



Finance Department



Presentation to the City of Houston Budget and Fiscal Affairs Committee

FY2013 Budget Overview and General Fund Five Year Forecast

May 29, 2012

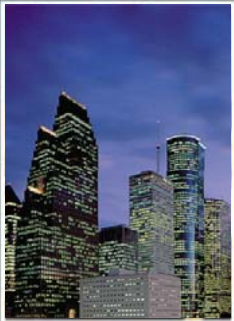
Kelly Dowe, Director



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Fiscal Year 2013 - Budget Overview

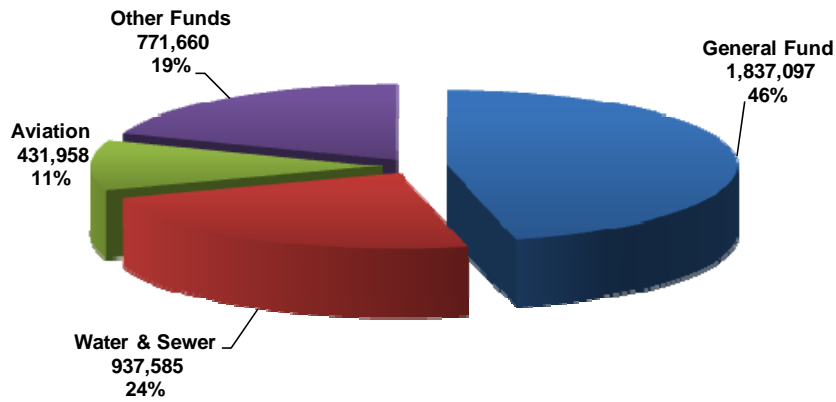
- The budget maintains the property tax rate of 63.875 cents per \$100 of taxable value; projected property tax growth of 3.9%.
- Projected sales tax growth of 5.9%.
- Unassigned ending fund balance ratio in General Fund above the preferred 7.5% ratio to expenditures before debt service.
- The Proposed Budget includes:
 - Re-designation of \$5 million to the Rainy Day Fund, increasing the total to \$10 million.
 - \$5 million in contingent funding for the Houston Forensics Center.
 - \$2 million in contingent funding for the Sobering Center.
 - Transfer of revenues and expenditures of Mobility Response Team and Burglar/False Alarm activities from Special Fund to General Fund.
- This Proposed Budget does not include:
 - Service cuts or layoffs.
 - The use of Pension Obligation Bonds or issuance of long-term debt.
 - Material one-time funding from land sales.



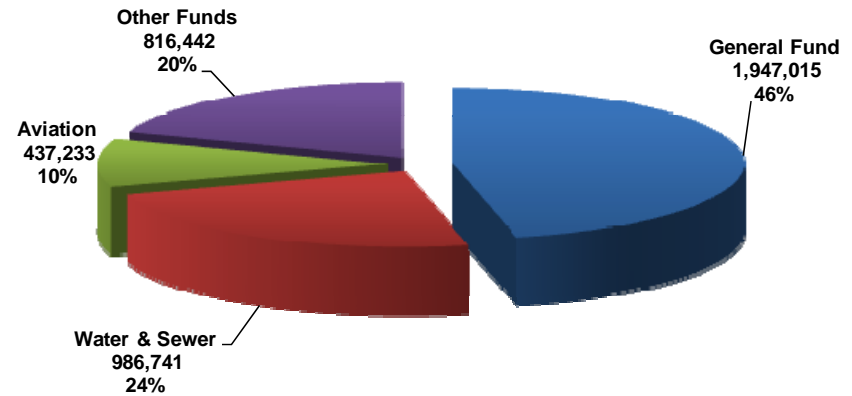
Citywide Expenditures

Including Debt Service (\$ in Thousands)

**FY2012 Estimate
of \$3,978,300**



**FY2013 Proposed Budget
of \$4,187,431**



**Net Change
\$209,130
5.26%**

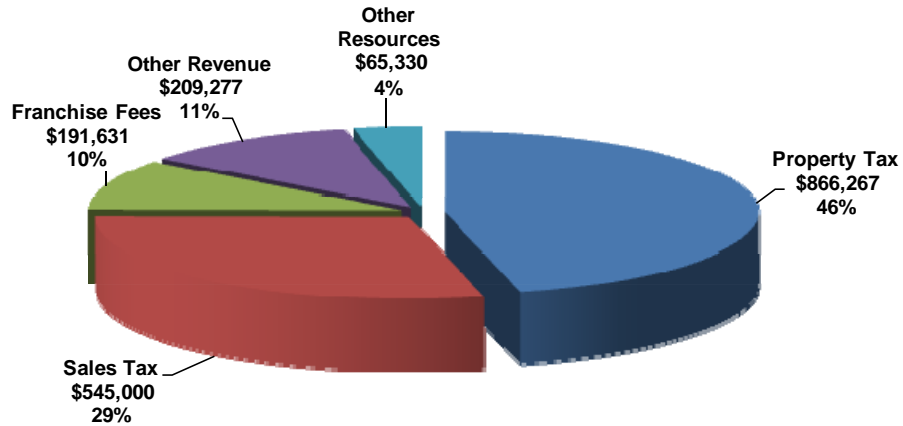
* Totals include General, Special, and Enterprise Funds



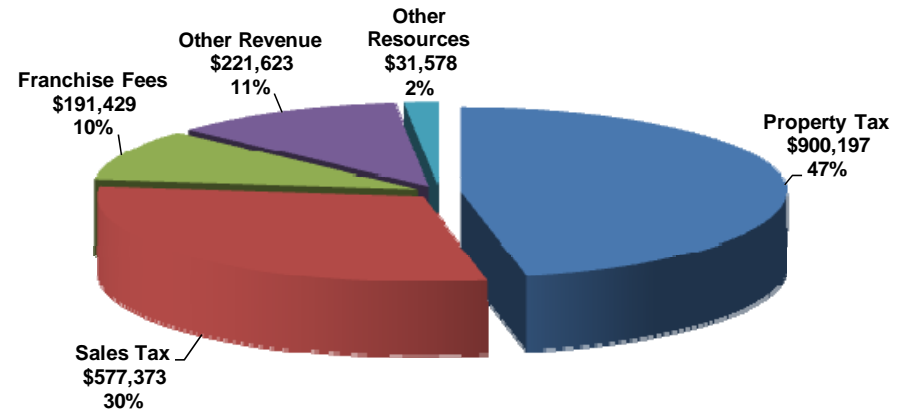
General Fund Revenues

Including Other Resources (\$ in Thousands)

FY2012 Estimate
of \$1,877,505



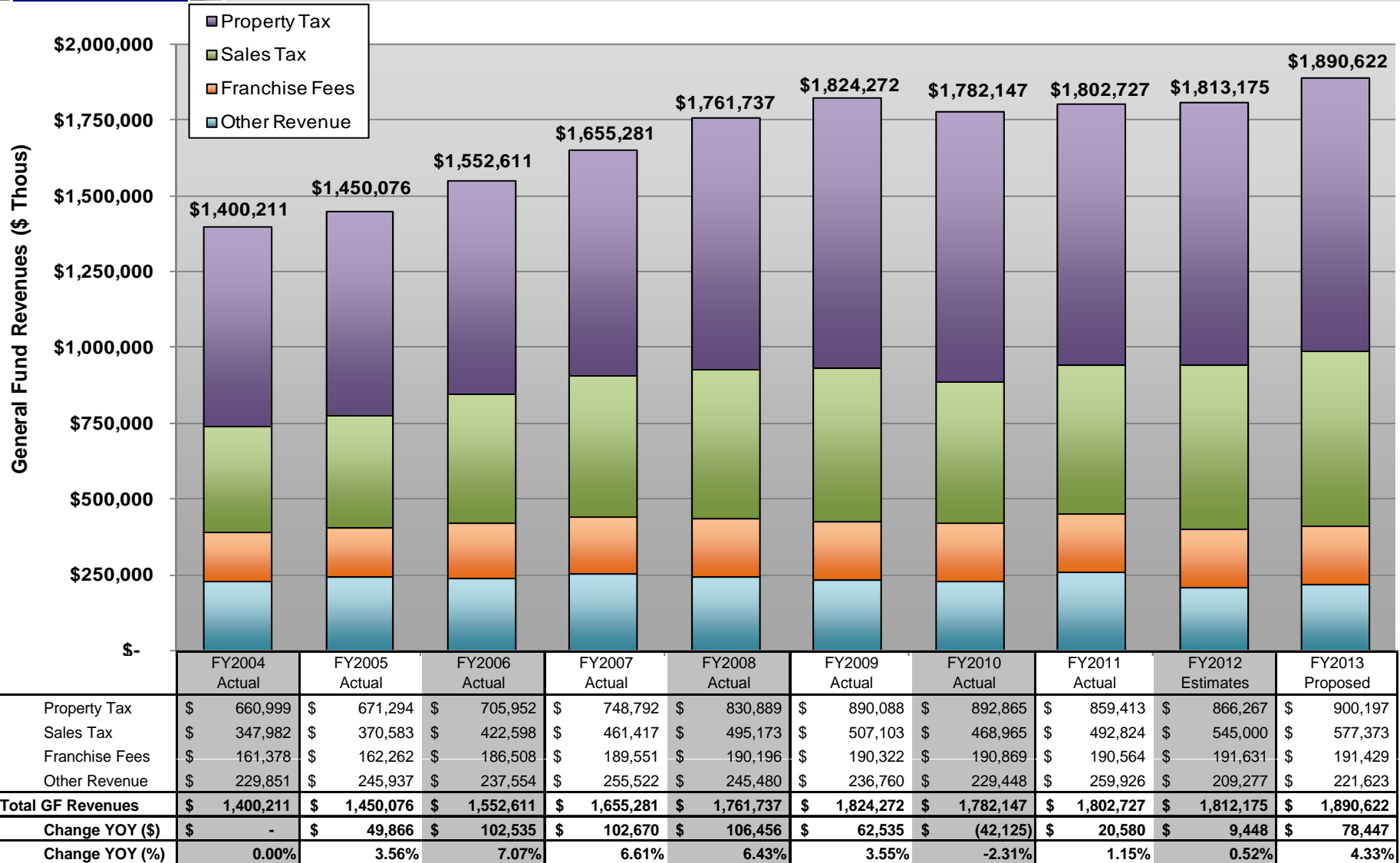
FY2013 Proposed Budget
of \$1,922,200

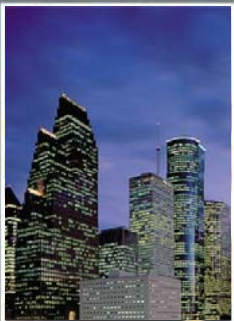


Net Change
\$44,695
2.38%



General Fund Revenues FY2004 - FY2013



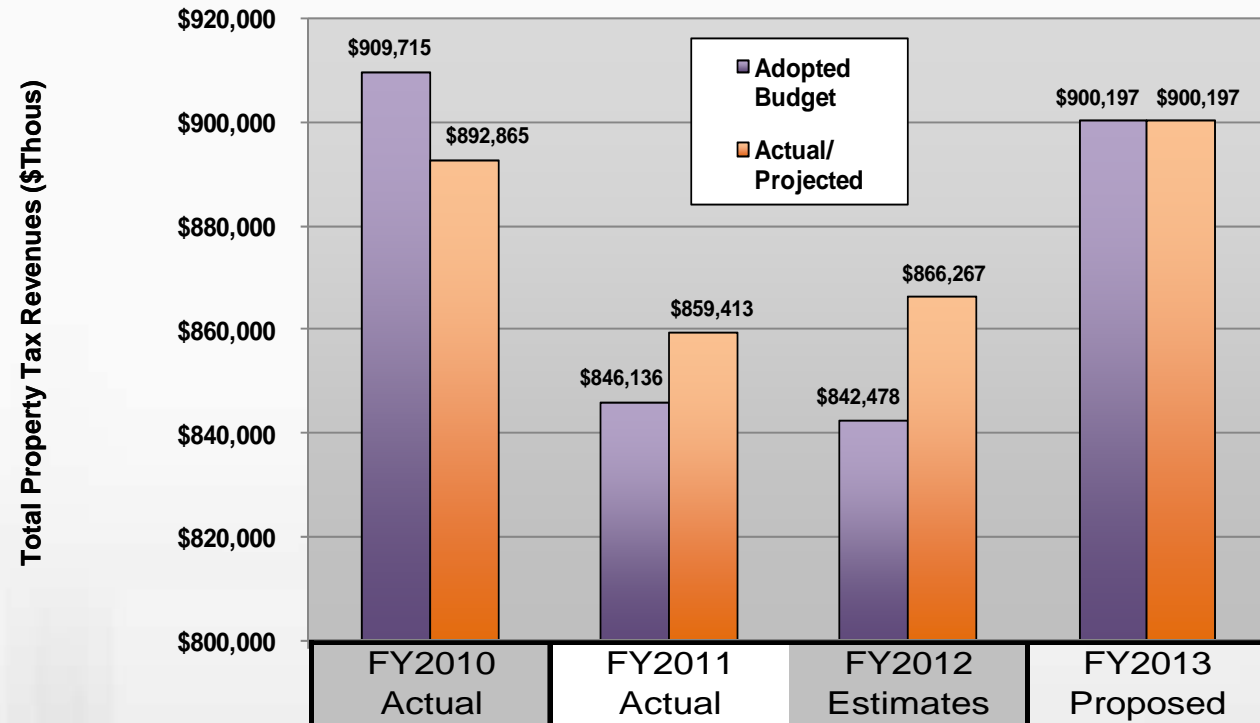


Property Tax Revenue

- Assumptions:
 - Increase in property tax revenue of 3.9%, \$33.9 million higher than FY2012 Estimates.
 - No change in the current tax rate (\$0.63875 per \$100 valuation).
 - Collection rate of 97.5%.
 - Net of tax increment zone payments.



Trends in Property Tax Revenues FY2010 - FY2013



	FY2010 Actual	FY2011 Actual	FY2012 Estimates	FY2013 Proposed
Adopted Budget	\$ 909,715	\$ 846,136	\$ 842,478	\$ 900,197
Actual/ Projected	\$ 892,865	\$ 859,413	\$ 866,267	\$ 900,197
Variance Over/(Under)	\$ (16,850)	\$ 13,277	\$ 23,789	\$ -



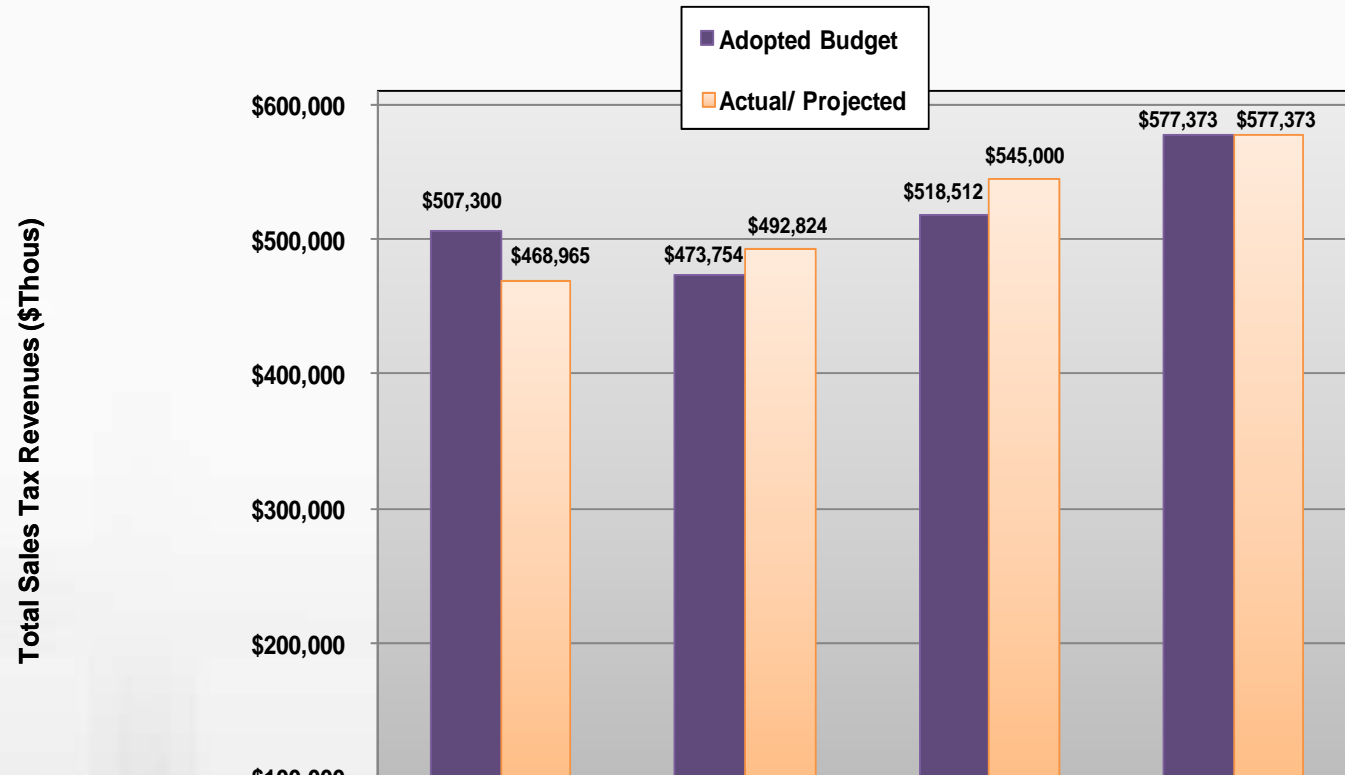
Sales Tax Revenue

- Assumptions:

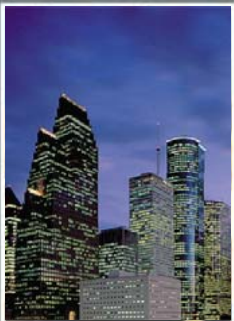
- Continued positive growth trend in FY2013 of 5.9%, \$32.4 million higher than FY2012 Estimates.
- Based on forecast from the University of Houston's Institute for Regional Forecasting.
- Includes average increase in the number of Limited Purpose Annexations.



Trends in Sales Tax Revenues FY2010 - FY2013



	FY2010 Actual	FY2011 Actual	FY2012 Estimates	2013 Proposed
Adopted Budget	\$ 507,300	\$ 473,754	\$ 518,512	\$ 577,373
Actual/ Projected	\$ 468,965	\$ 492,824	\$ 545,000	\$ 577,373
Variance (Over/Under)	\$ (38,335)	\$ 19,070	\$ 26,488	\$ -



Other Revenues and Sources of Funds

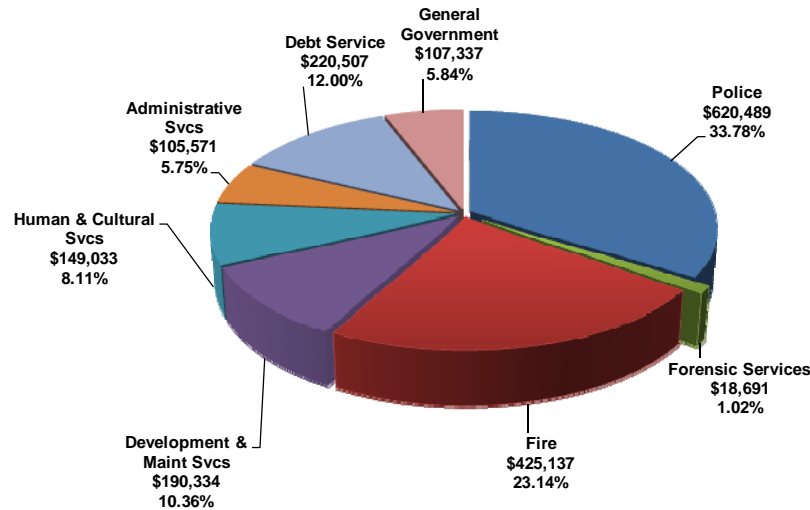
- Sale of Land of \$4.5 million.
- One-Time Transfers of \$2.4 million:
 - Fund balance transfer from Mobility Response Team Fund which will be closed in FY2013.
- Ongoing Transfers of \$24.7 million, mainly due to:
 - \$13.6 million pass-through funding from Houston First, mainly for arts funding and annual contribution as stated in the Interlocal Agreement.
 - \$1.4 million lease payment from Houston First.
 - \$9.1 million from Special Funds.



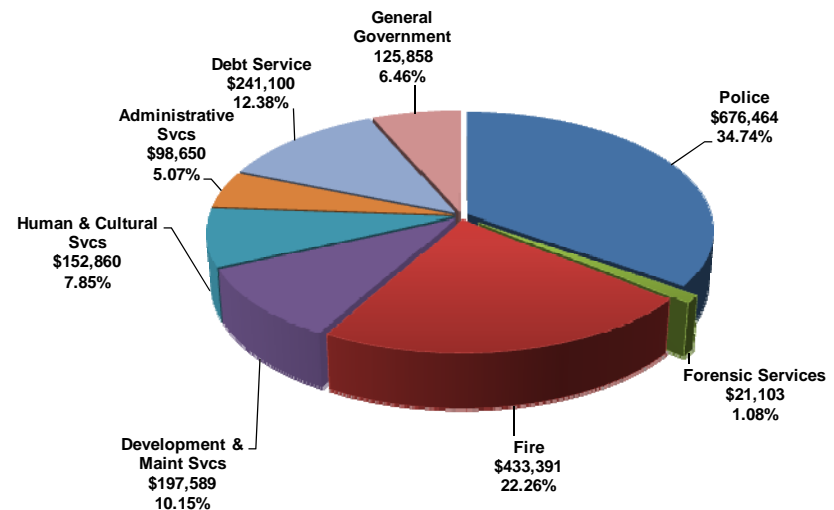
General Fund Expenditures

Including Debt Service (\$ in Thousands)

FY2012 Estimate of \$1,837,097



FY2013 Proposed Budget of \$1,947,015



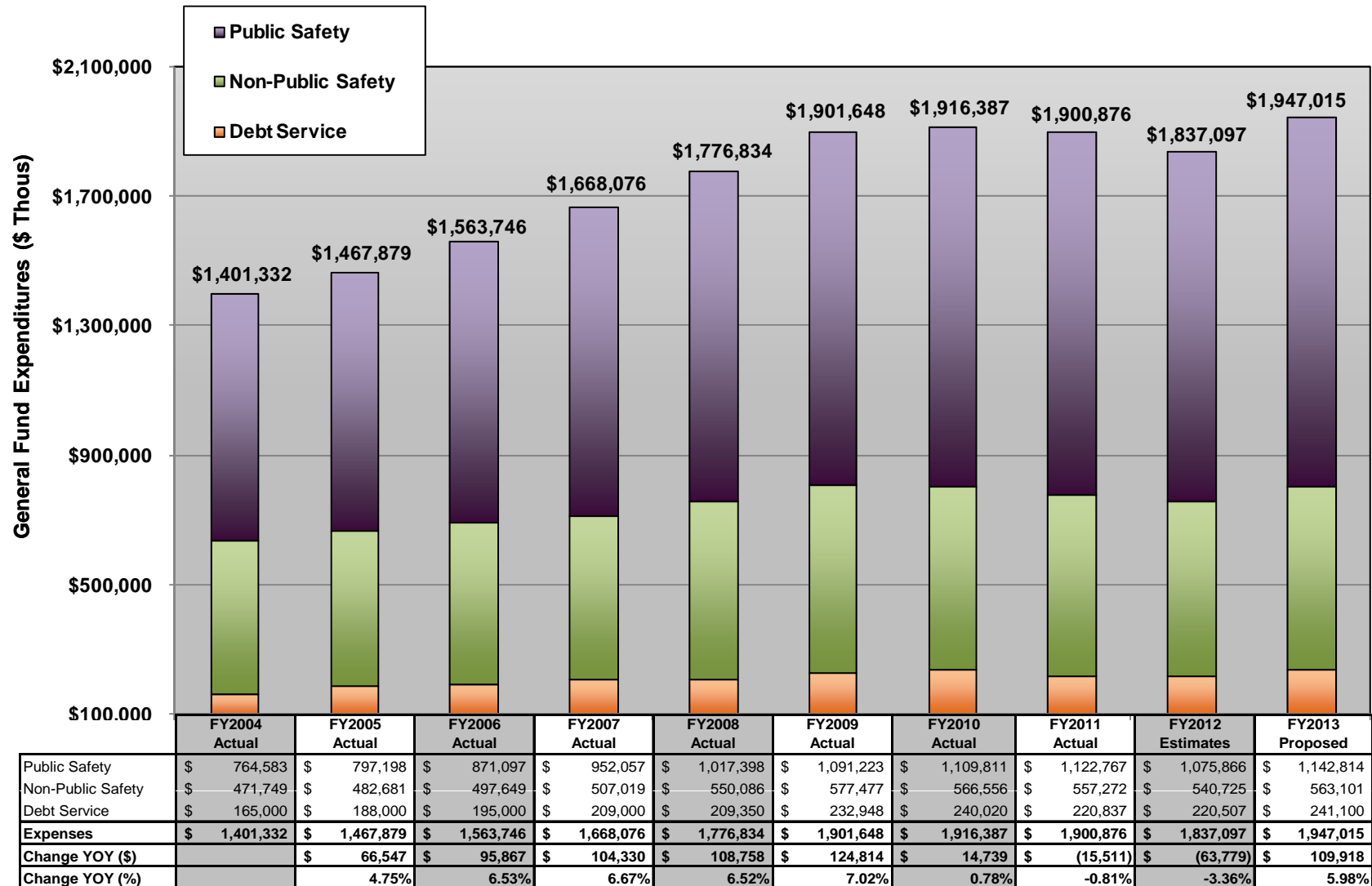
Net Change
\$109,918
5.98%

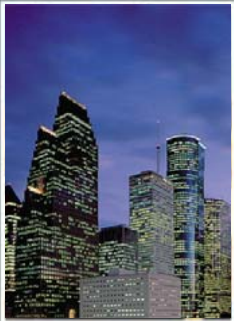
- Development & Maint Svcs: General Services, Planning & Development, Public Works, Solid Waste, Municipal Courts, and HEC
- Human & Cultural Svcs: Health & Human Services, Housing, Library, Neighborhoods, and Parks
- Administrative Svcs: Administration and Regulatory Affairs, Controller, City Council,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



General Fund Expenditures

FY2004 - FY2013 (Including Debt Service)



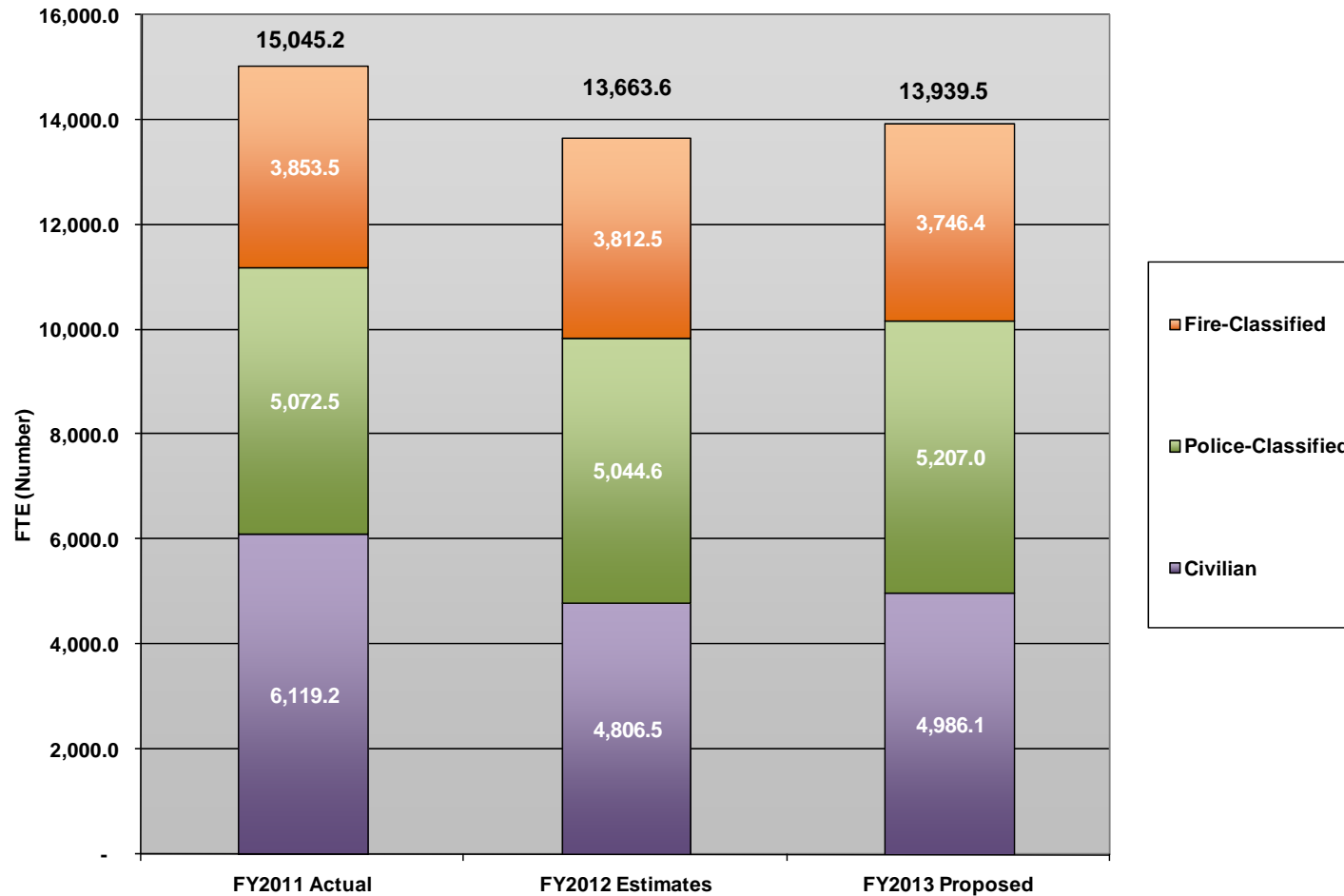


Expenditures Summary

- A relatively flat budget with no service cuts or layoffs
- Includes some cost increases for:
 - Pensions
 - Health Benefits
 - Fuel
 - Electricity
 - Information Technology.
- Includes the transfer of the Mobility Response Team from the Special Fund.
- **Police:**
 - Total General Fund pension contribution in FY2013 is \$84.1 million.
 - Includes deferred pension contribution of \$8.5 million.
 - Includes transfer of burglar alarm and false alarm penalties revenues and expenditures from the Police Special Service Fund.
- **Fire:**
 - Pension rate of 23.9%.



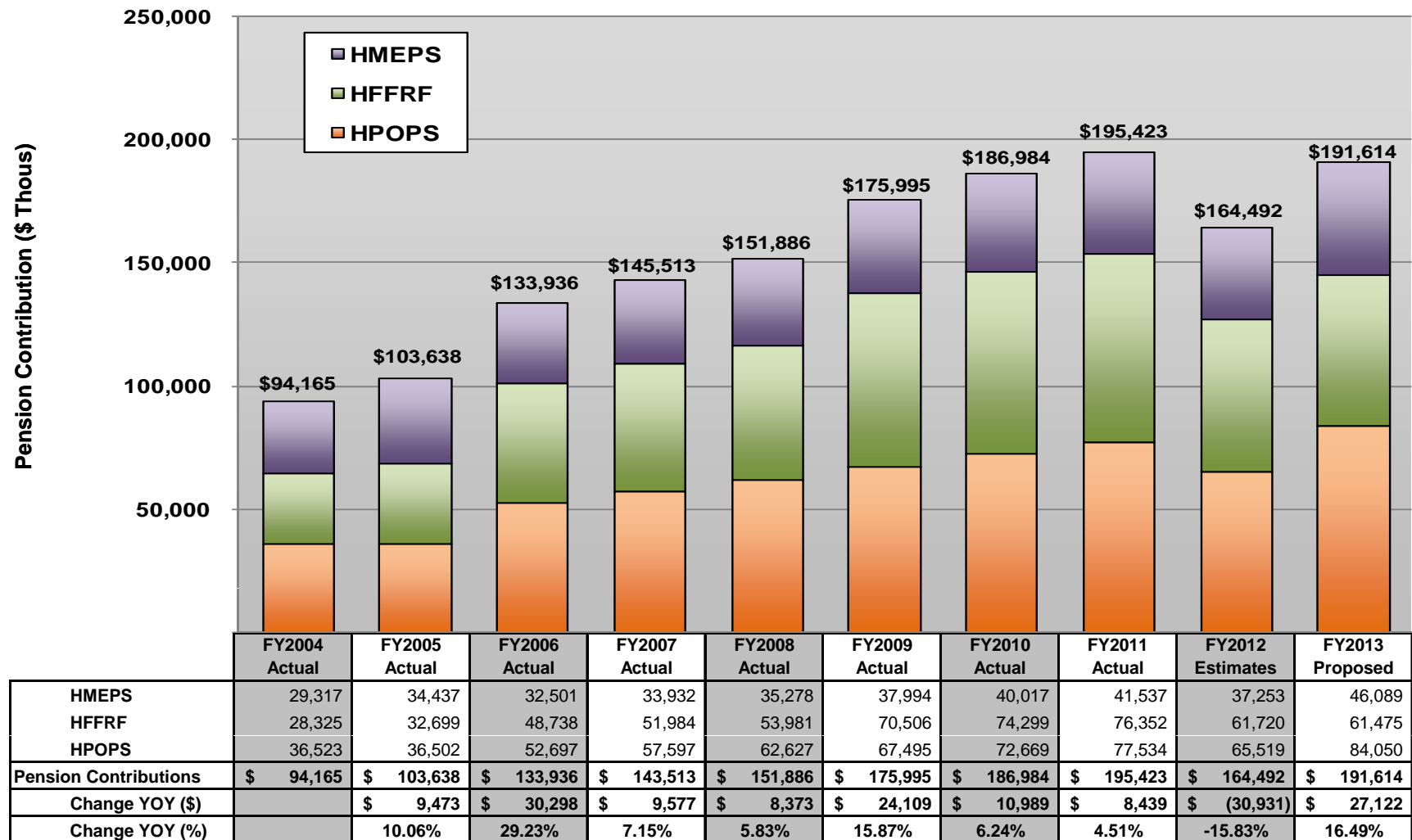
General Fund Full-Time Equivalents



* FY2013 FTE increase in Police is primarily due to the transfer of Mobility Response Team and alarm activities from Special Fund to the General Fund. These are offset with revenues.

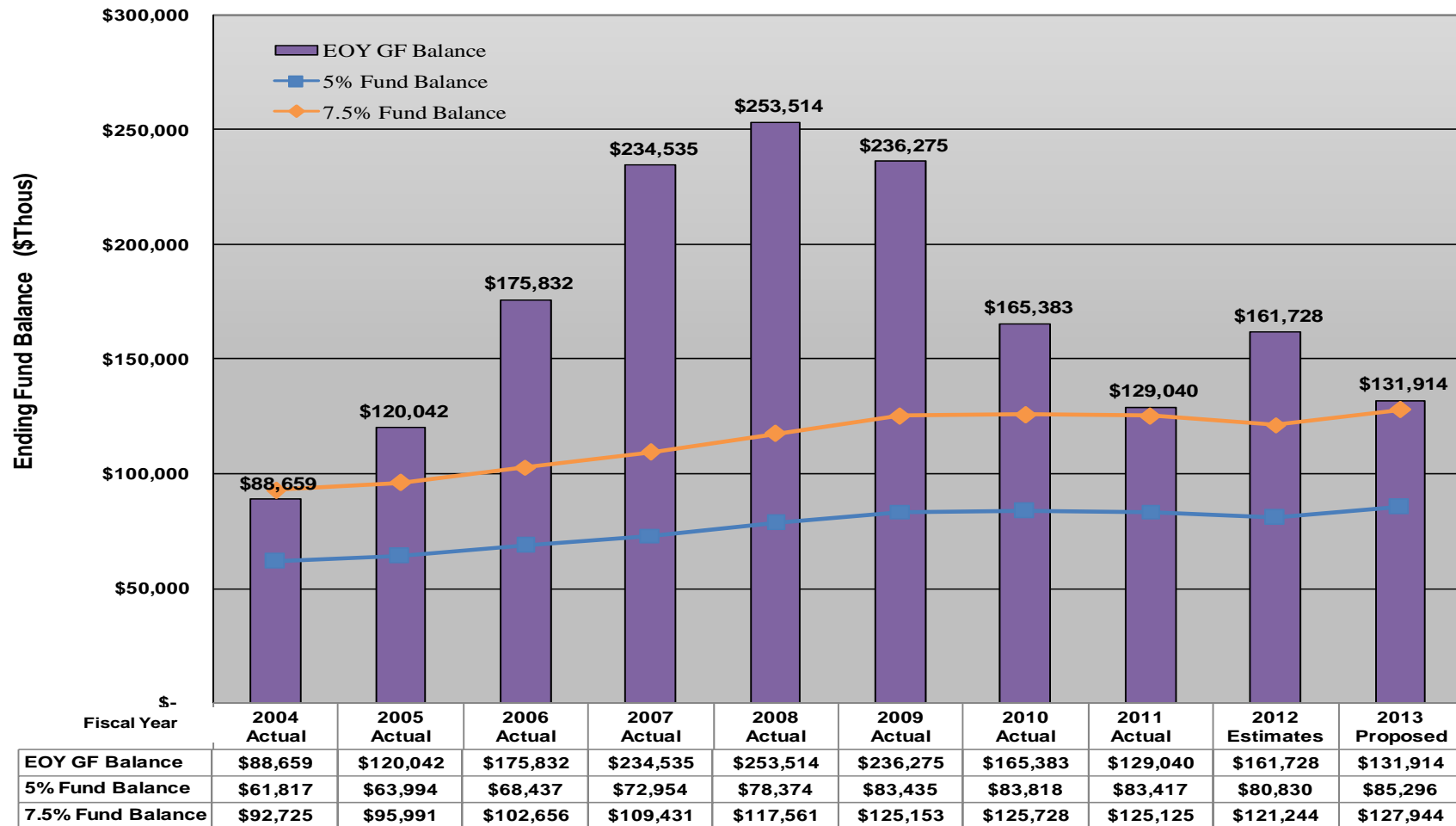


General Fund Pension Contributions FY2004 - FY2013





General Fund Unassigned Ending Fund Balance FY2004 - FY2013



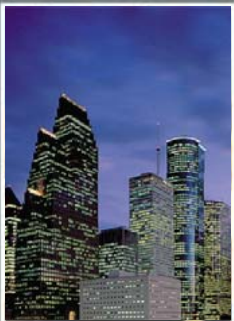
*Note: FY2012 Estimates include re-designation of \$5 million Rainy Day Fund. The FY2013 Proposed Budget includes another \$5 million re-designation of Rainy Day Fund for a total of \$10 million.



Finance Department



General Fund Five Year Forecast FY2013 – FY2017



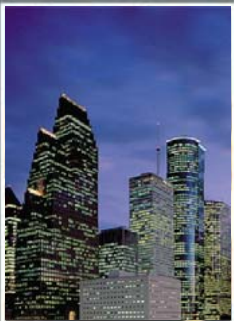
Overview

- This 5-year forecast is based on the FY2013 Proposed Budget.
- 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.



Key Assumptions - Revenue

Revenue Category	Assumption					Comment
	FY2013	FY2014	FY2015	FY2016	FY2017	
Property Tax Revenue Growth %	3.92%	3.74%	3.75%	3.76%	3.76%	Assessed value growth of 4.10% in FY2013 and 4% per year thereafter; with an assumed collection rate of 97.5%.
Sales Tax Revenue Growth %	5.94%	4.68%	5.77%	6.36%	6.48%	FY2013 -17 is based on University of Houston's Institute for Regional Forecasting.
Other Revenue Growth %	5.90%	4.14%	1.85%	1.87%	1.88%	FY2013 includes revenues from Special Funds which are offset by expenditures.
Sale of Other Assets \$mm	\$ 4.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	
Transfer from Other Funds \$mm	\$ 27.1	\$ 24.7	\$ 24.7	\$ 24.7	\$ 24.7	



Key Assumptions - Revenue

- Other Revenue includes items such as:
 - Industrial Assessments
 - License and Permits
 - Charges for Services
 - Direct and Indirect Interfund Services
 - Fines and Forfeits.
- Forecast assumptions based on historical trends.



Revenue Summary

(\$ in Thousands)

	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>	<u>FY2015</u>	<u>FY2016</u>	<u>FY2017</u>
(\$000s)	Actual	Estimates	Proposed Budget	Forecast	Forecast	Forecast	Forecast
Property Tax Revenues	\$ 859,413	\$ 866,267	\$ 900,197	\$ 933,841	\$ 968,831	\$ 1,005,221	\$ 1,043,066
Sales Tax	492,824	545,000	577,373	604,394	639,268	679,922	723,959
Franchise Revenue	190,563	191,631	191,429	192,499	193,666	196,229	198,906
Other Revenues	259,924	209,280	221,624	225,789	230,065	234,456	238,965
Collection Effort				5,000	5,000	5,000	5,000
Total Revenues	\$ 1,802,724	\$ 1,812,177	\$ 1,890,623	\$ 1,961,523	\$ 2,036,830	\$ 2,120,828	\$ 2,209,895
<i>Total Revenues Growth %</i>		0.5%	4.3%	3.8%	3.8%	4.1%	4.2%



Key Assumptions - Expenditure

Expense Categories	Assumption					Comment
	FY2013	FY2014	FY2015	FY2016	FY2017	
Personnel Salary:						
Fire Classified	0.0%	1.0%	0.0%	0.0%	0.0%	Based on HPOU Meet & Confer - includes pay increases of 3% in FY2013, 3% in FY2014 and 4% in FY2015 from the last pay period of the fiscal year. It also includes step pay and other contractual increases each fiscal year.
Police Classified	0.1%	3.5%	4.2%	4.6%	2.3%	
Municipal Civilian	0.0%	2.0%	3.0%	0.0%	0.0%	
Pension Contribution *:						
Fire Classified - Percentage of Payroll (%)	23.9%	23.9%	31.6%	31.6%	31.6%	
Police Classified - \$mm	\$ 27.0	\$ 10.0	\$ 10.0	\$ 10.0	\$ 10.0	Based on Meet & Confer.
Deferral	\$ (8.5)	\$ 8.5	\$ -	\$ -	\$ -	
Municipal Civilian - Percentage of Payroll (%)	21.4%	23.4%	25.4%	27.4%	28.7%	Based on Meet & Confer.
Pension Contingency - \$mm	\$ -	\$ -	\$ 10.0	\$ -	\$ -	Set aside funding for changes in investment rate of return.
Health Benefits:						
Growth %	17.2%	12.0%	10.0%	10.0%	10.0%	
Energy:						
Growth %	-1.1%	-12.1%	7.0%	3.4%	3.4%	
Other Operating Costs:						
Growth %	7.7%	0.3%	1.1%	0.7%	1.3%	FY2013 includes funding previously reported in Special Funds that are offset with Revenues.
Debt:						
Based on payment schedule						

* Assumed investment rate of return of 8.5%



Expenditure Summary

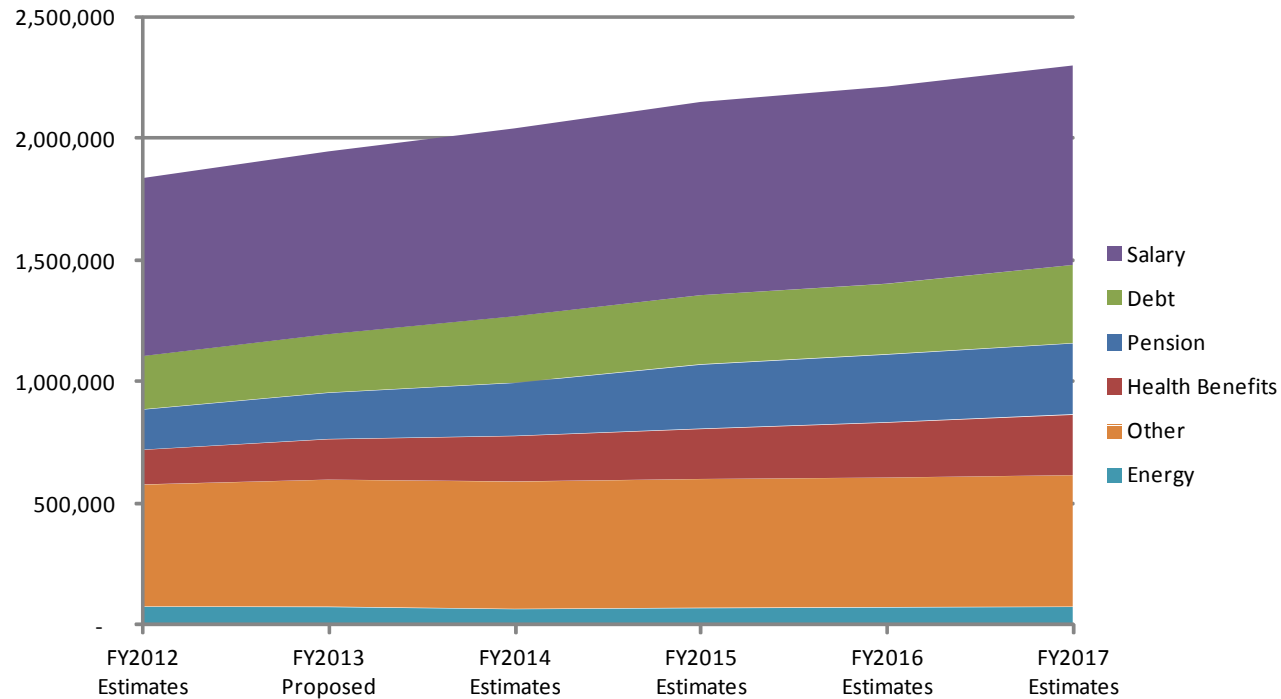
(\$ in Thousands)

(\$000s)	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>	<u>FY2015</u>	<u>FY2016</u>	<u>FY2017</u>
	Actual	Estimates	Proposed Budget	Forecast	Forecast	Forecast	Forecast
Prior Year Actual/Operating Budget	\$ 1,680,038	\$ 1,680,038	\$ 1,616,594	\$ 1,705,919	\$ 1,767,439	\$ 1,864,945	\$ 1,921,816
Adjustment	-	(63,444)	-	-	-	-	-
Classified Compensation	\$ -	\$ -	\$ 19,196	\$ 15,998	\$ 14,231	\$ 15,337	\$ 9,351
Civilian Compensation	-	-	-	4,982	7,580	-	-
Health Benefits	-	-	24,481	20,378	19,019	20,921	23,013
Pension Contribution	-	-	25,474	27,882	46,023	14,565	13,267
Energy	-	-	(873)	(9,140)	4,645	2,434	2,524
Other Operating Costs	-	-	21,046	1,419	6,008	3,614	7,050
Total Expenditures other than Debt	\$ 1,680,038	\$ 1,616,594	\$ 1,705,919	\$ 1,767,439	\$ 1,864,945	\$ 1,921,816	\$ 1,977,022
Transfer to Debt Service	220,838	220,507	241,100	274,100	285,000	291,000	322,571
Total Expenditures with Debt	\$ 1,900,876	\$ 1,837,101	\$ 1,947,019	\$ 2,041,539	\$ 2,149,945	\$ 2,212,816	\$ 2,299,593
<i>Total Expenditures Growth %</i>		-3.4%	6.0%	4.9%	5.3%	2.9%	3.9%



Expenditure Summary

(\$ in Thousands)



Expenditures	FY2012 Estimates	FY2013 Proposed	FY2014 Forecast	FY2015 Forecast	FY2016 Forecast	FY2017 Forecast
Salary	39.9%	38.6%	37.9%	37.2%	36.7%	35.7%
Debt	12.0%	12.4%	13.4%	13.3%	13.2%	14.1%
Pension	9.0%	9.8%	10.7%	12.4%	12.6%	12.7%
Health Benefits	7.8%	8.7%	9.3%	9.7%	10.4%	11.0%
Others	27.2%	26.7%	25.6%	24.7%	24.0%	23.5%
Energy	4.2%	3.9%	3.3%	3.3%	3.3%	3.3%
Total Expenditures	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%



Revenue & Expenditure Summary

(\$ Thousands)

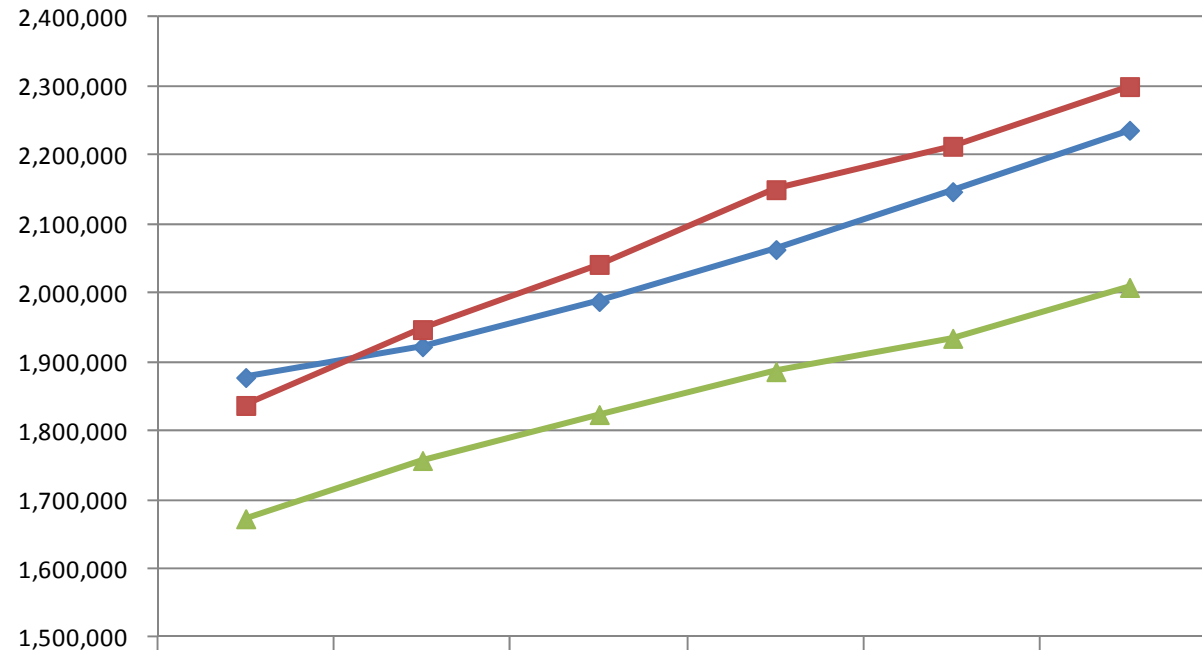
(\$000s)	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
	Actual	Estimates	Proposed Budget	Forecast	Forecast	Forecast	Forecast
Property Tax Revenues	\$ 859,413	\$ 866,267	\$ 900,197	\$ 933,841	\$ 968,831	\$ 1,005,221	\$ 1,043,066
Sales Tax	492,824	545,000	577,373	604,394	639,268	679,922	723,959
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Other Revenues	259,924	209,280	221,624	225,789	230,065	234,456	238,965
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Total Revenues	1,802,724	1,812,177	1,890,623	1,961,523	2,036,830	2,120,828	2,209,895
<i>Total Revenues Growth %</i>		0.5%	4.3%	3.8%	3.8%	4.1%	4.2%
Total Operating Expenditures	\$ 1,680,038	\$ 1,616,594	\$ 1,705,919	\$ 1,767,439	\$ 1,864,945	\$ 1,921,816	\$ 1,977,022
Transfers for Debt Service	220,838	220,507	241,100	274,100	285,000	291,000	322,571
Total Expenditures	1,900,876	1,837,100	1,947,019	2,041,539	2,149,945	2,212,816	2,299,593
<i>Total Expenditures Growth %</i>		-3.4%	6.0%	4.9%	5.3%	2.9%	3.9%
Transfers from Other Funds - Ongoing	\$ 7,729	\$ 23,568	\$ 24,730	\$ 24,724	\$ 24,724	\$ 24,724	\$ 24,724
Transfers from Other Funds - One-Time	\$15,832	\$29,612	\$2,354	\$0	\$0	\$0	\$0
Sale of Capital Assets	13,766	12,150	4,500	1,515	1,530	1,530	1,530
Total Surplus / (Deficit)	(60,824)	40,407	(24,812)	(53,777)	(86,861)	(65,734)	(63,443)
Change in Inventory/Prepaid Items	\$ 4,478	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Proceeds from/(Increase in) Fund Balance	56,346	(40,407)	24,812	-	-	-	-
Adjusted Surplus / (Deficit)	-	-	-	(53,777)	(86,861)	(65,734)	(63,443)
Changes to Restricted Fund Balance - (Increase)/Decrease:							
Rainy Day Fund	\$ 20,000	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ -	\$ -
DARLEP Settlement Set Aside	-	(2,720)	-	-	-	-	-
Ending Unrestricted Fund Balance *	129,041	161,728	131,916	131,916	131,916	131,916	131,916
Fund Balance Percent of Expenditures (less debt)	7.7%	10.0%	7.7%	7.5%	7.1%	6.9%	6.7%

* Ending Unrestricted Fund Balance figure assumes gap is eliminated in each fiscal year

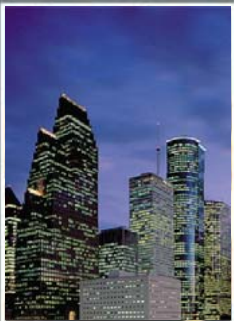


Revenue & Expenditure Summary

(\$ in Thousands)



	FY2012 Estimates	FY2013 Proposed	FY2014 Estimates	FY2015 Estimates	FY2016 Estimates	FY2017 Estimates
◆ Total Revenues and Other Sources	1,877,507	1,922,207	1,987,762	2,063,084	2,147,082	2,236,149
■ Total Expenditure incl. Debt	1,837,101	1,947,019	2,041,539	2,149,945	2,212,816	2,299,593
▲ Total Expenditures incl. Debt without Pension	1,672,609	1,757,053	1,823,690	1,886,073	1,934,379	2,008,110



Five Year Management Strategies

- Continued efforts to improve collection of current and past due balances owed to the City.
- Continued efforts to cut costs and improve productivity within departments.
- Pension reform for new employees.
- Continued efforts to lower health benefits cost increases.
- On-going negotiation of Fire cost savings as agreed upon in collective bargaining agreement.