
City of Houston: The Coming Financial Crisis

Bill King

www.BillKingBlog.com

www.BillKingHouston.com

City Finances are Complex

- Scores of Separate Accounts
- General Fund (2010 Budget = \$1.9 billion)
 - Revenues – Property taxes, sales taxes
 - Expenses – Basic governmental services – police, fire, public works
- Combined Utility – Water & Sewer (2010 Budget = \$800 million)
- Others – Airport, Convention

General Fund Trend Lines

(1992-2010)

City of Houston Financial Statistics
at end of administrations as
reported in CAFR (1992-2009)*
(in thousands)

	Whitmire 6/30/1992	Lanier 6/30/1998	Brown 6/30/2004	White 6/30/2009**
General Fund Revenues	881,508	1,118,154	1,423,730	1,824,772
General Fund Expenses	799,804	1,040,249	1,282,536	1,904,518
Current Activity Surplus (Deficit)	81,704	77,905	141,194	(79,746)
Total Indebtedness	4,230,896	6,938,000	10,633,000	14,558,000
Net assets	6,880,285	8,206,000	5,058,000	3,676,000
Unfunded Pension Liability	212,000	100,000	2,405,000	1,860,000
Net assets less UAAL	6,668,285	8,106,000	2,653,000	1,816,000

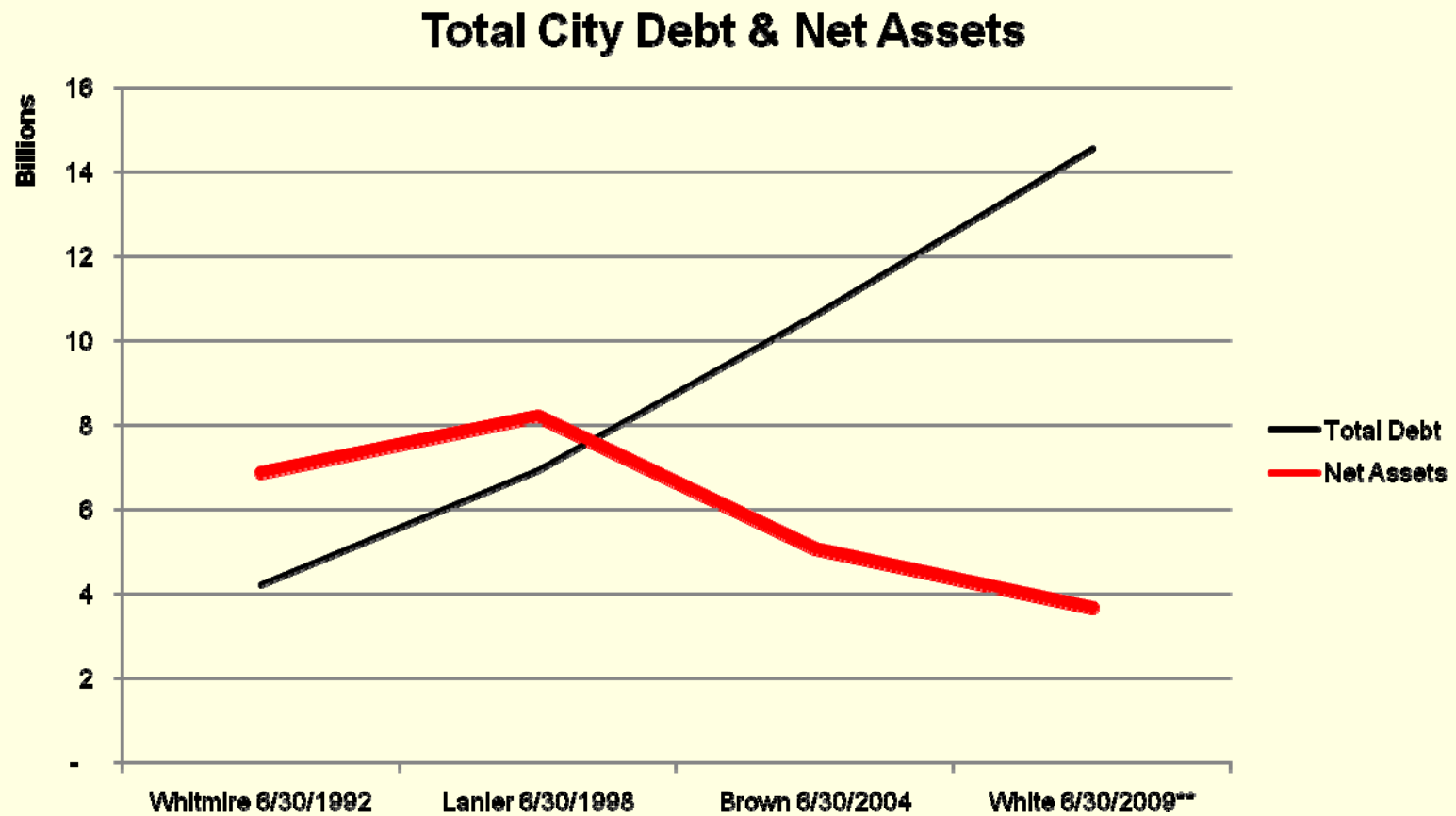
Does not include \$600 million in pension bonds

	OPEB disclosure not required	OPEB disclosure not required	OPEB disclosure not required	
OPEB Liability				3,100,000

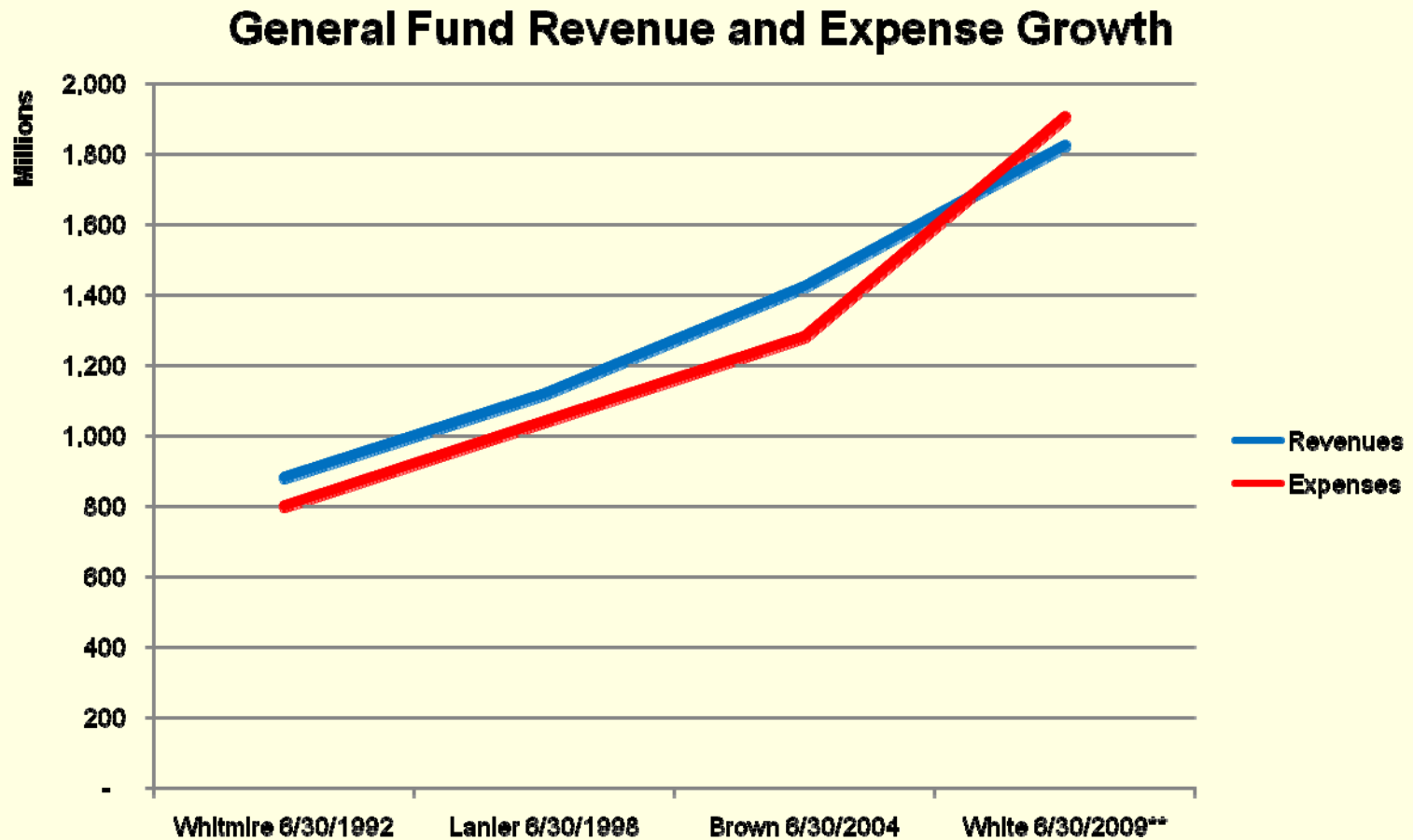
* Administrations end at the end of the calendar year while CAFRs are prepared on fiscal years ending on June 30. This analysis uses the CAFR results from the period ending six months after the end of the subject administration since that Administration adopts the budget for that fiscal year

** A more exact comparison would compare the White administration as of 6/30/2010. However that CAFR will not be available until December, 2010

City Debt Increasing/Net Assets Decreasing

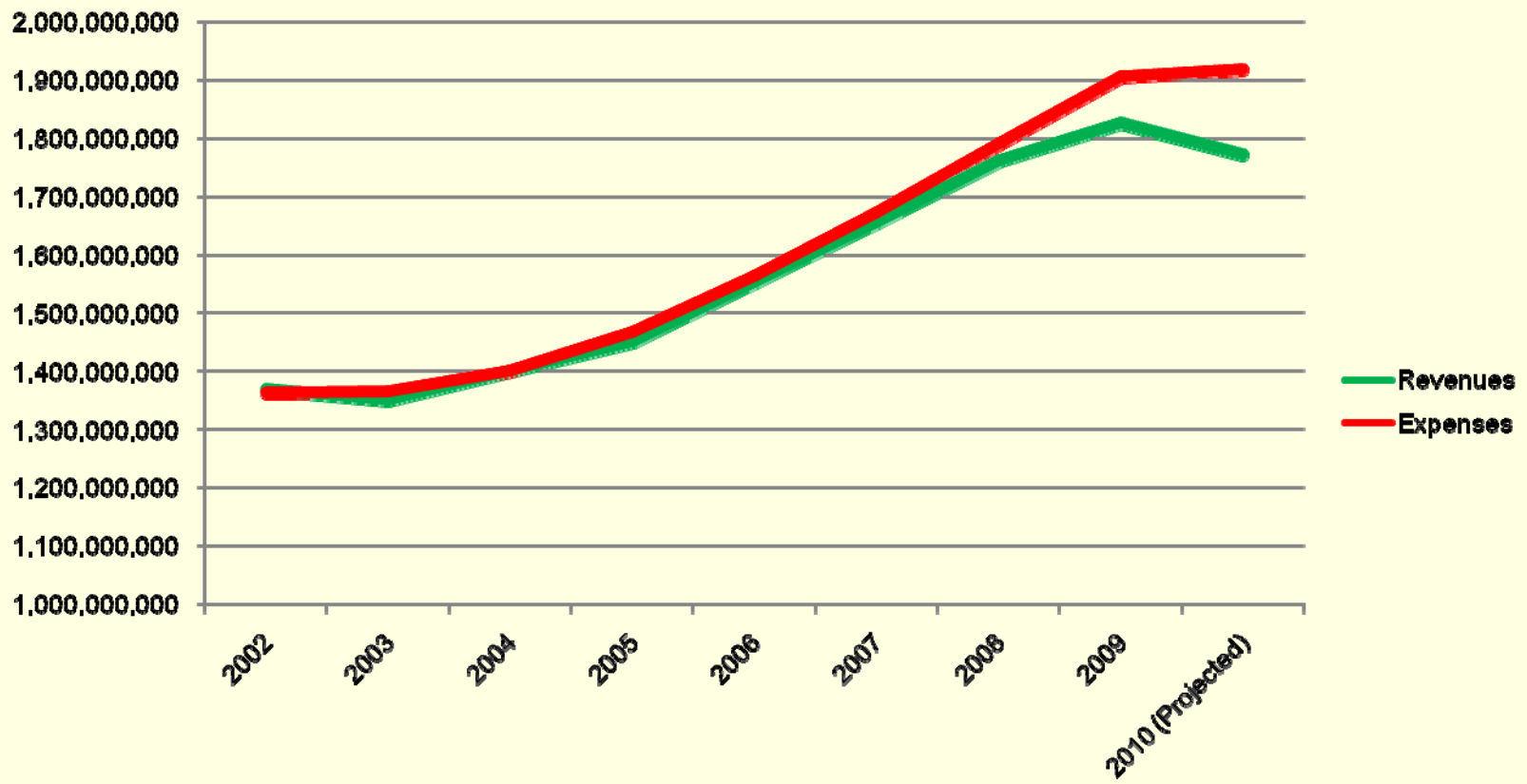


Lack of Revenue Growth is not the problem



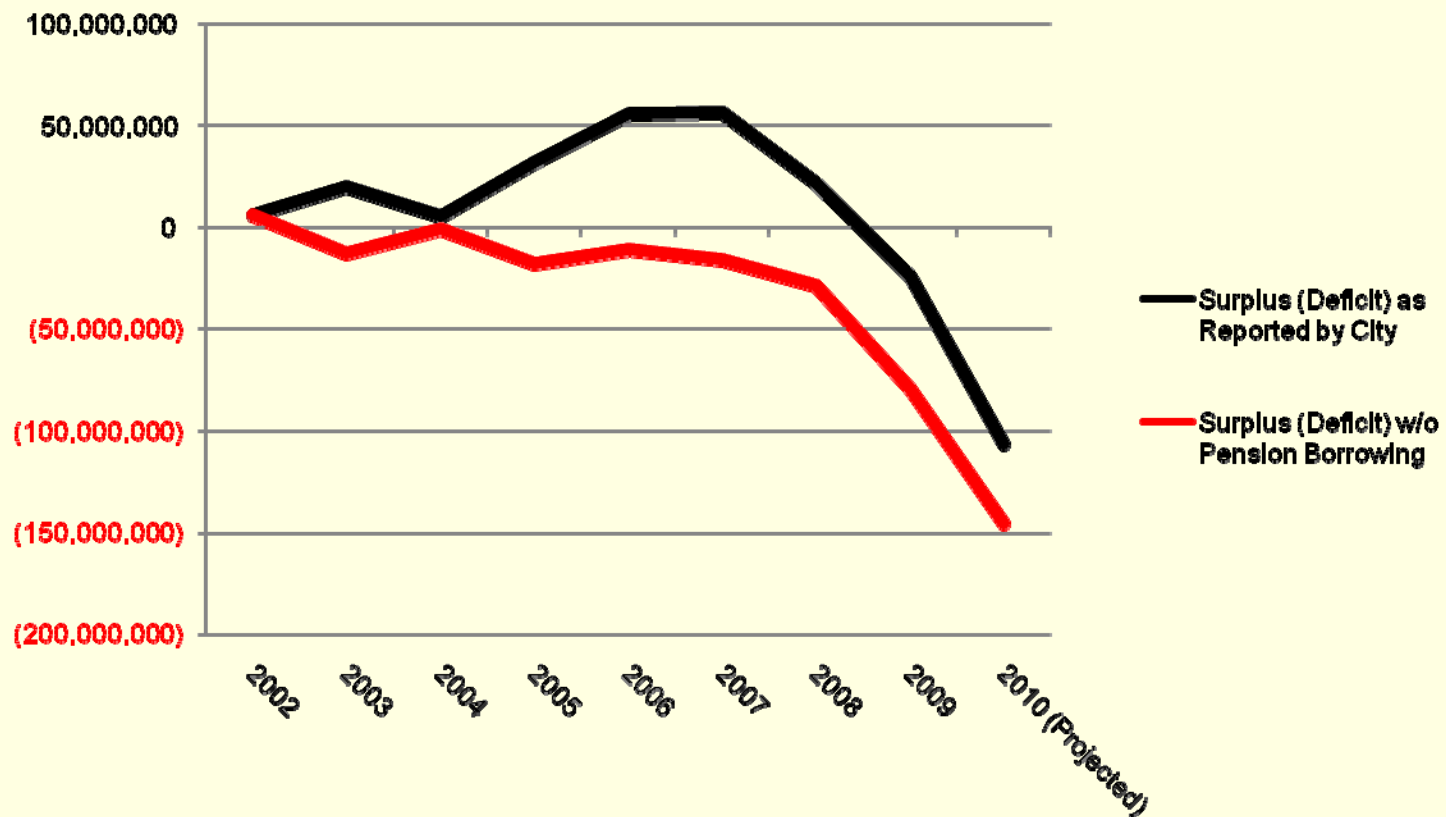
City has been running deficit since 2002

General Fund Revenues & Expenses 2002-2010



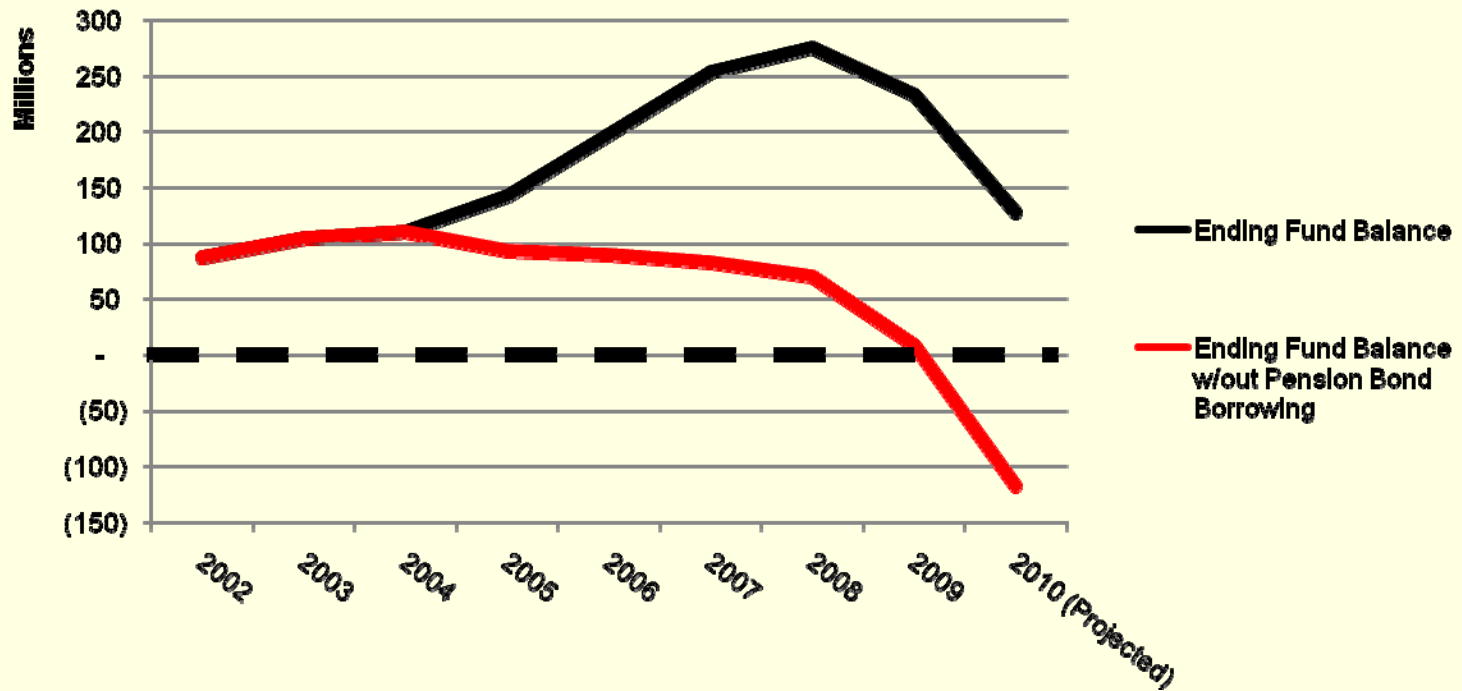
Borrowing to “Balance” the Budget

General Fund Surpluses (Deficits)



Without Pension Borrowing General Fund would have run out of cash last year

**City of Houston
Ending General Fund Balance**



Categories of Obligations

- Pension Plans
 - Underfunding
 - Pension Bonds
- Retiree Health Benefits

Pension Plans

- Three Plans
 - Police
 - Fire
 - All other Municipal Employees

- Contributions to trust fund
 - City
 - Employee

- Trust fund administration

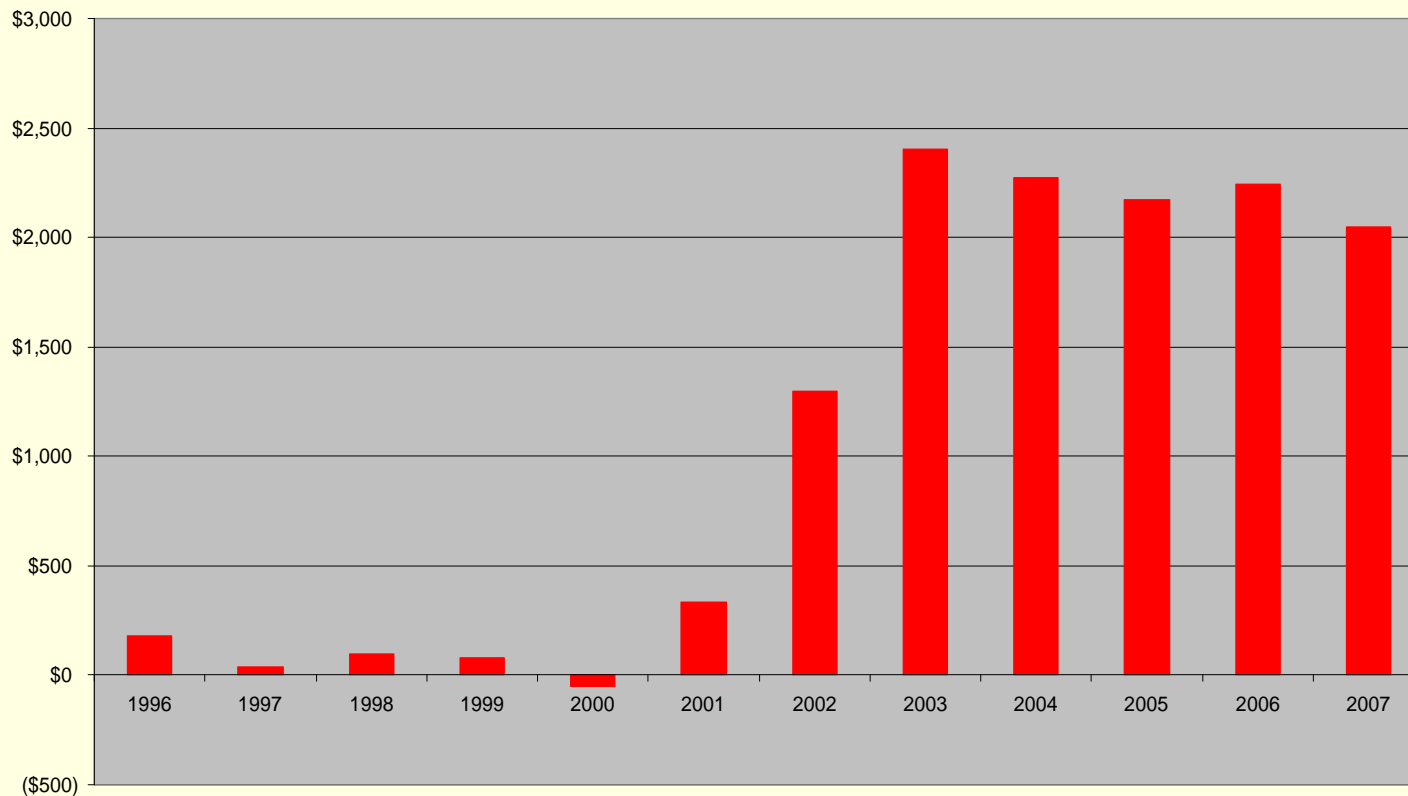
Pension Plans

- Measuring adequacy of funding
 - Variables – actuarial & investment return assumptions

- Actuarial Studies
 - Every two years or so
 - June 30, 2007 Report
 - Underfunding = \$2 billion
 - Investment rate assumption = 8.5%
 - (DJ IND = 16,000)

Underfunding of Pension Plans without pension bonds

City of Houston Unfunded Pension Liability
All Pension Plans (Firefighters', Municipal Employees', and Police Officers')
(in 000's)



Dates are the Actuarial Valuation Date as of July 1st of the Year Indicated
Info not available for Municipal Plan for 1997, Firefighters Plan for 2003, or Police Plan for 2006, so those amounts were interpolated

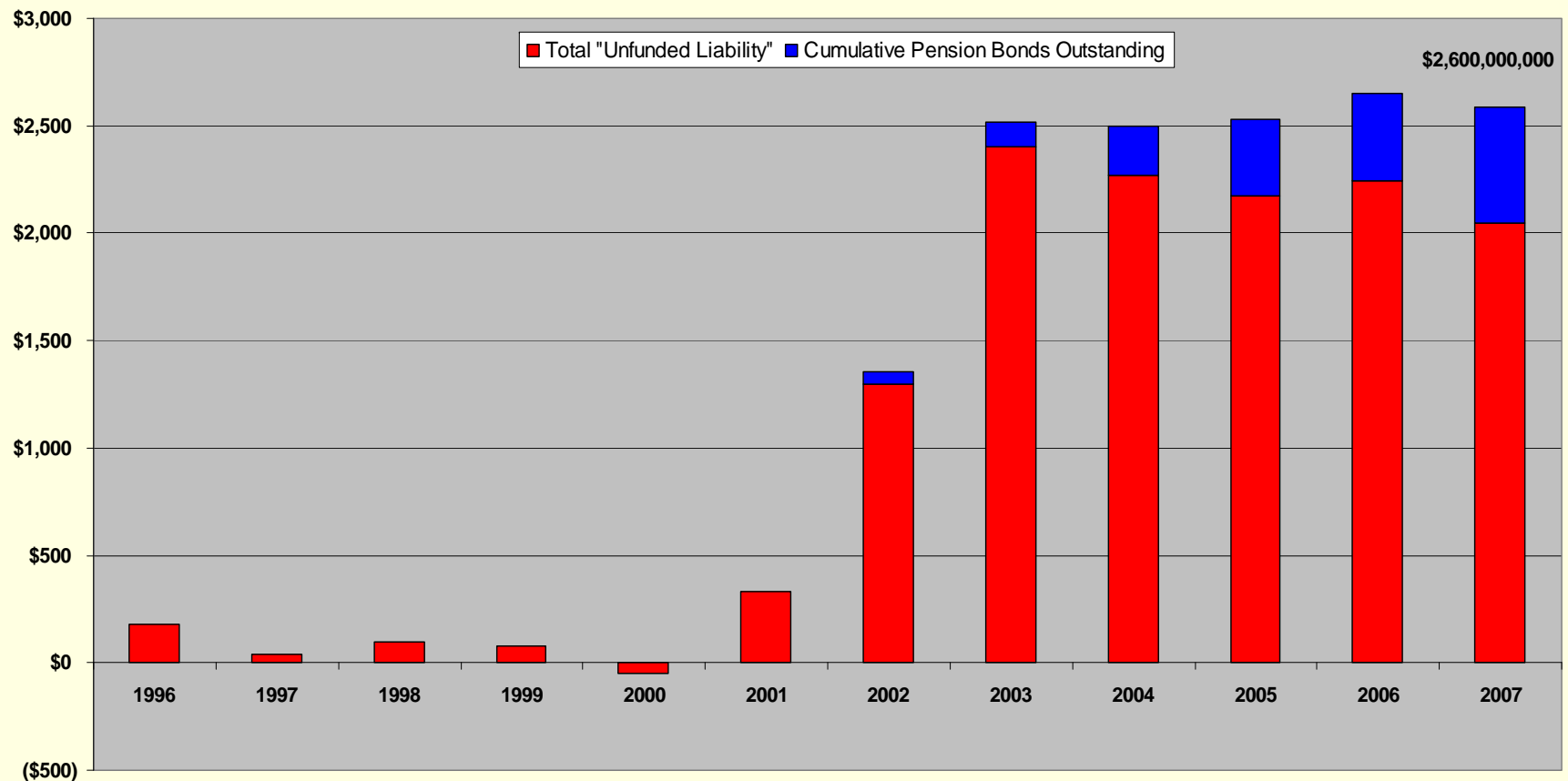
Pension Bonds

- Allowed by State Law
 - Enacted in 2003
 - City council can authorize if actuarial study shows deficit
 - Any amount to unfunded liability
 - No voter approval
 - Not exempt from federal income tax
 - Last rate = 6.3%

- 2003-2008
 - Borrowed \$600 Million
 - \$200 Million Run Through the General Fund – without these proceeds would be insolvent

Pension Underfunding + Pension Bonds = \$2.6 Billion

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Retiree Health Benefits

- Estimated Liability as of *June 30, 2006*
\$3.2 Billion
- Annual Cost
 - 2002 - \$21 Million**
 - 2007 - \$54 Million**

Liability Acknowledged by City

Pension Underfunding per June, 2007 Report	\$2.0 Billion
Pension Bonds	\$.6 Billion
Retiree Health per June, 2006 Report	\$3.2 Billion
Total	\$5.8 Billion

How Bad Might It Be?

Liability acknowledged by City	\$5.8 Billion
Losses on investments since June, 2007	\$2.0 Billion
Use realistic investment rate assumption	\$.5 Billion
15% increase in health insurance cost since 2006	\$.6 Billion
Total	\$8.9 Billion

Perspective

Liability acknowledged by City	Factor per City's acknowledged numbers	Factor per worst case
Per Capita	\$2,521	\$3,826
City's Net Assets (\$3.4 Billion)	1.7X	2.8X
City's Annual Budget (\$3 Billion)	1.9X	3.1X
City's Total Bonded Debt (\$13 Billion)	45%	68%
City's Annual Property Tax Collections (\$830 Million)	7.2X	11.2X

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