



CITY OF HOUSTON

Finance Department

Annise D. Parker

Mayor

Kelly Dowe
Finance Director
P.O. Box 1562
Houston, Texas 77251-1562

T - 832-393-9051
F - 832-393-9116
www.houstontx.gov

July 31, 2013

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

I am pleased to submit the Adopted Budget for the City for the fiscal year, which begins July 1, 2013, and ends June 30, 2014 (FY2014). 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.

Pursuant to the requirements of the City Charter, Mayor Annise Parker's priorities are set out in her letter that accompanied the Proposed Budget that was sent to City Council on May 14, 2013. The purpose of this letter is to describe the budget as adopted by the Houston City Council on June 19, 2013, after budget presentations, collaborative debates, and amendments. The complete list of amendments is provided as an appendix in this document.

The Adopted Budget for FY2014 is balanced as required by City Charter and State law and is aligned with the priorities set by the Mayor and City Council. For the fourth year in a row, the General Fund budget was balanced without the use of pension obligation bonds or issuance of any other long-term debt to meet current expenses, while the property tax rate remains the same as last year.

The use of fund balance is included in the budget to offset the cost increases anticipated in FY2014 while maintaining the full designation of \$20 million to the Rainy Day Fund as well as the preferred General Fund Reserve (ending fund balance divided by operating expenditures before debt service) of 7.5%.

FY2014 BUDGET OVERVIEW

The Adopted Budget includes expenditures for all funds of \$4.1 billion, which is \$267 million (6.9%) above the FY2013 estimate. The largest contributors to this increase are mandatory or contractual obligations including salaries, pensions, health benefits, fuel, and information technology licenses.

GENERAL FUND

The City's General Fund is its largest fund and supports the majority of the basic services of the City, such as police and fire protection, health and human services, waste management as well as library and parks. The largest sources of revenue for the General Fund are property and sales tax, which together produce approximately 71.4% of the total resources for the General Fund. The current tax rate for the City of Houston is 63.875 cents per \$100 assessed valuation. It is unchanged from last year.

The General Fund budget, by department and by revenue source, is shown in the General Fund Summary on page II-2. The total General Fund expenditure budget including debt service is \$2.1 billion, which is \$105.1 million (5.4%) above the FY2013 estimate.

While this is a relatively flat budget from a services perspective, several major highlights in General Fund other than the mandatory or contractual obligations previously mentioned, are as follows:

- Incorporates new funding for the Texas Medicaid Transformation 1115 Waiver Intergovernmental Transfer (IGT) which is offset by revenues as reimbursements are received from the Centers for Medicare and Medicaid Services (CMS),
- Includes funding to support restoration of library hours at 14 neighborhood locations and seven day per week service at the Central Library,
- Reflects funding transfers of Strategic Purchasing Division previously reported under Administration and Regulatory Affairs Department to Finance Department,
- Includes funding transfer to the Houston Forensic Science Local Government Corporation (LGC) as well as funding for maintenance renewal and replacement of General Fund facilities and other capital assets.

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 FY2014 budget. The budget was prepared with conservative revenue projections based on ranges provided by experts such as the Harris County Appraisal District and University of Houston Institute for Regional Forecasting.

Property Tax – As previously stated, the FY2014 budget is based on a property tax rate of 63.875 cents per \$100 assessed valuation. (Tax rates are adopted in the fall for all jurisdictions in Texas, without regard to date a municipality's fiscal year begins.)

Revenue from property taxation is expected to be \$945.4 million, which is approximately \$39.2 million (4.3%) higher than the FY2013 estimate.

Sales Tax – The FY2014 budget projects a sales tax increase as a result of continuing signs of economic recovery. Revenue from sales tax is expected to be \$629.6 million, which is approximately \$34.3 million (5.8%) above the FY2013 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 FY2014.

Public Safety – As part of the Mayor's commitment to public safety, this budget includes \$22.9 million in funding in support of the new independent Houston Forensics Science LGC. Additionally, it includes three cadet classes for the Police Department and five cadet classes for the Fire Department.

Staffing Levels – Table IV, page 18-20 demonstrates the level of Full Time Equivalent (FTE) staffing provided in this budget compared to past years. Citywide staffing, including overtime and straight time FTEs, increased 4.1% compared to FY2013 estimate, while total General Fund staffing is budgeted with a 1% increase.

Compensation – The adopted budget fully funds the contractual increases for classified police, fire fighters, and municipal employees.

General Fund Ending Balance

The FY2014 Adopted Budget includes an ending fund balance of \$137.2 million, which is \$33.3 million (19.5%) below the estimated fund balance for FY2013 estimate. It is maintained at the preferred 7.5% level of expenditures excluding debt service.

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. Security at the three airports continues to be a top priority. 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 Aviation department budget of \$450 million has increased from the FY2013 estimate by approximately \$9.2 million (2.1%) with the majority of the increase in personnel. FY2014 revenue is conservatively estimated to be \$9.2 million higher than FY2013, reflecting increases in concessions, garage parking revenues and rental fees.

Combined Utility System (CUS) – The CUS Fund is managed by the Public Works and Engineering Department 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 \$1 billion has increased from FY2013 estimate by approximately \$68.1 million (7.1%) with the majority of the increase in the debt service category, while the revenue is estimated to be \$54.9 million (5.7%) higher in FY2014.

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 FY2014 expenditure budget is \$3.3 million (3.9%) higher than the FY2013 estimate, while the revenue is estimated to be \$4.6 million (5%) higher in FY2014.

CAPITAL IMPROVEMENT PLAN (CIP)

On June 26th, 2013, a week after the operating budget was adopted, City Council approved a five-year Capital Improvement Plan covering fiscal years 2014 through 2018. The plan incorporates the \$410 million in public improvement bonds that were approved by voters in November 2012; including the Bayou Greenways 2020 project to build 150 miles of parks and trails along Houston's bayous. The plan also allocates approximately \$127 million for facility repairs in an effort to manage long-term operational cost. This effort is being coordinated with \$7.5 million in the operating budget for maintenance, renewal and replacement of capital assets as we tackle both deferred maintenance and fiscally preventative maintenance. As the City continues to strengthen the synchronicity of the capital and operating budget processes, this five-year capital plan encourages a long-term view of the City's finances.

CONCLUSION

The budget described in this document reflects the will of City Council and the Mayor. It rests on the expectation of an improving economy in the City and increased revenues. We look forward to better times, but weathering the storm of poor economic conditions will always be considered in planning for the future as well as our constant dedication to improving core services to the citizens of Houston.

Sincerely,


Kelly Dowe, Director