



CITY OF HOUSTON

Sylvester Turner

Mayor

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To the people of Houston, Honorable Members of City Council and the Honorable City Controller:

I am pleased to present the proposed budget for the Fiscal Year 2022, which begins July 1, 2021, and ends June 30, 2022. The FY2022 Proposed Budget for all funds excluding transfers totals \$5.10 billion, an increase of \$227.96 million, or 4.7 percent compared to the FY2021 Current Budget of \$4.88 billion. The proposed General Fund budget of \$2.58 billion reflects an increase in spending of \$96.6 million or 3.9 percent from the FY2021 Current Budget of \$2.48 billion. This increase is primarily attributable to the restoration of prior year's funding level from Coronavirus Disease 2019 (COVID-19) eligible redeployment costs that were funded out of the Coronavirus Relief Fund (CRF) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act 2020. This included costs diverted to mitigate and respond to the COVID-19 public health emergency such as City employee temperature screening and costs pertaining to the COVID-19 testing sites.

Like most states and local governments across the nation, the City of Houston faces record revenue loss due to the COVID-19 pandemic. In FY2020, FY2021 and a portion of FY2022 alone, we are estimating \$178 million in cumulative revenue losses. Sales tax is one of our hardest-hit sources with an expected \$113 million cumulative loss for those fiscal years. Additionally, we are projecting \$65 million in revenue losses from other sources such as Charges for Services, Parking Revenues, Mixed Beverage Tax, and others. This loss of revenue with our existing property tax revenue cap combine to create a \$201 million budget shortfall in the General Fund – the City's largest deficit in recent history.

Thankfully, the American Rescue Plan Act (ARPA), signed into law by President Joe Biden on March 11, 2021, will provide the City with much needed relief. The City of Houston is expected to receive \$615 million in two tranches, first half in 2021 and the second half in 2022. The City would have until December 31, 2024 to use the funds. Unlike the CRF, ARPA recognizes the economic impact due to the COVID-19 pandemic and provides flexibility to address the reduction in revenues due to the COVID-19 public health emergency. Without this flexibility, the City would be facing catastrophic cuts across all services.

In addition to leveraging ARPA funds, this budget also includes cost savings and efficiencies. We will fully replenish the Budget Stabilization Fund placing the City in a better position heading into hurricane season. As we anticipate using ARPA funds for eligible expenditures and other permissible uses, we will not drawdown the fund balance. This budget also maintains a healthy ending fund balance of 9.64 percent of operating expenditures less debt service and pay-as-you-go, well above the minimum of 7.5 percent established in the City's financial policies.

Although the budget presented is balanced, fully replenishes the Budget Stabilization Fund, and provides a healthy fund balance reserve, our work is not done. I have already outlined my plan to implement a significant number of recommendations submitted by the Mayor's Task Force on Policing Reform, which include accountability, transparency, and crisis intervention strategies. In addition, we will address fire fighters' pay raise, continue to improve our neighborhoods through Complete Communities, address issues of homelessness and encampments, and increase the response to illegal dumping. At the same time, we must remember that the ARPA funds will be needed to address the revenue losses in FY2023 and FY2024 caused by COVID-19.

With that being said, I submit this budget for your consideration and approval.

Sincerely,

A handwritten signature in black ink, appearing to read "Sylvester Turner". The signature is fluid and cursive, with the first name being more prominent.

Sylvester Turner
Mayor