



CITY OF HOUSTON

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Mayor

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

It is my honor to present the proposed budget for Fiscal Year 2026, which begins July 1, 2025, and ends June 30, 2026. The FY2026 Proposed Budget for all funds excluding transfers totals \$7.0 billion, an increase of \$160 million, or 2.3 percent compared to the FY2025 Current Budget of \$6.8 billion.

Financial Outlook

This budget represents a new chapter for the City of Houston—one grounded in fiscal responsibility, service delivery reform, and a commitment to restoring trust in local government.

When I took office, I pledged to the people of Houston that we would address long-standing inefficiencies and financial mismanagement. Over the past year, my administration conducted the most comprehensive review of City operations in recent memory. The findings—published in the Citywide Efficiency Study—exposed waste, duplication, and conflicts of interest that undermined the services Houstonians rely on. We are now acting decisively on those findings. The FY2026 budget reflects that work and begins to implement systemic reforms across the organization.

A key focus of this budget is delivering on my commitment to fix Houston's streets and drainage infrastructure. When I assumed office, the City was in the midst of a lawsuit brought by two residents, who alleged—rightly—that Houston had not been allocating the full amount required by our Charter for these critical investments. For eight years, the City diverted hundreds of millions of dollars from our voter-approved dedication to street and drainage work.

My administration has reached a fair and responsible settlement with the plaintiffs. Beginning in FY2026, Houston will honor the will of the voters to fully comply with the City Charter. This means allocating hundreds of millions more toward the repairs and replacement of our broken and aging infrastructure. The result will be an accelerated pace of improvements that addresses some of our most visible and disruptive challenges—potholes, poor drainage, and deteriorating roadways. Fixing our streets is not just a campaign promise—it's a priority that is now reflected in this budget.

At the same time, we continue to make structural reforms to improve government operations. This budget streamlines fragmented back-office functions into a modern, efficient shared services model for HR, IT, Finance, and Procurement. General Fund expenditures have been reduced by \$74 million compared to last year, and over 78% of the savings initiatives are recurring. A one-time voluntary retirement incentive at the end of FY2025 was accepted by more than 35% of eligible civilian employees, saving more than \$99 million on an annual basis across all funds.

Even with these changes, our commitment to public safety remains unwavering. This budget funds the first year of a new police contract that brings our compensation levels in line with other major Texas cities and helps rebuild the ranks of officers needed to patrol neighborhoods and investigate

crimes. We continue to fund the second year of our contract with Houston firefighters, which has already yielded record interest in joining the department and the Municipal employee contract approved last year. These investments are improving morale, recruitment, and retention across our workforce.

General Fund highlights

Expenditures

The FY2026 Proposed General Fund budget of \$3.03 billion reflects a decrease in spending of \$74.5 million or 2.4 percent from the FY2025 Current Budget of \$3.11 billion. This decrease is primarily attributable to the implementation of the Voluntary Municipal Employee Retirement Payout Option, citywide category management, organizational restructuring and other key initiatives recommended from the Citywide Efficiency Study. Related to the meet and confer agreement with municipal employees and the draft meet and confer agreement with police, this budget includes an increase to budgeted base pay of 3.5 percent and 10 percent, respectively. Public safety remains a top priority representing \$1.8 billion, or 71.5 percent of the total General Fund spend excluding debt service and PAYGO. This includes funding for five (5) police cadet classes and nine (9) fire cadet classes.

Additionally, this budget incorporates \$16.2 million of the departmental General Fund budget reductions to achieve cost savings and efficiencies.

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. The revenue cap continues to limit the city's ability to generate additional property tax revenue that is needed to provide essential services such as public safety. Property tax revenue is the largest funding source for the City's General Fund, representing 50.7 percent of General Fund revenue. The FY2026 Proposed Budget is \$1.46 billion, representing an increase of 5.7 percent when compared to the FY2025 Estimate of \$1.38 billion.

Sales Tax is the second largest funding source for the City's General Fund, representing 31.3 percent of General Fund revenue. The FY2026 Proposed Budget of \$902.3 million represents a 1.0 percent increase compared to the FY2025 Estimate of \$893.4 million. The budget reflects a conservative approach with slow growth with the sales tax collection remaining nearly flat compared to the previous year.

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. The City has put into place reforms to address both pensions and OPEB and this Proposed Budget continues building on those reforms.

Pension

This Proposed Budget continues to fund pension contributions at a sustainable level. This funding is needed to continue to maintain and improve the financial health of the City's three pension plans, ensuring retirement funding for our hard-working current and retired employees. These employees have dedicated their lives to public service and deserve to have their retirements funded in a sustainable way. The pension liability now stands at \$1.8 billion, and this Proposed Budget includes contributions to the pension plans that will continue to address decreasing those liabilities over time. The three pension systems are healthier today than they were prior to the reforms that I supported

when I was in the Legislature, and we will continue to improve the plans that support the City's greatest asset—it's people.

Fund Balance Reserves

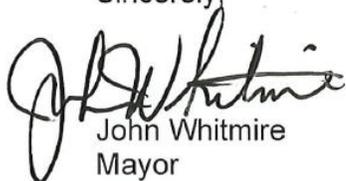
This proposed budget includes an ending fund balance of \$273.4 million, which is 10.8 percent of expenditures less debt service and pay-as-you go (PAYGO) and \$84 million above the minimum of 7.5 percent established in the City's financial policies. This budget partially replenishes the Budget Stabilization Fund by \$12 million. The remaining will be replenished in FY2027 to be in compliance with the Financial Policies.

While we've made substantial progress, Houston still faces outdated revenue constraints that limit our ability to respond to resident needs. No other large Texas city is burdened by both a locally imposed revenue cap and the state cap or must fund solid waste operations without dedicated revenues. We must have a serious, informed conversation about whether our current model allows Houston to serve its residents and compete with its peers.

This budget reflects what we can do when we focus on the fundamentals: safer neighborhoods, better streets, honest government, and efficient operations. Houston has the talent, will, and resilience to overcome our challenges—and this administration is committed to doing the hard work to make that happen.

Let's get to work.

Sincerely,



John Whitmire
Mayor