



CITY OF HOUSTON

Finance 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, 2008, and ends June 30, 2009 (FY2009). 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.

Pursuant to the requirements of the City Charter, Mayor Bill White's priorities are set out in his letter that accompanied the proposed budget, which was sent to City Council on May 13, 2008. The purpose of this letter is to describe the budget as adopted unanimously by the Houston City Council on June 18, 2008, after weeks of collaborative debate and amendment. The full list of amendments is provided as an attachment to this document.

The adopted budget for FY2009 is balanced as required by City Charter and State law in recognition of the priorities set by the Mayor and City Council. Balancing the FY2009 budget in a responsible manner was again challenging, especially given the magnitude of the financial needs of the municipal employees union contract and public safety. As stated by Mayor White in his proposed budget letter, seven new cadet classes are planned that will increase the number of police officers by 150. Additionally, the budget includes three cadet classes for the Fire Department to meet staffing requirements, including two new ambulances and crews. The budget for Public Safety also recognizes a significant increase in the Fire Departments' pension rate.

The City of Houston conducts its annual budget process within an overall planning framework that includes multiple elements that transcend the current fiscal year. Larger departments create and gain 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.

FY2009 Budget Overview

Overall, the adopted budget includes expenditures of \$3.48 billion, which is \$194 million (5.9%) above the FY2008 budget. The largest single contributor to this increase is Public Safety with 66.2% of the City's General Fund budget. The combined expenditures for Police, Fire and Emergency Medical Services will increase by \$107 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 sources of revenue for the General Fund are property and sales taxes, which together produce approximately 76% of the total revenue. The Mayor and City Council have approved, for the fifth consecutive year, a reduction in the property tax rate from 64.375 to 63.875 cents per \$100 assessed valuation when the tax rate is adopted this fall. This budget also assumes a 10% increase in Senior Exemption.

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 \$1.9 billion, which is \$125 million (6.9%) above the FY2008 budget. This incorporates the funding for the contractual pay raises for all classified (Police and Fire) and municipal employees. It also includes funding for higher levels of service within various departments.

General Fund Revenue Highlights

Overview - The revenues available to support the operations of the General Fund are described in detail beginning on page II-2 of the FY2009 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 FY2008 experienced healthy sales tax growth, we continue to be conservative in our projections based on the unpredictability of the economy.

Property Tax Rate – As previously mentioned, the FY2009 budget is based on a reduction in the property tax rate from 64.375 to 63.875 cents per \$100 assessed valuation. This is a decrease of .50 cents from FY2008. (Tax rates are adopted in the fall 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 tax relief in FY2009 will be approximately \$23 million, which includes Senior Exemptions. The revenue from property taxation is expected to be \$878.5 million, which is 5.5% above the revenue received during FY2008.

Sales Tax – The FY2009 adopted budget projects a continuation of a healthy sales tax growth. Revenue from sales tax is expected to be \$526.7 million, which is approximately \$32.1 million above the FY2008 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 FY2009. 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. Staffing in the General Fund is higher for most departments in FY2009 (this budget also allows modest staffing increases in other funds).

Compensation – The adopted budget fully funds the contractual increases for classified police, fire fighters, and municipal employees.

General Fund Ending Balance

The adopted budget includes an ending fund balance of \$223.5 million, which is \$51.5 million (23%) below the ending balance for FY2008. This balance, including the \$20 million Rainy Day Fund, represents 13.2% 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 Systems 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 budget of \$463.4 million has decreased from the FY2008 budget by approximately \$11.3 million (2.4%) with the majority of the decrease in debt service and other uses category.

Combined Utility Systems – The Combined Utility Systems 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 Systems Operating Fund and the Combined Utility Systems General Purpose Fund. This fund also manages General Fund activities such as street maintenance and traffic signalization.

The Combined Utility Systems budget of \$776.7 million has increased from FY2008 budget by approximately \$50.6 million (7.0%) with the majority of the increase in the debt service and other uses category.

Convention and Entertainment Facilities Operating Fund (CEFD) - CEFD is an enterprise fund that accounts for the operation of the City's six major entertainment centers as well as City of Houston owned parking garages. The CEFD FY2009 budget is \$95 million, (6.9%) increase over FY2008 budget.

The Parking Management Operating Fund - The Parking Management Operating Fund is an enterprise fund with a budget of \$13.7 million, (18.6%) an increase from FY2008 of \$2.1 million. This fund accounts for the operation of the City's on-street parking management program which includes metered parking and curb space management. The cost was previously budgeted in Public Works.

Capital Improvement Program

The City conducts its annual Capital Improvement Program (CIP) process separately from its operating budget process. On April 16, 2008, City Council approved a five-year Capital Improvement Plan, covering fiscal years 2009 through 2013. This incorporates the \$625 million in public improvement bonds that were approved by 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.


Michelle Mitchell, Director