FINAL REPORT

OF THE

LONG-RANGE FINANCIAL MANAGEMENT TASK FORCE

PRESENTED TO

MAYOR ANNISE D. PARKER

ON

FEBRUARY 7, 2012

LONG-RANGE FINANCIAL MANAGEMENT TASK FORCE

MICHAEL C. NICHOLS, CHAIR

Long-Range Financial Management Task Force

February 7, 2012

Dear Mayor Parker,

Attached is the final report of the Long-Range Financial Management Task Force. Information contained in this report represents the work of a dedicated and politically diverse group brought together with the common goal of strengthening the City of Houston's long-term financial sustainability.

Houston, similar to most every other city, county, and state across the nation, faces significant budgetary challenges because of a wide array of factors including: increasing percentage of legacy costs; rising health care and pension costs; unpredictable revenue; aging infrastructure; high debt load; increasing costs of city services; and an overall demand for more services coupled with expectation of lower taxation. These challenges have caused many cities to experience very serious financial difficulties forcing dramatic cuts in services. To avoid a similar situation here, city leaders should seize the opportunity to use this report as a catalyst for action.

Good government and sound financial management begin with a careful assessment of where we stand and where we are headed. I am grateful to the city's Director of Finance, Kelly Dowe, and his team for providing the group with a comprehensive, in-depth look at the city's current and projected financial picture. The task force spent five months hearing from Administration officials, outside experts, business leaders, and academics who presented on numerous topics relevant to the city's long-term financial health. All of this information helped task force members formulate a menu of alternatives for the Administration to consider when making policy decisions. I hope this list is viewed as an important starting point—the beginning of a serious conversation about fixing structural defects hampering Houston's fiscal sustainability.

As you will see in the report, the task force has determined its role to be complete; therefore, members do not recommend continuation. Should additional advisement on long-range financial matters be needed in the future, many members expressed an interest in providing further assistance.

It has been my great honor and privilege to serve as chair of this task force. I thank my fellow members for their many hours of hard work and for their valued contribution to this report.

Sincerely,

Michael C. Nichols
Chair
Long-Range Financial Management Task Force

Long-Range Financial Management Task Force Final Report

Background

The Long-Range Financial Management Task Force (Task Force) was created by the Mayor and City Council with the passage of the Fiscal Year 2012 Budget (City of Houston Ordinance 2011-547 on June 22, 2011, and amended by City of Houston Ordinance 2012-46 on January 18, 2012). Included in the adopted budget is an amendment co-sponsored by Council Members Anne Clutterbuck, Stephen Costello, Melissa Noriega, and Oliver Pennington which states:

> *City Council requires adequate input and information to address both the short-term and long-term financial needs of the City. Within 60 days, the administration shall appoint, with Council approval, a Long-Range Financial Management Task Force consisting of at least two Council Members, a representative of the Administration, a representative from each of the City's three Labor Unions, a representative from each of the City's three Pension Systems, and five members of the community representing businesses and residents comprised of financial and actuarial experts, business interests and community leaders. The Controller shall also be represented on the Task Force; however, his representative shall neither be appointed by the Mayor nor confirmed by City Council.*
>
> *The Task Force will review the City's long-term financial situation and develop recommendations for a long-term plan of action for Council discussion and adoption. The Task Force will address long-range plans to include the City's unfunded liabilities, pension plans, benefit management, long-term indebtedness, and all other City financial obligations. The Task Force shall present its final report to the Mayor, followed by a meeting of the Committee of the Whole not later than February 7, 2012. The final report will include a recommendation on whether continued existence of the group, in its current or altered form, would be beneficial. The Task Force shall maintain as privileged and confidential any work product or draft document used to compose its final report. The task force shall be advisory only.*

Membership

- Michael C. Nichols, Chair, Community Representative
- C.O. "Brad" Bradford, City Council Representative
- Terry A. Bratton, Houston Police Officers' Union Representative
- Chris Brown, City Controller's Representative
- Barbara Chelette, Houston Municipal Employees Pension System Representative
- Todd Clark, Houston Firefighters' Relief & Retirement Fund Representative
- Anne Clutterbuck, City Council Representative
- Stephen C. Costello, City Council Representative
- Gene Dewhurst, Community Representative
- Celeste Fatheree, Houston Professional Fire Fighters Association Representative
- Melvin Hughes, Houston Organization of Public Employees Representative

- Ana Lee Sanchez Jacobs, Community Representative
- Carolyn Lacye, Mayoral Representative
- Ralph D. Marsh, Houston Police Officers' Pension System Representative
- Barbara J. Paige, Community Representative
- Fletcher Thorne-Thomsen, Jr., Community Representative

Meetings

The Task Force met twenty-one times from August 22, 2011, to February 6, 2012. City department directors, business leaders, employee union and pension fund representatives, and outside experts educated Task Force members on key issues impacting the city's long-range financial health. Presentations provided an in-depth look at city revenues, long-term obligations, and anticipated expenses over the next twenty years. Task Force members focused on structural, operational, and management issues affecting city finances, rather than on the impact of the current recession. The final five meetings included discussions about city initiatives, city efficiencies, city and county coordination, health benefits, employee compensation, new revenue suggestions, pension security, privatization and outsourcing, financial reporting, and the Tax Increment Reinvestment Zones (TIRZs) within Houston.

A complete meeting and presentation list is shown below:

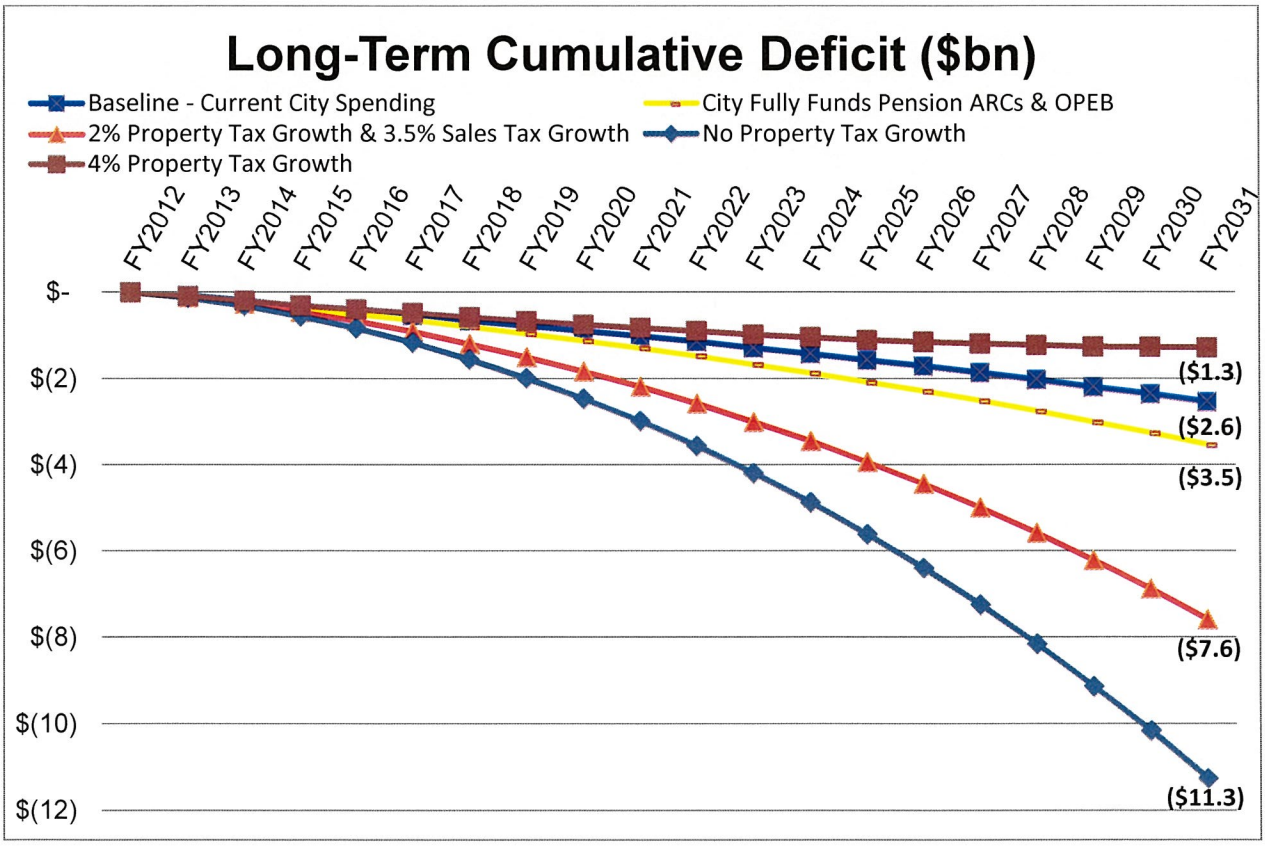
Date	Topic	Presenter
08-22-2011	Initial meeting and briefing	Mayor Parker
08-29-2011	Introduction to Municipal Finance, Part 1	Kelly Dowe, Finance Department Director
09-06-2011	Introduction to Municipal Finance, Part 2	Kelly Dowe, Finance Department Director
09-12-2011	Discussion of task force direction	Mike Nichols, Task Force Chairman
09-19-2011	Deep Dive on City Revenue, Part 1	Kelly Dowe, Finance Department Director
09-07-2011	Deep Dive on City Revenue, Part 2	Kelly Dowe, Finance Department Director
10-10-2011	Citywide Demographics	Stephen Klineberg, Rice University
10-17-2011	Economic Forces	Paul Ehrsam, U.S. Trust
10-24-2011	Government Efficiency	David Edwards, IBM
10-31-2011	Deep Dive on City Expenditures	Kelly Dowe, Finance Department Director
11-07-2011	Pensions	Craig Mason, City of Houston Chief Pension Executive
11-14-2011	Health Benefits	Omar Reid, Human Resources Department Director
11-28-2011	Pension Liabilities Public Economics	John Diamond, Rice University and Steven Craig, University of Houston
12-05-2011	Pensions Post-Employment Benefits	Diane Oakley, National Institute on Retirement Security Josh McGee, Arnold Foundation
12-12-2011	Debt and Capital Projects	Jim Moncur, Finance Department Deputy Director and Michael Bartolotta, First Southwest

12-12-2011	Pension Discount Rates	Mickey McDaniel, Retirement Horizons Inc. and Craig Mason, City of Houston Chief Pension Executive
01-09-2012	Discussions about suggestions	Mike Nichols, Task Force Chairman
01-11-2012	Discussions about suggestions	Mike Nichols, Task Force Chairman
01-18-2012	Discussions about suggestions	Mike Nichols, Task Force Chairman
01-23-2012	Discussions about suggestions	Mike Nichols, Task Force Chairman
01-30-2012	Discussions about suggestions	Mike Nichols, Task Force Chairman
02-06-2012	Review of final report	Mike Nichols, Task Force Chairman
02-07-2012	Report delivered to Mayor	Mike Nichols, Task Force Chairman
02-08-2012	Report delivered to Committee of the Whole	Mike Nichols, Task Force Chairman

Presentation materials are in Appendix A on included CD.

Twenty-Year Forecast

At request of the Task Force, the City's Finance Department prepared twenty-year financial forecast scenarios. The scenarios covered the City's general fund revenues, expenditures, and reserves. The forecast's forward-looking statements are based on numerous assumptions, including business, economic, and other market conditions requested by members of the Task Force. For a full list of assumptions made, please refer to Appendix B.



Development of the Menu of Alternatives

Throughout the five month series of meetings, Task Force members were asked to submit written suggestions of ways to remedy structural financial problems facing the city, thus compiling the Menu of Alternatives. Every suggestion was discussed by the Task Force at five separate deliberative meetings. In an effort to preserve as many members' suggestions as possible and in an attempt to avoid politicizing deliberations, members determined that the Task Force's goal would be to develop a wide variety of alternatives rather than consensus recommendations.

Each suggestion on the Menu of Alternatives needed to be made by only one member; however, many came from multiple. Each alternative was also required to meet the subjective test of whether its impact was material, financial, and long term. If consensus that the suggestion met the criteria could not be reached, then a majority vote of the Task Force determined whether it would remain as an alternative on the menu. The Task Force reviewed 274 suggestions and placed 110 alternatives in the final Menu of Alternatives.

Although the members discussed each alternative, no formal pro and con analysis was performed. It became apparent that it was beyond the scope and capability of the Task Force to determine the dollar estimates of the financial impacts of each suggestion; however, it is respectfully recommended that steps be taken to calculate the individual financial impact of each suggestion.

Conclusion

As required by the authorizing ordinance, the Task Force reviewed the city's long-term financial situation and developed recommendations for a long-term plan of action. The Task Force used members' diverse strengths and interests, as well as demographic tools and economic forecasts, to develop the full Menu of Alternatives. The authorizing ordinance also charged the Task Force with making a recommendation on whether continued existence of the group, in its current or altered form, would be beneficial. With the submission of the Menu of Alternatives, Task Force members determined their role to be complete; therefore, they did not recommend continuation of the Task Force. However, several members expressed a desire, if needed, to further serve the city in a similar advisory role.

With the understanding that the Task Force was created to address the long-term financial sustainability of the City of Houston and to suggest long-term, material, and financial options for financial, structural, operational, and management improvements, the Task Force hereby submits the following Menu of Alternatives to the Mayor for consideration.

Menu of Alternatives

Alternatives are listed alphabetically by category and numbered for convenience. Numeric order does not imply rank. Alternatives already underway or completed by the city may be found in Appendix C.

#	*Category*	*Suggestion*	*Controlling Entity*	*Budget Impact*
1.01	City Initiative/ Efficiency	Investigate alternative service models for Houston Fire Department (HFD) concerning deployment of apparatus to Emergency Medical Services (EMS) calls.	City	
1.02	City Initiative/ Efficiency	Conduct a full work demands analysis of all enterprise funds; find efficiencies and implement them.	City	
1.03	City Initiative/ Efficiency	Develop citywide asset base analysis.	City	
1.04	City Initiative/ Efficiency	Review Insurance Services Office (ISO) rating for fire response time related to consolidation of fire stations.	City	
1.05	City Initiative/ Efficiency	Optimize fire station utilization to better match demand and required services.	City	
1.06	City Initiative/ Efficiency	Evaluate art expenditures for possible reduction or elimination.	City	
1.07	City Initiative/ Efficiency	Limit increase in city contributions to a fixed percentage of all retired and active employee health benefits.	City	
1.08	City Initiative/ Efficiency	Reevaluate all existing contracts: city should audit all contracts to identify services that are currently contracted out to determine if these services may be more efficiently handled in-house by city employees.	City	
1.09	City Initiative/ Efficiency	Review outsourced services in order to determine if it would be more efficient to bring work in-house.	City	
1.10	City Initiative/ Efficiency	Increase energy efficiency in city buildings and engage city workers in energy efficiency activities and recycling. Develop incentives for employees to participate. Train employees in use of green supplies and green products.	City	
1.11	City Initiative/ Efficiency	Audit city equipment: audit current equipment, particularly in Public Works & Engineering and Solid Waste.	City	
1.12	City Initiative/ Efficiency	Further reduce paper product use. Departments should determine where paper product usage can be further reduced through the use of technology: work orders in some departments can move from paper to electronic; all fax systems can move from traditional paper fax to electronic fax; and computers should be set to default to double-sided printing. Where paper filing systems are used, departments should consider switch to electronic filing systems to save on paper and storage space.	City	

1.13	City Initiative/ Efficiency	Facilitate easier residential building permit process: city should create a public service announcement video showing the steps in the process of applying for residential building permits.	City	
1.14	City Initiative/ Efficiency	Institute a "Surplus Supplies Day" twice a year where employees in each department collect surplus items and inventory and redistribute unused items.	City	
1.15	City Initiative/ Efficiency	Centralize all finance employees so they report directly to the Finance Department. Include enterprise funds so the finance director is aware of all department finances. This creates transparency for long-term fiscal responsibility.	City	
1.16	City Initiative/ Efficiency	Hold department directors accountable for total efficiency: work with frontline employees who know where to cut costs and eliminate waste. This can be done on a yearly basis to ensure long-term line by line savings.	City	
1.17	City Initiative/ Efficiency	Consider establishment of a nonpolitical, independent fiscal office for the purpose of objectively evaluating the long-term impact of city financial decisions and proposals.	City/Voters	
2.01	City/County Coordination	Require the county to spend 50% of revenues inside the city after subtracting hospital district, prisons, and courts.	City/County/ State	
2.02	City/County Coordination	Require county to spend 50% of revenues on city services (not including health care and courts).	City/County/ State	
2.03	City/County Coordination	Maximize efforts to partner with other agencies for fuel purchasing, security service, and fleet purchase contracts.	City/County/ ISDs/etc…	
2.04	City/County Coordination	Transfer all health services to county.	City/County	
2.05	City/County Coordination	Move food safety testing expense to county.	City/County	
2.06	City/County Coordination	Move potable water testing to county.	City/County	
2.07	City/County Coordination	Move organic pollutants testing to county.	City/County	
2.08	City/County Coordination	Move milk and dairy products testing to county.	City/County	
2.09	City/County Coordination	Move lead testing to county.	City/County/ State	
2.10	City/County Coordination	Move rabies animal testing to county.	City/County/ State	
2.11	City/County Coordination	Move health code mandates to county.	City/County	
2.12	City/County Coordination	Move HIV/AIDS testing mandate to county.	City/County	

2.13	City/County Coordination	Cede management and expenses of libraries to county with a caveat for protecting city services.	City/County	
2.14	City/County Coordination	Consolidate the Houston Public Library System with Harris/Montgomery/Fort Bend library systems.	City/ Counties	
2.15	City/County Coordination	Explore possibility of collaborating with other entities (school districts, Harris County) to implement a regional health care plan for city employees.	City/County/ ISDs/etc…	
2.16	City/County Coordination	Establish regional health insurance between the city/county/ISDs etc…	City/County/ ISDs/etc…	
2.17	City/County Coordination	Consolidate city and county jail systems.	City/County	
2.18	City/County Coordination	Close crime lab and send all forensic evidence to state Department of Public Safety lab.	City/State	
3.01	Health Benefits	Increase employee co-payment in health plans.	City	
3.02	Health Benefits	Increase percentage of employee premiums paid in health plan.	City	
3.03	Health Benefits	Provide access only benefits (health and disability) for pre-65 retirees.	City	
3.04	Health Benefits	Limit increase in city contributions to a fixed percentage of retiree health benefits.	City/Meet & Confer	
3.05	Health Benefits	Increase city employee contribution percentage to 30% for health benefits.	City/Meet & Confer	
3.06	Health Benefits	Change the city/employee contribution ratio to 80/20 for health benefits	City/Meet & Confer	
3.07	Health Benefits	Move all eligible retirees into Medicare.	City/Meet & Confer	
4.01	Labor Relations	Base pay on merit instead of on age, amount of time served, or step increases. Eliminate all step increases.	City/Union Meet & Confers	
4.02	Labor Relations	Require classified employees to participate in Social Security.	Federal	
4.03	Labor Relations	Return fire department staffing to three fire fighters per apparatus (instead of the current four).	City/Union Collective Bargaining	
5.01	Miscellaneous	Discuss options and introduce a charter amendment to change term limits to two four-year terms or three three-year terms.	Voter approved Charter Amendment	
5.02	Miscellaneous	Dissolve enterprise funds so that revenue generated by airports, water, etc... can be used for the general welfare of the city.	City/County/ State/ Federal	

5.03	Miscellaneous	Include covenant language for all future city bonds and refinanced bonds stating that bondholders will be paid first out of city revenues.	City Controller, Director of Finance	
5.04	Miscellaneous	Analyze the property tax benefit of terminating Tax Increment Reinvestment Zone (TIRZ) agreements.	City/County/ State/ISDs	
6.01	New Revenue - Miscellaneous	Improve enforcement of ordinance requiring permits for dumpsters.	City	
6.02	New Revenue - Miscellaneous	Explore annexation opportunities.	City/State	
6.03	New Revenue - Miscellaneous	Reinstate $7.50 mileage fee for ambulance service.	City	
6.04	New Revenue - Miscellaneous	Create a public safety fund paid for by a citywide fee. Fund all police, fire, crime lab, emergency center, and municipal courts from the fund. Reduce the ad valorem tax rate by the equivalent amount.	City/State	
6.05	New Revenue - Miscellaneous	Charge fees for cell towers or individual cell phones.	City/State/ Federal	
6.06	New Revenue - Miscellaneous	Lease City Hall parking garage on weekends.	City	
6.07	New Revenue - Miscellaneous	Charge for public parking at city facilities during off hours.	City	
6.08	New Revenue - Miscellaneous	Implement recycling fee and expand recycling program citywide.	City	
6.09	New Revenue - Miscellaneous	Implement a garbage fee.	City	
6.10	New Revenue - Miscellaneous	Examine the opt-out feature available to homeowners' associations allowing them to decline city garbage services. Consider city taking over all garbage collection and recycling within the city. Eliminate any subsidy for private garbage and recycling services.	City	
6.11	New Revenue - Miscellaneous	Increase sales of advertising inserts in water bills and other city mailers.	City	
6.12	New Revenue - Miscellaneous	Implement a 1% income tax rate on city residents having incomes over $30,000.	City/State	
6.13	New Revenue - Miscellaneous	Explore the possibility of a "Blight Tax" on foreclosed homes (foreclosure fee paid by bank or purchaser).	City	
6.14	New Revenue - Miscellaneous	Establish a commuter fee.	City	
6.15	New Revenue - Miscellaneous	Utilize Fire Recovery USA to collect payments from insurance companies when HFD puts out fires, conducts inspections, and provides EMS.	City/Fire Collective Bargaining	

6.16	New Revenue - Miscellaneous	Increase program sponsorship with the private sector. For example, local professional sports teams could subsidize city recreational sports.	City/private sector	
6.17	New Revenue - Miscellaneous	Explore ways to improve collection rate of all accounts receivable to 85%. Set goals to increase the amount collected each year.	City	
6.18	New Revenue - Miscellaneous	Collect a fee for backflow inspector licensing.	City	
6.19	New Revenue - Miscellaneous	Require HFD to record health and automotive insurance information for all patients transported by ambulance.	City	
6.20	New Revenue - Property Tax	Increase taxes to the referendum cap.	Mayor & City Council	
6.21	New Revenue - Property Tax	Reevaluate the appraisal process for non-residential valuations.	City/County/ State/ Appraisal District	
6.22	New Revenue - Property Tax	Increase property tax rate.	City	
6.23	New Revenue - Property Tax	Establish different tax rates for commercial, industrial, and residential property.	City/State	
6.24	New Revenue - Property Tax	Increase property taxes with increase earmarked for paying unfunded pension liabilities.	City	
6.25	New Revenue - Property Tax	Eliminate post-2001 property tax exemptions with increase earmarked to pay unfunded pension liabilities.	City	
6.26	New Revenue - Property Tax	Discontinue residential tax exemption for elderly.	City Council	
6.27	New Revenue - Property Tax	Establish new, higher property tax rate for all homes exceeding $500,000.	City/State	
6.28	New Revenue - Property Tax	Implement a higher tax rate on commercial properties.	City	
6.29	New Revenue - Property Tax	Change state law to allow Houston to collect delinquent property taxes with fines and fees.	State	
6.30	New Revenue - Sales Tax	Negotiate to increase the city's percentage of the sales tax rate.	City/State	
6.31	New Revenue - Sales Tax	Regain control of 1% sales tax revenue from METRO.	City/State/ Voters	
7.01	Pension - Benefits/ Contributions	Reduce and/or stop automatic Cost of Living Adjustments (COLAs) for pensions.	City/ Pension Meet & Confers/ State	
7.02	Pension - Benefits/ Contributions	Reduce benefit accrual rates in all pension plans.	City/State/ Meet & Confer	

7.03	Pension - Benefits/ Contributions	Eliminate Deferred Retirement Option Plan (DROP) in all pension plans.	City/State/ Meet & Confer	
7.04	Pension - Benefits/ Contributions	Eliminate DROP for all classified employees hired after 2007.	City/ Pensions/ State	
7.05	Pension - Benefits/ Contributions	Reduce post-retirement survivor benefit from 100%.	City/State/ Meet & Confer	
7.06	Pension - Benefits/ Contributions	Revise compensated absence practice by lowering carry balances. Cease rolling over sick and vacation time.	City/Union Meet & Confer	
7.07	Pension - Benefits/ Contributions	Move all vacation and sick day benefits to "use or lose it" after 10 weeks of accrued vacation and 36 weeks of accrued sick days.	City/State/ Meet & Confer	
7.08	Pension - Benefits/ Contributions	Eliminate vacation days not used in the period they are earned except in extenuating circumstances. In no event should days be allowed to accrue in one period and be used or compensated for in future periods.	City/Meet & Confers	
7.09	Pension - Benefits/ Contributions	Discontinue sick leave. Managers should be given limited authority to allow employees to stay at home, but in no case will sick pay be allowed to accrue in one period and be used or compensated for in future periods.	City/Meet & Confers	
7.10	Pension - Benefits/ Contributions	Reduce the number of sick, holiday, personal, wellness, vacation, and floating days.	City/Union Meet & Confers	
7.11	Pension - Benefits/ Contributions	Pay out all accumulated sick days at the end of every year.	City/Union Meet & Confers	
7.12	Pension - Benefits/ Contributions	Eliminate differentiation of benefits between new and existing workers.	City/ Pension Meet & Confer	
7.13	Pension - Security	Explore an increase in retirement age for all employees.	City/State/ Meet & Confer	
7.14	Pension - Security	Eliminate current bifurcated approach to compensation negotiations to facilitate a more coordinated consideration of all elements of the city's compensation program.	City/State/ Meet & Confer	
7.15	Pension - Security	Require full funding of the Actuarial Required Contribution (ARC) for each of the three city pension plans. Prohibit meet and confer adjustments to the funding of the ARC.	City/Meet & Confer	
7.16	Pension - Security	Require all departments to pay full cost of benefits earned as they are earned in the year they are earned (sick leave, pension, vacation, etc…). Funds should be placed in a separate account to be used for no other purpose.	City	

7.17	Pension - Security	Discontinue practice of funding the payment of pension obligations with debt (both in the market and from the pension plans).	City/ Pensions	
7.18	Pension - Security	Lower the 8.5% investment return target to 7% in all pension systems.	Pension Fund Actuary	
7.19	Pension - Security	Roll back all retirement plan changes to pre-2001 levels.	City/ Pension Meet & Confer/State	
7.20	Pension - Security	Permanently close the defined benefit pension plan to new entrants, enrolling all new employees in defined contribution plans modeled after existing public university plans or the Thrift Savings Plan offered to federal employees.	City/State/ Meet & Confer	
7.21	Pension - Security	Establish a citywide defined contribution plan and have city employees individually decide about participation.	State or City/ Pension Meet & Confer	
7.22	Pension - Security	Limit pension distributions to the same guidelines established by the IRS for Individual Retirement Accounts. Withdrawal may occur no earlier than age 59.5 without incurring an early withdrawal penalty.	Pensions/ State	
7.23	Pension - Security	Require that the city have equal representation on the three pension boards. The mayor shall appoint half of the trustees of the pension boards.	Pensions/ State	
7.24	Pension - Security	Require that the city appoint a majority of pension plan trustees.	State/Meet & Confer	
8.01	Privatization	Outsource EMS.	City	
8.02	Privatization	Outsource EMS with savings earmarked to pay unfunded pension liabilities.	City	
8.03	Privatization	Outsource non-professional jobs such as administrators, park crews, mechanics, security, etc...	City	
9.01	Reporting	Require pension plans to notify the city when employees enter and leave DROP. Also require the pension plans to notify the city of how much benefit and liabilities change (without naming individual retirees).	City/State/ Meet & Confer	
9.02	Reporting	Require the director of the Human Resources Department and the directors of the pension boards to provide any material necessary for the director of the Finance Department to calculate and report annually to City Council the total costs of all current and post-employment benefits including, but not limited to, payroll, health benefits, sick leave, pension obligations, accrued vacation time, and accrued compensation time.	City/State or Pensions	

9.03	Reporting	Require the directors of the pension funds to maintain annual records (without naming individual retirees) indicating the following: the total number of retirees for each fiscal year; the age of each retiree at retirement; the initial annuity amount expressed as a percentage of annual base salary immediately prior to retirement (not in dollar amounts); and the DROP account balance at retirement expressed as a multiple of annual base salary immediately prior to retirement (not in dollar amounts). The directors of the pensions shall provide this information annually to the director of the Finance Department.	Directors of the pension funds	

Appendix A – Meeting Presentations

See included CD.

Appendix B – Twenty-Year Forecast Assumptions

City of Houston

Long Range
Financial Management Task Force

Revenues and Expenditures:
Long-Range Outlook

As of February 6, 2012

Statement of Limitations

Disclaimer

The Finance Department for the City of Houston (the "City") prepared this report and the related exhibits and analysis (the "Report") on a "best efforts" basis in response to the request of the City's Financial Management Task Force ("FMTF") for a set of sensitivities around the City's General Fund revenues, expenditures and reserves. The Report is a preliminary draft and is subject to further refinement. As such, it is intended solely for informational purposes and is not intended to be authoritative or definitive in any way.

The Report's forward-looking statements are based on numerous assumptions, including business, economic, and other market conditions requested by members of the FMTF. Many of these assumptions, and whether such forward-looking statements are achieved, are beyond the control of the City and are inherently subject to substantial uncertainty. Such assumptions involve significant elements of subjective judgment, which may or may not prove to be accurate, and consequently no assurances can be made regarding the analyses or conclusions derived from analyses based upon such assumptions. Accordingly, actual results will likely vary from the forward-looking statements and such variations may be material.

The City has various public debt issues that include financial covenants and other commitments. The Report has not evaluated the City's potential performance with respect to these covenants and commitments and the City specifically disavows the applicability of this Report in evaluating prospective financial performance in relation to its debt obligations.

The City has not subjected the information contained herein to the attestation standards or the Statement on Standards for Prospective Financial Information issued by the American Institute of Certified Public Accountants or the Governmental Accounting Standards Board ("GASB"). The Report is not intended to comply with the proposed *GASB Economic Condition Reporting: Financial Projections.*

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- Scenario IV: Scenario I with 4.5% Pension Investment Returns
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- Long-Term Projections: Scenario Comparison
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Executive Summary

- The Finance Department has prepared this document in response to a request from the Financial Management Task Force (FMTF) to provide scenarios of possible City's revenues and expenditures over the next 20 years.

- The FMTF specifically requested the Finance Department to develop five-year scenario detail and a longer-term projection model. The purpose of these scenarios is to assist in identifying challenges the City will face in the short, mid, and long term so that the FMTF can identify options for the City to consider to address its financial issues.

- ***Since FY2004, the City has been operating at a deficit before taking into account non-recurring sources, transfers from external funds, and use of the General Fund reserves***
  - In response, City management has worked over the last two fiscal years (2011-12) to identify initiatives that will increase revenue and reduce operating expenditures (the "Identified Initiatives").
  - Many of the initiatives (identified in the Appendixes A and B), are one-time financial measures that will not generate financial benefit in future years.
  - The Baseline forecast in this document reflects the annually recurring initiatives, which are permanent fixes.

Executive Summary

- The following scenarios account for all changes made at the City over the past fiscal years, include FY2012 estimated revenues and expenditures, and are based on assumptions created by members of the FMTF:
  - Scenario I (begin fully funding contribution for pensions at the Actuarially Required Contribution (ARC) rate and Other Post Employment Benefits (OPEB) in FY2013) projects a cumulative FY2031 deficit totaling $3.5 billion.
  - Scenario II (Slow Economic Recovery) projects a cumulative FY2031 deficit totaling $7.6 billion.
  - Scenario III (No Property Tax Growth) projects cumulative FY2031 deficit totaling $11.3 billion.
  - Scenario IV (Scenario I with 4.5% Returns in Pension Fund Investments) - unable to calculate actuarially required contributions with the data available to the City.
  - Scenario V (Scenario I with 4% Property Tax Growth) projects cumulative FY2031 deficit totaling $1.3 billion.

Executive Summary

- This Report forecasts a deficit for each fiscal year through FY2017 in all scenarios. ***Even in the Baseline, assuming no additional external sources of funds are identified, General Fund cash balances will be exhausted in FY2014.***
  - The five-year forecast reflects known or anticipated changes to revenues and expenses, with certain assumptions for growth requested by the FMTF.
  - The projections reflect generalized macro assumptions for growth in revenue and expenses.
  - A projection of the Baseline case through FY2031 reflects an annual average General Fund deficit of $140 million and a cumulative deficit totaling $2.7 billion.

- **Based on the forecasted financial results, City leadership has both an immediate FY2014 General Fund balancing issue and medium and longer-term budget balancing challenges. The City will need to develop and implement a plan to: (i) increase revenue, (ii) reduce operating expenditures, and/or (iii) identify external sources of funding to address the budget.**

Financial Results: FY2006 - FY2012 (Forecast)

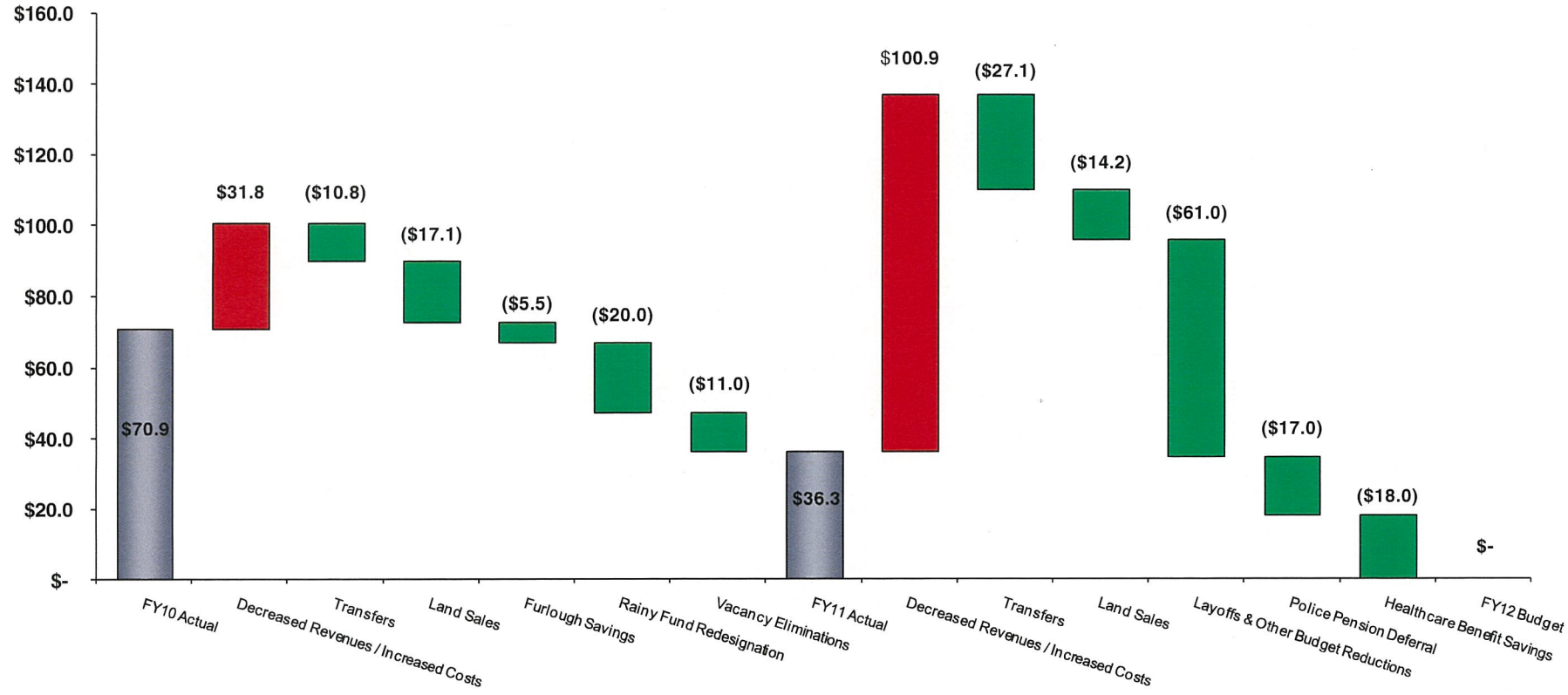
- The City of Houston has been operating at a deficit, excluding non-recurring items, since FY2004. The budget has been balanced through use of fund balance, pension bonds, land sales, transfers from other funds, and other means.
- After adjusting the surplus/deficit for non-recurring sources, the General Fund balance has declined from $253 million in FY2008 to $129 million by the end of FY2011.

($000s)	FY2004 Actual	FY2005 Actual	FY2006 Actual	FY2007 Actual	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Forecast
Total Revenues	$ 1,398,349	$ 1,448,418	$ 1,552,611	$ 1,655,281	$ 1,761,737	$ 1,824,306	$ 1,782,148	$ 1,802,728	$ 1,783,652
Growth %		*4%*	*7%*	*7%*	*6%*	*4%*	*-2%*	*1%*	*-1%*
Total Expenditures	$ 1,400,996	$ 1,467,217	$ 1,563,746	$ 1,668,076	$ 1,790,341	$ 1,901,646	$ 1,916,387	$ 1,900,876	$ 1,835,414
Growth %		*5%*	*7%*	*7%*	*7%*	*6%*	*1%*	*-1%*	*-3%*
Transfers from Other Funds - Ongoing	-	1,028	1,095	1,095	7,095	7,595	9,385	7,729	23,368
Sale of Land (Right of Ways) - Ongoing	1,863	1,656	7,675	4,757	4,003	4,798	4,487	740	1,500
Surplus / (Deficit) before Non-recurring Items	**$ (784)**	**$ (16,115)**	**$ (2,365)**	**$ (6,943)**	**$ (17,506)**	**$ (64,947)**	**$ (120,367)**	**$ (89,679)**	**$ (26,894)**
Transfers from Other Funds - One-Time	$ 6,800	$ -	$ 946	$ 3,447	$ 4,124	$ 28,215	$ 29,273	$ 15,832	$ 29,612
Proceeds from Pension Bonds	-	48,599	59,000	63,000	35,000	20,000	20,000	-	-
Sale of Other Assets - One Time	-	-	-	-	-	-	2,061	13,026	11,650
Change in Inventory/Prepaid Items	(857)	(672)	3,922	(801)	(463)	-	(1,895)	4,478	-
Redesignation of Rainy Day Fund	-		-	-	-	-	-	20,000	(5,000)
Increase / (Decrease) in Fund Balance	**$ 5,159**	**$ 31,812**	**$ 61,503**	**$ 58,703**	**$ 21,155**	**$ (16,732)**	**$ (70,928)**	**$ (36,343)**	**$ 9,367**
Ending Unrestricted Fund Balance	**$ 79,867**	**$ 111,679**	**$ 173,182**	**$ 231,886**	**$ 253,041**	**$ 236,309**	**$ 165,381**	**$ 129,039**	**$ 138,406**
Growth %		*40%*	*55%*	*34%*	*9%*	*-7%*	*-30%*	*-22%*	*7%*

Budget Issues and Identified Initiatives:
FY2011 - FY2012

- In balancing the last two budgets, the City has taken the steps identified below and further detailed in Appendixes A and B to address decreased revenues and increased operating costs. The graph below highlights these initiatives:

City of Houston
Deficit Bridge
($ in Millions)



Budget Issues and Identified Initiatives:
FY2011 - FY2012

- As seen on slide 7, the City has now lowered the current budget deficit (current revenues – current expenditures, excluding one-time funding sources) to $26.9 million in FY2012 (estimated as of February 6, 2012). This is the lowest current budget deficit since the 2008-2009 period.

- While the City has made significant progress in lowering the deficit in the past two years, revenues are not forecasted to increase enough to support increases in expenditures in future years.

- The scenarios that follow illustrate potential challenges the City may face in trying to continuing its progress in reducing the deficit.

Baseline Forecast: Key Assumptions

- The following key assumptions are reflected in the Baseline forecast requested by the FMTF:

Revenue Category	Assumption FY2013	FY2014	FY2015	FY2016	FY2017	Comment
Property Tax Growth %	2.10%	3.20%	3.20%	3.20%	3.20%	Based on 2011 estimate received from Harris County Tax Appraisal District for FY2013. Thereafter, it is based on average annual growth CPI (2.22%) plus population growth (0.96%).
Sales Tax Growth %	4.51%	4.28%	5.62%	6.45%	6.23%	FY2013-17 is based on January 2012 estimate from Dr. Barton Smith's (University of Houston) assumption. Thereafter it is based on CPI plus population growth.
Other Revenue Growth %	1.00%	1.00%	1.00%	1.00%	1.00%	FY2013-17 is based on historical average. Thereafter, it is based on CPI growth.
Sale of Other Assets $mm	$ 23.0	-	-	-	-	One time asset sales anticipated in FY2013

Baseline Forecast: Key Assumptions (cont'd)

Expense Categories	Assumption FY2013	FY2014	FY2015	FY2016	FY2017	Comment
Personnel [1] [2]:						
Classified FTE Growth %	1.0%	1.0%	1.0%	1.0%	1.0%	Average annual growth for population in the past 20 yrs
Civilian FTE Growth %	0.5%	0.5%	0.5%	0.5%	0.5%	Applied as 0.5 times classifed growth rate
Salary & Wage Growth %	2.2%	2.2%	2.2%	2.2%	2.2%	20 year historical average annual CPI growth
Pension:						
Future Benefits Discount	8.5%	8.5%	8.5%	8.5%	8.5%	Pension Board assumptions
Investment Rate of Return	8.5%	8.5%	8.5%	8.5%	8.5%	Pension Board assumptions
Fire (HFRRF) Contribution %	23.9%	23.9%	31.6%	31.6%	31.6%	FY2013-17 based on Meet & Confer, assumes ARC therafter
Municipal (HMEPS) Contribution %	21.4%	23.4%	25.4%	27.4%	28.7%	FY2013-17 based on Meet & Confer, assumes ARC therafter
Police (HPOPS) Annual $mm Increase	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0	FY2013-17 based on Meet & Confer, FY2018 is based on more conservative approach ($10mm increment is higher than ARC)
Health Benefits:						
Growth %	9.0%	7.0%	7.0%	6.0%	5.0%	Human Resource Department engages consulting firm to determine medical trends as well as historical analysis.
Energy:						
Growth %	0.7%	-13.0%	7.4%	3.5%	3.5%	Based Energy Division Forecast
Other Operating Costs:						
Growth %	3.2%	3.2%	3.2%	3.2%	3.2%	20 year average annual growth of CPI (2.22%) plus population (0.96%) assumption

(1) FY2013-16 includes HPD Meet and Confer agreement, HFD Collective Bargaining, as well as HOPE Meet and Confer

(2) No explicit funding for unfunded Other Post Employment Benefits (OPEB)

Baseline Forecast: Five-Year Forecast

- Assuming the General Fund Reserve is the only source available to cover operating deficits, the fund balance will be below 5% limit of total expenditure less debt service in FY2013 and would be exhausted during FY2014 in the following scenario.
- The Baseline five-year forecast suggests a cumulative deficit over the next five years totaling $540 million.

($000s)	FY2011 Actual	FY2012 Forecast	FY2013 Forecast	FY2014 Forecast	FY2015 Forecast	FY2016 Forecast	FY2017 Forecast
Property Tax Revenues	$859,413	$858,679	$876,723	$904,778	$933,731	$963,611	$994,446
Sales Tax	492,824	521,912	545,475	568,822	600,789	639,552	679,371
Franchise Revenue	190,563	190,493	190,984	191,631	192,431	194,428	196,550
Other Revenues	259,924	212,568	215,597	219,620	224,068	227,625	231,274
Total Revenues	**$1,802,724**	**$1,783,652**	**$1,828,780**	**$1,884,851**	**$1,951,019**	**$2,025,216**	**$2,101,641**
Growth %		*-1%*	*3%*	*3%*	*4%*	*4%*	*4%*
Total Operating Expenditures	$1,680,038	$1,614,907	$1,680,483	$1,743,450	$1,824,096	$1,869,641	$1,911,721
Transfers for Debt Service	232,545	220,507	256,100	274,100	285,000	291,000	322,571
Transfers for Fleet/Equipment Debt to Departments	(11,707)	-					
Total Expenditures	**$1,900,876**	**$1,835,413**	**$1,936,583**	**$2,017,550**	**$2,109,096**	**$2,160,641**	**$2,234,292**
Growth %		*-3%*	*6%*	*4%*	*5%*	*2%*	*3%*
Transfers from Other Funds - Ongoing	7,729	23,368	22,156	22,156	22,156	22,156	22,156
Sale of Land (Right of Ways)	740	1,500	1,545	1,560	1,576	1,576	1,576
Surplus / (Deficit) before Non-recurring Items	**($89,682)**	**($26,893)**	**($84,102)**	**($108,983)**	**($134,345)**	**($111,693)**	**($108,919)**
Transfers from Other Funds - One-Time	$15,832	$29,612	$0	$0	$0	$0	$0
Sale of Other Assets	13,026	11,650	23,000	-	-	-	-
Change in Inventory/Prepaid Items	4,478	-	-	-	-	-	-
Redesignation of Rainy Day Fund	20,000	(5,000)	(5,000)	(5,000)	(5,000)	-	-
Increase / (Decrease) in Fund Balance	**($36,346)**	**$9,367**	**($66,102)**	**($113,983)**	**($139,345)**	**($111,693)**	**($108,919)**
Ending Unrestricted Fund Balance	**$129,037**	**$138,405**	**$72,302**	**($41,680)**	**($181,025)**	**($292,718)**	**($401,637)**
Fund Balance Percent of Expenditures (less debt)	7.68%	8.57%	4.30%	-2.39%	-9.92%	-15.66%	-21.01%

Baseline Forecast: Five-Year Forecast

- In the Baseline Forecast, expenditures grow faster than revenues in three out of the next five years (FY2013-17).
- As seen in Appendix D (Baseline: Expenditures by Category), the growth in pensions, health benefits, and debt service grow faster than salary cost and take up an increasing portion of the General Fund budget.

Scenario I (ARC & OPEB Funding Commencing in FY2013): Key Assumptions

- The pension contributions in the Baseline do not reflect the Annual Required Contribution ("ARC"). The ARC is amount needed to fully fund the City's three pension funds each year as calculated by the pension funds. At the request of the FMTF, Scenario I includes the funding amounts to achieve the ARC. This does not include an ARC assumption for the Houston Police Officers' Pension System (HPOPS), as the current contract between HPOPS and the City already fully funds beyond the ARC each year.
- The Baseline forecast does not include the full funding the City should be setting aside to pay Other Post Employment Benefits ("OPEB"), mainly retiree health benefit costs. At the request of the FMTF, this Scenario I includes the funding amounts for OPEB based on an actuarial report provided to the Finance Department.

Scenario I (ARC & OPEB Funding Commencing in FY2013): Key Assumptions

Revenue Category	Assumption				
	FY2013	FY2014	FY2015	FY2016	FY2017
No Changes from Baseline Forecast					

Expense Categories	Assumption				
	FY2013	FY2014	FY2015	FY2016	FY2017
Personnel:					
Classified FTE Growth %	No Changes from Baseline Forecast				
Civilian FTE Growth %	No Changes from Baseline Forecast				
Wager Growth %	No Changes from Baseline Forecast				
OPEB:					
Payment with Interest $mm	$ 27.5	$ 30.0	$ 32.6	$ 35.2	$ 37.6
Pension:					
Future Benefits Discount	No Changes from Baseline Forecast				
Investment Rate of Return	No Changes from Baseline Forecast				
Fire (HFRRF) Contribution %	ARC - see appendix for more details				
Municipal (HMEPS) Contribution %	ARC - see appendix for more details				
Police (HPOPS) Annual $mm Increase	No Changes from Baseline Forecast				
Health Benefits:					
Growth %	No Changes from Baseline Forecast				
Energy:					
Growth %	No Changes from Baseline Forecast				
Other Operating Costs:					
Growth %	No Changes from Baseline Forecast				

Scenario I (ARC & OPEB Funding Commencing in FY2013): Five-Year Forecast

- The Scenario I five-year forecast suggests a cumulative operating deficit totaling $637 million before General Fund Reserves are considered.

($000s)	FY2011 Actual	FY2012 Forecast	FY2013 Forecast	FY2014 Forecast	FY2015 Forecast	FY2016 Forecast	FY2017 Forecast
Property Tax Revenues	$859,413	$858,679	$876,723	$904,778	$933,731	$963,611	$994,446
Sales Tax	492,824	521,912	545,475	568,822	600,789	639,552	679,371
Franchise Revenue	190,563	190,493	190,984	191,631	192,431	194,428	196,550
Other Revenues	259,924	212,568	215,597	219,620	224,068	227,625	231,274
Total Revenues	**$1,802,724**	**$1,783,652**	**$1,828,780**	**$1,884,851**	**$1,951,019**	**$2,025,216**	**$2,101,641**
Growth %		*-1%*	*3%*	*3%*	*4%*	*4%*	*4%*
Total Operating Expenditures	$1,680,038	$1,614,907	$1,718,454	$1,757,745	$1,831,172	$1,883,758	$1,935,548
Transfers for Debt Service	232,545	220,507	256,100	274,100	285,000	291,000	322,571
Transfers for Fleet/Equipment Debt to Departments	(11,707)	-					
Total Expenditures	**$1,900,876**	**$1,835,413**	**$1,974,554**	**$2,031,845**	**$2,116,172**	**$2,174,758**	**$2,258,119**
Growth %		*-3%*	*8%*	*3%*	*4%*	*3%*	*4%*
Transfers from Other Funds - Ongoing	7,729	23,368	22,156	22,156	22,156	22,156	22,156
Sale of Land (Right of Ways)	740	1,500	1,545	1,560	1,576	1,576	1,576
Surplus / (Deficit) before Non-recurring Items	**($89,682)**	**($26,893)**	**($122,074)**	**($123,278)**	**($141,421)**	**($125,811)**	**($132,746)**
Transfers from Other Funds - One-Time	$15,832	$29,612	$0	$0	$0	$0	$0
Sale of Other Assets	13,026	11,650	23,000	-	-	-	-
Change in Inventory/Prepaid Items	4,478	-	-	-	-	-	-
Redesignation of Rainy Day Fund	20,000	(5,000)	(5,000)	(5,000)	(5,000)	-	-
Increase / (Decrease) in Fund Balance	**($36,346)**	**$9,367**	**($104,074)**	**($128,278)**	**($146,421)**	**($125,811)**	**($132,746)**
Ending Unrestricted Fund Balance	**129,037**	**$138,405**	**$34,331**	**($93,947)**	**($240,368)**	**($366,178)**	**($498,924)**
Fund Balance Percent of Expenditures (less debt)	7.68%	8.57%	2.00%	-5.34%	-13.13%	-19.44%	-25.78%

Scenario II (Scenario I Plus Slow Economic Recovery): Key Assumptions

- Scenario II builds on Scenario I (ARC & OPEB Funding Commencing in FY2013) and additionally assumes that revenue growth is slower by adjusting the rate of growth for property tax and sales tax.

Scenario II (Scenario I Plus Slow Economic Recovery): Key Assumptions

Revenue Category	Assumption FY2013	FY2014	FY2015	FY2016	FY2017
Property Tax Growth %	2.00%	2.00%	2.00%	2.00%	2.00%
Sales Tax Growth %	3.50%	3.50%	3.50%	3.50%	3.50%
Other Revenue Growth %	No Changes from Baseline Forecast				
Sale of Other Assets $mm	No Changes from Baseline Forecast				
Redesignation of Rainy Day Fund $mm	No Changes from Baseline Forecast				

Expense Categories	Assumption FY2013	FY2014	FY2015	FY2016	FY2017
Personnel:					
Classified FTE Growth %	No Changes from Baseline Forecast				
Civilian FTE Growth %	No Changes from Baseline Forecast				
Wager Growth %	No Changes from Baseline Forecast				
OPEB:					
Payment with Interest $mm	$ 27.5	$ 30.0	$ 32.6	$ 35.2	$ 37.6
Pension:					
Future Benefits Discount	No Changes from Baseline Forecast				
Investment Rate of Return	No Changes from Baseline Forecast				
Fire (HFRRF) Contribution %	ARC - see appendix for more details				
Municipal (HMEPS) Contribution %	ARC - see appendix for more details				
Police (HPOPS) Annual $mm Increase	No Changes from Baseline Forecast				
Health Benefits:					
Growth %	No Changes from Baseline Forecast				
Energy:					
Growth %	No Changes from Baseline Forecast				
Other Operating Costs:					
Growth %	No Changes from Baseline Forecast				

Scenario II (Scenario I Plus Slow Economic Recovery): Five-Year Forecast

- The Scenario II five-year forecast suggests a cumulative operating deficit totaling $898 million before General Fund Reserves are considered.

($000s)	FY2011 Actual	FY2012 Forecast	FY2013 Forecast	FY2014 Forecast	FY2015 Forecast	FY2016 Forecast	FY2017 Forecast
Property Tax Revenues	$859,413	$858,679	$875,853	$893,370	$911,237	$929,462	$948,051
Sales Tax	492,824	521,912	540,179	559,085	578,653	598,906	619,868
Franchise Revenue	190,563	190,493	192,398	194,322	196,265	198,228	200,210
Other Revenues	259,924	212,568	214,693	216,840	219,009	221,199	223,411
Total Revenues	**$1,802,724**	**$1,783,652**	**$1,823,123**	**$1,863,617**	**$1,905,164**	**$1,947,795**	**$1,991,540**
Growth %		*-1%*	*2%*	*2%*	*2%*	*2%*	*2%*
Total Operating Expenditures	$1,680,038	$1,614,907	$1,718,454	$1,757,746	$1,831,174	$1,883,762	$1,935,554
Transfers for Debt Service	232,545	220,507	256,100	274,100	285,000	291,000	322,571
Transfers for Fleet/Equipment Debt to Departments	(11,707)	-					
Total Expenditures	**$1,900,876**	**$1,835,413**	**$1,974,554**	**$2,031,846**	**$2,116,174**	**$2,174,762**	**$2,258,125**
Growth %		*-3%*	*8%*	*3%*	*4%*	*3%*	*4%*
Transfers from Other Funds - Ongoing	7,729	23,368	22,156	22,156	22,156	22,156	22,156
Sale of Land (Right of Ways)	740	1,500	1,545	1,560	1,576	1,576	1,576
Surplus / (Deficit) before Non-recurring Items	**($89,682)**	**($26,893)**	**($127,730)**	**($144,512)**	**($187,278)**	**($203,236)**	**($242,853)**
Transfers from Other Funds - One-Time	$15,832	$29,612	$0	$0	$0	$0	$0
Sale of Other Assets	13,026	11,650	23,000	-	-	-	-
Change in Inventory/Prepaid Items	4,478	-	-	-	-	-	-
Redesignation of Rainy Day Fund	20,000	(5,000)	(5,000)	(5,000)	(5,000)	-	-
Increase / (Decrease) in Fund Balance	**($36,346)**	**$9,367**	**($109,730)**	**($149,512)**	**($192,278)**	**($203,236)**	**($242,853)**
Ending Unrestricted Fund Balance	**$129,037**	**$138,405**	**$28,674**	**($120,838)**	**($313,116)**	**($516,352)**	**($759,206)**
Fund Balance Percent of Expenditures (less debt)	7.68%	8.57%	1.67%	-6.87%	-17.10%	-27.41%	-39.22%

Scenario III (Scenario II with No Property Tax Growth): Key Assumptions

- Scenario III builds on Scenario II (Slow Economic Growth) and additionally assumes that revenue growth is much slower than Scenario II, by adjusting the rate of growth for property tax to zero.

Scenario III (Scenario II with No Property Tax Growth): Key Assumptions

Revenue Category	Assumption FY2013	FY2014	FY2015	FY2016	FY2017
Property Tax Growth %	0.00%	0.00%	0.00%	0.00%	0.00%
Sales Tax Growth %	3.50%	3.50%	3.50%	3.50%	3.50%
Other Revenue Growth %	No Changes from Baseline Forecast				
Sale of Other Assets $mm	No Changes from Baseline Forecast				
Redesignation of Rainy Day Fund $mm	No Changes from Baseline Forecast				

Expense Categories	Assumption FY2013	FY2014	FY2015	FY2016	FY2017
Personnel:					
Classified FTE Growth %	No Changes from Baseline Forecast				
Civilian FTE Growth %	No Changes from Baseline Forecast				
Wager Growth %	No Changes from Baseline Forecast				
OPEB:					
Payment with Interest $mm	$ 27.5	$ 30.0	$ 32.6	$ 35.2	$ 37.6
Pension:					
Future Benefits Discount	No Changes from Baseline Forecast				
Investment Rate of Return	No Changes from Baseline Forecast				
Fire (HFRRF) Contribution %	ARC - see appendix for more details				
Municipal (HMEPS) Contribution %	ARC - see appendix for more details				
Police (HPOPS) Annual $mm Increase	No Changes from Baseline Forecast				
Health Benefits:					
Growth %	No Changes from Baseline Forecast				
Energy:					
Growth %	No Changes from Baseline Forecast				
Other Operating Costs:					
Growth %	No Changes from Baseline Forecast				

Scenario III (Scenario II with No Property Tax Growth): Five-Year Forecast

- The Scenario III five-year forecast suggests a cumulative operating deficit totaling $1.2 billion before General Fund Reserves are considered.

($000s)	FY2011 Actual	FY2012 Forecast	FY2013 Forecast	FY2014 Forecast	FY2015 Forecast	FY2016 Forecast	FY2017 Forecast
Property Tax Revenues	$859,413	$858,679	$858,679	$858,679	$858,679	$858,679	$858,679
Sales Tax	492,824	521,912	540,179	559,085	578,653	598,906	619,868
Franchise Revenue	190,563	190,493	192,398	194,322	196,265	198,228	200,210
Other Revenues	259,924	212,568	214,693	216,840	219,009	221,199	223,411
Total Revenues	**$1,802,724**	**$1,783,652**	**$1,805,949**	**$1,828,927**	**$1,852,606**	**$1,877,012**	**$1,902,168**
Growth %		*-1%*	*1%*	*1%*	*1%*	*1%*	*1%*
Total Operating Expenditures	$1,680,038	$1,614,907	$1,718,454	$1,757,746	$1,831,174	$1,883,762	$1,935,554
Transfers for Debt Service	232,545	220,507	256,100	274,100	285,000	291,000	322,571
Transfers for Fleet/Equipment Debt to Departments	(11,707)	-					
Total Expenditures	**$1,900,876**	**$1,835,413**	**$1,974,554**	**$2,031,846**	**$2,116,174**	**$2,174,762**	**$2,258,125**
Growth %		*-3%*	*8%*	*3%*	*4%*	*3%*	*4%*
Transfers from Other Funds - Ongoing	7,729	23,368	22,156	22,156	22,156	22,156	22,156
Sale of Land (Right of Ways)	740	1,500	1,545	1,560	1,576	1,576	1,576
Surplus / (Deficit) before Non-recurring Items	**($89,682)**	**($26,893)**	**($144,904)**	**($179,203)**	**($239,836)**	**($274,019)**	**($332,225)**
Transfers from Other Funds - One-Time	$15,832	$29,612	$0	$0	$0	$0	$0
Sale of Other Assets	13,026	11,650	23,000	-	-	-	-
Change in Inventory/Prepaid Items	4,478	-	-	-	-	-	-
Redesignation of Rainy Day Fund	20,000	(5,000)	(5,000)	(5,000)	(5,000)	-	-
Increase / (Decrease) in Fund Balance	**($36,346)**	**$9,367**	**($126,904)**	**($184,203)**	**($244,836)**	**($274,019)**	**($332,225)**
Ending Unrestricted Fund Balance	**$129,037**	**$138,405**	**$11,500**	**($172,702)**	**($417,539)**	**($691,557)**	**($1,023,783)**
Fund Balance Percent of Expenditures (less debt)	7.68%	8.57%	0.67%	-9.83%	-22.80%	-36.71%	-52.89%

Scenario IV (Scenario I with 4.5% Pension Investment Returns): Key Assumptions

- Scenario IV builds on Scenario I and additionally assumes investment returns of 4.5% in the pension trust funds.

Scenario IV (Scenario I with 4.5% Pension Investment Returns): Key Assumptions

Revenue Category	Assumption				
	FY2013	FY2014	FY2015	FY2016	FY2017
No Changes from Baseline Forecast					

Expense Categories	Assumption				
	FY2013	FY2014	FY2015	FY2016	FY2017
Personnel:					
Classified FTE Growth %	No Changes from Baseline Forecast				
Civilian FTE Growth %	No Changes from Baseline Forecast				
Wager Growth %	No Changes from Baseline Forecast				
OPEB:					
Payment with Interest $mm	$ 27.5	$ 30.0	$ 32.6	$ 35.2	$ 37.6
Pension:					
Future Benefits Discount	4.5%				
Investment Rate of Return	4.5%				
Fire (HFRRF) Contribution %	ARC - unable to calculate				
Municipal (HMEPS) Contribution %	ARC - unable to calculate				
Police (HPOPS) Annual $mm Increase	No Changes from Baseline Forecast				
Health Benefits:					
Growth %	No Changes from Baseline Forecast				
Energy:					
Growth %	No Changes from Baseline Forecast				
Other Operating Costs:					
Growth %	No Changes from Baseline Forecast				

Scenario IV (Scenario I with 4.5% Pension Investment Returns): Five-Year Forecast

- Unable to calculate actuarially required contributions with the data available to the City.

Scenario V (Scenario I with 4% Property Tax Growth): Key Assumptions

- Scenario V builds on Scenario I (ARC and OPEB Funding Commencing in FY2013) and additionally assumes a 4% property tax growth rate.

Scenario V (Scenario I with 4% Property Tax Growth): Key Assumptions

Revenue Category	Assumption FY2013	FY2014	FY2015	FY2016	FY2017
Property Tax Growth %	4.00%	4.00%	4.00%	4.00%	4.00%

Expense Categories	Assumption FY2013	FY2014	FY2015	FY2016	FY2017
Personnel:					
Classified FTE Growth %	No Changes from Baseline Forecast				
Civilian FTE Growth %	No Changes from Baseline Forecast				
Wager Growth %	No Changes from Baseline Forecast				
OPEB:					
Payment with Interest $mm	$ 27.5	$ 30.0	$ 32.6	$ 35.2	$ 37.6
Pension:					
Future Benefits Discount	No Changes from Baseline Forecast				
Investment Rate of Return	No Changes from Baseline Forecast				
Fire (HFRRF) Contribution %	ARC - see appendix for more details				
Municipal (HMEPS) Contribution %	ARC - see appendix for more details				
Police (HPOPS) Annual $mm Increase	No Changes from Baseline Forecast				
Health Benefits:					
Growth %	No Changes from Baseline Forecast				
Energy:					
Growth %	No Changes from Baseline Forecast				
Other Operating Costs:					
Growth %	No Changes from Baseline Forecast				

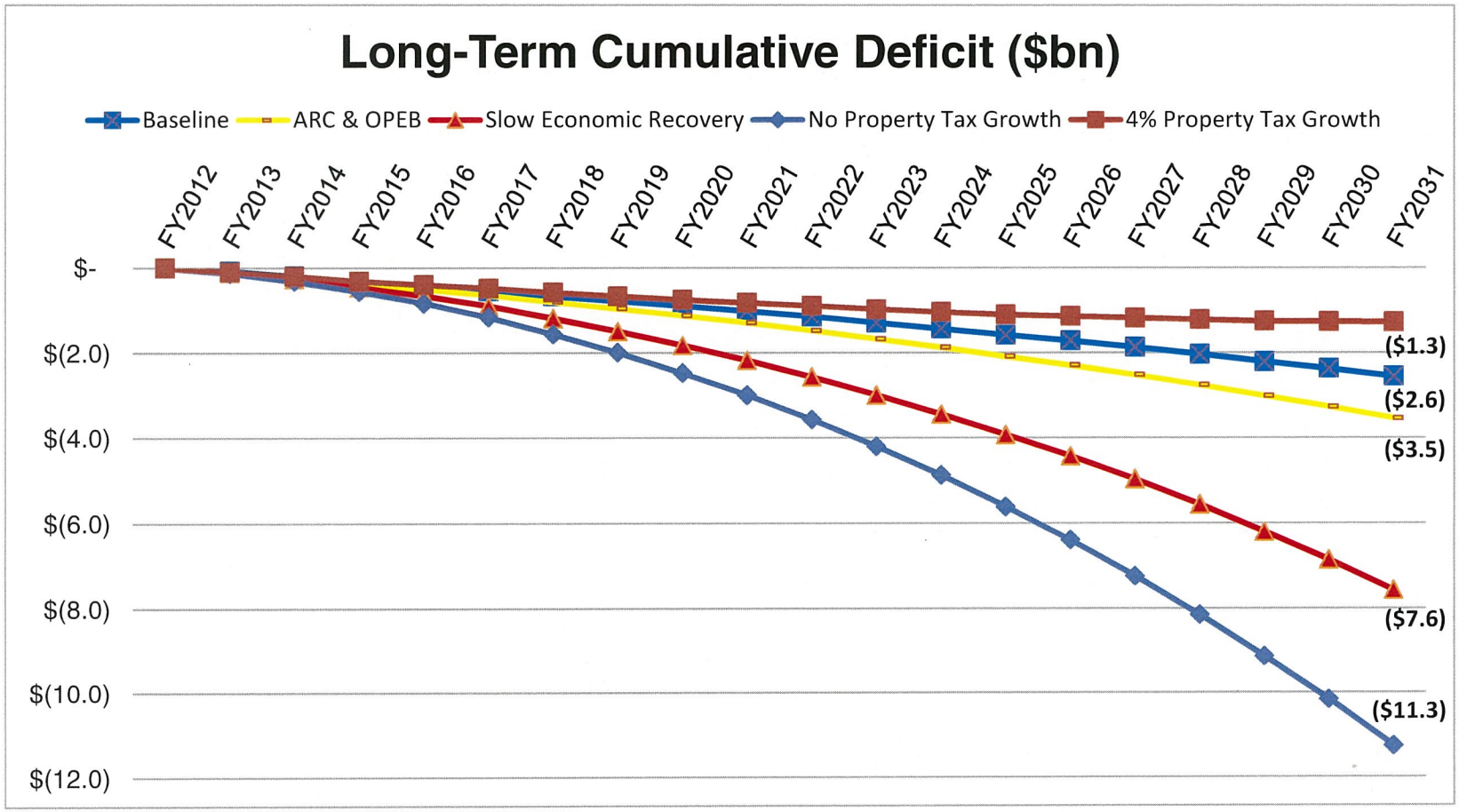
Scenario V (Scenario I with 4% Property Tax Growth): Five-Year Forecast

- Deficits are slightly less in the Scenario V five-year forecast than in Scenario I due to the higher Property Tax assumption.

($000s)	FY2011 Actual	FY2012 Forecast	FY2013 Forecast	FY2014 Forecast	FY2015 Forecast	FY2016 Forecast	FY2017 Forecast
Property Tax Revenues	$859,413	$858,679	$893,026	$928,747	$965,897	$1,004,533	$1,044,714
Sales Tax	492,824	521,912	545,475	568,822	600,789	639,552	679,371
Franchise Revenue	190,563	190,493	190,984	191,631	192,431	194,428	196,550
Other Revenues	259,924	212,568	215,597	219,620	224,068	227,625	231,274
Total Revenues	**$1,802,724**	**$1,783,652**	**$1,845,083**	**$1,908,820**	**$1,983,185**	**$2,066,138**	**$2,151,910**
Growth %		*-1%*	*3%*	*3%*	*4%*	*4%*	*4%*
Total Operating Expenditures	$1,680,038	$1,614,907	$1,718,454	$1,757,745	$1,831,172	$1,883,758	$1,935,548
Transfers for Debt Service	232,545	220,507	256,100	274,100	285,000	291,000	322,571
Transfers for Fleet/Equipment Debt to Departments	(11,707)	-					
Total Expenditures	**$1,900,876**	**$1,835,413**	**$1,974,554**	**$2,031,845**	**$2,116,172**	**$2,174,758**	**$2,258,119**
Growth %		*-3%*	*8%*	*3%*	*4%*	*3%*	*4%*
Transfers from Other Funds - Ongoing	7,729	23,368	22,156	22,156	22,156	22,156	22,156
Sale of Land (Right of Ways)	740	1,500	1,545	1,560	1,576	1,576	1,576
Surplus / (Deficit) before Non-recurring Items	**($89,682)**	**($26,893)**	**($105,770)**	**($99,309)**	**($109,255)**	**($84,888)**	**($82,478)**
Transfers from Other Funds - One-Time	$15,832	$29,612	$0	$0	$0	$0	$0
Sale of Other Assets	13,026	11,650	23,000	-	-	-	-
Change in Inventory/Prepaid Items	4,478	-	-	-	-	-	-
Redesignation of Rainy Day Fund	20,000	(5,000)	(5,000)	(5,000)	(5,000)	-	-
Increase / (Decrease) in Fund Balance	**($36,346)**	**$9,367**	**($87,770)**	**($104,309)**	**($114,255)**	**($84,888)**	**($82,478)**
Ending Unrestricted Fund Balance	**129,037**	**$138,405**	**$50,634**	**($53,675)**	**($167,929)**	**($252,818)**	**($335,295)**
Fund Balance Percent of Expenditures (less debt)	7.68%	8.57%	2.95%	-3.05%	-9.17%	-13.42%	-17.32%

Long-Term Projections: Scenario Comparison

- The chart below compares the difference in cumulative General Fund deficit over a longer-term projection between the five scenarios



Appendices

A. FY2011 Implemented Initiative Detail
B. FY2012 Implemented Initiative Detail
C. Baseline: Revenues vs. Expenditures
D. Baseline: Expenditures by Category
E. Scenario I: Revenues vs. Expenditures
F. Scenario II: Revenues vs. Expenditures
G. Scenario III: Revenues vs. Expenditures
H. Scenario V: Revenues vs. Expenditures
I. Scenario I – III, V: Expenditures by Category
J. Actuarially Required Contribution (ARC) Rate
K. Consumer Price Index v. Population

A. FY2011 Implemented Initiative Detail

FY2011 ($000s)	Revenue	Expenditures
One-Time Transfers		
Transfer from Debt Service (refund overpayment)	$ 813	
Transfer from Limited Mobility Capital Fund	432	
Hurricane Ike Proceeds	5,729	
Transfer from Fleet Equipment Acquisition Fund	2,600	
Parking Management one time accounting adjustment	1,259	
	$ 10,832	
Land Sales		
Ellington Field	$ 6,126	
3300 Main St	5,000	
Center Street	2,000	
Battleground Rd	4,000	
	$ 17,126	
Initiatives		
Furlough Savings		$ 5,530
Vacancy/Attrition Savings		10,985
		$ 16,515

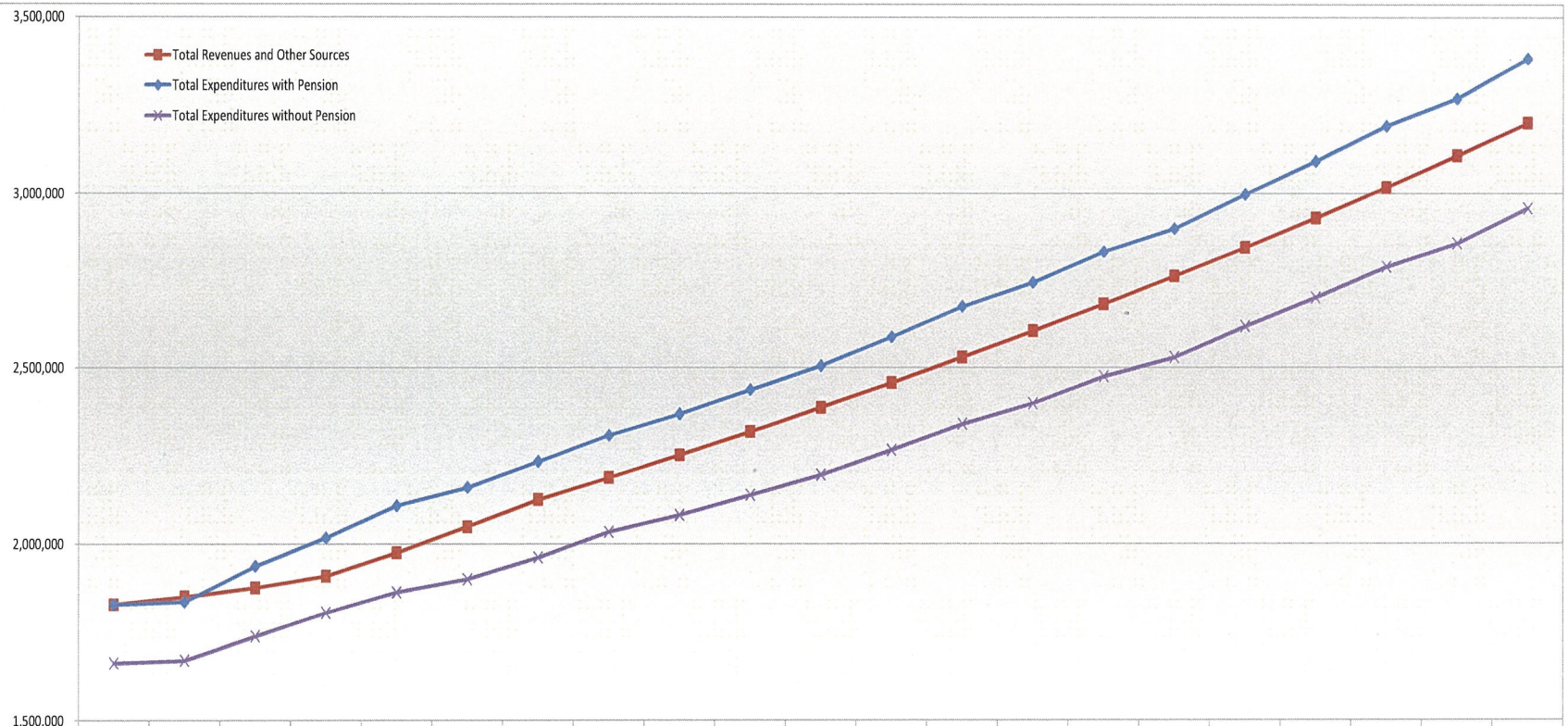
FY 2011 Total (Revenue & Expenditures)	**$ 44,473**

B. FY2012 Implemented Initiative Detail

FY2012 ($000s)	Revenue	Expenditures
Land Sales		
3 properties projected to be sold	$ 11,650	
3400 Main St	2,500	
	$ 14,150	
Transfers		
Transfer from Combined Utility System Fund for Drainage Debt payment	$ 17,112	
LGC Hotel Corp pre-payment - Houston First Initiative	10,000	
	$ 27,112	
Initiatives		
Layoffs & Other Budget Reductions		$ 61,000
Police Pension Deferral to FY13		17,000
Health Benefits Savings		18,000
Creation of DDSRF Fund (Transfer Rev & Exp)	$ (54,364)	53,412
	$ (54,364)	**$ 149,412**

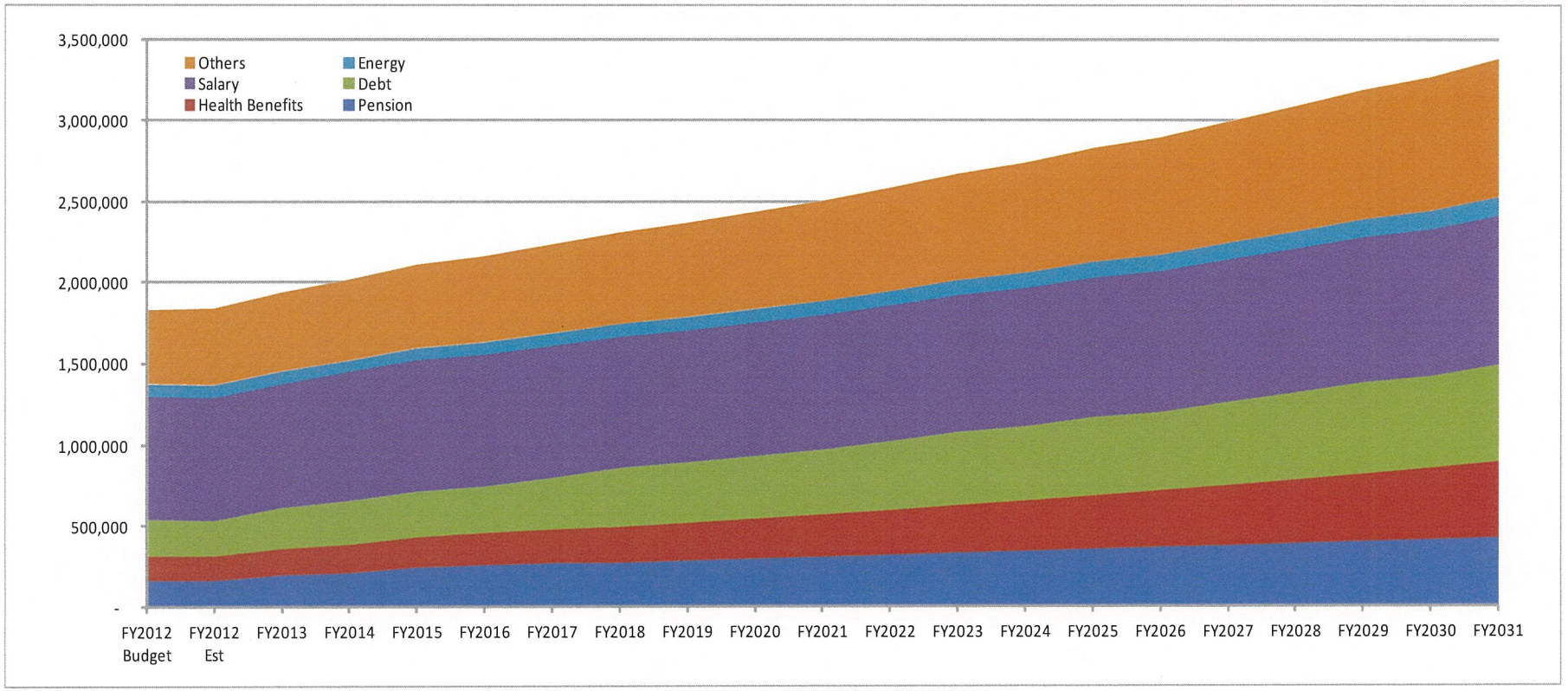
FY 2012 Total (Revenue & Expenditures)	$	136,310

C. Baseline: Revenues vs. Expenditures



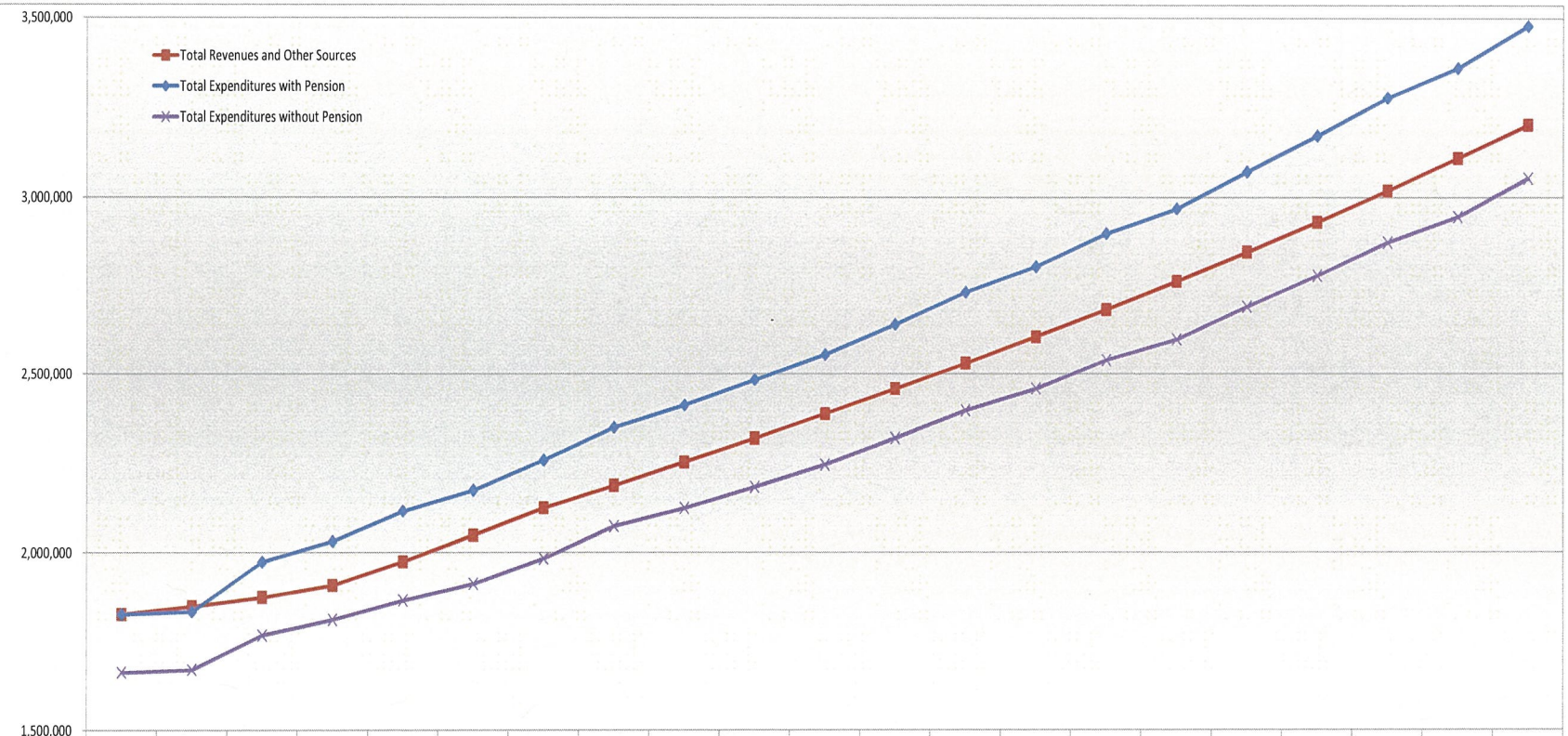
	FY2012 Budget	FY2012 Estimates	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Total Revenues and Other Sources	1,827,998	1,849,782	1,875,481	1,908,567	1,974,751	2,048,948	2,125,373	2,187,763	2,252,171	2,318,581	2,387,058	2,457,667	2,530,474	2,605,550	2,682,966	2,762,796	2,845,115	2,930,004	3,017,542	3,107,815	3,200,907
Total Expenditures with Pension	1,827,998	1,835,414	1,936,583	2,017,550	2,109,096	2,160,641	2,234,292	2,308,617	2,369,059	2,437,285	2,505,546	2,588,002	2,675,948	2,744,196	2,833,036	2,899,265	2,997,356	3,092,596	3,192,528	3,270,287	3,382,972
The Gap	-	-	(66,102)	(113,983)	(139,345)	(111,693)	(108,919)	(120,854)	(116,888)	(118,704)	(118,488)	(130,335)	(145,474)	(138,645)	(150,070)	(136,469)	(152,241)	(162,592)	(174,986)	(162,472)	(182,065)
Total Expenditures without Pension	1,663,482	1,670,898	1,738,462	1,804,879	1,862,497	1,900,202	1,961,283	2,033,652	2,081,983	2,138,289	2,195,843	2,266,540	2,340,747	2,398,438	2,475,383	2,529,912	2,618,340	2,701,054	2,789,409	2,856,422	2,957,447

D. Baseline: Expenditures by Category



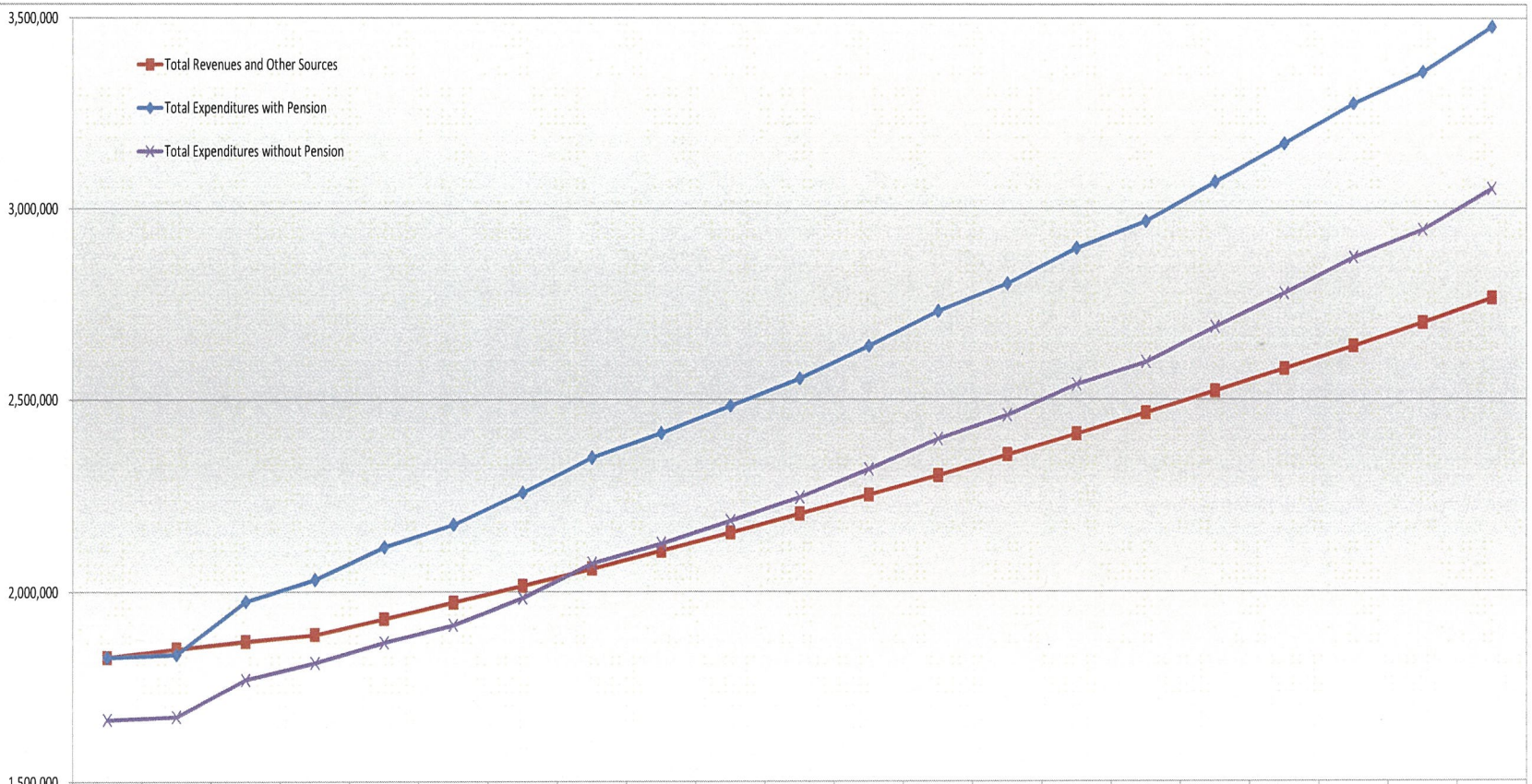
EXPENDITURES	FY2012 Budget	FY2012 Est	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Pension	9.00%	8.96%	10.23%	10.54%	11.69%	12.05%	12.22%	11.91%	12.12%	12.27%	12.36%	12.42%	12.53%	12.60%	12.62%	12.74%	12.65%	12.66%	12.63%	12.66%	12.58%
Health Benefits	8.20%	8.17%	8.44%	8.66%	8.87%	9.18%	9.32%	9.56%	9.87%	10.17%	10.49%	10.77%	11.04%	11.41%	11.71%	12.13%	12.44%	12.78%	13.12%	13.58%	13.91%
Debt	12.57%	12.01%	13.22%	13.59%	13.51%	13.47%	14.44%	16.01%	15.88%	15.96%	16.01%	16.41%	16.80%	16.62%	16.94%	16.51%	16.99%	17.19%	17.45%	17.08%	17.48%
Salary	41.34%	41.21%	39.21%	39.19%	38.14%	37.30%	36.07%	34.59%	34.05%	33.43%	32.86%	32.15%	31.43%	30.99%	30.36%	30.01%	29.37%	28.80%	28.24%	27.91%	27.33%
Energy	4.11%	4.10%	3.91%	3.27%	3.35%	3.39%	3.39%	3.39%	3.41%	3.42%	3.43%	3.43%	3.42%	3.44%	3.44%	3.47%	3.47%	3.47%	3.47%	3.49%	3.48%
Other Costs	24.78%	25.55%	24.99%	24.75%	24.44%	24.62%	24.57%	24.54%	24.68%	24.75%	24.85%	24.83%	24.78%	24.94%	24.93%	25.14%	25.09%	25.10%	25.09%	25.28%	25.22%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

E. Scenario I: Revenues vs. Expenditures



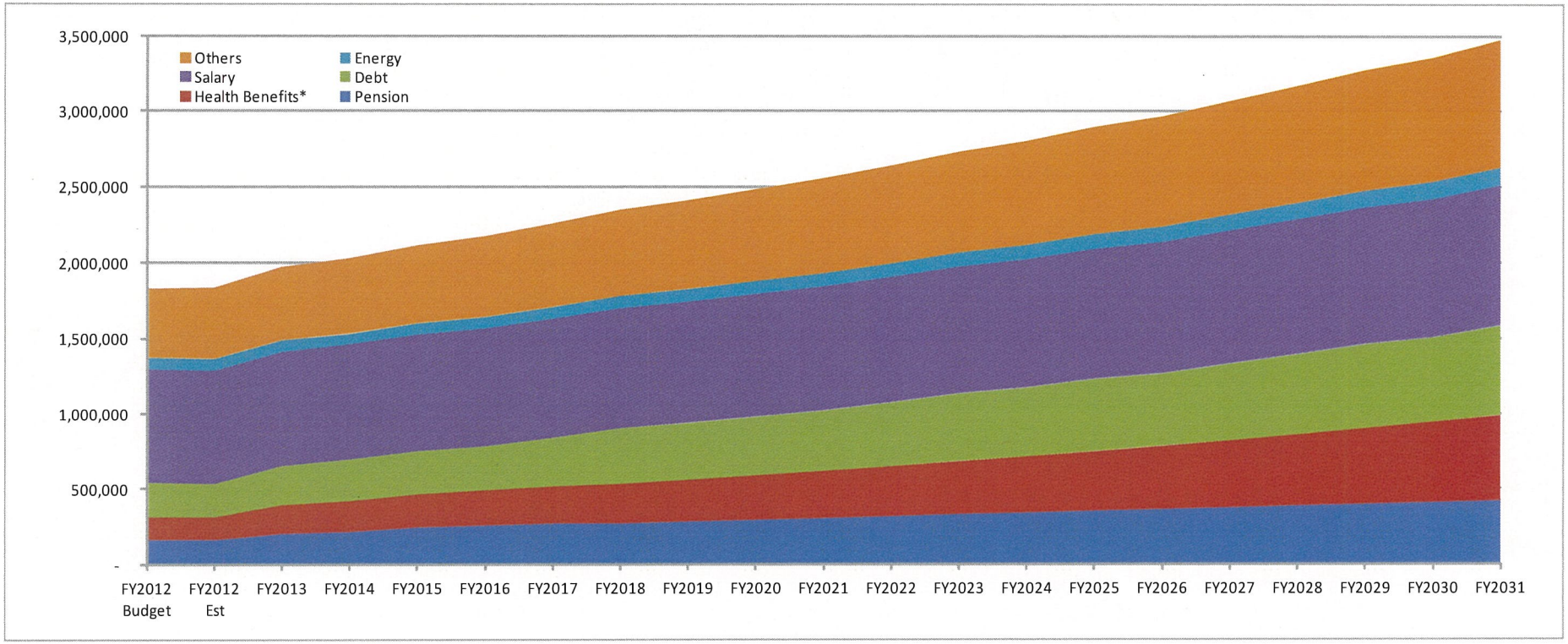
	FY2012 Budget	FY2012 Estimates	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Total Revenues and Other Sources	1,827,998	1,849,782	1,875,481	1,908,567	1,974,751	2,048,948	2,125,373	2,187,763	2,252,171	2,318,581	2,387,058	2,457,667	2,530,474	2,605,550	2,682,966	2,762,796	2,845,115	2,930,004	3,017,542	3,107,815	3,200,907
Total Expenditures with Pension	1,827,998	1,835,414	1,974,554	2,031,845	2,116,172	2,174,758	2,258,119	2,348,762	2,411,949	2,483,109	2,554,503	2,640,306	2,731,829	2,803,897	2,896,819	2,967,409	3,070,160	3,170,377	3,275,628	3,359,069	3,477,825
The Gap	-	-	(104,074)	(128,278)	(146,421)	(125,811)	(132,746)	(160,999)	(159,779)	(164,527)	(167,444)	(182,639)	(201,354)	(198,346)	(213,853)	(204,614)	(225,045)	(240,374)	(258,086)	(251,254)	(276,917)
Total Expenditures without Pension	1,663,482	1,670,898	1,768,888	1,813,234	1,866,902	1,912,932	1,983,917	2,073,798	2,124,874	2,184,113	2,244,799	2,318,844	2,396,627	2,458,139	2,539,166	2,598,056	2,691,143	2,778,836	2,872,509	2,945,204	3,052,300

F. Scenario II: Revenues vs. Expenditures



	FY2012 Budget	FY2012 Estimates	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Total Revenues and Other Sources	1,827,998	1,849,782	1,869,824	1,887,333	1,928,896	1,971,526	2,015,272	2,060,088	2,106,162	2,153,451	2,201,991	2,251,819	2,302,973	2,355,492	2,409,417	2,464,789	2,521,651	2,580,047	2,640,023	2,701,627	2,764,907
Total Expenditures with Pension	1,827,998	1,835,414	1,974,554	2,031,846	2,116,174	2,174,762	2,258,125	2,348,770	2,411,959	2,483,121	2,554,517	2,640,322	2,731,847	2,803,918	2,896,843	2,967,435	3,070,188	3,170,408	3,275,661	3,359,105	3,477,863
The Gap with Pension	-	-	(109,730)	(149,512)	(192,278)	(203,236)	(242,853)	(288,682)	(305,798)	(329,670)	(352,526)	(388,503)	(428,874)	(448,425)	(487,426)	(502,646)	(548,537)	(590,361)	(635,638)	(657,477)	(712,956)
Total Expenditures without Pension	1,663,482	1,670,898	1,768,888	1,813,235	1,866,904	1,912,935	1,983,922	2,073,804	2,124,882	2,184,122	2,244,810	2,318,856	2,396,642	2,458,155	2,539,183	2,598,076	2,691,165	2,778,859	2,872,534	2,945,232	3,052,329

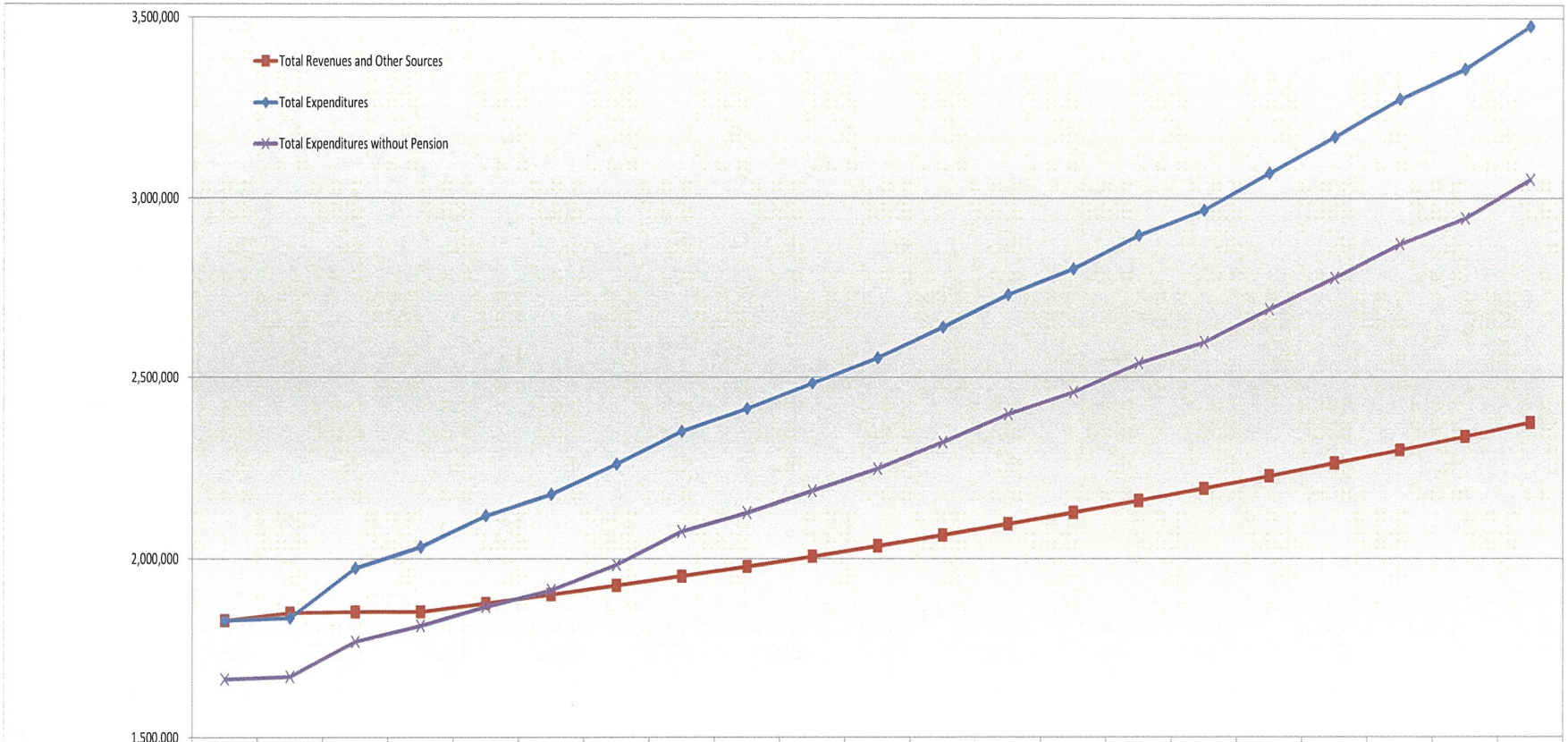
G. Scenario I – III, V: Expenditures by Category



EXPENDITURES	FY2012 Budget	FY2012 Est	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Pension	9.00%	8.96%	10.42%	10.76%	11.78%	12.04%	12.14%	11.71%	11.90%	12.04%	12.12%	12.18%	12.27%	12.33%	12.35%	12.45%	12.35%	12.35%	12.31%	12.32%	12.24%
Health Benefits*	8.20%	8.17%	9.67%	10.08%	10.38%	10.73%	10.88%	11.11%	11.48%	11.83%	12.21%	12.53%	12.86%	13.29%	13.66%	14.15%	14.52%	14.92%	15.33%	15.86%	16.26%
Debt	12.57%	12.01%	12.97%	13.49%	13.47%	13.38%	14.28%	15.74%	15.60%	15.66%	15.70%	16.08%	16.46%	16.27%	16.56%	16.13%	16.59%	16.77%	17.01%	16.63%	17.01%
Salary	41.34%	41.21%	38.60%	37.85%	36.68%	36.02%	35.02%	34.00%	33.44%	32.81%	32.23%	31.51%	30.79%	30.33%	29.69%	29.32%	28.67%	28.10%	27.52%	27.18%	26.58%
Energy	4.11%	4.10%	3.83%	3.24%	3.34%	3.37%	3.36%	3.33%	3.35%	3.36%	3.37%	3.36%	3.35%	3.37%	3.37%	3.39%	3.38%	3.38%	3.38%	3.40%	3.39%
Other Costs	24.78%	25.55%	24.51%	24.58%	24.35%	24.46%	24.31%	24.12%	24.24%	24.30%	24.37%	24.33%	24.27%	24.40%	24.38%	24.56%	24.50%	24.48%	24.45%	24.61%	24.53%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

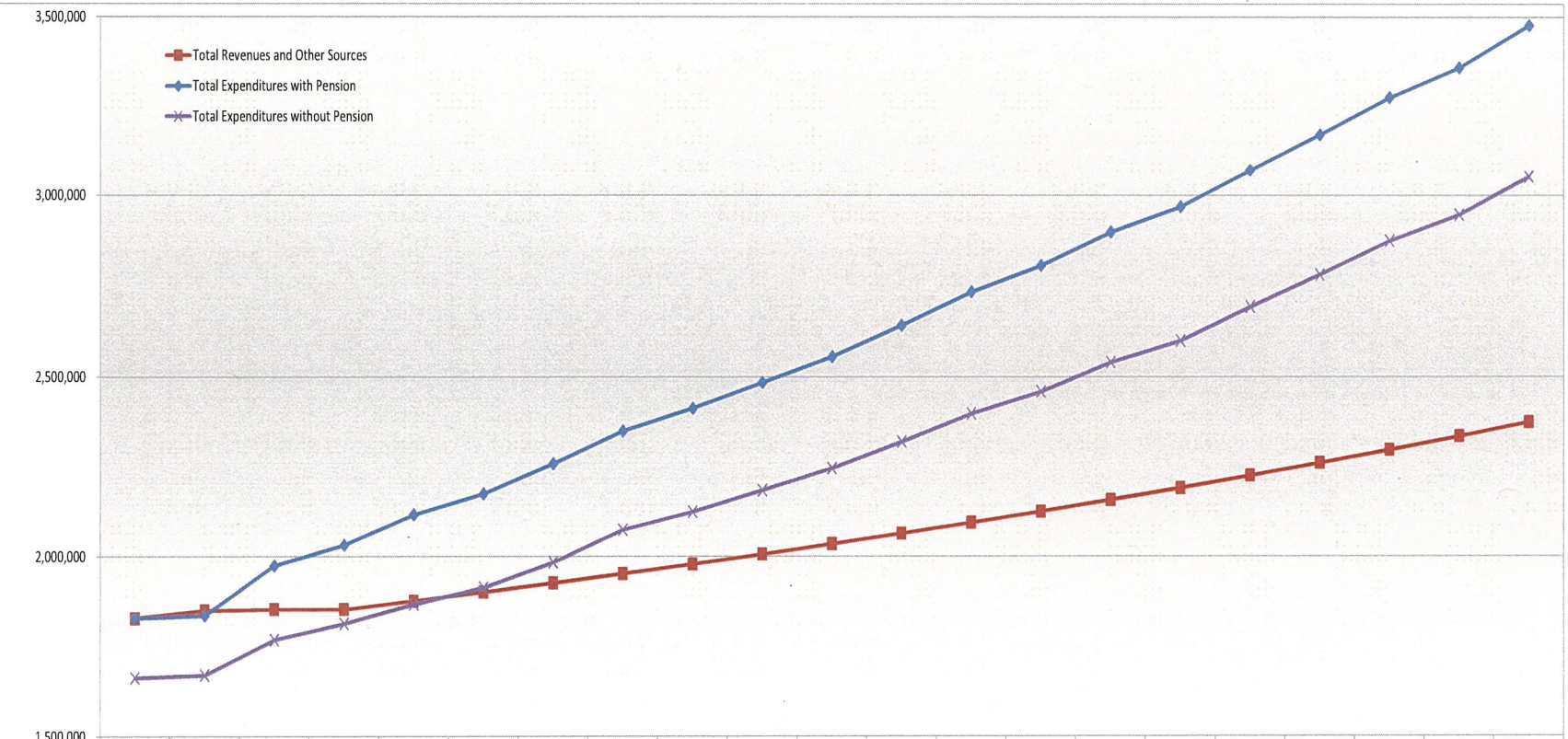
*Note: Health Benefits include funding for Other Post Employment Benefits (OPEB).

H. Scenario III: Revenues vs. Expenditures



	FY2012 Budget	FY2012 Estimates	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Total Revenues and Other Sources	1,827,998	1,849,782	1,852,650	1,852,643	1,876,338	1,900,744	1,925,900	1,951,755	1,978,488	2,006,050	2,034,469	2,063,773	2,093,993	2,125,159	2,157,303	2,190,459	2,224,661	2,259,943	2,296,344	2,333,901	2,372,653
Total Expenditures	1,827,998	1,835,414	1,974,554	2,031,846	2,116,174	2,174,762	2,258,125	2,348,770	2,411,959	2,483,121	2,554,517	2,640,322	2,731,847	2,803,918	2,896,843	2,967,435	3,070,188	3,170,408	3,275,661	3,359,105	3,477,863
The Gap with Pension	-	-	(126,904)	(184,203)	(244,836)	(274,019)	(332,225)	(397,015)	(433,471)	(477,070)	(520,048)	(576,549)	(637,854)	(678,759)	(739,540)	(776,976)	(845,527)	(910,465)	(979,317)	(1,025,204)	(1,105,211)
Total Expenditures without Pension	1,663,482	1,670,898	1,768,888	1,813,235	1,866,904	1,912,935	1,983,922	2,073,804	2,124,882	2,184,122	2,244,810	2,318,856	2,396,642	2,458,155	2,539,183	2,598,076	2,691,165	2,778,859	2,872,534	2,945,232	3,052,329

I. Scenario V: Revenues vs. Expenditures



	FY2012 Budget	FY2012 Estimates	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Total Revenues and Other Sources	1,827,998	1,849,782	1,852,650	1,852,643	1,876,338	1,900,744	1,925,900	1,951,755	1,978,488	2,006,050	2,034,469	2,063,773	2,093,993	2,125,159	2,157,303	2,190,459	2,224,661	2,259,943	2,296,344	2,333,901	2,372,653
Total Expenditures with Pension	1,827,998	1,835,414	1,974,554	2,031,845	2,116,172	2,174,758	2,258,119	2,348,762	2,411,949	2,483,109	2,554,503	2,640,306	2,731,829	2,803,897	2,896,819	2,967,409	3,070,160	3,170,377	3,275,628	3,359,069	3,477,825
The Gap with Pension	-	-	(87,770)	(104,309)	(114,255)	(84,888)	(82,478)	(100,765)	(88,925)	(82,366)	(73,253)	(75,656)	(80,779)	(63,338)	(63,527)	(38,038)	(41,243)	(38,319)	(36,699)	(9,402)	(13,410)
Total Expenditures without Pension	1,663,482	1,670,898	1,768,888	1,813,234	1,866,902	1,912,932	1,983,917	2,073,798	2,124,874	2,184,113	2,244,799	2,318,844	2,396,627	2,458,139	2,539,166	2,598,056	2,691,143	2,778,836	2,872,509	2,945,204	3,052,300

J. Actuarially Required Contribution (ARC) – HMEPS and HFRRF

Fiscal Year	HMEPS	HFRRF
2013	25.5%	23.90%
2014	26.4%	23.90%
2015	27.1%	31.60%
2016	27.7%	31.60%
2017	28.2%	31.60%
2018	28.6%	26.90%
2019	29.0%	26.90%
2020	29.3%	26.90%
2021	29.6%	26.40%
2022	29.8%	26.40%
2023	30.8%	26.40%
2024	31.0%	25.90%
2025	31.2%	25.90%
2026	31.3%	25.90%
2027	31.0%	25.50%
2028	31.4%	25.50%
2029	31.4%	25.50%
2030	31.5%	25.10%
2031	31.5%	25.10%

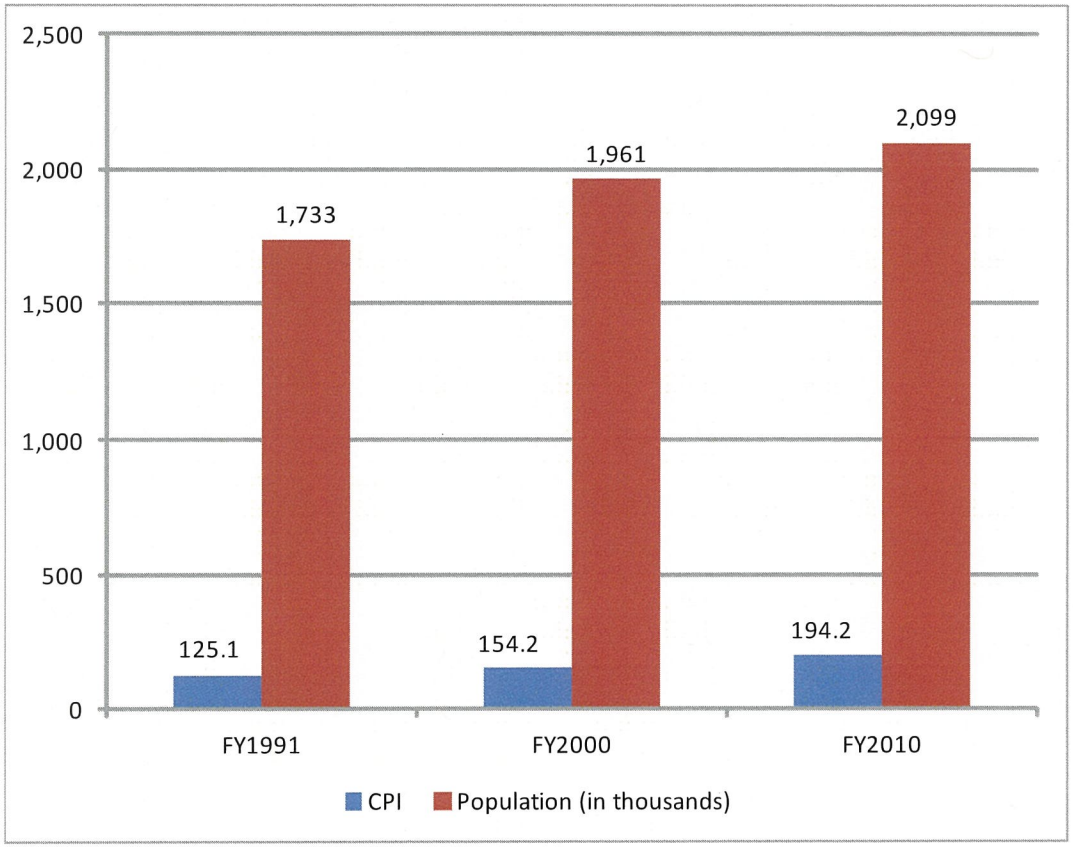
Note:

1. ARC rate for HFRRF is adjusted every 3 years to reflect the Collective Bargaining agreement

2. Assuming there is no change in benefit structure

K. Consumer Price Index v. Population

- CPI and population and growth averages were used as the basis of a number of FMTF assumptions, and the data used to calculate these averages is shown here .



CPI annual average growth in the past 20 years = 2.22%
Population annual average growth in the past 20 years = 0.96%
CPI plus Population annual avg. growth in the past 20 years = 3.18% (approx. 3.20%)

Appendix C – Alternatives Already Underway or Completed

#	*Category*	*Suggestion*	*Controlling Entity*	*Budget Impact*
10.01	Underway but continue to monitor	Monitor adjustment cost containment in medical plan.	City/State/ Meet & Confer	
10.02	Underway but continue to monitor	Explore post-employment health plan design and administrative cost containment opportunities.	City/Meet & Confer	
10.03	Underway but continue to monitor	Improve use of rolling stock to maximize efficiency.	City	
10.04	Underway but continue to monitor	Update Information Technology (IT) systems to improve efficiencies.	Mayor & City Council	
10.05	Underway but continue to monitor	Centralize all IT, legal, and finance functions and personnel in respective departments.	City	
10.06	Underway but continue to monitor	Revisit internal employment policies, procedures, and processes.	City	
10.07	Underway but continue to monitor	Consider reconsolidation of city departments.	City	
10.08	Underway but continue to monitor	Provide cab fare in lieu of ambulance ride.	City/County	
10.09	Underway but continue to monitor	Upgrade collections technology.	City	
11.01	Underway or already completed by city	Sunset TIRZs.	City/County/ State/ISDs	
11.02	Underway or already completed by city	Create a "Lights Out" campaign and other energy efficiency programs: department facilities should be upgraded to include automatic light turn-off switches and motion sensor lights.	City	
11.03	Underway or already completed by city	Examine the city's banking relationships; use local financial institutions and negotiate for lower fees.	City	
11.04	Underway or already completed by city	Examine all city-owned properties and leases. Determine if city is getting market rate rent.	City	
11.05	Underway or already completed by city	Examine fuel efficiency of all city vehicles.	City	
11.06	Underway or already completed by city	Do a complete and thorough audit of all city TIRZs and other property tax abatements. Determine if there are economic incentives and enforcement accountability.	City	

11.07	Underway or already completed by city	Sunset TIRZs even if performing.	City/County/ State/ISDs	
11.08	Underway or already completed by city	Increase enforcement for citations for failure to secure proper building permits.	City	
11.09	Underway or already completed by city	Provide tax abatements and other incentives for bio-tech companies to locate in Houston.	City/County	
11.10	Underway or already completed by city	Investigate restructuring debt and include plans to reduce debt.	City	
11.11	Underway or already completed by city	Promote HFD EMS transport training for $150 voucher.	City/County	
11.12	Underway or already completed by city	Educate public on ambulance use and cost.	City	
11.13	Underway or already completed by city	Provide funding for pre-school and after-school programs.	City	
11.14	Underway or already completed by city	Review Northeast Groundwater Production Facility: millions of dollars were spent on the modifications to the plant. Since the completion of the work, this facility has never produced water.	City	
11.15	Underway or already completed by city	Outsource collection of delinquent fees, taxes, and fines to improve collection rates.	City	
11.16	Underway or already completed by city	Do not issue drivers' licenses or other licenses to individuals or businesses with outstanding fines; coordinate with state and county.	City/County/ State	
11.17	Underway or already completed by city	Require flood control expenses to be paid by the county.	City/County	
11.18	Underway or already completed by city	Perform comprehensive statewide analysis of fees. Compare Houston to other municipalities and consider appropriate adjustments.	City	
11.19	Underway or already completed by city	Require the city to perform an actuarial audit of all three pension systems.	City/State	
11.20	Underway or already completed by city	Charge fully for treated and raw water.	City/State/ County	