



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 2021 fiscal year (FY2021), which begins July 1, 2020, and ends June 30, 2021. 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 2020. The purpose of this letter is to describe the budget as adopted by the Houston City Council on June 10, 2020, after budget presentations, collaborative debates, and amendments. The complete list of amendments is provided as an appendix in this document.

The Adopted Budget for FY2021 is balanced as required by City Charter and State law and is aligned with the City's priorities. The 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, which was exacerbated by the COVID-19¹ global pandemic. Of particular note is the inclusion of nearly \$14.5 million in new revenue sources and \$883,000 in recurring budgetary improvements mainly achieved through sustainable expenditure reductions. This budget also reflects eligible redeployment costs for COVID-19 related activities, that will be funded out of Coronavirus Relief Fund (CRF) under the CARES Act ².

¹ Coronavirus 2019

² Per US Treasury's Coronavirus Relief Fund Guidance for State, Territorial, Local and Tribal Governments.

Council Members: Amy Peck Jerry Davis Abbie Kamin Carolyn Evans-Shabazz Dave Martin Tiffany Thomas Greg Travis
Karla Cisneros Robert Gallegos Edward Pollard Martha Castex-Tatum Mike Knox David W. Robinson Michael Kubosh
Letitia Plummer Sallie Alcorn

Controller: Chris Brown

The use of fund balance is included in the budget to offset cost increases anticipated in FY2021. In keeping with the City's financial policies, we will hold an ending fund balance of 8.1% 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.

In FY2020, \$20 million was replenished back to Budget Stabilization Fund from the Disaster Recovery Fund (Fund 5303) in response to Hurricane Harvey in FY2018. Subsequently, \$5 million was transferred to the COVID-19 Disaster Fund (Fund 5306) in response to the COVID-19 pandemic in FY2020, which will be replenished by FY2022 to the Budget Stabilization Fund per the Financial Policies.

The Adopted Budget for all funds excluding transfer is \$5.1 billion, which is \$43.8 million (0.9%) above the FY2020 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 71.1% of the total resources for the General Fund.

The current tax rate for the City of Houston is 56.792 cents per \$100 assessed valuation. (Tax rates are adopted in the fall for all jurisdictions in Texas, without regard for 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 \$40.5 million (1.6%) lower than the FY2020 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 FY2021 budget. The budget was prepared with conservative revenue projections based on trends and key economic indicators.

Property Tax – As previously stated, the FY2021 budget is capped based on Propositions 1 and H. Revenue from property taxation is expected to be \$1.2 billion, which is \$17.7 million (1.5%) higher than the FY2020 estimate.

Sales Tax – The FY2021 sales tax projection is derived from econometric models which take into account sectors of the Houston economy and estimates of jobs, income, oil prices, population, and the Primary Metropolitan Statistical area (PMSA) retail sales. Pre-COVID-19, the City experienced a modest growth in sales tax revenue in FY2020 and anticipated another conservative 2% growth in FY2021. However, based on the midpoint of the consultant ranges at the time of budget adoption, the City will experience a cumulative estimated loss in sales tax revenue of approximately \$107 million during both FY2020 and FY2021 due to the impacts of COVID-19. In FY2021 the sales tax revenue is expected to be \$675 million, which is approximately \$5 million (0.7%) below the FY2020 estimated revenue and approximately 9% lower than what was estimated for FY2021 prior to COVID-19.

(\$ in millions)

Fiscal Year	Pre-COVID Projection	Post-COVID Projection	Variance Pre - vs. Post - COVID	
			(\$)	(%)
FY2020	\$ 724	\$ 680	\$ (44)	-6%
FY2021	\$ 738	\$ 675	\$ (63)	-9%
Total	\$ 1,462	\$ 1,355	\$ (107)	
YOY Variance (\$)	\$ 14	\$ (5)		
YOY Variance (%)	1.9%	-0.7%		

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 FY2021.

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 four cadet classes for the Fire Department.

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, increase by 1.5% compared to the FY2020 Current Budget while total General Fund staffing increase by 1.4%. The increase is primarily attributable to classified personnel in police and fire.

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 \$883,000 in recurring department savings, \$5.2 million in debt prepayment from the Building Inspection Fund, \$5 million in deferral of 611 Walker rent payment, and \$10.4 million Zoo payment reduction/transfer that is permissible under the CARES Act.

General Fund Ending Balance

The FY2021 Adopted Budget includes an unassigned ending fund balance of \$170.6 million, which is \$261.1 million (34.7%) below the estimated ending fund balance for FY2020. The ending fund balance represents 8.1% 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 expenditure budget of \$480.9 million has decreased from the FY2020 Current Budget by approximately \$11.7 million (2.4%) primarily driven by management consulting services, building maintenance services, electricity due to new electricity contract rate, and system improvement transfers. The revenue budget is estimated to be \$11.7 million lower than FY2020, reflecting a decrease in parking revenue, concessions revenue, terminal space rental fees and interest revenue primarily attributable to decreased passenger activities as a result of COVID-19.

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 \$1.8 billion has increased from FY2020 Current Budget by approximately \$83.0 million (4.9%) mainly due to an increase in debt service and other uses. The FY2021 Budget also includes funding for continued wastewater maintenance, regulatory compliance and assessment activities needed in compliance to Sanitary Sewage Overflows (SSO) requirements. The revenue budget is estimated to be \$44.2 million (2.7%) higher than FY2020 estimate primarily due to water and sewer rate adjustment of 3.5%.

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 \$75.8 million is approximately \$29.3 million (27.9%) lower than the FY2020 Current Budget due to lower transfer to component unit, which is adversely affected by revenue. The revenue budget is estimated to be \$76.2 million, which is \$14.9 million (16.4%) lower than the FY2020 estimate. This significant decrease

in revenue is due to the impact COVID-19 on the operation of Houston First for Hotel Occupancy Tax (HOT) and parking revenues.

CAPITAL IMPROVEMENT PLAN (CIP)

On June 24, 2020, City Council approved a five-year Capital Improvement Plan covering fiscal years 2021 through 2025. The plan has a focus on Hurricane Harvey recovery, with delays to previously approved projects. The plan also allocates approximately \$261 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 providing funding for essential services to the citizens of Houston while operating under a property tax revenue cap and the constraints of a global pandemic. COVID-19 has taken a huge toll on the City's sales tax and other revenue sources. Unfortunately, we may be dealing with the impact of COVID-19 for years to come. The City will continue 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,

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Tantri Emo,
Chief Business Officer/
Director of Finance