



# Harris County Five Year Financial Plan & Opportunities

Summary of Opportunities

JUNE 4, 2024

# Harris County is at an inflection point today where actions need to be taken to ensure financial resiliency

In years preceding COVID-19, Harris County operated from favorable financial position with healthy General Fund beginning balance. Budgetary pressure, largely resulting from accelerated spending in the last five years, and mandated revenue caps<sup>1</sup>, has begun to erode the General Fund cash balance

Total General Fund revenue is forecasted to grow at 4.5 to 5% per year with limited potential for incremental growth. Expense growth exceeded ~6% over the last 10 years and ~7% over the last 5 years

Harris County's FY 2025 Current Level of Service budget projections shows a deficit of \$129M. Decisions will need to be made to shrink the deficit and balance the budget

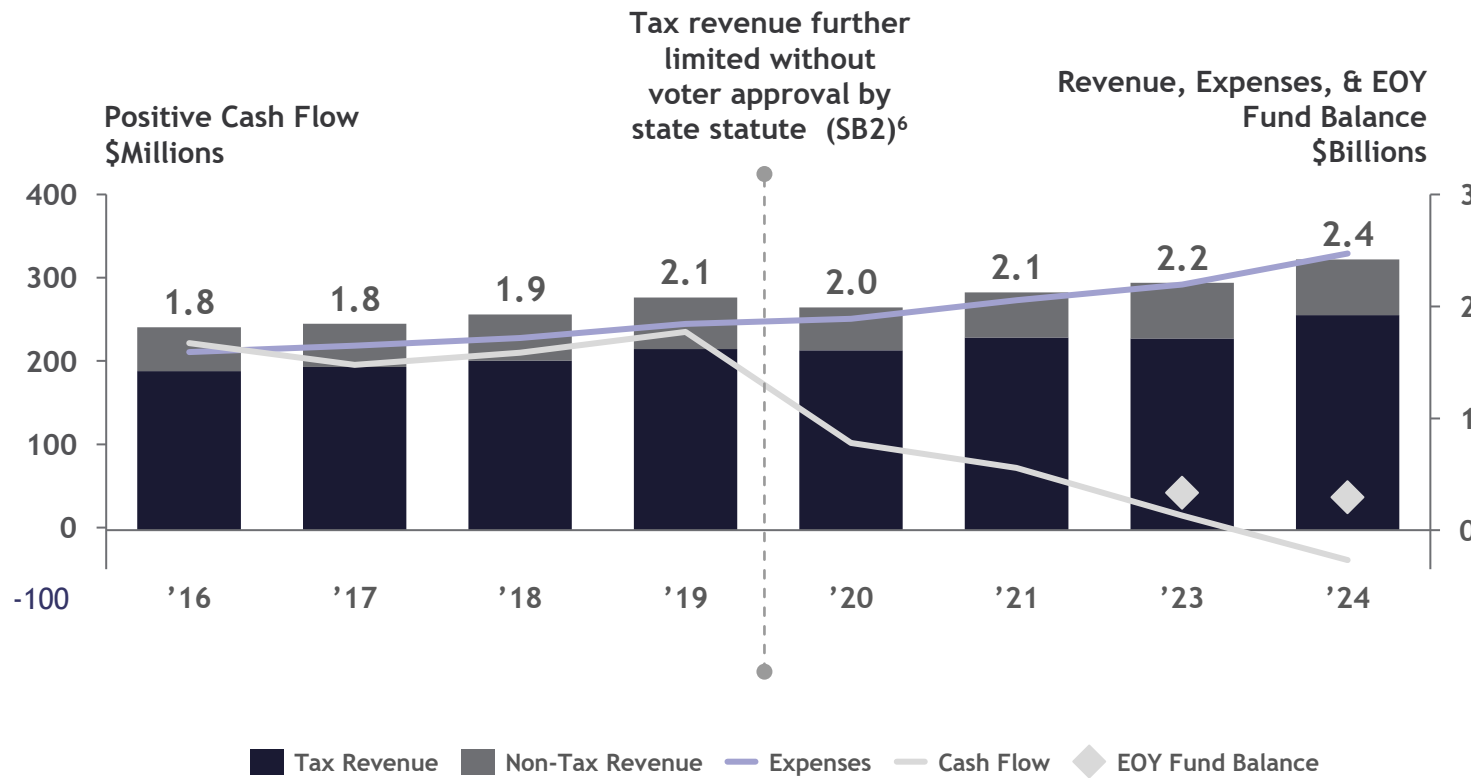
To respond to recent headwinds and prepare for those potentially upcoming, Office of Management and Budget at Harris County engaged BCG to partner with and conduct analyses that identified priority activation pathways that will help close the gap and enable a resilient five-year financial plan

1. Tax revenue further limited without voter approval by state statute (SB2). SB2 modified the multiplier in the voter-approval tax rate calculation, reducing it from 8% to 3.5%.



# Harris County's General Fund budget surplus has diminished due to expenses growing faster than revenue

## Harris County General Fund 2016 - 2024<sup>1</sup>



Cash flow (revenue less expenses) has diminished to near \$0 over the last 8 years from a high of \$200 million per year in 2016

Expense growth has accelerated while Harris County has revenue growth restrictions limited by 2019 Statutory changes

With no ability to absorb high inflation, maintaining resiliency will require maximizing available revenue sources while simultaneously controlling costs

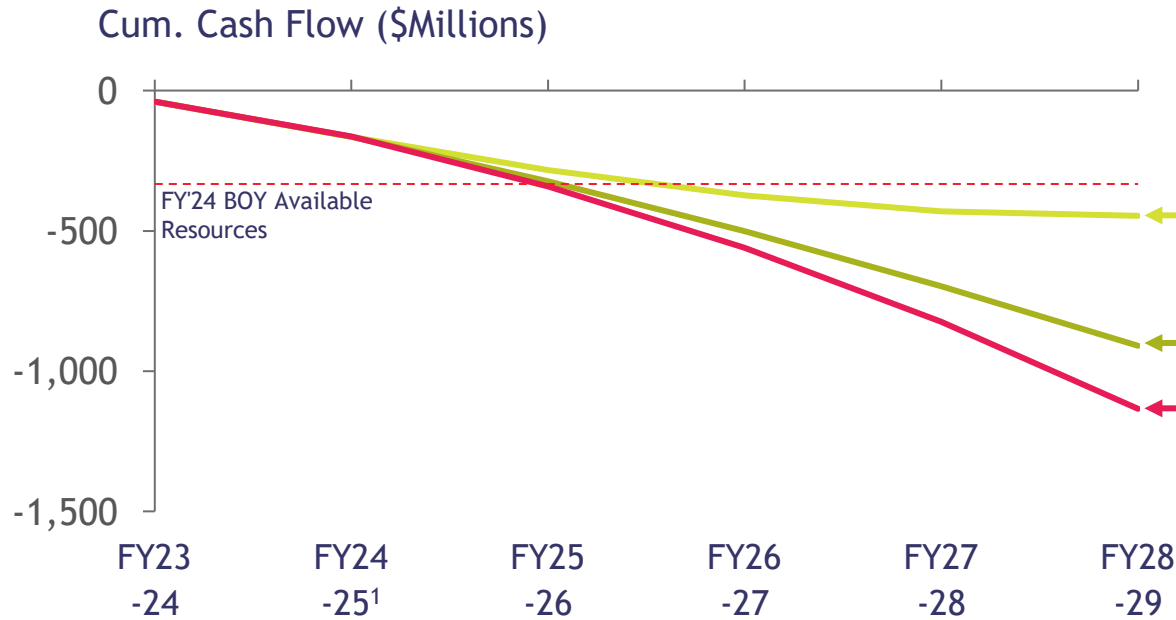
1. 2024 projected based on Q2 actuals 2. Expenses excluding Transfers to PIC, Health, Risk Mgmt. and Fleet Funds. Includes department transfers out 3. Total revenue less expenses excluding transfers to PIC, Health, Risk Mgmt. and Fleet Funds 4. 2023 Actual EOY balance based on Audit (differs from calculation due to loan to Flood Control); 2024 projected; Prior to change in FY, EOY balance was \$-1.3MM, so those period are not plotted due to changes in the underlying data. 5. SB2 only limits revenue growth from existing properties. However, this category makes up over 75% of County revenue Source: Harris County 5-Year Financial Forecast Model 6. SB2 modified the multiplier in the voter-approval tax rate calculation, reducing it from 8% to 3.5%.



# Financial modeling uncovers narrow path for Harris County to maintain positive available resources through FY'2029



## Projected Cumulative Cash Flow (from beg. FY'24)



### Optimistic

Hiring Freeze and mild control of Non-labor expense growth  
 0% | 2.5% | 4.5%  
 -\$20MM FY'29 Cashflow | \$110MM FY'29 EOY Balance

### Glidepath

Non-labor expense growth at '19-'24 average; mid-case inflation  
 1% | 2.5% | 7.5%  
 -\$210MM FY'29 Cashflow | -\$580MM FY'29 EOY Balance

### Pessimistic

'High' case headcount and Non-labor expense growth  
 1.5% | 3% | 8%  
 -\$310MM FY'29 Cashflow | -\$800MM FY'29 EOY Balance

0% headcount growth in 'Optimistic' case is modeled as a hypothetical and is not a recommendation. Other tools have been identified to achieve positive financial outcomes without the long-term negative effects of a hiring freeze

### Annual Historical Growth Rates

	FTE	CPI	Non-Labor Expense	
FY'19-FY'24	1.2%		4%	9.6%
FY'14-FY'24	2.1%	2.7%		7.7%
FY'08-FY'19	0.8%	1.8%		1.9%

### Key

Scenario Name	Description
Head Count Growth   CPI <sup>2</sup>   Non-Labor Expense Growth	FY'29 Cashflow   FY'29 End of Year Balance

1. FY'24 projected revenue and expense based on Q2 actuals; FY25 CLS = \$129MM shortfall following \$39MM expected shortfall in FY'24. 2. Go-forward consensus estimates 2-3% PhiladelphiaFed.org; Note: Tax revenue from existing properties modeled at 3.5%. New property revenue 2% of existing property revenue for year; Health fund EOY cash balance is 8.75% of Total Spending in FY25 increased linearly to the target range of 17% in FY29

# Building resiliency in Harris County's financial outlook will require activation of cost-savings and revenue-creating initiatives: 9 areas were explored

## Revenue initiatives

### Adjusting under-recovery of fees

Set fee schedules to ensure county recovers cost of delivering services

### Maximizing parking utilization

Maximize utilization of parking space and optimize rate structure to maximize revenue stream

### Drive granting strategy

Maximize grant funding by pursuing available grants and update strategy to maximize utilization and ensure indirect costs coverage

### Minimize subsidization provided to quasi-depts.

Ensure General Fund is reimbursed for labor, services, and overhead utilized by county quasi-depts

### Exploring inter-gov't service agreements

Leverage scale and specialization to provide services to other government entities for a fee

## Cost initiatives

### Optimizing procurement spend

Reduce procurement spend by applying strategic levers like demand management

### Conducting benefits benchmarking against peers

Benchmark benefits coverage and offerings

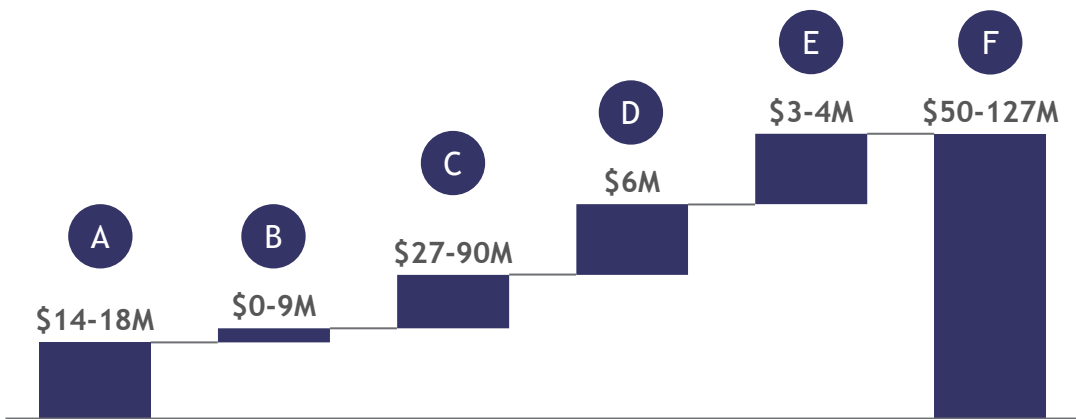
### Streamlining org. structure & reducing manual work through automation

Optimize org structure & operating model and reduce/automate redundant and/or low value activities

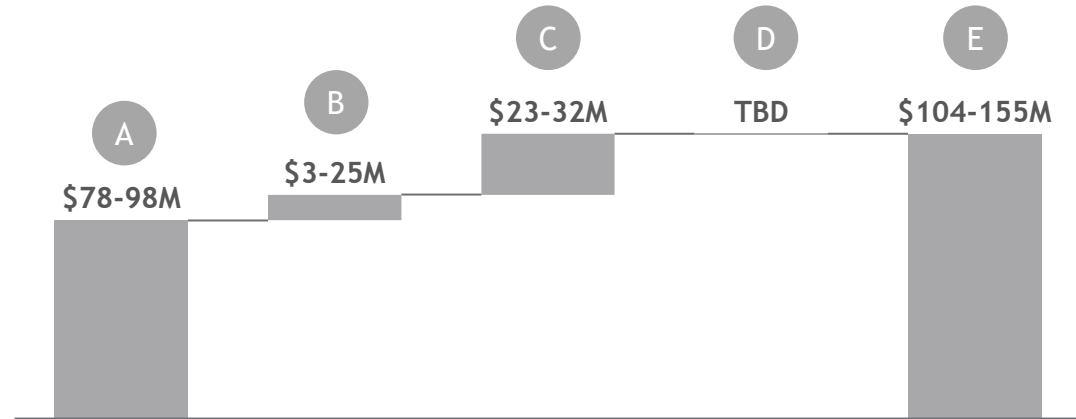
### Rationalizing office space

Right-size office space and real estate strategy for expected usage

# Over 25 levers uncovered across these 9 initiatives with potential to deliver ~\$154-282M of value which ~85% impacts General Fund



Initiatives that drive incremental revenue



Initiatives that minimize cost

- A Adjusting under-recovery of fees:** Revision of fee schedules aimed at full cost recovery
- B Maximizing parking utilization:** Strategic management and rate optimization of parking
- C Drive granting strategy:** Streamlining and expanding grant funding and utilization processes
- D Minimizing subsidization provided to quasi-depts:** Ensure General Fund is reimbursed for labor, services, and overhead utilized by county depts.
- E Exploring inter-gov't service agreements:** Leverage scale and specialization to provide services to other government entities for a fee
- F TOTAL revenue initiatives**

- A Streamlining org. structure & reducing manual work through automation:** Optimize organizational structure & operating model
- B Rationalizing office space:** Right-size office space for expected usage
- C Optimizing procurement spend:** Reduce procurement spend by applying strategic levers
- D Conducting comp/benefits benchmarking against peers:** Benchmark comp/benefits coverage and offerings
- E TOTAL cost initiatives**

Initiatives that drive incremental revenue

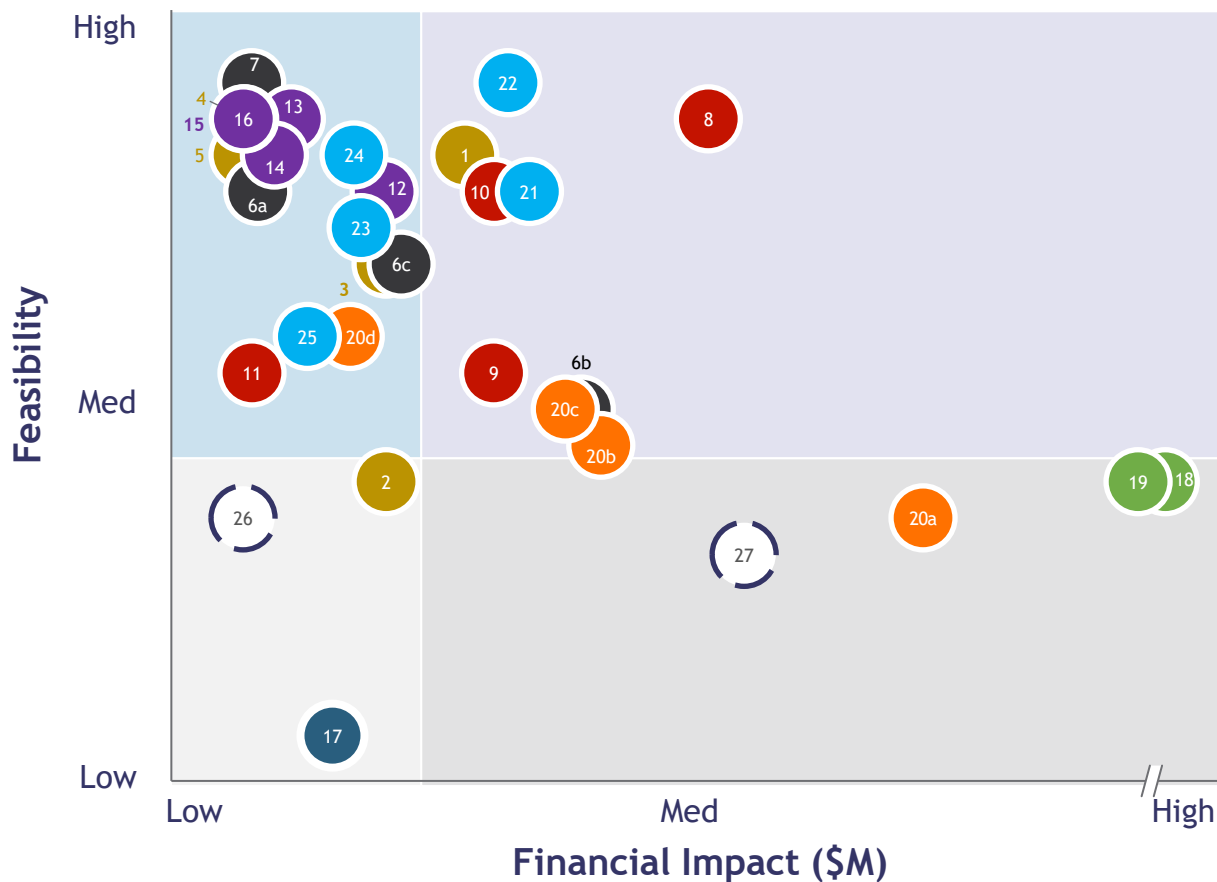
	Adjusting under-recovery of fees	Maximizing parking utilization	Drive granting strategy	Minimizing subsidization provided to quasi-depts.	Exploring inter-gov't service agreements
<b>Challenge</b>	Under-recovery of costs associated with resident services provided by the County (e.g., engineering permitting), leading to General Funds subsidizing services	Suboptimal utilization and pricing of parking spaces, resulting in lost potential revenue	Gap in maximizing available grant funds due to inefficient grant management processes and general funds subsidizing grant programs	Lack of a systematic approach to recuperating the costs of services provided by Harris County to other quasi-departments and supported entities	Missed opportunities for cost savings and improved efficiency by not sharing resources and services across governmental entities
<b>Solution</b>	Implement review of fee structures & ensure adjustments to fee schedule to reflect true costs of services (e.g., true-ups for constable fees, and Fire Marshal's inspection office fees, etc.)	Implement measures such as charging for all downtown parking spots, optimizing rates to market prices, and leveraging county lots for public event parking	Improve utilization, capture more grants to cover existing services including Philanthropies, and ensure general fund gets reimbursed for indirect cost of grant programming	Implement a consistent approach to capturing indirect cost rate across all quasi-departments that receive services from Harris County	Identify investments where creating an inter-government agreement can lead to benefit to the County and/or residents
<b>Tactical levers</b>	<ul style="list-style-type: none"> <li>1 True-up Engineering Fees</li> <li>2 True up Constable fees</li> <li>3 Fire code violation fee</li> <li>4 True-up Fire Marshal fees</li> <li>5 True up Universal services fees</li> </ul>	<p><i>Not additive, one path to be chosen</i></p> <ul style="list-style-type: none"> <li>6a Increase utilization of contract + transient parking, keep charging model for employees</li> <li>6b Increase utilization of contract + transient parking, charge at market rate</li> <li>6c Increase utilization of contract + transient parking, charge at market rate + provide \$75 voucher</li> <li>7 Increase events parking</li> </ul>	<ul style="list-style-type: none"> <li>8 General fund reimbursement (grants)</li> <li>9 Increase federal and state grants</li> <li>10 Decrease lapsed funds</li> <li>11 Increase philanthropic grants</li> </ul>	<ul style="list-style-type: none"> <li>12 HCTRA Indirect Cost Recovery</li> <li>13 Harris Health Indirect Cost Recovery</li> <li>14 Toll road patrol direct cost recovery</li> <li>15 Greater Harris County 911 Indirect Cost Recovery</li> <li>16 Flood Control Indirect Cost Recovery</li> </ul>	<ul style="list-style-type: none"> <li>17 Intergov. Evidence room</li> </ul>

Initiatives that minimize cost

	Optimizing procurement spend	Conducting comp/benefits benchmarking against peers	Streamlining org. structure & reducing manual work through automation	Rationalizing office space
<b>Challenge</b>	Fragmented purchasing process that lacks strategic sourcing, leading to excessive spending	Lack of reference point of competitiveness of benefits and compensation offered to Harris County Employees	Inefficiencies due to an overextended structure with dispersed support activities and redundant and inefficient work processes	Inefficient use of office space that doesn't align with current demands
<b>Solution</b>	Reduce procurement spend by employing five strategic levers of demand management, spend consolidation, negotiation, etc.	Continuously compare and adjust employee compensation and benefits to market standards to ensure competitiveness and fiscal sustainability	Streamline organizational structure and operating model and implement organizational changes that optimize structure and operations and leverage automation to reduce unnecessary work	Adopt office space rationalization by aligning square footage per employee with public sector standards, implementing hoteling where feasible, right-size office spaces, and adjust for expected usage patterns
<b>Tactical levers</b>	<ul style="list-style-type: none"> <li>21 Lower CAAs rate</li> <li>22 Rationalize licenses</li> <li>23 Improve temp labor vendor management</li> <li>24 Standardize laptops</li> <li>25 Consolidate landscaping services</li> </ul>	<ul style="list-style-type: none"> <li>27 Rationalize comp/benefits package to match competitive packages in market</li> </ul>	<ul style="list-style-type: none"> <li>18 Org. streamlining, management</li> <li>19 Org. streamlining, Individual contributors</li> </ul>	<p><i>Not additive, one path to be chosen</i></p> <div style="border: 1px dashed black; padding: 5px;"> <ul style="list-style-type: none"> <li>20a Office - reduce space to match in-office FTEs</li> <li>20b Office - reduce space to match FTEs</li> <li>20c Office - match seats to in-office FTEs</li> <li>20d Office - match seats to FTEs</li> </ul> </div>

# Prioritizing levers via financial impact and feasibility point to clear areas for activation

Identified and ranked 25+ levers



## Big Wins

- 1. True up Engineering fees
- 6b. Increase utilization of contract + transient parking, charge at market rate
- 8. General fund reimbursement (grants)

- 9. Increase federal and state grants
- 10. Decrease lapsed Grant funds
- 20b. Office - reduce space to match FTEs
- 20c. Office - match seats to in-office FTEs
- 21. Update CAAs rates and drive oversight
- 22. Rationalize software licenses

## Small Wins

- 3. Recover Fire code violation fee
- 4. True up Fire Marshal fees
- 5. True up Universal services fees
- 6a. Increase utilization of contract + transient parking, keep charging model for employees
- 6c. Increase utilization of contract + transient parking, charge at market rate + provide \$75 voucher
- 7. Increase events parking
- 11. Increase philanthropic grants
- 12. HCTRA Indirect Cost Recovery

- 13. Harris Health Indirect Cost Recovery
- 14. Toll road patrol direct cost recovery
- 15. Greater Harris County 911 Indirect Cost Recovery
- 16. Flood Control Indirect Cost Recovery
- 20d. Office - match seats to FTEs
- 23. Improve temp labor vendor management
- 24. Standardize laptops
- 25. Consolidate landscaping services

## Evaluate

- 2. True up constable service fees
- 17. Intergov. Evidence Room
- 26. HR Transformation

## Roadmap

- 18. Org. streamlining, management
- 19. Org. streamlining & automation
- 20a. Office - reduce space to match in-office FTEs
- 27. Rationalize benefits package to match competitive packages in market

Sized initiatives

- Fees
- Parking
- Grants
- Cost recovery
- Inter-govt.
- Org. streamlining
- Office space
- Purchasing

TBD, for consideration

- HR(26) and Benefits (27)

# Activation of these levers will require grouping and sequencing for maximum impact

Bundle levers into one activation path that...

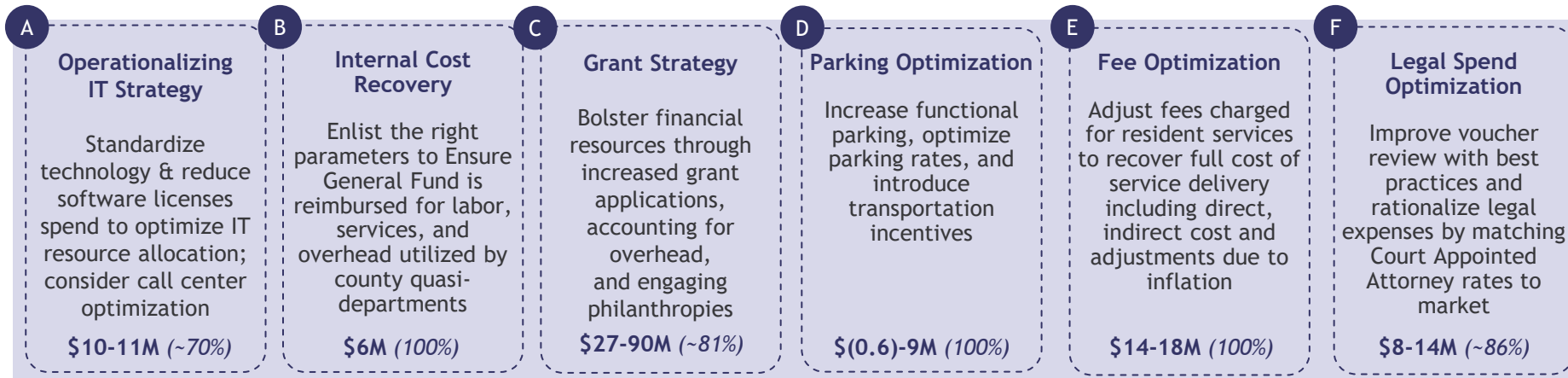
- ...share **common stakeholders** to accelerate decision making
- ...rely on **similar processes and policy decisions** to ensure full value capture
- ...share **common goals** for ease of communication

Sequence activation of levers so that County...

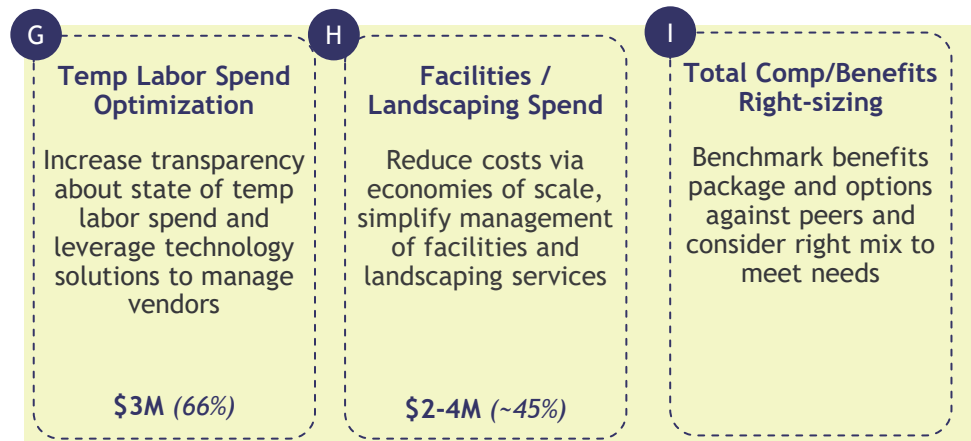
- ...prioritizes levers with a **shorter timeline** to fund **journey and roadmaps** **big ticket levers with long lead time** early
- ...minimizes change impact within one particular department to **avoid overburdening employees**
- ...considers the resources, including **personnel, technology, and financial investments**; kick-off where resources are available

# County can capture identified value via the following activation pathways

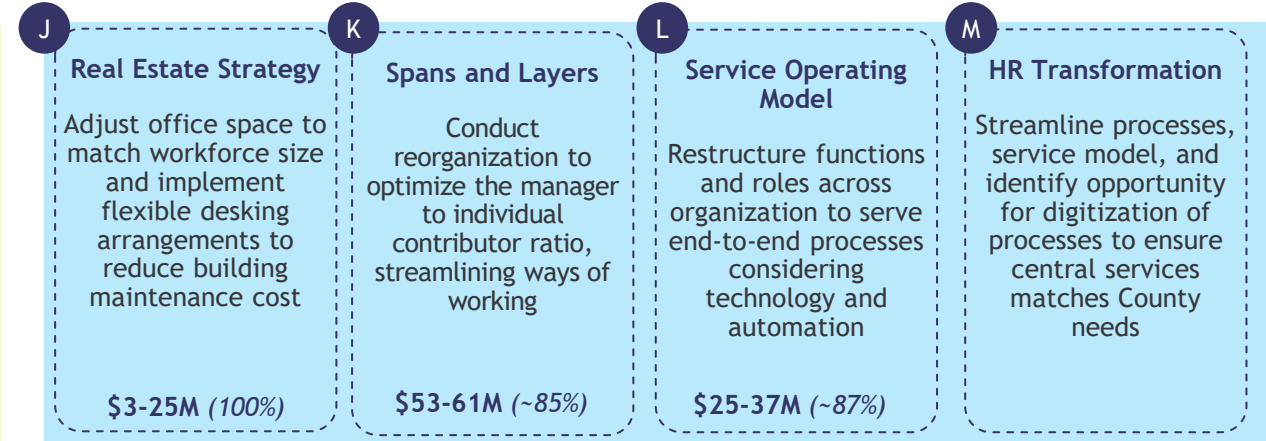
## Focus First: High-priority wins



## Do next: Second wave wins



## Roadmap: Long-lead, big wins



Legend: \$X-XM Total impact of activation pathway (% impact to General Fund)

# To unlock this value, levers are bundled into activation pathways that holistically address the revenue and cost opportunities ...

Activation pathways	Description	Relevant Levers
Operationalize IT strategy	Standardize technology and reduce excess software licenses to match actual user numbers across county to optimize IT resource allocation. Ensure process & policy supports. Consider Call Center optimization	22 - Rationalize software licenses 24 - Standardize laptops
Internal cost recovery	Implement process/parameters for recovery of funds from quasi-departments and ensure General Fund is reimbursed for labor, services, and overhead	12-16 - indirect & direct cost recovery
Grant strategy	Improve grant application and management process and bolster financial resources through increased grant applications at both federal and state level, accounting for overhead/indirect costs, and engaging and expanding partnerships with philanthropies to increase grant revenue	8 - General fund reimbursement 9 - Increase fed and state grants 10 - Decrease lapsed Grant funds 11 - Increase philanthropic grants
Parking optimization	Increase functional parking, optimize parking rates, and introduce transportation incentives to optimize use of parking real estate across the County. Consider best fit option for County.	6a-c - Contract & transient parking 7 - Increase events parking
Fee optimization	Adjust and align fees charged to Harris County residents to reflect actual cost of service delivery aligned to inflation, and including direct and indirect costs.	1-5 - Increase recovery of fees and overhead, true up fees, align fees with inflation
Legal spend optimization	Ensure full recovery of costs for services paid by General Fund via robust review system and oversight and rationalize legal expenses by aligning rates for court-appointed attorneys with market and peer benchmarks	21 - Update CAAs rates and drive oversight
Temp labor spend optimization	Increase transparency about state of temp labor, streamline vendors and leverage technology solutions to manage vendor relationships	23 - Improve temp labor vendor management
Facilities/Landscaping Spend	Reduce costs via economies of scale, reduce number of vendors, and simplify management of facilities and landscaping services	25 - Consolidate landscaping services
Total comp/benefits right-sizing	Conduct benchmarking of benefits offerings against peer counties and consider options to maximize optionality and right mix of comp and benefits to match employee needs	27 - Rationalize benefits package
Real estate strategy	Right-size office space and implement flexible work models to reduce overhead/building maintenance costs and increase space utilization	20a-d - Office - matching seats/reducing space
Spans and layers	Conduct reorganization across departments to improve decision-making and accountability by adjusting the breadth and depth of spans and layers in organization	18 - Org. streamlining, management
Service operating model	Restructure functions and roles to serve E2E processes across various departments to eliminate redundancies and improve efficiency	19 - Org. streamlining & automation
HR transformation	Streamline HR processes and service model and identify opportunity for digitization via holistic strategy to enhance efficiency	26 - HR transformation



# A. IT Strategy

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## Opportunity to save >\$10M by optimizing software licenses and standardizing laptop and desktop spend

The County does not have a cohesive IT strategy that governs all policies and processes regarding software and hardware

~\$29M spend on purchasing user-based licenses is currently fragmented across ~43 departments and ~145 suppliers with average purchase order values of ~\$13K

By adopting demand management practices for right-sizing license quantities and optimizing license types, Harris County could benefit from a **cost reduction of \$7-8M (~25-28%) on user-based license spend**

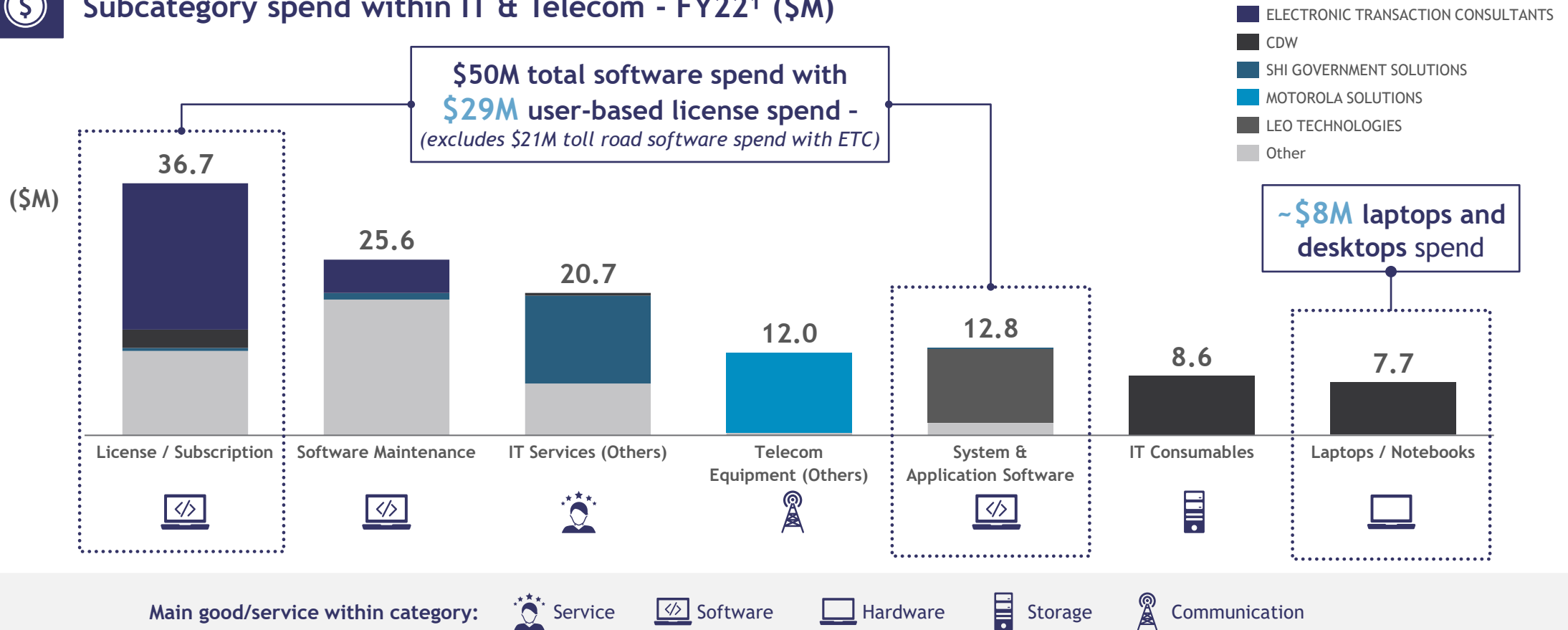
Deep dive on ~\$8M Laptop & desktop spend shows purchasing fragmentation across models. **Moving to standard 3-model option could yield >\$3M of savings** (35-45%) with potential to save General Funds by capitalizing these purchases as well

Opportunity to adopt best practices when it comes to demand management both in hardware (laptops/desktops) and software licenses

# IT & Telecom | ~\$29M spent by County on user-based software licenses, and ~\$8M spent on laptops and desktops



## Subcategory spend within IT & Telecom - FY22<sup>1</sup> (\$M)



Note: Likely less of an opportunity in Telecom due to current service model with Motorola  
 1 Subcategories are non-exhaustive. Chart includes subcategories with top 5 suppliers 2. Excluding spend with Electronic transaction consultants as it is likely not associated with a user license  
 Source: Simfoni Purchasing Data FY2022

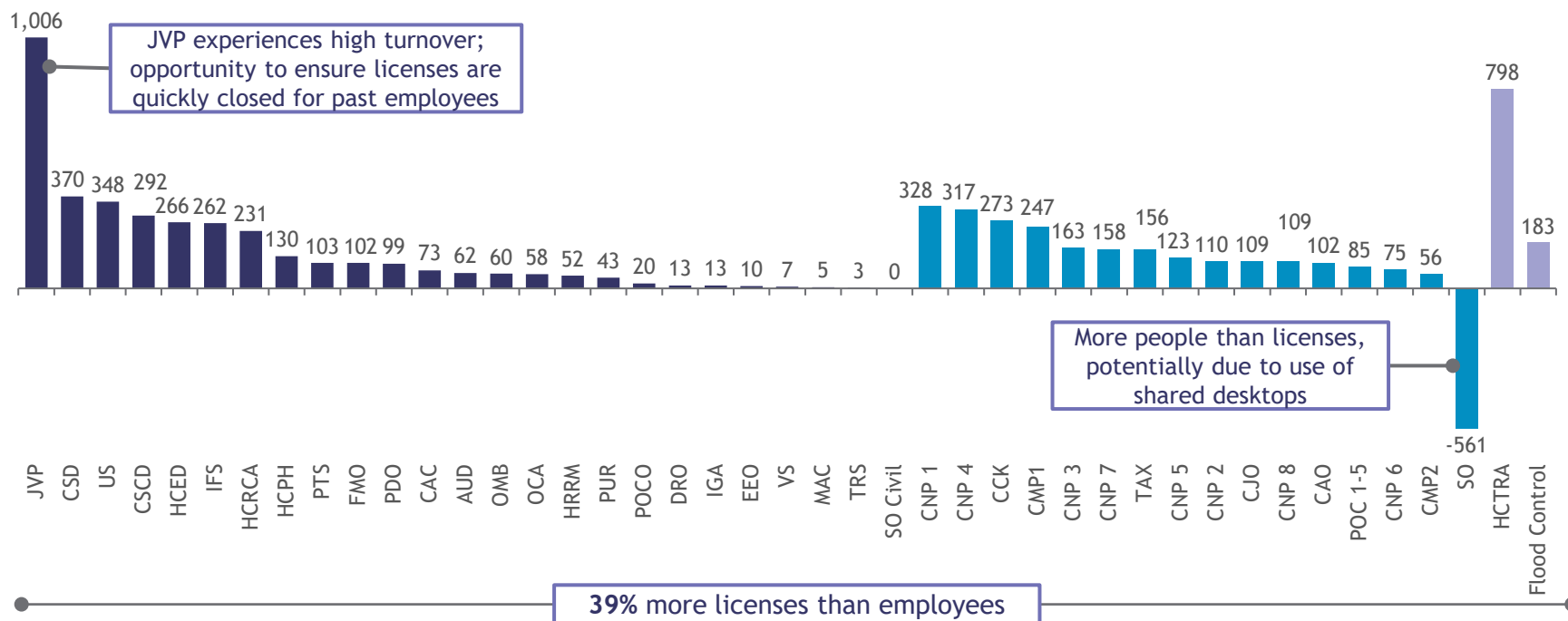
# \$4M in Microsoft Office 365 license savings by reducing license count to match number of employees

## Extra Microsoft Licenses by department

Difference in no. Microsoft Office Licenses and no. employees

■ OCA<sup>1</sup> ■ Elected<sup>2</sup> ■ Other

Some departments like public library and CMP 4 purchase licenses directly instead of going through Universal Services, so data not available to show here



**6,890**  
extra Microsoft Office licenses

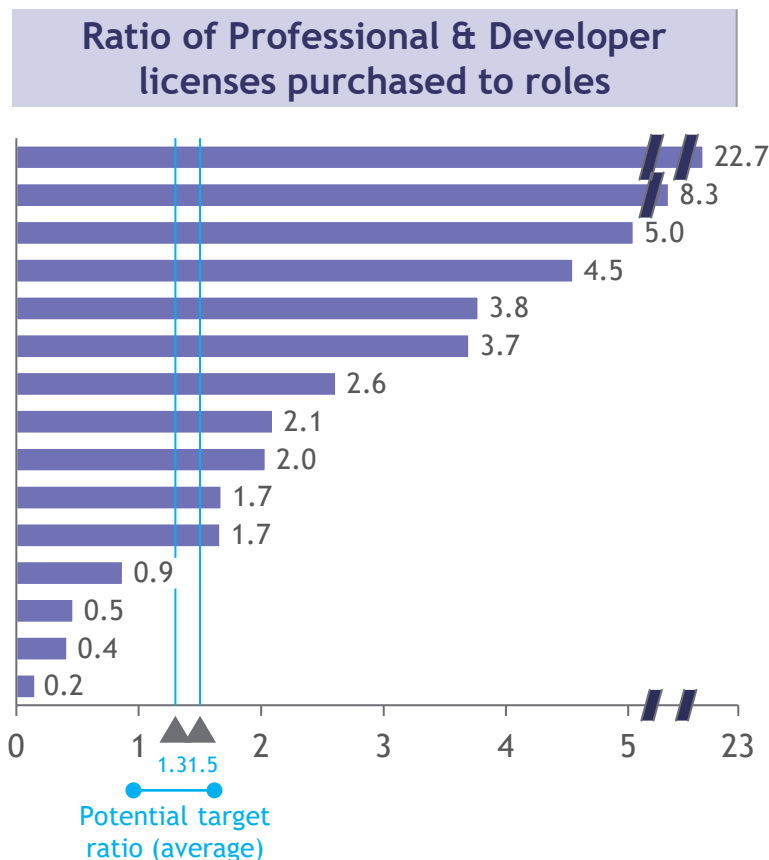
**\$4.0M**  
in potential cost-savings by reducing excess Microsoft 365 licenses (\$585 per license<sup>3</sup>)

1. Analysis excludes Criminal Courts at Law, Dispute Resolution Center, District Court Administration, Harris County Toll Road Authority; 2. Analysis excludes Commissioner Precinct 3, Commissioner Precinct 4, District Attorney's Office, Law Library, Elections Administration Department, and District Clerk's Office due to data quality; 3. Based on SHI data with line items of \$585 on Microsoft spend; Note: All part-time, full-time, and temp employees included; No. Office Licenses is sum of Office 2010, Office 2013, Office 2016, and Office 365 licenses; Source: Harris County Software License Data from Universal Services; Harris County Position Data from HRRM; Simfoni Purchasing Data FY2022



# Current Microsoft technical license mix for sample of departments suggests too many 'technical' licenses<sup>1</sup> purchased vs. developer and professional user types<sup>2</sup>

	Number of employees	Purchased licenses <sup>4</sup>
Institute of Forensic Sciences	14	318
Fire Marshal's Office	37	306
Office of Management and Budget	23	116
Pollution Control Services	31	141
Human Resource Risk Management	31	117
Domestic Relations Office	10	37
Universal Services <sup>3</sup>	409	1068
Community Services	229	480
Economic Equity & Opportunity	27	55
Public Health <sup>4</sup>	581	974
Intergovernmental and Global Affairs	6	10
Resources for Children and Adults	240	209
Pre-Trial Services Office	58	27
Veterans Services	12	5
Office of County Administration	39	6
<b>Total</b>	<b>1,747</b>	<b>3,869</b>



**7-20%**  
extra Microsoft professional & developer type licenses from sample (3869), translating to...

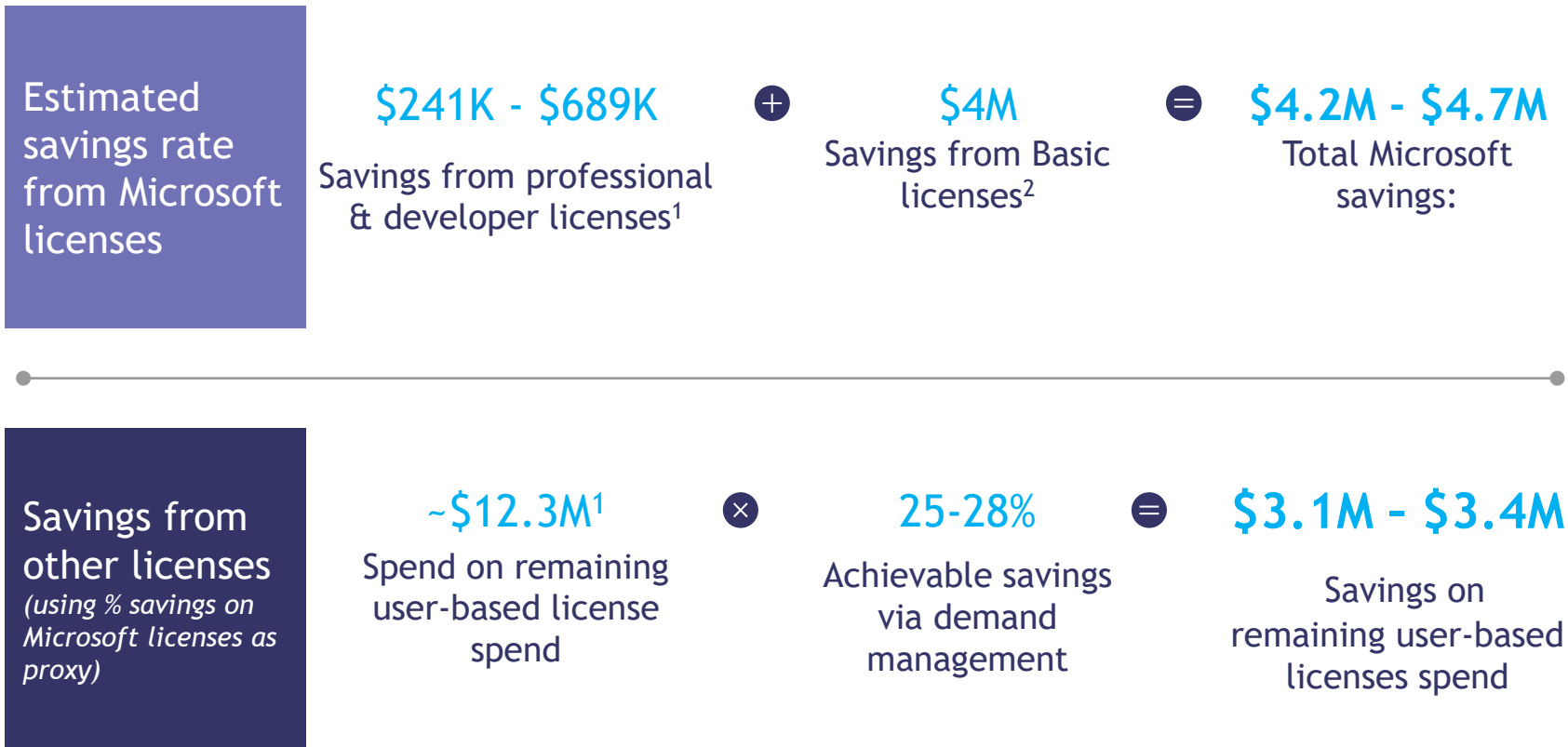
**\$58K - \$165**  
achievable savings on sample licenses analyzed. Linear extrapolation of savings to 100% (15,973) of all professional and developer licenses yields...

**\$241K - \$689K**  
Total savings potential from Technical Microsoft License streamlining

**~70%** of departments evaluated may be purchasing extra professional / developers Microsoft licenses

1. Technical refers to 'professional & developer' type licenses 2. Defined user type based on role title; Engineering department excluded as we would need to understand specialized roles needs in order to apply assumptions on license requirements 3. Universal services may have larger amount due to any purchasing on behalf of other departments 4. Public Health may have larger amount due to large amount of Adobe Acrobat licenses 5. Further breakdown of calculations available in appendix

# Applying demand management to remaining spend on user-based software translates to ~\$3M bringing total potential savings to ~\$7 - 8M



**~\$7 - 8M**

achievable savings on user-based license spend by employing demand management tactics

1. Calculated by subtracting Microsoft spend (~\$16.7M) from total estimated spend on user-based license (~\$29M). Spend on Microsoft licenses (~\$16.7M) is calculated by multiplying weighted average price of sampled licenses and quantities of those license "owned" by sampled departments



# Laptops and Desktops | Opportunity to reduce ~\$8M spend on laptops & desktops by ~35-45% via specification standardization and tiered purchasing

Scenario | 15% top tier, 50% mid-tier, and 35% basic tier

	Laptops (\$4.4M)			Desktops to Laptops (\$3.7M) <sup>1</sup>		
	Top Tier	Mid-Tier	Basic Tier	Top Tier	Mid-Tier	Basic Tier
Example model <sup>3</sup>	Panasonic Toughbook	Dell Latitude 5520	Acer Chromebook Spin	Panasonic Toughbook	Dell Latitude 5520	Acer Chromebook Spin
Unit Price <sup>2</sup>	\$1,805	\$1,054	\$695	\$1,805	\$1,054	\$695
Potential Volume	291	969	678	414	1380	966
Potential Spend	\$525,255	\$1,021,326	\$471,210	\$747,270	\$1,454,520	\$671,370
	<b>\$2,017,791</b>			<b>\$2,873,160</b>		



~\$8.1M  
Current Spend

−

~\$4.9M  
Potential New Spend

=

~\$3.2M  
Savings from adopting scenario

1. Savings estimates do not include potential 'one time cost' to convert desktop to laptop usage (i.e., investment in additional docking stations) 2. Unit cost represents the lowest unit price found in the Simfoni purchasing data for that model 3. Not representative of recommended model, these are examples for estimation basis  
Source: Simfoni Purchasing Data FY2022



# B. Internal Cost Recovery

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**\$6M in additional revenue if Harris County's General Fund eliminates subsidization of services**

Harris County's General Fund subsidizes quasi-departments, and other supported entities, with **\$6M** annually by not receiving full reimbursement for the direct and indirect cost of county services

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2 key enablers are required to stop subsidization, (1) update the Harris County **Full Cost Allocation Plan** (plan that distributes cost of central service departments) annually and (2) ensure that **interlocal contracts** include indirect costs owed to County

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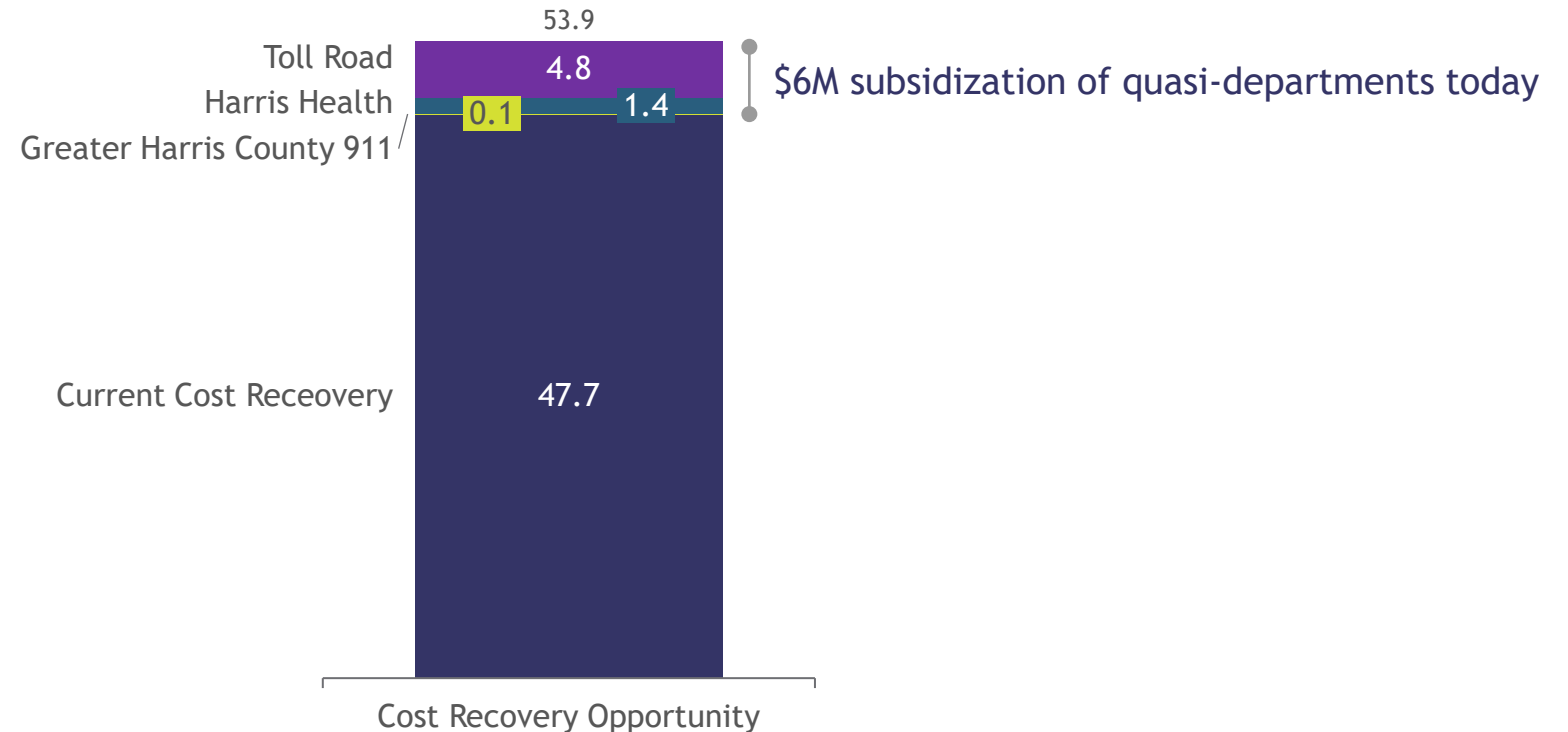
In addition to cost recovery from non-general fund sources, there are **intangible benefits** to improving transfer pricing policies within county general fund depts like **increased accountability for prudent spending**

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## FY23 Current Revenue & Rev. Opportunity from quasi-departments, and other supported entities (\$M)

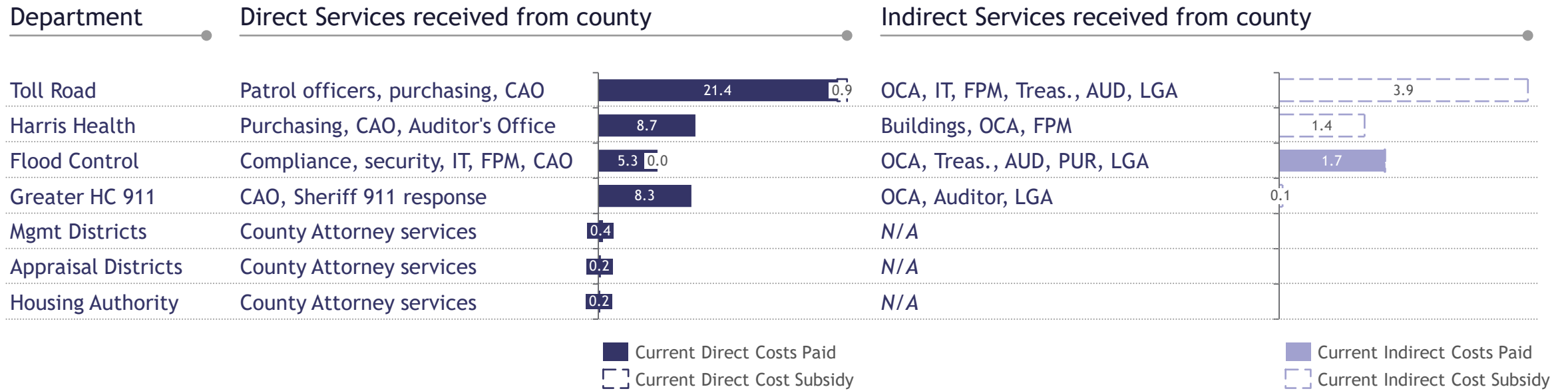
Harris County general fund is currently subsidizing quasi-departments, and other supported entities, with \$6M annually



Note: Only analyzed direct cost coverage for toll and fleet maintenance; Analysis assumes there has not been major increase no. FTEs since 2021 but does take into account 2023 wage raise; Likely not fully charging for 911 PSAP services; Source: Harris County Full Cost Allocation Plan and Indirect Cost Rates 2021; Harris County Cost Allocation Plan\_2 CFR Actual FY 2021; Harris County Financials



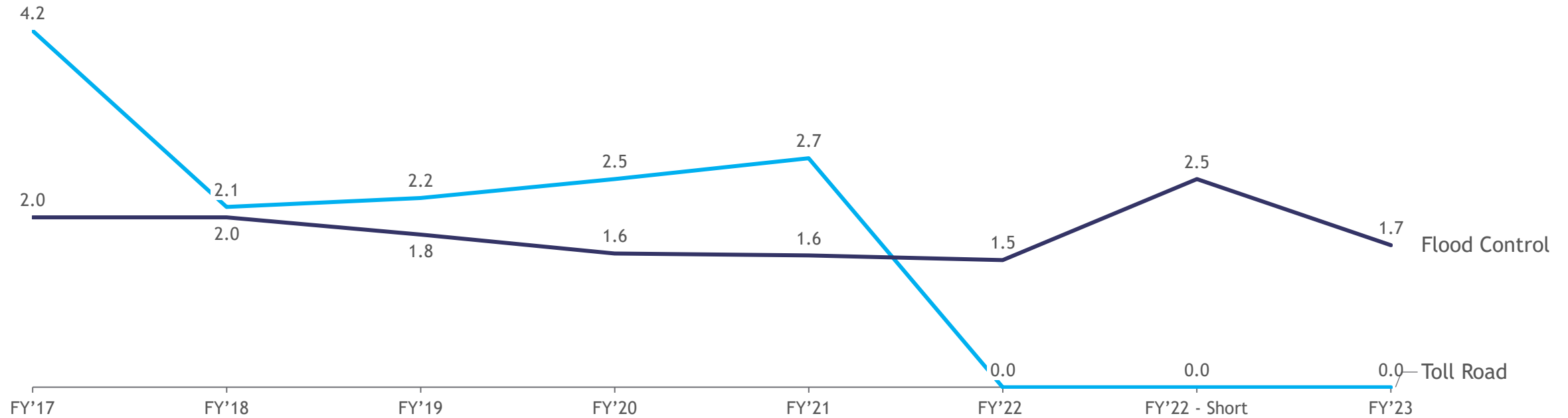
# Harris County general fund provides several services to quasi-departments, and other supported entities, but is not fully reimbursed for those services



Note: Only analyzed direct cost coverage for toll and fleet maintenance; Analysis assumes there has not been major increase no. FTEs since 2021 but does take into account 2023 wage raise; Likely not fully charging for 911 PSAP services; Source: Harris County Full Cost Allocation Plan and Indirect Cost Rates 2021; Harris County Cost Allocation Plan\_2 CFR Actual FY 2021; Harris County Financials

# Backup | While Flood Control has consistently paid indirect costs, Toll Road stopped paying indirect costs in FY22

Indirect Costs paid by Toll Road and Flood Control (\$M)





# C. Grant Strategy

Opportunity of **\$20-79M** by mostly recovering indirect cost from grant programs and pursuing grants previously unattained

Developing a cohesive grant acquisition and management strategy as well as fortifying grant execution processes can unlock an additional **\$27-90M/year** for Harris County, with **~\$20-79M** impacting General Fund

The biggest opportunity, **~\$13-55M/year** to General Fund, comes from ensuring recuperation of indirect cost incurred by grant programs but covered by General Fund.

Additionally, Harris County when allowable can relieve the General Fund of **~\$7-24M** annually by pursuing grants previously unattained. These grants can be secured via:

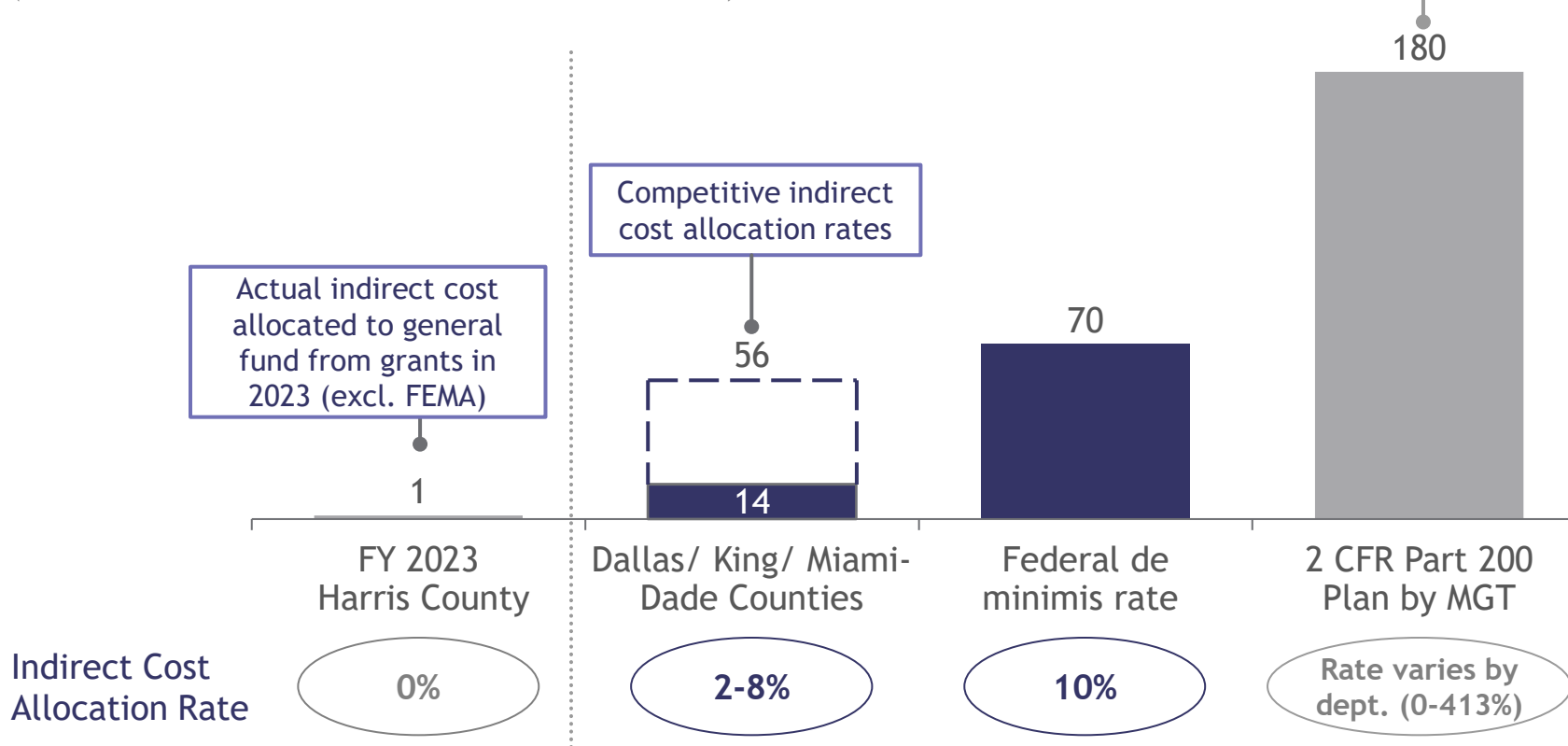
- Acquisition of more federal and state grants (**\$7-22M<sup>3</sup>/year**)
- Increase in philanthropic grants (**\$0.3-2M+/year**)

Furthermore, Harris County can offer additional services worth **~\$7-11M /year** if grants utilization rate is improved. This can be done by addressing inability to fill vacancies and inaugurating programs quickly

# Indirect Cost Allocation | ~\$13-55M of opportunity can be unlocked by applying indirect cost rate across grants

Est. Opportunity of Indirect Cost Revenue (\$M)  
 (FY23 Revenue \* Indirect Cost Allocation Rate)

Indirect cost allocation plan provides high estimates that may make some grant applications uncompetitive/ result in loss of award



**\$14-56M** - **\$1M**  
 Competitive indirect cost allocation rate - FY23 Collected Indirect Costs



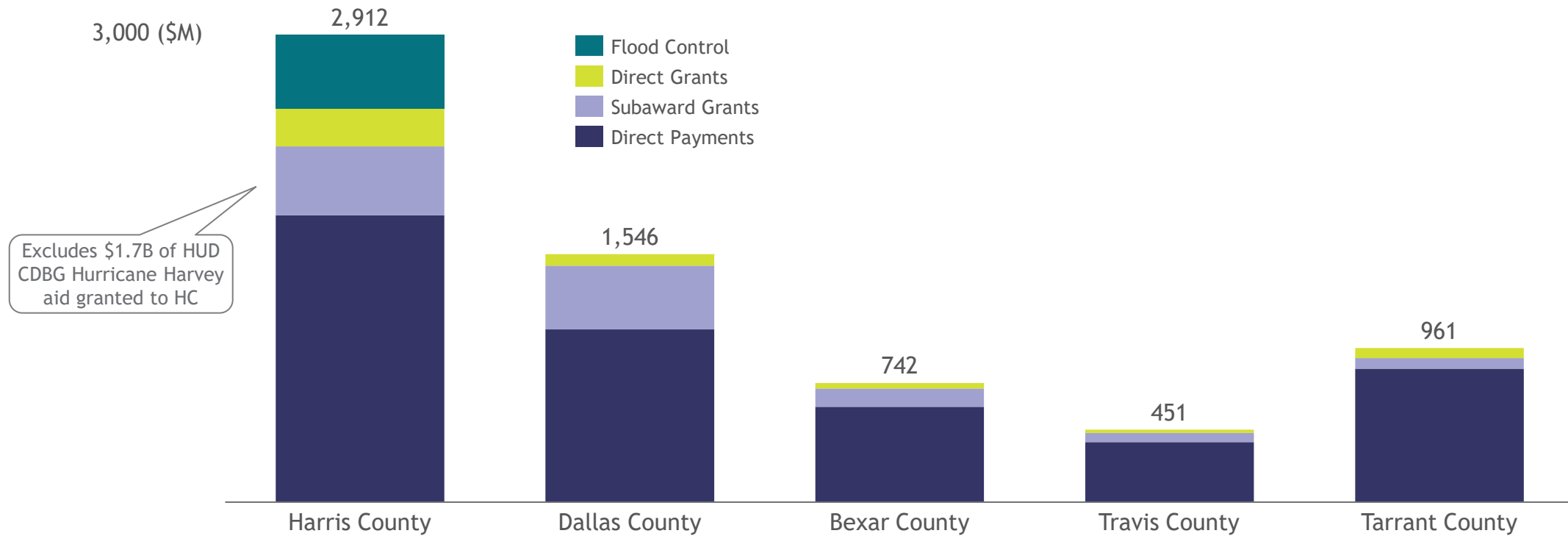
**\$13-55M**  
 in annual opportunity by applying standard indirect cost rate to all grant applications

Source: Harris County FY23 Revenue Report; External Survey; Expert interviews; 2 CFR Part 200 Indirect Plan by MGT



# Between FY18-23, Harris County was ahead of all peers but Dallas County in per capita federal funding when excluding Flood Control funds

Federal Awards FY18-23



Excludes \$1.7B of HUD CDBG Hurricane Harvey aid granted to HC

Per capita

	Harris County	Dallas County	Bexar County	Travis County	Tarrant County
Total (\$)	607	594	353	347	437
Minus Fld. Ctrl (\$)	511	594	353	347	437

1. Grants total per capita, sum of direct and sub-awards divided by county population. Source: USAspending.gov 03/05/2024; federal grants and direct payments to TX county governments: data filtered for recipient county, award base action date fiscal year, and awarding agency; data exclude basic research grants and direct payments. Fed. grants passed through TX to county government recipients: filtered for recipient counties, FFATA subaward reporting year, and awarding agency; includes county housing authorities and Harris County Flood Control and excludes ISDs; includes COVID and Housing Voucher direct payments. CEAP, Comprehensive Energy Assistance Program.



However, Harris County could apply to grants not currently in their portfolio to capture estimated \$7-13M of grant revenue/year to relief general funds

New grant opportunity	Awarded to peers over 6 years but not Harris County	Annualized amount <sup>1</sup>	Adjusted for population size (relative to Dallas <sup>2</sup> )	Adjusted for varying capture rate <sup>4</sup>
Federal Direct Grants	\$25M	\$4M	\$7.4M	\$2.2-3.7M
Federal Subaward Grants	\$24M	\$4M	\$7.4M	\$2.2-3.7M
State Grants (expenditures) -		\$4M <sup>3</sup>	\$7.4M	\$2.2-3.7M
Philanthropic Grants	\$3-11M	\$0.5-2M	\$1-4M	\$0.3 - 2M
<b>Total</b>			<b>\$23-26M</b>	<b>\$7-13M</b>

**~\$7-11M**

1. Annualized amount is used as proxy and derived by dividing the total sum of awards received over FY18-23 by 6 years; the underlying assumption is that grant funds are equally distributed across 6 years. 2. Annualized amount adjusted to reflect larger population of Harris County. As most grants were awarded to Dallas County, the population of Dallas County was used to derive an adjustment factor of 1.85. 3. Represents state grant expenses during FY22 - opportunity likely larger than \$4M 4. Low range assumes that ~30% of the grants can cover existing services while high range assumes that ~50% of the grants can cover existing services (Harris County departments need to verify)



# D. Parking Optimization

# \$0.7-9.7M revenue enhancement opportunity in parking

Harris County has **21 parking lots** with **5 distinct parking models** including reserved contract, non-reserved contract, transient, county vehicle, and juror/tenant parking

Harris County can consider **4 initiatives** to enhance parking revenue by **\$0.7-9.7M**

Harris County can open **event parking** near Toyota Center for an additional **\$245k** in annual parking revenue

Harris County can improve the **utilization** of their contract and transient parking to increase parking revenue by **\$0.4-9.5M** depending on the chosen charge model

Harris County, like some peers, could implement a **transportation voucher system** so that all employees effectively receive discounted transportation



# Harris County has 21 parking lots with 5 distinct parking models

		Parking Models							
Lot	Address	Total Spots	Reserved contract	Non-reserved contract	Transient Parking	County Vehicles	Other (juror, tenant)	2023 Revenue	
North Zone	P1. Triangle Lot	800 N. San Jac.	517		✓			1,611k	
	P2. Nance St. Lot	2020 Nance St	432		✓			--	
	P3. Baker St. Lot	1300 Baker	234		✓		✓	257k	
	P4. Baker St. Garage	1200 Baker	188		✓		✓	213k	
	P5. "Little" Baker St Jail Lot	1307 Baker St	30		✓			--	
South Zone	P6. Congress Credit Union Gar.	1401 Congress	1842	✓	✓	✓	✓	2,273k	
	P7. Congress Plaza Garage	1019 Congress	675	✓	✓		✓	541k	
	P8. 1010 Lamar Garage	1010 Lamar	490	✓	✓		✓	--	
	P9. 1111 Fannin Garage	1111 Fannin	436	✓	✓			--	
	P10. Civil Courthouse Garage	201 Caroline	48	✓			✓	--	
	P11. Criminal Justice Ctr. Gar.	1201 Franklin	46	✓			✓	--	
	P12. Annex 44 - 1310 Prairie Lot	1310 Prairie	45	✓				121k	
	P13. MEP Shop	1505 Commerce St	34				✓	--	
	P14. Administration Building Gar.	1001 Preston St	26	✓				✓	--
	P15. Old VMC Garage	426 Austin	25	✓			✓	✓	--
	P16. Old VMC Lot	426 Austin	24	✓			✓		--
	P17. Annex 18 Lot	406 Caroline St	12	✓					--
	P18. Annex 44 - 1310 Prairie Gar.	1310 Prairie	8	✓					--
Oth	P19. Central Plant Lot	1303 Preston St	4		✓			--	
	P20. Annex M Lot	2500 Murworth	542		✓			605k	
	P21. 6000 Canal Lot	6000 Canal	75		✓			--	
Total		5733						5.6M	

## 5 Parking Models

### Reserved Contract Parking:

Assigned, individual spots saved for a single user paid for monthly (often free within Harris County)

### Non-reserved Contract Parking:

Any spot without a "reserve" sign that user can pay for on monthly basis at fixed rate

### Transient Parking:

Parking on a first come, first serve basis paid each day

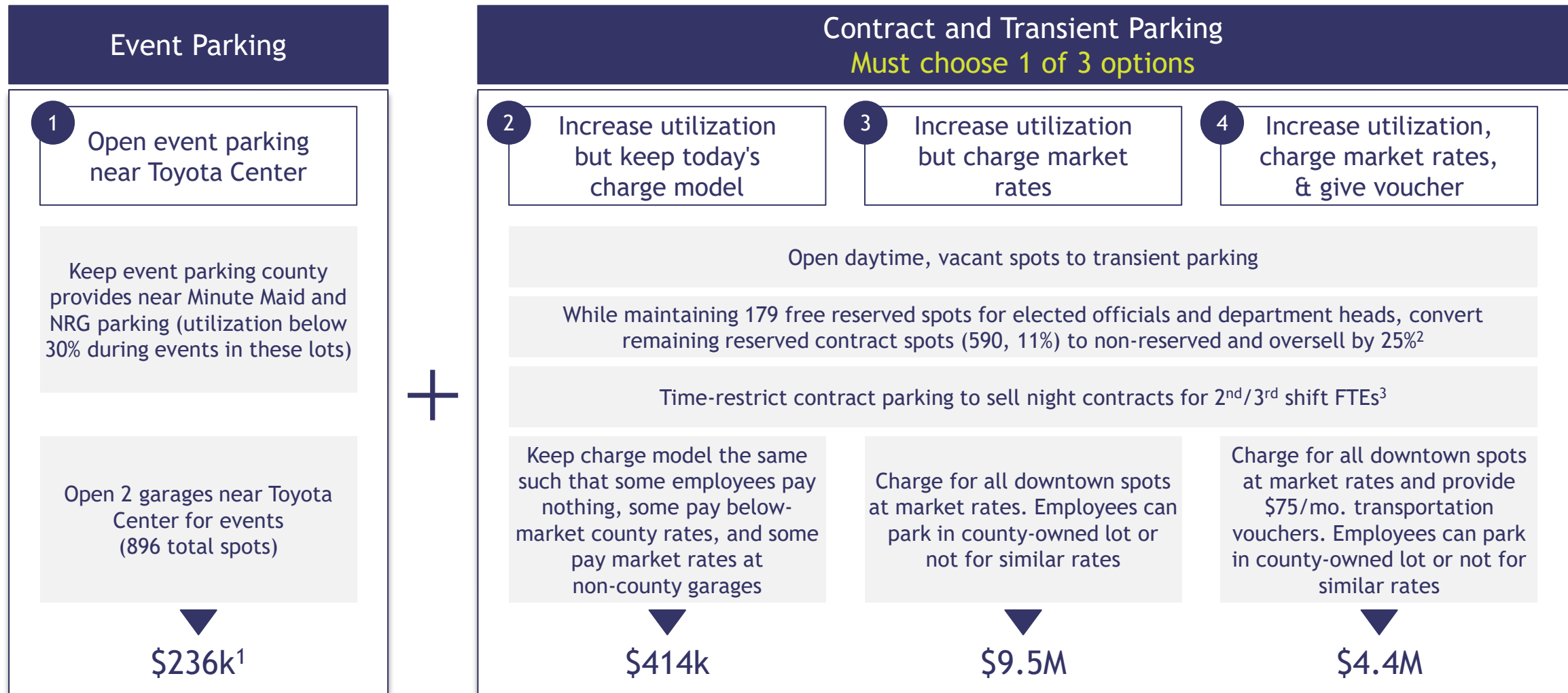
### County Vehicles:

Reserved, secure parking for county vehicles; may be occupied by a county employee's personal car while they are on duty

### Other:

Jurors receive free parking; HC owns some garages with previous tenants who still have allocated parking

# Harris County can consider 4 initiatives to enhance parking revenue



These 2 initiatives aligned with desire for equitable parking model

1. Assumes 18% utilization based on event utilization of garages at Minute Maid and NRG; 2. Contract oversell standard rate is 10-40%, HC used 13% in 2016 and is now aiming for 10-25%; 3. Instead of selling contract parking that is available to employee for 24-hours, sell 9am-5pm contracts, 5pm-1am contracts, and 1am-9am contracts

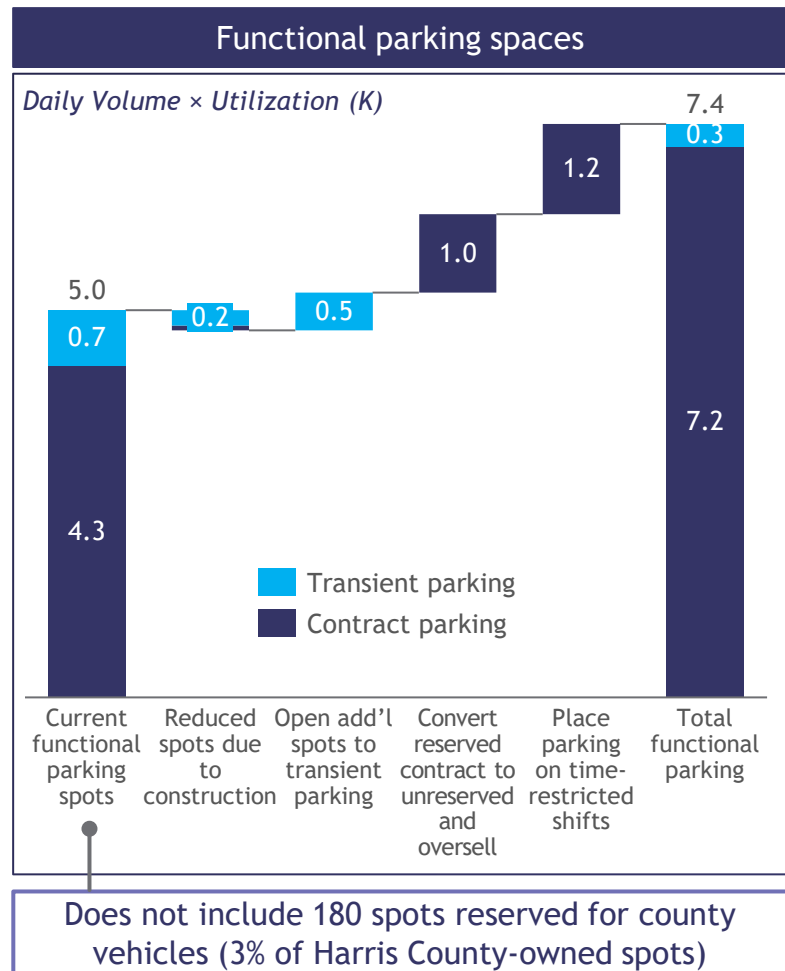


# Event Parking | \$245K revenue opportunity from opening garages near Toyota center up for events

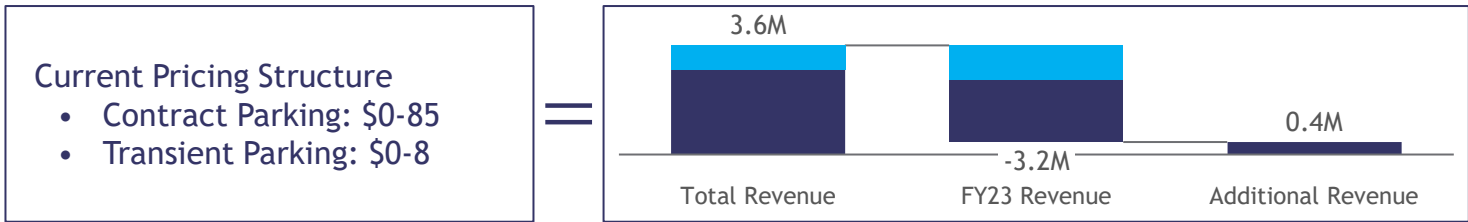
	No. total Spots	No. spots used at events	Event center	FY23 Revenue (K)	Add'l Potential Spots for events	Add'l Potential Revenue (K)	Total Revenue (K)
1401 Congress Garage	1842	130 <sup>1</sup>	Minute Maid	\$456	0	\$0	\$456
Annex 44 - 1310 Prairie Lot	45	40 <sup>1</sup>	Minute Maid	\$121	0	\$0	\$121
Annex M (2500 Murworth) Lot	542	172 <sup>1</sup>	NRG	\$604	0	\$0	\$604
1010 Lamar Garage	460	0	Toyota Center	\$0	170 Both Minute Maid and NRG lots sell ~170 spots per event	\$245 Based on market price of \$12	\$245
1111 Fannin Garage	436	0	Toyota Center	\$0			
<b>Total</b>	<b>3,325</b>	<b>342</b>		<b>\$1,181</b>	<b>170</b>	<b>\$245</b>	<b>\$1,426</b>

1. Based on FY23 revenue, event pricing, and no. of weekend and evening events at nearby event centers

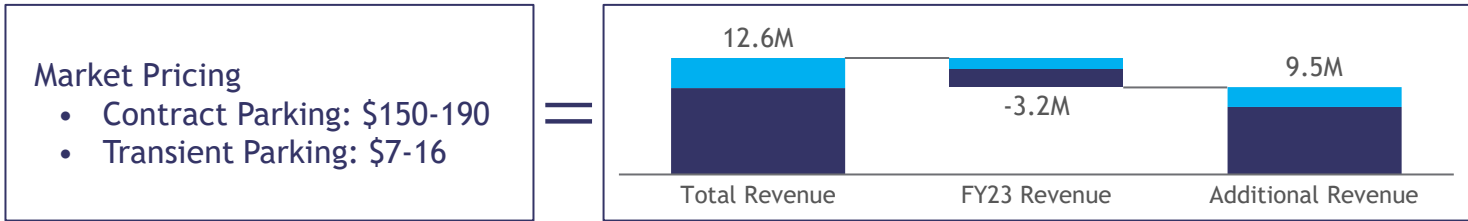
# Contract & Transient Parking | ~\$0.4 - 9.5M revenue opportunity



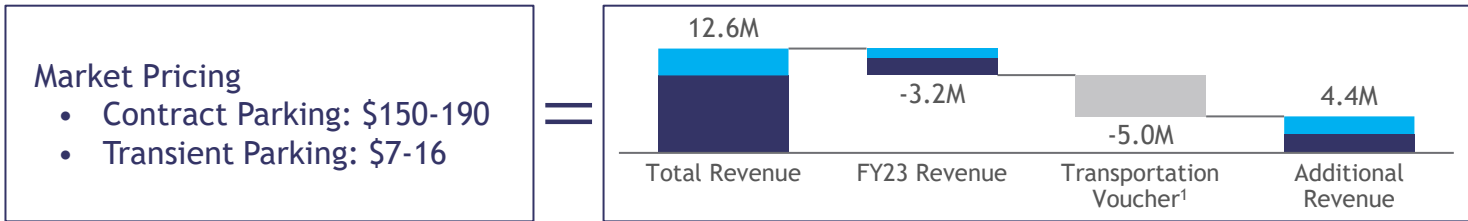
### Opportunity 2: Keep current charge model



### Opportunity 3: Charge for all spots at market rates



### Opportunity 4: Charge for all spots at market rates and provide \$75 monthly transportation voucher



Legend: ■ Transient parking, ■ Contract parking, ■ Voucher

Note: Ranges indicate variance in rates based on parking location; Pricing is competitive to ensure county can achieve 93% utilization based on industry standard of mix of employee and visitor parking; 1. The U.S. Internal Revenue Service Code Section 132(a) Section 132(f) outlines the Qualified Transportation Fringe Benefit that employers may provide to their employees. This benefit can be deducted from an employee's gross income (prior to taxation) and allows employers to provide tax-free transit, vanpool, and/or parking benefits to their employees. Employees often receive these benefits through a smart card or restricted debit card, which can be setup using a third party if desired.



# E. Fee Optimization

# Harris County is not fully recovering cost of services; additional \$10M of revenue gap

Harris County leads TX peer counties in overall non-tax revenue at \$94/capita; however, excluding patrol contracts (unique to Harris County) **per capita revenue in line with TX peers**

However, a review of Harris County administered fees unveiled **most non-statute set fees not fully recovering cost of service delivery**

Cost analysis of county-administered fees unveiled recovery opp. of **\$10M in general fund<sup>1</sup> and \$1M in special rev. funds**. OCA oversees \$6M of opportunity

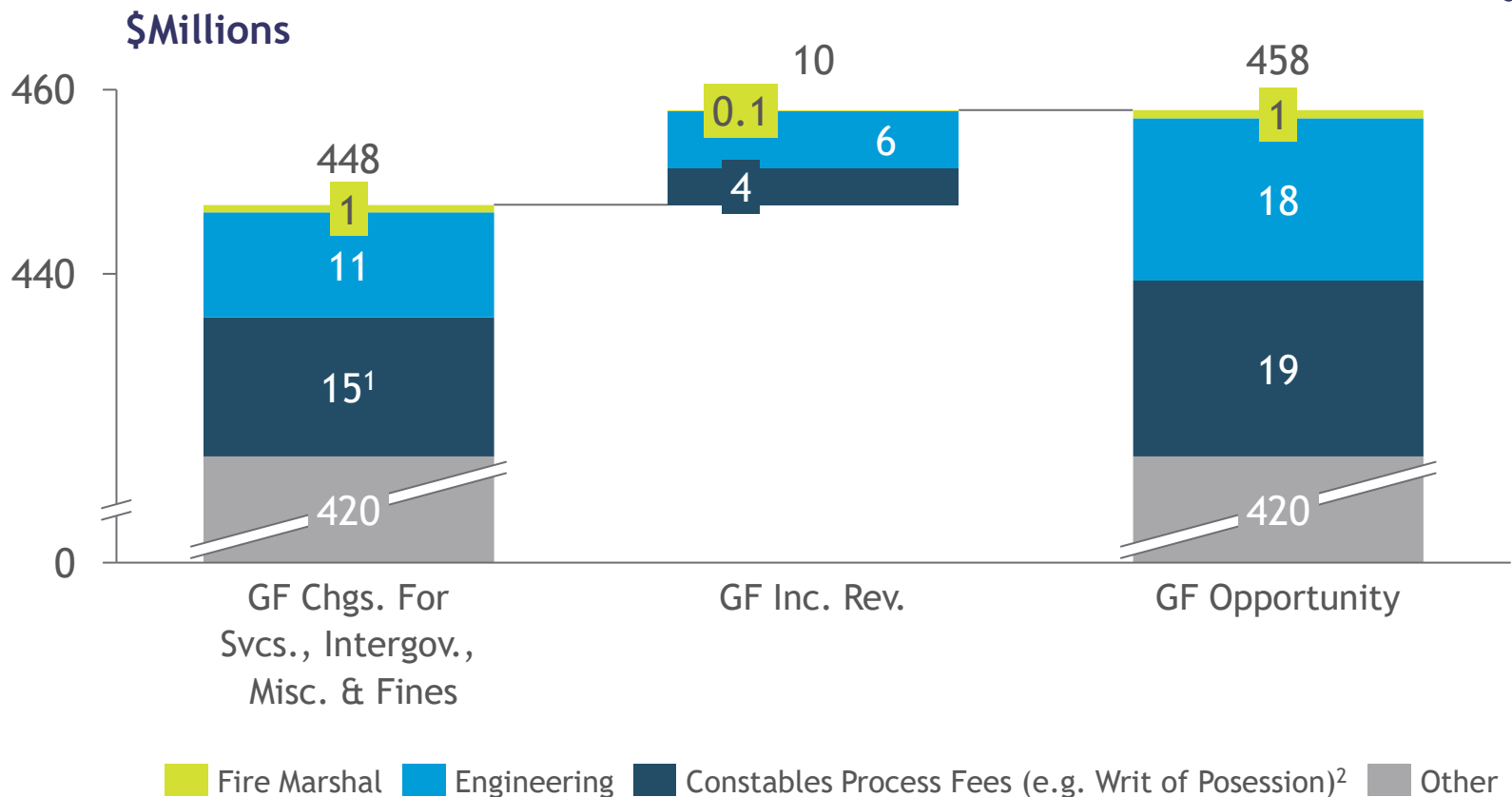
Peer counties benchmarked in Texas consistently report **lack of active cost structure analysis and fee-setting procedures**, suggesting they are not fully recovering cost of services either

Harris County has opportunity to lead among Texas peers by establishing approach to review fees based on internal cost structure. Enablers required across governance, policy and incentives

1. \$10M does not include potential one-time collection of outstanding fire code violation fees between \$4 and \$8M.  
Note: This analysis also excludes contract patrol as an opportunity lever

# Potential opportunity to capture additional \$10MM in revenue to General Fund to cover full costs incurred for providing services

## County General Fund Incremental Expense Recovery Opportunity



- Incremental revenue is catch-up for inflation in costs since fees were last set, some which haven't changed since 2015<sup>1</sup>
- Benchmarking suggest peer counties have similar opportunity to increase fee revenue to cover costs

1. The value of updating fees prices each year is equivalent to the inflation of labor and non-labor costs to provide the service. Assuming 3% inflation on the \$148MM in in non-state set fees, failing to update fees on a yearly basis could result in a loss of \$4.4MM in revenue compounded each year 2. Full list of fees, [Harris County Constable Fees Page \(harriscountytexas.gov\)](http://harriscountytexas.gov). Additional examples include Attachment, Garnishment, Execution, Subpoena, etc.



# Engineering Fees/ Permits | ~\$6M opportunity to fully recover costs associated with engineering permits

To calculate revenue opportunity associated with cost recovery of engineering permits, we compared current cost of permit office to current engineering fee revenue

**\$18.2M** Fully-loaded cost of permit office  
*Includes salaries, fringe benefits, vehicles, ePermits system, and indirect cost rate of permit + traffic office*

**- \$12.0M** 2023 engineering permit revenue

---

**~\$6.2M** Revenue opportunity associated with cost recovery

**(+52%)** Increase in current engineering fee revenue

Harris County could consider **tiered pricing** when setting updated fee schedule

- 50% of eng. permit transactions are from businesses and 50% are from individuals
- Tiered pricing model could allow residents to pay for permits based on size of inspection required
- This will avoid undue cost burden on individuals as Harris County seeks full cost recovery

Note: To compare current revenue to current cost of permit office, we adjusted 2020 cost estimates from engineering by doing the following: Adjusted 2020 salary up by 7% to account for 2023 wage increase, updated fringe benefits rate based on 2023 financials, validated indirect cost rate for permit office and for county applies using indirect cost allocation PDF, updated annual cost of e-permit system and law enforcement/ traffic cost by inflation, updated permit vehicle cost by "private transportation" CPI index from Bureau of Labor, added 6 additional positions now in permits office; For this analysis to hold true, must believe that all permit activities are contained within permit office and permit office FTEs are not regularly conducting business outside permit office- these were both confirmed with HCED; Source: Engineering Fee Calculator

# 3 enablers to capture identified fee cost recovery opportunity

## Example of Santa Clara County Policy



**Define cadence for fee review**



- Controller-Treasurer Department empowered to:
  - Prepare countywide master fee schedule
  - Conduct Bi-annual survey of departments to ensure fee schedule accuracy
  - Require departments to review all fees at least every 3 years



**Establish governance to review fee rates**



- Policy requires departments to:
  - Prepare the fee calculation including costs recovery (including state set fees)
  - Survey comparable jurisdictions
  - Explain deviations from full cost recovery
  - Submit to controller-treasurer for review
- Controller-Treasurer must approve the submission before submitting to board of supervisors



**Align incentives for collecting fee revenue**



- Controller-Treasurer review ensures revenue is recorded to the correct revenue accounts
  - Possibility to earmark some fee revenue for direct department usage vs going straight to the general fund



# F. Legal Spend Optimization

At least \$8-14M possible savings identified in indigent defense external counsel spend

Indigent defense spend accounts for ~\$56M of ~\$99M total 2022 legal procurement spend, motivating our deep dive

Review of 2022 TIDC data shows Harris County's spend per Court-appointed attorney (CAA) case (~\$1.2k) is 3 times greater than peer counties suggesting potential to optimize external counsel spend while still ensuring quality defense

Cost-savings in court-appointed attorney spend possible from: 1) improving voucher review with best practices 2) matching hourly rates to 'market' of peer counties' fees

(1) Evidence of invoice errors indicates broader oversight should be enabled through a robust review system, clear escalation pathways for discrepancies, CAA training, automated screening, technology-enabled invoice processing, and consistent reporting

(2) \$8-14M total possible savings from matching Dallas County rate of \$100/hr for Court-appointed attorneys in place of current Harris County rates (\$120-\$150/hr)

# Invoice errors detected during voucher review highlights need for broader oversight; likely hindered by limited scale and highly manual process

Evidence shows dedicated voucher review aids in catching invoice errors ...

**At least 10%<sup>1</sup>** of invoices reviewed by Managed Assigned Counsel (MAC) today are returned to court-appointed attorneys for corrections due to:

- Incorrect entries in voucher information payment processing system (VIPS) - e.g., wrong dates
- Unreasonable hours billed given case context

**~\$2.8M<sup>2</sup>** of 2022 CAA total spend lacks reported records of associated casework across District, County, and Juvenile Courts in TIDC database

- All reported CAA pay in TX peer counties has record of associated caseload

... but voucher review is currently limited by capacity and manual nature of activities

**MAC** currently oversees CAA representation for **84% of misdemeanor cases**

**4 MAC staff review ~625 voucher per week<sup>1</sup>** (~30k cases annually), and covering 35 - 50 attorneys each **~1 week to 2 months cycle time<sup>1</sup>** to manually review vouchers

Two checks performed: screening, approval

- Screening: Each voucher line-item is cross-checked with case files to validate accuracy
  - Voucher may be returned for CAA to fix and/or clarify entries
- Approval: Head of MAC finally approves screened and amended vouchers

1. MAC interview also suggested that invoices returned was closer to 20% at start of establishment of MAC

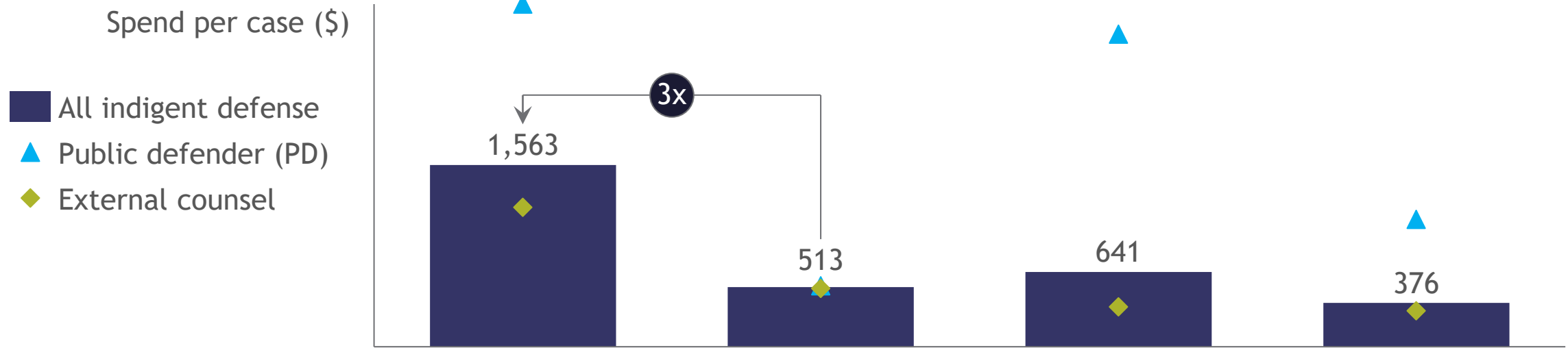
2. Texas Indigent Defense Committee (TIDC) requires counties to report attorney caseloads and payments; 2022 data used for analysis

Source: TIDC 2022 data, MAC interview



# Harris County is spending ~3x more per case than peer counties indicates potential to streamline external and internal indigent defense spend

2022 Indigent Defense spend per case



Total spend, 2022 (\$M)	89.3	28.5	13.8	12.8
Total # of cases, 2022 (K)	57.1	55.6	21.5	34.1
% spend external	61	43	46	75
Avg spend per case, CAA (\$)	1,198	499	341	308
Avg spend per case, PD (\$)	2,945	523	2,686	1,093

Source: TIDC 2022 data  
 Note: CAA = Court Appointed Attorney, PD = Public Defender

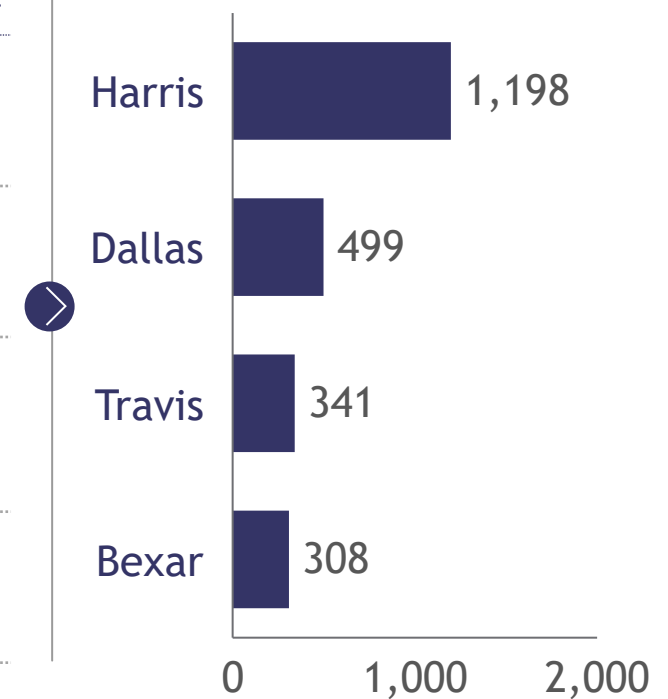


# Higher hourly rates in Harris County relative to peer counties may drive large part of Court-appointed attorney spend per case being ~3x above peers

## Court-appointed attorney (CAA) fee structures for TX peer counties

	Felony (District Cts.)	Misdemeanor (County Cts.)	Juvenile	CoL rel. to Harris <sup>4</sup>
Harris	\$125-\$175 / hour (based on severity of offense)	\$100 per case taken + \$100-\$140 / hour (by service level)	Uses felony and misdemeanor fees	
Dallas	Either \$600 / case or \$100 / hour (cannot receive both)	Either \$300 / case <sup>1</sup> or \$100 / hour (cannot receive both)	Uses felony and misdemeanor fees	+7%
Travis	\$100 / hour + daily rates (>\$100 hourly for 6+ hours for presence in court) + \$100-300 flat rates for select services <sup>2</sup>	\$75 / hour	Uses felony and misdemeanor fees	+3%
Bexar	Outside court: \$75-\$100 / hour Court appearance: \$95 / hour Trial time in court: \$110-\$175 / hour	\$75 / hour + \$100-\$250 flat rates for select services	Uses felony and misdemeanor fees	-4%

## Avg. spend per Court-appointed attorney case<sup>3</sup> (\$)



**Potential opportunity to match hourly rates to peers with similar cost of living (CoL)**

1. Corroborated in DAL PD interviews, 2. i.e. Jail visits, motions filed, appeals 3. Using 2022 figures, divided total paid to CAAs by total CAA caseload to estimate average spend per case Source: [TIDC Court Fee Schedules posted](#), DAL PD interviews, [Cost of Living calculator](#), Texas Indigent Defense Committee (TIDC) 2022 data. 4. Cost of Living is used as proxy to understand potential different attorney rates by region. A more thorough analysis should be conducted that confirms that attorney fees follow CoL trends.



## Match hourly rates to market price | ~\$8-14M potential savings from adjusting CAA hourly rates in line with peer Dallas County

	Felony	Misdemeanor	Juvenile <sup>1</sup>
Number of cases, HC 2022 (k)	32.2	11.8	1.3
Flat fee, HC (\$/case)	0	100	15
Hourly rate, HC (\$/hr)	125 - 150	120	124 - 145
Hourly rate, DAL (\$/hr)	100	100	100
Hourly rate difference (HC-DAL \$/hr)	25 - 50	20	24 - 45
Hours per tried case (hrs) <sup>2</sup>	10.6	5.1	10.7
Hours per settled case (hrs) <sup>3</sup>	6	6	6
% cases tried	17%	15%	16.7%
% cases settled <sup>4</sup>	83%	85%	83.3%
Cost per case, HC (\$/case) <sup>5</sup>	848 - 1,016	804	858 - 1,001
Cost reduction per case (\$/case)	170 - 339	217	180 - 323
<b>Total savings (\$M)</b>	<b>5.5 - 10.9</b>	<b>2.6</b>	<b>0.2 - 0.4</b>

1. Assumed 85% of juvenile cases are felonies, 15% are misdemeanors ([Houston Public Media](#))
  2. Estimated from: (40 hrs litigation billable per week per CAA \* 52 weeks \* # CAAs handling certain case types (pro-rated))/ total number of CAA cases by case type; corroborated through expert interviews with DAL PDs
  3. Estimated from DAL compensating felony cases with either \$600 flat or hourly pay; \$600 per case / \$100 per hour = 6 hours minimum case time; corroborated through expert interviews with DAL PDs
  4. sum of % guilty plea and dismissed cases ([Effective Criminal Case Management - HC report](#))
  5. Note: Utilization of Dallas flat fee compensation regardless of hours puts their cost per case at ~\$600 and \$300 for each felony and misdemeanor case; disregard for hours in this fee structure compared to HC's hourly comp model drives cost per case discrepancy
- Source: TIDC 2022 data, district and county court fee schedules across TX counties

**~\$8-14M**

Potential total savings across all case types if hourly rate matched Dallas County hourly rate

*Additional benchmarking would ensure rate is set to match market price*



# Next steps - Looking ahead

## Next steps

Capture your feedback on priority action items

Build view of requirements and timing for action for priority activation paths

Present final view in June Commissioners Court



# Appendix

Given scope and time constraints, the project team recommends further review of the following opportunities:

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Initial discussions and analysis point to additional areas of opportunity for review

- **Fleet management:**
  - Optimizing ratio of vehicles leased vs. vehicles purchases
  - Reviewing specs of fleet to minimize over spec vehicles
  - Optimizing fleet maintenance schedule and processes to ensure efficiency in delivery of services
- **Call center efficiency**
- **Courier and print spend optimization**
- **Benefits realignment**, ensuring benefits packages remains comprehensive (e.g. modern benefits)
- **Digital integration**
  - Developing county-wide digital strategy to drive cohesive decision making over tool and application deployment
  - Analyze where automation can alleviate burden of manual financial reporting and auditing



## Historical changes of major budget drivers can be grouped into three distinct time periods to establish bounds for scenario forecasting

	Description	Trailing 5-year	Trailing 10-year	10-year pre-covid
		Compound annual change FY'19-FY'24 <sup>1</sup>	Average compound annual change FY'14-FY'24 <sup>1</sup> ,FY'13-FY'23	Average compound annual change FY'08-FY'18,FY'09-FY'19
Indicators	CPI-U	4%	2.7%	1.8%
	FTE <sup>3</sup>	1.2%	2.1%	0.8%
	Population	0.8%	0.9%	1.5%
Expense	Labor Expense	5.7%	5.3%	2.6%
	Non-Labor Expense	9.6%	7.7%	1.9%
	Total Expense	6.8%	6%	2.4%
Revenue	Tax Revenue	Not modeled on historical		
	Non-Tax Revenue <sup>2</sup>	2.7%	3.3%	2.2%
	Non-Op Income	2%	1.7%	0.8%

1. FY'24 based on first quarter review projections 2. All non-tax excluding TI and Interest 3. FTE of full-time employees (excludes part time and temp) Note: FY24 uses EOY projections using Q2 actuals Source: County Financials, Census Bureau



# Appendix- Benefits Benchmarking



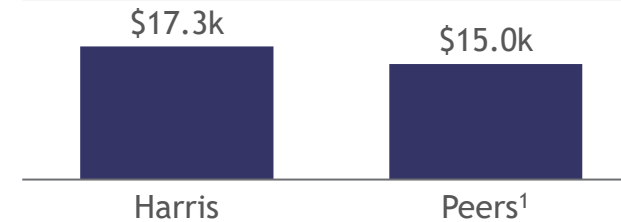
# Harris County spends more than peers on insurance, paid leave, and retirement while spending in line with peers on Worker's Compensation



## Health Insurance

- Healthcare cost and coverage
- Life and AD&D coverage

Employer cost/ employee

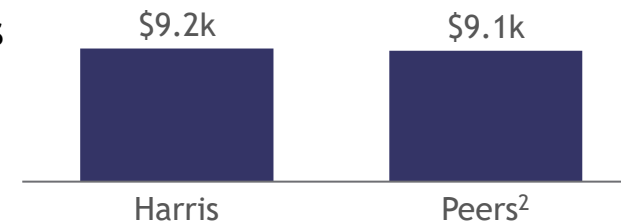


Harris County spends **more** than average



## Paid Leave

- Vacation, Sick Leave, Paid Holidays
- Vacation Payout
- Comp Time Payout
- Parental Leave



Harris County spends slightly **more** than average<sup>3</sup>



## Retirement

- TCDRS retirement program
- 457(b) program

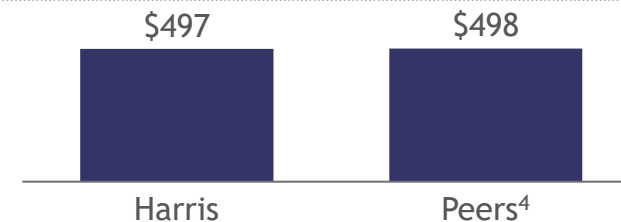
Harris County employer match rate is \$2.25/ employee dollar compared to \$2.10 average among peers

Harris County spends slightly **more** than average



## Workers' Compensation

- Workers' Compensation



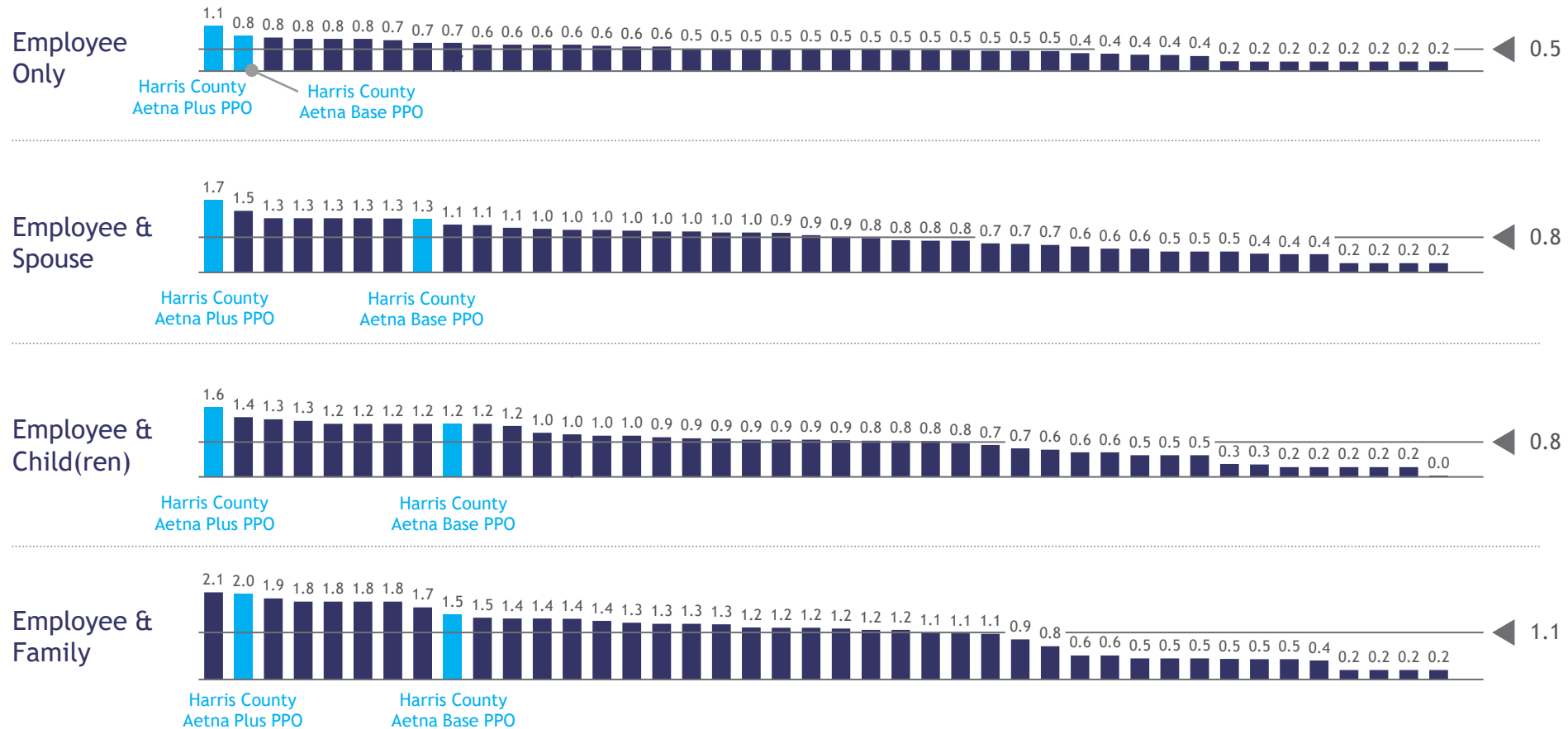
Harris County spends in line with **average**

1. Travis and Bexar County; 2. Large Texas Counties, City of Houston, King County 3. Employer cost/ employee comparison excludes paid parental leave; 4. Dallas, Tarrant, Bexar, and Collin County; Source: Bureau of Labor Statistics



# Health Insurance | The employer cost of Harris County health plans is more expensive than peers

Employer health benefits spend per employee per month (thousands of USD)



**Benchmarks**

**Counties**

- Travis County
- Bexar County

**Cities**

- City of Houston
- City of El Paso
- City of Austin
- City of San Antonio
- City of Dallas
- City of Ft. Worth

**ISD**

- Cy-Fair ISD
- Austin ISD
- San Antonio ISD

**Other**

- TX Employee Retirement Systems
- TX TRS
- UT Austin

Source: 2023 Segal Report; Harris County Rate Sheet

