FY2017 Estimates.
  - Lowering the current tax rate to comply with Prop 1+H limitations and holding the senior/disabled exemption at \$160,000.
  - Collection rate of 98.4%.
  - Estimated taxable value of \$231 billion, increase of 3.7%.
  - Taxable value net of tax increment agreements is \$202.7 billion.



# Trends in Property Tax Revenues

## FY2014 - FY2018 (\$ in Thousands)

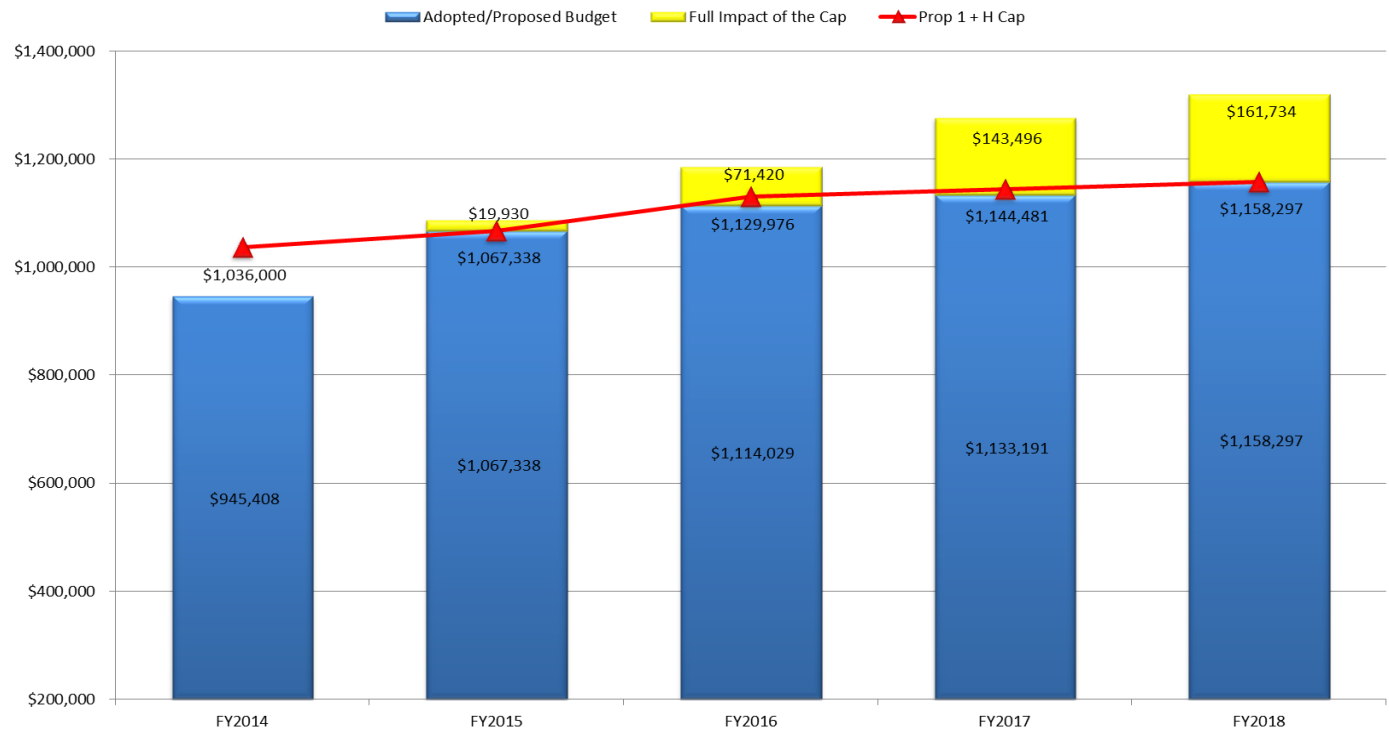


	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Estimate	FY2018 Proposed
Adopted/Proposed Budget	\$ 945,408	\$ 1,067,338	\$ 1,114,029	\$ 1,133,191	\$ 1,158,297
Actual/Estimate	\$ 976,240	\$ 1,074,435	\$ 1,098,664	\$ 1,158,377	\$ 1,158,297
Variance: Over/(Under)	\$ 30,832	\$ 7,097	\$ (15,365)	\$ 25,186	\$ -



# Adopted Budget vs. Charter Cap

## FY2014 - FY2018 (\$ in Thousands)

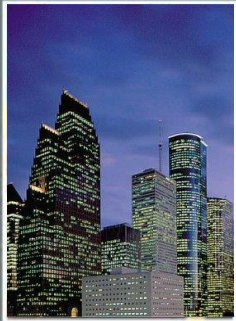


Adopted/Proposed Budget	\$ 945,408	\$ 1,067,338	\$ 1,114,029	\$ 1,133,191	\$ 1,158,297
Prop 1 + H Cap	\$1,036,000	\$ 1,067,338	\$ 1,129,976	\$ 1,144,481	\$ 1,158,297
Full Impact of the Cap		\$ 19,930	\$ 71,420	\$ 143,496	\$ 161,734



# Sales Tax Revenue

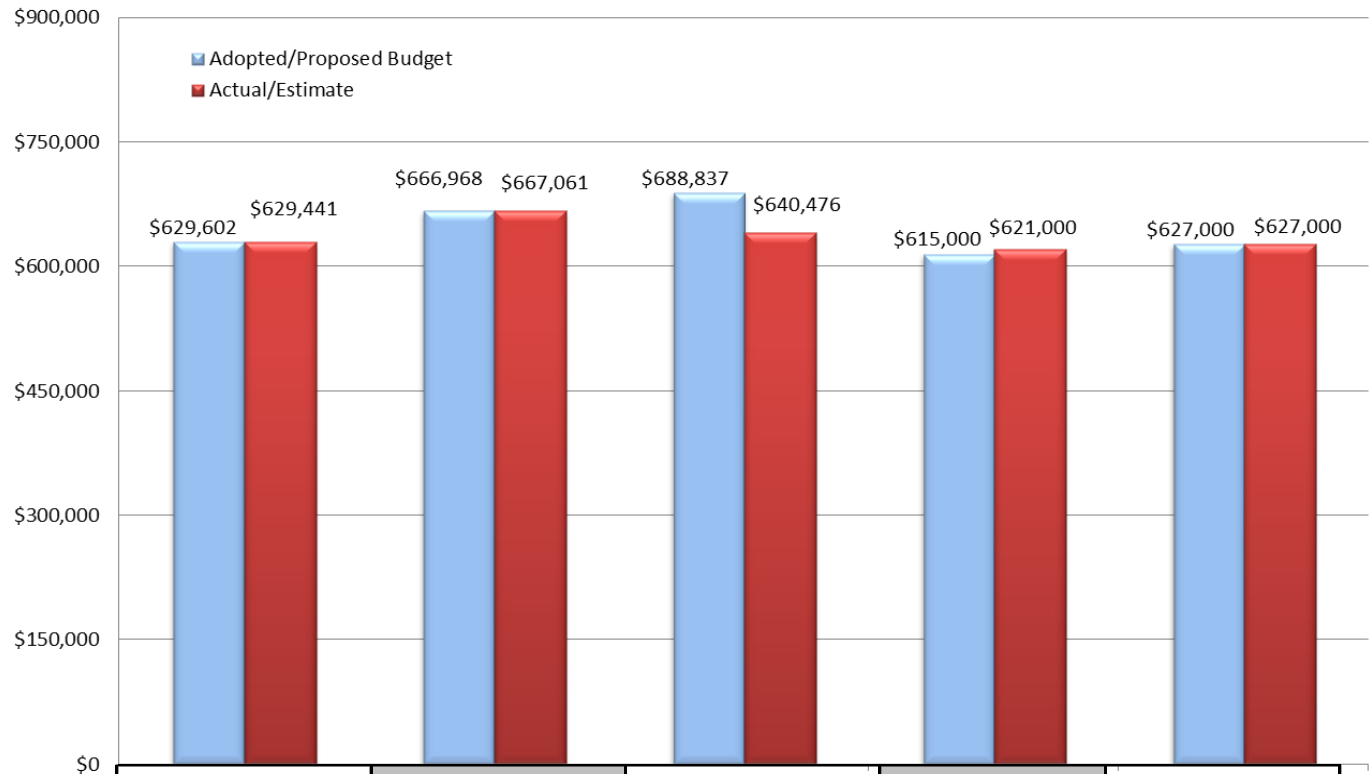
- Assumption:
  - Growth of 0.97%, \$6 million higher than FY2017 estimates, derived from econometric models which take into account the sectors of the Houston economy and estimates of income, prices, population, and Primary Metropolitan Statistical Area (PMSA) retail sales.





# Trends in Sales Tax Revenues

## FY2014 - FY2018 (\$ in Thousands)



	<b>FY2014 Actual</b>	<b>FY2015 Actual</b>	<b>FY2016 Actual</b>	<b>FY2017 Estimate</b>	<b>FY2018 Proposed</b>
Adopted/Proposed Budget	\$ 629,602	\$ 666,968	\$ 688,837	\$ 615,000	\$ 627,000
Actual/Estimate	\$ 629,441	\$ 667,061	\$ 640,476	\$ 621,000	\$ 627,000
Variance: Over/(Under)	\$ (161)	\$ 93	\$ (48,361)	\$ 6,000	\$ -





# FY2018 General Fund Expenditures Net Change vs. FY2017 Current (\$ in Thousands)

<b>FY2018 General Fund Budget Expenditures - Net Change</b>		
<b>(\$ in Thousands)</b>		
FY2017 Current Budget	\$	2,339,946
FY2018 Proposed Budget		2,372,419
<b>Incremental Increase/(Decrease)</b>		<b>32,473</b>
		<b>1.39%</b>
<b><u>Operating Budget Adjustments</u></b>		
Compensation <sup>1</sup>		34,158
Health Benefits		19,106
Service Chargeback <sup>2</sup>		11,667
Others		216
Classified overtime funding <sup>3</sup>		(2,000)
SWAT Program <sup>4</sup>		(10,000)
Pension		(13,460)
HPOPS Supplemental <sup>5</sup>		(14,284)
Department Budget Reductions <sup>6</sup>		(64,983)
Contingency <sup>7</sup>		(1,959)
Transportation Network Companies (TNCs) <sup>8</sup>		(725)
<b>Subtotal Operating</b>		<b>(42,264)</b>
<b><u>Debt Service Adjustments</u></b>		
Debt Service Transfers		51,626
Pension Obligation Bonds		23,111
<b>Subtotal - Non Contractual</b>		<b>74,737</b>
<b>Net Change of Expenditures \$</b>		<b>32,473</b>

**Note:**

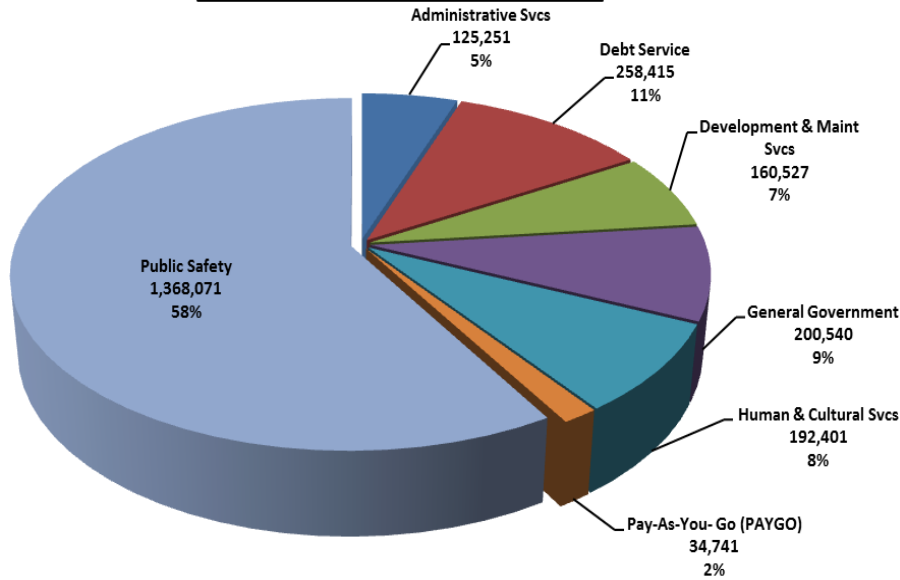
1. Compensation pay based on meet & confer agreements with unions.
2. Includes costs for electricity, fuel, IT costs, etc.
3. One-time increase in Police overtime to target areas experiencing increased drug activity.
4. One time funding for Storm Water Action Team.
5. Supplemental pension contribution for Police based on meet & confer as funded ratio was below 80% in FY17.
6. Includes \$49.6 million recurring reductions and \$15.4 non-recurring reductions.
7. Reduction in General Government contingency to offset Property Tax decline and maintain fund balance.
8. Reduction in expenditures related to Transportation Network Companies (TNCs) due to passage of HB100 which removes the City's authority to regulate.



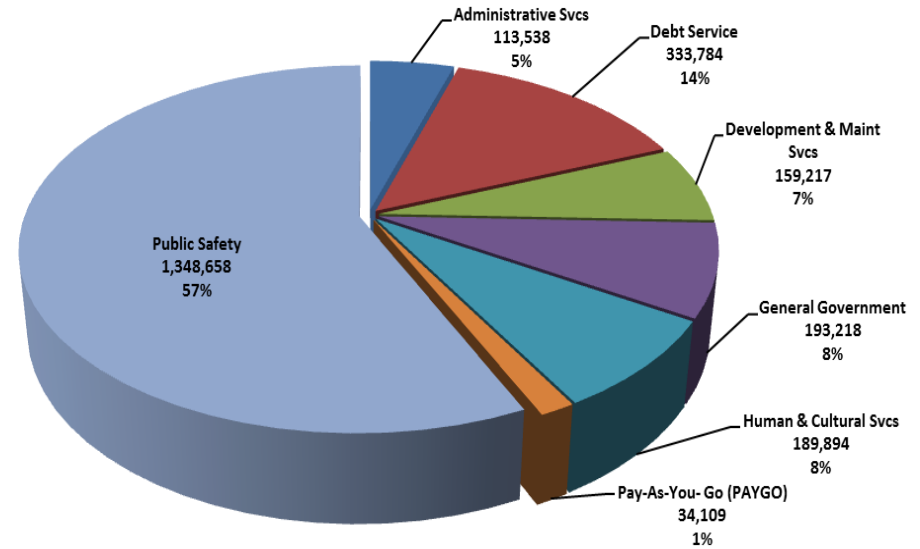
# General Fund Expenditures

## Including Debt Service & PAYGO (\$ in Thousands)

**FY2017 Current Budget  
of \$2,339,946**



**FY2018 Proposed Budget  
of \$2,372,419**



**Net Change**  
\$32,472  
1.4%

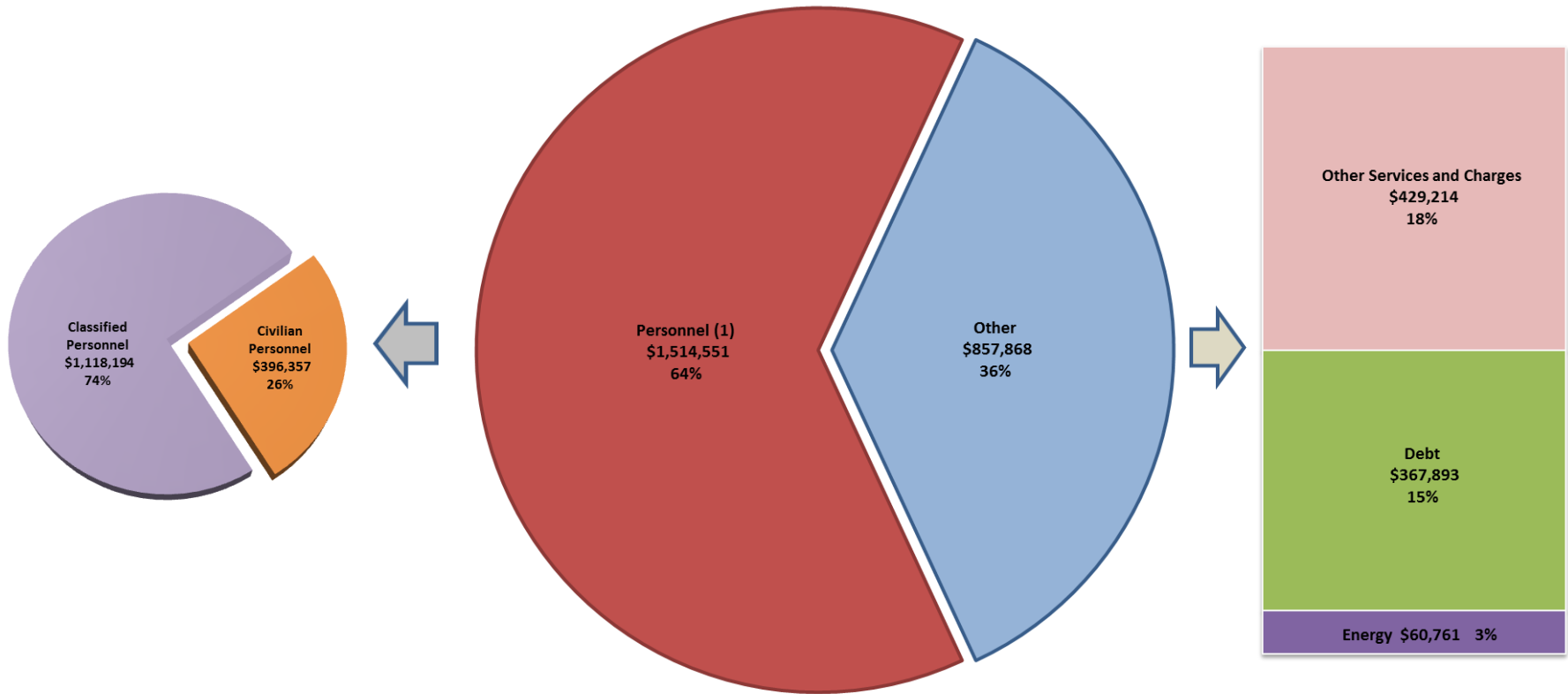
- Public Safety: Police, Fire, Houston Emergency Center (HEC), Municipal Courts
- Development & Maint Svcs: General Services, Planning & Development, Public Works, Solid Waste
- Human & Cultural Svcs: Houston Health Department, Housing, Library, Neighborhoods, and Parks
- Administrative Svcs: Administration and Regulatory Affairs, Controller, City Council, City Secretary, Finance, Human Resources, Houston Information Technology Service (HITS), Legal, Mayor's Office, Office of Business Opportunity



# FY2018 General Fund Expenditures Personnel vs. Non Personnel

(\$ in Thousands)

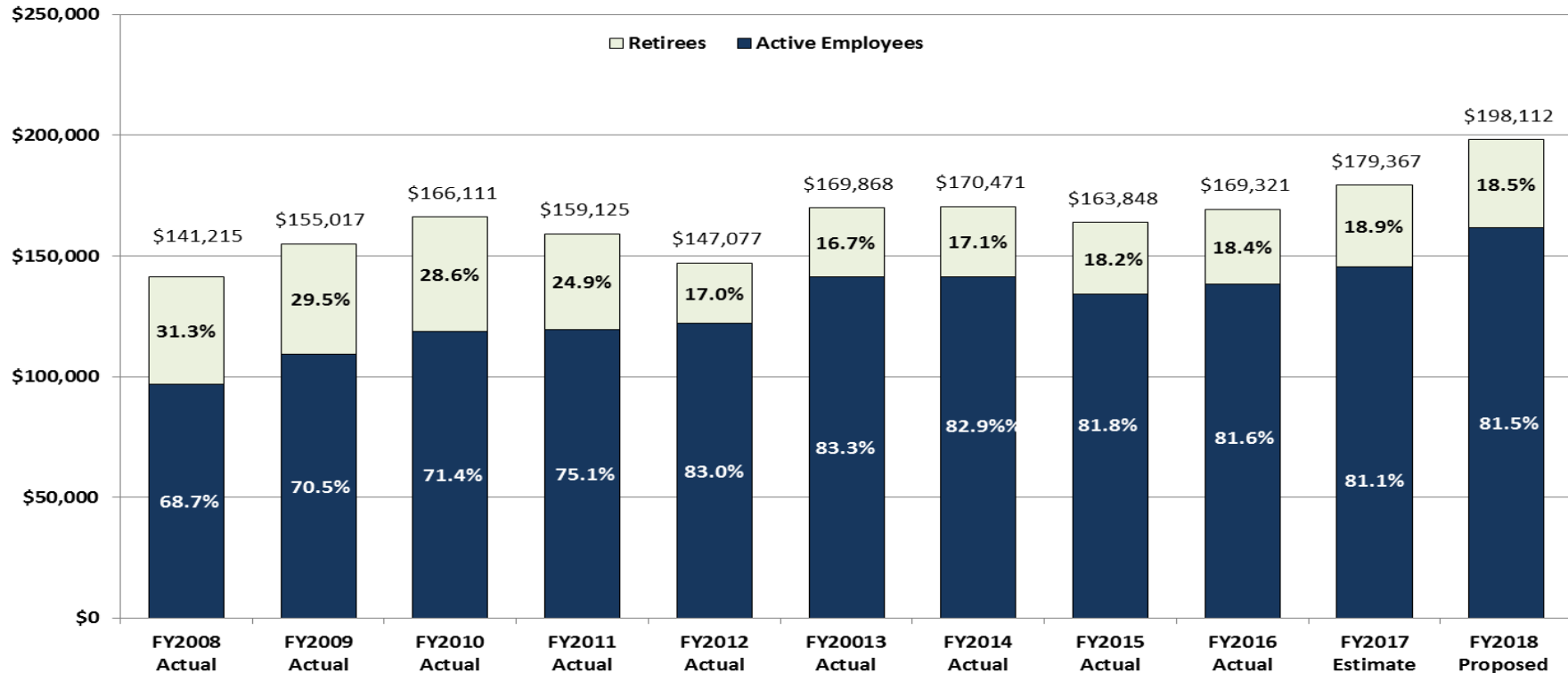
**Proposed Budget  
\$2,372,419**



(1) Includes Items such as Salary, FICA, Pension, Health Benefits, Overtime, Workers Comp, Other Pays, Temporary Personnel Services, etc.



# General Fund Health Benefits City Contributions FY2008 - FY2018 (\$ in Thousands)

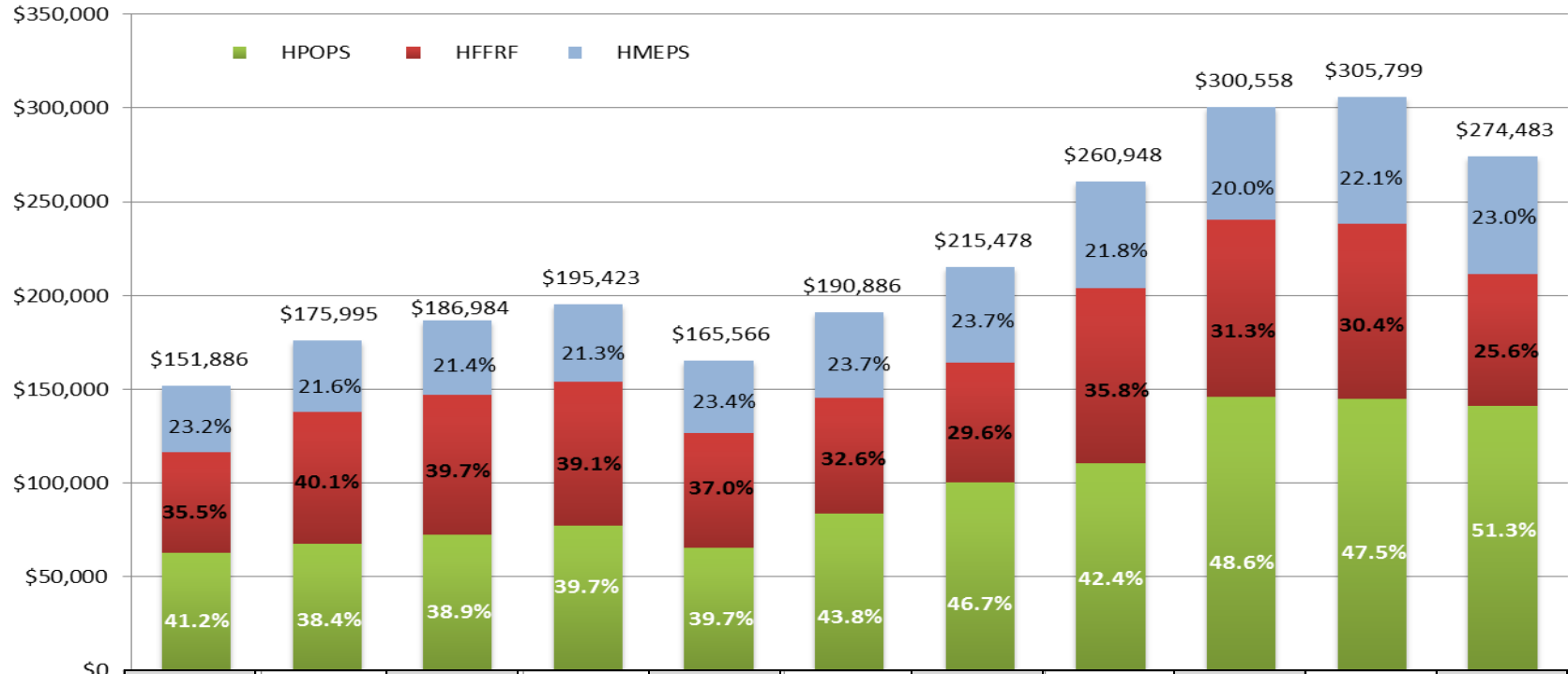


	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Estimate	FY2018 Proposed
<b>Active Employees</b>	\$ 96,981	\$ 109,356	\$ 118,528	\$ 119,564	\$ 122,108	\$ 141,455	\$ 141,404	\$ 133,978	\$ 138,189	\$ 145,432	\$ 161,464
<b>Retirees</b>	\$ 44,234	\$ 45,661	\$ 47,583	\$ 39,561	\$ 24,969	\$ 28,413	\$ 29,067	\$ 29,870	\$ 31,132	\$ 33,935	\$ 36,648
<b>Total Health Benefits</b>	\$ 141,215	\$ 155,017	\$ 166,111	\$ 159,125	\$ 147,077	\$ 169,868	\$ 170,471	\$ 163,848	\$ 169,321	\$ 179,367	\$ 198,112
<b>Change YOY</b>	2.79%	9.77%	7.16%	-4.21%	-7.57%	15.50%	0.35%	-3.89%	3.34%	5.93%	10.45%



# General Fund Pension Contributions

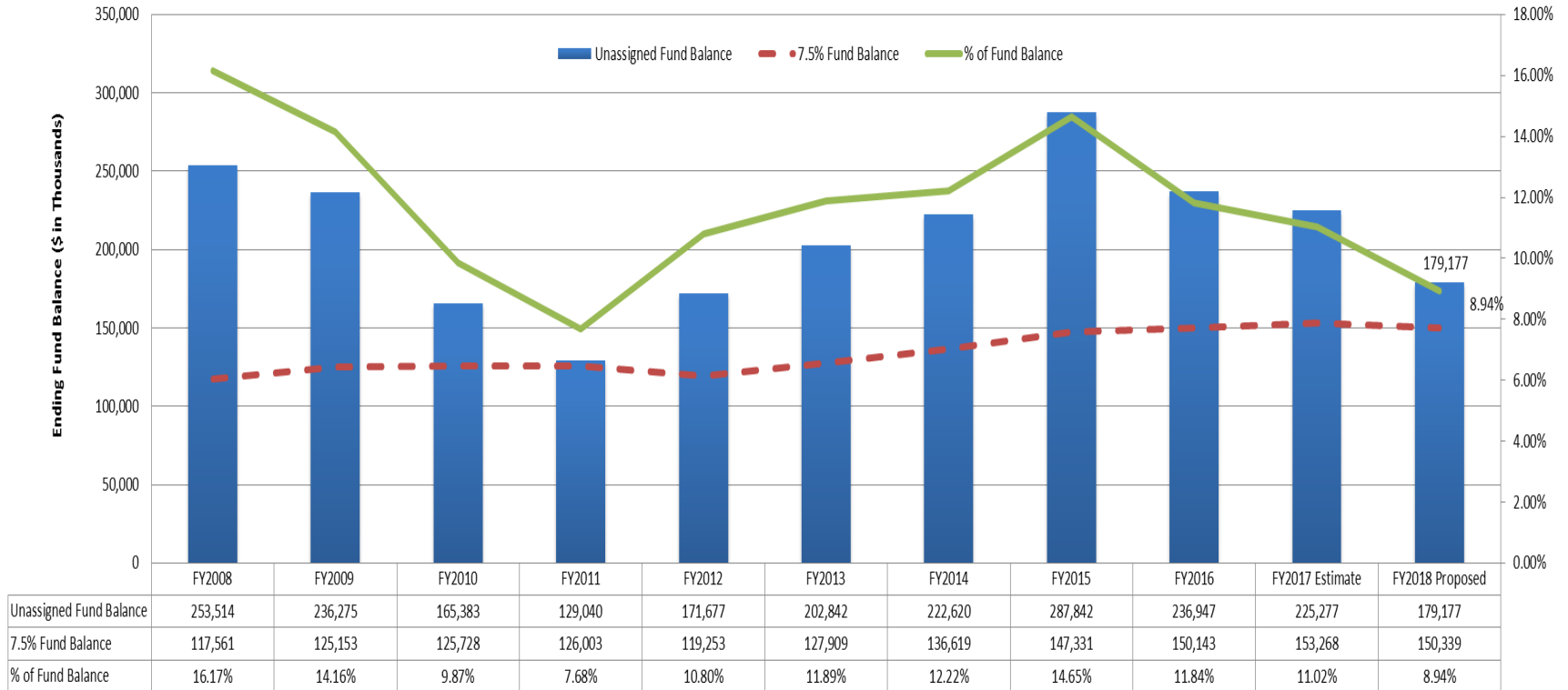
## FY2008- FY2018 (\$ in Thousands)



	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Estimate	FY2018 Proposed
<b>HMEPS</b>	\$ 35,278	\$ 37,994	\$ 40,017	\$ 41,537	\$ 38,662	\$ 45,219	\$ 51,106	\$ 56,813	\$ 60,221	\$ 67,523	\$ 63,212
<b>HFFRF</b>	\$ 53,981	\$ 70,506	\$ 74,299	\$ 76,352	\$ 61,204	\$ 62,141	\$ 63,758	\$ 93,407	\$ 94,121	\$ 93,112	\$ 70,330
<b>HPOPS</b>	\$ 62,627	\$ 67,495	\$ 72,669	\$ 77,534	\$ 65,701	\$ 83,526	\$ 100,614	\$ 110,727	\$ 146,216	\$ 145,164	\$ 140,941
<b>Pension Contributions</b>	<b>\$ 151,886</b>	<b>\$ 175,995</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>\$ 305,799</b>	<b>\$ 274,483</b>
<b>Change YOY (\$)</b>	\$ 8,373	\$ 24,109	\$ 10,989	\$ 8,439	\$ (29,857)	\$ 25,320	\$ 24,592	\$ 45,469	\$ 39,611	\$ 5,241	\$ (31,316)
<b>Change YOY (%)</b>	5.83%	15.87%	6.24%	4.51%	-15.28%	15.29%	12.88%	21.10%	15.18%	1.74%	-10.24%



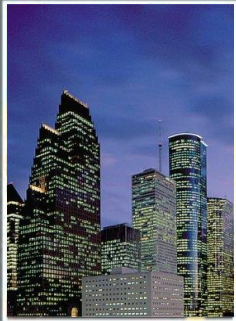
# General Fund Unassigned Ending Fund Balance FY2008 - FY2018





# **Finance Department**

## **General Fund Five Year Forecast FY2018 – FY2022**



# Overview

- Shows the projected budget gap range using the City of Houston model and PFM model developed as part of the Long-Range Financial Plan.
- Expenditures include legal mandates, staffing for new facilities, and contractual escalators.
- The capital budget for facilities, rolling stock, and information technology is not included.
- Includes debt service for capital projects.

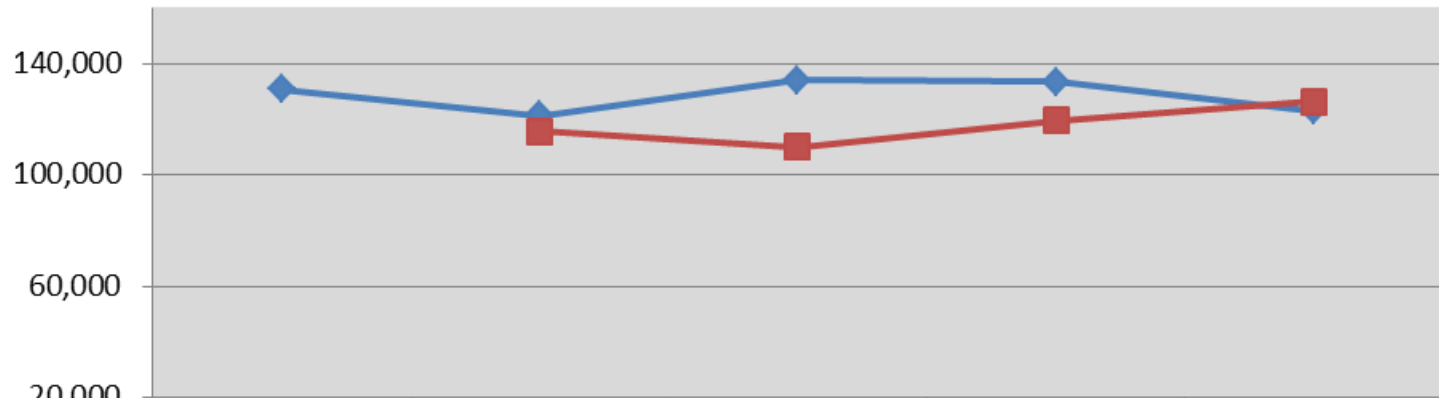




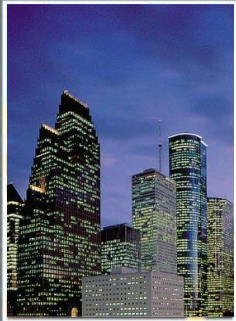
# Budget Gap Range

(\$ in Thousands)

—◆— COH Budget Gap    —■— PFM Budget Gap



	FY2018	FY2019	FY2020	FY2021	FY2022
COH Budget Gap	130,644	121,296	133,955	133,413	122,909
PFM Budget Gap		115,720	110,071	119,412	126,231



# Five Year Management Strategies

- Limitations
  - Property tax cap in City Charter
  - Existing debt service increases
  - Personnel costs make up majority of General Fund spend
- Address Long-Range Financial Plan recommendations including:
  - Performance improvement
  - Cost containment
  - Re-evaluate service delivery models
- Additional Options
  - Reduction in services
  - Petition voters to remove or modify revenue limitation
  - New revenue sources