



CITY OF HOUSTON

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Mayor

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To the people of Houston, Honorable Members of City Council, and the Honorable City Controller:

I am pleased to present the proposed budget for Fiscal Year (FY) 2025, which begins July 1, 2024, and ends June 30, 2025. The FY2025 Proposed Budget for all funds excluding transfers totals \$6.7 billion, an increase of \$441.9 million, or 7 percent compared to the FY2024 Current Budget of \$6.3 billion.

Financial Outlook

The Fiscal Year 2025 Proposed Budget is my first budget and there is a large financial challenge ahead. While we were able to close the budgetary gap using a combination of recurring expenditure reductions and a draw on fund balance, we know there is much more work to do ahead of us. We are actively working on implementing new recurring revenues and further cost saving initiatives that will be implemented during the fiscal year. This Proposed Budget takes a conservative approach by not yet incorporating those revenue increases and expenditure reductions, which will be reflected as we progress through the year. My administration has already started working with stakeholders to ensure TIRZs are supporting priority services and facilities used to deliver them, implement sharing costs, expanding and collaborating the use of the city's law enforcement agencies while continuing to deliver and improve services, focus on public safety, and improve infrastructure for the City.

Together with implementing recurring revenues going forward, we will continue to look across the city to realize efficiencies in operations. We will also invest in technology so that we can work smarter, not harder, and use our resources in the most efficient way possible by reducing duplication and eliminating waste.

I recognize and highlight three revenue constraints Houston confronts that do not exist in other large cities in Texas: a locally imposed revenue cap on top of the state cap, no dedicated revenues to support solid waste operations, and no support from a city owned utility. I look forward to the discussion with City Council on whether these constraints should be modified to allow Houston to be as competitive as we can be as a place where people want to work, live, and thrive.

General Fund highlights

Expenditures

The FY2025 Proposed General Fund budget of \$3.03 billion reflects an increase in spending of \$62.3 million or 2.1 percent from the FY2024 Current Budget of \$2.97 billion. This increase is primarily attributable to pay increases of 3.5 percent for police and increases associated with the draft Collective Bargaining Agreement (CBA) for fire. Related to the draft CBA for fire, this budget includes an increase to budgeted base pay of 10 percent. Additionally, this budget includes \$30.6 million for

debt service related to firefighter settlement and \$10 million firefighter increase in assignment and educational pay. Public safety remains a top priority representing \$1.7 billion, or 68.3 percent of the total General Fund spend excluding debt service and PAYGO. This includes funding for five (5) police cadet classes and five (5) fire cadet classes. Negotiations have begun on a new contract that could provide pay increases for civilian employees in FY2025 and beyond.

Additionally, this budget incorporates \$11.7 million of the departmental General Fund budget reductions to achieve cost savings and efficiencies.

Revenue

The City of Houston operates under one of the country's most restrictive property tax revenue caps – in addition to complying with the State of Texas revenue cap. The revenue cap continues to limit the city's ability to generate additional property tax revenue that is needed to provide essential services such as public safety. The city is considering options that will address the revenue cap including but not limited to additional public safety measures and repealing the cap. Property tax revenue is the largest funding source for the City's General Fund, representing 49.9 percent of General Fund revenue. The FY2025 Proposed Budget is \$1.42 billion, representing an increase of 3.2 percent when compared to the FY2024 Estimate of \$1.38 billion.

Sales Tax is the second largest funding source for the City's General Fund, representing 31.4 percent of General Fund revenue. The FY2025 Proposed Budget of \$893.4 million, represents a 1.4 percent increase compared to the FY2024 Estimate of \$880.7 million. The budget reflects a conservative approach with slow growth with the sales tax collection remaining nearly flat compared to the previous year.

American Rescue Plan Act (ARPA) Funding

In compliance with U.S. Department of the Treasury guidelines, the City used ARPA funding in fiscal years 2022 through 2024 to replace \$462.01 million in revenue that would have been used for government services to maintain and sustain critical city services. The FY2025 Proposed Budget utilizes an additional \$10.4 million in ARPA funding to further address the reduction in revenues due to the public health emergency. The City's latest quarterly report^[1] reflects the ARPA expenditures under the revenue loss category used towards government services.

Long-term Liabilities

The credit rating agencies warned the City was facing three structural barriers that threatened its credit rating viability – (1) unfunded pension liability, (2) OPEB, and (3) the revenue cap. The City has put into place reforms to address both pensions and OPEB and this Proposed Budget continues building on those reforms.

Pension

This Proposed Budget continues to fund pension contributions at a sustainable level. This funding is needed to continue to maintain and improve the financial health of the City's three pension plans, ensuring retirement funding for our hard-working current and retired employees. These employees have dedicated their lives to public service and deserve to have their retirements funded in a sustainable way. The pension liability now stands at \$2.4 billion, and this Proposed Budget includes contributions to the pension plans that will continue to address decreasing those liabilities over time. The three pension systems are healthier today than they were prior to the reforms that I supported when I was in the Legislature, and we will continue to improve the plans that support the City's greatest asset—it's people.

^[1] The report is available at: <https://houstontx.gov/arpa/>

OPEB

The City's OPEB liability now stands at \$1.8 billion. The FY2025 Proposed Budget includes a contribution of \$12.5 million which will escalate over time. The goal of the trust is to save (and grow through investment earnings) funds that will offset pay-as-you-go costs in the future while simultaneously reducing the Net OPEB liability. The City's ongoing contributions to the trust are estimated to further reduce the liability down to \$1.1 billion by year 2048.

Fund Balance Reserves

This proposed budget includes an ending fund balance of \$280 million, which is 11.1 percent of expenditures less debt service and pay-as-you go (PAYGO) and \$91 million above the minimum of 7.5 percent established in the City's financial policies. This budget fully funds the Budget Stabilization Fund representing more than \$20 million.

Despite the financial challenges we will confront in Fiscal Year 2025, I remain encouraged regarding our outlook. Houston is a great city with a bright future. We will seek to partner in new ways with other levels of government, we will adjust how we deliver services and the costs required to do so, and will discuss reasonable potential modifications to our revenue model.

Together we can get the job done. Let's get to work.

Sincerely,



John Whitmire
Mayor