

CITY FINANCES 101

AND HOUSTON'S OUTLOOK

**BRAYS OAK SN COUNCIL
MEETING
NOVEMBER 1, 2022**

CHRIS BROWN | CITY CONTROLLER

ABOUT ME

- Lifelong Houstonian
- Husband and father of two
- Began career in investment banking
- Transition into public sector
- Elected City Controller in December 2015, re-elected in 2019
- Real Estate Broker



CITY CONTROLLER'S OFFICE

- CFO & Taxpayer “Watchdog”
- 50+ Employees
- Leads on City’s financial issues
- Certifies availability of funds
- Processes payments
- Conducts internal audits
- Manages \$5.1B investment portfolio
- Manages \$14.3B debt portfolio
- Conducts sale of City’s bonds
- Produces financial reports



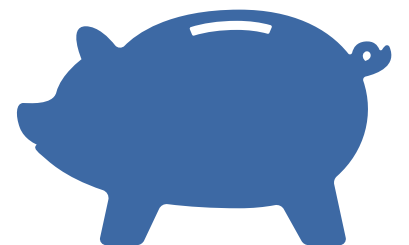
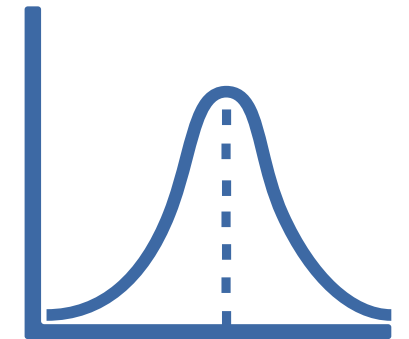
HOUSTON, TEXAS



THE BIG PICTURE

The challenges leaders in City Hall face are significant:

- Structural budget imbalance
- \$2.6B Net OPEB liability, deferred maintenance, increased healthcare costs, etc.
- Potential costs associated with ongoing litigation (fire parity)
- Increased debt issuance/service costs

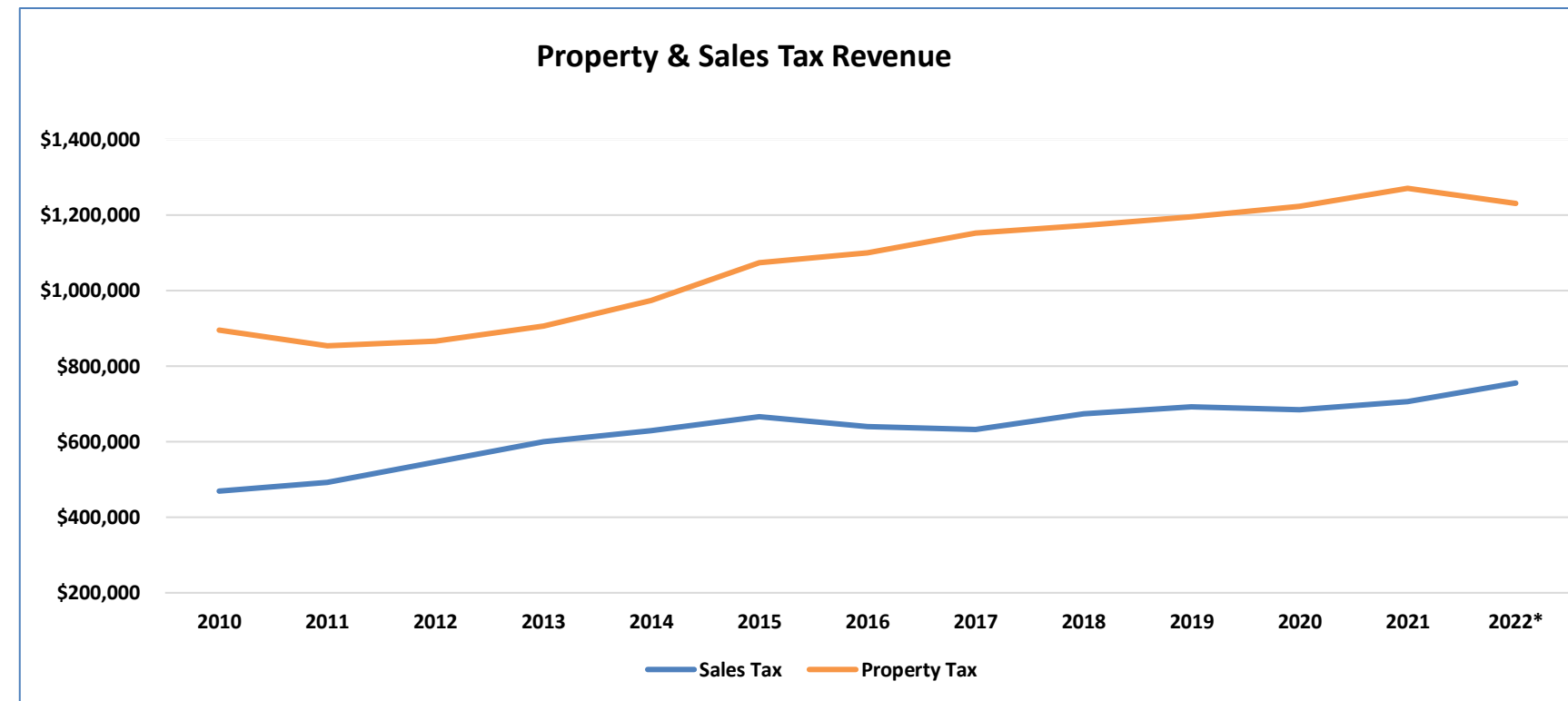


QUESTIONS WE ASK

- **Is the proposed/adopted budget structurally balanced?**
- How are budget deficits funded?
- Does a budget include one-time, nonrecurring revenue? (Sale of capital assets, sale of real estate, etc.)
- Does a budget add recurring expenditures with little-to-no funding source?
- Does a budget account for potential expenses associated with litigation (i.e. fire pay parity)?
- Does a budget include capital investments in line with the EPA Consent Decree? (COH must invest \$2B in 10 years)

TAX REVENUE

- Property tax and sales tax remain the city's two biggest source of revenue.

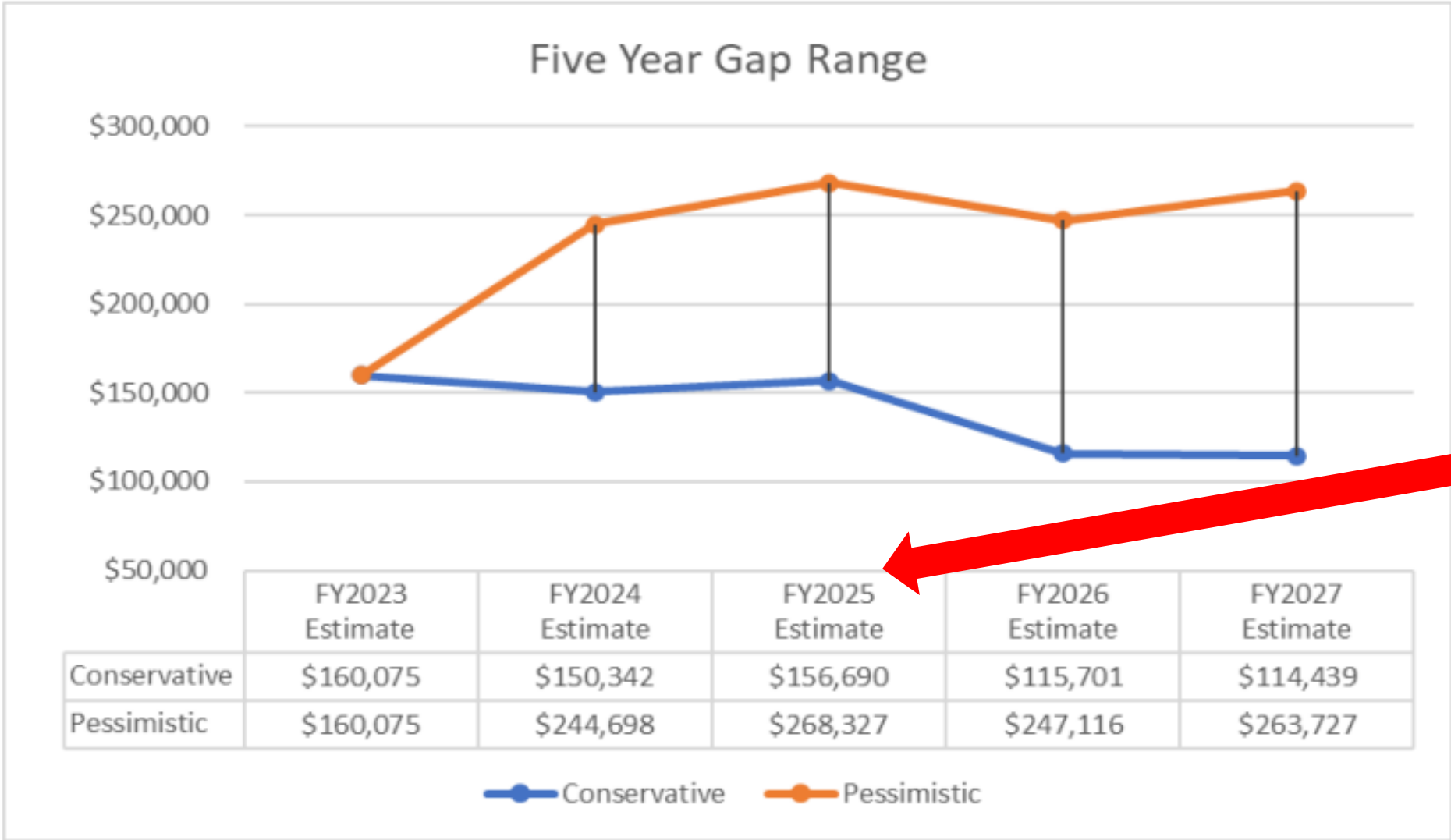


- At the outset of the pandemic, sales tax revenue dropped drastically.
 - In March – May 2020, the city saw a drop of over 17% (~\$20 M) in sales tax revenue.
- Fortunately, COH received \$1 billion+ in federal aid.
- Sales tax is up almost 20% compared to previous years... **but how long will it last?**



STRUCTURALLY IMBALANCED BUDGET

Current Budget Gap FY2023- FY2027 (\$ in Thousands)



ARPA Expires

Notes:
(1) Revenue assumptions exclude the utilization of ARPA funding



AMERICAN RESCUE PLAN (“ARPA”)

- Intended for the long-term response to & recovery from COVID.
- \$1.9 trillion in total spending.
- \$350 billion for states/localities across the U.S.; \$130 billion earmarked for cities/counties.
- \$606 million for COH (in two tranches).
- Flexible rules permit replacement of loss revenue.
- Must be spent by December 31, 2024.

AMERICAN RESCUE PLAN (“ARPA”)

- Localities should use ARPA funding to replace lost revenue.
- Localities should NOT use ARPA funding to add to recurring expenditures without offsetting/recurring revenue.
- Federal stimulus is NOT a recurring revenue source and should NOT be relied upon for long-term fiscal challenges.
- Without ARPA, City was facing a \$200+ million operating deficit.
- Between FY22 and FY23, a significant portion has been used for lost revenue.

INFRASTRUCTURE INVESTMENT & JOBS ACT (“IIJA”)

- The more than **\$550 billion in new spending** will address a decades-long need for new roads, bridges, etc.
- State of Texas to receive roughly **\$36.7 billion** in total.
- Many of the grant programs in IIJA include cost-sharing match requirements (~10%-20% of a project’s total cost).
- Adds stress to Capital Improvement Plans (CIP), increased debt costs & increased capacity need.

SOLUTIONS?

Click to add text



PFM 10-YEAR REPORT

- Hired pre-Harvey in 2016 for \$565k
- 57 recommendations
- \$300+ million in new savings/revenue over 10 years
- Few complete as of April 2022

QUESTIONS?

