



# CITY OF HOUSTON

Finance Department

**Annise D. Parker**

Mayor

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**To: Honorable Mayor, Members of the City Council, City Controller and Citizens of Houston:**

I am pleased to submit the Adopted Budget for the City for the fiscal year, which begins July 1, 2014, and ends June 30, 2015 (FY2015). This document includes budgets for the City's General Fund, the three Enterprise Funds (Aviation, Combined Utility System, and Convention and Entertainment) as well as Special Revenue Funds, Service Chargeback Funds and Internal Service Funds.

Pursuant to the requirements of the City Charter, Mayor Parker's priorities are set out in her letter that accompanied the Proposed Budget sent to City Council on May 15, 2014. The purpose of this letter is to describe the budget as adopted by the Houston City Council on June 18, 2014. The complete list of amendments is provided as an appendix in this document.

The Adopted Budget for FY2015 is balanced as required by City Charter and State law and is aligned with the priorities set by the Mayor and City Council. For the fifth year in a row, the General Fund budget was balanced without the use of pension obligation bonds or issuance of any other long-term debt to meet current expenses.

The use of fund balance is included in the budget to offset the cost increases anticipated in FY2015 while maintaining the full designation of \$20 million to the Rainy Day Fund as well as the General Fund Reserve (ending fund balance divided by operating expenditures before debt service) of 7.5%.

## **FY2015 BUDGET OVERVIEW**

The Adopted Budget includes expenditures for all funds of \$4.4 billion, which is \$271 million (6.6%) above the FY2014 estimate. The largest contributors to this increase are mandatory or contractual obligations including salaries, pensions, fuel, and debt service payments.

## GENERAL FUND

The City's General Fund is its largest fund and supports the majority of the basic services of the City, such as police and fire protection, solid waste management, parks, libraries, and public health. The largest sources of revenue for the General Fund are property and sales tax, which together produce approximately 72% of the total resources for the General Fund. The current tax rate for the City of Houston is 63.875 cents per \$100 assessed valuation. It is unchanged from last year.

The General Fund budget, by department and by revenue source, is shown in the General Fund Summary beginning on page II-2. The total General Fund expenditure budget including debt service is \$2.3 billion, which is \$174 million (8.3%) above the FY2014 estimate.

While this is a relatively flat budget from a services perspective, several major highlights in the General Fund other than the mandatory or contractual obligations previously mentioned, are as follows:

- Includes an accounting adjustment that increases EMS related costs offset by revenue increases,
- Includes funding for the Bayou Greenway 2020 initiative for the upkeep of White Oak Bayou through the Houston Parks Department,
- Includes increased funding transfers to Maintenance Renewal and Replacement Fund (MRR) for preventive and corrective asset maintenance through the General Service Department and the Parks and Recreation Department,
- Includes increased funding for animal enforcement activities to meet the demands of citizens and to fund Phase 1 of the new Adoption Center at BARC,
- Includes funding for a Work Demands Analysis for Houston Fire Department,
- Includes funding for a new Council District Service Budget based on neighborhood needs and constituents' input with approval by the Mayor,
- Includes funding for surveillance camera systems for monitoring in chronic illegal dumping areas.

### ***General Fund Revenue Highlights***

**Overview** - The revenues available to support the operations of the General Fund are described in detail starting with Page II-2 of the FY2015 budget. The budget was prepared with conservative revenue projections based on ranges provided by experts such as the Harris County Appraisal District and University of Houston Institute for Regional Forecasting.

**Property Tax** – As previously stated, the FY2015 budget is based on a property tax rate of 63.875 cents per \$100 assessed valuation (Tax rates are adopted in the fall for all jurisdictions in Texas, without regard to the date a municipality's fiscal year begins). Revenue from property taxation is expected to be \$1.1 billion, which is approximately \$85.5 million (8.7%) higher than the FY2014 estimate.

**Sales Tax** – The FY2015 budget projects a sales tax increase as a result of the continuing signs of economic recovery. Revenue from sales tax is expected to be \$667 million, which is approximately \$34 million (5.4%) above the FY2014 estimated revenue.

### ***General Fund Expenditure Highlights***

**Overview** – This document contains detailed information on each City department's budget, including a comparison with prior years. In addition, each department has identified specific items or budget highlights which are of particular interest in FY2015.

**Public Safety** – As part of the Mayor's commitment to public safety, this budget includes funding of \$21.2 million in support of the Houston Forensic Science LGC. Additionally, the budget includes three cadet classes for the Police Department, and six cadet classes and three paramedic classes for the Fire Department.

**Staffing Levels** – Table IV, pages 18-20, demonstrates the level of Full Time Equivalent (FTE) staffing provided in this budget compared to past years. Citywide staffing, including overtime and straight time FTEs, increased 3.7% compared to FY2014 estimate, while total General Fund staffing is budgeted with a 1.4% increase.

**Compensation** – The adopted budget fully funds the contractual increases for classified police, fire fighters, and municipal employees.

### ***General Fund Ending Balance***

The FY2015 Adopted Budget includes an unassigned ending fund balance of \$151.3 million, which is \$48.5 million (24.3%) below the estimated fund balance for FY2014 estimate. It is maintained above the preferred 7.5% level of expenditures excluding debt service.

## ENTERPRISE FUNDS

**Overview** – The City has three enterprise funds: The Houston Airport System Fund, the Combined Utility System Fund and the Convention and Entertainment Facilities Operating Fund.

**Aviation** – The Houston Airport System is responsible for two major hub airports; George Bush Intercontinental and William P. Hobby. It is also responsible for Ellington Airport, a joint use civil/military airport. Security and expansion to serve the region's growing needs at the three airports continues to be a top priority. The Police and Fire Departments provide significant public safety services to the airports, and these costs of services are reimbursed to the General Fund.

The Houston Airport System's budget of \$483 million has increased from the FY2014 estimate by approximately \$22.1 million (4.8%) with the majority of the increase in personnel. FY2015 revenue is conservatively estimated to be \$22.1 million higher than FY2014, reflecting increases in concessions, garage parking revenues and rental fees.

**Combined Utility System (CUS)** – The CUS Fund is managed by the Public Works and Engineering Department and is composed of three separate funds; the Water and Sewer System Operating Fund; the CUS Operating Fund and the CUS General Purpose Fund.

The CUS expenditure budget of \$1.4 billion has increased from FY2014 estimate by approximately \$31 million (2.2%) with the majority of the increase in the non-capital equipment category, while the revenue is estimated to be \$9.7 million (0.7%) higher in FY2015.

**Convention and Entertainment Facilities (CEFD)** - CEFD Operating Fund is an enterprise fund that accounts for the unpledged revenues as well as other operating and capital expenditures assigned to the Houston First Corporation, which was created in FY2012. The CEFD FY2015 expenditure budget is \$6.4 million (6.7%) higher than the FY2014 estimate, while the revenue is estimated to be \$6.5 million (6.8%) higher in FY2015.

## CAPITAL IMPROVEMENT PLAN (CIP)

On July 9<sup>th</sup>, 2014, City Council approved a five-year Capital Improvement Plan covering fiscal years 2015 through 2019. The plan incorporates the \$410 million in public improvement bonds that were approved by voters in November 2012; including the Bayou Greenways 2020 project to build 150 miles of parks and trails along Houston's bayous. The plan also allocates approximately \$257 million for facility repairs in an effort to manage long-term operational costs. As the City continues to strengthen the ties between the capital and operating budget processes, this five-year capital plan encourages a long-term view of the City's finances.

## CONCLUSION

The budget described in this document, adopted by Council reflects a balance between the needs of our citizens, increased costs, available revenues, and the City's financial policies. The City has worked hard to improve the financial position of all funds, but challenges remain, particularly in the General Fund. It will take the collective effort of the City, its voters, and its stakeholders to address these challenges and ensure Houston remains strong for years to come.

Sincerely,

A handwritten signature in cursive script, appearing to read "Kelly Dowe", written over a horizontal line.

Kelly Dowe, Director