



CITY OF HOUSTON

Finance Department

Sylvester Turner

Mayor

Kelly Dowe
Finance Director
P.O. Box 1562
Houston, Texas 77251-1562

T. 832-393-9051
F. 832-393-9116
www.houstontx.gov

September 19, 2017

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 2018 fiscal year (FY2018), which begins July 1, 2017, and ends June 30, 2018. 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, Service Chargeback Funds and Internal Service Funds.

Mayor Sylvester Turner's priorities are set out in his letter that accompanied the Proposed Budget sent to City Council in May of 2017. The purpose of this letter is to describe the budget as adopted by the Houston City Council on May 31, 2017, after budget presentations, collaborative debates, and amendments. The complete list of amendments is provided as an appendix in this document.

The Adopted Budget for FY2018 is balanced as required by City Charter and State law and is aligned with the City's priorities. This budget also highlights the administration's emphasis on achieving a structurally balanced budget, wherein recurring revenues meet or exceed recurring expenditures as required by the City's financial policies. Of particular note is the inclusion of nearly \$50 million in recurring budgetary improvements achieved through sustainable expenditure reductions or new revenue.

Despite the significant improvements made in working toward structural balance, the FY2018 budget is still balanced with use of excess reserves. In keeping with the City's financial policies, we will hold an ending fund balance of 8.9% of operating expenditures before debt service and pay-as-you-go (PAYGO) expenses, above the required minimum of 7.5% established in the City's financial policies. We will also maintain the Budget Stabilization Fund at 1% of expenditures less debt and PAYGO, which equates to \$20 million of additional reserves.

FY2017 BUDGET OVERVIEW

The Adopted Budget includes expenditures for all funds of \$5.2 billion, which is \$107 million (2.1%) above the FY2017 Current Budget. The overall increase in spending is attributable to a scheduled increase in General Debt Service spending.

GENERAL FUND

The City's General Fund is its largest fund and supports the majority of the City's basic services, such as police and fire protection, solid waste management, parks, health and human services, and general services. The largest sources of revenue for the General Fund are property and sales taxes, which together produce approximately 70% of the total resources for the General Fund. The current tax rate for the City of Houston is 58.64 cents per \$100 assessed valuation. (Tax rates are adopted in the fall for all jurisdictions in Texas, without regard to the date a municipality's fiscal year begins). Our property tax revenue projection is derived according to the limitations set forth by Proposition 1 and Proposition H as approved by voters and included in the City Charter; the impact of these is to limit annual increases in property tax revenue to the lesser of 4.5 percent or a combination of growth in Houston's population and inflation.

The General Fund budget, by department and by revenue source, is shown in the General Fund Summary beginning on page II-2. The total General Fund expenditure budget including debt service and PAYGO capital projects is \$2.4 billion, which is \$32.5 million (1.4%) higher than the FY2017 Current Budget.

General Fund highlights are noted below:

General Fund Revenue Highlights

Overview - The revenues available to support the operations of the General Fund are described in detail starting with Page II-2 of the FY2018 budget. The budget was prepared with conservative revenue projections based on trends and key economic indicators.

Property Tax – As previously stated, the FY2018 budget is capped based on Propositions 1 and H. Revenue from property taxation is expected to be \$1.2 billion, which remains relatively flat from the FY2017 estimate.

Sales Tax – The FY2018 sales tax projection is derived from econometric models which take into account sectors of the Houston economy and estimates of income, prices, population, and Primary Metropolitan Statistical area (PMSA) retail sales. With Houston's diversified economy, despite the uncertainty of oil prices as well as the ongoing decline in explorations and drilling, employment is the key driver of sales tax revenue. The sales tax revenue is expected to be \$627 million, which is approximately \$6 million (1%) above the FY2017 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 FY2018.

Public Safety – As part of the Mayor’s commitment to public safety, this budget includes funding for four cadet classes for the Police Department, two cadet classes and one paramedic class for the Fire Department.

Staffing Levels – Table IV, pages 12-14, 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, decreased by 2.0% compared to the FY2017 current budget, while total General Fund staffing is budgeted with a 3.8% decrease.

Compensation – The adopted budget fully funds the contractual pay increases for classified police and municipal employees. Additionally, the budget also includes funding for mandated pension changes related to SB 2190.

Operational Efficiencies – Departments across the organization were asked to identify opportunities for budget reductions without impacting services; these ideas were reviewed by the Mayor and included in the budget as appropriate. Overall, General Fund departmental reductions averaged 3% for most departments across the city, and yielded nearly \$50 million in savings.

General Fund Ending Balance

The FY2018 Adopted Budget includes an unassigned ending fund balance of \$179.2 million, which is \$46.1 million (20.5%) below the estimated ending fund balance for FY2017. The ending fund balance represents 8.9% of expenditures excluding debt service and PAYGO, an amount above the required minimum of 7.5% level of expenditures set out in the City’s financial policies.

ENTERPRISE FUNDS

Overview – The City has three enterprise funds: The Houston Airport System Fund, the Combined Utility System Fund and the Convention and Entertainment Facilities Operating Fund.

Aviation – The Houston Airport System is responsible for two major hub airports; George Bush Intercontinental and William P. Hobby. It is also responsible for Ellington Airport, a joint use civil/military airport. The Police and Fire Departments provide significant public safety services to the airports, and these costs of services are reimbursed to the General Fund.

The Houston Airport System’s budget of \$503.9 million has increased from the FY2017 Current Budget by approximately \$8 million (1.6%) mainly due to operating expenses related to contractual increase for facility operations and maintenance (O&M) and Police and Fire services. The revenue budget is conservatively estimated to be \$8 million higher than FY2017, reflecting an increase in parking revenue, concessions and terminal space rental fees.

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 expenditure budget of \$1.7 billion has increased from FY2017 Current Budget by approximately \$80.6 million (5.1%) mainly due to an increase in the debt service and other uses category and capital equipment rollover cost. The revenue budget is estimated to be \$82 million (5.4%) higher in FY2018 primarily due to water and sewer rate adjustment of 3.4%, higher projected water consumption from the Water Authorities, and higher internal transfers for debt service within CUS.

Convention and Entertainment Facilities (CEFD) – CEFD Operating Fund is an enterprise fund that accounts for the unpledged revenues as well as other operating and capital expenditures assigned to the Houston First Corporation, which was created in FY2012. The CEFD budget of \$97.6 is approximately \$1.1 million (1.1%) lower than the FY2017 estimate. The revenue budget is estimated to be \$98.1 million (0.2%) higher than the FY2017 estimate.

CAPITAL IMPROVEMENT PLAN (CIP)

On July 19, 2017, City Council approved a five-year Capital Improvement Plan covering fiscal years 2018 through 2022. The plan anticipates a voter referendum to be placed on the November 7, 2017 ballot for the future issuance of public improvement bonds as detailed in the plan. The plan also allocates approximately \$235 million for General Government capital maintenance projects to manage long-term operational costs. As the City continues to strengthen the ties between the capital and operating budget processes, this five-year capital plan encourages a long-term view of the City's finances.

CONCLUSION

The budget described in this document, adopted by Council reflects a balance between the needs of one of the fastest growing cities and available resources. Abiding by our financial policies, the City worked hard to improve the financial position of all funds by being fiscally responsible and reducing our operational costs through efficiencies. Although the City continues to use one-time measures to close annual deficits, this budget takes us a step closer to achieving a structurally balanced budget through sound financial management, lasting pension reform, and evolving financial policies.

Sincerely,



Kelly Dowe, Chief Business Officer