



# 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 Fiscal Year (FY) 2024, which begins July 1, 2023, and ends June 30, 2024. The FY2024 Proposed Budget for all funds excluding transfers totals \$6.2 billion, an increase of \$379.2 million, or 6.6 percent compared to the FY2023 Current Budget of \$5.8 billion.

## **General Fund highlights**

### *Expenditures*

The FY2024 Proposed General Fund budget of \$2.89 billion reflects an increase in spending of \$120 million or 4.3 percent from the FY2023 Current Budget of \$2.77 billion. This budget accounts for pay increases for all employee groups including 3 percent for municipal employees, 3 percent for police, and 6 percent for fire. The 6 percent fire pay raise included in this budget represents the 3rd year of an 18 percent cumulative pay raise valued at \$115 million. This budget includes an additional \$11.3 million transfer to the Maintenance Renewal and Replacement Fund to address deferred maintenance for a total of \$42.9 million. Public safety remains a top priority representing \$1.6 billion, or 68.1 percent of the total General Fund spend excluding debt service and PAYGO. This includes funding for five (5) police cadet classes and four (4) fire cadet classes. Additionally, this budget continues my emphasis on “implementation and execution” with a focus on improving neighborhood parks and community facilities.

### *Revenue*

The City of Houston operates under one of the country’s most restrictive property tax revenue caps – in addition to complying with the State of Texas revenue cap. Property tax revenue is the largest funding source for the City’s General Fund, representing 47.3 percent of overall revenue. The FY2024 Proposed Budget is \$1.37 billion, representing an increase of 7.7 percent when compared to the FY2023 Estimate of \$1.27 billion.

Sales Tax is the second largest funding source for the City’s General Fund, representing 29.9% of overall revenue. In the past couple of years sales tax revenue outperformed expectations with FY2022 receipts outpacing prior year actuals by 16.1 percent and so far, FY2023 receipts have outpaced the prior year by 10.6 percent. However, uncertainty remains in the economy as the pressure of inflation remains persistent. As we have done year after year in my administration, we are taking a conservative approach to our sales tax revenue projection. The FY2024 Proposed Budget of \$866 million, represents a 3 percent decrease compared to the FY2023 Estimate of \$892 million.

## **American Rescue Plan Act (ARPA) Funding**

Without the infusion of ARPA funds, the City, like other municipalities across the nation, would have been forced to implement significant budget cuts and layoffs. As permitted under the ARPA guidelines, the City used ARPA funding to replace hundreds of millions of dollars in revenue that

would have been used for government services to maintain and sustain critical city services. The FY2024 Proposed Budget utilizes \$160 million in ARPA funding to further address the reduction in revenues due to the public health emergency. The City's latest quarterly report<sup>1</sup> reflects the ARPA expenditures under the revenue loss category used towards government services.

With the assistance of the ARPA funding, we continue our comprehensive approach against violent crime with the One Safe Houston Crime Reduction Initiative. Additionally, in March 2023, I announced the launch of One Clean Houston to combat illegal dumping. This initiative focuses on three key areas to address the issue – (1) rapid cleanup, (2) better enforcement, (3) prevention and education.

## **Long-term Liabilities**

The credit rating agencies warned the City was facing three structural barriers that threatened its credit rating viability – (1) unfunded pension liability, (2) OPEB, and (3) the revenue cap. Over my two terms as Mayor, I have tackled and put into place reforms that have addressed both pensions and OPEB.

### *Pension*

In 2017, with the help of voters, we achieved historic pension reform. The reform immediately reduced a \$8.2 billion liability and put in place a responsible plan to pay off the balance over 30 years. The pension liability now stands at \$2.2 billion a reduction of \$6 billion. Not only was the unfunded liability tremendously reduced, but also the cost avoidance of projected annual pension contributions which would have deepened the City's financial deficit but for pension reform. It is important to note that the three pension systems are healthier today - municipal, police, and fire because of the pension reform we have put in place.

### *OPEB*

In January of 2022, this administration introduced OPEB reforms, projected to reduce the City's OPEB Liability from \$9.1 billion to \$4.5 billion, a reduction of \$4.6 billion. In this FY2024 Proposed Budget, with the support of Council, we will establish an OPEB trust with a starting contribution of \$10 million which will escalate over time. The goal of the trust is to save (and grow through investment earnings) funds that will offset pay-as-you-go costs in the future while simultaneously reducing the Net OPEB liability. The City's ongoing contributions to the trust are estimated to further reduce the liability down to \$1.1 billion by year 2048, an additional reduction of \$3.4 billion.

## **Fund Balance Reserves**

This proposed budget includes an ending fund balance of \$401 million, which is 16.6 percent of expenditures less debt service and pay-as-you go (PAYGO), \$220 million above the minimum of 7.5 percent established in the City's financial policies. This represents the strongest fund balance in recent history for a proposed budget. Additionally, this budget fully funds the Budget Stabilization Fund representing more than \$20 million and does not include any deferrals, one-time land sales, or fund balance drawdown. As we head into hurricane season, Houston is better prepared financially today than ever before.

## **Budget Process and Transparency**

When I first took office in 2016, one of the first executive orders I signed, was Executive Order 1-53, Effective Financial and Performance Management<sup>2</sup>. This FY2024 proposed budget begins the transition to an Outcome-Based Budgeting model. Outcome Based Budgeting (OBB) is a budget process where decisions are made based on expected outcomes or results. OBB aims to transform the way City leadership makes decisions on the allocation of financial resources by focusing on the expected results and outcomes of City programs and services.

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<sup>1</sup> The report is available at: <https://houstontx.gov/arpa/>

<sup>2</sup> EO 1-53 can be found here <https://www.houstontx.gov/execorders/1-53.pdf>

Additionally, The City of Houston is enhancing the use of technology to engage citizens and increase financial transparency with the Open Finance Initiative<sup>3</sup>. In March 2023, the City of Houston finalized the implementation of the Open Finance initiative to provide more transparency about the City's finances. This includes publishing relevant, accessible datasets about the City's budget, checkbook, and payroll. It also provides simple data visualizations to help the public explore the City's financial activities. Open Finance allows citizen advocates to stay informed and gain access to the same information stakeholders and government leaders use to make decisions in the day-to-day operations of local government. This initiative is another significant step toward improving public engagement and building awareness of the City's financial activities. The Open Finance Initiative earned the City recognition from the 7<sup>th</sup> annual Smart 50 Awards<sup>4</sup> as one of the 2023 award recipients honoring the 50 most transformative smart projects each year.

### **Financial Outlook**

As we look ahead, strong financial management will need to continue. The City of Houston operates under one of the country's most restrictive property revenue caps - in addition to complying with the State of Texas revenue cap, and the pressure of inflation. Despite those challenges, the financial health of the City is much stronger than existed on January 1, 2016. Any gap that may exist in FY2025 can be fully covered by the fund balance.

The Fiscal Year 2024 Proposed Budget is my eighth and final budget that is balanced with the strongest fund balance reserve in recent history. This places the City in a good fiscal position to address future economic uncertainties. The City's net position, which is a strong indicator of a government's financial standing, was the highest in almost 20 years at \$5.9 billion as of the end of FY2022, an increase of \$2.2 billion compared to FY2021. We are better today than we were yesterday, and we'll be better tomorrow than we are today.

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

Sincerely,



Sylvester Turner  
Mayor

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<sup>3</sup> The Open Finance Initiative can be found here (<https://openfinance.houstontx.gov>)

<sup>4</sup> 7<sup>th</sup> Annual Smart 50 Awards [Smart 50 Awards \(smartcitiesconnect.org\)](https://www.smartcitiesconnect.org)