

A large-scale image showing a massive, dense storm of US dollar bills falling from the sky. The bills are primarily \$100 bills, with some \$20 and \$50 bills visible. They are falling in a thick, vertical column that widens as it descends, creating a 'money storm' effect. The background is a bright blue sky with scattered white clouds. At the bottom of the image, there is a flat, green grassy field. The overall composition suggests a financial crisis or a massive loss of money.

Houston - We Have a Problem: The Impending Financial Storm

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Garden Oaks Homeowners Association**

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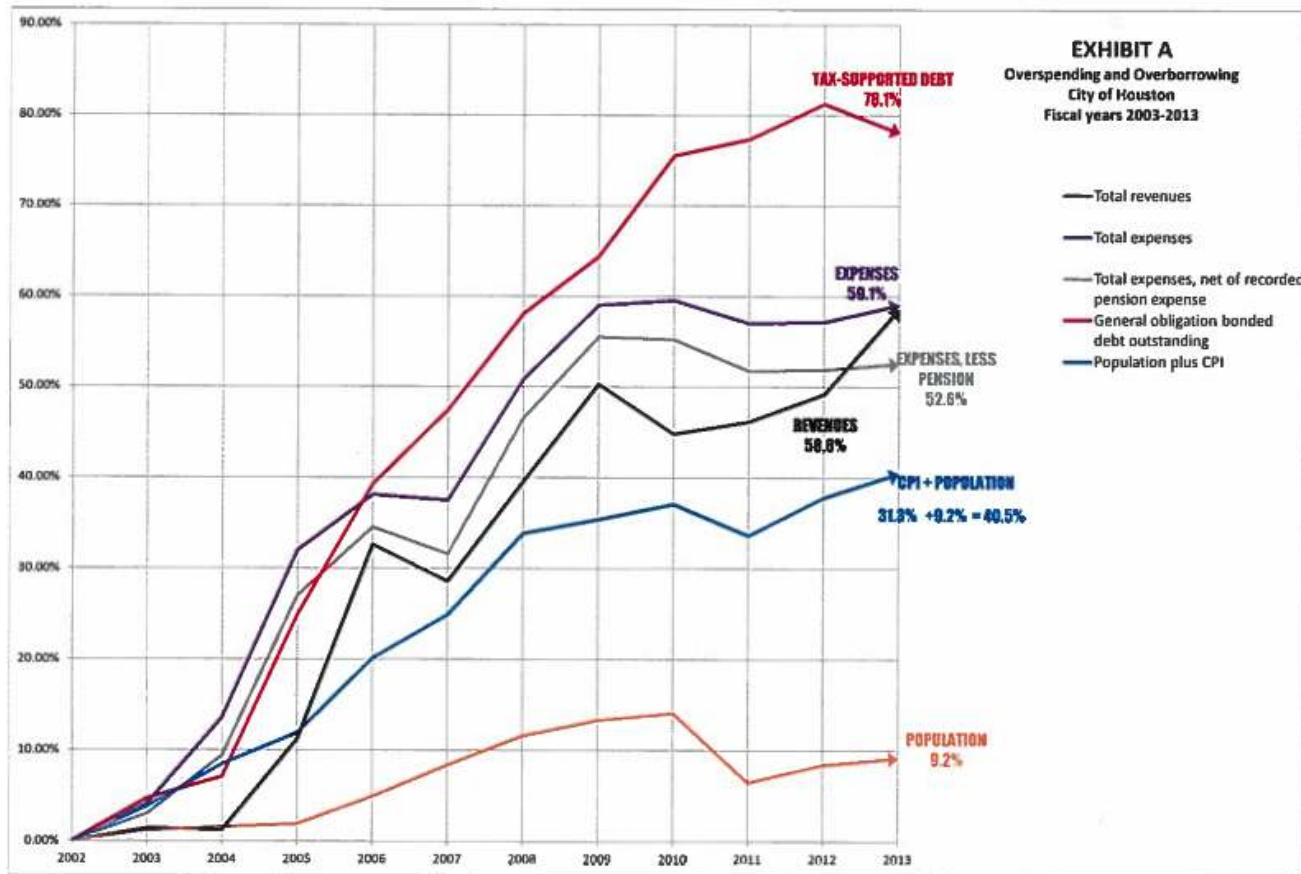
TODAY'S DISCUSSION

- I. Houston, Texas
- II. The Impending Financial Storm
- III. What Do We Do? Why Should We Care?
- IV. Goals - Recovery and Leadership

HOUSTON, TEXAS

- Core of the fastest growing metro area in US
 - Magnet for immigration, investment
 - Represent future of the US, the world
- City is broke – has been for a long time
 - Infrastructure crumbling, services declining
 - Losing population and jobs, amidst region
- You did not know this? How did it happen?





Data Sources:

Revenues and expenses-Pages 202-203, 2012 CAFR.

Pension expense-Pension note to financial statements in annual CAFR, example, page 93, 2012 CAFR.

Tax-supported debt - Page 218, 2012 CAFR.

Population-Page 227, 2012 CAFR, U. S. Census Bureau.

CPI-U.S. Bureau of Labor Statistics.

By: Citizens For Public Accountability

IMPENDING FINANCIAL STORM



1. Houston's fiscal condition is far worse than most cities.

- The cumulative deficit since the last time the City balanced its budget (all funds, accrual basis), was FY 2002.
- Since then, the City has accumulated a deficit of \$2.6 billion, larger than all other Texas cities combined, plus the ten largest sunbelt cities.
- Clearly, the City's operations are not sustainable; the City cannot pay all its bills.
- The City is insolvent; insolvent = bankrupt.

US Sun Belt Cities-Ten Largest										
Net Position-Unrestricted Fund (Deficit)										
2013 FYE										
By: Bob Lemer										
Net Position-Unrestricted Fund (Deficit): Per City's Comprehensive Annual Financial Report (CAFR)										
Per Capita: In Dollars										
City-Wide: In Thousands of Dollars										
US Size Rank	Population-A	CITY	TOTAL	Governmental Activities	Business-Type Activities	TOTAL	Governmental Activities	Business-Type Activities	CAFR Page	2013 FYE
2	3,884,307	Los Angeles	307	(625)	932	1,190,558	(2,429,330)	3,619,888	37	30-Jun
4	2,195,914	Houston	(1,128)	(1,125)	(3)	(2,476,535)	(2,469,700)	(6,835)	15	30-Jun
6	1,513,367	Phoenix	1,384	655	729	2,094,335	991,572	1,102,763	16	30-Jun
7	1,409,019	San Antonio	65	52	13	91,020	72,932	18,088	14	Sept. 30
8	1,355,896	San Diego	266	(252)	518	360,370	(341,390)	701,760	47	30-Jun
9	1,257,676	Dallas	(20)	(211)	190	(25,769)	(265,143)	239,374	13	Sept.30
11	885,400	Austin	78	(449)	527	68,923	(397,244)	466,167	17	Sept. 30
13	842,583	Jacksonville	(156)	(220)	64	(131,370)	(184,976)	53,606	22	Sept. 30
17	792,727	Fort Worth	112	(162)	274	88,951	(128,038)	216,989	17	Sept. 30
19	674,433	El Paso	(489)	(521)	31	(330,015)	(351,117)	21,102	1	Aug. 31
Governmental Activities: Core mission of the City, such as public safety.										
Business-Type activities: Enterprise funds that the City elected to go into, such as airport system and water and sewer system.										
Note A: US Census Bureau estimate as of July 1, 2013.										

2. Few in Houston, or anywhere, realize these problems.

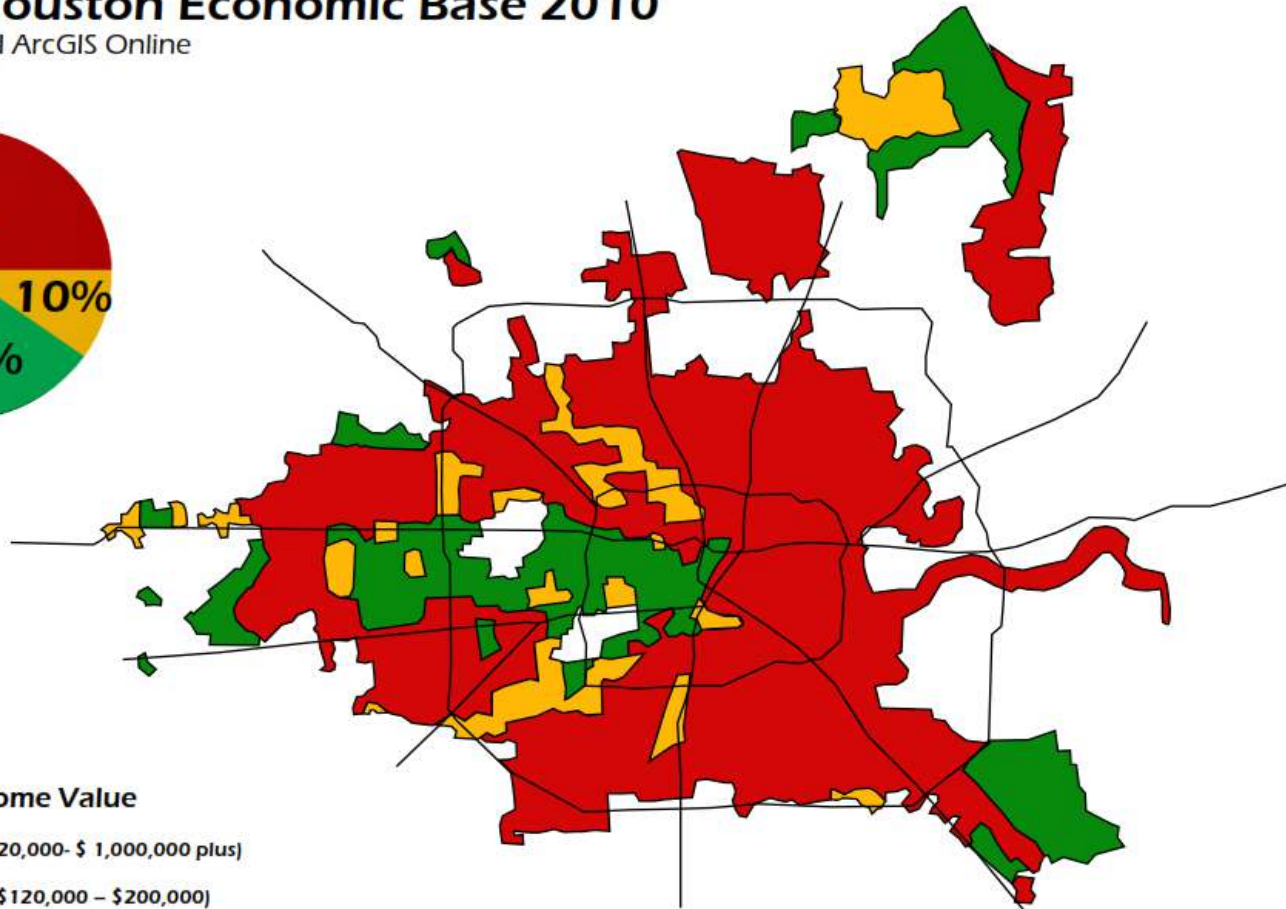
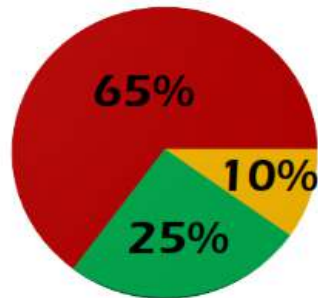
- Our leaders and the media are not telling the truth.
- Popular myth confuses the region's prosperity with the City's fiscal and demographic failing performance.
- The region's rising tide is not lifting our City's boat – the City is hollowing out.
- Only ¼ of the City's land area is financially sustainable (where revenues exceed expenses).

Mayor statements, 2014




- Mayor Parker, State of the City, April 3, 2014:
“The state of our City is strong – and our strength is increasing every day. The problems have been identified, the opportunities magnified.”
- Mayor White, letter to GHP, August 2014:
“the booming economy and property tax values, with good financial management the City ought to be able to continue its long term record of sound financial management.”

City of Houston Economic Base 2010

*Data from ESRI ArcGIS Online



2010 Median Home Value

-  Sustainable (\$220,000- \$ 1,000,000 plus)
-  Tipping Point (\$120,000 – \$200,000)
-  Unsustainable (\$60,000 – \$120,000)

(City "break-even" - \$160-\$170,000 home value)
Revenue vs. Cost of municipal services



3. The main problem is that expenses continue to exceed record revenues.

- Despite record revenues during the boom of the last decade, and the past three years as the economy has recovered from the recession, expense have grown faster than the record revenues.
- Looking forward, the City projects continued revenue growth (3%-4% compounded), with expenses to rise even faster.
- Employee pensions are the main factor.

4. The City's annual deficits have been funded by borrowing.

- The City has resorted to selling bonds (long term debt to cover short term operations), transfers from the new “Rain Tax” and water and sewer operations, and asset sales.
- These maneuvers are questionable, at best, and mostly hidden from view.
- Some politicians, Mayor Parker among them, want to lift property tax caps (“Prop 1”).

5. City leadership has ignored warnings to improve financial controls.

- The City's auditor, Deloitte, issued challenging management letters over financial controls, and was quietly dismissed last year.
- The CAFR is replete with inconsistencies and possible errors – and is late.
- No one in leadership uses the CAFR or accrual accounting; the City's only financial management tool is the cash basis budget.

6. These financial results are the result of failing public services.

- The problems with schools, Metro, etc., are well known. They now result in population and job losses.
- Houston has lost celebrated employers like Exxon, but has not had any new relocations or notable employment growth.
- Using the City's own CAFR numbers, it lost 7% population 2010-14 (US Census). (page 231)

7. There are no plans in place to fix the City's deteriorating infrastructure.

- The American Society of Civil Engineers gave failing grades in 2012 to our roads and water systems.
- The City received voter approval to issue \$410 million of new GO bonds in 2013; 40% to cure deferred maintenance.
- Costs to fix roads: 16,000 lane miles @ \$500,000 per lane mile = \$8 billion.

8. The City's ownership has been transferred to its employees.

- While the assets of the employees' pensions continue to grow, the City's net worth becomes more negative: last year, from (\$2.4 billion) to (\$2.6 billion)
- Between 2004 and 2010, City employees received a 30% increase in base compensation
- City employees now earn more than counterparts in private business; burden rate is 110% of base compensation.

9. There is pending danger in the energy industry.

- The region's and the City's economy is based largely on the energy industry – much of recent growth has been based on steadily increasing energy prices and for real estate effects of Exploration and Production.
- Office and apartment markets overbuilt; now consolidation threatens worse performance.
- Property and sales taxes will plateau – or fall.

10. It is mathematically impossible for the City to fund all of its obligations.

- The City's pension and retiree benefits are underfunded by \$5 billion +; roads \$8 billion.
- The City's general fund is only \$2.2 billion per year – total revenue, with continuing deficits.
- In 2012, the City's Long Range Financial Management Task Force issued dire warnings.
- Radical changes are necessary – not continue “business as usual.”

Long Term Financial Management Task Force, February 7, 2012

- *“Since FY 2004, the City has been operating at a deficit before taking into account non-recurring sources, transfers from other funds, and use of General Fund reserves.*
- *“Assuming no additional external sources of funds are identified, General Fund cash balances will be exhausted in FY 2014.*
- *“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.”*

11. These problems result from consistently poor leadership.

- No business could survive under these conditions; business executives producing these results would have been fired long ago.
- All private sector leaders must operate with accountability and transparency.
- Why should we tolerate a different situation for public or political leaders?

12. The City refuses to solve its pension problems.

- In 2002, City budgets balanced, pensions fully funded.
- Mayor Brown proposed: 35% increase in benefits; 10% increase in City contributions. Disaster followed.
- Mayor White sold \$600mm of GO pension bonds. Not adequate for full funding.
- Under-funding grew under Mayor Parker: “Meet and Confer” borrowing. DROP and COLA.

12. The City refuses to solve its pension problems.

- Mayor Turner proposes: \$1 billion of GO pension bonds; some benefit reductions; “corridor discipline.” These proposals are not transparent, and totally inadequate. Problem not solved.
- The Economist magazine says Texas pensions suffer from:
 - Structural problems and lack of transparency
 - Overly generous benefits and under-funding
 - Poor investment returns.
- Main problems persist: too generous benefits; state control over local pension programs.

13. Fixing the City requires public recognition of ALL financial and leadership issues.

- Magnitude of numerous capital issues:
 - Flooding
 - Road and water/sewer system repair
 - Employee pensions
 - EPA lawsuit over City sewers
 - Rain tax — Court decision to not collect taxes and return excess.

13. Fixing the City requires public recognition of ALL financial and leadership issues.

- Poor management of local operations:
 - Continued budget deficits — operations not sustainable
 - Poor leadership of City operations: rising crime, bloated costs, etc.
 - Poor leadership of regional agencies (Metro, HISD, HCC, etc.).
- Public must recognize that Fixing the City requires:
 - Much more than just fixing pensions.
 - Fixing the city's health: restore growth in jobs and population;
 - Fixing underlying service delivery, particularly: public safety, education.
 - Respect for taxpayers.

14. The HBJ seeks the business community to re-assert its leadership.

- Business leadership:
 - Business practices into City operations
 - Business community hold public leadership accountable.
- Key issues are:
 - Financial results – of operations, decisions
 - Tell the truth – engage the public
 - Deal with reality – prepare for workout!

**When Your Head's in the Sand,
there's a lot still exposed!**



WHY SHOULD WE CARE?

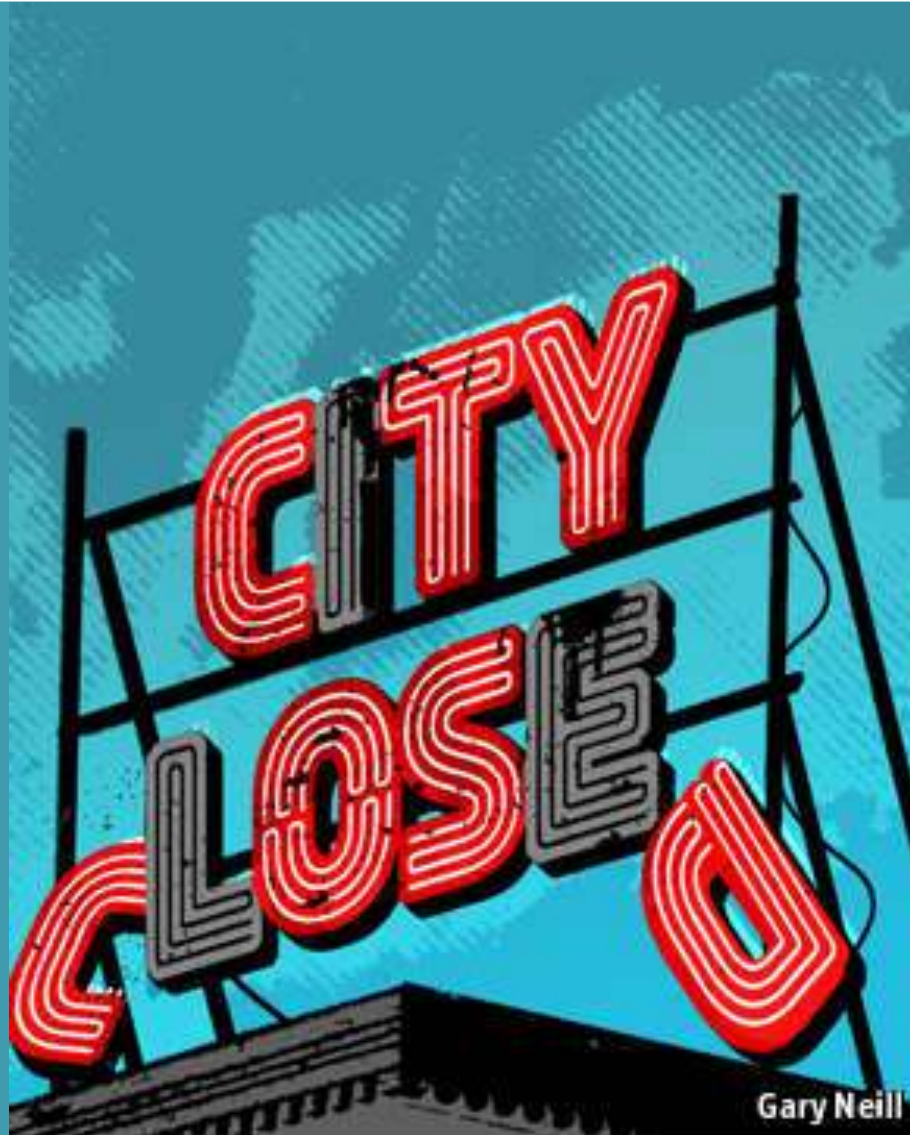
- A strong city is essential to sustain the region's growth and prominence.
- Conversely, continued deterioration of City will cause serious economic and social harm to region – problems spread to suburbs.
- Houston has given us great opportunities --Let's leave to our children a city where they want to raise their children.

WHAT DO WE DO?

- Fix the City's finances -- and underlying operations
 - Set priorities; measure input and output; communicate
 - Financial results reflect poor leadership, poor operations, poor investments
 - Balance the (ACCRUAL) budget
 - Build consensus
- Leaders: Communicate the Truth; Work for the Citizens
 - Respect citizens as consumers and investors
 - Engaged and informed citizens will contribute solutions, share sacrifice
 - Unite -- don't divide the City and the peoples' interests

WHAT DO WE DO?

- Restore the City's growth; growth is essential to:
 - Create value (and income and wealth at all levels)
 - Improve people's lives
 - Improve the City's "market share"
- Without growth:
 - Public activity "crowds out" private economy
 - Red kills green
 - Citizens lose control of their future



Gary Neill

WHAT DO WE DO?

- Representative democracy depends upon an informed and engaged citizenry.
- Common sense says that the first step to solve a problem is to recognize it.
- Engage:
 - Overcome our greatest threat -- Apathy
 - Current Examples:
 - .Kinder/Bayou initiatives;
 - .Freels/Yellowstone;
 - .Magaziner/Metro
 - .Wall, Scarborough & Masraff / BRT line

NOTEWARE'S GOALS

- Tell the Truth, the Whole Truth and Nothing but the Truth
- Elect new leadership that will broaden public communication and engage public involvement
- Re-Assert Business leadership in City's operations – transparency, accountability, best practices, etc
- Measure and then fix Houston's service and financial problems – decisive action required!
- Restore Houston's traditional leadership position – in the region and the world.

Questions?

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