Midyear Financial Review
Fiscal Year 2021-2022

SEPTEMBER 28, 2021

HARRIS COUNTY
BUDGET MANAGEMENT DEPARTMENT

Executive Summary- Key Takeaways

- Harris County retains the top credit rating with strong reserves
- The property tax base has remained stable throughout the pandemic, though other revenue is down
- The County has used federal funding to respond to COVID and assist the community through the downturn
- Harris County continues major investments in flood control, transportation and other capital improvements
- Rising health and pension costs present a longer-term risk and require careful monitoring
- The County's revenue outlook is adversely affected by Senate Bill 2 and requires fiscal responsibility in setting tax rates

Harris County maintains top ratings bolstered by ~1.4B in FYE general fund reserves

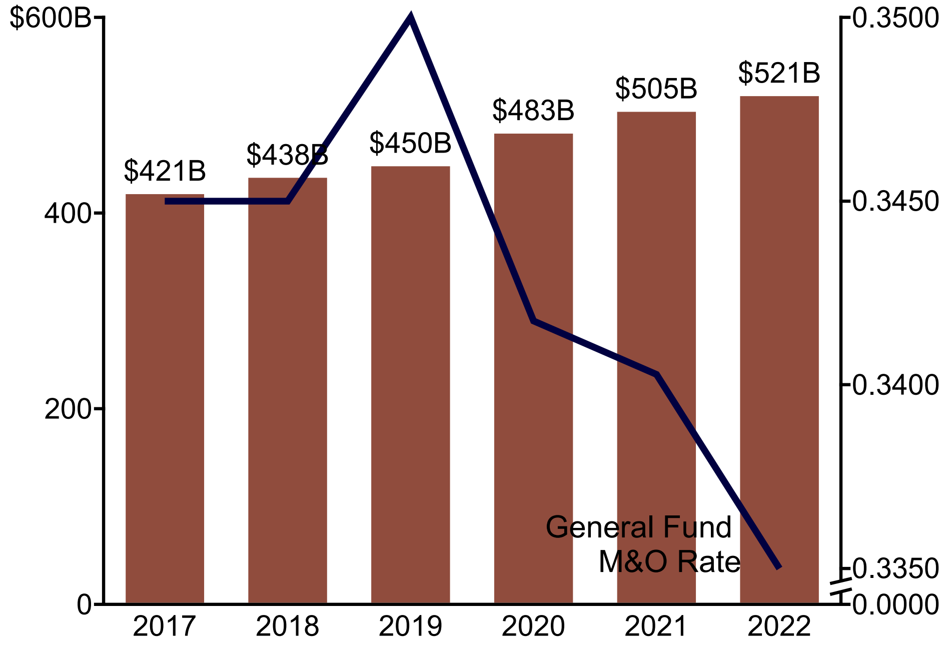
		Issuer					
	Ratings Agency	**General Obligations**	**Flood Control**	**Hospital**	**HCTRA (GO supported)**	**HCTRA (Revenue Sr. Lien)**	**HCTRA (Revenue First Lien)**
Long-term	Moody's	Aaa	Aaa	Aa1	Aaa	Aa1	Aa2
	S&P	AAA	AAA		AAA	AA-	
	Fitch	AAA	AAA	AA	AAA	AA	AA
Short-term	Moody's					P-1	
	S&P	A-1+	A-1+				
	Fitch	F1+	F1+			F1+	

- ■ Highest ratings given by agency
- ▨ One level down from highest ratings
- □ Lower than one level down
- ▩ Not applicable

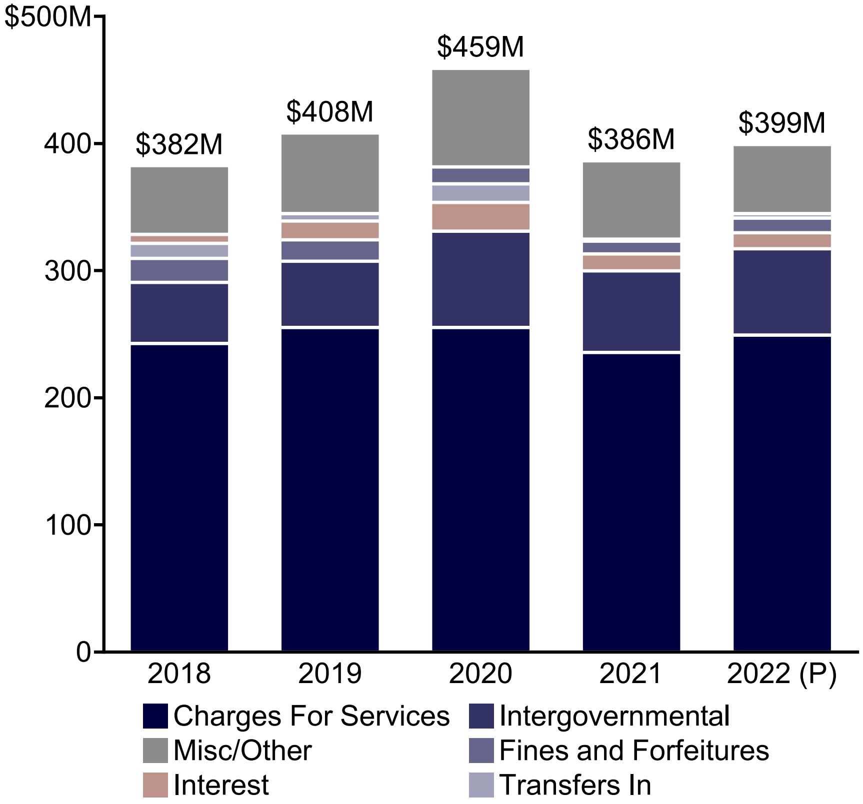
Note: As of Aug. 2021

Taxable value and property tax have remained stable, though other revenues remain subdued

Taxable Values and General Fund M&O Rate



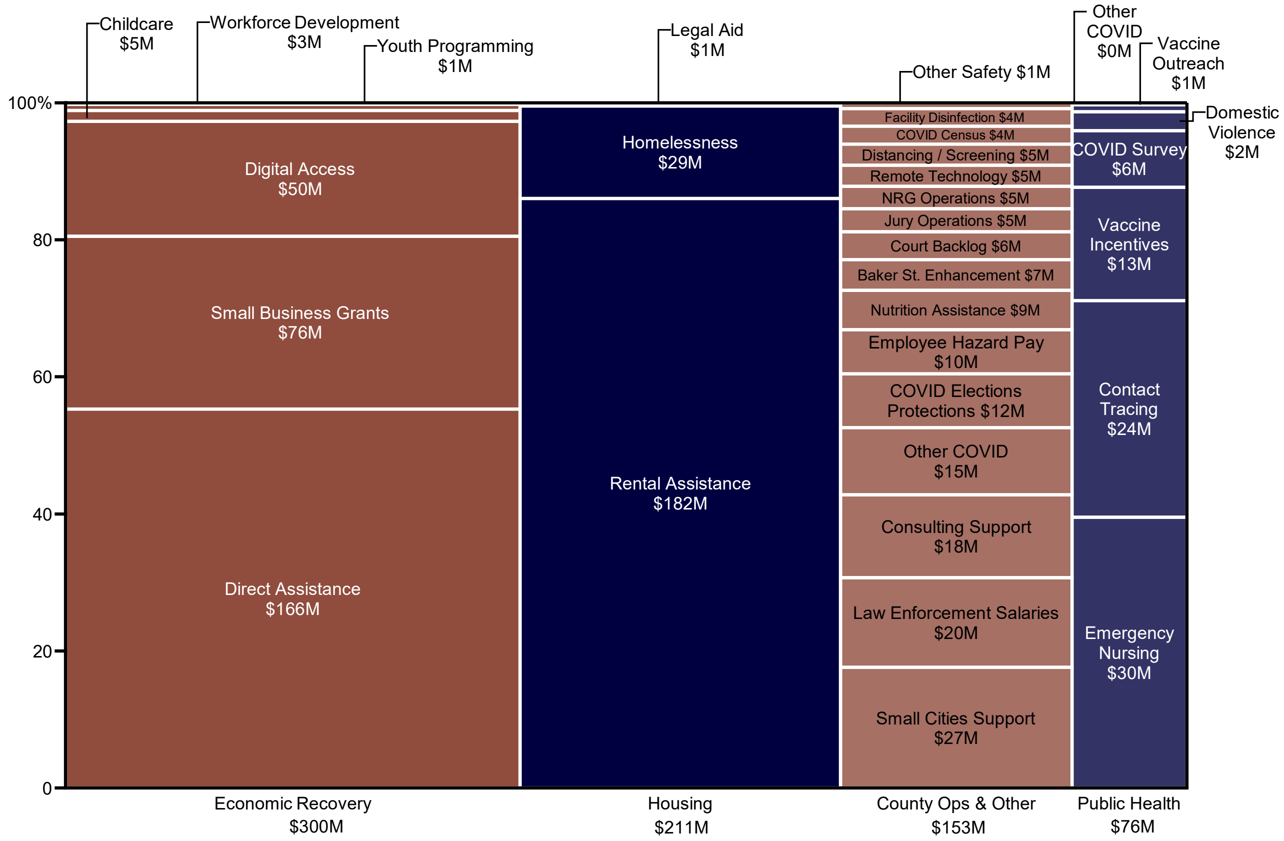
General Fund Other Revenues



Note: M&O Tax Rate for FY 2022 is proposed as of 9/21/21; Other Revenue for FY 22 are projected

$740M of federal funds allocated to recovery, housing, operations and public health

~70% of relief thus far allocated to Economic Recovery and Housing



* Includes Consolidated Appropriations Act, ARPA, and HUD sources

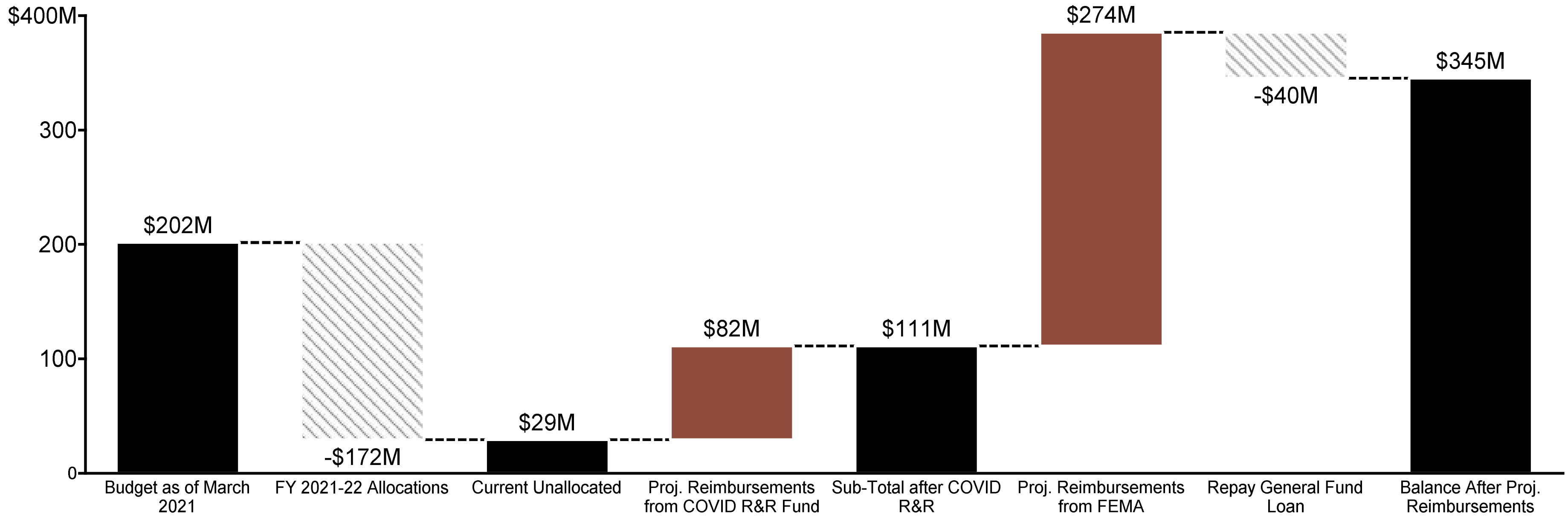
Key Takeaways

1. **Recovery assistance distributed to those who need it most**, including:
   - **62,000** families receiving rental assistance
   - **115,000** households receiving flexible financial assistance
   - **4,600** small businesses receiving grants, employing more than 19,000 employees
   - **17,000** families receiving support for digital access, in addition to the establishment of more than 100 public Wi-Fi sites
2. **$916M in American Rescue Plan Act Coronavirus Local Fiscal Recovery Funds** (ARPA CLFRF) offer flexible relief; must be obligated by end of 2024. Approach features extensive community engagement, including input from over **1,000 stakeholders**, and an **equity framework** to ensure fair distribution of resources
3. **Rental assistance program has been nationally recognized** for speed of fund distribution, tenant support, ease of access, nonprofit and landlord partnerships, use of analytics, and City-County collaboration

PIC has been used to cover COVID expenses; reimbursements to return it to pre-COVID levels

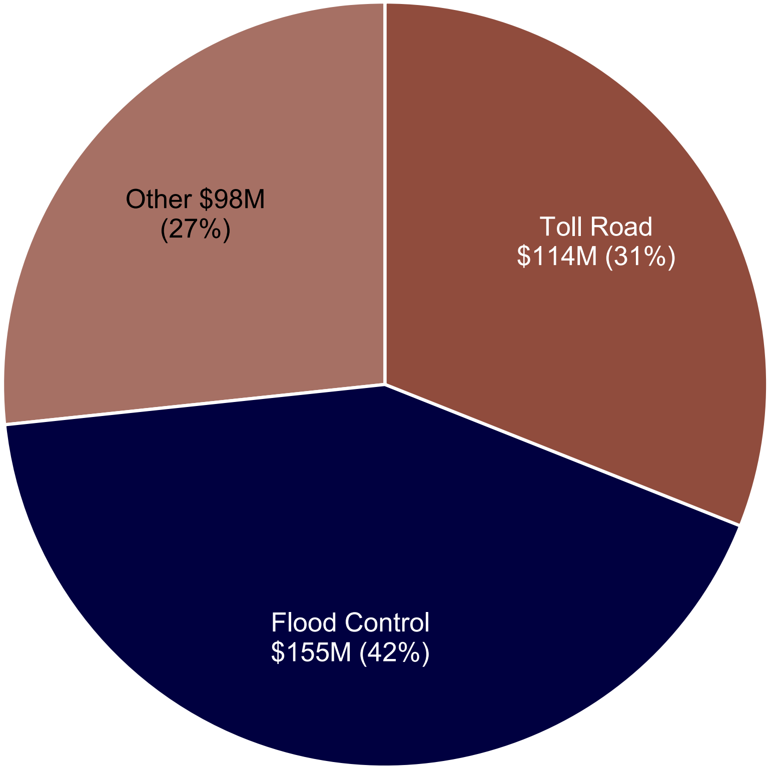
/PRELIMINARY

Contingency Balance (PIC)



Note: As of 9/22/202

$367M spent in capital projects so far; major progress in securing funding for Flood Control



Key Takeaways

- In the first half of FY22*, $367M** was spent on projects in the CIP portfolio***
- Significant progress has been made on funding for 2018 Flood Control Bond Program
  - 4/27/21: Commissioners Court approved plan to fully fund Subdivision projects in Bond Program
  - 6/29/21: Commissioners Court approved establishment of and funding for a Flood Resilience Trust to backstop Bond Program when partners do not provide funding
  - Work continues to secure additional Federal funding, including $750M of CDBG-MIT funds
- The CIP process that was approved 3/9/21 has been implemented, reviewed, and will continue to be refined
  - For example, requests for Commercial Paper funding now typically go on same Court as Investment Memos, instead of the following Court, speeding up the launch of capital projects by 2-3 weeks Countywide

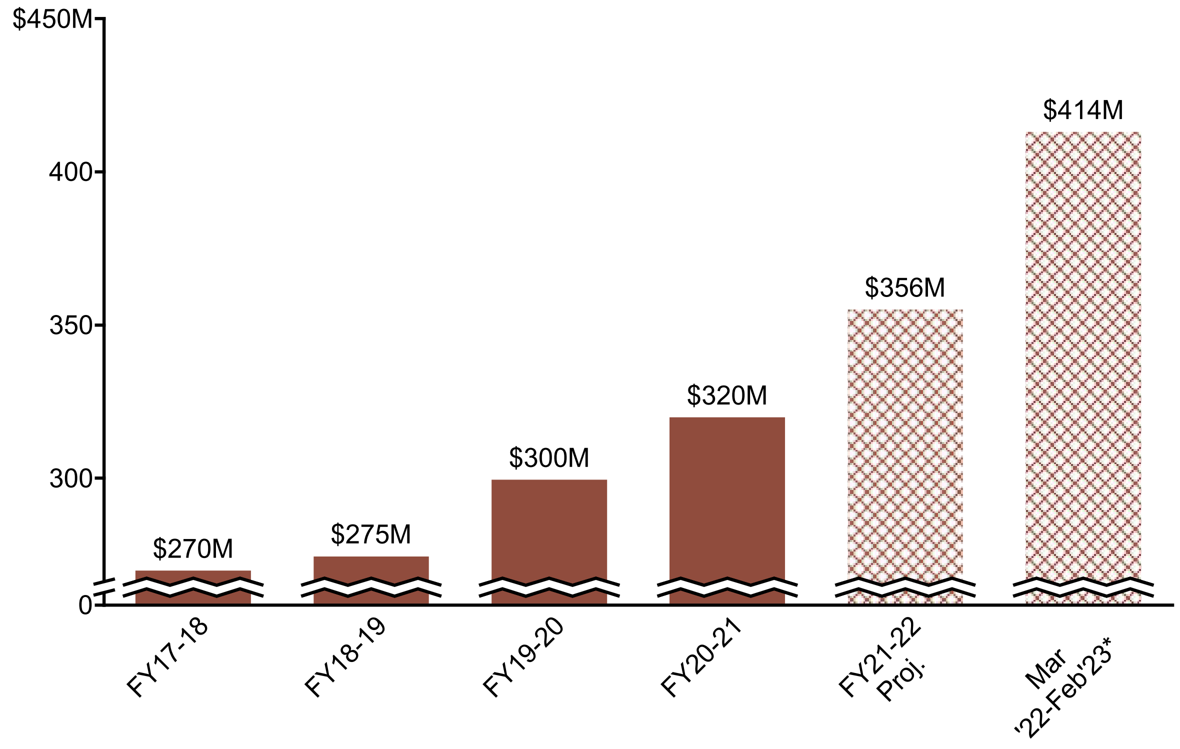
*Figures on spending and encumbrances, as well as project status, are accurate as of 8/31/21 and do not reflect changes or updates since then. HCFCD & HCTRA data sourced from individual departments. Other project amounts sourced from PeopleSoft.

**Money “spent” refers to money that have been expended by Harris County on CIP projects.

***Precinct-managed and rollover projects are not included in figures in this presentation.

Rising health and pension costs require monitoring and study

Health claims up ~50% next year vs. 5 years ago



*March 2022 through February 2023 based on CIGNA forecast

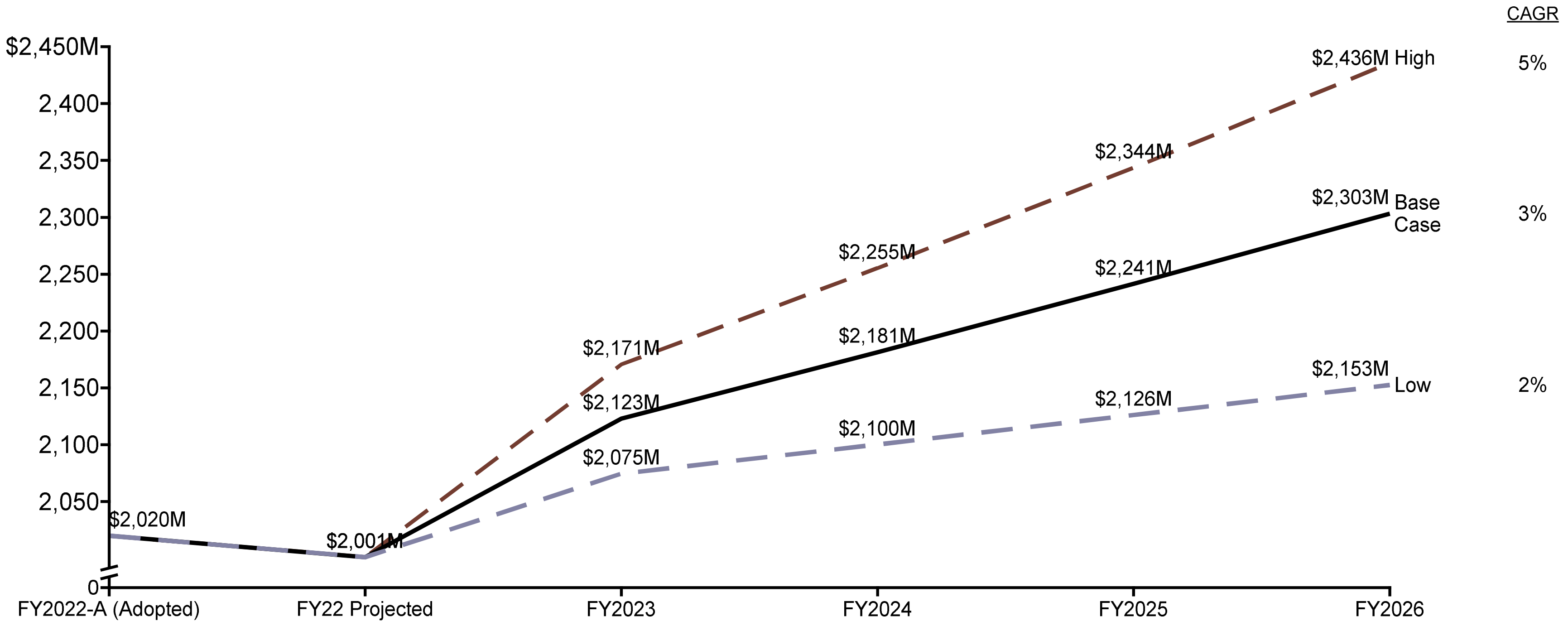
Pension cost is also rising

- TCDRS recently **reduced their long-term investment** return assumption from **8% to 7.5%**
- Lower return assumptions **increase the County's annual contribution**
- The pension **contribution increase** for 2022 is .6%, rising to 15.7% of salary or **$6.4M annual cost for General Fund**
- Projected contribution percentages for 2023 and beyond can change depending on depending on actuarial assumptions and investment returns

Expenses will grow even without additional hiring or new programs

/ DIRECTIONAL

Expenses forecast for General Fund

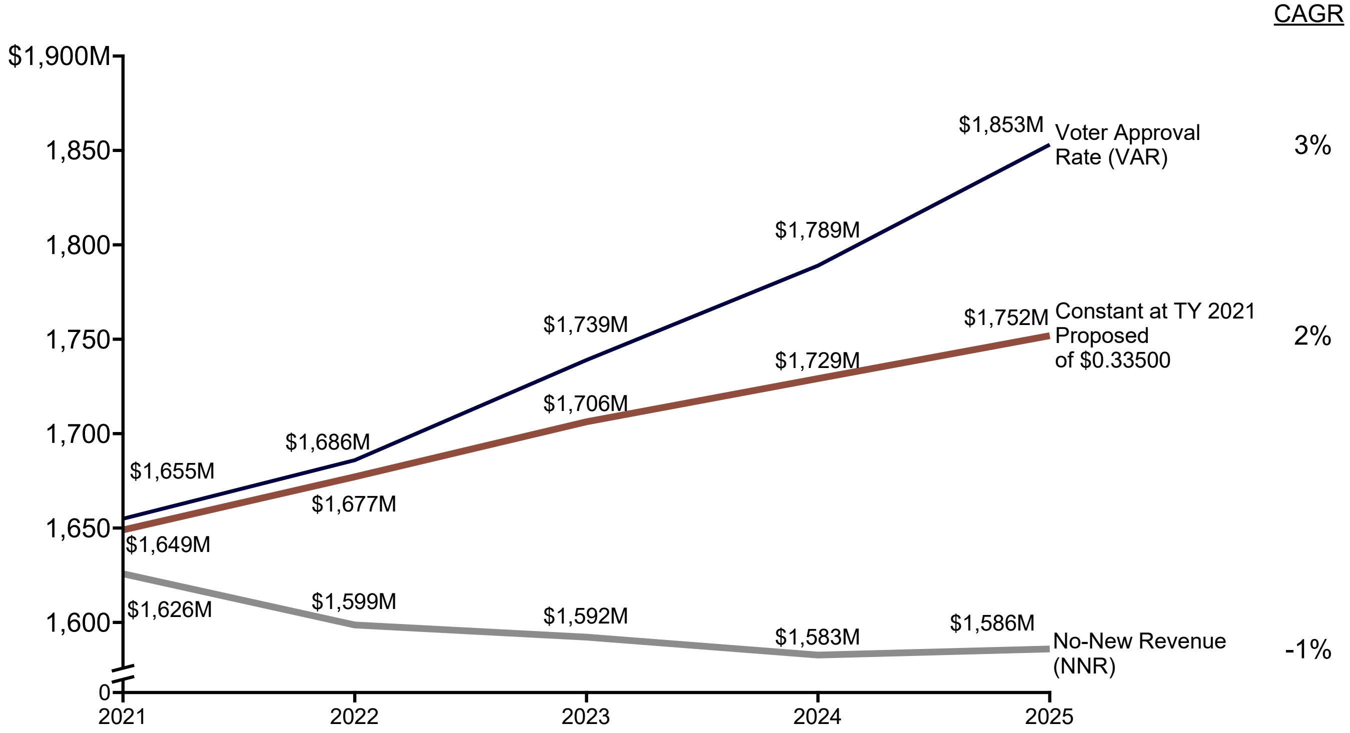


Note:
Includes Full-year expenses for new programs/initiatives approved during FY22 for all scenarios
Base case: No growth in staff but average budget Increases of 2.4% to cover COLA and inflation level adjustments. Pension, group health increase of 5%/year.
Low case: No growth in number of staff and average budget increases of 1% to cover COLA and inflation level adjustments, Pension, group health increase of 3%/year.
High case: 1.5% annual growth in number of staff and average budget Increases of 2.4% to cover COLA and inflation level adjustments, Including pension contribution Pension, group health increase of 5%/year.

Ad valorem revenue is likely to grow modestly if tax rates are stable

/DIRECTIONAL

M&O Levy Revenue Forecast ($M)



Taxable Value	$506B	$515B	$524B	$531B	$538B

Key Takeaways

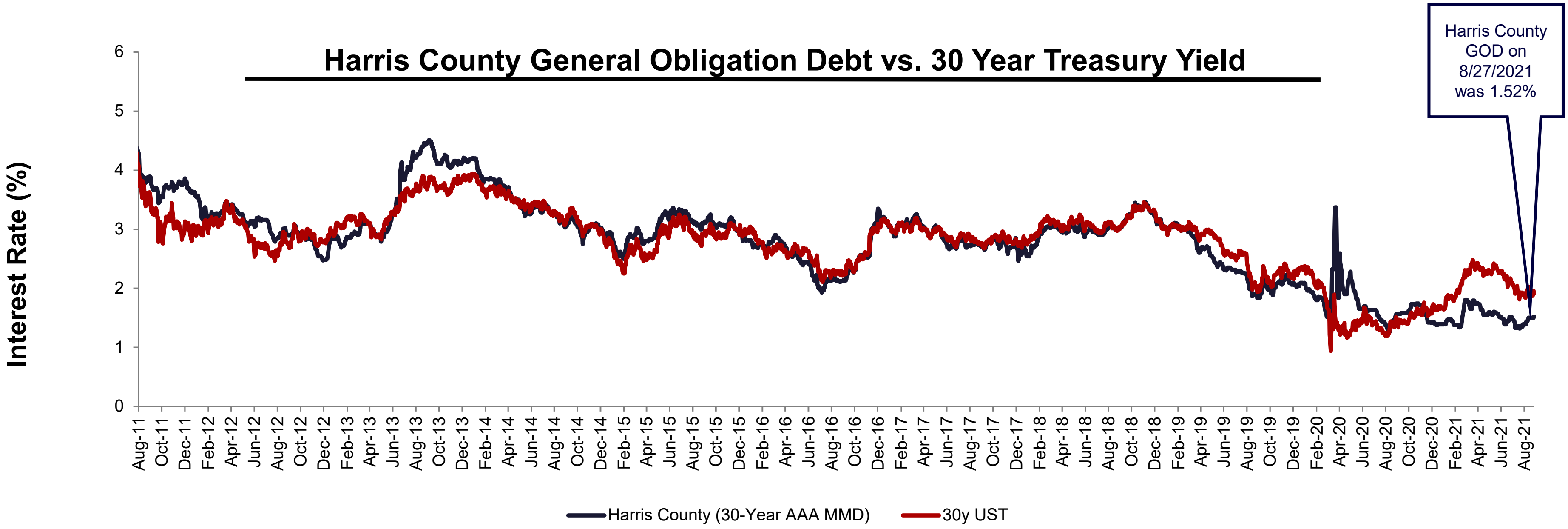
- Voter Approval Rates (VAR) and No New Revenue rates (NNR) are based on a statutory calculation.
- When Commissioners Court does not vote to set a rate – the rate reverts to the lower of the current No-new revenue rate (NNR) or the previous year’s adopted rate.
- When taxable values increase, revenue increases if the VAR is adopted but if the tax rate falls to the NNR, revenue decreases and remains relatively flat.

Note: VAR and NNR revenue information is based on the “most likely” economic scenario. Taxable values are corrected for projected first year adjustments and M&O revenue represents amounts collected between November and June. VAR rate takes into account unused increment.

Questions

Appendix

Harris County's cost to borrow remains extremely competitive



Harris County GOD on 8/27/2021 was 1.52%

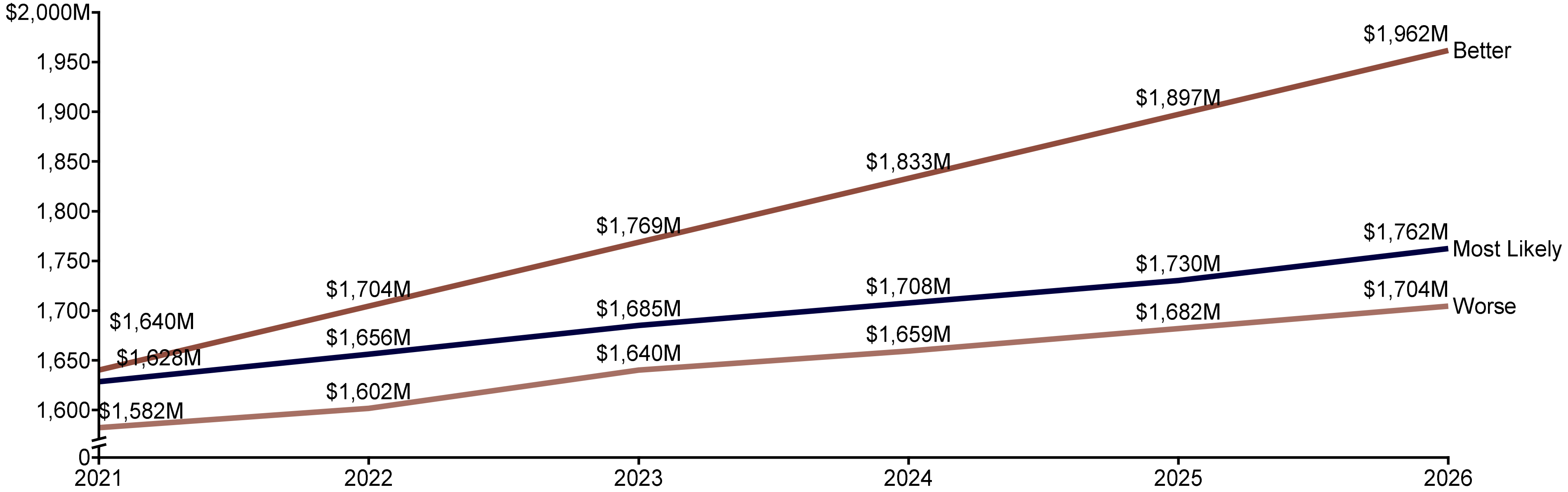
This implies cheaper funding for capital projects and ability to refinance current debt at lower rates

Note: As of 8/27/2021

Multiyear Revenue Forecast orientation and assumptions

1. The Office of Management & Budget Department has prepared a multiyear revenue forecast to cover a range of economic scenarios inclusive of the impact of COVID-19.
2. The latest report from the Federal Reserve (9/22) indicates that the economy continues to depend significantly on the course of COVID-19. While progress on vaccinations will likely continue to reduce the effects of the public health crisis on the economy, risks to the economic outlook remain. The Fed also predicted an annual inflation rate of 4.2% up from an earlier reporting of 3.4% in June, but believe inflation is expected to lower to 2.2% next year.
3. We have focused our analysis on the General Fund.
    a) Within the General Fund, the Tax category, comprised of property and occupation taxes, constitutes ~80% of General Fund revenues. The key driver of property taxes is property values. For 2021, the Harris County Appraisal District (HCAD) original certified taxable value (TV) for Harris County has increased 2.9% compared to the prior year. The categories of commercial and industrial personal property had the highest decrease in TV of 23% and 18%, respectively, while the vacant land TV category had the highest increase at 43%. Residential real property was higher by 8.6%.
    b) Charges for Services is the second-largest category and has historically represented ~13% of General Fund revenue. Contract patrol, motor vehicle sales tax, fees of office (various civil and criminal fees collected by 32 HC departments) and auto registration fees are the largest revenue producers within this category bringing in $200M per year historically, ~80% of this category.
    c) Intergovernmental/Reimbursements is the 3rd largest category and has historically averaged ~6% of General Fund revenue. Constable patrol of the Toll Road, state mixed beverage taxes, and interlocal agreements between the County and other governmental entities represent the largest sources within this category.
4. As the Tax revenue category is the most critical with respect to the revenue stream, we prepared three tax revenue scenarios for property value forecasts modeling out different levels of recessionary severity. We labeled them “Higher Growth”, “Most Likely”, and “Worse Case”. We present each with its own assumptions and description of input and output values. We then present our “most likely” total General Fund revenue forecast in its entirety.

Taxable values projected to increase creating revenue increases at an assumed flat rate

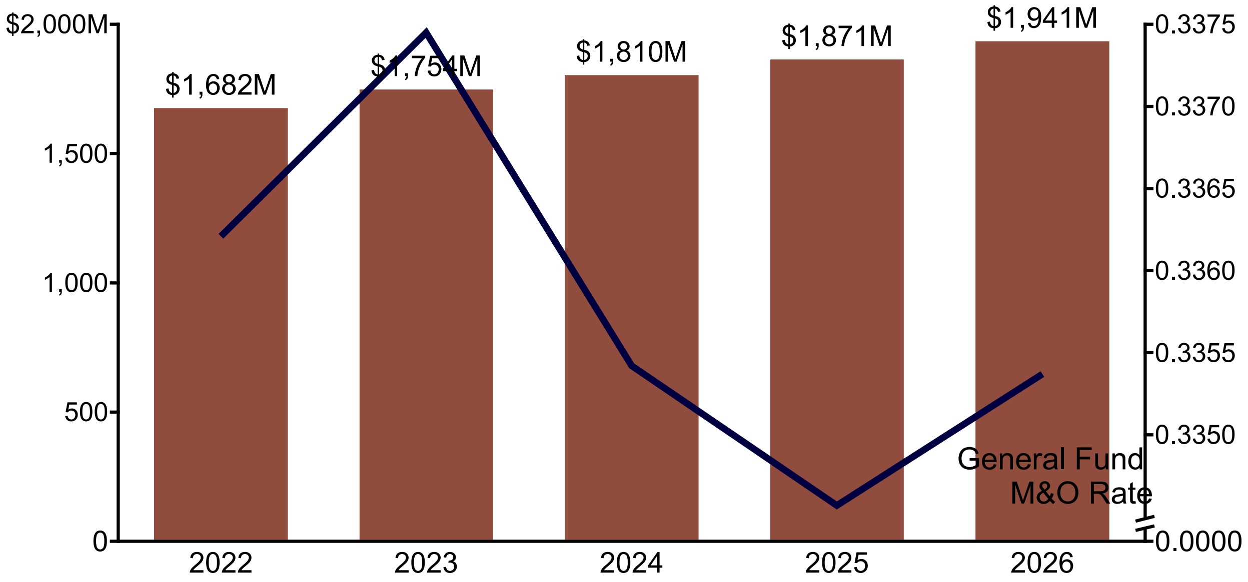


Scenario	TY 2021	TY 2022	TY 2023	TY 2024	TY 2025	TY 2026
Better Case	$510B	$530B	$550B	$570B	$590B	$610B
Most Likely	$506B	$515B	$524B	$531B	$538B	$548B
Worse Case	$492B	$498B	$510B	$516B	$523B	$530B

Note: Holding the tax rate constant at the 2021 proposed rate of $0.33500; Revenue reflects collections between November and February.

Total Tax Revenue – “Higher Growth” Economic Case

Taxes and General Fund M&O Rate



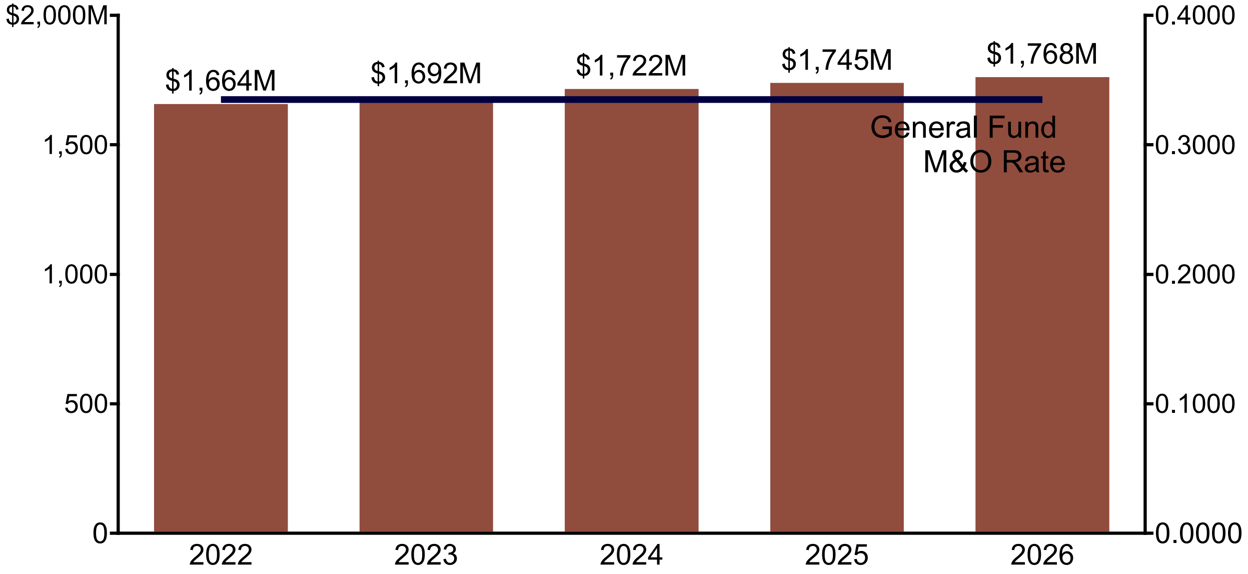
	2022	2023	2024	2025	2026
Tax Revenue (M)	$ 1,682	$ 1,754	$ 1,810	$ 1,871	$ 1,941
M&O Tax Rate	$ 0.33621	$ 0.33745	$ 0.33542	$ 0.33457	$ 0.33537
Taxable Value (B)	$ 510	$ 530	$ 550	$ 570	$ 590

Assumptions

- Based on best case economic scenario averaging 3.5% annual taxable value increase over next 5 years.
- TY 2021 (FY22) taxable value of $510B after estimated first year adjustment/corrections.
- Rates represent voter approval (VAR) rates with unused increment as output in the tax model.
- New improvement value increasing from $11.23B to $18.00B (averaging $14.04M annually).
- Debt and unencumbered balance to pay debt held constant at TY21 values.

Total Tax Revenue – "Most Likely" Economic Case

Taxes and General Fund M&O Rate



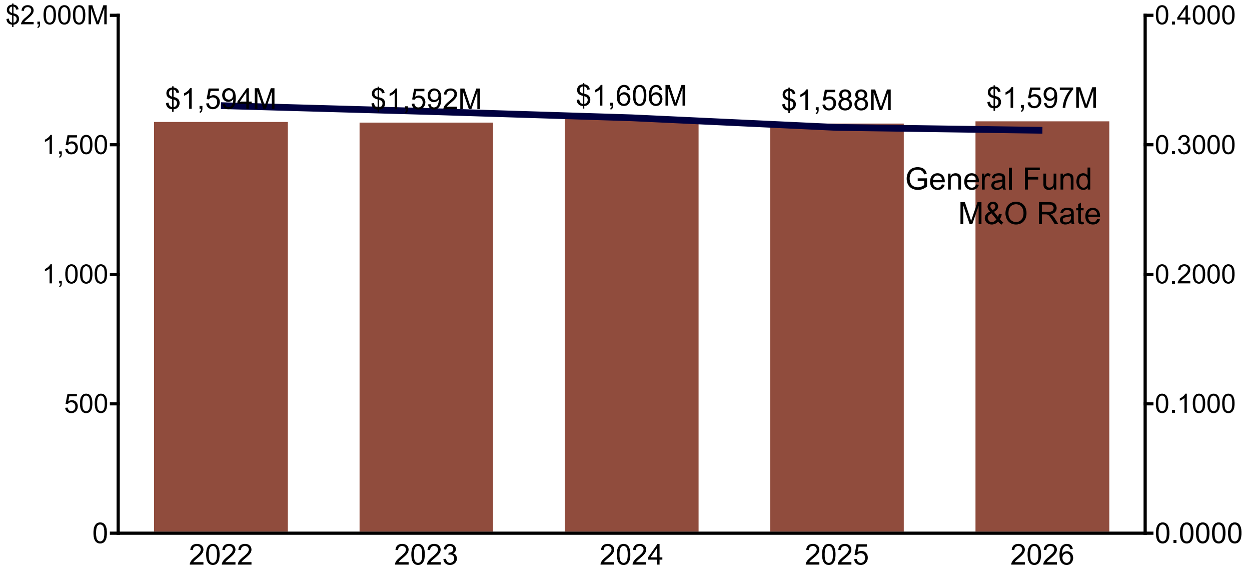
	2022	2023	2024	2025	2026
Tax Revenue (M)	$ 1,664	$ 1,692	$ 1,722	$ 1,745	$ 1,768
Tax Rate	$ 0.33500	$ 0.33500	$ 0.33500	$ 0.33500	$ 0.33500
Taxable Value (B)	$ 506	$ 515	$ 524	$ 531	$ 538

Assumptions

- Based on most likely economic scenario averaging 1.8% annual taxable value increase over next 5 years.
- TY 2021 (FY22) taxable value of $506B after estimated first year adjustment/corrections.
- Rates represent tax rate of $0.33500 held constant.
- New improvement value increasing from $11.23B to $18.00B (averaging $14.04M annually).
- Debt and unencumbered balance to pay debt held constant at TY21 values.

Total Tax Revenue – "Worse" Economic Case

Taxes and General Fund M&O Rate

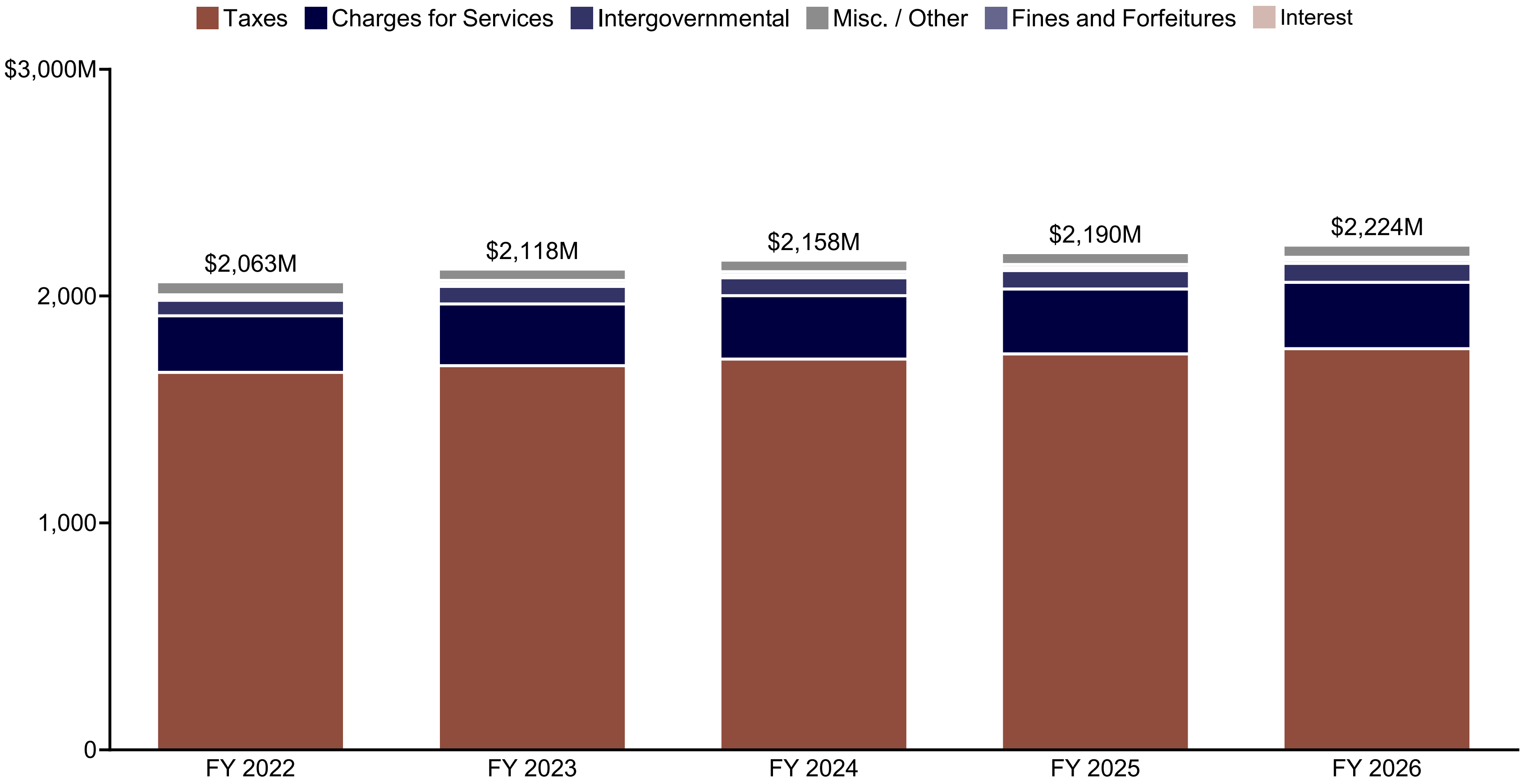


	2022	2023	2024	2025	2026
Tax Revenue (M)	$ 1,594	$ 1,592	$ 1,606	$ 1,588	$ 1,597
Tax Rate	$ 0.33030	$ 0.32583	$ 0.32096	$ 0.31358	$ 0.31122
Taxable Value (B)	$ 492	$ 498	$ 510	$ 516	$ 523

Assumptions

- Based on worse case economic scenario averaging 1.4% annual taxable value increase over next 5 years.
- TY 2021 (FY22) taxable value of $492B after estimated first year adjustment/corrections.
- Rates represent No New Revenue (NNR) rates as output in the tax model.
- New improvement value increasing from $11.23B to $18.00B (averaging $14.04M annually)
- Debt and unencumbered balance to pay debt held constant at TY21 values

Revenue Forecast shows steady growth if TY21 rate is maintained



Note: Fiscal years 2023 through 2026 based on anticipated fiscal year change; Taxes based on a constant proposed rate of $0.33500 and most likely economic scenario assuming county growth rate of 1.5%; average blended labor increase of 2.6% and an average inflation rate of 2.4%

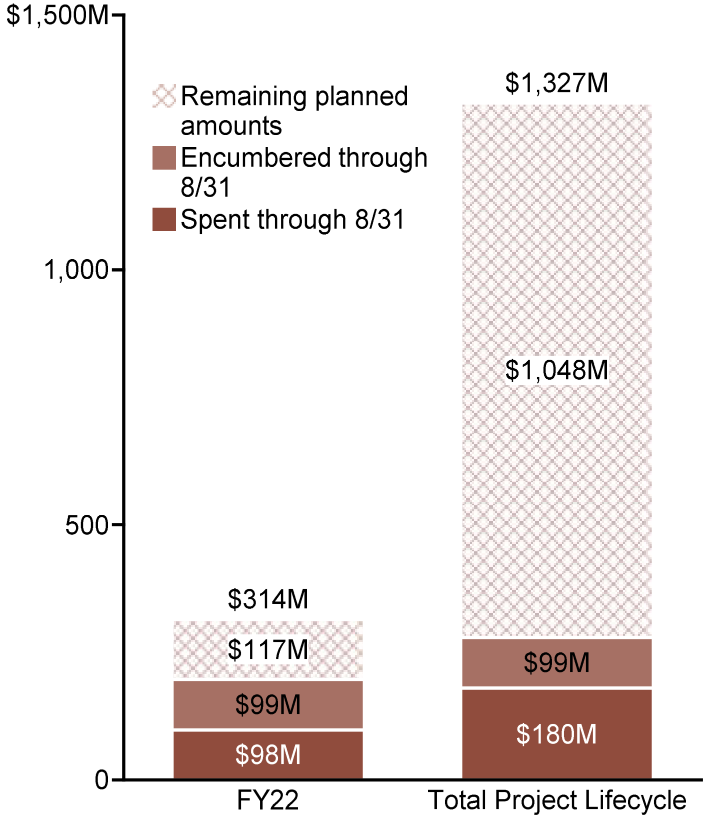
In FY22 year to date, 44% of planned expenses have been spent on Flood Bond Projects

Watershed	Actual Spend FY22 (1st Half)	Planned Spend FY22
A - Clear Creek	$8,920,169	$28,294,098
B - Armand Bayou	$5,317,058	$5,746,962
C - Sims Bayou	$4,638,561	$3,980,529
D - Brays Bayou	$41,989,231	$68,375,528
E - White Oak Bayou	$14,357,333	$33,139,611
F - Galveston Bay	$405,163	$1,079,039
G - San Jacinto River	$338,744	$2,991,307
H - Hunting Bayou	$5,551,782	$10,170,594
I - Vince Bayou	$8,352	$65,839
J - Spring Creek Bayou	$471,051	$2,972,588
K - Cypress Creek	$10,243,220	$26,118,512
L - Little Cypress Creek	$6,591,489	$22,065,948
M - Willow Creek	$2,599,882	$10,345,954
Contd..		
N - Carpenters Bayou	$438,766	$86,232
O - Goose Creek	$673,209	$1,232,302
P - Greens Bayou	$12,376,887	$22,986,791
P118 - Halls Bayou	$10,523,707	$21,856,445
Q - Cedar Bayou	$2,817,884	$7,582,478
R - Jackson Bayou	$79,596	$662,253
S - Luce Bayou	$38,734	$6,061,865
T - Barker Reservoir	$753,721	$9,262,805
U - Addicks Reservoir	$5,574,036	$8,031,803
W - Buffalo Bayou	$1,109,572	$2,847,909
Z - County-wide Projects	$19,041,160	$55,186,670
Total	**$154,859,309**	**$351,144,061**

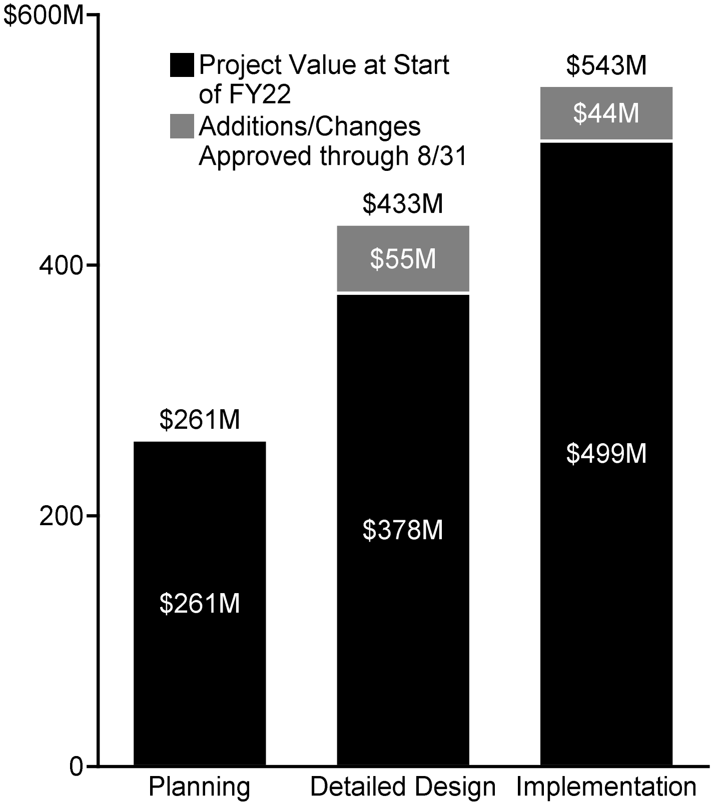
*Historically CIP expenditures at HCFCD tend to be greater in the 2nd half of each FY. Large lump-sum ROW transactions, which constitute a significant part of CIP project cost, often occur towards the end of the year for various reasons.

CIP- Other projects and maintenance overview

Past & Future Planned Spend



Total Project Value by Project Stage



Key Takeaways

- In FY22 through 8/31, $197M (63% of planned spend) has been spent or encumbered
- The current total estimated value of the County's capital facilities spend is approximately $1.3B
- Work remains for OCA, OMB, OCE, FPM, and US to develop a strategic plan based on needs to guide the County on future facility investments and possible divestments
- FPM has begun a conditions assessment of all County facilities
- FPM is responsible for "capital maintenance" of County facilities. Aside from routine maintenance, like building cleaning and sanitation, FPM carries out larger system maintenance countywide. This includes maintenance on HVAC, plumbing, elevators, life safety systems, security systems, parking facilities, roofing
- FY22 planned spend on capital maintenance of County facilities is $33M. Over the next 5 years, this planned spend is currently estimated at $168M