CITY OF HOUSTON

Sylvester Turner
Mayor

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Dear Houstonians,

I want to provide you with some facts regarding new bond ratings for the City from Moody's Investors Service and Standard & Poor's Ratings Services.

Last summer the City was placed on a negative outlook by Moody's. Now Moody's has elected to downgrade the City's general obligation bond rating one level, from Aa2 to Aa3. S&P has also elected to downgrade one level, from AA+ to AA, although the new AA rating remains one notch higher than Moody's new rating of Aa3.

The reports issued by Moody's and S&P cite low oil prices, declining sales tax, the revenue cap - which the City imposed on itself back in 2004 - and unfunded pension obligations, as the reasons for the action. Since entering office in January of this year, I have devoted my full attention to addressing an anticipated budget shortfall and many of the concerns that Moody listed. In fact, the Moody's report specifically noted the following actions that have been taken since I became Mayor:

> • *Additionally, the rating recognizes the positive actions taken by the new Mayor and his plan to engage several stakeholders to modify the city's fixed costs and generate additional revenues, all within the next 18 to 24 months. These plans signal a change from past initiatives, and positive movement on the plans will be key to stabilizing the credit profile.*
> • *The Mayor also expects to present the fiscal 2017 budget by the end of April, that closes a gap that ranges between $150 million and $160 million (7% of fiscal 2015 operating expenditures), based on conservative budget assumptions including oil prices reducing to $19 per barrel by the end of the year, and going down further to $18.79 per barrel by the second quarter in 2017. The Mayor has proposed multiple cost saving measures to close the gap. The budget is expected to draw no more than $10 million from the General Fund balance at fiscal year end.*
> • *The city demonstrates good governance by multiyear capital and financial planning with financial plans going out at least five years, and capital plans going out longer. The city also recently increased its reserve policy to a minimum of 7.5% and added a $20 million budget stabilization fund to improve its liquidity position at fiscal year end; the city intends to manage to a 9% minimum reserve level. The Mayor also recently signed an executive order to improve financial transparency and communication within city departments.*

There is already a plan in place to balance the budget for 2017 and I have discussed some of the details with 13 of the 16 council members. Meetings with the remaining three council members will occur in the next several days. Based on the points referenced above, in addition to the actions I am taking to engage all stakeholders in shared sacrifice, I am extremely optimistic that the City's credit rating will stabilize in the next report. Addressing the City's fiscal challenges is my number one priority. We will get it done!

Sincerely,

Sylvester Turner
Mayor