



CITY OF HOUSTON

Finance Department

Sylvester Turner

Mayor

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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 2020 fiscal year (FY2020), which begins July 1, 2019, and ends June 30, 2020. 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 2019. The purpose of this letter is to describe the budget as adopted by the Houston City Council on June 19, 2019, after budget presentations, collaborative debates, and amendments. The complete list of amendments is provided as an appendix in this document.

The Adopted Budget for FY2020 is balanced as required by City Charter and State law and is aligned with the City's priorities. On May 15, 2019, the Harris County District Court granted the City's Motion for Summary Judgement and ruled that Proposition B is preempted in its entirety and unconstitutional. Based on the trial court's order, the Adopted Budget does not include the implementation of Proposition B. The budget 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 \$17.1 million in recurring budgetary improvements mainly achieved through sustainable expenditure reductions.

The use of fund balance is included in the budget to offset cost increases anticipated in FY2020. In keeping with the City's financial policies, we will hold an ending fund balance of 8.7% 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.

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

Controller: Chris Brown

Additionally, the budget also anticipates full replenishment of \$20 million to the Budget Stabilization Fund by the end of FY2020, as required by the Financial Policy. In FY2018, \$20 million was transferred out of the Budget Stabilization Fund for Harvey Recovery efforts.

The Adopted Budget for all funds excluding transfer is \$5.1 billion, which is \$126.6 million (2.6%) above the FY2019 Current Budget. The largest contributors to this increase are mandatory or contractual obligations.

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 70.3% of the total resources for the General Fund.

The current tax rate for the City of Houston is 58.83 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 \$29.7 million (1.2%) higher than the FY2019 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 FY2020 budget. The budget was prepared with conservative revenue projections based on trends and key economic indicators.

Property Tax - As previously stated, the FY2020 budget is capped based on Propositions 1 and H. Revenue from property taxation is expected to be \$1.2 billion, which is \$22.3 million (1.9%) higher than the FY2019 estimate.

Sales Tax - The FY2020 sales tax projection is derived from econometric models which take into account sectors of the Houston economy and estimates of income, oil prices, population, and the Primary Metropolitan Statistical area (PMSA) retail sales. Houston's economy has diversified, but it is still strongly tied to energy. The sales tax revenue is expected to be \$694.6 million, which is approximately \$9.9 million (1.4%) above the FY2019 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 FY2020.

Public Safety – As part of the Mayor's commitment to public safety, this budget includes funding for five cadet classes for the Police Department. This budget also includes funding for the operation of the recently opened Joint Processing Center, a shared service facility with Harris County, that combines four different jail operations under one roof.

Staffing Levels – Table IV, pages 16-18, 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, decrease by 0.7% compared to the FY2019 Current Budget while total General Fund staffing decrease by 2%.

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 \$11.1 million in recurring department savings and \$5.2 million in debt prepayment from the Building Inspection Fund.

General Fund Ending Balance

The FY2020 Adopted Budget includes an unassigned ending fund balance of \$185.6 million, which is \$113.6 million (38%) below the estimated ending fund balance for FY2019. The ending fund balance represents 8.7% 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 expenditure budget of \$545.4 million has increased from the FY2019 Current Budget by approximately \$19.2 million (3.7%) mainly due to contractual obligations related to personnel cost, facility maintenance, and IT contracts. Additionally, the budget includes increased facility assessments costs, environmental

assessment and abatement costs, and SkyTrax initiatives. The revenue budget is estimated to be \$19.2 million higher than FY2019, reflecting an increase in revenues from terminal rents, interest revenue and parking revenue primarily attributable to increased passenger activity.

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 FY2019 Current Budget by approximately \$9.1 million (0.5%) mainly due to an increase in personnel services. The revenue budget is estimated to be \$36.6 million (2.3%) higher than FY2019 estimate primarily due to water and sewer rate adjustment of 2.8%.

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 expenditure budget of \$105.1 million is approximately \$2.6 million (2.5%) higher than the FY2019 Current Budget. The revenue budget is estimated to be \$100.6 million, which is \$3.3 million (3.4%) higher than the FY2019 estimate.

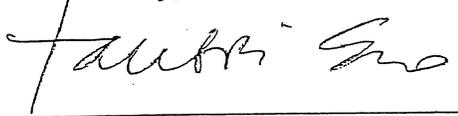
CAPITAL IMPROVEMENT PLAN (CIP)

On July 10, 2019, City Council approved a five-year Capital Improvement Plan covering fiscal year 2020 through 2024. The plan has a focus on Hurricane Harvey recovery, with delays to previously approved projects. The plan also allocates approximately \$256 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 in the nation and available resources. The City continues to focus on reviewing and implementing strategies from our Long-Range Financial Plan and streamlining services where available as we work towards a structurally balanced budget.

Sincerely,



Tantri Emo,
Chief Business Officer/
Director of Finance