



CITY OF HOUSTON

Finance Department

John Whitmire

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 2026 fiscal year (FY2026), which begins July 1, 2025, and ends June 30, 2026. 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 John Whitmire's priorities are set out in his letter that accompanied the Proposed Budget sent to City Council in May of 2025. The purpose of this letter is to describe the budget as adopted by the Houston City Council on June 4, 2025, after budget presentations, collaborative debates, and amendments. The complete list of amendments is provided as an appendix in this document.

The Adopted Budget for FY2026 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. The budget reflects the consolidation of certain department functions including HR, IT, Finance and Procurement to eliminate redundancy, streamline processes, and enhance service delivery. These changes are designed to improve efficiency. One-time Voluntary Municipal Employment Retirement Payout Option (VMERPO) has included supporting long-term workforce planning, reducing recurring costs and creating opportunities to realign staffing. The FY2026 budget advances the Category Management effort led by the Finance Department's Strategic Procurement Division to improve purchasing efficiency, leverage economies of scale while ensuring transparency and accountability in procurement practices.

Council Members: Amy Peck Tarsha Jackson Abbie Kamin Carolyn Evans-Shabazz Fred Flickinger Tiffany D. Thomas
Mary Nan Huffman Mario Castillo Joaquin Martinez Edward Pollard Martha Castex-Tatum Julian Ramirez Willie Davis
Twila Carter Letitia Plummer Sallie Alcorn

Controller: Chris Hollins

The use of fund balance is included in the budget to offset cost increases anticipated in FY2026. In keeping with the City's financial policies, we will hold an ending fund balance of 12% 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.

The Adopted Budget for all funds excluding transfers is \$7 billion, which is \$217.4 million (3.2%) above the FY2025 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 71.8% of the total resources for the General Fund.

The current tax rate for Tax Year 2025 (FY2026) 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. Revenue from property taxation is expected to be \$1.452 billion, which is approximately \$52.6 million (3.50%) lower than the FY2026 adopted budget estimate.

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 \$3 billion, which is \$59.9 million (1.9%) lower than the FY2025 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 FY2026 budget. The budget was prepared with conservative revenue projections based on trends and key economic indicators.

Property Tax – As previously stated, the FY2026 budget is capped based on Propositions 1 and H. Revenue from property taxation is expected to be \$1.5 billion, which is \$123.1 million (8.9%) higher than the FY2025 estimate.

Sales Tax – The FY2026 sales tax projection is derived from econometric models which take into account the sectors of the Houston economy and estimates of employment, income, oil prices, population, and the Primary Metropolitan Statistical Area (PMSA) retail sales. Our forecast for the upcoming fiscal year remains conservative due to much economic uncertainty brought by the proposed policy changes of the new federal administration, along with recent slowdowns in consumer spending and employment levels in the region. Consumer spending, employment levels, and oil prices play an integral role in Houston's sales tax revenue collections. In FY2026 the sales tax revenue is expected to be \$902.3 million, which is \$8.9 million (1%) higher than FY2025 estimate at the time of the budget adoption. However, FY2025 actuals were \$919.3 million. Therefore, FY2026 is budgeted to be a conservative 1.8% decrease from the prior year.

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 FY2026.

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 nine cadet classes for the Fire Department.

Staffing Levels – Pages 14-16 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, decreased by 1.7% compared to the FY2025 Current Budget while total General Fund staffing decreased by 4.7%. The General Fund decrease is primarily attributed to lower overtime for Fire classified and reduction in civilian FTEs.

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

General Fund Ending Balance

The FY2026 Adopted Budget includes an unassigned ending fund balance of \$304.9 million, which is \$75.9 million (19.9%) below the estimated ending fund balance for FY2025. The ending fund balance represents 12% 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 \$738.7 million has increased from the FY2025 Current Budget by approximately \$34 million (4.8%) due to an increase in parking service contract, system debt service transfers and building maintenance services. The revenue budget is estimated to be \$34 million higher than FY2025, reflecting an increase in terminal space rental fees, retail concessions, garage parking revenue and auto rental concessions resulting from increasing 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 \$2.6 billion has increased from FY2025 Current Budget by approximately \$65.4 million (2.6%) mainly due to an increase in debt service and other uses, and other services and charges. The FY2026 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 \$243.9 million (10.2%) higher than FY2025 estimate primarily due to water and sewer rate adjustment of 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 \$133.6 million is approximately \$8.8 million (7.1%) higher than the FY2025 Current Budget due to higher transfer to component unit, which is adversely affected by revenue. The revenue budget is estimated to be \$133.8 million, which is \$8.3 million (6.7%) higher than the FY2025 estimate. This significant increase in revenue is due to an increase in travel resulting in higher Hotel Occupancy Tax (HOT).

CAPITAL IMPROVEMENT PLAN (CIP)

On June 25, 2025, City Council approved a five-year Capital Improvement Plan covering fiscal years 2026 through 2030, totaling \$16.8 billion. The plan continues to focus on improvement to existing infrastructure and investment in fleet and information technology needs. Cost escalations/inflation are having impacts on the plan. The plan allocates approximately \$453 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 City's FY2026 Adopted Budget reflects the City's continued commitment to fiscal discipline, service delivery, and long-term financial sustainability. The budget is balanced and strategically designed to maintain essential City services, support workforce stability, and ensure continued investment in public safety and infrastructure while adhering to the City's financial policies and fund balance requirements.

Houston's economy remains resilient, supported by its diversified industry base including energy, healthcare, technology, and logistics. However, the City continues to face several external challenges such as inflationary pressures, interest rate volatility, and slower growth in consumer spending. These factors, combined with statutory property tax limitations under Propositions 1 and H and Senate Bill 2, continue to constrain revenue growth relative to increasing costs for personnel, public safety, and capital infrastructure.

Despite these challenges, the City's financial position remains stable due to prudent financial management, conservative revenue forecasting, and disciplined expenditure control. The FY2026 budget continues the City's focus on efficiency through consolidation of administrative functions, enhanced procurement practices through Category Management, and workforce realignment efforts that balance service needs with available resources.

Looking ahead, the City will continue to strengthen its financial foundation by exploring opportunities for revenue diversification, enhancing cost recovery where appropriate, and investing in technology to improve service delivery and transparency. The ongoing implementation of long-term capital improvement planning, coupled with sound financial policies, will position Houston to sustain its infrastructure, address deferred maintenance, and enhance community resilience. The administration and the Finance Department remain dedicated to maintaining fiscal integrity while ensuring that the City of Houston continues to provide high-quality services to residents, businesses, and visitors. As we move forward, we will continue to monitor economic trends and adjust our financial strategies to ensure that Houston remains a strong, vibrant, and financially secure city for years to come.

Sincerely,



Melissa Dubowski,
Chief Business Officer/
Director of Finance