

THE CONTROLLER'S CORNER



January 2025



Friends,

One year ago, I stood before my fellow Houstonians, took an oath, and accepted my new job as Houston's City Controller.

In this oath, three key promises were made to Houstonians:

- To protect your hard-earned tax dollars and enhance your quality of life through innovative ideas and genuine hard work. Just as you carefully manage your household budget, our office will work to ensure every city dollar is spent wisely and effectively.
- To raise the bar on accountability. This means not only eliminating waste, fraud, and abuse, but also identifying areas where our local government needs improvement and recognizing which communities have been overlooked. It's about taking a comprehensive look at the city's financial health.
- To increase transparency by making complex financial information accessible to all Houstonians. Our goal is to present the city's finances in a way that's clear and understandable without requiring an accounting degree, and to put that information directly at your fingertips.

Our first year was intense. For starters, we approved a massive expansion of Terminal B at Bush Intercontinental Airport. Then, we sounded the alarm when the mayor advanced the most consequential financial deal in Houston's history and credit agencies responded with concern.

Still, I've been in listening-and-learning mode. My team is studying the issues to understand how we can retool local government to meet our community's most pressing needs. We've gotten underneath the hood of our city's financial system to ensure we can navigate it effectively for you.

As we look ahead to the next three years, the City Controller's Office is committed to keeping you informed. Our city faces serious challenges, but I'm confident that together, we can build a brighter and more financially secure future for all Houstonians.

That's why after our first year in office, we're excited to introduce "The Controller's Corner" newsletter. It's our way of sharing progress and insights with you regularly. But remember, this isn't a one-way street – my door is always open, and you can reach our office anytime at controller@houstontx.gov.

In the following pages, you'll find updates on the work being done by your Controller's Office over the course of our first year in office. I look forward to hearing your thoughts and ideas as we work together to make Houston an even better place to call home.

Yours in service,

A handwritten signature in blue ink, appearing to read "Chris Hollins".

Chris Hollins
City Controller



ADVANCEMENT IN TRANSPARENCY



Delivering the monthly financial report for June 2024 to the Mayor and City Council.

Making Sense of Cents: Why the City's Sales Tax Matters to Houstonians

Whenever you're out shopping, I'm sure you notice the 8.25% sales tax at the cash register. I still remember biking to the corner store as a kid knowing that the 99¢ snack I craved was going to cost an outrageous \$1.07!

Well, that sales tax funds government. 6.25 cents goes the State of Texas, one cent goes to METRO, and the last penny finds its way to the City of Houston. Those pennies add up – last fiscal year, the City's share of sales taxes was over \$880 million, accounting for nearly 30% of the revenue in the General Fund.

And since the General Fund is so important (it pays for police, firefighters, parks, trash pickup, and other essential services), it's critical that we accurately project how much sales tax revenue we expect in months and years to come.

As your City Controller, I've introduced a more comprehensive approach to our office's sales tax projections. This isn't just about numbers – it's about empowering our city's decision-makers and you, our citizens, with clearer insights into Houston's financial future.

Here's what we're doing differently – we now provide three revenue projection scenarios:

- Conservative: Preparing for potential challenges
- Base: Our most likely outlook
- Optimistic: Exploring our growth potential

Our projections consider real-world influences like oil prices, employment rates, and inflation. We're looking at Houston's economy from all angles. These scenarios aren't just more charts and graphs for City Council to glaze over. They're tools to foster meaningful discussions about our city's financial health and future.

Why does this matter to you?

By offering a range of potential outcomes, we're opening up a more nuanced conversation about Houston's finances.

This approach allows us to:

- Better prepare for various economic circumstances;
- Make more informed decisions about city services and investments; and
- Engage in proactive financial planning rather than reactive problem-solving.

I believe that by presenting a fuller picture, we can work together to more effectively address our city's financial challenges and seize its opportunities.

Navigating the Firefighters' Settlement: A Balancing Act

Back in March, the Controller's Office hosted its first press conference addressing the proposed settlement with the firefighters' union, announced by the Mayor on Feb. 29.

While we recognized the proposed agreement as a step toward ending the longstanding dispute, it was equally crucial to assess the broader fiscal implications given the city's critical budget shortfall, expected to total more than \$200 million this year.

Months later, the proposed Collective Bargaining Agreement was released two days before the anticipated vote at City Council. With many questions left unanswered regarding the details of the agreement, our office could not immediately certify the availability of funds for the deal.

Over the course of two weeks, our office performed its due diligence on the agreement, gathered necessary information to understand it, and certified the availability of funds on June 17, 2024.

City Council approved the billion-dollar agreement, which called for \$650 million in backpay to firefighters (on average, \$150,000 per firefighter) an immediate 10% raise, and up to 34% in raises over five years.

For us this was never a political matter. The insistence on thorough due diligence was not because of opposition to the deal, and my eventual certification was not based on supporting it. Our goal then – as it is now – was to protect Houstonians' tax dollars.

The Mayor and City Council must be clear about how the city plans to pay for this proposed obligation to safeguard our financial future and reduce the risk to essential services and residents' quality of life. Furthermore, a settlement of this magnitude highlighted the need for fiscal responsibility, transparency, and collaboration as we work to address its financial impact.

My office is committed to engaging with stakeholders to develop strategies that protect the city's fiscal health while continuing to prioritize essential services and the well-being of Houston residents.



Touring the Terminal B project, currently underway at Bush IAH.

Ensuring Accountability in IAH's \$2.6B Expansion

Also in March, my office approved funding for United's \$2.6 billion expansion of IAH's Terminal B. From the beginning, our focus was on efficiency, fiscal sustainability, and ensuring that Houstonians were best served under the terms of the agreement.

As Houston's taxpayer watchdog, I will continue to advocate for an increased standard of accountability – and that requires added due diligence when appropriate.

United has been a vital partner in showcasing our city on the global stage and strengthening our local economy for as long as most Houstonians can remember. We're excited to welcome their renewed commitment to our city with the Terminal B expansion project!

Striving for Transparency: Our FY2025 Budget Priorities



Presenting to the BFA Committee during the annual budget workshop.

On May 14, the Mayor proposed the FY2025 Budget, marking the beginning of a month-long budget process. For three weeks, city departments proposed amendments to their budgets, ensuring that every department has the resources needed to provide strong service delivery. Once negotiations were done in mid-June, City Council officially adopted the \$6.7 billion budget that went into effect July 1.

While this new budget gives emphasis to critical areas like public safety and infrastructure, we must acknowledge that the city is still spending more than the revenue it receives.

Essential in addressing the city's long-term fiscal health is seeking solutions for the \$200 million structural deficit the city is facing. We must explore options that close this shortfall, including solutions that reduce costs or generate revenue. We must also prepare for the potential costs

associated with another "rainy day." Unforeseen challenges, such as natural disasters like the Derecho Storm and Hurricane Beryl, have the ability to quickly drain city resources and local leaders' ability to manage recovery efforts or other unexpected challenges.

Two major ratings agencies – Standard & Poor's and Fitch – have responded to the city's financial situation by lowering their respective outlooks on our credit quality from 'stable' to 'negative.' Each agency cited the city's budget shortfall, increased debt obligations, and the lack of a stated plan to increase revenues as reasons for its decision.

While a negative credit outlook is not a downgrade, it indicates a greater than 1 in 3 chance that the city will be downgraded in the near future, which will make it more expensive for the city to borrow necessary funds for major projects.

Balancing the budget will require careful consideration of both expenditures and revenue to ensure the long-term fiscal health of the city. As part of this effort, my office is committed to working with the Mayor and City Council to identify solutions to address the issues Houston faces.

Speaking on the Issues that Matter to You

Since taking office, I have worked diligently to protect your tax dollars and do my part to ensure the financial security of our city. Although our office is proud of the work that we have done so far, we understand that there is always more we can do.

The Controller's Office has made it a point to speak out on the issues that Houstonians care about. Those who have seen our presentation of the City's Monthly Financial Report know that we have not hesitated to address the key issues facing our city. Some of these issues include the financial consequences of the firefighter settlement, funding the responses to the recent natural disasters that left millions without power, preparedness for future natural disasters, and even Proposition B, which was widely supported by Houston voters in the November 2023 elections. This proposition calls on Houston to leave the Houston-Galveston Area Council if the council is unwilling to give Houston proper representation on important funding decisions.

The Controller's Office will remain vocal if taxpayer dollars aren't being well spent or if there is a better way to meet the needs and expectations of our residents. Houstonians deserve nothing less.

City of Houston 2024 Investor Conference

One of the biggest highlights of 2024 was the 9th Annual City of Houston Investor Conference hosted by the Controller's Office. The conference, originally established by Controller Ronald Green, serves as a platform for the City of Houston – along with neighboring cities, counties, and school districts – to showcase ourselves for investors who we hope will help fund major projects in coming years.

This year's Investor Conference was the first conference held in person since the onset of the pandemic, and it was great to welcome attendees back to our great city. It was a tremendous success – attendees got to hear from thought leaders and industry experts from across the nation on issues surrounding Houston's financial future and the investment potential within the Bayou City, the broader Houston region, and the entire State of Texas.

A COMMUNITY FOCUS



Providing water to those affected by natural disasters.



Choir from Texas Southern University performing during Controller's Office Black History Month Program.



Traditional Cantonese dance performance during Controller's Office AAPI Month/Mother's Day Program.



Mexico Folklórico dance ensemble performs at the Controller's Hispanic Heritage Month Celebration.

At the heart of our mission in the Controller's Office is a commitment to engage with every Houstonian and every group of stakeholders. We're not just increasing the volume of our message throughout Greater Houston; we're actively listening to every member of our community.

This commitment took center stage when we hosted our first-ever Budget Town Hall in June. Breaking from tradition, where the Controller's Office has historically remained quiet on budget matters, we felt it was imperative to help community members understand key aspects of the budget and what it means for their daily lives (and pocketbooks!).

After all, the city is spending YOUR money. Just as you balance your checkbook and review your family's spending habits at home, we want to ensure you understand where your money is going and the services that should be available to you.

But our community engagement doesn't stop there. I've had the privilege of joining over 80 groups, clubs, businesses, organizations, and congregations to learn more about what's happening in our community and share insights on what's happening at City Hall. These interactions are invaluable in shaping our understanding of Houston's diverse needs and aspirations.

We're also celebrating the rich tapestry of cultures that make Houston America's melting pot of diversity and inclusion. Our office has hosted events honoring Black History Month, Asian American and Pacific Islander Heritage Month, Mother's Day, and Hispanic Heritage Month. These programs have showcased performing arts and cultural exhibitions and honored individuals whose lifetime contributions have benefited Houstonians. We're excited to continue hosting these gatherings and look forward to more ahead!



Opening holiday gifts with students at MacGregor Elementary School.

Paying it Forward: Giving Back to our Community

When looking back at our first year, some of our proudest moments involved work done to support students at MacGregor Elementary School. The Controller's Office knows a thing or two about investing, and we understand some of the smartest investments that can be made are in the next generation's success.

As students came back to school in August, our Office donated backpacks filled with essential school supplies, helping ensure as many students as possible have the tools needed to excel in the classroom. It's our belief that a young person's access to opportunity shouldn't be based on their parents' economic status and that each one of them should be able to put their best foot forward academically.

Our work with MacGregor Elementary did not stop there. In mid-December, just in time for the holidays, we held our annual Controller's Office Toy Drive and provided gifts for families looking to make their child's holiday season one to remember.

These experiences have made us thankful for all we have as Houstonians – especially during tough times, we're truly blessed to be able to be a blessing to others.

Community Leaders: The Creation of the Labor Advisory Council (LAC)

Our team comes into work day in and day out to do our part in ensuring the success of the City of Houston, but we can't do it alone. A successful and thriving city is built on not only an efficient and hard-working government, but also proactive and caring community leaders, ready to advocate for all Houstonians.

With that vision came the Controller's Office's inaugural Labor Advisory Council (LAC). In August, our office held its first LAC meeting in City Hall, bringing together leaders from various labor communities in the Greater Houston area. The mission of the LAC is to provide a voice for the entirety of the labor community in our local government, and ensure they are supported as they continue to advocate for the rights of millions of workers in the region. Our office is excited and eager to be a champion for Houston workers, and we're grateful for the partnership of a diverse group of labor leaders.