CITY OF HOUSTON

Office of the Mayor

Annise D. Parker

Mayor

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May 11, 2010

To: Citizens, Honorable Members of City Council and City Controller

I am pleased to submit the proposed budget for the fiscal year which begins July 1, 2010 and ends June 30, 2011 (FY2011). Our budget does not include a property tax increase and will include a number of cost-cutting and cost-saving measures. For the first time in a number of years, the budget also does not include the use of Pension Obligation Bonds.

This budget has been extraordinarily difficult to develop. The primary cause of this relates to Houston's economy. Revenues are not growing as quickly as public needs or the City's fixed costs. The combination of inflation, population growth, unemployment, and the slowing of our economy in the last couple years have created a structural imbalance between recurring revenues and recurring expenditures. Our strategies for balancing the budget will prioritize spending cuts, but include other solutions as well.

We are reducing most departmental budgets by 3%, City Secretary and City Council by 1%, Police by 1.8% and Fire by 1.5% for a total reduction of $24.4 million. This number includes the reductions in the civilian workforce from FY2010 and is in addition to various interim cuts in the FY2010 spending.

We will set the fund balance at the preferred reserve amount of 7.5%, and draw down any reserve funds in excess of that amount.

As part of this year's budget, we will undertake a Special Management Initiative. This Initiative will include a review of user fees with the goal of bringing these items to cost of service. Many of these fees have not been examined in as long as two decades. The Rainy Day Fund current balance of $20 million designated for fiscal contingencies will become undesignated.

Also as part of the Special Management Initiative, we have set an efficiency goal to be achieved through actual savings from consolidation of Human Resources, Fuel, Fleet Management (including restructuring of purchasing, parts inventory, and maintenance and reduction of take home vehicles), Payroll and Information Technology. In this Special Management Initiative, savings will also result from process improvement, managing City facility hours of operation more effectively and continued renegotiation of contracts. We need to continue moving toward automation of services.

Council Members: Brenda Stardig Jarvis Johnson Anne Clutterbuck Wanda Adams Mike Sullivan Al Hoang Oliver Pennington Edward Gonzalez James G. Rodriguez Stephen C. Costello Sue Lovell Melissa Noriega C.O. "Brad" Bradford Jolanda "Jo" Jones Controller: Ronald C. Green

Property Tax

Our budget includes no increase in the property tax rate of 63.875 cents even though we anticipate a decrease in property tax revenue over FY2010 of $45.1 million, equating to a decline of 5.06%.

Sales Tax

Our budget includes a projected increase in sales tax collection of $13.8 million (2.99% over FY2010), reflecting an improvement in business spending.

Public Safety

Public Safety continues to be our highest priority, accounting for 68.4% of the City's General Fund operating expenditures, before debt service. Although the combined expenditures for Police and Fire will increase by $11 million due to contractual mandates, we are reducing discretionary spending by 1.8%.

The Police Department's budget provides for two cadet classes and will add 140 officers, increasing the total number of officers from 5,055 to 5,195. Anticipated attrition will net the department 5,082 full time equivalent officers by year-end. This budget accommodates the contractual pay increase of $8.3 million (2%) for classified Police employees. We have increased the investments in equipment and technologies to support our police force with the implementation of the improved radio system, upgrading of the Police records management system, and staffing for the forensics fingerprint lab.

Since I took office, we have identified at least 35 officers to be moved from desk jobs back to police functions and have added eight new Neighborhood Protection inspectors. Our priority continues to be making our neighborhoods safe. I have declared May 22, 2010 as Demolition Day in Houston and approximately 185 dangerous abandoned buildings and crack houses located across this city will come down.

The Fire Department's budget provides three additional cadet classes and will add 125 firefighters. Fire classified staffing will decrease as a result of anticipated attrition from 3,940 to 3,909. This budget accommodates the contractual increase in pay of $10.2 million (3.75% in July and 2% in January) for classified Fire employees.

Other

Our budget provides for the HOPE contractual increase for all municipal employees in the amount of $8.6 million (3%) and $3.6 million (1.25% pay for performance). We have also included the increase in health benefits in the amount of $6.8 million for all employees, civilian and classified.

We are projecting that the overall level of expenditures, including debt service, will decrease 0.5% in FY2011. We need the full cooperation of the City workforce to assist us in determining how each department can perform effectively within the budgets provided.

Water and Sewer Systems

This budget includes the Council-approved increase in water and sewer rates. This increase will allow for a Capital Improvement Plan that is considered "best practices" and, therefore, will ensure the long-term sustainability of the system.

Public Works and General Services

The Public Works and General Services Departments will continue infrastructure improvements and maintenance programs, renewing and maintaining the condition of the City rights of way and facilities.

Conclusion

I want to acknowledge the professionalism and dedication of department heads and others who helped prepare this budget. The commitment to public service by all City employees is commendable. We proudly continue to encourage performance by our City employees with fair compensation, secure retirement, and comprehensive health benefits.

The City remains in sound financial condition, and our proposed Fiscal Year 2011 budget continues our firm commitment to fiscal discipline. We believe that the City of Houston in FY2011 will be able to deliver all needed services without a tax increase and without mass layoffs of employees. We will continue to plan ahead by developing a draft budget for Fiscal Year 2012 by September 2010, as a road map to be used for improvement in efficiencies and to be prepared for any contingencies.

Sincerely,

Annise D. Parker

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Mayor