



CITY OF HOUSTON

Finance Department

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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 2017 fiscal year (FY2017), which begins July 1, 2016, and ends June 30, 2017. 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.

Mayor Sylvester Turner's priorities are set out in his letter that accompanied the Proposed Budget sent to City Council on May 9, 2016. The purpose of this letter is to describe the budget as adopted by the Houston City Council on May 25, 2016, after budget presentations, collaborative debates, and amendments. The complete list of amendments is provided as an appendix in this document.

The Adopted Budget for FY2017 is balanced as required by City Charter and State law and is aligned with the City's priorities. This budget moves us closer to the new administration's emphasis on achieving structural budget balance, wherein recurring revenues meet or exceed recurring expenditures as required by the City's financial policies. Of particular note is the inclusion of nearly \$55 million in recurring budgetary improvements achieved through sustainable expenditure reductions or new revenue.

Despite the significant improvements made in working toward structural balance, the FY2017 budget is still balanced with use of excess reserves. In keeping with the City's financial policies, we will hold an ending fund balance of 9.3% of operating expenditures before debt service and pay-as-you-go (PAYGO) expenses, well above the required minimum of 7.5% established in the City's financial policies. We will also maintain the Budget Stabilization Fund at 1% of expenditures less debt and PAYGO, which equates to \$20.2 million of additional reserves.

FY2017 BUDGET OVERVIEW

The Adopted Budget includes expenditures for all funds of \$5.1 billion, which is \$49 million (0.9%) below the FY2016 Current Budget. The overall reduction in spending is

attributable to cuts in the General Fund; other funds have seen slight increases in some cases but these are mitigated by larger reductions in the General Fund.

GENERAL FUND

The City's General Fund is its largest fund and supports the majority of the City's basic services, such as police and fire protection, solid waste management, parks, health and human services, and general services. The largest sources of revenue for the General Fund are property and sales taxes, which together produce approximately 71% of the total resources for the General Fund. The current tax rate for the City of Houston is 60.112 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). Our property tax revenue projection is derived according to the limitations set forth by Proposition 1 and Proposition H as approved by voters and included in the City Charter; the impact of these is to limit annual increases in property tax revenue to the lesser of 4.5% or a combination of growth in Houston's population and inflation.

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 and PAYGO capital projects is \$2.3 billion, which is \$81 million (3.4%) less than the FY2016 Current Budget.

General Fund highlights are noted below:

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 FY2017 budget. The budget was prepared with conservative revenue projections based on trends and key economic indicators.

Property Tax – As previously stated, the FY2017 budget is capped based on Propositions 1 and H. Revenue from property taxation is expected to be \$1.1 billion, which is approximately \$40.5 million (3.7%) higher than the FY2016 estimate.

Sales Tax – The FY2017 sales tax projection is derived from econometric models which take into account the condition of the Houston economy. With the uncertainty of oil prices as well as the ongoing decline in exploration, drilling, and the fracking industry, the sales tax revenue is expected to be \$615 million, which is approximately \$21.3 million (3.3%) below the FY2016 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 FY2017.

Public Safety – As part of the Mayor's commitment to public safety, this budget includes increasing the number of HPD cadet classes from four to five in FY2017. Additionally, the budget includes five cadet classes and two paramedic classes for the Fire Department.

Staffing Levels – Table IV, pages 12-14, 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, remained relatively flat increasing by less than 1% compared to the FY2016 current budget, while total General Fund staffing is budgeted with a 0.4% decrease.

Compensation – The adopted budget fully funds the contractual pay increases for classified police and municipal employees. Additionally, the budget also includes deferred payment of \$12.5 million to the Houston Police Officers Pension System.

Operational Efficiencies – Departments across the organization were asked to identify opportunities for budget reductions without impacting services; these ideas were reviewed by the Mayor and included in the budget as appropriate. Overall, General Fund departmental reductions ranged from less than 1 percent to 8 percent, and yielded nearly \$24 million in recurring savings.

General Fund Ending Balance

The FY2017 Adopted Budget includes an unassigned ending fund balance of \$186.7 million, which is \$9.7 million (4.9%) below the estimated ending fund balance for FY2016. The ending fund balance represents 9.3% of expenditures excluding debt service and PAYGO, an amount above the required minimum of 7.5% level of expenditures set out in the City's financial policies.

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. 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 \$501.7 million has increased from the FY2016 Current Budget by approximately \$6.4 million (1.3%) mainly due to operating expenses related to the opening of Ecopark 2 at George Bush Intercontinental Airport (IAH) and the full year cost of operating the International concourse at William P. Hobby Airport (HOU). The revenue budget is conservatively estimated to be \$6.4 million higher than FY2016, reflecting increases in parking revenue, concessions and terminal space 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 \$1.6 billion has increased from FY2016 Current Budget by approximately \$18.5 million (1.2%) with the majority of the increase in the debt service and other uses category and capital equipment rollover cost. The revenue budget is estimated to be \$25.1 million (1.7%) higher in FY2017 primarily due to a rate adjustment of 1.4% and higher water and sewer consumption.

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 FY2017 expenditure budget is \$6.2 million (5.9%) lower than the FY2016 Current Budget, while the revenue is estimated to be \$6.9 million (6.5%) lower in FY2017.

CAPITAL IMPROVEMENT PLAN (CIP)

On July 20, 2016, City Council approved a five-year Capital Improvement Plan covering fiscal years 2017 through 2021. 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 \$221 million for General Government capital maintenance projects 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 City's FY2017 budget is strategic and future-focused, planned with the understanding that today's decisions will impact Houston's financial standing not just now, but in the years ahead. It takes a conservative stance toward anticipating any economic rebound as oil prices remain low.

While the City continues to use one-time measures to close annual deficits, this budget marks a major step toward weaning the City away from fund balance drawdowns and other short-term, temporary solutions to our situation. This requires us to continue evaluating operations for opportunities to achieve recurring savings, and to identify opportunities for the City to realize revenue that better reflects the cost of providing quality City services to all Houstonians. We will continue working toward the goal of sustainable, structural budget balance through a commitment to shared sacrifice and an understanding that every dollar saved today puts us in better stead for the years to come.

Sincerely,


Kelly Dowe, Chief Business Officer