



CITY OF HOUSTON

Finance Department

Sylvester Turner

Mayor

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September 23, 2022

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 2023 fiscal year (FY2023), which begins July 1, 2022, and ends June 30, 2023. 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 2022. The purpose of this letter is to describe the budget as adopted by the Houston City Council on June 1, 2022, after budget presentations, collaborative debates, and amendments. The complete list of amendments is provided as an appendix in this document.

The Adopted Budget for FY2023 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. This budget also reflects leveraging American Rescue Plan Act (ARPA)¹ to recognize the economic impact due to the COVID-19² pandemic and providing flexibility to address the reduction in revenues due to the COVID-19 public health emergency.

The use of fund balances is included in the budget to offset cost increases anticipated in FY2023. In keeping with the City's financial policies, we will hold an ending fund balance

¹ Per US Treasury's Coronavirus Relief Fund Guidance for State, Territorial, Local and Tribal Governments.

² Coronavirus 2019

Council Members: Amy Peck Tarsha Jackson Abbie Kamin Carolyn Evans-Shabazz Dave Martin Tiffany D. Thomas
Mary Nan Huffman Karla Cisneros Robert Gallegos Edward Pollard Martha Castex-Tatum Mike Knox David W. Robinson
Michael Kubosh Letitia Plummer Sallie Alcom

Controller: Chris Brown

of 13.2% 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 FY2022, \$10 million was replenished to the Budget Stabilization Fund from the COVID-19 Disaster Fund (Fund 5306) in response to COVID-19 pandemic and the Disaster Recovery Fund (Fund 5303) in response to Winter Storm Uri. The Budget Stabilization Fund will be fully replenished in FY2023 per the Financial Policies.

The Adopted Budget for all funds excluding transfers is \$5.7 billion, which is \$485.9 million (9.3%) above the FY2022 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 68.2% of the total resources for the General Fund.

The current tax rate for Tax Year 2022 (FY2023) for the City of Houston is 53.364 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.

Along with the local Proposition 1 and H caps, the City must also comply with the statewide property tax cap put into place by the 86th Legislature in 2019 by Senate Bill 2 (S.B.2). S.B.2 lowered the trigger point for a tax rollback election from 8 percent to 3.5 percent without the need for voter approval.

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 \$2.7 billion, which is \$100.3 million (3.8%) higher than the FY2022 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 FY2023 budget. The budget was prepared with conservative revenue projections based on trends and key economic indicators. The FY2023 Budget includes \$160.1 million in Intergovernmental ARPA for the provision of government service relative to revenue reduction due to the COVID-19 public health emergency.

Property Tax - As previously stated, the FY2023 budget is capped based on Propositions 1 and H. Revenue from property taxation is expected to be \$1.3 billion, which is \$40.8 million (3.3%) higher than the FY2022 estimate.

Sales Tax – The FY2023 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. In FY2023 the sales tax revenue is expected to be \$807 million, which is unchanged from the FY2022 estimated revenue. This conservative estimate reflects an improvement to economic conditions compared to FY2022, which was severely impacted by the COVID-19 pandemic that affected our national and global economy.

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 FY2023.

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 five 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, decrease by 1.1% compared to the FY2022 Current Budget while total General Fund staffing decrease by 1.6%. The decrease is primarily attributable to classified personnel in Police.

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

General Fund Ending Balance

The FY2023 Adopted Budget includes an unassigned ending fund balance of \$304.1 million, which is \$7.8 million (2.5%) below the estimated ending fund balance for FY2022. The ending fund balance represents 13.2% 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 \$516.7 million has increased from the FY2022 Current Budget by approximately \$38.7 million (8.1%) primarily due to a significant increase in the system debt service transfer. The revenue budget is estimated to be \$38.7 million higher than FY2022, reflecting an increase in airline revenue, parking revenue, concessions revenue, terminal space rental fees and interest revenue primarily attributable to increase in passenger levels.

Combined Utility System (CUS) – The CUS Fund is managed by the Houston Public Works 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 \$2.1 billion has increased from FY2022 Current Budget by approximately \$312.2 million (17%) mainly due to an increase in debt service and other uses. The FY2023 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 \$128.8 million (6.8%) higher than FY2022 estimate primarily due to water and sewer rate adjustment of 5.6%.

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 \$111.9 million is approximately \$17.5 million (18.6%) higher than the FY2022 Current Budget due to higher transfer to component unit, which is adversely affected by revenue. The revenue budget is estimated to be \$102 million, which is \$17.4 million (20.6%) higher than the FY2022 estimate. This significant increase in revenue is due to COVID-19 impact subsiding and increase in travel resulting in higher Hotel Occupancy Tax (HOT) and parking revenues.

CAPITAL IMPROVEMENT PLAN (CIP)

On June 29, 2022, City Council approved a five-year Capital Improvement Plan covering fiscal year 2023 through 2027. The plan anticipates a voter referendum to be placed on the November 8, 2022, ballot for the future issuance of public improvement bonds as detailed in the plan. The plan continues to focus on Hurricane Harvey recovery and investment in fleet. The plan also allocates approximately \$360 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. This budget continues to leverage ARPA funds to alleviate the impacts of revenue losses from the pandemic.

As COVID-19 lessen the restrictions on people's lives and a return to normalcy, the local economy experienced increases in revenue streams, outperforming all expectations. However, significant uncertainties loom in the economy with geopolitical instability, surging energy prices, rise of inflation, supply chain disruptions, and soaring interest rates. Despite these volatilities, we are putting steps in place to maintain the financial integrity of the City. We will continue to build and preserve a healthy fund balance, develop new revenue sources, and focus on reviewing and implementing strategies from our Long-Range Financial Plan including outcome-based budgeting.

Sincerely,

DocuSigned by:
William Jones
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William Jones,
Chief Business Officer/
Director of Finance