



# HARRIS COUNTY

## OFFICE OF MANAGEMENT AND BUDGET

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## 2022 Bond Proposition Policies and Procedures

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On November 8, 2022, Harris County voters approved three bond measures. This document lays out financial and accounting procedures for allocating or using authority from these voted measures, including setting up projects. This document does not concern policies for which projects are eligible to use voted bond authority or project prioritization.

### Bond Proposition Allocations

The following plan was presented to Harris County voters in advance of the 2022 Election:

|               |                  |                           |        |        |
|---------------|------------------|---------------------------|--------|--------|
| Proposition A | Public Safety    |                           |        | \$100M |
| Proposition B | Transportation   | General Road Bonds        | \$300M | \$900M |
|               |                  | Neighborhood Drainage     | \$200M |        |
|               |                  | Partnership Opportunities | \$200M |        |
|               |                  | Road Rehabilitation       | \$100M |        |
|               |                  | Vision Zero               | \$50M  |        |
|               |                  | Multimodal Transportation | \$50M  |        |
| Proposition C | Parks and Trails |                           |        | \$200M |

The amounts in each proposition were included in text presented to the voters on the ballot and are legally binding. While the sub-amounts under Transportation were presented to the public as a plan, the amounts were not included in the ballot language and are not legally binding, though the Office of Management and Budget (OMB) recommends abiding by them as closely as practical.

### Allocations

On January 31, 2023, Commissioners Court allocated 10% of the \$1.1 billion in road and park bond authority for program management and administration to be run by the Harris County Engineering Department. This includes County engineering staff, compliance monitors, MWBE staff, attorneys, purchasing agents, and contract staff augmentation.

On that same date, Commissioners Court approved 63.64% of the \$1.1 billion in road and park bonds to be split evenly among the precincts. Commissioners Court directed the remaining 26.36% to be divided based on the distribution of populations among the precincts with an SVI of greater than 75. Details on exact breakdowns can be seen in the appendix.

## Bond Project Funding

Initial budget allocations could be provided using commercial paper, as with 2015 voted authority, and then rolled into bonds. Alternatively, project timing may be such that it would be more fiscally prudent to issue bonds initially without commercial paper. OMB will determine the most sensible course of action and provide a recommendation to Commissioners Court.

Where commercial paper is used, OMB plans to use existing commercial paper lines, and given projected timing and the size of 2022 voted authority, believes these lines will be adequate. OMB will monitor fund usage and may propose additions or changes to commercial paper to best facilitate project progress.

Periodically and as projects are completed, the commercial paper line used will be rolled into long-term debt, as appropriate for the type of asset constructed. Rolling this into long-term debt will free up commercial paper capacity to use on additional projects.

Commercial paper policies and timelines will follow in the existing policy used for funding the latest allocations 2015 Road and Bridge Bond project, with some key additions for tracking explained in further sections below.

Key points of existing policy include the following:

- Precincts shall encumber any available budget from previous voted authority before encumbering anything with new voted authority (e.g., **Precinct 2015 road bond budgets must be fully used before encumbering against 2022 authority**)
- Commercial paper budget should be provided approximately 3-6 months before funds will be drawn down. This helps minimize the amount of allocated and unused CP, which helps limit the size of our CP programs, saving the County money in fees.
- Before providing budget, OMB reviews precinct or department cash flow plans.
- When possible, consistent with good project management, and when likely to provide fiscal savings, for projects that have a long construction period and being funded by CP, the requesting Precinct should consider the possibility of either breaking the large project into smaller projects or breaking the project down into construction phases to efficiently utilize the CP programs without using all the capacity. This also ultimately helps the County save money on fees.

The full commercial paper policy is included in the appendix.

## Project Naming and Tracking

In order to properly account for funds invested and roll them into long-term debt, each dollar spent needs to be tied to a specific asset that is placed in service.

## Project Codes

To properly track and account for bond funding, the following structure shall be used for each bond project. Bond projects shall have the following structure:

1. The first four characters shall be “VA22” for **Voted Authority 2022**
2. The fifth character shall vary, depending on what type of voted authority is used. The character will be as follows:
  - a. A – Prop A: Public Safety
  - b. B – Prop B: General Road Bonds
  - c. C – Prop B: Neighborhood Drainage
  - d. D – Prop B: Partnership Opportunities
  - e. E – Prop B: Road Rehabilitation
  - f. F – Prop B: Vision Zero
  - g. G – Prop B: Multimodal transportation
  - h. H – Prop C: Parks and Trails
3. The following characters shall consist of a unique ID for each project, at the discretion of the precincts, up to 11 characters long.
  - a. Any funding not allocated to a particular project should remain in the generic project that has no unique identifier

For example, the project **VA22B0AB123C45A** would break down as:

- **VA22** – a project using 2022 voted authority
- **B** – from authorization for General Road Bonds
- **0AB123C45A** – Could be any code of any length up to 11 characters

For example, funding that has not yet been allocated to a particular project that is related to parks and trails would remain in the project **VA22H**.

## Policies for Project Codes

Per auditing guidelines, expenses can only be capitalized and issued in bonds if they are tied to a specific asset. In order to ensure compliance and the ability to issue debt for these projects, POs or invoices issued using 2022 voted authority should be processed only if they are coded to a project that follows this naming convention and only if that project ties to a particular asset. Similarly, no POs or invoices should be processed that are coded to a generic project, like VA22B. They must be coded to a specific project.

## Appendix

### Bond Authority Dates

Commissioners Court allocates budget and bond authority among County precincts and departments and will soon begin to allocate budget based on 2022 voted authority. At the same time, Harris County has a longstanding policy to package assets together for bond sales on a “first-in, first-out” basis, meaning Harris County should use all its 2015 bond authority before issuing any bonds using 2022 voted authority. These two policies may come into conflict, since County precincts and departments use their

assigned allocations at different rates because precincts and departments have projects of different natures that are completed on different timeframes.

For example, precinct/departments A has smaller projects that start and finish faster, while precinct/departments B has larger projects that take longer to complete. Precinct/departments X finishes Project 22X, its first project using its 2022 budget. A year later, precinct/departments Y finishes Project 15Y, their last project using its 2015 budget. In this case, it would be OMB policy to package Project 22X to the market as a part of 2015 voted authority.

This is a technical matter and does not impact the authority or budgets provided by Commissioners Court to precincts and departments and should not impact the reporting or tracking of said authority and budgets to Commissioners Court or the public. The project code conventions above will be used for tracking Commissioners Court-assigned allocations and will not necessarily correspond to the dated authority used when selling bonds on the market. OMB recommends continuing to use this policy, as there is no impact on the amount of funds available to any precinct or department for projects, and it best reflects the will of Commissioners Court in terms of reporting and communicating with the public and between departments.

### Bond Authority Allocations

The following allocations are planned for 2022 voted bonds, based on the methodology approved by Commissioners Court on January 31, 2023.

Public safety bond funding will not be divided by precinct.

Commissioners Court allocated 10% of the \$1.1 billion in road and park bond authority for program management and administration to be run by the Harris County Engineering Department. This includes County engineering staff, compliance monitors, MWBE staff, attorneys, purchasing agents, and contract staff augmentation. Providing this funding may involve budget transfers and/or journal entries between Engineering, Purchasing, the Department of Economic Equity and Opportunity, and the County Attorney, among other departments. Under auditing guidelines, only staff time spent directly on Bond projects is eligible to use Bond funding. Procedures and organizational structures are still under discussion between the various departments involved and OMB to provide funding most efficiently and best ensure compliance. OMB will follow standard, approved procedures, including any Commissioners Court approvals that may be necessary, for any such financial operations.

Commissioners Court approved 63.64% of the \$1.1 billion in road and park bonds to be split evenly among the precincts. Commissioners Court directed the remaining 26.36% to be divided based on the distribution of populations among the precincts with an SVI of greater than 75. SVI > 75 population by precinct is as follows:

|                     | PCT1    | PCT2    | PCT3   | PCT4    |
|---------------------|---------|---------|--------|---------|
| SVI > 75 population | 425,532 | 533,289 | 56,687 | 288,736 |

### Public Safety

The \$100 million in public safety bond funding will be allocated to the appropriate department(s) to fund eligible projects approved at a later time as projects are approved and ready to encumber funds. As presented initially to the public, funding from the public safety bond is not restricted by precinct.

### Road and Bridge

Based on the allocations by subcategory communicated to the public before voting on the 2022 bond measures and the allocations by precinct approved by Commissioners Court on January 31, 2023, the following is to be allocated to precincts by subcategory:

| <b>Proposition B Subcategory</b> | <b>PCT1</b>          | <b>PCT2</b>          | <b>PCT3</b>          | <b>PCT4</b>          | <b>County Department</b> | <b>TOTAL</b>         |
|----------------------------------|----------------------|----------------------|----------------------|----------------------|--------------------------|----------------------|
| Road Rehabilitation              | \$24,510,403         | \$26,688,273         | \$17,055,697         | \$21,745,627         | \$10,000,000             | \$100,000,000        |
| Multimodal Transportation        | \$12,255,201         | \$13,344,137         | \$8,527,849          | \$10,872,813         | \$5,000,000              | \$50,000,000         |
| Vision Zero                      | \$12,255,201         | \$13,344,137         | \$8,527,849          | \$10,872,813         | \$5,000,000              | \$45,000,000         |
| Partnership Opportunities        | \$49,020,805         | \$53,376,546         | \$34,111,396         | \$43,491,253         | \$20,000,000             | \$200,000,000        |
| Neighborhood Drainage            | \$49,020,805         | \$53,376,546         | \$34,111,396         | \$43,491,253         | \$20,000,000             | \$200,000,000        |
| General Road Bond                | \$73,531,209         | \$80,064,819         | \$51,167,092         | \$65,236,880         | \$30,000,000             | \$300,000,000        |
| <b>TOTAL</b>                     | <b>\$220,593,624</b> | <b>\$240,194,458</b> | <b>\$153,501,279</b> | <b>\$195,710,639</b> | <b>\$90,000,000</b>      | <b>\$810,000,000</b> |

### Parks

\$200 million in park bond to be divided as follows:

| <b>Allocation</b> | <b>PCT 1</b> | <b>PCT2</b>  | <b>PCT3</b>  | <b>PCT4</b>  | <b>County Department</b> | <b>TOTAL</b>  |
|-------------------|--------------|--------------|--------------|--------------|--------------------------|---------------|
| Prop C: Park      | \$49,020,805 | \$53,376,546 | \$34,111,396 | \$43,491,253 | \$20,000,000             | \$200,000,000 |

### Commercial Paper Budget Policy

Commercial Paper (CP) programs have the following fees associated with each program: liquidity facility fees, dealer fees, rating agency fees, and paying agent fees. The County currently pays approximately **\$5.7 million** in fees annually to support its CP programs, and the cost increases as the size of the programs grow. Also, when CP is allocated but is left unused for extended periods of time, it ties up CP capacity, which is an inefficient use of CP. In an effort to minimize the fees the County is assessed on CP programs and reduce the amount of unused CP allocations we are implementing the following procedures. These procedures were initially implemented with respect to the \$240 million of road bonds authorized by Commissioners Court on 06/29/21, and the Office of Management and Budget (OMB) proposes continuing these policies for any further allocations of 2015 Road and Bridge Bond authority, as well as any allocations from 2022 bond measure voted authority for precinct road and park projects.

1. **If a Precinct requires CP beyond its existing budget, the Requesting Precinct** will provide their cashflows for upcoming and existing road projects that will be funded by CP four (4) months before additional CP is needed. These projects are not included in the CIP.  
[Amy.perez@bmd.hctx.net](mailto:Amy.perez@bmd.hctx.net), [Jimmel.aquino@bmd.hctx.net](mailto:Jimmel.aquino@bmd.hctx.net), and [Rebecca.garcia@bmd.hctx.net](mailto:Rebecca.garcia@bmd.hctx.net) should be cc'd on all communication about cashflows and road CP requests.

2. Cashflows are reviewed by **Financial Management** to determine if CP capacity is currently available to fund new projects.
3. **Financial Management** will assist the Precinct to determine if open encumbrances could be reduced on finished projects to free up CP capacity before OMB considers opening a new CP program.
4. When possible, consistent with good project management, and when likely to provide fiscal savings, for projects that have a long construction period and being funded by CP, the requesting Precinct should consider the possibility of either breaking the large project into smaller projects or breaking the project down into construction phases to efficiently utilize the CP programs without using all the capacity.
  - a. If construction phasing is to be used, the approach should be identified early on in the project and included in the project design documents developed for construction bid. **Purchasing/CAO** will handle any additional agreement language that may be required for these.
  - b. Precincts should be encouraged to work with the Office of Management and Budget at the start of any project to help gauge whether the potential additional project construction costs related to construction phasing and/or smaller projects would provide a cost savings as they relate to the additional CP fees that would be realized without phasing.
5. If CP capacity is available, upon receipt of an email from Financial Management requesting budget to be allocated to road projects, the **Budget Services** group will prepare a budget transfer and send it to court for approval to transfer budget from OMB unallocated into the Precinct. The Precinct will provide the budget coding to Hank.

If it is determined CP capacity is not available:

1. **Financial Management** will engage with our Financial Advisors to begin the process of setting up a new CP program and will request the County Attorney to designate special counsel for establishing a new CP program.
  - a. This process can take approximately three (3) months.
    1. Financial Management will submit a "Go Forward" Order to court to start establishing a new CP program and engage a bond counsel.
    2. Select a liquidity bank for the new CP
    3. Prepare the note documents (Offering Memorandum, credit, and fee agreements)
    4. Submit an Order to court to consider CP documents
    5. Submit a Ratifying Order to court
  - b. During this time, the requesting Precinct can work with Purchasing on the selection of contractors/vendors and award agreements. However, the funding cannot be certified for the project until after the CP program has been completely set up, a capital project fund has been established and budgets have been loaded in STARS.
2. Other options would be to start the process of a CP take out (refunding of outstanding notes with bonds) to restore capacity in the CP programs or pay off CP with cash. The CP take out process takes approximately 3-4 months and similar steps as stated above would go before Commissioner's court for approval. To pay off CP with cash, it would be dependent on if cash was available at the time and not earmarked for other purposes.

Ongoing CP processes:

- As expenses are incurred, **Financial Mgmt. team** will draw down the CP.