FY2027 Budget Overview and General Fund Five Year Forecast

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Forward Looking Statements

The statements contained in this presentation and made verbally in conjunction with the presentation that are not purely historical are forward looking statements, including statements regarding the City's expectations, intentions, or strategies regarding the future. Readers and viewers should not place undue reliance on forward looking statements. All forward-looking statements in this presentation and made verbally in conjunction with the presentation are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward looking statements.

The forward looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or development in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this presentation and made verbally in conjunction with the presentation would prove to be accurate and may be materially different.

Forward Looking Statements (Cont'd.)

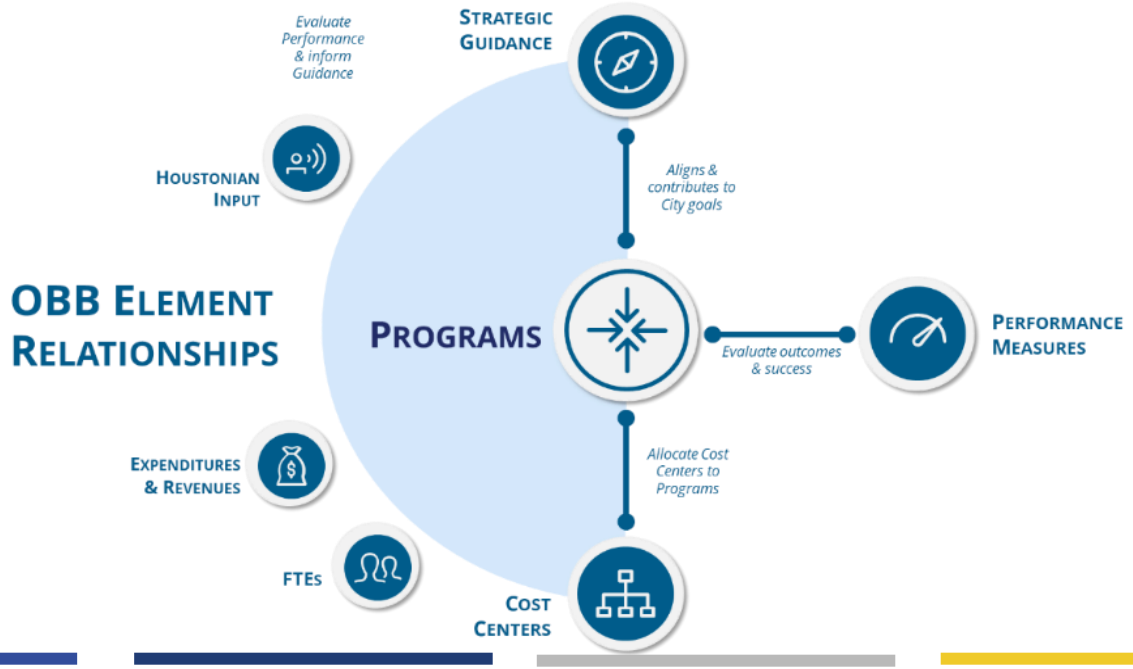
Additionally, pension-related projections or forecasts, including projections of the amount of the UAAL and net pension liability and the amounts of actuarially calculated contributions by the City, constitute "forward-looking" information that reflects the judgment of the City, the boards of the Pension Systems and the actuaries as to the amount of assets that will be required to be accumulated for the payment of future benefits to both active and retired employees. Such judgments are based upon a variety of assumptions concerning future events and circumstances, any one or more of which could prove to be inaccurate and are subject to change in the future. The assumptions underlying the projections are material to the development of the projections, and variations in the assumptions may produce substantially different results.

OPEB-related projections including projections of the net OPEB liability constitute "forward-looking" information that reflects the judgment of the City and the actuary. Long-term forecasts are generally good for relative magnitude but are unlikely to produce exact results. Actual projected liabilities will vary greatly based on interest rates, employee count, demographic changes, medical inflation, legislation, federal law, and many other factors. Sensitivity to changes with all other things kept constant can reveal the direction and relative magnitude of expected changes.

Connecting Budget to Strategy

Transforming Houston's Budgeting Practices

Connecting Budget to Strategy – OBB Elements



1. Houstonian Input

An increased emphasis on opportunities for public input into the budgeting process better informs the City's funding priorities and ensures that dollars are allocated towards programs and projects desired by the public.

2. Strategic Guidance

Expanded Mayoral Strategic Guidance provides direction before budget formulation on City Priorities and Initiatives to which City programs and enhancements align.

3. Program Budgeting

Programs are groupings of related services aimed at accomplishing a shared outcome. Programs provide the discrete budgetary units for which responsibility for results is assigned so resources can be allocated based on performance and desired outcomes. The FY2025 publication reorients department sections around the program budgeting construct and significantly expands the Connecting Budget to Strategy section.

4. Performance Measures

Performance measures are linked to each program and are used to evaluate how successful programs are at helping achieve their stated goals and furthering the Mayor's priorities and initiatives. Performance measures help City stakeholders evaluate how successful expenditures are helping achieve the desired outcomes so that resource allocation decisions will be increasingly based on measurable results.

Connecting Budget to Strategy – Mayor Whitmire's Priorities

Strategic Objectives

Public Safety

- Increase the number of police officers and firefighters
- Strengthen Houston's Community Policing Programs
- Improve police officer and firefighter retention and attrition rates
- Equip first responders with the skill to better address mental health situations
- Provide second chance programs that integrate former offenders back into the community
- Increase the use of technology to enhance crime fighting capabilities
- Collaborate with schools, nonprofits and businesses to increase youth engagement outside of the classroom

Infrastructure

- Repairing the City's aging water and wastewater systems
- Reduce traffic congestion and fix City streets
- Ensure that City's infrastructure accommodates growth and meets community needs
- Ensure the City is equitable, resilient, inclusive, and affordable
- Remains a leader in climate adaptation and mitigation
- Continue to grow our economy

Government that Works

- Move towards a structurally balanced budget by identifying expenditure reductions and new recurring revenue sources
- Continue to reduce long-term liabilities
- Effectively manage and leverage state and federal grant dollars and partnerships
- Maintain a strong credit rating
- Promote the growth of minority and women owned businesses
- Embrace innovation in the delivery of City services

Quality of Life

- Protecting the laws and ordinances that encourage diversity and equity
- Ensure quality affordable housing options
- Provide vibrant and enjoyable activity, parks, and recreation centers
- Promote healthy, safe, livable, and connected neighborhoods

Connecting Budget to Strategy – Impactful Benefits of OBB

Data-Driven Decision-making

Help City Leadership make informed choices through increased visibility into departmental budgets, resource allocations, and service provision.

Measurable Results

Focus budget, capital, and spending decisions on specified, measurable results and outcomes.

Linkage to Goals

Link the City's operating budgets, capital improvement plan, and performance metrics to clear, measurable short and long-term goals.

Efficiency

Maximize City resources by eliminating waste, inefficiency, and redundancy within and across departments.

Transparency

Increase public understanding of City programs/services and the value City government provides.

OBB benefits will be increasingly realized as the City's budget processes mature over time

What Has Been Done?

- City-wide Efficiency Study: reviewed Performance Management in FY2025
- Conducted Program & KPI alignment workshops throughout FY2026 to support refining programs and KPIs using outcome-based frameworks
- Introduced "Turn the Curve" workshops to departments in FY2026 through department-level sessions to analyze performance trends, identify drivers, and define actions to improve results
- Progressed updates and alignment of KPIs to improve balance across output, efficiency, effectiveness, and outcomes
- KPI updates and alignment efforts are ongoing across departments, with phased implementation based on readiness for reporting

What are the Next Steps?

- Continue refining Programs & KPIs to strengthen outcome measurement and alignment to strategic objectives
- Expand "Turn the Curve" workshops across departments to strengthen use of performance data in resource allocation and decision-making
- Develop consistent reporting processes and improve data accessibility across departments
- Support departments in implementing and monitoring updated KPIs through FY2027

Advancing KPI Quality and Performance Management Across Departments

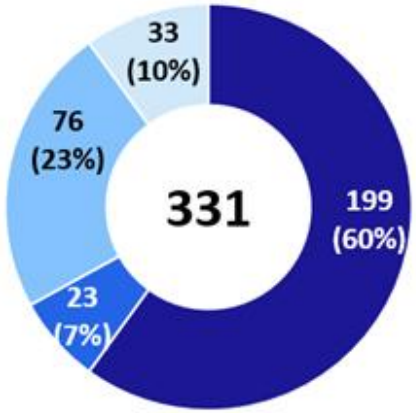
Citywide Engagement

- 21 Departments Engaged (FY2026)
  - Workshops included staff at all levels within a department
  - Discussions on program structure, KPI relevance, and performance challenges

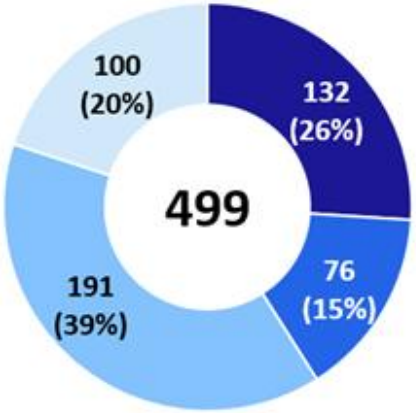
Post Workshop - Program & KPI Refinement Work

- 12 Departments implementing KPI updates that are being incorporated into the FY2027 Budget
  - Improved the balance of KPI types to create a stronger mix of efficiency, effectiveness, and outcome measures rather than predominantly output measures
  - Improvements to communication power, proxy power and data power
- Goal of approx. 5 KPIs per program to provide a fuller performance story

KPIs by type at Start of FY2026*



KPIs by type for FY2027 Budget*



Output Efficiency Effectiveness Outcome

***Note:** the analysis includes DON, HEC, MCD, GSD, HPL, HHS, OBO, FIN, ARA, HR, LGL, and Planning Departments. The remaining City departments not shown here have developed or began refining updated KPIs but deferred reporting in FY27 due to data availability considerations or need for further validation and refinement.

Structural Budget Reforms
Fiscal Year 2027

GOVERNING MILESTONES

JAN 2024	MAY 2024	NOV 2024	FEB - MAY 2025	JUNE 2025	FEB 2026
Mayor Whitmire is sworn in to office	Council passes Ernst and Young assessment of the City of Houston	Ernst and Young assessment is complete Council briefings begin	FY26 budget kickoff process begins Hiring freeze announced Organizational restructuring mandated Voluntary retirement program begun	FY26 budget approved by Council First time the General Fund spent less than the previous year Reflected $100m+ of sustainable reduction to expenditures Settled the Jones/Watson case and began funding infrastructure at ~$500m/yr	FY27 budget kickoff process begins Represents the largest fiscal structural change in decades The first step in creating long term sustainability for Houston's budget

WHY REFORM IS NECESSARY

Property Tax Revenue Caps

- State cap
- Local caps
  (Prop 1 & Prop H)

Local Tax Reductions

- Local cap hit for first time in 2015
- Requires tax rate decrease each year the cap is hit

Population Growth

- Tens of thousands of new residents each year
- Growing demand for services

Increasing Obligations

- Ever rising infrastructure costs
- Consent-decree obligations

Efficiency alone cannot close the structural gaps

WHAT WE ARE DOING

Solid Waste as a Municipal Utility with an Administrative Fee

Right-of-Way Rental Fee

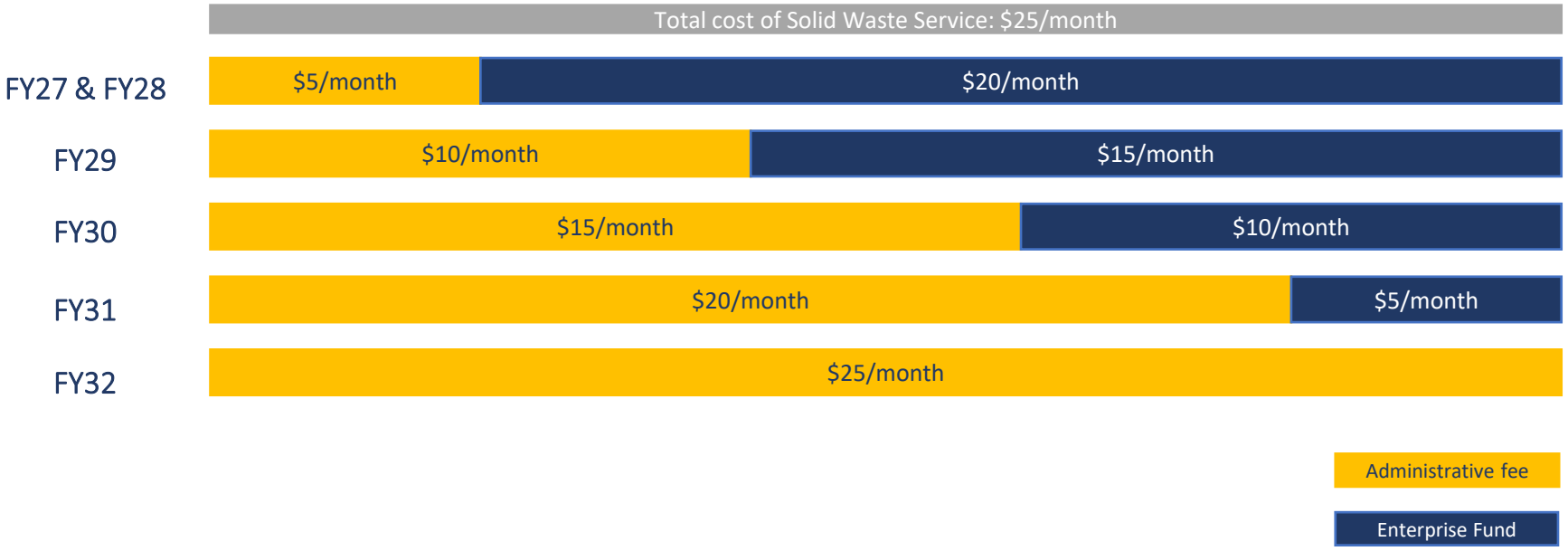
- Both are standard practice in major cities
- Both align costs with service
- Both support structural balance

SOLID WASTE PROPOSED CHANGES

- Designate Solid Waste as a municipal utility
- Gradual fee; start low ($5/hh/month) and increase slowly over time (flat for two years and increase by $5 every year after that)
- Align funding with actual cost of service
- Supports long term fleet, staffing and reliability
- Addresses long term neglect of facilities: transfer stations and residential drop-off centers

Details of the fee

- Solid Waste FY26 budget: ~$107 million with approx. 400k customers
  - Equals $25/household/month
- Fund balance of the enterprise fund will subsidize total costs of the fee to minimize household budget shock
  - Not a permanent solution as the enterprise fund cannot subsidize the solid waste program in perpetuity, therefore the fee must be increased slowly over time to fully fund the cost of service



Details of the fee

$5 is less than what is needed to cover the Administration Costs of the Solid Waste Operations

Source: p. 6-13 of the Burns and McDonnell Study:

To minimize financial impacts to households, the City may consider implementing a residential fee that only covers the cost of administration. If the City chooses to transition to a special revenue fund, the remainder of the cost would remain covered by the General Fund. However, if the SWMD were to join a combined utility system, the remaining cost would be covered by the utility. Over time, the City can increase fees to cover a larger portion of operational costs and better reflect the cost of providing the service. Table 6-22 presents the monthly fee that would need to be charged to customers to cover administration costs, both including and excluding a Clean City fee.

Table 6-22: Fee Needed to Cover Administration Costs (FY 2027)

Fee Type	Monthly Administration Cost Including Clean City Fee	Monthly Administration Cost Excluding Clean City Fee
Residential	$2.01	$7.57
Clean City Fee	$2.56	$0.00
Total Monthly Fee Paid by Residents	$4.57	**$7.57**

Solid Waste fees across the state

Major Texas cities with a fee
San Antonio: ~$19 - $35/month
Dallas: ~$40/month
Austin: ~$28 - $65/month
Fort Worth: ~$14 - $26/month
El Paso: ~$17 - $19/month
Corpus Christi: ~$17 - $40/month
Arlington: ~$20/month

Major Texas cities without a fee
Houston: no fee

Surrounding cities with a fee
Pasadena: ~$34/month
Sugarland: ~$24/month
League City: ~$22/month
Pearland: ~$23/month

RIGHT-OF-WAY PROPOSED CHANGES

- Combined Utility System pays a standardized rental fee for occupying public Right-of-Way
- Public streets are shared public assets
- The City already charges private utilities (electricity, natural gas, cable, telephone, solid waste haulers, etc.)
- Proposed fee will be 5% of gross revenues or $104 million in FY2027
- Every other major city in Texas has an analogous fee

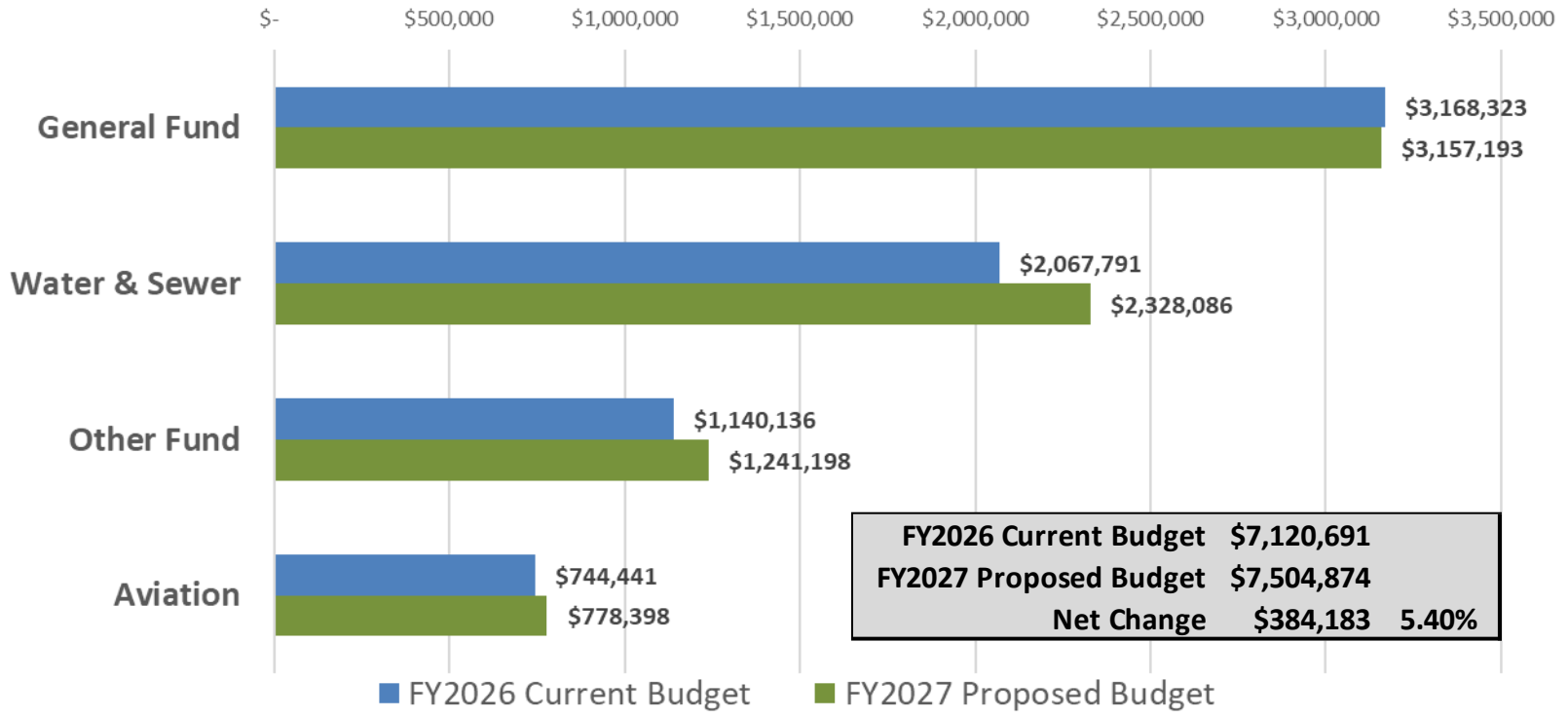
ROW fees across the state

Major Texas cities with a fee
San Antonio CPS: 14% of gross revenues
San Antonio Water: 4% of gross revenues
Dallas: 6% of gross revenues + PILOT
Austin Energy: 12% of gross revenues
Austin Water: 8.2% of gross revenues
Fort Worth: 5% of gross revenues
El Paso: 10% of gross rev

Major Texas cities without a fee
Houston: **no fee**

Fiscal Year 2027
Budget Overview

Citywide Expenditures Comparison Including Debt Service & PAYGO
($ in thousands)



Note:
Expenditures Budget above represents the total budget including General Fund, Special, and Enterprise Funds. Total does not include Service Chargeback and Internal Service Funds.

Long Term Liabilities

Pension Reform

- The pension liability now stands at $1.7 billion. The FY2027 proposed budget includes contributions to the pension plans that will continue to address decreasing the liabilities over time.

- 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.

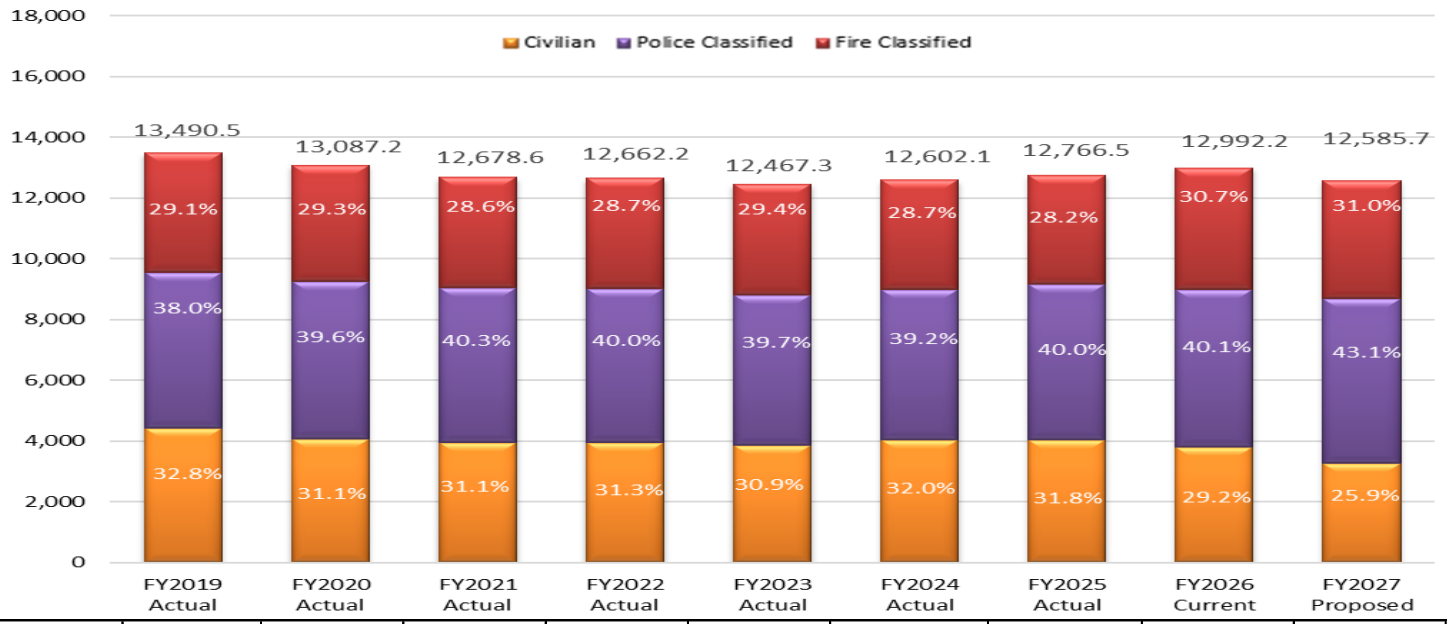
- The three pension systems are healthier today - municipal, police, and fire because of the Mayor's support during his time in State Legislature.

OPEB Reform

- The OPEB liability now stands at $1.8 billion. The FY2027 Proposed Budget includes a contribution of $12.5 million to the newly established OPEB trust, 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 contributions to the trust are estimated to further reduce the liability down to $1.1 billion by year 2048.

General Fund Full-Time Equivalents



Civilian	4,430.4	4,071.2	3,940.2	3,967.7	3,849.5	4,037.2	4,054.0	3,795.5	3,265.2
Police Classified	5,128.0	5,177.2	5,111.0	5,064.0	4,955.7	4,945.4	5,109.6	5,203.7	5,424.6
Fire Classified	3,932.1	3,838.8	3,627.4	3,630.5	3,662.1	3,619.5	3,602.9	3,993.0	3,895.9
Grand Total	**13,490.5**	**13,087.2**	**12,678.6**	**12,662.2**	**12,467.3**	**12,602.1**	**12,766.5**	**12,992.2**	**12,585.7**

Notes:

- FY2020 and FY2021 includes lower FTEs due to redeployment funded out of CRF.
- FY2026 Budget and FY2027 Proposed Budget includes cadet classes (5 police, 9 fire in FY2026 and 5 police, 11 fire in FY2027).

General Fund Budget

- This budget includes:
  - 10.5% Fund Balance of expenditures less debt service and pay-as-you-go transfers, above the desired minimum of 7.5% ($77.4 million above the minimum 7.5%)
  - 3.5% pay raise for municipal employees
  - 3% pay raise for fire classified
  - 8% pay raise for police classified
  - Funds **for cadet classes**:
    - five (5) police cadet classes and eleven (11) fire cadet classes
  - Three fully funded pension systems
  - Better reflection of where Overtime will end up Classified Police ($6.6M) and Classified Fire ($9.1M)
- This budget includes:
  - Fund balance drawdown for FY2027 as we continue to work on efficiencies and expenditure reductions in preparation for FY2028
  - No one-time land sales nor payment deferrals
  - Replenishment the remaining of the budget stabilization fund in FY2027.

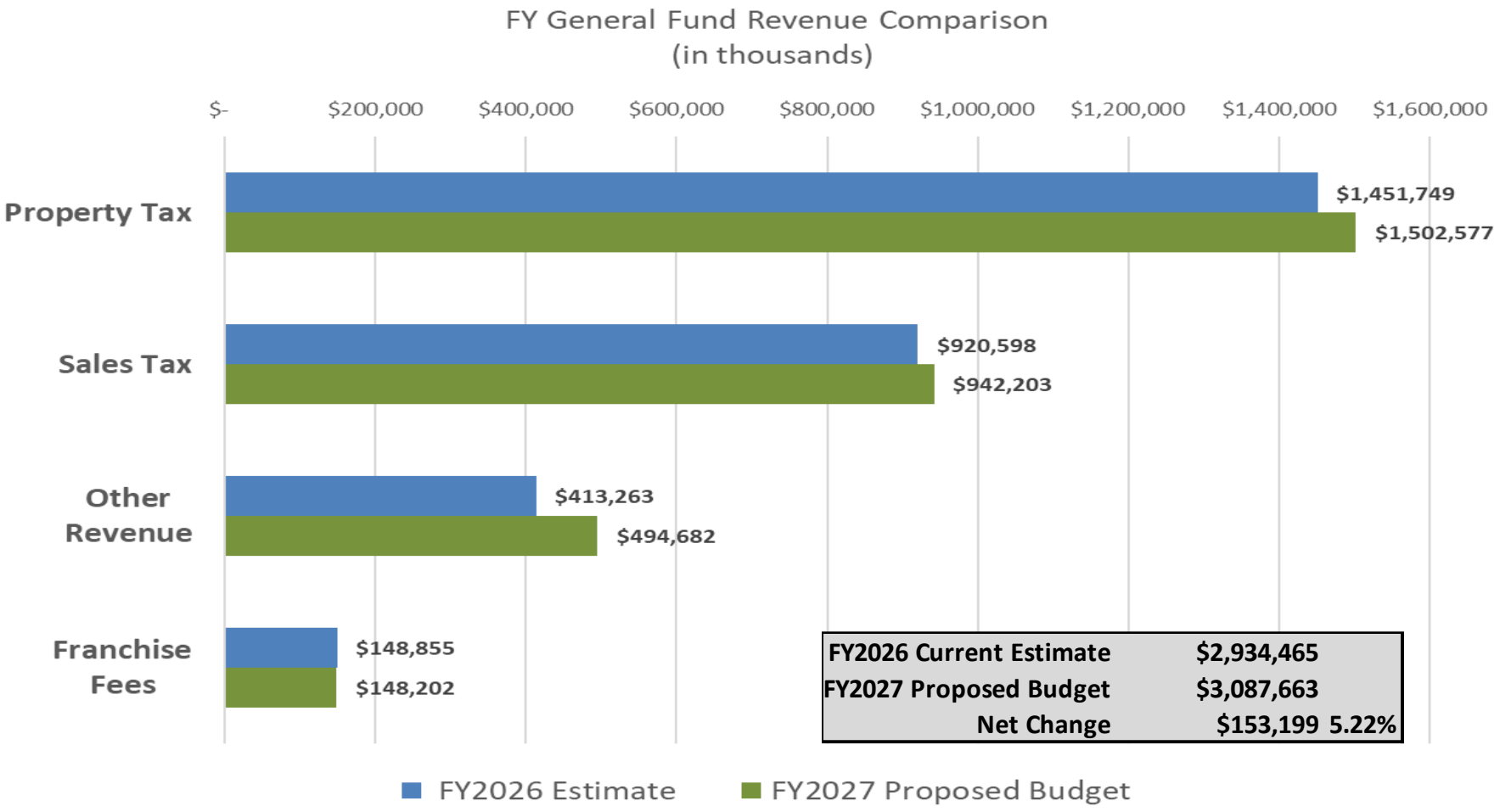
FY2027 General Fund Revenue
Including Other Resources
Net Change vs FY2026 Estimates

FY2027 General Fund Revenues - Net change to FY26 Estimates ($ in thousands)	
FY2026 Estimates incl. Other Resources	$2,984,113
FY2027 Proposed Budget incl. Other Resources	$3,131,900
Incremental Increase/(Decrease)	**$147,787**
	4.95%
Revenue Increases/(Decreases):	
Intergovernmental[1]	$98,618
Property Tax[2]	$50,828
Sales Tax[3]	$21,605
Interfund Services[4]	$4,862
Municipal Courts Fines and Forfeits[5]	$326
License and Permits[6]	($11,155)
Charge for Services[7]	($5,556)
Transfer from Other Funds[8]	($5,149)
Miscellaneous/Other[9]	($4,802)
Franchise Fees[10]	($653)
Interest[11]	($535)
Other	($340)
Sale of Capital Assets[12]	($262)
Net Change of Revenues	**$147,787**

Notes:

1. Increase mainly due to Right-of-Way Fee revenue from CUS based on 5% of gross CUS revenues.
2. Increase due to taxable value growth assumption.
3. Increase due to higher sales tax receipts.
4. Increase primarily in Airport Police Services.
5. Increase primarily in suspended sentence fees.
6. Decrease primarily due HHD Consumer Health revenues (food dealer permits, special food permits and mobile food vendor licenses) realignment to HHD SRFs, and SWD dumpster permits revenue transfers to CUS as Solid Waste Department being restructured as a division within Houston Public Works.
7. Decrease primarily due to extra container garbage fee transfers to CUS as Solid Waste Department being restructured as a division within Houston Public Works, and HHD certified copies fees transfers to HHD SRF as department's program realignment.
8. Decrease primarily in municipal service fee collection for Greater Houston TIRZ.
9. Decrease primarily due to anticipated lower CenterPoint Energy case rate reimbursement and Verizon rebates.
10. Decrease primarily due to lower consumption in telephone and cable TV franchise fee and offset with an increase in electric franchise fee.
11. Decrease due to anticipated lower cash receipts.
12. Decrease due to anticipated lower sale of capital assets.

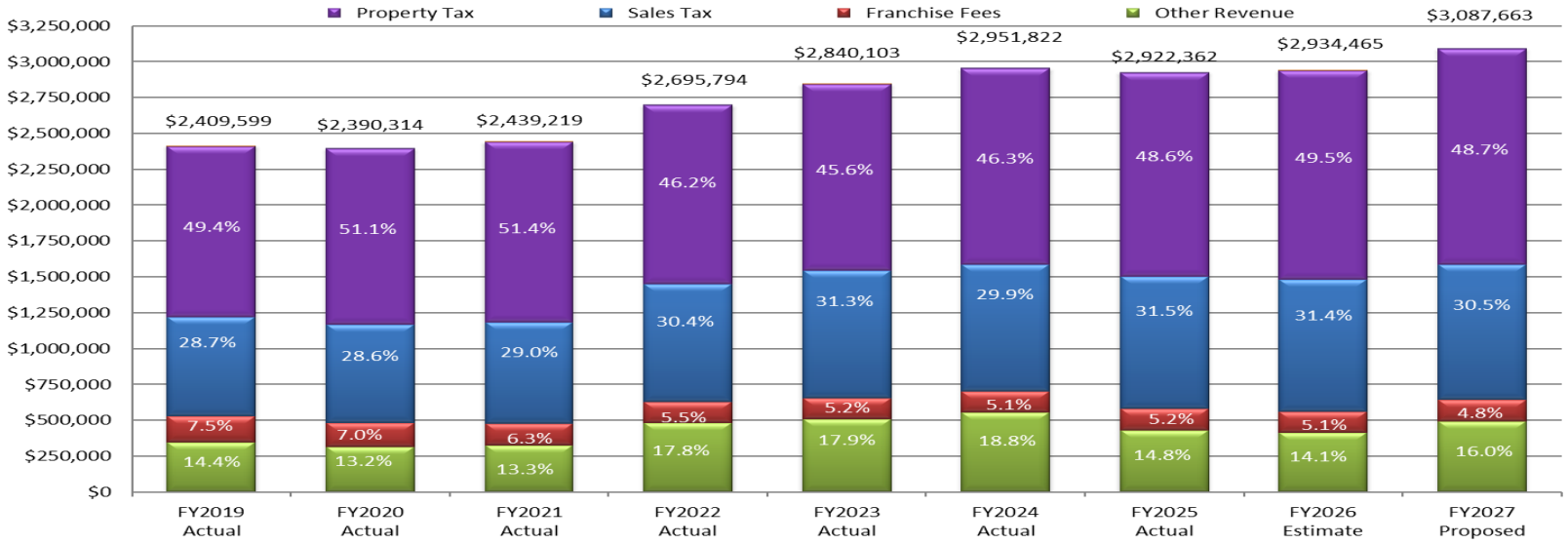
FY2027 General Fund Revenue
Excluding Other Resources ($ in Thousands)



Note:

- Does not include Other Resources, such as Sale of Capital Assets and Transfers from Other Funds.

General Fund Revenues
Excluding Other Resources
FY2019 – FY2027 ($ in Thousands)



Property Tax	$ 1,190,243	$ 1,222,154	$ 1,254,016	$ 1,244,722	$ 1,295,496	$ 1,365,607	$ 1,420,881	$ 1,451,749	$ 1,502,577
Sales Tax	$ 692,271	$ 684,425	$ 706,829	$ 820,622	$ 889,039	$ 883,132	$ 919,289	$ 920,598	$ 942,203
Franchise Fees	$ 179,640	$ 168,135	$ 153,600	$ 149,519	$ 148,160	$ 149,152	$ 151,138	$ 148,855	$ 148,202
Other Revenue	$ 347,445	$ 315,600	$ 324,774	$ 480,932	$ 507,409	$ 553,931	$ 431,055	$ 413,263	$ 494,682
Total GF Revenues	**$ 2,409,599**	**$ 2,390,314**	**$ 2,439,219**	**$ 2,695,794**	**$ 2,840,103**	**$ 2,951,822**	**$ 2,922,362**	**$ 2,934,465**	**$ 3,087,663**
Change YOY ($)	**$ -**	**$ (19,285)**	**$ 48,905**	**$ 256,575**	**$ 144,309**	**$ 111,719**	**$ (29,460)**	**$ 12,102**	**$ 153,199**
Change YOY (%)	**0%**	**-0.80%**	**2.05%**	**10.52%**	**5.35%**	**3.93%**	**-1.00%**	**0.41%**	**5.22%**

Note: Excludes Other Resources.

Notes:

- *FY2022 Actual, FY2023 Actual, FY2024 Actual, FY2025 Actual and FY2026 Estimate includes $139.4 million, $162.6 million, $160 million, 15.1 million and $2.6 million from ARPA funding relative to revenue reduction due to COVID-19 public health emergency, respectively.*

Historical Property Tax Rates

Proposition 1 + H

- Passed in 2004 and 2006
- The lesser of:
  - 4.5% growth in property tax revenue, OR
  - Prior year's cap plus CPI + Population growth

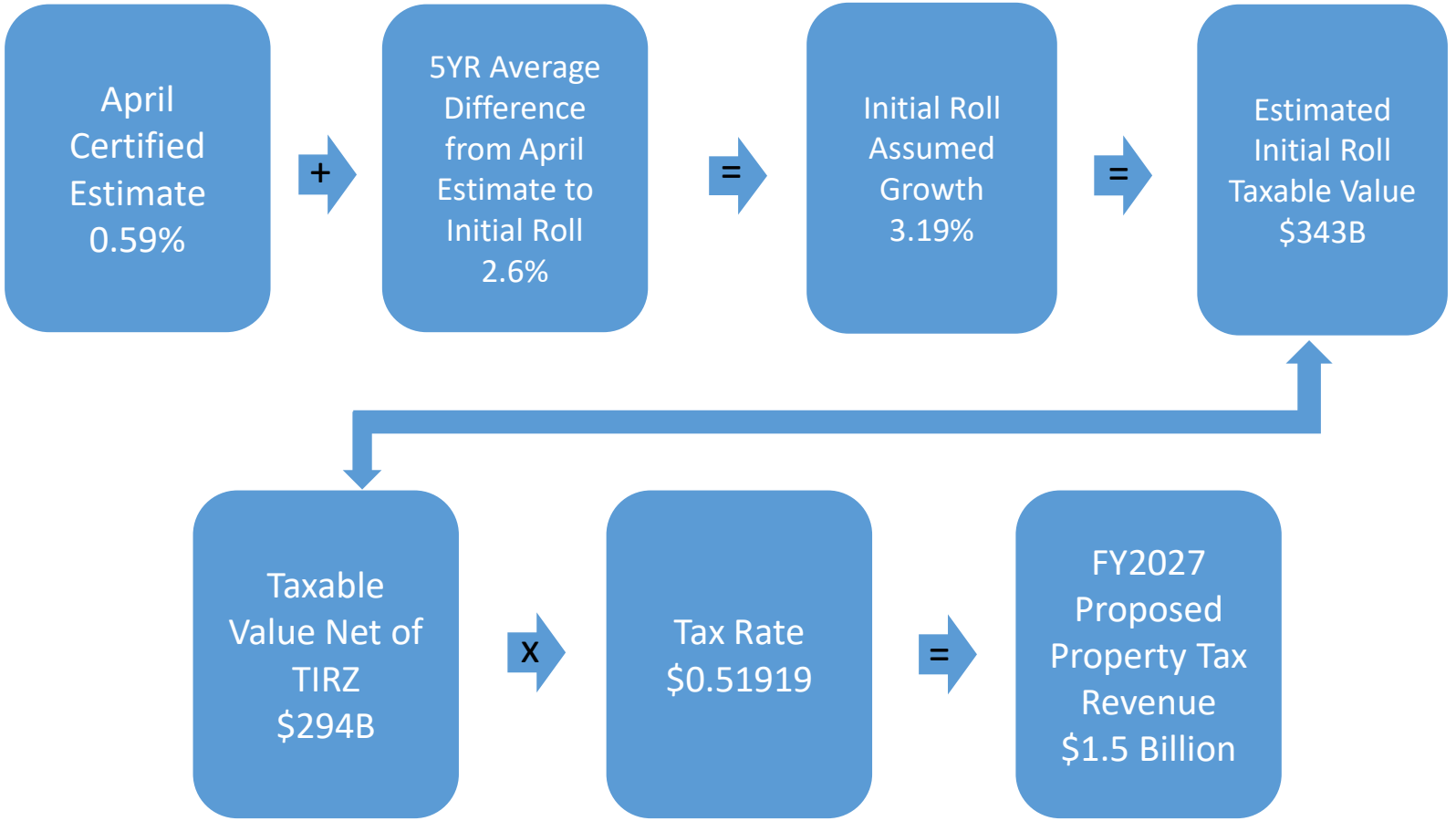
State Revenue Cap – SB2

- First impacted in 2021
- 3.5% increase of M&O property tax revenue over the previous year

Property Tax Revenue

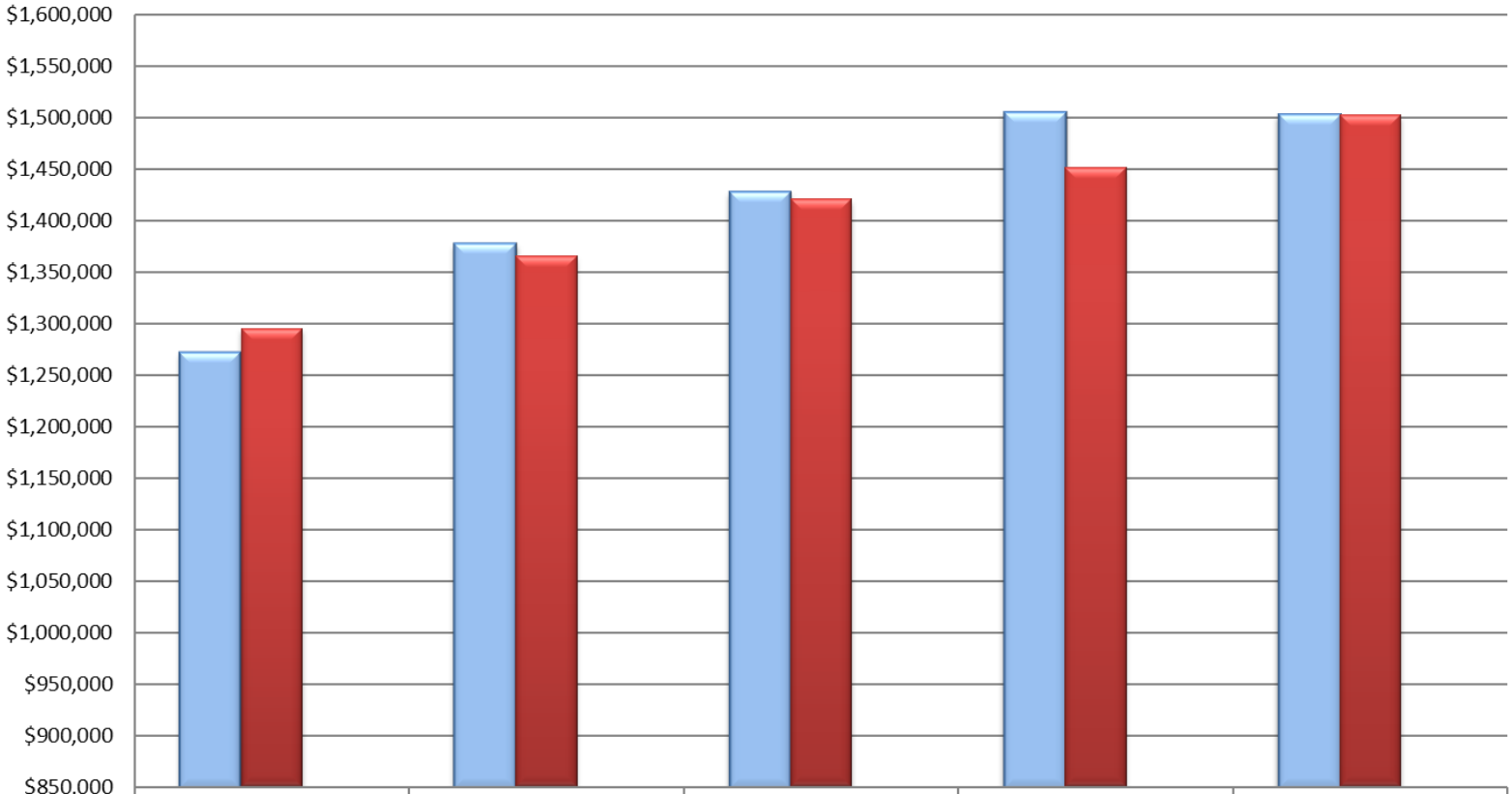
- Assumptions:
  - Proposed budget of $1.50 billion, an increase of $50.8 million compared to than FY2026 estimate.
    - Assumes no increase to the tax rate ($0.51919 per $100 of assessed valuation)
    - The increase is only attributable to an assumption on the growth in value, as set by the appraisal districts
  - Estimated taxable value for the City of Houston is $343 billion. Further information on the roll will be received in late Summer.
  - The estimated taxable value net of the tax increment agreements is $294 billion.
  - This is $20 million **below** the Prop 1 + H cap
    - Population data from U.S. Census Bureau as of July 1, 2025, has yet to be received. Therefore, the Finance Department applied the inflation rate of 1.29% plus 0% growth for population for purposes of calculating Proposition 1.
  - Over 65/Disabled exemption currently stands at $260,000.

Property Tax - Taxable Value



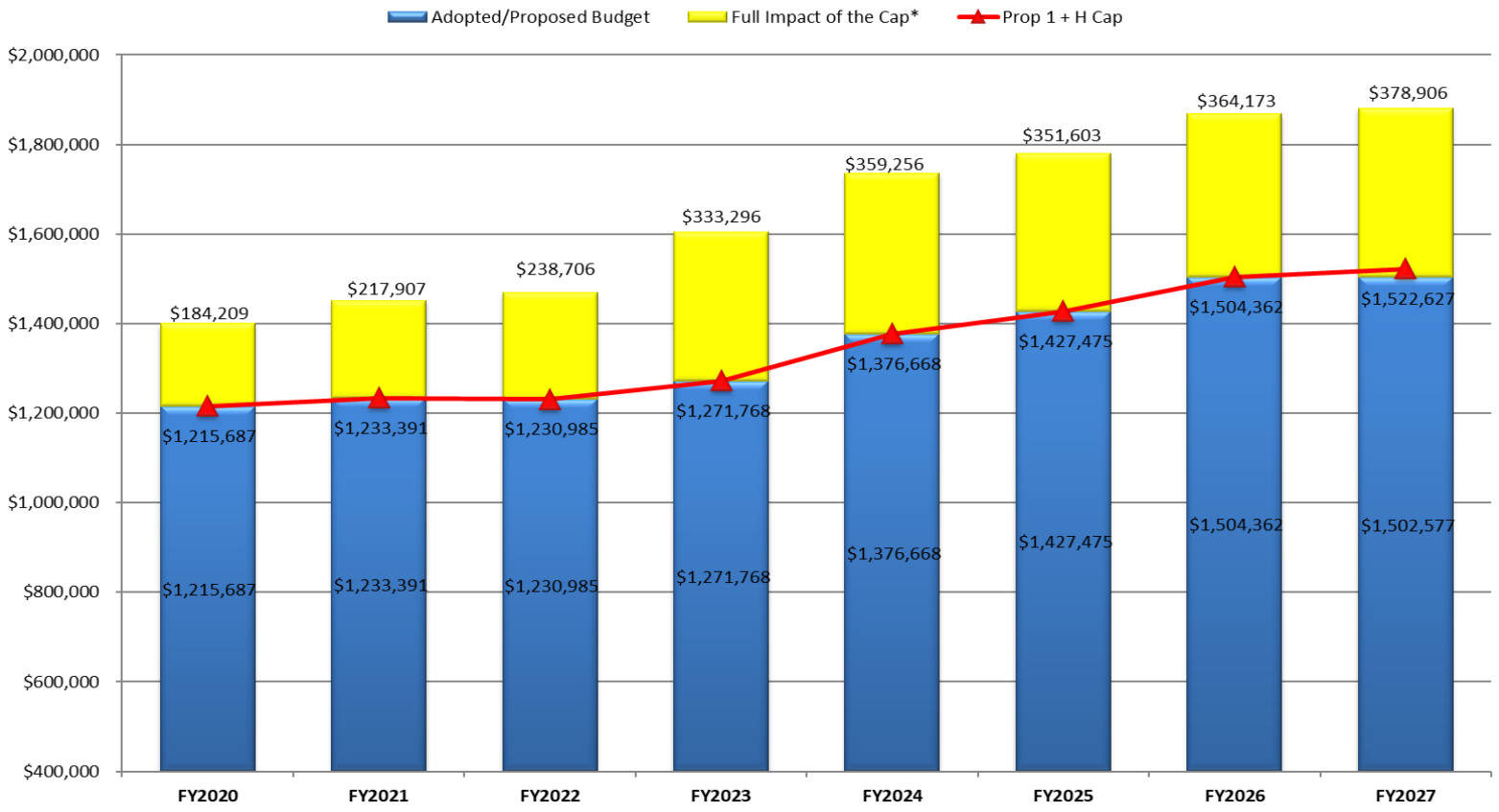
Trends in Property Tax Revenues

FY2023 - FY2027 ($ in Thousands)



	FY2023 Actual	FY2024 Actual	FY2025 Actual	FY2026 Estimate	FY2027 Proposed
Adopted/Proposed Budget	$1,271,768	$1,376,668	$1,427,475	$1,504,362	$1,502,577
Actual/Estimate	$1,295,496	$1,365,607	$1,420,881	$1,451,749	$1,502,577
Variance: Over/(Under)	$23,728	$(11,061)	$(6,594)	$(52,613)	$0

Adopted Budget vs. Charter Cap
FY2020 - FY2027 ($ in Thousands)



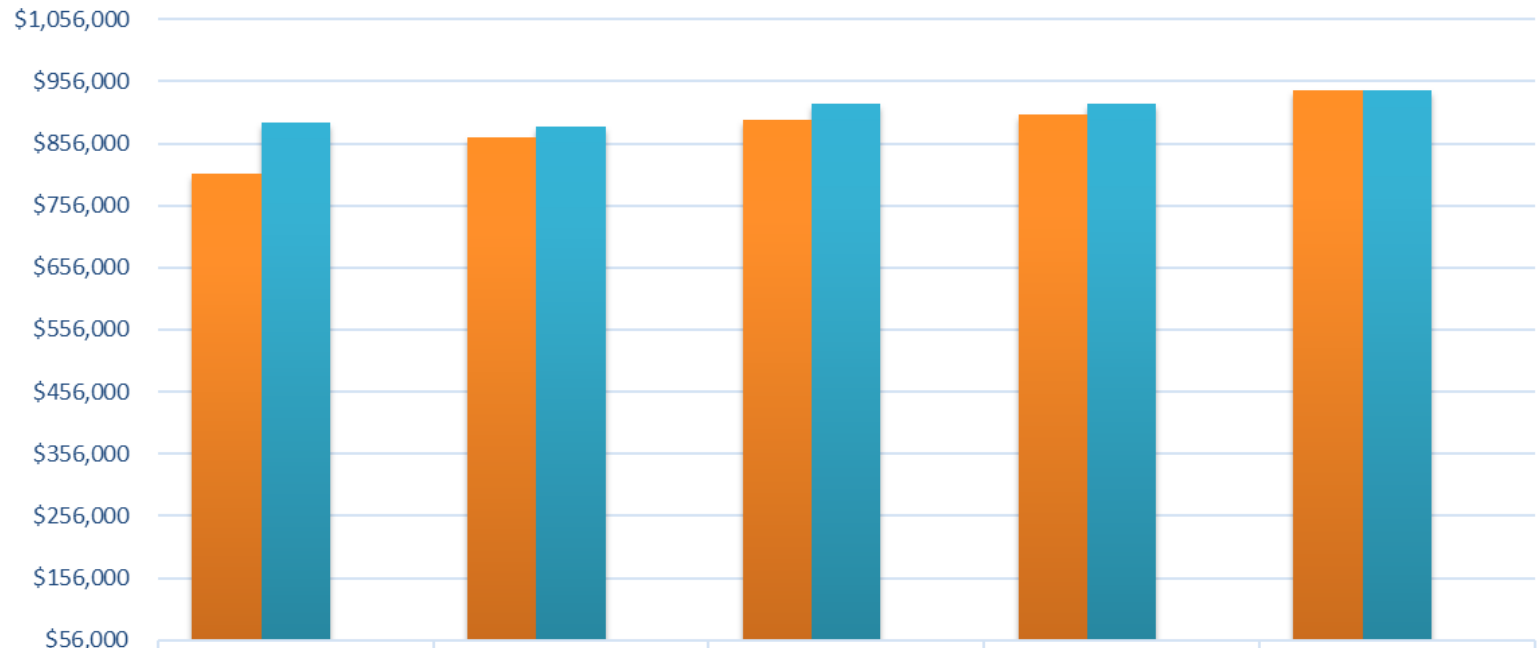
Property Tax Revenue	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Adopted/Proposed Budget	$1,215,687	$ 1,233,391	$1,230,985	$1,271,768	$1,376,668	$1,427,475	$1,504,362	$ 1,502,577
Prop 1 + H Cap	$1,215,687	$ 1,233,391	$1,230,985	$1,271,768	$1,376,668	$1,427,475	$1,504,362	$ 1,522,627
Full Impact of the Cap*	$ 184,209	$ 217,907	$ 238,706	$ 333,296	$ 359,256	$ 351,603	$ 364,173	$ 378,906

* Since FY2015, the full impact of the property tax revenue cap is $2.9 billion.
* The estimated annual revenue cap tax relief for the average homeowner is $419. Cumulative savings since the inception of the revenue cap is $2,916.

Sales Tax Revenue

- Assumption:
  - 2.4% increase from FY2026 estimates.
  - Key drivers of sales tax revenue includes employment, consumer spending, and oil and gas activity.
  - We are expecting to see an increase in sales tax earnings in the first quarter of the fiscal year because of World Cup activities happening throughout the City.
  - We will continue to closely monitor the effects of Federal Government changes and ongoing war with Iran, to local economic indicators which subsequently impacts sales tax revenues.

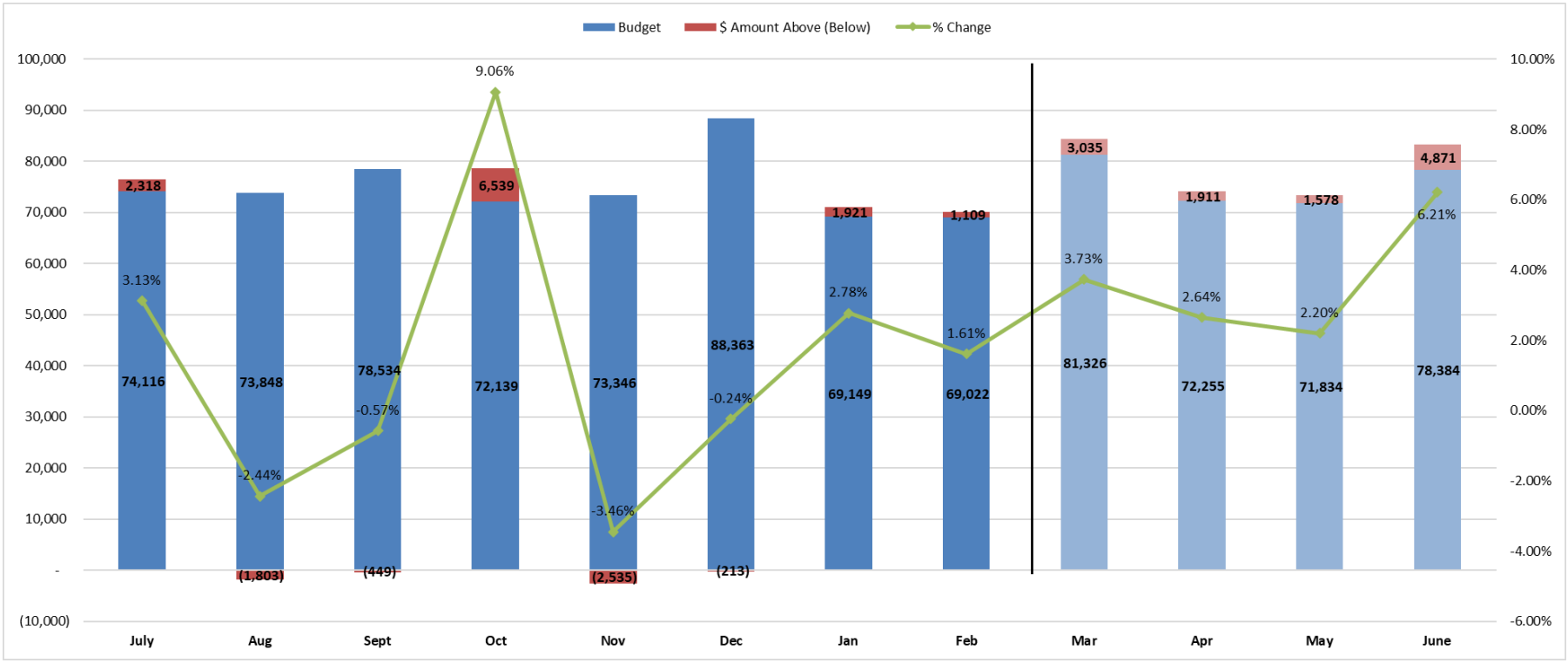
Trends in Sales Tax Revenues
FY2023 - FY2027 ($ in Thousands)



	FY2023 Actual	FY2024 Actual	FY2025 Actual	FY2026 Estimate	FY2027 Proposed
Adopted Budget	$806,920	$865,593	$893,382	$902,316	$942,203
Actual/Estimate	$889,039	$883,132	$919,289	$920,598	$942,203
Variance: Over/(Under)	$82,119	$17,540	$25,907	$18,282	$0

FY2026 Sales Tax
Budget vs Actual ($ in Thousands)

- The remaining months would need to come in 1.24 % below prior year to meet the current estimate of $920.6M.

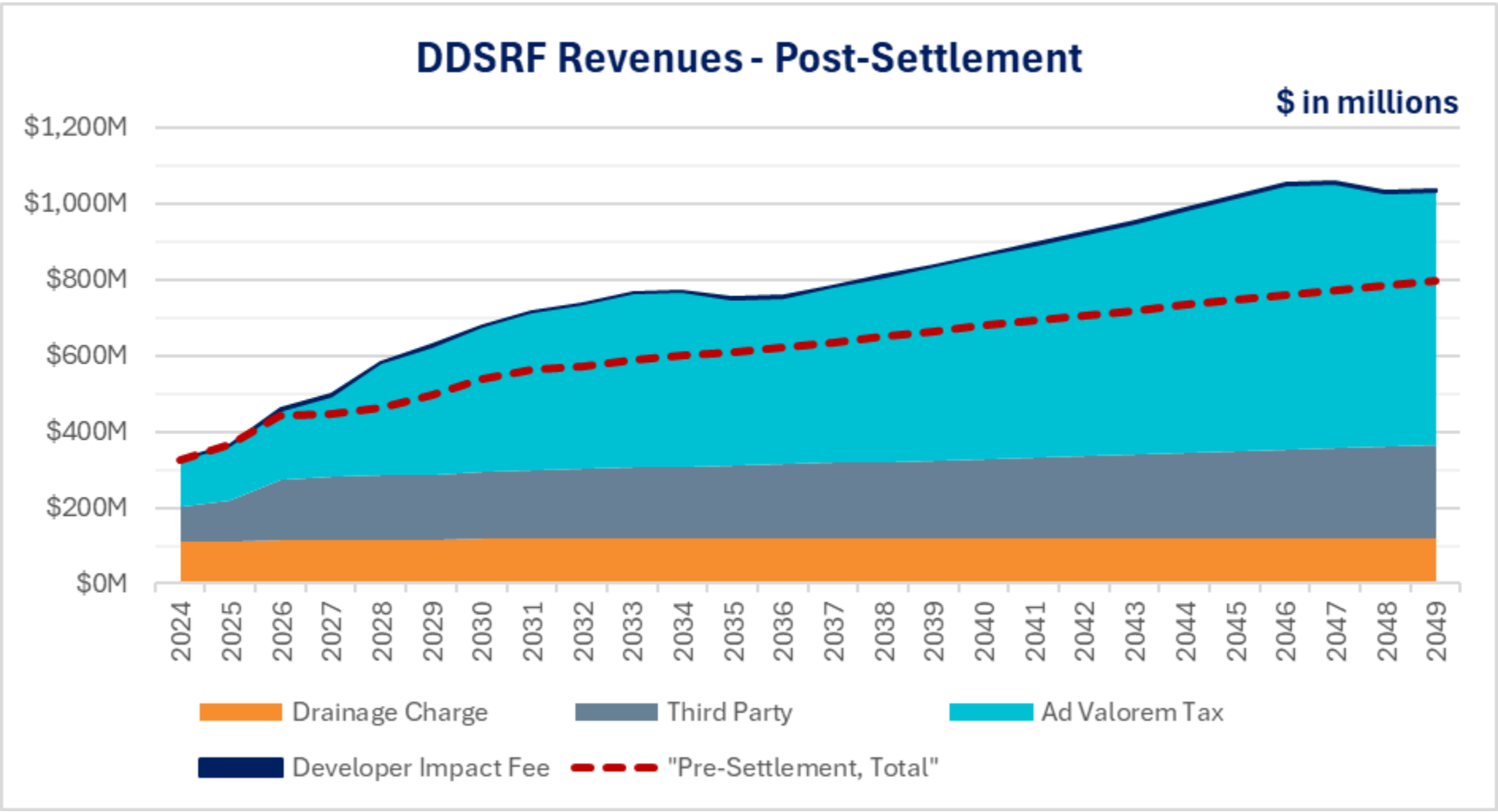


FY2027 General Fund Expenditures
Net Change vs. FY2026 Current Budget

FY2027 General Fund Expenditures - Net Change vs. FY2026 Current Budget ($ in thousands)		
FY2026 Current Budget		$3,168,323
FY2027 Proposed Budget Incl. Other Resources		$3,157,193
Incremental Increase/(Decrease)		**($11,130)**
		-0.35%
Operating Budget Adjustments	**Notes**	
SWD being restructured as a division within HPW	1	($104,299)
HFD Classified Overtime, Equipment for New Cadets, Termination Pay, Phase Down Overage Adjustment	2	($46,568)
Budget Reduction	3	($12,609)
Programs reallocation	4	($10,515)
Adjustment for approved FY2026 Budget Amendment	5	($3,080)
Other Services & Charges	6	($6,188)
Employee Compensation	7	$89,924
Health Benefits	8	$22,005
Pension	9	$19,196
Service Chargeback	10	$9,127
OPEB Trust	11	$2,142
Subtotal Operating Budget		**($40,864)**
Operating Budget Adjustments		
Captured Revenue Transfer to DDSRF		$31,197
Debt Service		($1,463)
Subtotal Debt Service and PAYGO		**$29,734**
Net Change of Expenditures		**($11,130)**

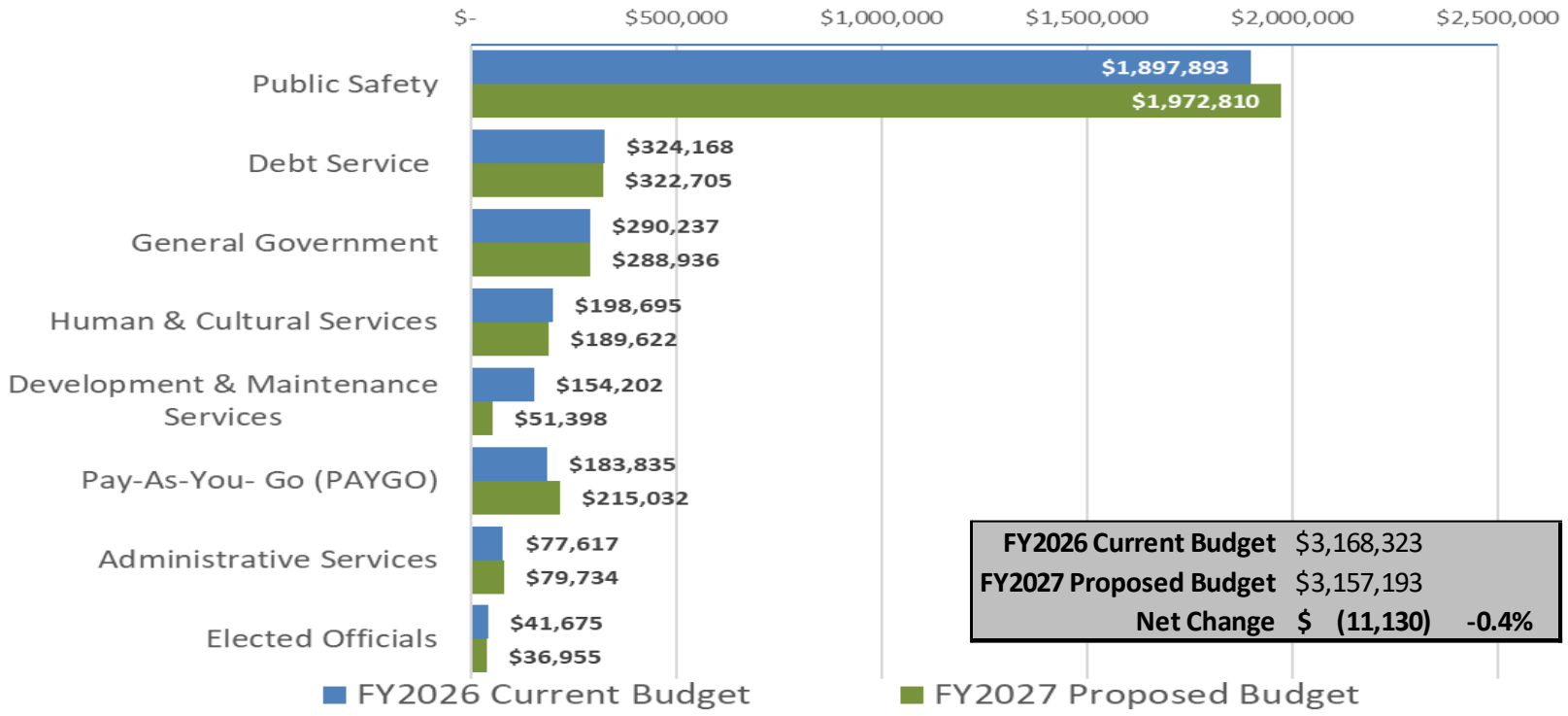
Note:
1. Solid Waste Department being restructured as a division within CUS Houston Public Works Department.
2. HFD Classified Overtime, Equipment for New Cadets, Termination Pay, Phase Down Overage Adjustment.
3. Citywide General Fund Budget Reduction for personnel, supplies and services.
4. HHD Consumer Food and Vital Statistics program realignment.
5. Adjustment for approved FY2026 Budget Amendment for Transfer to SWAT program.
6. Includes reduction for category management, transfer to MRR and 611 rental.
7. Includes the cost for employee pay raises: Fire Classified - 3%, Police Classified - 8% and Municipal - 3.5%.
8. Driven by rates increase.
9. Driven by staffing and pay increases.
10. Includes increased costs for interfund chargeback for HITS, HR client services, and vehicle services.
11. OPEB contribution.

Dedicated Drainage Street Renewal



General Fund Expenditures Comparison Including Debt Service & PAYGO

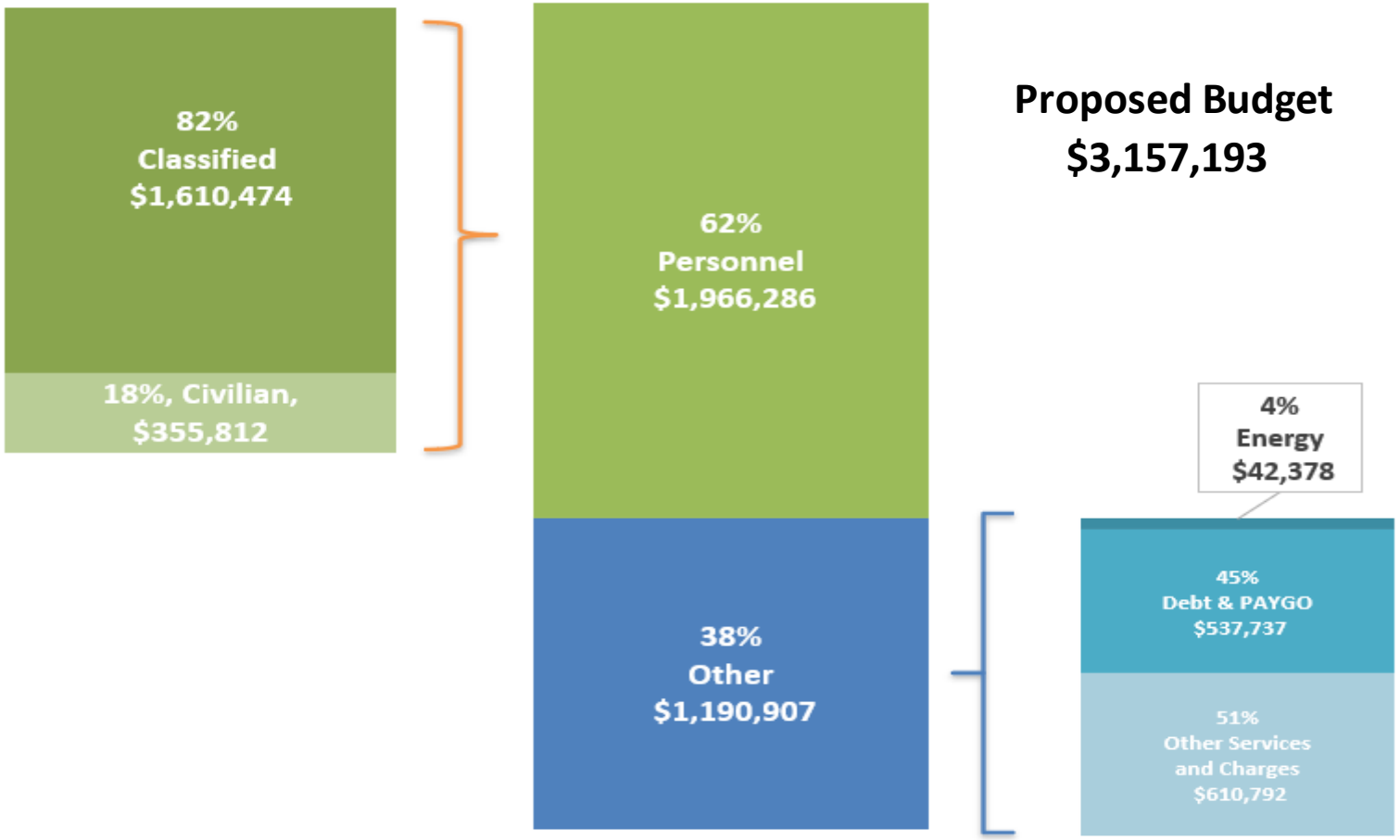
($ in Thousands)



Public Safety: Police, Fire, Houston Emergency Center (HEC), Municipal Courts

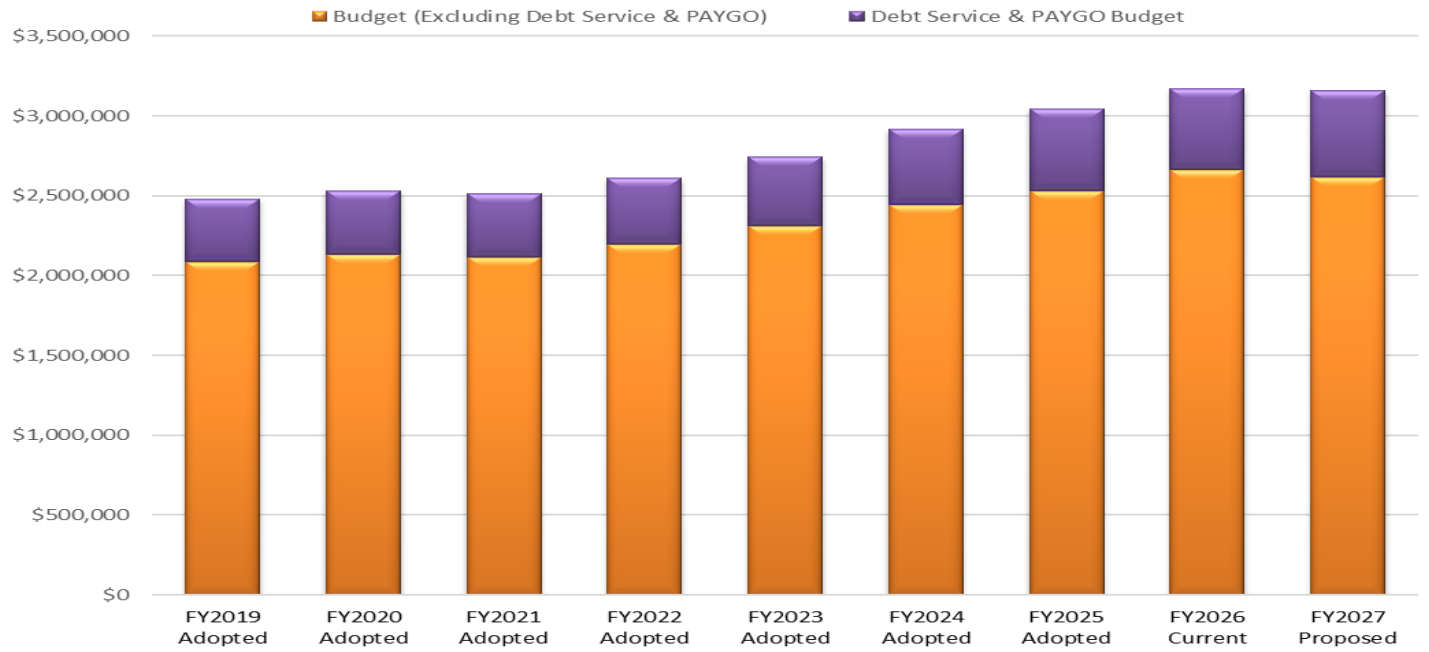
Other: General Services, Planning & Development, Houston Public Works, Houston Health Department, Housing, Library, Neighborhoods, Parks, Administration and Regulatory Affairs, Controller, City Council, City Secretary, Finance, Human Resources, Legal, Mayor's Office, Office of Business Opportunity

FY2027 General Fund Expenditures
Personnel vs. Non-Personnel Comparison
($ in Thousands)



Note:
Includes items such as salary, FICA, pension, health benefits, overtime, workers' comp, other pays, temp personnel, etc.

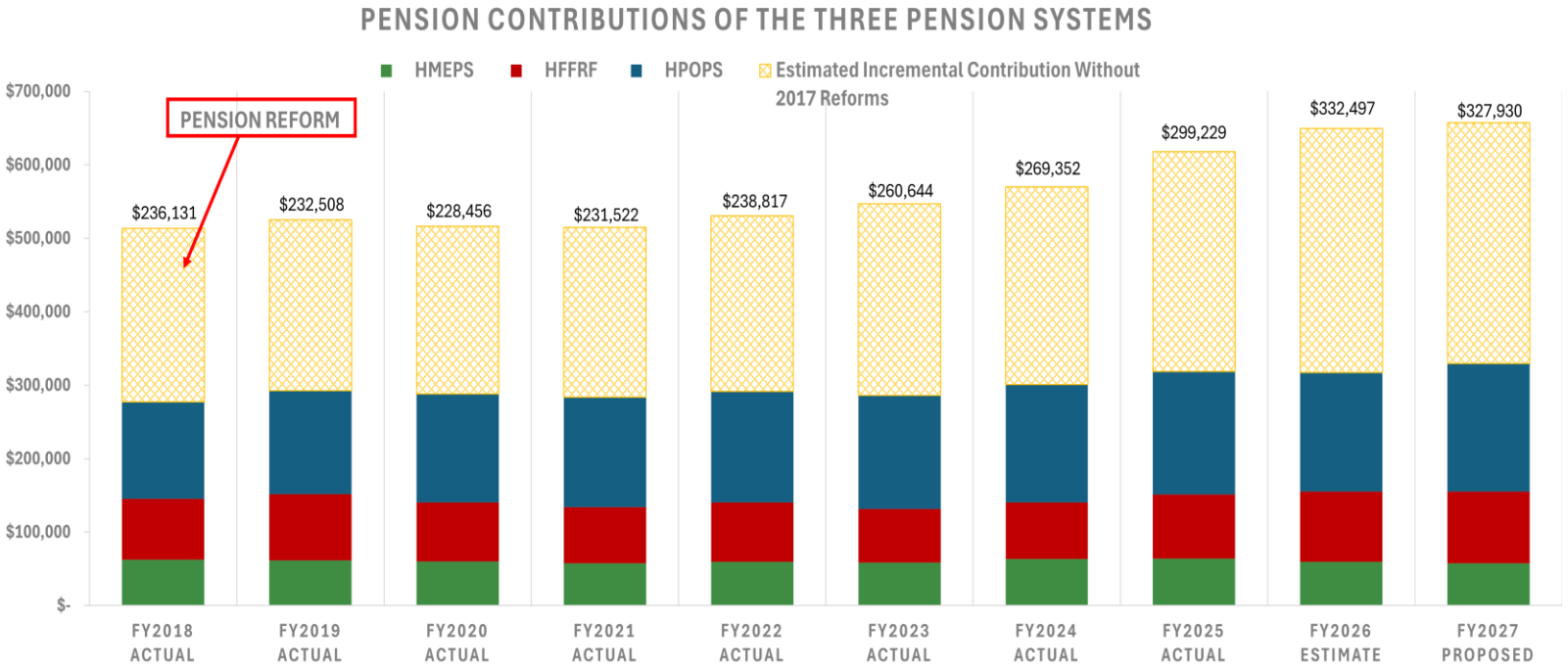
FY2019-FY2027 General Fund - Historical Expenditure Budget



Budget (Including Debt Service & PAYGO)	$2,479,414	$2,531,094	$2,512,745	$2,609,959	$2,743,547	$2,916,623	$3,046,428	$ 3,168,323	$ 3,157,193
Budget (Excluding Debt Service & PAYGO)	$2,086,669	$2,131,891	$2,115,101	$2,194,327	$2,308,657	$2,441,319	$2,530,031	$ 2,660,320	$ 2,619,456
Debt Service & PAYGO Budget	$ 392,745	$ 399,203	$ 397,644	$ 415,633	$ 434,890	$ 475,303	$ 516,397	$ 508,003	$ 537,737
Change YOY ($)	**$ -**	**$ 51,680**	**$ (18,348)**	**$ 97,214**	**$ 133,587**	**$ 173,076**	**$ 129,805**	**$ 121,895**	**$ (11,130)**
Change YOY (%)	**0%**	**2.08%**	**-0.72%**	**3.87%**	**5.12%**	**6.31%**	**4.45%**	**4.00%**	**-0.35%**

In FY2021, some costs in General Fund were transferred to CARES Act Fund.

General Fund Pension Contributions
FY2018- FY2027 ($ in Thousands)

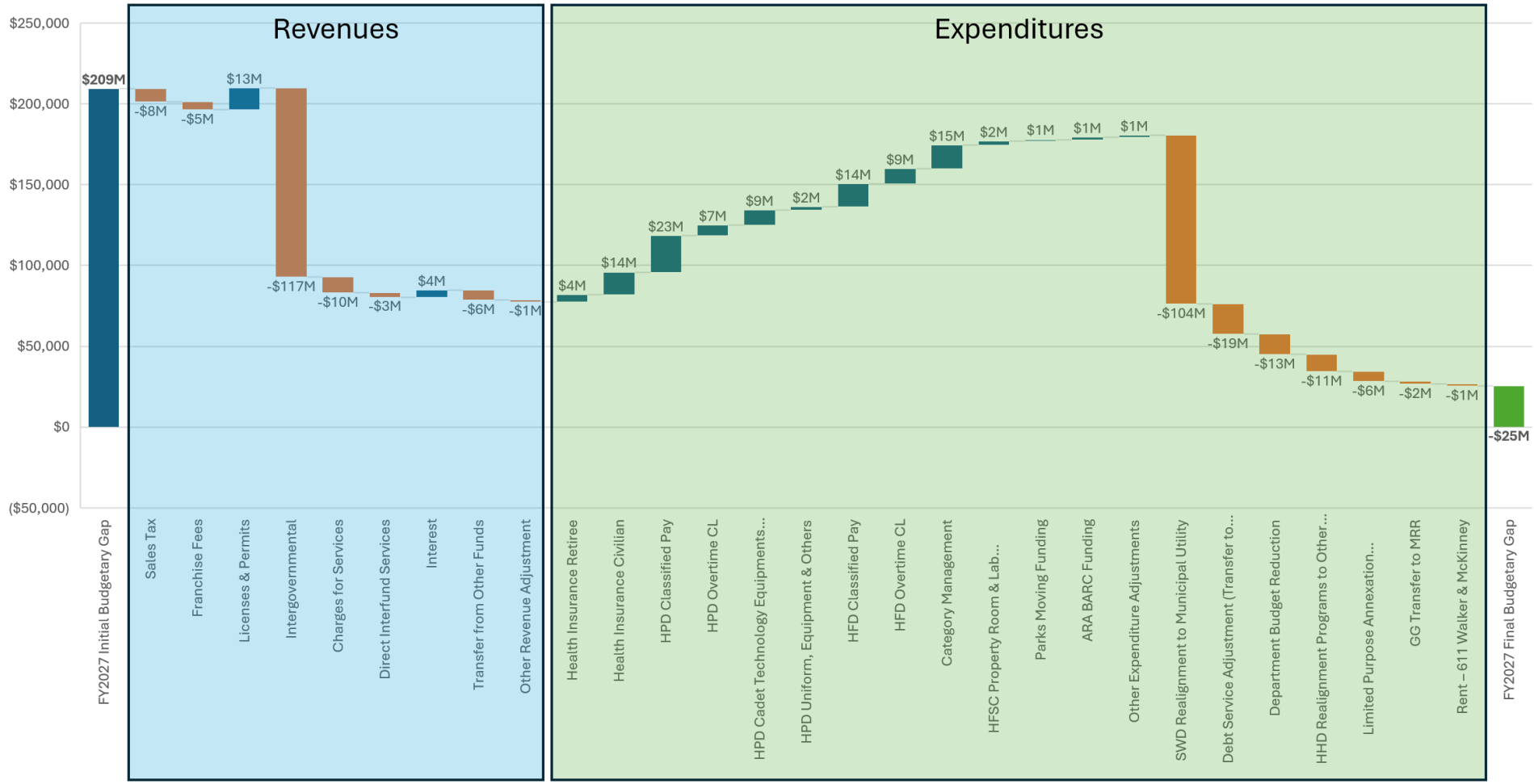


HMEPS	$ 62,643	$ 61,682	$ 59,814	$ 57,586	$ 59,745	$ 58,479	$ 63,681	$ 64,190	$ 59,624	$ 57,816
HFFRF	82,940	89,902	80,760	$ 76,293	$ 80,427	$ 72,868	$ 76,610	$ 87,203	$ 95,631	$ 97,619
HPOPS	131,645	141,096	147,487	$ 149,641	$ 151,557	$ 154,686	$ 160,347	$ 167,474	$ 161,759	$ 174,082
Pension Contributions	**$ 277,228**	**$ 292,680**	**$ 288,062**	**$ 283,520**	**$ 291,729**	**$ 286,033**	**$ 300,638**	**$ 318,867**	**$ 317,014**	**$ 329,517**
Change YOY ($)	(28,344)	15,452	(4,619)	(4,541)	8,209	(5,696)	14,605	18,230	(1,853)	12,503
Change YOY (%)	-9.3%	5.6%	-1.6%	-1.6%	2.9%	-2.0%	5.1%	6.1%	-0.6%	3.9%
Estimated Incremental Contribution Without 2017 Reforms	$ 236,131	$ 232,508	$ 228,456	$ 231,522	$ 238,817	$ 260,644	$ 269,352	$ 299,229	$ 332,497	$ 327,930
Total Estimated Contribution Without	515,196	526,665	517,869	516,703	530,546	546,677	569,990	618,096	649,511	657,447

Notes:

- FY2018 Actual excludes $910 million Pension Obligation Bonds for General Fund.
- The full impact of pension reform on City's General Fund contribution is $2.66 billion.

Addressing FY2027 Budgetary Gap



Addressing FY2027 Budgetary Gap

($ in thousands)

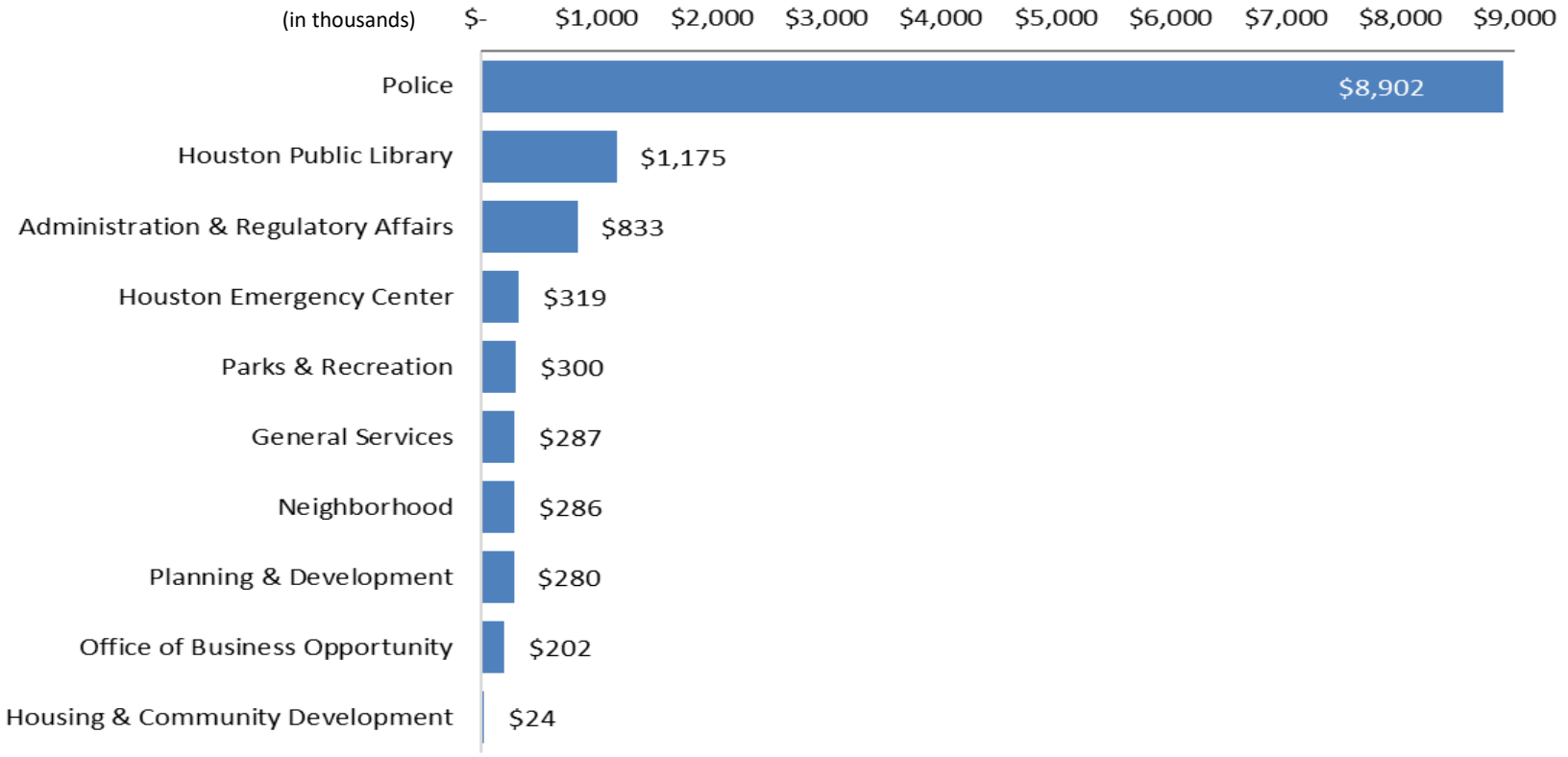
FY2027 Initial Budgetary GAP	**$**	**209,326**
Revenue Adjustments		
Sales Tax	$	8,136
Franchise Fees	$	4,744
Licenses & Permits[1]	$	(13,388)
Intergovernmental[2]	$	116,926
Charges for Services[3]	$	9,740
Direct Interfund Services[4]	$	2,708
Interest	$	(4,441)
Transfer from Other Funds[5]	$	6,433
Other Revenue Adjustment	$	841
Total Revenue Adjustments	**$**	**131,697**
Expenditure Adjustments		
SWD Realignment to Municipal Utility	$	(104,299)
Debt Service adjustment including Transfer to PIB Bonds - SWD to CUS	$	*(18,769)*
Department Budget Reduction	$	(12,609)
HHD Realignment programs to other funds	$	(10,515)
Limited Purpose Annexation Payment & Chapter 380 payment	$	*(6,058)*
GG Transfer to MRR	$	*(1,764)*
Rent - 611 Walker & McKinney	$	*(1,216)*
Health Insurance Retiree	$	*4,121*
Health Insurance Civilian	$	14,126
HPD Classified Pay	$	22,577
HPD Overtime CL	$	6,617
HPD cadet technology equipments & other related HITS services	$	9,320
HPD Uniform, equipment & others	$	1,986
HFD Classified Pay	$	14,270
HFD Overtime CL	$	9,119
Category Management	$	14,650
HFSC Property Room & lab operations	$	*2,400*
Parks mowing funding	$	*1,101*
ARA BARC funding	$	1,280
Other Expenditure Adjustments	$	1,326
Total Expenditure Adjustments	**$**	**(52,337)**
FY2027 Final Budgetary GAP	**$**	**25,292**

Notes:

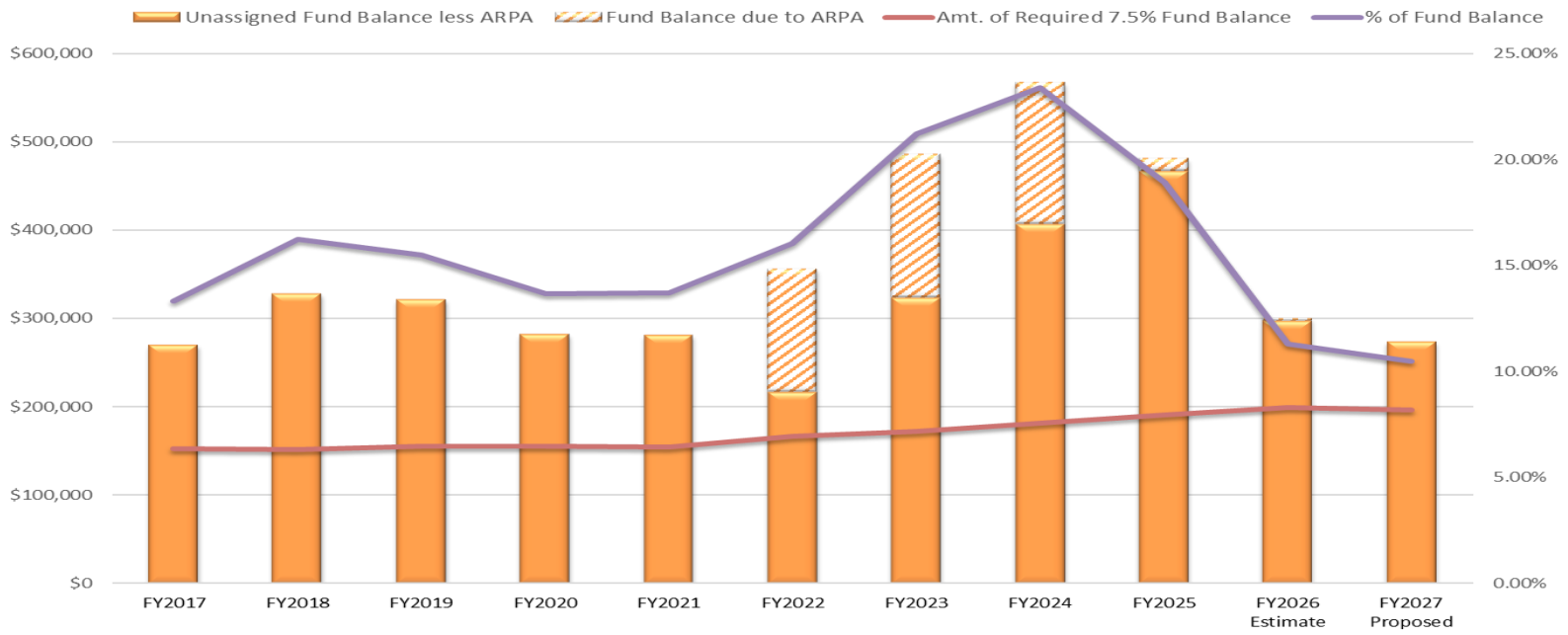
1. Decrease in SWD dumpster permit being transfer to HPW $3M and HHD Consumer Health revenues realignment to other HHD SRF $8M.
2. Increase in Right of Way revenues $104M and MSF-TIRZ $16M
3. Increase in charges for services offset by decrease in extra container/non residential garbage fee being moved to HPW and HHD Vital Statistic for certified copies fees realignment to other HHD SRF.
4. Increase in interfund reimbursement from airport for fire protection services and police services.
5. Increase in transfer from special revenue fund for Traffic Enforcement $2.6M, transfer from trust $3.2M, and transfer from Parking Mgmt $700K.

Department Budget Reductions – General Fund

Total Savings
$12,608,616



General Fund Unassigned Ending Fund Balance FY2017 - FY2027



Unassigned Fund Balance	$ 269,558	$ 328,346	$ 321,436	$ 282,068	$ 281,202	$ 356,332	$ 485,383	$ 566,726	$ 480,864	$ 299,911	$ 273,822
Fund Balance due to ARPA	$ -	$ -	$ -	$ -	$ -	$ 139,436	$ 162,575	$ 160,000	$ 15,106	$ 2,589	$ -
Unassigned Fund Balance less ARPA	$ 269,558	$ 328,346	$ 321,436	$ 282,068	$ 281,202	$ 216,896	$ 322,808	$ 406,726	$ 465,759	$ 297,322	$ 273,822
Amt. of Required 7.5% Fund Balance	$ 151,972	$ 151,587	$ 155,450	$ 154,765	$ 153,812	$ 166,432	$ 171,465	$ 181,541	$ 190,755	$ 199,272	$ 196,459
% of Fund Balance	13.30%	16.25%	15.51%	13.67%	13.71%	16.06%	21.23%	23.41%	18.91%	11.29%	10.45%
M&O Expenditures	$2,026,297	$2,021,156	$2,072,672	$2,063,529	$2,050,824	$2,219,090	$2,286,200	$2,420,540	$2,543,406	$2,656,966	$2,619,456

Notes:

- FY2018 7.5% fund balance requirement was adjusted to exclude $910 million Pension Obligation Bonds.
- FY2022 - FY2025 includes the use of ARPA funding relative to revenue reduction due to COVID-19 public health emergency.

FY2026 Ending Performance

Fund Balance (amounts expressed in thousands)

Category	FY26 Adopted Budget*	FY26 Current Projection	FY26 Variance Over/(Under)
Fund Balance - Beginning of Year	$380,798	$480,860	100,062
Changes to Designated Fund Balance	(97)	(97)	-
Budgeted Increase/(Decrease) in Fund Balance	(75,847)	(180,856)	(105,009)
Change in Inventory/Prepaid Items/Imprest Cash	-	-	-
Fund Balance, End of Year	**$304,853**	**$299,907**	**($4,946)**
% of Expenditures Less Debt Service and PAYGO	12.0%	11.3%	-0.7%

General Fund Five Year Forecast
FY2027 – FY2031

Overview

- Shows the projected budget gap range based on a conservative and optimistic growth in revenue
- Does not include one-time land sales
- In compliance with Prop 1+H limitations and holding the senior/disabled exemption at $260,000
- Pension assumptions based on the corridor
- Expenditures include legal mandates, staffing for new facilities, and contractual escalators.

Key Assumptions – Revenue

Revenue Category	FY2027 Proposed	FY2028 - FY2031	Comments
Property Tax Growth %	1.95%	(Low) 1.95% to 1.95% (High)	FY2028 - 2031 estimate is based on a 1.95% taxable value growth.
Sales Tax Growth %	2.4%	(Low) 2.6% to 3.7% (High)	FY2028 - 2031 estimate derived from econometric models which consider the sectors of the Houston economy and estimates of income, prices, population and Primary Metropolitan Statistical Area (PMSA) retail sales Range varies using different assumptions for employment and oil prices.
Franchise Fee Growth %	-0.4%	(Low) -2.7% to -0.8% (High)	FY2028 – 2031 estimate based on historical growth. High range assumes slower decline in franchise fee revenue.
Other Revenue Growth %	20.5%	(Low) 3.2% to 9.3% (High)	FY2028 – 2031 estimate based on historical growth.
One-time sale of Capital Assets $mm	$0.00	(Low) 0.0% to 0.0% (High)	No one-time land sales included.

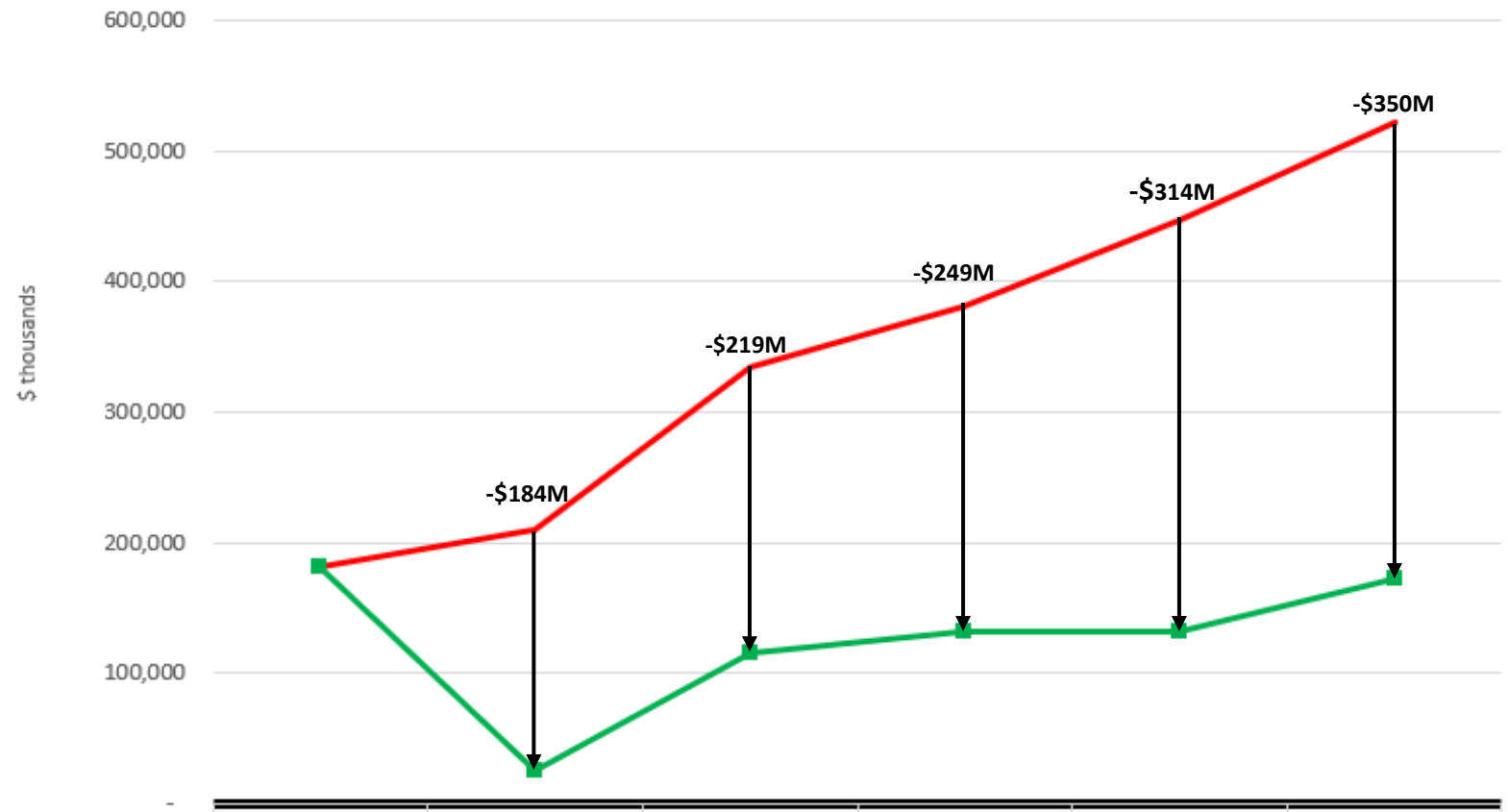
Notes:

Other Revenue Category includes items such as Industrial Assessment, Licenses and Permits, Charges for Services, Interfund Services, Fines and Forfeits

Key Assumptions – Expenditures

Expenditure Category	FY2027 Proposed	FY2028 Forecast	FY2029 Forecast	FY2030 Forecast	FY2031 Forecast	Comments
Personnel						
• Police Classified	8%	6%	6%	6.5%	TBD	Based on Meet & Confer Agreement
• Fire Classified	3%	4%	4%	TBD	TBD	Based on Collective Bargaining Agreement (CBA)
• Municipal Employees	3.5%	TBD	TBD	TBD	TBD	Based on HOPE Meet and Confer Agreement
Pension Contribution						
• HMEPS	8.57%	8.59%	8.61%	8.63%	8.65%	Based on the midpoint of the corridor
• HMEPS Legacy ($mm)	$158	$163	$167	$172	$176	Legacy liability contribution
• HPOPS	27.12%	(Low) 27.13% to 32.14% (High)				Based on min-mid point of corridor
• HFRFF	26.89%	(Low) 26.89% to 31.89% (High)				Based on min-mid point of corridor
Health Benefits						
• Growth %	12.5%	(Low) 4% to 5% (High)				
Total Debt Service and PAYGO ($mm)	$537.7	$618.7	$634.8	$649.2	$687.2	

Current Budget Gap FY2027 - FY2031
($ in Thousands)



	FY2026 Estimate	FY2027 Estimate	FY2028 Estimate	FY2029 Estimate	FY2030 Estimate	FY2031 Estimate
Baseline Gap	180,856	209,326	334,123	381,637	446,727	522,671
Revised Gap	180,856	25,293	114,949	132,160	132,253	172,326

Addressing the Gap – What's Next?

- Limitations
  - Property tax revenue cap in City Charter and State Cap
  - Police and Fire cost make up 68% of General Fund expenditures other than debt/PAYGO
  - Any potential legislative changes
- Short-term
  - Continue to implement recommendations from citywide efficiency assessment
  - Continue hiring control
  - Continue to look for cost collaboration with other levels of government
  - Implement revenue source Right-of-Way fee and transition Solid Waste into the Enterprise Fund removing pressure from the General Fund
- Long-term
  - Develop new revenue sources
  - Continuation of implementation of citywide efficiency assessment
  - Collaborate with other jurisdictions

Letters of Support

Mayor's FY2027
Budget Proposal