



# 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, 2009, and ends June 30, 2010 (FY2010). 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, 2009. The purpose of this letter is to describe the budget as adopted unanimously by the Houston City Council on June 17, 2009, after weeks of collaborative debate and amendment. The full list of amendments is provided as an attachment to this document.

The adopted budget for FY2010 is balanced as required by City Charter and State law in recognition of the priorities set by the Mayor and City Council. Balancing the FY2010 General Fund budget in a responsible manner was particularly challenging, given the effects of the economic downturn on a variety of revenue sources and the continuing funding increases for public safety, employee wage agreements and health benefits. The FY2010 Budget increases General Fund operating expenditures by 0.8% over FY2009 but meets critical funding objectives.

As stated by Mayor White in his proposed budget letter, the Budget increases the number of police officers by 172, including graduates of seven cadet classes in FY2009 and two classes in FY2010. Additionally, the budget includes three cadet classes for the Fire Department to meet staffing requirements, including a new ambulance and engine company for Station 24, opening in September 2009.

The General Fund Budget also includes increased funding for pay increases for municipal employees in the amount of \$13.4 million and for health benefit cost increases totaling \$8.6 million. In addition to these increases, the budget incorporates reductions in all departments, including \$14.7 million in non-public safety departments, as well as \$8.8 million in the Police Department and \$3.5 million in the Fire Department.

## **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 \$420 million has decreased from the FY2009 budget by approximately \$24.2 million (5.4%) with the majority of the decrease in system improvements. FY2010 revenue is conservatively estimated to be \$43.4 million lower than FY2009, reflecting the expected impact of the slower economy on air travel.

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 \$883 million has increased from FY2009 budget by approximately \$88.2 million (11%) with the majority of the increase (\$68.4 million) in the debt service and other uses category. Systems revenue is estimated to be \$33.5 million less in FY2010.

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 FY2010 budget is \$90.4 million, \$6.2 million or 6.4% less than the FY2009 budget. Hotel Occupancy Tax revenue, CEFD's major revenue source, is expected to be \$58 million in FY2010, \$6.78 million or 10.5% under FY2009.

The Parking Management Operating Fund - The Parking Management Operating Fund is an enterprise fund with a budget of \$15.8 million, an increase from FY2009 of \$2.2 million. Parking revenue is expected to grow \$0.4 million in FY2010, while new investments in parking systems and facilities account for the growth in expenditures. This fund accounts for the operation of the City's on-street parking management program which includes metered parking and curb space management.

## **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 FY2010 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.

Property Tax – Revenue from property taxation is expected to be \$909.7 million, which is 2.29% above the revenue received during FY2009. As previously mentioned, the FY2010 budget is based on a property tax rate of 63.875 cents per \$100 assessed valuation. Although the tax rate and exemption rates will remain unchanged, the combined tax relief in FY2010 from previous tax cuts is significant. As a result of the tax rate reduction and increases in the senior exemption for the period of FY2005 – FY2009, taxpayers will save a total of \$40.9 million in FY2010, including \$15.8 million saved by seniors as the result of increased exemptions and \$25.1 million saved by all taxpayers, including seniors.

Sales Tax – The FY2010 adopted budget projects a sales tax decline. Revenue from sales tax is expected to be \$507.3 million, which is \$10 million below estimated FY2009 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 highlights which are of particular interest in FY2010. The following paragraphs highlight some of the most significant items found in this budget.

Staffing Levels – Table IV demonstrates the level of Full Time Equivalent (FTE) staffing provided in this budget, compared to past years. Citywide staffing, including overtime and straight time FTE's, is budgeted slightly less, (0.8%) than in FY2009, while total General Fund staffing is virtually the same as FY2009, 2.1 FTE's (0.01%) less.

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 undesignated fund balance of \$176.7 million, which is \$50.7 million (22%) below the ending balance for FY2009. This represents 10.4% of expenditures other than debt service. The adopted budget also includes the \$20 million Rainy Day Fund in anticipation of its return from the Hurricane Ike during FY2010 in compliance with City policy.

In addition, the Mayor and City Council approved reporting and hiring controls during the Budget adoption process that will limit civilian hiring to FY2009 levels and require that each vacant budgeted position be reviewed closely before it is filled in FY2010.

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.

### **FY2010 Budget Overview**

The adopted budget includes expenditures for all funds of \$3.58 billion, which is \$88 million (2.9%) above the FY2009 budget. The largest single contributor to this increase is the Combined Utility System Fund, \$88 million higher than the FY2009 Budget. 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 77% of the total revenue for the General Fund. The current tax rate for the City of Houston is 63.875 cents per \$100 assessed valuation and will remain unchanged after five consecutive years of rate reductions. Senior exemption rates will also remain constant at FY2009 levels after six years of reductions.

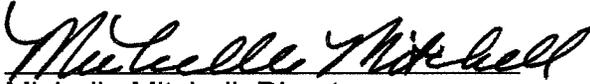
The General Fund budget, by department and by revenue source, is shown in summary form on Page II-2. The total General Fund expenditure budget is \$1.93 billion, which is \$15 million above the FY2009 budget, a 0.78% increase. This incorporates the funding for the contractual pay raises for all classified (Police and Fire) and municipal employees. It also includes funding for new facilities and current levels of service within various departments.

## **Capital Improvement Program**

The City conducts its annual Capital Improvement Program (CIP) process separately from its operating budget process. On May 27, 2009, City Council approved a five-year Capital Improvement Plan, covering fiscal years 2010 through 2014. 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 address 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