



# CITY OF HOUSTON

Finance Department

Sylvester Turner

Mayor

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September 19, 2018

**To: Honorable Mayor, Members of the City Council, City Controller and Citizens of Houston:**

I am pleased to submit the City of Houston Adopted Budget for the 2019 fiscal year (FY2019), which begins July 1, 2018, and ends June 30, 2019. 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 2018. The purpose of this letter is to describe the budget as adopted by the Houston City Council on May 30, 2018, after budget presentations, collaborative debates, and amendments. The complete list of amendments is provided as an appendix in this document.

The Adopted Budget for FY2019 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 \$11 million in recurring budgetary improvements achieved through sustainable expenditure reductions or new revenue.

Despite the significant improvements made in working toward structural balance, the FY2019 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 9.1% 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.

This past year Houston survived the largest flood event in the history of the United States- Hurricane Harvey. Every department was asked to do more to assist the community during and after the storm and they gladly did so. However, each response to the effects of Harvey strained the fiscal resources of the entire City and require the City to tap into the Budget Stabilization Fund.

Council Members: Brenda Stardig Jerry Davis Ellen R. Cohen Dwight A. Boykins Dave Martin Steve Le Greg Travis Karla Cisneros  
Robert Gallegos Mike Laster Mike Knox David W. Robinson Michael Kubosh Martha Castex-Tatum Amanda Edwards Jack Christie  
Controller: Chris B. Brown

In FY2018, \$20 million was transferred out of the Budget Stabilization Fund for Harvey Recovery efforts. Per the Financial Policy, the Budget Stabilization Fund will be replenished by the end of FY2020.

The Adopted Budget for all funds excluding transfer is \$4.9 billion, which is \$156.5 million (3.3%) above the FY2018 Current Budget (excluding \$1 billion Pension Obligation Bonds issuance). The largest contributors to this increase are prior year capital equipment rollovers, mandatory or contractual obligations including salaries, pension, and debt service payments.

## **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 58.42 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 \$2.5 billion, which is \$83.5 million (3.5%) higher than the FY2018 Current Budget (excluding \$1 billion Pension Obligation Bonds issuance).

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 FY2019 budget. The budget was prepared with conservative revenue projections based on trends and key economic indicators.

**Property Tax** – As previously stated, the FY2019 budget is capped based on Propositions 1 and H. Revenue from property taxation is expected to be \$1.2 billion, which is \$28.4 million (2.4%) higher than the FY2018 estimate.

**Sales Tax** – The FY2019 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. The FY2018 spike in sales tax is in retail and constructions primarily related to the impact of Hurricane Harvey as residence rebuild. The sales tax revenue is expected to be \$657.7 million, which is approximately \$3 million (0.5%) above the FY2018 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 FY2019.

**Public Safety** – As part of the Mayor's commitment to public safety, this budget includes funding for five cadet classes for the Police Department, and three cadet classes 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, remained relatively flat decreasing by 0.3% compared to the FY2018 Current Budget. Similarly, total General Fund staffing is budgeted with a 0.7% decrease.

**Compensation** – The adopted budget fully funds the contractual pay increases for classified police and municipal employees. Additionally, the budget fully funds all three pension systems.

**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 yielded \$7.3 million in savings.

### ***General Fund Ending Balance***

The FY2019 Adopted Budget includes an unassigned ending fund balance of \$190.4 million, which is \$85.4 million (31%) below the estimated ending fund balance for FY2018. The ending fund balance represents 9.1% 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 \$519.2 million has increased from the FY2018 Current Budget by approximately \$9.7 million (1.9%) 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 \$9.7 million

higher than FY2018, reflecting an increase in parking revenue, concessions, landing and terminal space rental fees.

**Combined Utility System (CUS)** – The CUS Fund is managed by the Houston Public Works 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 FY2018 Current Budget by approximately \$25.4 million (1.5%) mainly due to an increase in non-capital equipment, other uses category and capital equipment rollover cost. The revenue budget is estimated to be \$27.7 million (1.7%) higher than FY2018 primarily due to water and sewer rate adjustment of 2.8%, higher projected water consumption from the Water Authorities, increase contribution for reimbursement from the Water Authorities for debt service payments related to Luce Bayou, 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 \$102.5 million is approximately \$4.9 million (5.1%) higher than the FY2018 estimate. The revenue budget is estimated to be \$100.6 million, which is \$7.3 million (7.8%) higher than the FY2018 estimate.

## **CAPITAL IMPROVEMENT PLAN (CIP)**

On June 27, 2018, City Council approved a five-year Capital Improvement Plan covering fiscal years 2019 through 2023. The plan has a focus on Hurricane Harvey recovery, with delays to previously approved projects. The plan also allocates approximately \$244 million for General Government capital maintenance projects, including those related to Harvey recovery. 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. It is based on a slight economic growth and capped property tax revenues. With fiscal challenges ahead, we must continue to focus on performance improvement and cost containment.

Sincerely,



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Tantri Emo,  
Chief Business Officer/  
Director of Finance