



Trends for FY2025

BUDGET AND FISCAL AFFAIRS

MAY 20, 2024

OFFICE OF CITY CONTROLLER CHRIS HOLLINS

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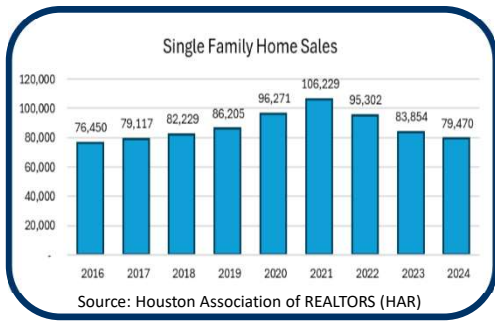
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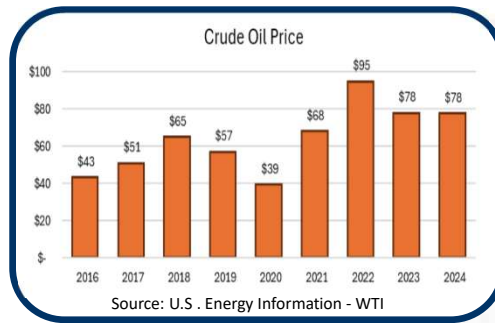


Economic Outlook

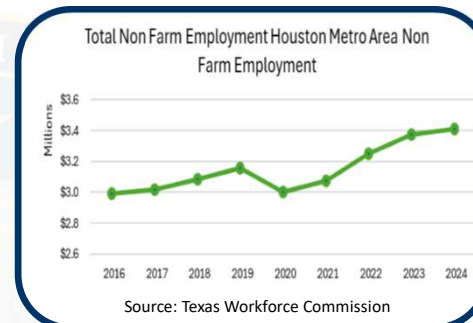
The Houston economy has demonstrated a remarkable resilience in its recovery from the COVID-19 pandemic, but there are signs of a return to pre-pandemic trends.



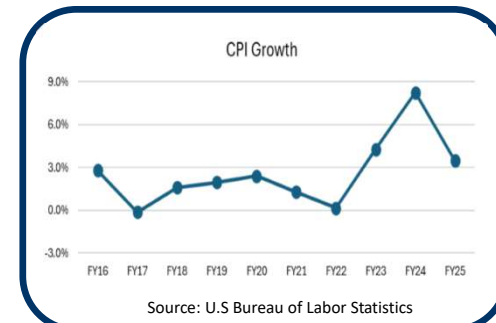
According to HAR, while there was significant growth in housing inventory and moderation in pricing in 2023, the surge of mortgage interest rates to 20-year highs led many prospective buyers to postpone purchasing plans or shift to rental. As 2024 commences, our housing market remain stable, although uncertainties persist due to potential Federal Reserve actions on interest rates and lingering consumer concerns about inflation.



Oil prices have exhibited relative stability, fluctuating between \$70 and \$89 per barrel over the past 12-months.



Although the Houston job market remains robust, the latest forecasts from the Greater Houston Partnership indicate a potential slowdown in employment growth for 2024.



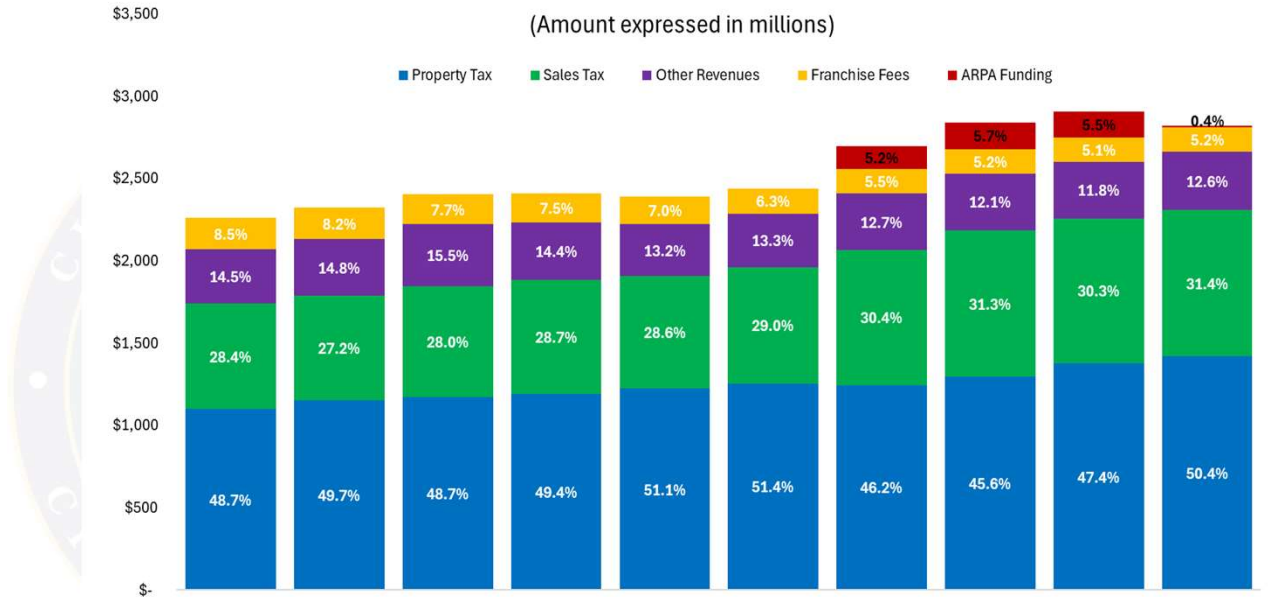
Projections suggest inflation will continue on a downward trajectory in FY2025. This is a contrast with the previous peak in FY2024 of 8.2%



General Fund Revenues

FY2025 General Fund Revenue excluding other resources **↓** by \$88 million from FY2024 estimate due to:

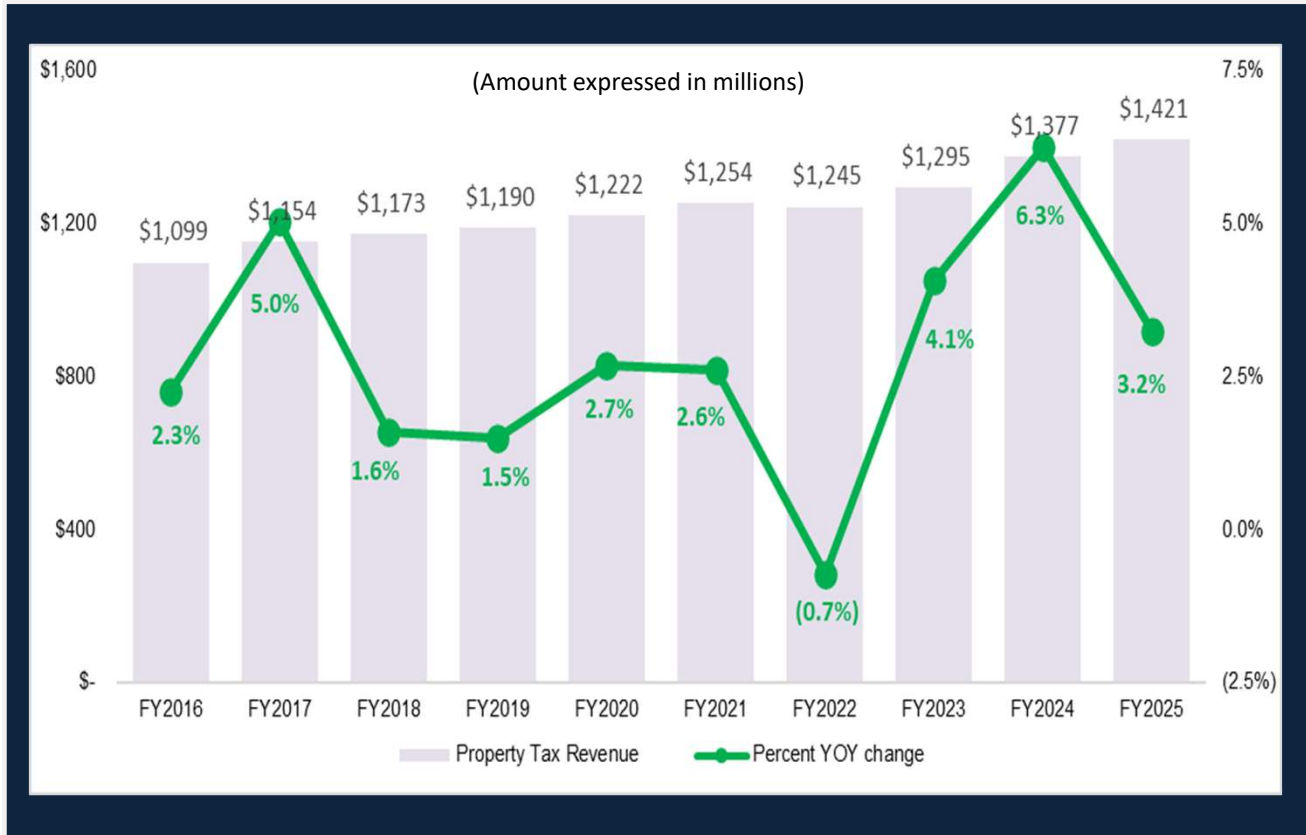
- ↓** ARPA Funding - \$150 million, offset by
 - ↑** Property Tax - \$45 million
 - ↑** Sales Tax - \$5 million
 - ↑** Interfund Services - \$4 million
 - ↑** Charges for services- \$3 million
 - ↑** Interest - \$2 million



Category	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Property Tax	\$ 1,099	\$ 1,154	\$ 1,173	\$ 1,190	\$ 1,222	\$ 1,254	\$ 1,245	\$ 1,295	\$ 1,377	\$ 1,421
Sales Tax	640	632	674	692	684	707	821	889	881	886
Franchise Fees	191	191	186	180	168	154	150	148	147	146
ARPA Funding	-	-	-	-	-	-	139	163	160	10
Other Revenues	328	344	373	347	316	325	341	345	342	355
Total Revenues	\$ 2,258	\$ 2,321	\$ 2,406	\$ 2,410	\$ 2,390	\$ 2,439	\$ 2,696	\$ 2,840	\$ 2,907	\$ 2,819
Dollar YOY change	45	62	85	4	(19)	49	257	144	67	(88)
Percent YOY change	2.0%	2.8%	3.7%	0.2%	-0.8%	2.0%	10.5%	5.4%	2.3%	-3.0%



Property Tax Revenues



FY2025 increase by 3.2% (\$45 million)

Projection is based on preliminary Prop 1 cap of \$1.421 billion:

- 3.5% - 2023 inflation rate of 3.5%
- 0% - Projected population growth rate

*Population growth will be updated once data becomes available



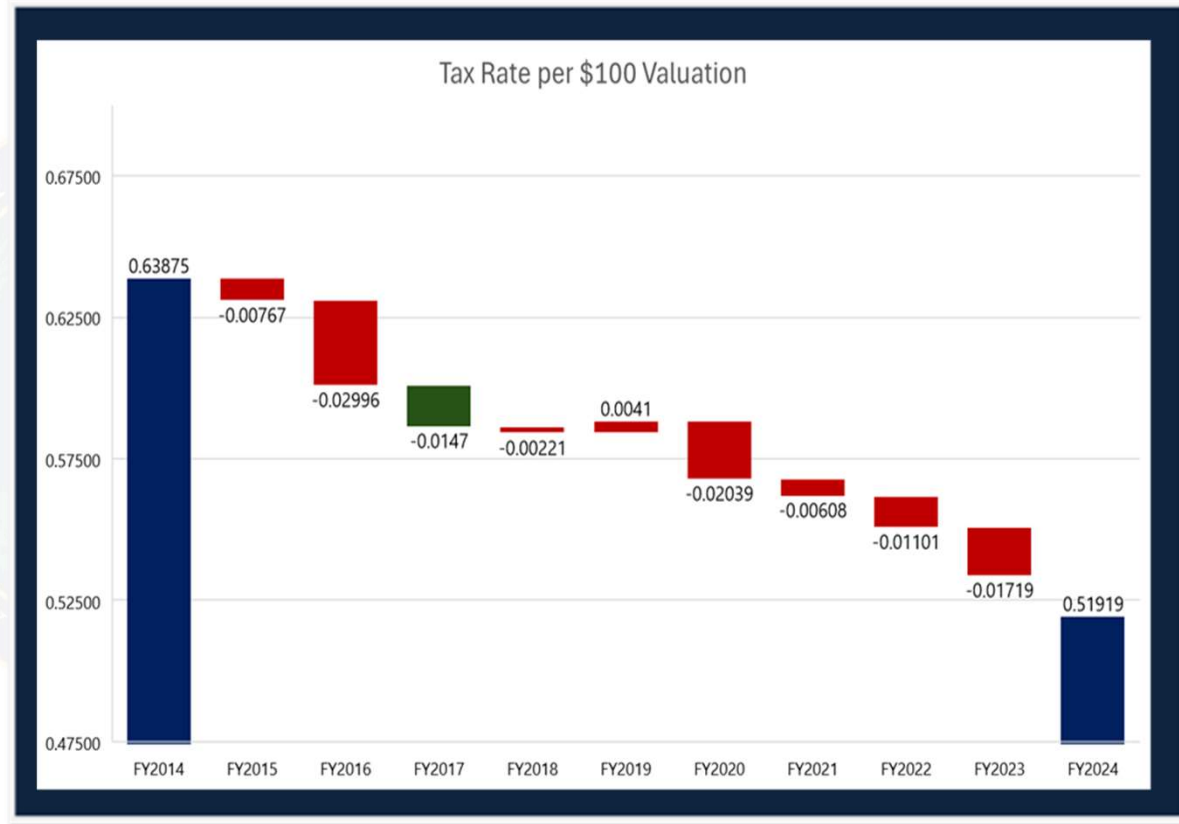
Property Tax Rate

FY2025 Tax Rate is based on the current tax rate of 51.919 cents per \$100 taxable value.

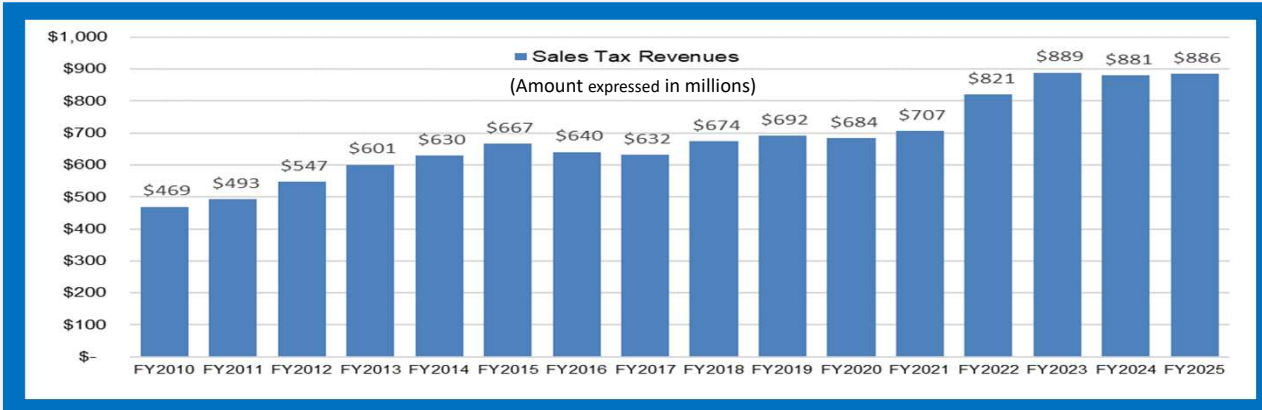
Final tax rate will be established by a vote of Council in Q1 of FY2025 when the Certified Roll is available in late August.

Tax rate is subject to compliance with the State Cap SB2.

As a result of the tax revenue cap, the tax rate decreased 9 out of the last 10 years since 2015.

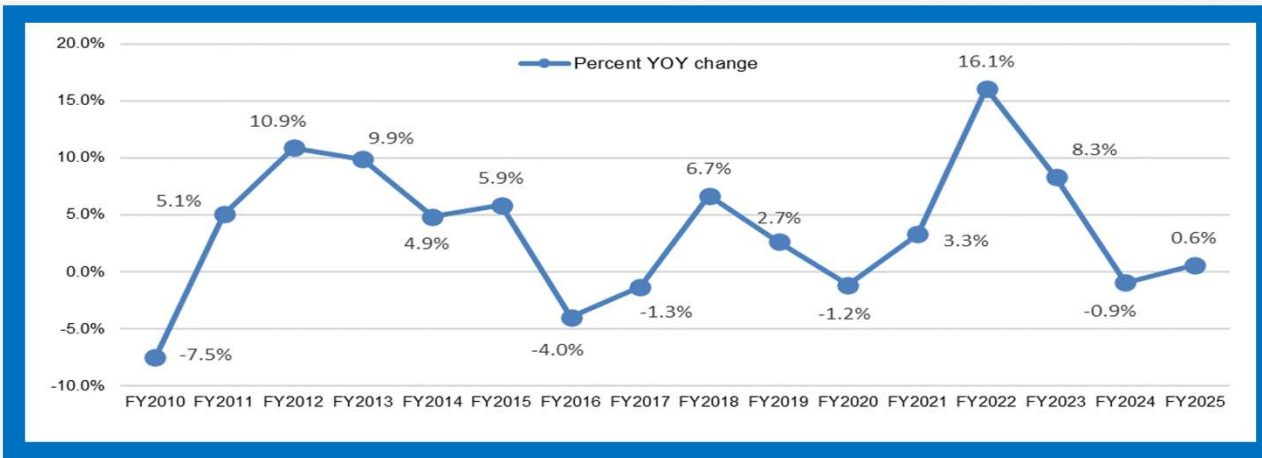


Sales Tax Revenue



FY2025 increase by 0.6% (\$5 million) by FY2024 estimate of \$881 million.

The Institute of Regional Forecasting anticipates Houston’s economy to normalize and return to Pre-COVID trends.



Historically sales tax growth can vary considerably year over year. This is attributed to the sensitivity of sales tax to market shifts as consumer spending habits mirror market trends.

Given its volatility we will continue to monitor and adjust.

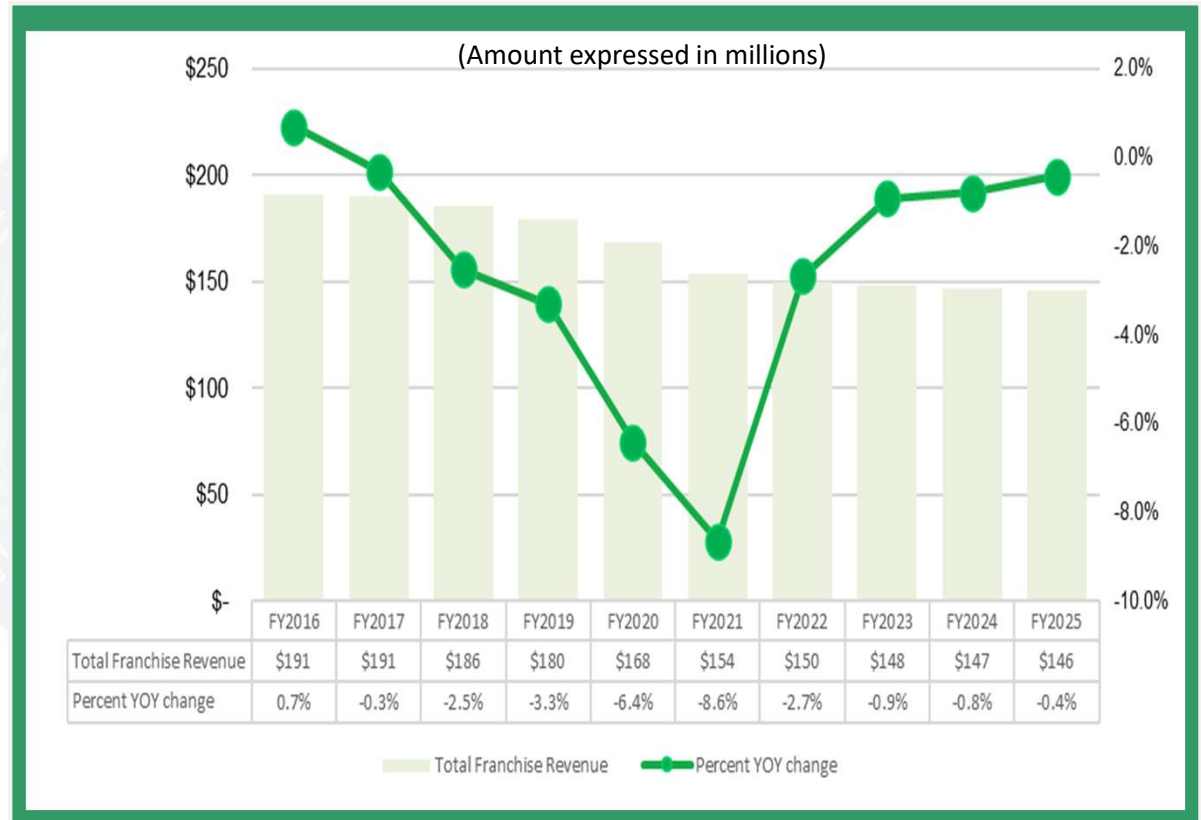


Franchise Tax Revenue

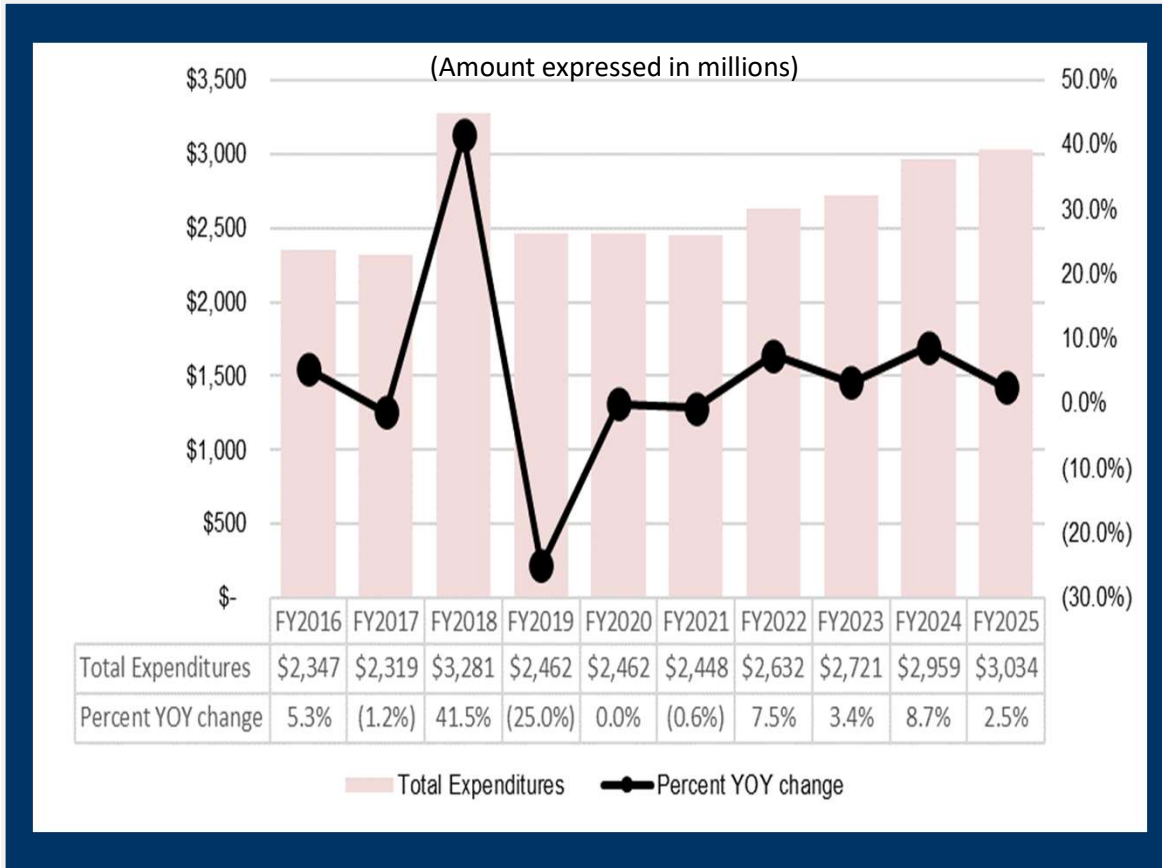
Total Franchise Fees are comprised of Electric Franchise, Telephone Franchise, Gas Franchise and Other Franchise.

FY2025 decrease by 0.4 % (\$1.4 million)

Electric and Gas Franchise fees are expected to increase by \$0.3 million, respectively. Telephone and Other Franchise fees (Cable and Solid Waste Hauler) are expected to decrease by \$1.4 million and \$0.4 million, respectively.



General Fund Expenditures (including debt service)

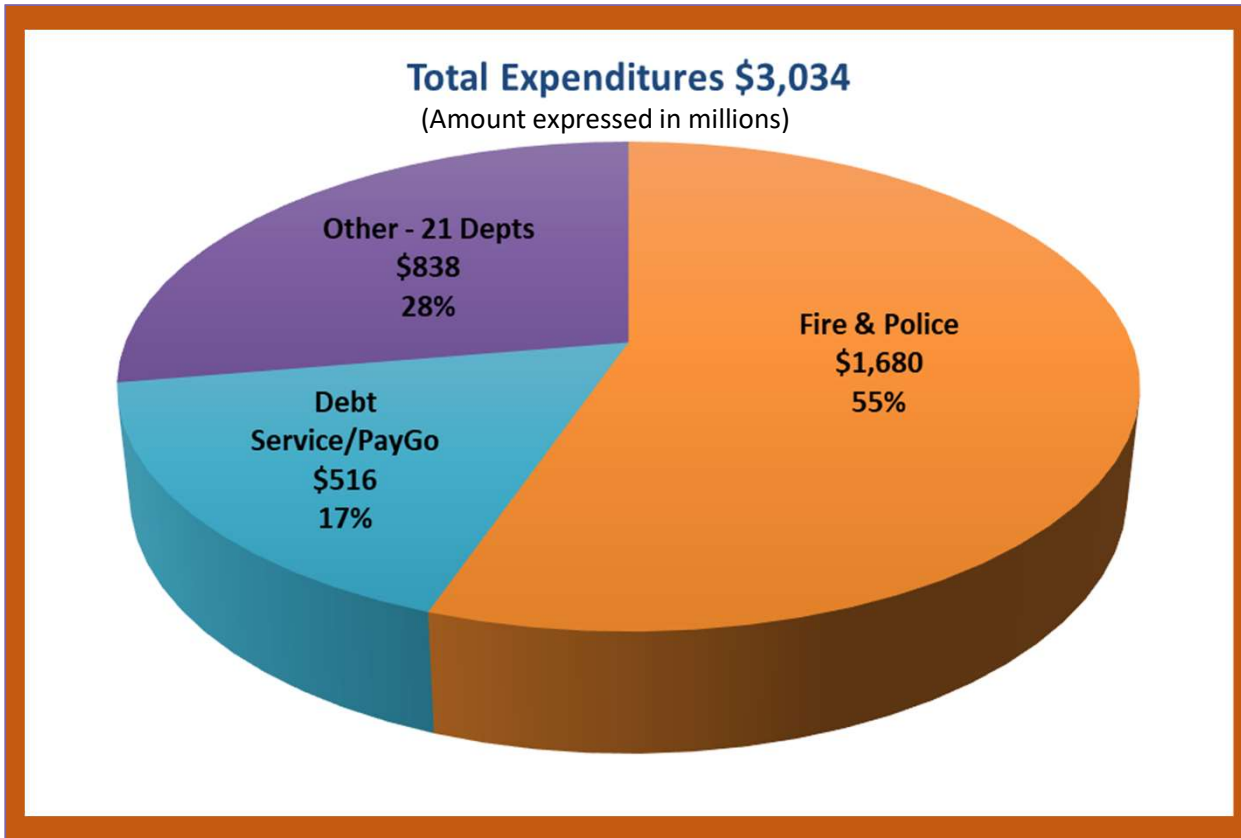


FY2025 increase by 2.5% (\$75.4 million)
 This increase may appear modest, but in comparison to the preceding three years, it represents a significant 24% rise juxtaposed with FY2021 Budget.

- Increase driven by the following:
- \$40.5 million in debt services primarily related firefighter settlement,
 - \$40.5 million in Fire primarily due to 10% pay increases plus \$10 million in special pay under the draft Meet & Confer Agreement,
 - \$29.2 million in Police primarily due to 3.5% pay increases under the existing Meet and Confer Payment; offset by
 - \$23.5 million reduction in General Government primarily due to one-time funding such as Local Drainage Program in FY2024, and
 - \$11.7 million in department reductions



General Fund Expenditure: By Function



Other - 21 Department includes:

Administration and Regulatory Affairs	General Services	Library
City Controller	Housing	Mayor's Office
City Council	Houston Emergency Center	Municipal Courts Department
City Secretary	Houston Health Department	Office of Business Opportunity
Department of Neighborhoods	Houston Public Works	Parks and Recreation
Finance Department	Human Resources	Planning & Development
*General Government	Legal	Solid Waste Department

*General government include citywide costs that are not attributable to any single department such as payments to LPAs, Transfers to Component Units, Transfers to Special Rev. Funds, Health Benefit Costs for Retired Civilians, Lease Payments for 611 Walker, etc.

Next largest department budgets:

- General Government - \$293M
- Solid Waste Management - \$100M
- Parks and Recreation - \$89M
- Houston Health Department - \$54M

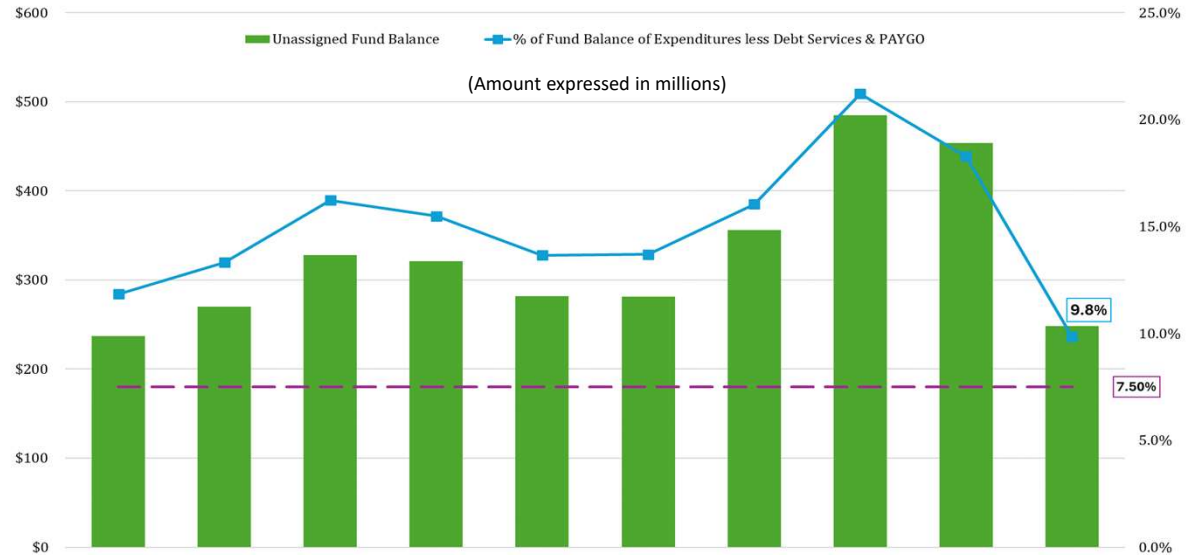


Fund Balance Requirement

City Ordinance 2014-1078 requires an undesignated reserve of 7.5% of General Fund Expenditures, less Debt Service Payments and PAYGO.

FY2025 projected an ending fund balance of \$59 million above the 7.5%.

Projected ending fund balance represent 9.8% of budgeted expenditures excluding debt service and PAYGO.

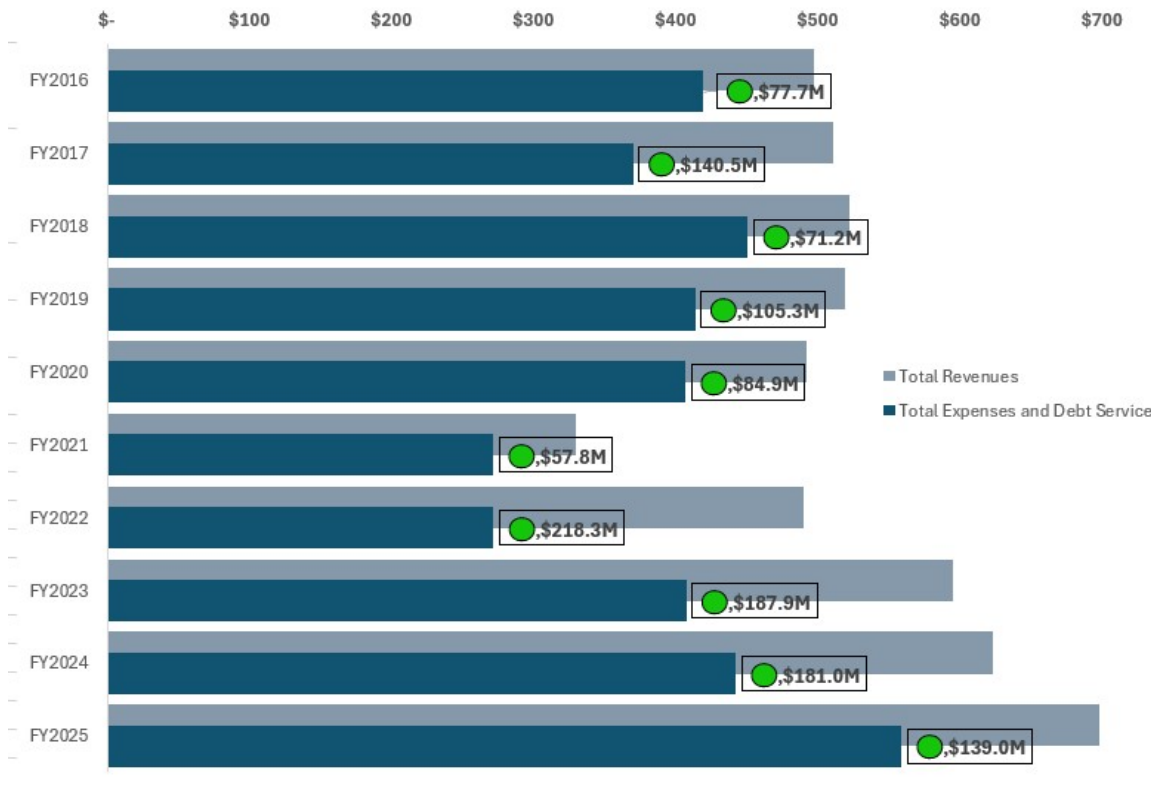


	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Unassigned Fund Balance	\$237	\$270	\$328	\$321	\$282	\$281	\$356	\$485	\$454	\$248
Amt. of Required 7.5% Fund Balance	\$150	\$152	\$152	\$155	\$155	\$154	\$166	\$171	\$186	\$189
Amt above 7.5% Fund Balance	\$87	\$118	\$176	\$166	\$127	\$127	\$190	\$314	\$268	\$59
Fund Balance as a % of Expenditures less Debt Services & PAYGO	11.8%	13.3%	16.2%	15.5%	13.7%	13.7%	16.0%	21.2%	18.3%	9.8%
M&O Expenditures	\$ 2,002	\$ 2,026	\$ 2,021	\$ 2,073	\$ 2,064	\$ 2,051	\$ 2,219	\$ 2,286	\$ 2,484	\$ 2,518



Houston Airport System (HAS): Revenues and Expenses

(Amount expressed in millions)



FY2025 revenues projection increase by 12% (\$75 million) to \$698 million primarily due to higher operating revenues.



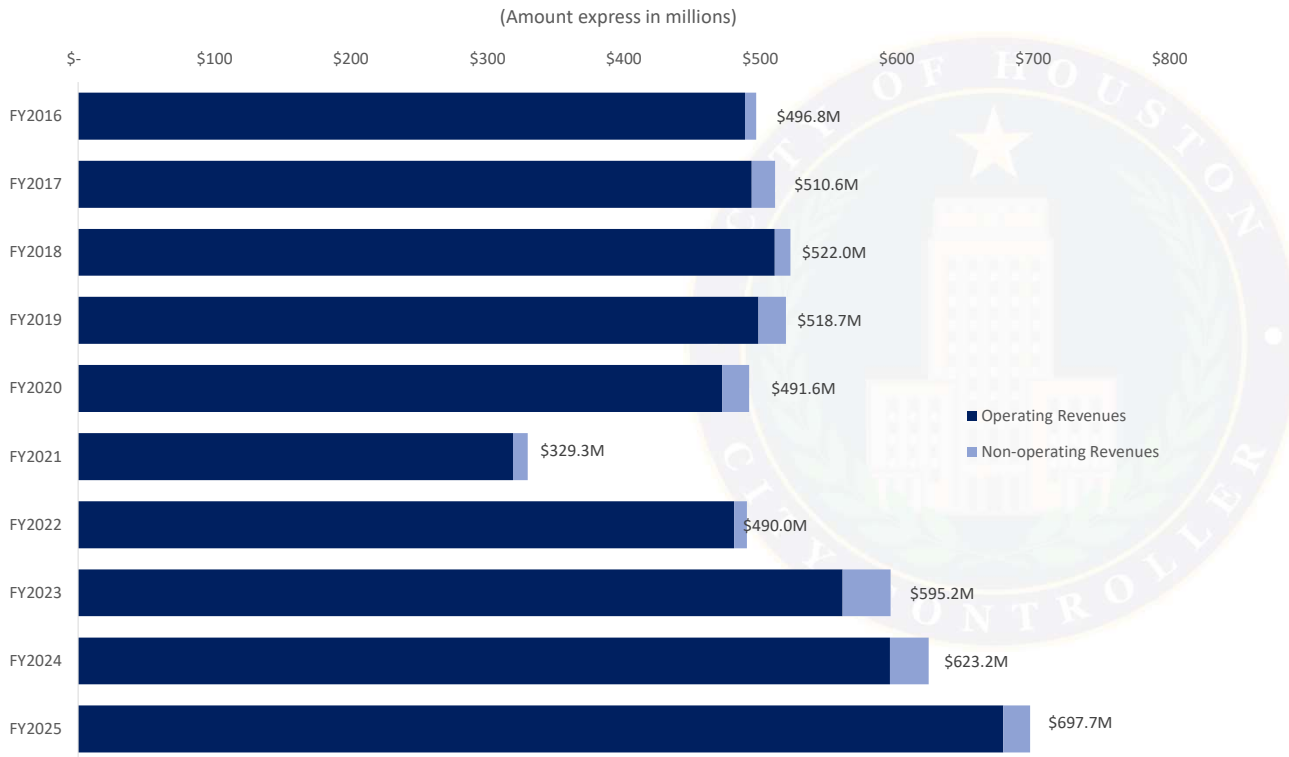
Total expenses and debt service projection increase 26% (\$117 million) to \$559 million primarily due to increases in operations and maintenance expenses.



Aviation revenues are projected to exceed expenses by \$139 million, resulting in an increase in ending total net position/fund balance



HAS: Operating and Non-Operating Revenues



REVENUES

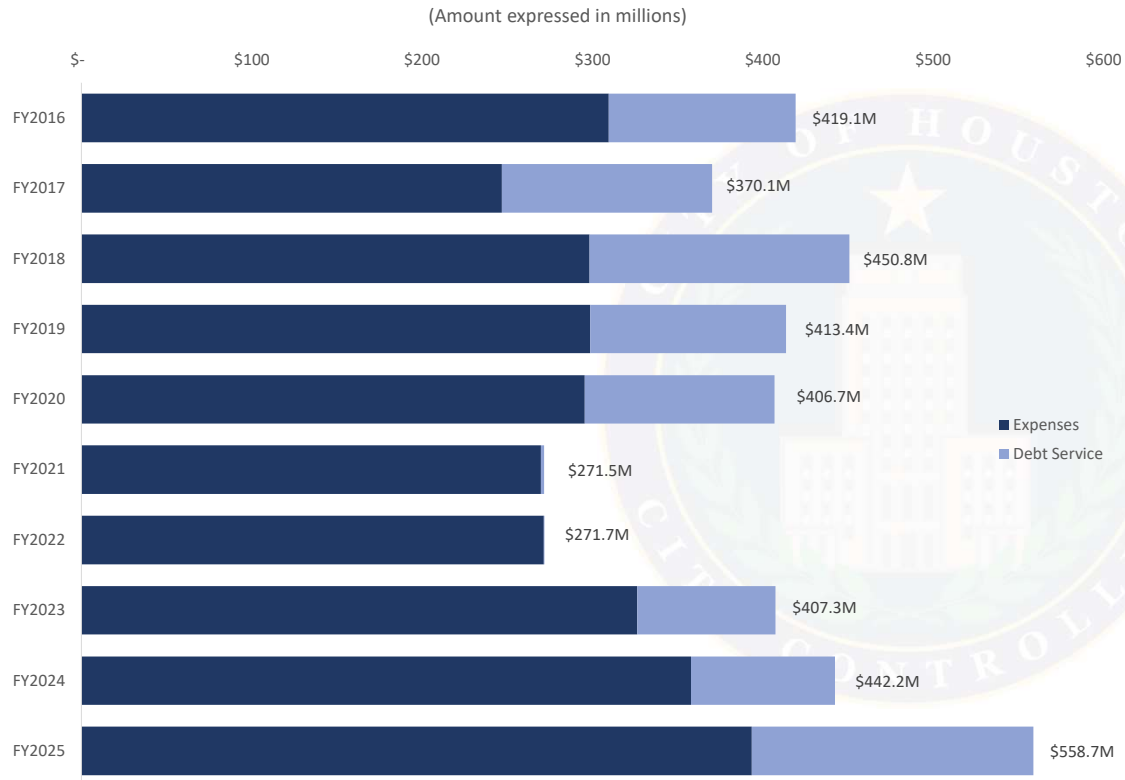
FY2025 projected total revenue are \$698 million, a \$75 million increase compared to FY2024 estimate of \$623 million

Increase due to:

- \$83 million in operating revenues due to higher signatory landing and terminal space rental fees, offset by
- \$8 million reduction in non-operating revenues



HAS: Expenses and Debt Service



EXPENSES

FY2025 projected total expenses are \$559 million, an increase of \$117 million compared to FY2024 of \$442 million.


Increase primarily due to:

- \$81 million in debt service transfer,
- \$26 million in contracted and interfund services
- \$7 million in personnel costs




Convention and Entertainment (C&E): Revenues and Expenses


(Amount expressed in millions)



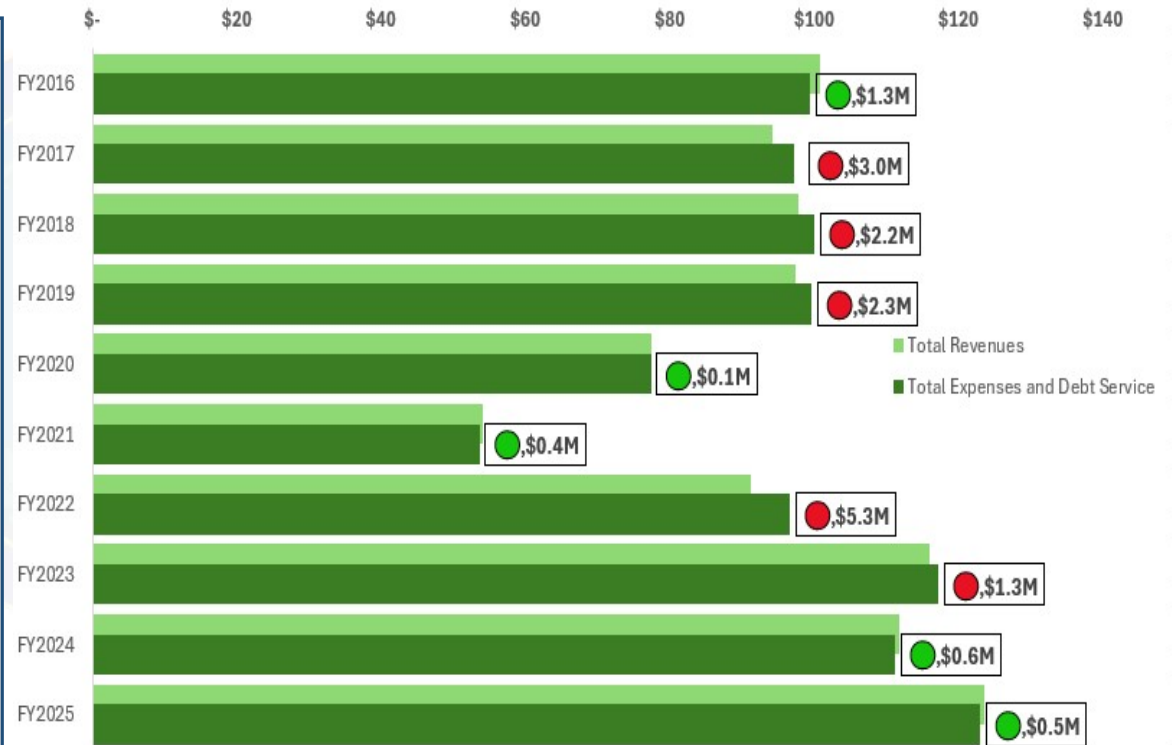
FY2025 revenues projection increase by 10.5% (\$12 million) to \$124 million compared to FY2024.



Total expenses and debt service projection increase 10.7% (\$12 million) to \$123 million.



C&E revenues are projected to exceed expenses by \$0.5 million, resulting in an increase in ending total net position/fund balance.



C&E: Operating and Non-Operating Revenues

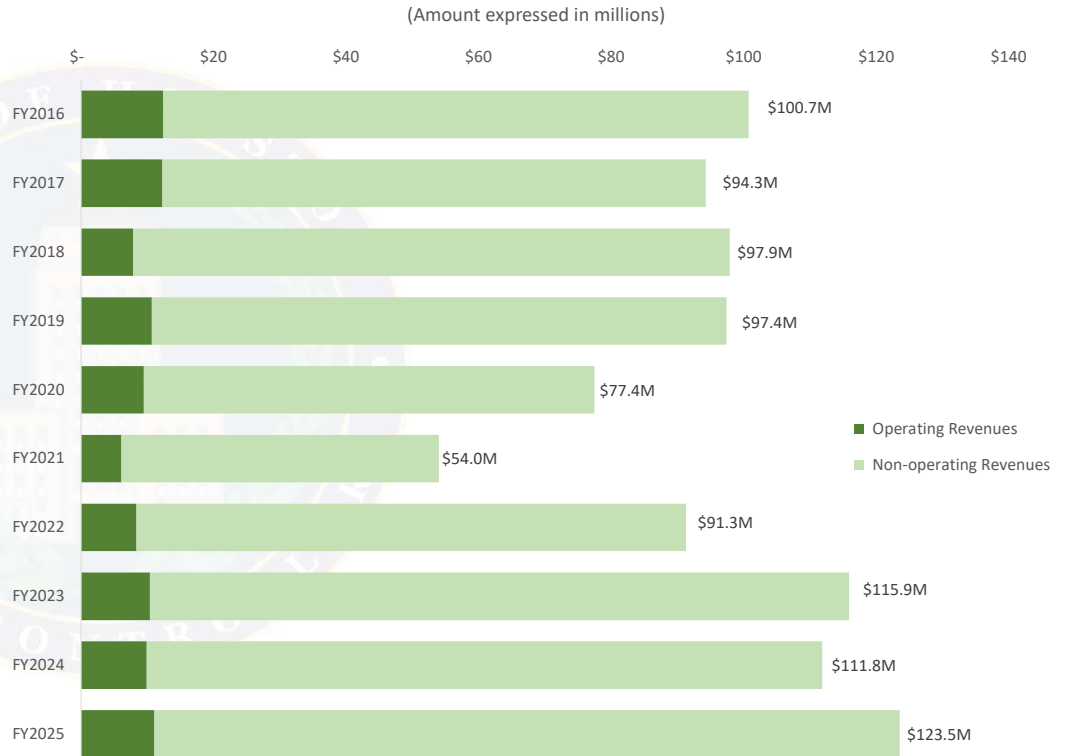
REVENUES

C&E revenues are primarily generated from Hotel Occupancy Tax (HOT).

FY2025 projected total revenue are \$124 million, a \$12 million increase compared to FY2024 estimate of \$112 million.

Increase due to:

- \$11 million in non-operating revenues primarily due to HOT collection
- \$1 million in operating revenues primarily the result of higher parking revenues



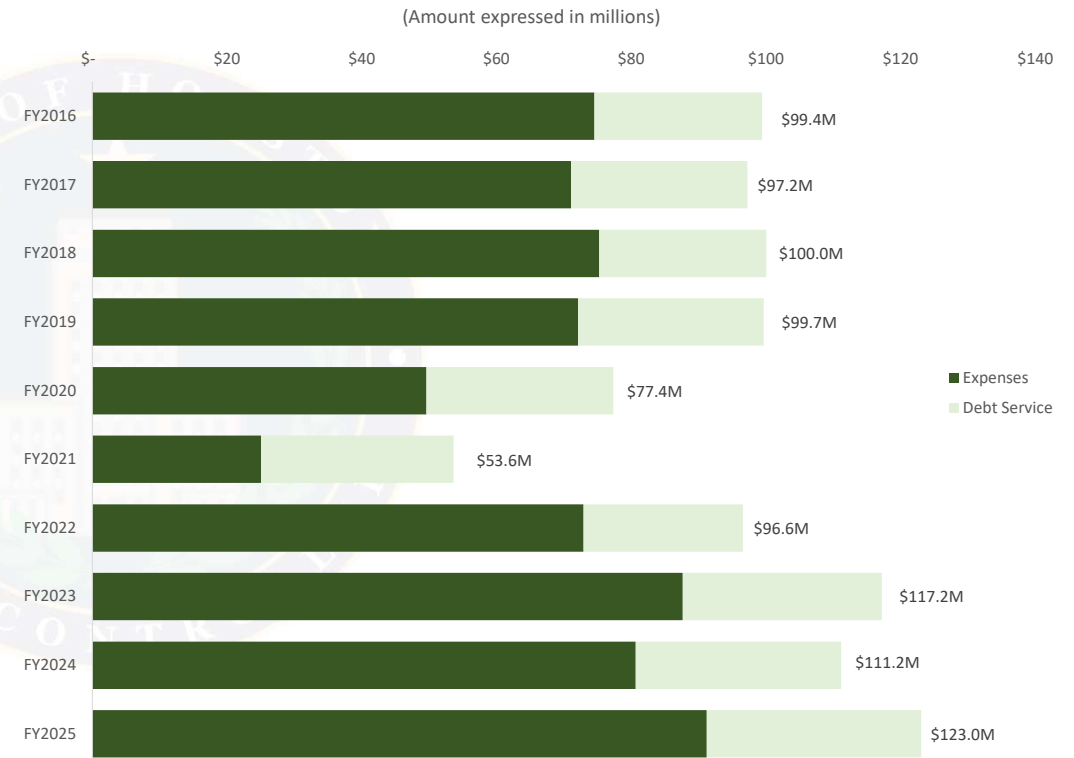
C&E: Expenses and Debt Service

EXPENSES

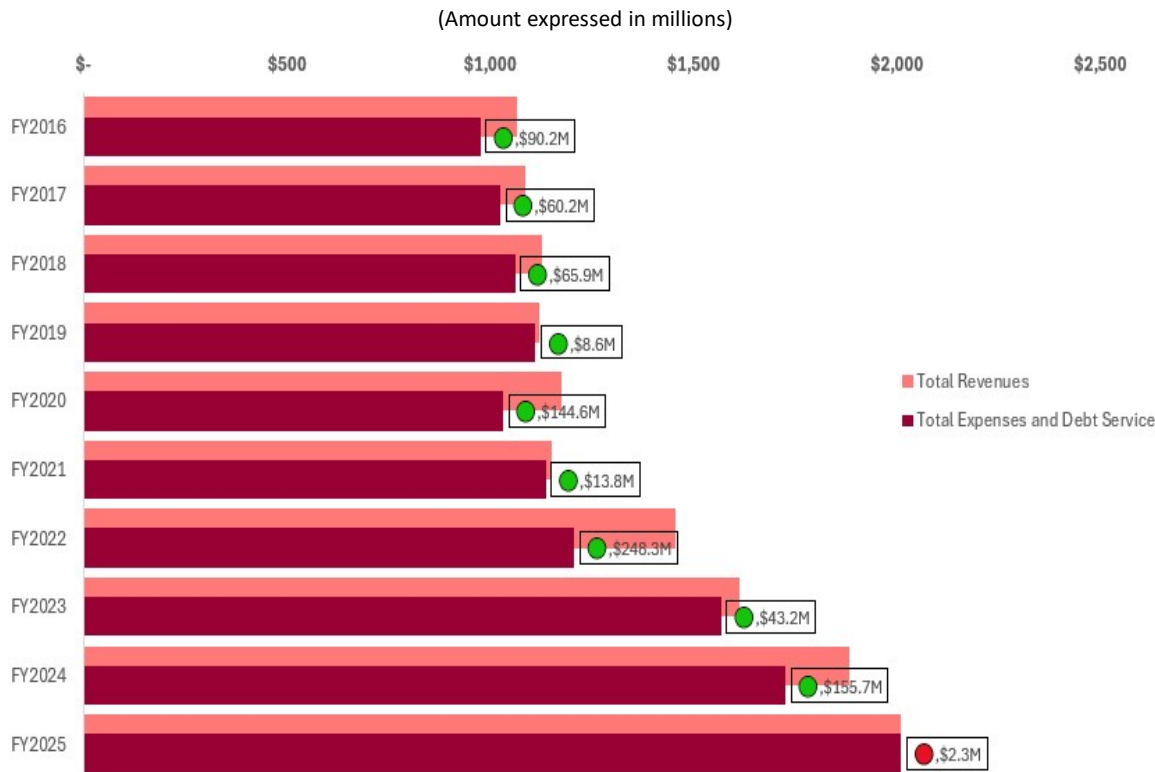
FY2025 projected total expenses are \$123 million, an increase of \$12 million compared to FY2024 of \$111 million.

Increase primarily due to:

- \$11 million in transfer to Houston First Corporation
- \$1 million in debt service transfer



Combined Utility System (CUS): Revenues and Expenses



FY2025 revenues projection increase by 6.8% (\$127 million) to \$2,007 million compared to FY2024.



Total expenses and debt service projection increase 16.5% (\$285 million) to \$2,009 million.

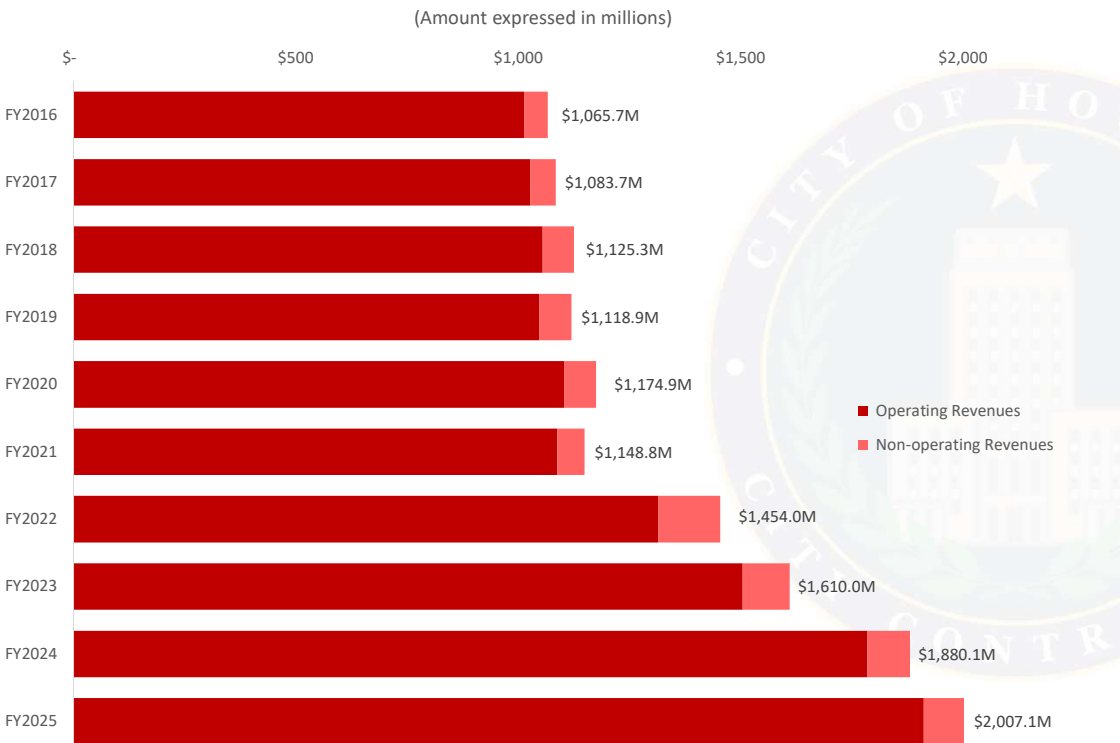


CUS expenses are projected to exceed revenues by \$2 million, resulting in a decrease in ending total net position/fund balance

City Ordinance requires remaining funds, after all expenses and other financial obligations are met are transferred to the CUS General Purpose Fund. This fund is to be use for any lawful purpose and for drainage purposes, subject to certain restrictions.



CUS: Operating and Non-Operating Revenues



REVENUES

FY2025 projected total revenues are \$2,007 million, a \$127 million increase compared to FY2024 estimate of \$1,880 million

Increase due to:

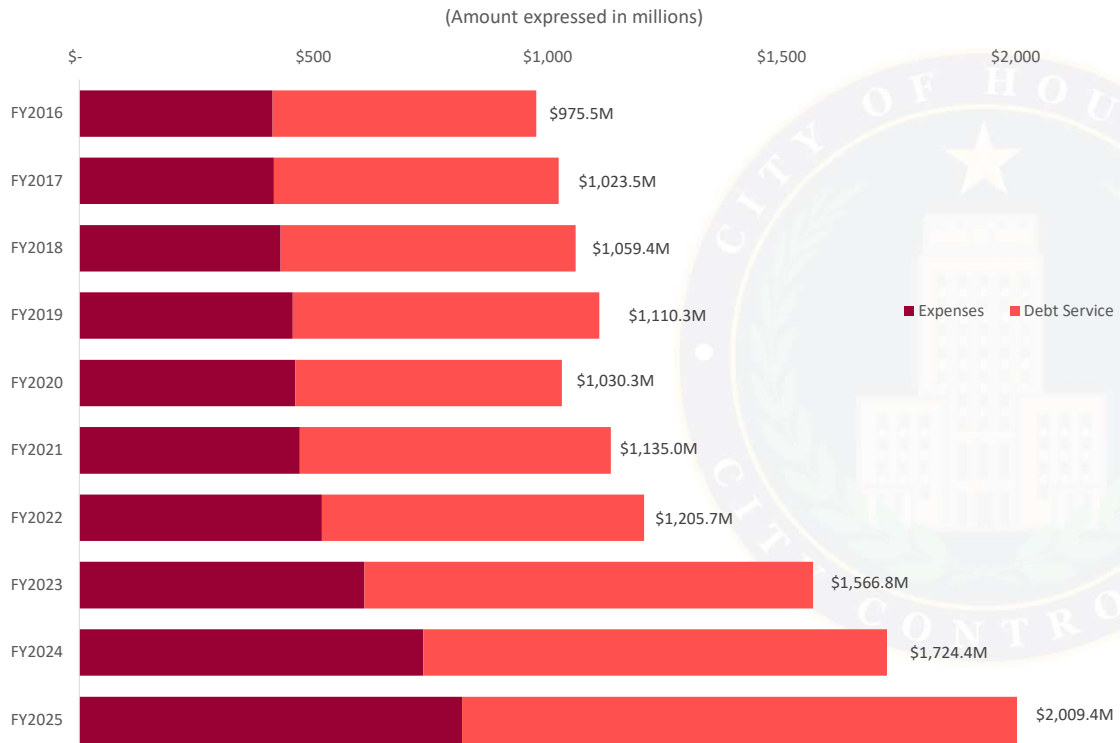
- \$133 million in water and sewer sales offset by a
- \$6 million decrease in water and sewer penalties and other revenue fees.

Water and sewer sales are subject to annual rate adjustment equal to previous years Producer Price Index or Consumer Price Index plus Houston area population. The rate adjustments for FY2016 – FY2025 are as follows:

Fiscal Year	Rate Adjustments	Fiscal Year	Rate Adjustments
2016	4.4%	2021	3.5%
2017	1.4%	2022	1.5%
2018	3.4%	2023	5.6%
2019	2.8%	2024	9.2%
2020	2.8%	2025	9.0%



CUS: Expenses and Transfers



EXPENSES

FY2025 projected total expenses are \$2,009 million, an increase of \$285 million compared to FY2024 of \$1,724 million.

Increase due to:

- \$83 million in operating and maintenance cost (includes personnel, energy, and supplies)
- \$202 million in operating transfers (includes CUS debt services payment obligations, transfer to capital projects and other fund as well as drainage expenses).

