



CITY OF HOUSTON
Finance Department

John Whitmire

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 City of Houston Adopted Budget for the 2025 fiscal year (FY2025), which begins July 1, 2024, and ends June 30, 2025. 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 John Whitmire's priorities are set out in his letter that accompanied the Proposed Budget sent to City Council in May of 2024. The purpose of this letter is to describe the budget as adopted by the Houston City Council on June 12, 2024, after budget presentations, collaborative debates, and amendments. The complete list of amendments is provided as an appendix in this document.

The Adopted Budget for FY2025 is balanced as required by City Charter and State law and is aligned with the City's priorities. This budget also reflects leveraging American Rescue Plan Act (ARPA)¹ to recognize the economic impact due to the COVID-19 pandemic and providing flexibility to address the reduction in revenues due to the COVID-19 public health emergency last year.

The use of fund balance is included in the budget to offset cost increases anticipated in FY2025. In keeping with the City's financial policies, we will hold an ending fund balance of 10.9% of operating expenditures before debt service and pay-as-you-go (PAYGO) expenses, above the required minimum of 7.5% established in the City's financial policies.

The Adopted Budget for all funds excluding transfers is \$6.7 billion, which is \$454.3 million (7.2%) above the FY2024 Current Budget. The largest contributors to this increase are mandatory or contractual obligations.

¹ Per US Treasury's Coronavirus Relief Fund Guidance for State, Territorial, Local and Tribal Governments.

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 69.9% of the total resources for the General Fund.

The current tax rate for Tax Year 2024 (FY2025) for the City of Houston is 51.919 cents per \$100 assessed valuation. 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 percent or a combination of growth in Houston's population and inflation.

Along with the local Proposition 1 and H caps, the City must also comply with the statewide property tax cap put into place by the 86th Legislature in 2019 by Senate Bill 2 (S.B.2). S.B.2 lowered the trigger point for a tax rollback election from 8 percent to 3.5 percent without the need for voter approval.

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 \$3 billion, which is \$74.3 million (2.5%) higher than the FY2024 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-4 of the FY2025 budget. The budget was prepared with conservative revenue projections based on trends and key economic indicators. The FY2025 Budget includes \$10.4 million in Intergovernmental ARPA for the provision of government service relative to revenue reduction due to the COVID-19 public health emergency.

Property Tax – As previously stated, the FY2025 budget is capped based on Propositions 1 and H. Revenue from property taxation is expected to be \$1.4 billion, which is \$50.8 million (3.7%) higher than the FY2024 estimate.

Sales Tax – The FY2025 sales tax projection is derived from econometric models which take into account the sectors of the Houston economy and estimates of jobs, income, oil prices, population, and the Primary Metropolitan Statistical Area (PMSA) retail sales. According to the latest economic reports the City's economy has returned to pre-COVID levels, and the return has been a slow-paced one. The outlook of our economy in the out years is projected to be a positive one. However, in the near future we must keep a conservative mindset, sales tax collections have remained nearly flat when compared to the previous year. Houston employment rates trend positively, but concerns remain about the current inflation levels and whether the Federal Government will play a role in the stabilization of the inflation rate. Therefore, we took a conservative approach when budgeting the upcoming fiscal year's sales tax revenue. In FY2025 the sales tax revenue

is expected to be \$893.4 million, which is \$12.7 million (1.4%) higher than FY2024 estimate.

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 FY2025.

Public Safety – As part of the Mayor's commitment to public safety, this budget includes funding for six cadet classes for the Police Department and five cadet classes for the Fire Department.

Staffing Levels – Pages 19-21 demonstrate the level of Full Time Equivalent (FTE) staffing provided in this budget compared to past years. Citywide staffing, including overtime and straight time FTEs, remains relatively flat compared to the FY2024 Current Budget while total General Fund staffing decreased by 1.4%. The General Fund decrease is primarily attributable to classified personnel in Fire.

Compensation – The adopted budget fully funds pay increases for classified police and fire fighters. Additionally, the budget fully funds all three pension systems.

General Fund Ending Balance

The FY2025 Adopted Budget includes an unassigned ending fund balance of \$274.6 million, which is \$193.2 million (41.3%) below the estimated ending fund balance for FY2024. The ending fund balance represents 10.9% 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 expenditure budget of \$697.7 million has increased from the FY2024 Current Budget by approximately \$74.5 million (12%) due to increase in system improvements transfer. The revenue budget is estimated to be \$74.5 million higher than FY2024, reflecting an increase in terminal space rental fee, signatory landings fee, garage parking revenue resulting from increasing passenger levels.

Combined Utility System (CUS) – The CUS Fund is managed by the Houston Public Works 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 \$2.6 billion has increased from FY2024 Current Budget by approximately \$220.9 million (9.4%) mainly due to an increase in services and charges, debt service and other uses, and equipment. The FY2025 Budget also includes funding for critical drinking water and wastewater system maintenance, as well as regulatory compliance and assessment activities needed to comply with the City's Consent Decree requirements. The revenue budget is estimated to be \$148.3 million (6.1%) higher than FY2024 estimate primarily due to water and sewer rate adjustment of 9%.

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 expenditure budget of \$123.1 million is approximately \$11.9 million (10.7%) higher than the FY2024 Current Budget due to higher transfer to component unit, which is adversely affected by revenue. The revenue budget is estimated to be \$123.5 million, which is \$11.7 million (10.5%) higher than the FY2024 estimate. This significant increase in revenue is due to an increase in travel resulting in higher Hotel Occupancy Tax (HOT) and parking revenues.

CAPITAL IMPROVEMENT PLAN (CIP)

On July 2, 2024, City Council approved a five-year Capital Improvement Plan covering fiscal years 2025 through 2029, totaling \$14.5 billion. The plan continues to focus on Hurricane Harvey recovery and investment in fleet and information technology needs. Cost escalations/inflation are having impacts on the plan. The plan allocates approximately \$474 million for General Government capital maintenance projects, including those related to Harvey recovery. 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.

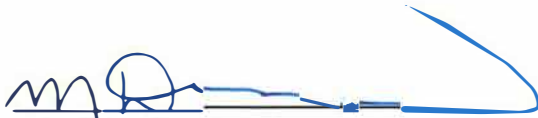
CONCLUSION

Adopted by Council, the budget presented in this document represents a balance budget and directly links funding for services to better outcomes. Under the Outcome Based Budgeting, we focus on outcome driven budgeting to support better funding decisions and provide increased transparency of spending to citizens. The budget includes the continuation of ARPA funds for revenue loss.

The recovery from the COVID-19 pandemic has been remarkably fast with the economy as a whole returning to the pre-pandemic level. Consumer spending is strong, however inflation is high, and we are expecting a slowdown in economic growth in the future. Our budget focuses on optimizing resource allocation and reducing unnecessary expenditures while maintaining essential services. We have delivered and continued our

commitment to fiscal responsibility. As we prepare for potential revenue fluctuations and ensuring that financial strategies are in place to manage these challenges, we are taking proactive steps to ensure our financial strategies are robust. This includes maintaining reserves above the 7.5% requirement, seeking diverse revenue resources, and continuing to focus on efficiency in budgeting and spending. Additionally, through ongoing collaboration with other local, state, and federal partners, we are exploring opportunities to strengthen our financial resilience through joint initiatives and shared resources.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Melissa Dubowski', with a long, sweeping flourish extending to the right.

Melissa Dubowski,
Chief Business Officer/
Director of Finance