



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, 2015, and ends June 30, 2016 (FY2016). 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 Annise Parker's priorities are set out in her letter that accompanied the Proposed Budget that was sent to City Council on May 12, 2015. The purpose of this letter is to describe the budget as adopted by the Houston City Council on June 17, 2015, after budget presentations, collaborative debates, and amendments. The complete list of amendments is provided as an appendix in this document.

The Adopted Budget for FY2016 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 sixth 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 FY2016. In keeping with the new financial policies adopted by City Council, we will maintain an ending fund balance of 7.5% of operating expenditures before debt service and pay-as-you-go (PAYGO) and increase the Budget Stabilization Fund, formerly known as the Rainy Day Fund to \$20.5 million (1% of expenditures less debt and PAYGO).

FY2016 BUDGET OVERVIEW

The Adopted Budget includes expenditures for all funds of \$5.1 billion, which is \$290 million (6.0%) above the FY2015 Current Budget. The largest contributors to this increase are mandatory or contractual obligations including salaries and pensions.

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, health and human services and as well as general services. The largest sources of revenue for the General Fund are property and sales tax, which together produce approximately 71% of the total resources for the General Fund. The current tax rate for the City of Houston is 63.108 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 Proposition 1 and Proposition H.

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 \$2.4 billion, which is \$133 million (5.9%) above the FY2015 Current Budget.

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 funding for municipal election,
- Includes funding for Enterprise Risk Assessment,
- Includes funding for a disparity study,
- Includes increased funding for Council District Service Fund,
- Continues funding for after school and summer job programs.

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 FY2016 budget. The budget was prepared with conservative revenue projections based on trends and key economic indicators.

Property Tax – As previously stated, the FY2016 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 (3.8%) higher than the FY2015 estimate.

Sales Tax – The FY2016 sales tax projection is derived from econometric models which take into account sectors of the Houston economy and estimates of income, prices, population, and Primary Metropolitan Statistical area (PMSA) retail sales. 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 \$688.8 million, which is approximately \$12.2 million (1.8%) above the FY2015 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 FY2016.

Public Safety – As part of the Mayor's commitment to public safety, this budget includes funding of \$24 million in support of the Houston Forensic Science LGC. Additionally, the budget includes four cadet classes for the Police Department, and five cadet classes and three 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 FY2015 current budget, while total General Fund staffing is budgeted with a 1.5% increase.

Compensation – The adopted budget fully funds the contractual pay increases for classified police and municipal employees. Additionally, the budget also includes deferred payment of \$25.5 million to the Houston Police Officers Pension System.

General Fund Ending Balance

The FY2016 Adopted Budget includes an unassigned ending fund balance of \$153.4 million, which is \$86.3 million (36.0%) below the estimated fund balance for FY2015 estimate. It is maintained at the required 7.5% level of expenditures excluding debt service and PAYGO.

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 FY2015 estimate by approximately \$17.1 million (3.5%) mainly due to operating expenses related to the opening of the international concourse, parking garage and related facilities at William P. Hobby. International traffic at Bush Intercontinental continues to grow with the addition of several new carriers in FY2016. The revenue budget is conservatively estimated to be \$17.1 million higher than FY2015, 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 FY2015 estimate by approximately \$178.1 million (13.0%) mainly due to an increase in the debt service and other uses category. The FY2016 budget also includes funding for additional wastewater maintenance and assessment activities related to the EPA negotiations such as enhanced sewer cleaning, restaurant inspections, system inspections and investigations, sanitary sewer overflow response, and public outreach and education. The revenue budget is estimated to be \$122.4 million (8.8%) higher in FY2016 primarily due to a rate adjustment of 4.4% and to cover work related to the EPA negotiations.

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 FY2016 expenditure budget is \$3.1 million (3.0%) higher than the FY2015 estimate, while the revenue is estimated to be \$2.0 million (2.0%) higher in FY2016.

CAPITAL IMPROVEMENT PLAN (CIP)

On July 8th, 2015, City Council approved a five-year Capital Improvement Plan covering fiscal years 2016 through 2020. 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 \$230 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 budget described in this document, adopted by City Council is very much a hold the line budget with little in the way of new programs. It is based on slight economic growth and capped property tax revenues. With fiscal challenges ahead we must continue our focus on addressing pension liabilities, performance improvement, and cost containment.

Sincerely,


Kelly Dowe, Chief Business Officer