



CITY OF HOUSTON

Finance and Administration Department

Bill White

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, 2007, and ends June 30, 2008 (FY2008). This document includes budgets for the City's General Fund, the four Enterprise Funds (Aviation, Combined Utility System, Convention and Entertainment, and Parking Management) as well as many smaller Special Revenue Funds, Revolving Funds and Internal Service Funds.

Mayor Bill White's priorities are set out in his letter that accompanied the proposed budget, which was sent to City Council on May 16, 2007, pursuant to the requirements of the City Charter. The purpose of this letter is to describe the budget as adopted unanimously by the Houston City Council on June 20, 2007, after several weeks of collaborative debate and amendment. The full list of amendments is provided as an attachment to this document.

The adopted budget for FY2008 is balanced as required by City Charter and State law. Balancing the FY2008 budget in a responsible manner was challenging, especially given the magnitude of the financial needs for public safety, which continues to be the highest priority by the Mayor and City Council. As stated by Mayor White in his proposed budget letter, the number of police officers will increase by 172 and four additional cadet classes will be added to the Fire Department.

This budget also recognizes the significant steps undertaken by the City to develop a mobility plan to evaluate additions of new lane capacity and improved flow of traffic. The City will also diversify its electrical power supply to mitigate our exposure to natural gas prices and provide price certainty for fiscal planning purposes.

The City of Houston conducts its annual budget process within an overall planning framework that includes multiple elements that transcend the current fiscal year. Typically, larger departments will have created and gained approval for multi-year master plans (i.e., Houston Police Department and Houston Fire Department) that establish longer-term goals and form the basis for individual budget requests. Integrated with these multi-year master plans is the City's five year Capital Improvement Program (CIP), Equipment Acquisition and Technology Improvement Program (TIP) which implement the annual spending in these capital-intensive areas.

Prior to the beginning of each budget process, the City Council, acting through its Budget and Fiscal Affairs Committee, is presented with a five-year forecast of revenue and expenditures. This allows management to better understand and plan for the long-term needs of the City of Houston.

FY2008 Budget Overview

Overall, the adopted budget includes expenditures of \$3.2 billion, which is \$166.3 million (5.5%) above the FY2007 budget. The largest single contributor to this increase is Public Safety with 57.7% of the City's General Fund budget. The combined expenditures for Police, Fire and Emergency Medical Services will increase by \$52 million. Table 1 provides budget summaries for each of the City's operating funds.

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, health and human services, garbage collection and street repair. The largest single source of revenue for the General Fund is the property tax, while the second largest source is the sales tax. Together, property tax and sales tax revenue produce about 75% of the total revenue for the General Fund. As will be discussed more fully below, the Mayor and City Council have recognized the growing burden of the property tax by indicating they intend to lower the rate from 64.5 to 64.375 cents per one hundred dollar assessed valuation when the tax rate is adopted in September or October.

The General Fund budget, by department and by revenue source, is shown in summary form on Page II-2. The total General Fund expenditure budget is \$1.8 billion, which is \$78.9 million (4.7%) above the FY2007 budget. This incorporates the funding for the contractual pay raise for our commissioned police officers resulting from the Meet and Confer Agreement executed in 2001 and modified in 2003. It also incorporates the funding for the contractual pay raise for our firefighters resulting from their Contract. As can be seen from the General Fund Summary, most departments are expected to operate at resource levels slightly higher than their FY2007 budget levels.

General Fund Revenue Highlights

Overview - The revenues available to support the operations of the General Fund are described in detail beginning on page II-4 of the FY2008 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. While FY2007 experienced healthy sales tax growth, we continue to be conservative in our projections based on the unpredictability of the economy.

Property Tax Rate - City Council has indicated its intention to set the FY2008 property tax rate at 64.375 cents per hundred dollar-assessed valuation, a decrease of .125 cents from the prior year. (Tax rates are adopted in September or October for all jurisdictions in Texas, without regard to their individual fiscal years). As the Mayor indicated in his letter set out in the proposed budget, the combined effect of the property tax rate cuts and the annual increase in the senior exemptions during the Administration amounts to a \$25 million cut in property taxes in FY2008 compared to the rate and exemptions in FY2004. The revenue from property taxation is expected to be \$796.4 million, which is 6.3% above the revenue received during FY2007.

Sales Tax - The FY2008 adopted budget projects a continuation of a healthy sales tax growth. Revenue from sales tax is expected to be \$477.2 million, which is \$16 million above the FY2007 actual revenues.

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 highlights which are of particular interest in FY2008. The following paragraphs highlight some of the most significant items found in this budget.

Staffing Levels – Table II demonstrates the level of Full Time Equivalent (FTE) staffing provided in this budget, compared to past years. The concept of FTE is a method for comparing funded level of effort in a consistent manner. As can be seen, staffing in the General Fund is generally higher for most departments in FY2008. The police have increased their cadet classes by two and the firefighters have increased their classes by four. If the police department has a surplus of funds, they may increase by one or two additional classes as a result of a budget amendment passed by City Council.

Compensation – The adopted budget fully funds the contractual increases in classified police and firefighters. In addition, a compensation increase allowance for municipal employees has been included in each City department's budget, based on the Mayor's request and the City Council's concurrence that the City needs such an allowance to encourage and motivate City staff.

Public Safety – This budget funds four additional classes for fire cadets and maintains the policy of four firefighters per apparatus. With this policy in place, it is financially advantageous to increase the cadre of commissioned firefighters, since each new employee offsets the need for an overtime employee.

This budget includes funding for two additional classes for police cadets, as mentioned above. Staffing for our Police Department is expected to continue to be a challenge as officers retire and the City continues to grow. The City's Police Chief is developing alternative strategies to address this problem.

Budget Reductions – In developing the proposed budget, Mayor White established budget targets and challenged his department heads to plan a more efficient, more responsive operation. The compensation contingency discussed above encourages departments to reward their most productive employees and provide them with a means of doing so.

General Fund Ending Balance

The adopted budget includes an ending balance of \$215.4 million, which is \$12.5 million (5.5%) below the ending balance for FY2007. This balance, including the \$20 million Rainy Day Fund, represents 14% of expenditures other than debt service.

Enterprise Funds

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

Aviation – The Houston Airport System is responsible for two major hub airports, George Bush Intercontinental and William P. Hobby. Aviation is also responsible for Ellington Field, a joint use civil/military airport. Security in all airports continues to be a top priority. The majority of security is provided by the Houston Police Department and the General Fund is reimbursed for the cost of these services.

The Aviation department expenditure budget is \$383 million, which is \$20.1 million (5.5%) above the FY2007 budget. The majority of the increase is projected in the personnel and debt service categories.

Combined Utility Systems – The Combined Utility Fund is managed as a portion of the Public Works and Engineering Department and is composed of three separate funds; the Water and Sewer System Operating Fund; the Combined Utility System Operating Fund and the Combined Utility System General Purpose Fund. This fund also manages General Fund activities such as street maintenance and traffic signalization.

The Combined Utility Systems expenditure budget is \$753.6 million, which is \$35.8 million (5%) above the FY2007 budget. The majority of the increase is projected in the debt service category.

Convention and Entertainment Facilities Operating Fund (CEF) - CEF is an enterprise fund that accounts for the operation of the City's six major entertainment centers. The CEF FY2008 expenditure budget is \$88 million, which is \$5 million (6.1%) above the FY2007 budget. The majority of the increase is projected in the personnel service and equipment categories.

The Parking Management Facilities Operating Fund - The Parking Management Facilities Operating Fund is an enterprise fund established in FY2008 with a budget of \$4.2 million. The costs were previously budgeted in the General Fund. This fund accounts for the operation of the City's on-street parking management program which includes metered parking and curb space management. The Parking Management Division of the Convention and Entertainment Facilities Department manages this fund.

The Fund will contribute a portion of its revenue annually to the General Fund for police protection, street maintenance as well as other uses.

Capital Improvement Program

The City conducts its annual Capital Improvement Program (CIP) process separately from its operating budget process. On June 27, 2007 City Council approved a six-year Capital Improvement Plan, covering fiscal years 2008 through 2013. This incorporated the \$625 million in public improvement bonds that were approved by the voters in November 2006. Individual projects are brought to City Council for approval prior to beginning construction.

Conclusion

The budgets contained in this document addresses the difficult challenges of governing and improving a growing City with urban needs ranging from reducing traffic congestion to improving public safety. This budget, and importantly, the constructive spirit that characterizes the relationship among the Mayor, the City Council and the City Controller, provides a framework for positive and forward-looking planning and problem solving. Attached are the Long Term Goals that reflect the City's priorities for FY2008.

Please let me know if you have any questions.



Judy Gray Johnson, Director

Attachment

LONG-TERM BUDGET GOALS & PRIORITIES

This budget reflects the goals and priorities of the administration; emphasizing public safety, improving mobility and reducing traffic congestion, adding economic development, improving the quality of life for our residents, energy efficiency, and providing a more responsive and efficient City Hall. These guiding principles form the basis for the development of the FY2008 budget, as well as long-term goals to guide future development.

Public Safety

Public Safety remains our highest priority. The Police and Fire Departments are the two largest departments in the General Fund for the FY2008 budget. We have adopted a budget that contains sufficient funding to allow the expansion of both the Police and Fire Department staffing levels, and provide for significant overtime operations.

Mobility Planning and Infrastructure

We will develop and fund a citywide mobility plan that can be used to evaluate additions of new lane capacity and improved flow of traffic through access management.

Improving The Quality of Life

During 2008, the Health and Human Services Department anticipates higher spending for the control of communicable diseases and prevention. More funding has also been made available for inspectors and environmental health initiatives.

We have increased the funding for books and library materials. For improvement of parks, we build and maintain a larger hike and bike trail system.

Energy Efficiency

To mitigate exposure to natural gas prices and provide certainty for fiscal planning purposes, the City will diversify its electrical power supply. We will procure wind energy to provide us with a significant portion of our electricity requirements. We are expanding a residential energy efficiency program, funded by housing bond funds and CenterPoint, to increase the energy efficiency to each residence in many of our older neighborhoods by at least 10%.

CIP and Debt

Capital Project Management: FY2008 recommendations will include coordination with district Council Members to insure that the elected official closest to the district has a leading role in project determination and scheduling.

Debt Management: Review all outstanding debts, maximize savings through refunding and take advantage of current market environment.

Responsive and Efficient City Hall

We will continue to improve productivity on the tax dollars collected. In FY2008, the City will sustain services while reducing the overall property tax rate from 64.5 cents to 64.375 cents per \$100 valuation.

We face many issues in common with other large cities. Among these are:

Staffing: Recruiting and retaining a highly skilled staff, in both the civilian and classified areas, in the face of significant competition for employees, while maintaining quality standards.

Revenue: Retaining and securing our revenue base in an increasingly uncertain economic environment,

Expense: Continue to provide sound fiscal management in the face of increasing costs, particularly employee health costs and other personnel related expenses, and

Growth: Successfully managing growth as the population of our City continues to increase.