



CITY OF HOUSTON

Finance Department

Annise D. Parker

Mayor

Michelle Mitchell
Director
P.O. Box 1562
Houston, Texas 77251-1562

T. 713-221-0935
F. 713-837-9654
www.houstontx.gov

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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, 2010, and ends June 30, 2011 (FY2011). This document includes budgets for the City's General Fund, the three Enterprise Funds (Aviation, Combined Utility System, and Convention and Entertainment) as well as Special Revenue Funds, Revolving Funds and Internal Service Funds.

Pursuant to the requirements of the City Charter, Mayor Annise Parker's priorities are set out in her letter that accompanied the Proposed Budget, which was sent to City Council on May 11, 2010. The purpose of this letter is to describe the budget as adopted unanimously by the Houston City Council on June 23, 2010, after weeks of collaborative debate and amendment. The complete list of amendments is provided as an appendix in this document.

The Adopted Budget for FY2011 is balanced as required by City Charter and State law in recognition of the priorities set by the Mayor and City Council. Balancing the FY2011 General Fund budget in a responsible manner was particularly challenging, given the effects of the continuing economic downturn on a variety of revenue sources and the continuing funding increases for public safety, employee wage agreements, and fuel, electricity, and health benefits. The FY2011 budget decreases the operating expenditures by 1.2% in the General Fund over the FY2010 budget; however, we continue to meet critical funding objectives.

As stated by Mayor Parker in her proposed budget letter, the budget includes two cadet classes for the Police Department and increases the number of police officers by 130 graduating cadets. Additionally, the budget includes three cadet classes for the Fire Department.

The General Fund budget also includes increased funding for pay increases for all contractual agreements which include \$12.2 million for municipal employees, \$8.3 million for police classified, \$10.2 million for fire classified and \$6.8 million for health benefit costs. In addition to these increases, the budget incorporates reductions in most departments 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. A Management Initiative is included in the budget which will be achieved by a review of user fees and a savings through consolidation to increase cost of services and efficiencies.

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., Police Department and 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.

FY2011 Budget Overview

The Adopted Budget includes expenditures for all funds of \$3.56 billion, which is \$19 million (0.5%) below the FY2010 budget. The largest contributor to this decrease is the General Fund mainly due to a decrease in property tax. Table I, Page 11-15 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 74.3% 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, which remains unchanged from last year.

The General Fund budget, by department and by revenue source, is shown in the General Fund Summary on Page II-2. The total General Fund expenditure budget is \$1.9 billion, which is \$22.5 million (1.2%) below the FY2010 budget. This incorporates the funding for the contractual pay raises for all classified (Police and Fire) and municipal employees. It also includes funding for fuel, electricity, new facilities and current 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 FY2011 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 – As previously mentioned, the FY2011 budget is based on a property tax rate of 63.875 cents per \$100 assessed valuation. (Tax rates are adopted in the fall for all jurisdictions in Texas, without regard to their individual fiscal years.) Revenue from property taxation is expected to be \$846.1 million, which is 4.9% below the FY2010 estimate.

Sales Tax – The FY2011 budget projects a sales tax increase as a result of an improvement in business spending. Revenue from sales tax is expected to be \$473.8 million, which is approximately \$11.8 million above the FY2010 estimated 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 budget highlights which are of particular interest in FY2011. The following paragraphs outline some of the most significant items found in this Adopted Budget.

Staffing Levels – Table V, Page 20-21 demonstrates the level of Full Time Equivalent (FTE) staffing provided in this budget, compared to past years. Citywide staffing, including overtime and straight time FTEs, is budgeted slightly less, (1.2%) than in FY2010, while total General Fund staffing is lower than FY2010, 285.7 FTEs (1.7%) 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 \$126.2 million, which is \$33.9 million (21.2%) below the estimated ending fund balance for FY2010. This balance, including the \$20 million Rainy Day Fund (which became undesignated in this budget) represents 7.5% of expenditures other than debt service.

Enterprise Funds

Overview – The City has three enterprise funds: The Houston Airport System Fund, the Convention and Entertainment Facilities Operating Fund, and the Combined Utility System Fund. Parking Management was reclassified as a Special Revenue Fund in FY2011.

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 public safety is provided by the Police Department and Fire Department and these costs of services are reimbursed to the General Fund.

The Aviation department budget of \$414 million has decreased from the FY2010 budget by approximately \$2.7 million (0.6%) with the majority of the decrease in system improvements and renewal capital expenditures. FY2011 revenue is conservatively estimated to be \$2.7 million lower than FY2010, reflecting the expected impact of the slower economy on air travel.

Combined Utility System (CUS) – The CUS Fund is managed by the Public Works and Engineering Department and is composed of three separate funds; the Water and Sewer System Operating Fund; the CUS Operating Fund and the CUS General Purpose Fund.

The CUS budget of \$926.8 million has increased from FY2010 budget by approximately \$43.8 million (5.0%) with the majority of the increase (\$40.3 million) in the debt service and other uses category. CUS revenue is estimated to be \$122.8 million higher in FY2011 primarily due to an increase in water rate fees.

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 FY2011 budget is \$87 million, \$3.4 million or 3.8% less than the FY2010 budget. Hotel Occupancy Tax revenue, CEFD's major revenue source, is expected to be \$53.5 million in FY2011, \$4.5 million or 7.8% under FY2010.

Capital Improvement Program

The City conducts its annual CIP process separately from its operating budget process. On July 7, 2010, City Council approved a five-year Capital Improvement Plan, covering fiscal years 2011 through 2015. 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 water supply, reducing traffic congestion to improving public safety. The Adopted 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