



CITY OF HOUSTON

Finance Department

Sylvester Turner

Mayor

William Jones
Chief Business Officer/
Director of Finance
P.O. Box 1562
Houston, Texas 77251-1562

T. 832-393-9051
F. 832-393-9116
william.jones@houstontx.gov
www.houstontx.gov

September 27, 2023

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 2024 fiscal year (FY2024), which begins July 1, 2023, and ends June 30, 2024. 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 2023. The purpose of this letter is to describe the budget as adopted by the Houston City Council on June 7, 2023, after budget presentations, collaborative debates, and amendments. The complete list of amendments is provided as an appendix in this document.

The Adopted Budget for FY2024 is balanced as required by City Charter and State law and is aligned with the City's priorities. The budget also highlights Outcome Based Budgeting (OBB) where decisions are made based on expected outcomes or results. This budget also reflects the last year of leveraging American Rescue Plan Act (ARPA)¹ to address the reduction in revenues due to the COVID-19 public health emergency.

The use of fund balance is included in the budget to offset cost increases anticipated in FY2024. In keeping with the City's financial policies, we will hold an ending fund balance of 16.5% 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.

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 Alcorn

Controller: Chris Brown

In FY2023, the remaining \$5 million was replenished to the Budget Stabilization Fund from the Disaster Recovery Fund (Fund 5303) in response to Winter Storm Uri. The Budget Stabilization Fund is fully replenished in FY2023 per the Financial Policies.

The Adopted Budget for all funds excluding transfers is \$6.2 billion, which is \$403.6 million (7%) above the FY2023 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 67.5% of the total resources for the General Fund.

The current tax rate for Tax Year 2023 (FY2024) for the City of Houston is 51.919 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 \$2.9 billion, which is \$143.5 million (5.2%) higher than the FY2023 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 FY2024 budget. The budget was prepared with conservative revenue projections based on trends and key economic indicators. The FY2024 Budget includes \$160 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 FY2024 budget is capped based on Propositions 1 and H. Revenue from property taxation is expected to be \$1.4 billion, which is \$89.4 million (6.9%) higher than the FY2023 estimate.

Sales Tax – The FY2024 sales tax projection is derived from econometric models which take into account the sectors of the Houston economy and estimates of jobs, income, oil prices, population, and the Primary Metropolitan Statistical Area (PMSA) retail sales. As Houston’s economy is heavily influenced by oil prices, it plays an important role in employment rates which in turn affects consumer spending. As the invasion of Ukraine continues one year later, we proceed with caution as so much uncertainty remains. The Federal government’s increase of interest rates is expected to stabilize inflation, subsequently impacting spending patterns. We are taking a conservative approach to our sales tax revenue projection. In FY2024 the sales tax revenue is expected to be \$865.6 million, which is \$26.6 million (3%) lower than FY2023 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 FY2024.

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 – Pages 26-28 demonstrate 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 1.2% compared to the FY2023 Current Budget, while total General Fund staffing remains relatively flat. The increase is primarily attributable to additional FTEs added to Combine Utility System Fund, DDSRF-Metro ET AL Fund, Maintenance Renewal and Replacement Fund, and Fleet Management Fund.

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 FY2024 Adopted Budget includes an unassigned ending fund balance of \$402.8 million, which is \$17.7 million (4.2%) below the estimated ending fund balance for FY2023. The ending fund balance represents 16.5% 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 \$591.4 million has increased from the FY2023 Current Budget by approximately \$35.5 million (6.4%) primarily due to a significant increase in system improvements transfer, system debt service transfer, building maintenance services and personnel. The revenue budget is estimated to be \$35.5 million higher than FY2023, reflecting an increase in terminal space rental fee, signatory landings fee, grounds rental fee and garage parking 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 \$2.3 billion has increased from FY2023 Current Budget by approximately \$198.7 million (9.3%) mainly due to an increase in services and charges, debt service and other uses, and equipment. The FY2024 Budget also includes funding for critical drinking water and wastewater system maintenance, as well as regulatory compliance and assessment activities needed to comply with the City's Consent Decree requirements. The revenue budget is estimated to be \$262.8 million (12.3%) higher than FY2023 estimate primarily due to water and sewer rate adjustment of 9.2%.

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 \$108.2 million is approximately \$3.7 million (3.3%) lower than the FY2023 Current Budget due to lower transfer to component unit, which is adversely affected by revenue. The revenue budget is estimated to be \$105.7 million, which is \$3.3 million (3.2%) higher than the FY2023 estimate. This 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 21, 2023, City Council approved a five-year Capital Improvement Plan covering fiscal years 2024 through 2028, totaling \$11.5 billion. The plan continues to focus on Hurricane Harvey recovery and investment in fleet and information technology needs. The plan also includes additional funding compared to the previous CIP to cover inflation for key projects. The plan allocates approximately \$452 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

Adopted by Council, the budget presented in this document represents the City's first year of implementing Outcome Based Budgeting. OBB uses performance measures and financial data to systematically monitor the delivery of services and develop budget plans for increased transparency to citizens. This approach transforms the way City leadership makes decisions on the allocation of financial resources by focusing on the expected results and outcomes of City services and programs. The formulation of this year's budget focuses on increasing stakeholder engagement, incorporates the Mayor's Priorities under the Strategic Guidance, and citizen's survey/input.

Although this budget is balanced with the strongest fund balance reserve, we remained cautious of future economic uncertainties. Abiding by our financial policies, we will continue to improve the city's financial position by being fiscally responsible and look for efficiency and cost savings opportunities.

Sincerely,

A handwritten signature in black ink, appearing to read "William Jones", written over a horizontal line.

William Jones,
Chief Business Officer/
Director of Finance