Presentation to the City of Houston Budget and Fiscal Affairs Committee

Bridging the Budget Gap FY2015-FY2019

September 9, 2014 Update

Kelly Dowe, Chief Business Officer / Director of Finance
Overview

Recap from last presentation

- Five-year General Fund forecast shows costs of services outpacing available revenues for FY 2016-2019
- Anticipated FY2016 gap is approximately $144 million
- Contributing factors include:
  - Property tax revenue cap
  - Contractually obligated employee compensation and benefits (including rising pension contributions and potential pay increases)
  - Debt service

- Gap does not include:
  - Unfunded liabilities (pensions, other post employment benefits, accrued leave)
  - Unmet departmental 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

- “No silver bullet” – solution requires combination of methods
Updates

FY 2014 ending General Fund balance projected at approximately $8 million

Administration proactively taking steps to narrow the gap:

1. Administration approval required for filling departmental vacancies
   – Estimated impact: $5-8 million in FY2015

2. Departments have been directed to identify cost-savings above and beyond efficiency measures already in place or possible revenue opportunity
   – Target: 1%
Cap on Property Tax Revenue Makes Its First Impact on City Finances

• Final certified tax rolls indicate property tax revenues of $1.080 billion which would be over charter cap.
• Will require tax rate to be lowered to $0.63108 per $100 taxable value from the current rate of $0.63875
• Will reduce revenue by $12.7 million that would have otherwise resulted in fund balance available for FY 2016
• No affect on FY2015 budget because it was assembled based on property tax revenues below the cap

<table>
<thead>
<tr>
<th>Amount $ in Thousands</th>
<th>FY2015 Adopted Budget</th>
<th>FY2015 * Estimates with no Change in Tax Rate</th>
<th>FY2015 * Estimates with Change in Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Taxable Value</td>
<td>$ 183,281,848</td>
<td>$ 185,864,151</td>
<td>$ 185,864,151</td>
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<tr>
<td>Approved/Proposed Tax Rate for every $100 assessed value</td>
<td>0.0063875</td>
<td>0.0063875</td>
<td>0.00631081</td>
</tr>
<tr>
<td>Tax Levy</td>
<td>1,170,713</td>
<td>1,187,207</td>
<td>1,172,953</td>
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<tr>
<td>Collection Rate</td>
<td>97.53%</td>
<td>97.53%</td>
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<tr>
<td>Est. Collection Revenue</td>
<td>1,141,827</td>
<td>1,157,914</td>
<td>1,144,011</td>
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<tr>
<td>TIRZ Transfer</td>
<td>(100,489)</td>
<td>(103,904)</td>
<td>(102,673)</td>
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<tr>
<td>Delinquent &amp; Rebates</td>
<td>26,000</td>
<td>26,000</td>
<td>26,000</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>$ 1,067,338</td>
<td>$ 1,080,010</td>
<td>$ 1,067,338</td>
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</tbody>
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*Note: Estimated Taxable Value based on the Certified Roll as of August 29, 2014*
Potential Next Steps

Important decisions remain for administration and City Council, with options including:

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

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