



# FY2026 Budget Overview and General Fund Five Year Forecast

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# Forward Looking Statements

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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.)

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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.

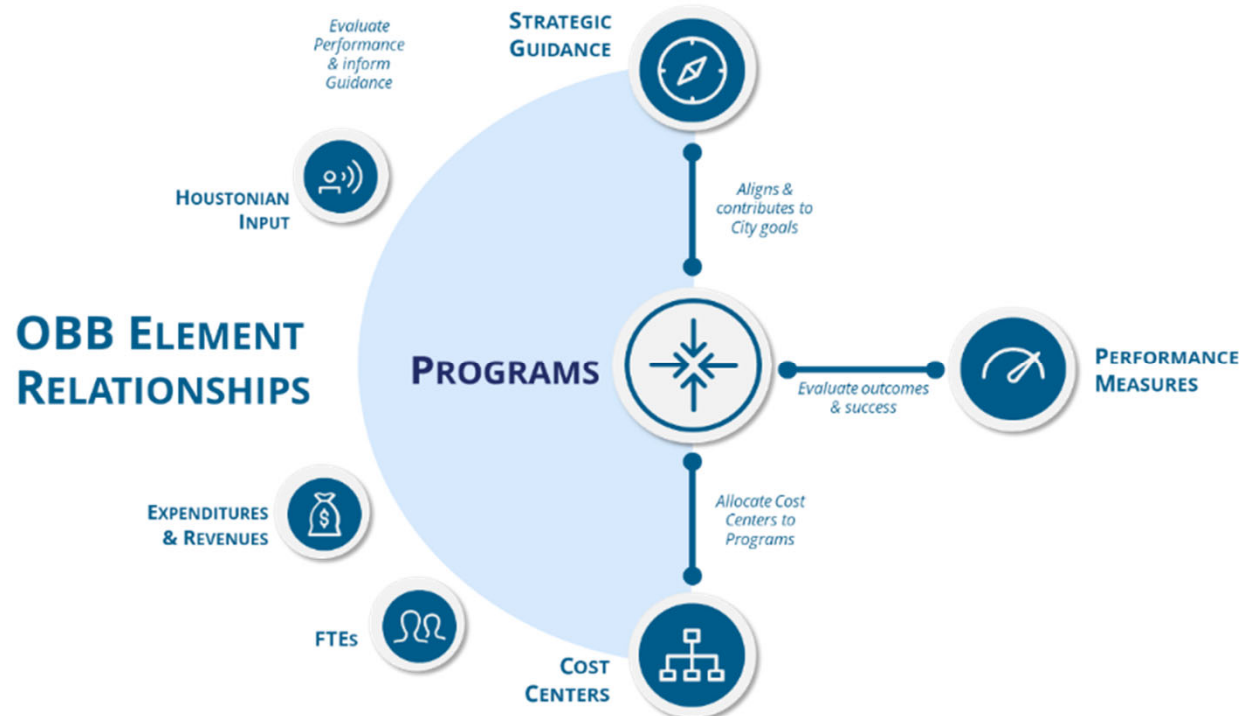


# Connecting Budget to Strategy

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 – 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.
- Only 6% of the City's performance measures (PMs) focused on outcomes to Houston, with most focused on output.

## What are the Next Steps?

- Every department revising PMs to focus on outcomes
- New outcome measures will be the foundation for departmental reorganization plans and will be developed throughout FY2026.
- Present updated PMs to City Council as part of the Quarterly Financial & Operations Report to BFA.





# Connecting Budget to Strategy – Mayor Whitmire’s Priorities

## Public Safety

## Infrastructure

## Government that Works

## Quality of Life

### Strategic Objectives

- 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

- 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

- 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

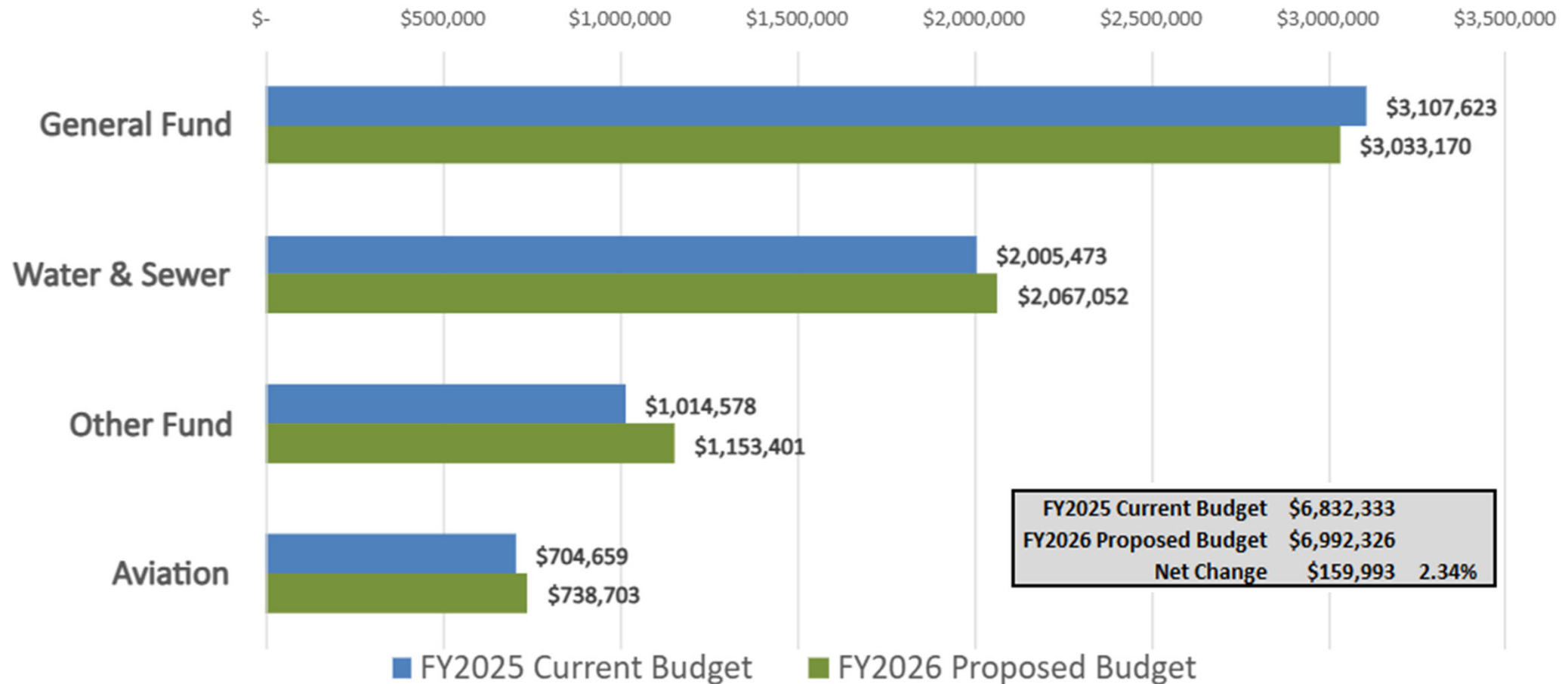
- Protecting the laws and ordinances that encourage diversity and equity
- Ensure quality affordable housing options
- Provide vibrant and enjoyable activity, parks, and recreation centers
- Promote healthy, safe, livable, and connected neighborhoods





# Fiscal Year 2026 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

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## Pension Reform

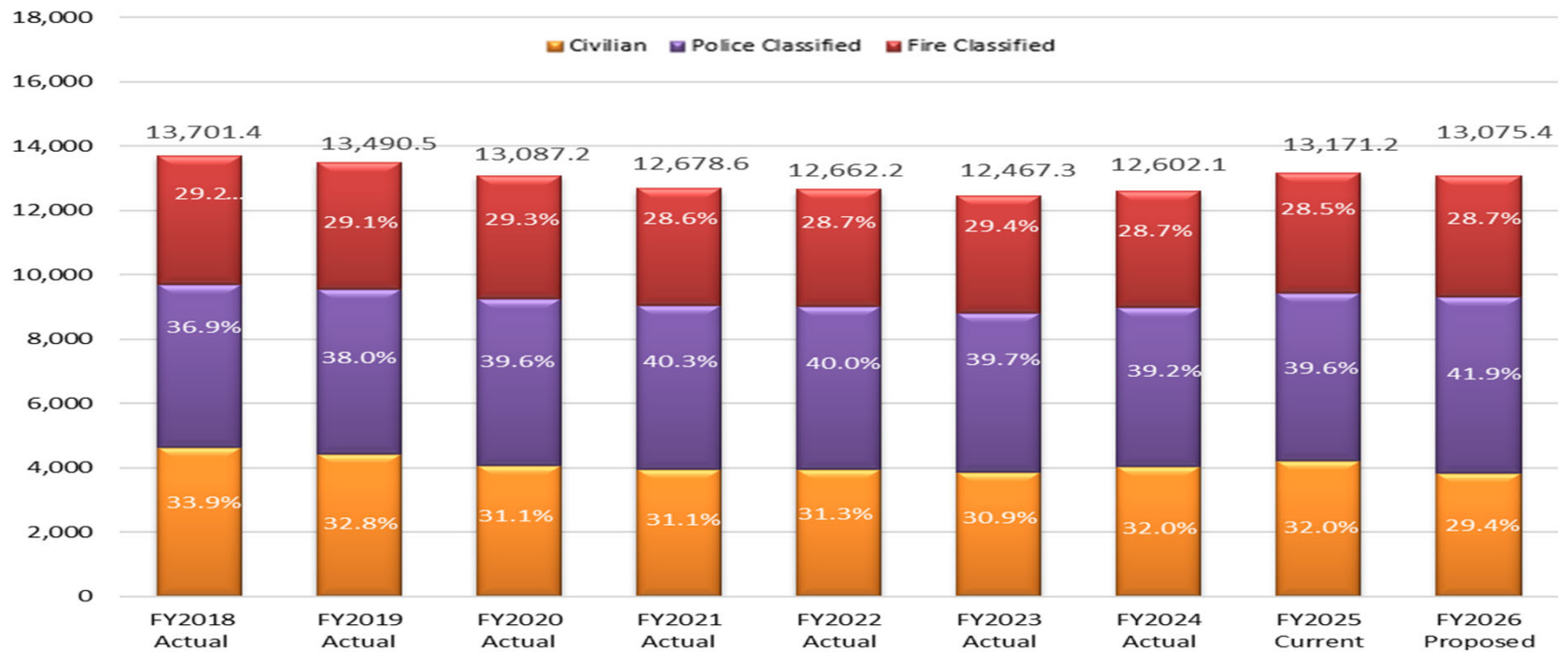
- The pension liability now stands at \$1.8 billion. The FY2026 proposed budget includes contributions to the pension plans that will continue to address decreasing the liabilities over time.
- This funding is needed to continue to maintain and improve the financial health of the City's three pension 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 \$2.0 billion. The City is still planning to implement an OPEB Trust, however there is a temporary hold as the budget is being re-evaluated to assess the current financial priorities, review projected expenses, and ensure alignment with the City's strategic goals. 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 once established are estimated to further reduce the liability down to \$1.1 billion by year 2048.



# General Fund Full-Time Equivalents



Civilian	4,646.2	4,430.4	4,071.2	3,940.2	3,967.7	3,849.5	4,037.2	4,209.3	3,846.6
Police Classified	5,059.7	5,128.0	5,177.2	5,111.0	5,064.0	4,955.7	4,945.4	5,213.9	5,473.9
Fire Classified	3,995.5	3,932.1	3,838.8	3,627.4	3,630.5	3,662.1	3,619.5	3,748.0	3,754.9
<b>Grand Total</b>	<b>13,701.4</b>	<b>13,490.5</b>	<b>13,087.2</b>	<b>12,678.6</b>	<b>12,662.2</b>	<b>12,467.3</b>	<b>12,602.1</b>	<b>13,171.2</b>	<b>13,075.4</b>

## Notes:

- FY2020 and FY2021 includes lower FTEs due to redeployment funded out of CRF.
- FY2025 Budget and FY2026 Proposed Budget includes cadet classes (5 police, 5 fire in FY2025 and 5 police, 9 fire in FY2026).



# General Fund Budget

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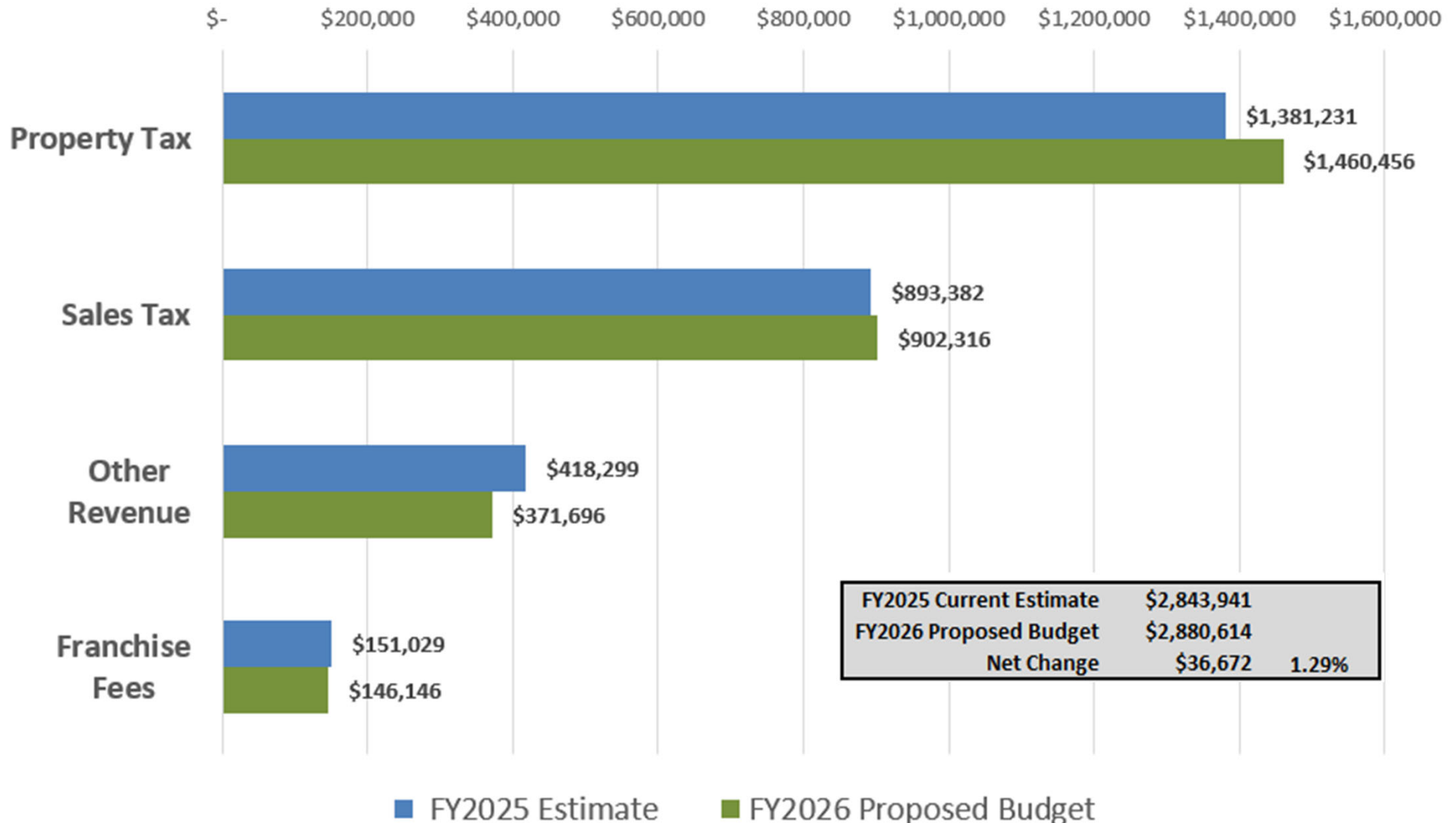
- This budget includes:
  - 10.8% Fund Balance of expenditures less debt service and pay-as-you-go transfers, above the desired minimum of 7.5% (\$84 million above the minimum 7.5%)
  - 3.5% pay raise for municipal employees
  - 3% pay raise for fire classified
  - 10% pay raise for police classified (proposed contract)
  - Funds **for cadet classes**:
    - five (5) police cadet classes and nine (9) fire cadet classes
  - Three fully funded pension systems
- This budget includes:
  - Fund balance drawdown for FY2026 as we continue to work on efficiencies and expenditure reductions in preparation for FY2027
  - No one-time land sales nor payment deferrals
  - Partial replenishment of the budget stabilization fund – adding \$12 million out of \$25 million, with the remainder to be replenished by FY2027.

# FY2026 General Fund Revenue Including Other Resources Net Change vs FY2025 Estimates



FY2026 General Fund Revenues - Net change to FY25 Estimates (\$ in thousands)	
FY2025 Estimates incl. Other Resources	\$2,922,582
FY2026 Proposed Budget incl. Other Resources	\$2,925,725
<b>Incremental Increase/(Decrease)</b>	<b>\$3,144</b>
	0.11%
<b><u>Revenue Increases/(Decreases):</u></b>	
Property Tax <sup>1</sup>	\$79,225
Sales Tax <sup>2</sup>	\$8,934
Interfund Services <sup>3</sup>	\$8,731
Others <sup>4</sup>	\$1,340
Interest <sup>5</sup>	\$900
Industrial Assessment	\$34
Intergovernmental <sup>6</sup>	(\$39,467)
Sale of Capital Assets <sup>7</sup>	(\$38,218)
Charge for Services <sup>8</sup>	(\$13,451)
Franchise Fees <sup>9</sup>	(\$4,884)
<b>Net Change of Revenues</b>	<b>\$3,144</b>
<b>Notes:</b>	
1. FY2026 Proposed Budget is based on Proposition 1+H.	
2. Increase due to conservative projected increase in sales tax receipts, partially offset by audit repayment.	
3. Increase primarily in Fire Protection Services and Indirect Cost Recovery.	
4. Increase primarily due to higher moving violation collections.	
5. Increase due to anticipated higher cash receipts.	
6. Decrease primarily due to METRO funding transfer to DDSRF-METRO Fund instead of GF for Traffic Enforcement and end of ARPA receipts to cover revenue losses.	
7. Decrease due to anticipated lower sale of capital assets.	
8. Decrease primarily due to lower ambulance fees.	
9. Decrease primarily due to lower consumption in telephone franchise, electricity franchise and cable TV franchise.	

# FY2026 General Fund Revenue Excluding Other Resources (\$ in Thousands)

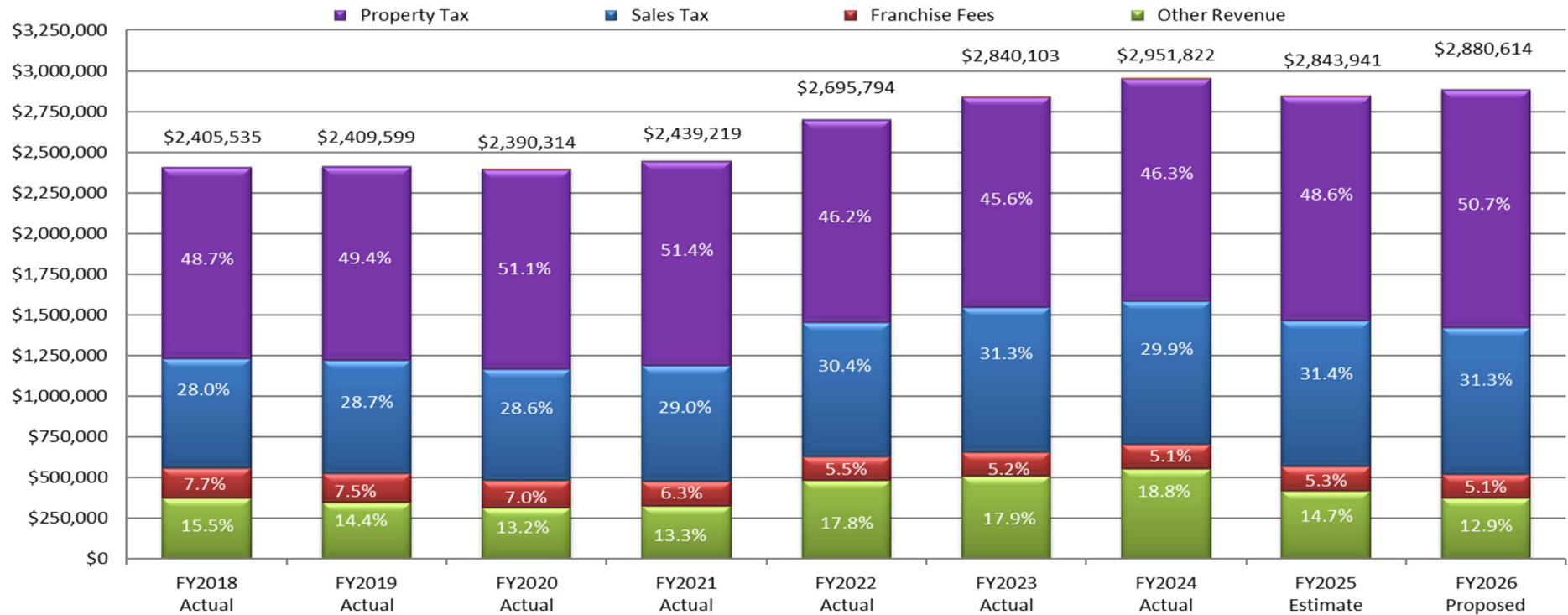


**Note:**

- Does not include Other Resources, such as Sale of Capital Assets and Transfers from Other Funds.
- FY2025 Current includes \$15.1 million of ARPA Funding.



# General Fund Revenues Excluding Other Resources FY2018 – FY2026 (\$ in Thousands)



Property Tax	\$ 1,172,543	\$ 1,190,243	\$ 1,222,154	\$ 1,254,016	\$ 1,244,722	\$ 1,295,496	\$ 1,365,607	\$ 1,381,231	\$ 1,460,456
Sales Tax	\$ 674,279	\$ 692,271	\$ 684,425	\$ 706,829	\$ 820,622	\$ 889,039	\$ 883,132	\$ 893,382	\$ 902,316
Franchise Fees	\$ 185,774	\$ 179,640	\$ 168,135	\$ 153,600	\$ 149,519	\$ 148,160	\$ 149,152	\$ 151,029	\$ 146,146
Other Revenue	\$ 372,939	\$ 347,445	\$ 315,600	\$ 324,774	\$ 480,932	\$ 507,409	\$ 553,931	\$ 418,299	\$ 371,696
<b>Total GF Revenues</b>	<b>\$ 2,405,535</b>	<b>\$ 2,409,599</b>	<b>\$ 2,390,314</b>	<b>\$ 2,439,219</b>	<b>\$ 2,695,794</b>	<b>\$ 2,840,103</b>	<b>\$ 2,951,822</b>	<b>\$ 2,843,941</b>	<b>\$ 2,880,614</b>
<b>Change YOY (\$)</b>	<b>\$ -</b>	<b>\$ 4,063</b>	<b>\$ (19,285)</b>	<b>\$ 48,905</b>	<b>\$ 256,575</b>	<b>\$ 144,309</b>	<b>\$ 111,719</b>	<b>\$ (107,881)</b>	<b>\$ 36,672</b>
<b>Change YOY (%)</b>	<b>0%</b>	<b>0.17%</b>	<b>-0.80%</b>	<b>2.05%</b>	<b>10.52%</b>	<b>5.35%</b>	<b>3.93%</b>	<b>-3.65%</b>	<b>1.29%</b>

## Notes:

- FY2022 Actual, FY2023 Actual, FY2024 Actual and FY2025 Estimate includes \$139.4 million, \$162.6 million, \$160 million and \$15 million from ARPA funding relative to revenue reduction due to COVID-19 public health emergency, respectively.



# Property Tax Revenue

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- Assumptions:
  - Estimated taxable value for the City of Houston is \$330.4 billion. Further information on the roll will be received in late Summer.
  - The estimated taxable value net of the tax increment agreements is \$282.7 billion.
  - Population data from U.S. Census Bureau as of July 1, 2024, has yet to be received. Therefore, the Finance Department applied the inflation rate of 2.46% plus 0% growth for population for purposes of calculating Proposition 1.
  - An increase in property tax revenue of \$79.2 million higher than FY2025 estimates.
  - Over 65/Disabled exemption currently at \$260,000.

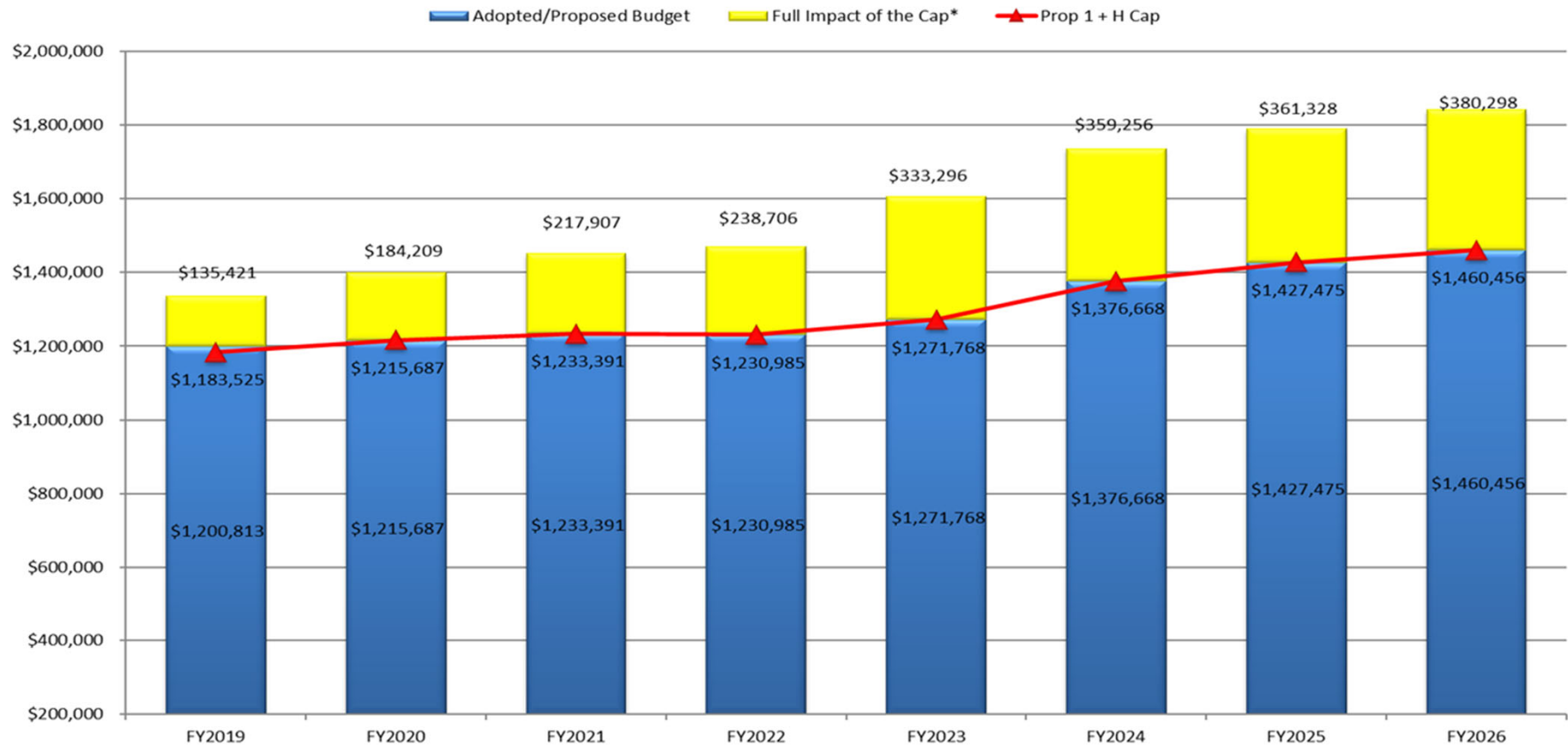
# Trends in Property Tax Revenues

FY2022 - FY2026 (\$ in Thousands)



# Adopted Budget vs. Charter Cap

## FY2019 - FY2026 (\$ in Thousands)



Property Tax Revenue	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Adopted/Proposed Budget	\$ 1,200,813	\$ 1,215,687	\$ 1,233,391	\$ 1,230,985	\$ 1,271,768	\$ 1,376,668	\$ 1,427,475	\$ 1,460,456
Prop 1 + H Cap	\$ 1,183,525	\$ 1,215,687	\$ 1,233,391	\$ 1,230,985	\$ 1,271,768	\$ 1,376,668	\$ 1,427,475	\$ 1,460,456
Full Impact of the Cap*	\$ 135,421	\$ 184,209	\$ 217,907	\$ 238,706	\$ 333,296	\$ 359,256	\$ 361,328	\$ 380,298

\* Since FY2015, the full impact of the property tax revenue cap is \$2.59 billion.

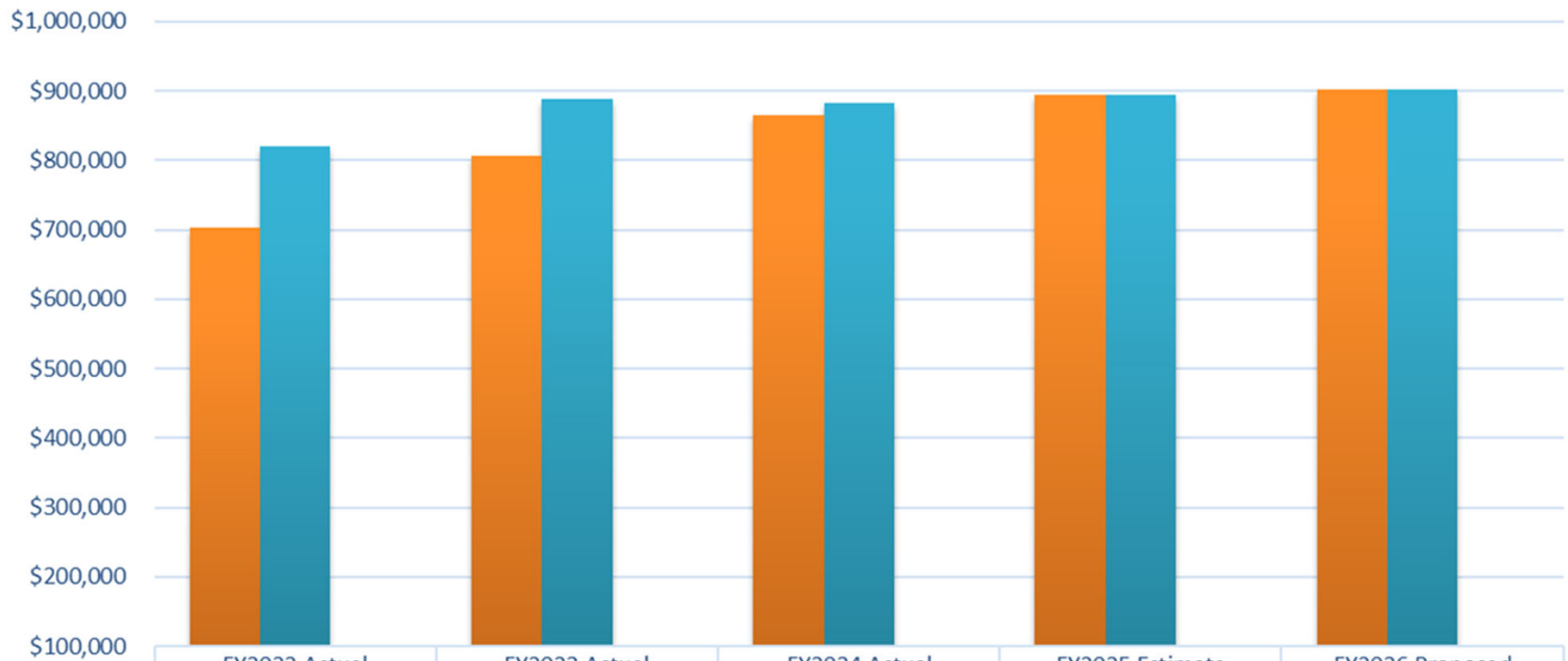


# Sales Tax Revenue

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- Assumption:
  - 1.00% increase from FY2025 estimates.
  - Employment is the key driver of sales tax revenue, including consumer sales and business to business sales. Historically, sales tax has responded in an immediate manner to changes in our employment growth and/or decline.
  - The energy sector contributes significantly to Houston's economy, oil prices are expected to average around \$68 per barrel.
  - Federal government changes are expected to have a minor impact on sales tax revenues.

# Trends in Sales Tax Revenues FY2022 - FY2026 (\$ in Thousands)

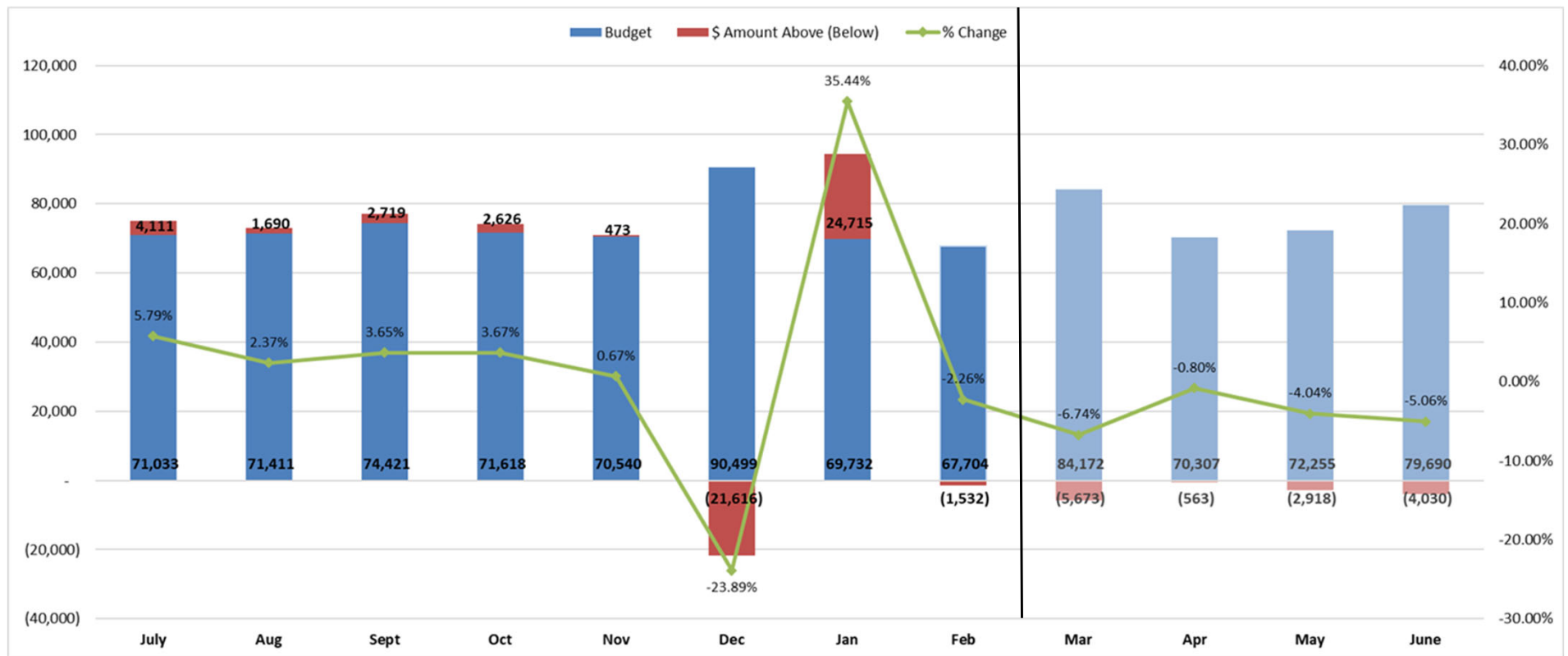


	FY2022 Actual	FY2023 Actual	FY2024 Actual	FY2025 Estimate	FY2026 Proposed
Adopted Budget	\$703,000	\$806,920	\$865,593	\$893,382	\$902,316
Actual/Estimate	\$820,622	\$889,039	\$883,132	\$893,382	\$902,316
Variance: Over/(Under)	\$117,622	\$82,119	\$17,539	\$0	\$0



# FY2025 Sales Tax Budget vs Actual (\$ in Thousands)

- The remaining months would need to come in below prior year to meet the current estimate of \$893.4M.





# FY2026 General Fund Expenditures Net Change vs. FY2025 Current Budget

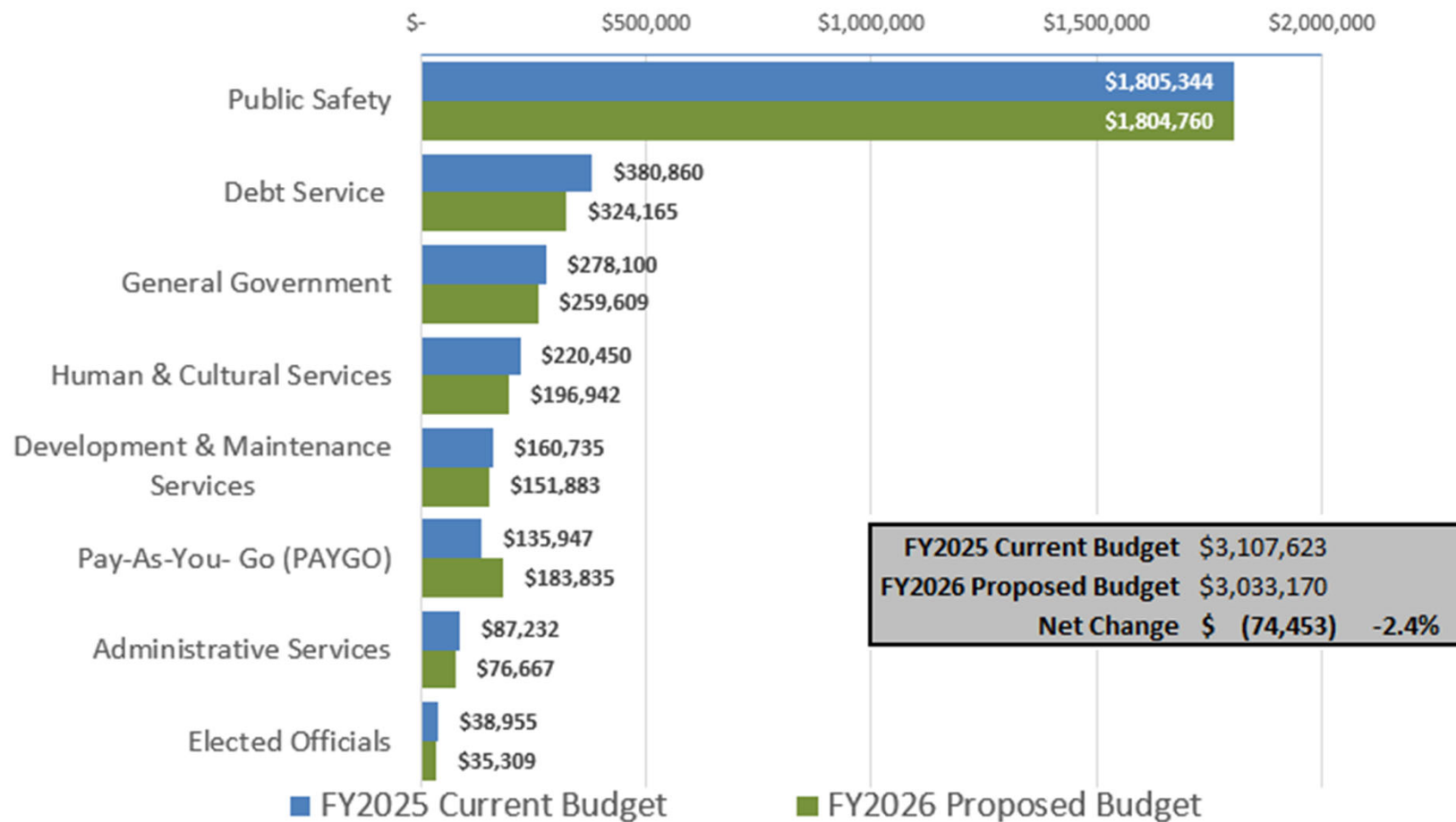


FY2026 General Fund Expenditures - Net Change vs. FY2025 Current Budget (\$ in thousands)		
FY2025 Current Budget		\$3,107,623
FY2026 Proposed Budget Incl. Other Resources		\$3,033,170
<b>Incremental Increase/(Decrease)</b>		<b>(\$74,453)</b>
		-2.40%
<b><u>Operating Budget Adjustments</u></b>	<b><u>Notes</u></b>	
Other Services & Charges	1	(\$64,449)
Elimination of VMERPO accepted non-critical positions	2	(\$29,382)
Pension	3	(\$22,837)
Departmental Budget Reduction	4	(\$16,153)
Employee Compensation	5	\$51,334
Service Chargeback	6	\$8,717
Health Benefits	7	\$7,125
<b>Subtotal Operating Budget</b>		<b>(\$65,646)</b>
<b><u>Operating Budget Adjustments</u></b>		
Captured Revenue Transfer to DDSRF		\$47,888
Debt Service		(\$56,695)
<b>Subtotal Debt Service and PAYGO</b>		<b>(\$8,807)</b>
<b>Net Change of Expenditures</b>		<b>(\$74,453)</b>
<b>Note:</b>		
1. Includes reduction for category management, OPEB Trust, classified overtime and phase down overage, ARA 311 and HPW CAS consolidation, adjustment for FY25 approved budget amendment for funding transfer to local drainage projects.		
2. Elimination of Voluntary Municipal Employee Retirement Payout Option (VMERPO) accepted non-critical positions.		
3. Driven by rate decrease.		
4. Citywide General Fund Budget Reduction for personnel, supplies, and services.		
5. Includes the cost for employee pay raises: Fire Classified - 3%, Police Classified - 10% and Municipal - 3.5%.		
6. Includes increased costs for items such as electricity and IT costs.		
7. Driven by rate increase.		

# General Fund Expenditures Comparison Including Debt Service & PAYGO

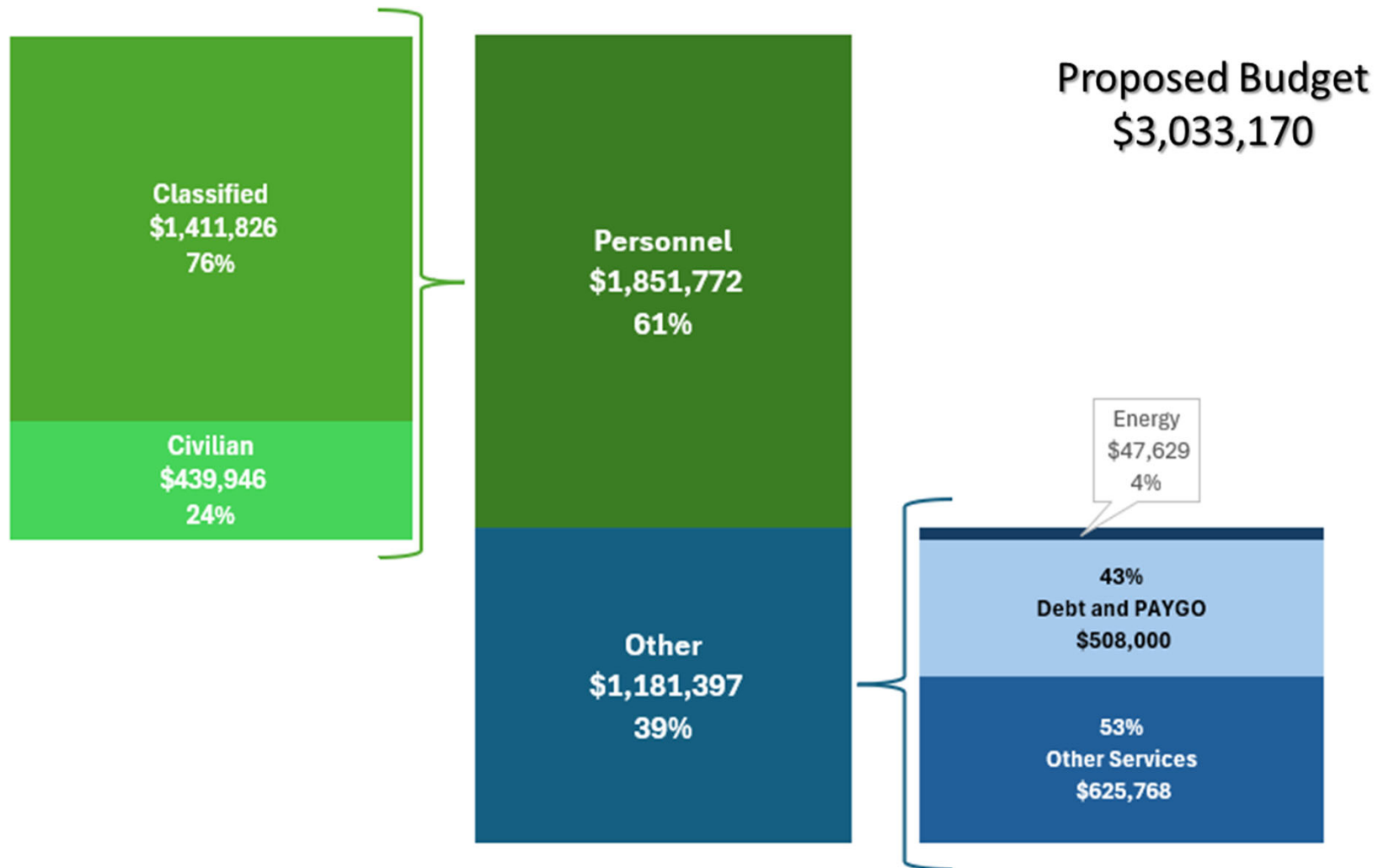


(\$ in Thousands)



Public Safety: Police, Fire, Houston Emergency Center (HEC), Municipal Courts  
 Other: General Services, Planning & Development, Houston Public Works, Solid Waste, 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

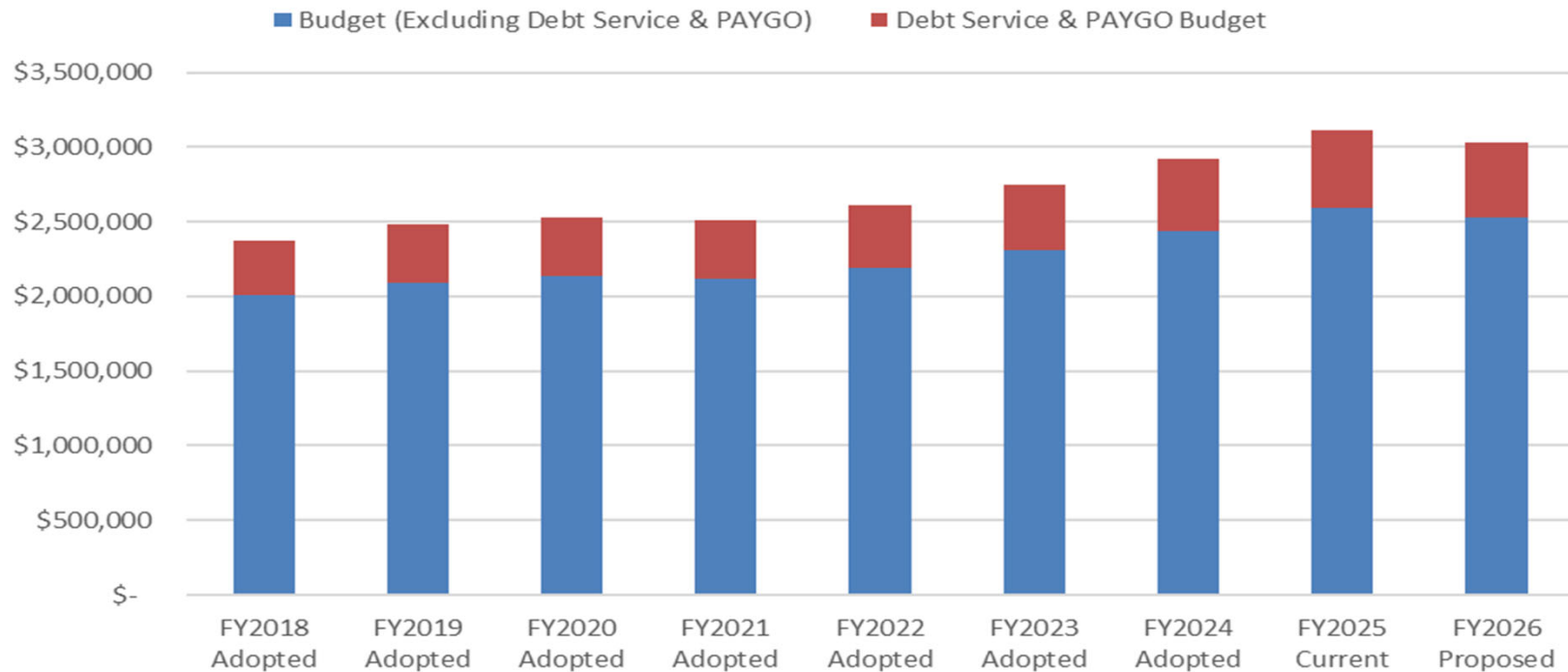
# FY2026 General Fund Expenditures Personnel vs. Non-Personnel Comparison (\$ in Thousands)



Note:

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

# FY2018-FY2026 General Fund - Historical Expenditure Budget



Budget (Including Debt Service & PAYGO)	\$2,372,419	\$2,479,414	\$2,531,094	\$2,512,745	\$2,609,959	\$2,743,547	\$ 2,916,623	\$ 3,107,623	\$3,033,170
Budget (Excluding Debt Service & PAYGO)	\$2,004,526	\$2,086,669	\$2,131,891	\$2,115,101	\$2,194,326	\$2,308,657	\$ 2,441,319	\$ 2,590,816	\$2,525,170
Debt Service & PAYGO Budget	\$ 367,893	\$ 392,745	\$ 399,203	\$ 397,644	\$ 415,633	\$ 434,890	\$ 475,303	\$ 516,807	\$ 508,000
Change YOY (\$)	\$ -	\$ 106,995	\$ 51,680	\$ (18,349)	\$ 97,214	\$ 133,588	\$ 173,076	\$ 191,000	\$ (74,453)
Change YOY (%)	0.00%	4.51%	2.08%	-0.72%	3.87%	5.12%	6.31%	6.55%	-2.40%

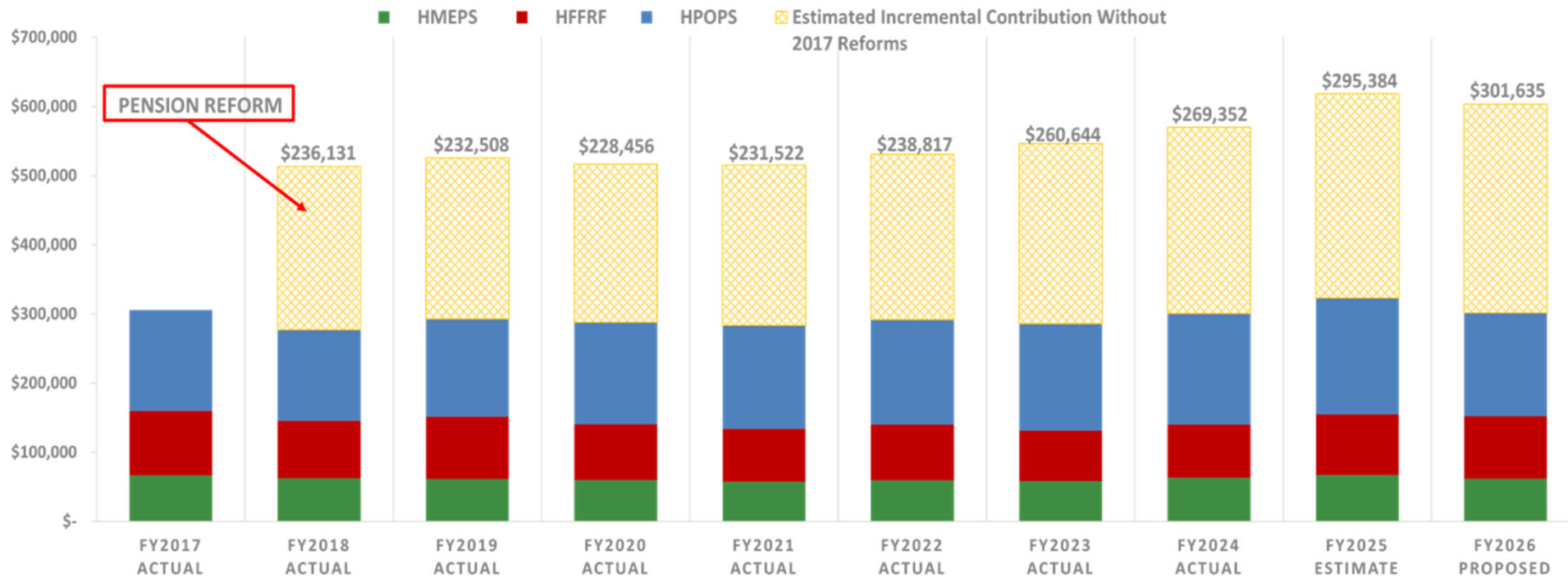
In FY2021, some costs in General Fund were transferred to CARES Act Fund.

# General Fund Pension Contributions

## FY2017- FY2026 (\$ in Thousands)



PENSION CONTRIBUTIONS OF THE THREE PENSION SYSTEMS



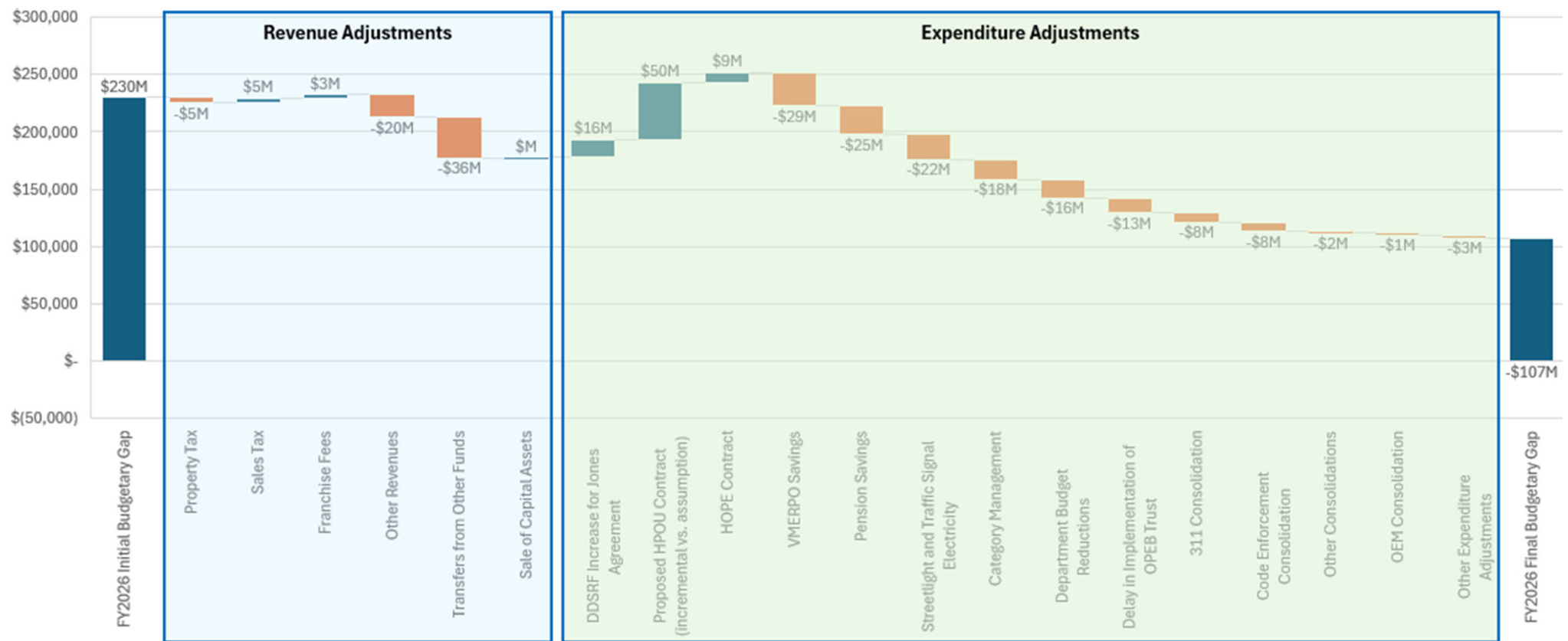
HMEPS	\$	66,968	\$	62,643	\$	61,682	\$	59,814	\$	57,586	\$	59,745	\$	58,479	\$	63,681	\$	67,365	\$	62,109
HFFRF		92,958		82,940		89,902		80,760		76,293		80,427		72,868		76,610		87,735		90,393
HPOPS		145,646		131,645		141,096		147,487		149,641		151,557		154,686		160,347		168,000		148,938
Pension Contributions	\$	305,572	\$	277,228	\$	292,680	\$	288,062	\$	283,520	\$	291,729	\$	286,033	\$	300,638	\$	323,100	\$	301,440
Change YOY (\$)		4,789		(28,344)		15,452		(4,619)		(4,541)		8,209		(5,696)		14,605		22,462		(21,660)
Change YOY (%)		1.6%		-9.3%		5.6%		-1.6%		-1.6%		2.9%		-2.0%		5.1%		7.5%		-6.7%
Estimated Incremental Contribution Without 2017 Reforms			\$	236,131	\$	232,508	\$	228,456	\$	231,522	\$	238,817	\$	260,644	\$	269,352	\$	295,384	\$	301,635
Total Estimated Contribution Without				515,196		526,665		517,869		516,703		530,546		546,677		569,990		618,484		603,075

### 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 \$2.29 billion.



# Addressing FY2026 Budgetary Gap





# Addressing FY2026 Budgetary Gap

(\$ in thousands)

<b>FY2026 Initial Budgetary GAP</b>	<b>\$</b>	<b>229,996</b>
<b>Revenue Adjustments</b>		
Property Tax	\$	5,034
Sales Tax	\$	(4,646)
Franchise Fees	\$	(3,219)
Other Revenues <sup>1</sup>	\$	19,875
Transfers from Other Funds <sup>2</sup>	\$	35,504
Sale of Capital Assets	\$	(252)
<b>Total Revenue Adjustments</b>	<b>\$</b>	<b>52,296</b>
<b>Expenditure Adjustments</b>		
DDSRF Increase for Jones Agreement	\$	16,000
Proposed HPOU Contract (incremental vs. assumption)	\$	49,709
HOPE Contract	\$	8,784
VMERPO Savings	\$	(29,382)
Pension Savings	\$	(25,000)
Streetlight and Traffic Signal Electricity	\$	(21,835)
Category Management	\$	(17,500)
Department Budget Reductions	\$	(16,153)
Delay in Implementation of OPEB Trust	\$	(12,855)
311 Consolidation	\$	(8,450)
Code Enforcement Consolidation	\$	(7,761)
Other Consolidations	\$	(1,700)
OEM Consolidation	\$	(1,332)
Other Expenditure Adjustments	\$	(2,781)
<b>Total Expenditure Adjustments</b>	<b>\$</b>	<b>(70,256)</b>
<b>FY2026 Final Budgetary GAP</b>	<b>\$</b>	<b>107,444</b>

## Notes:

1. Primarily due to \$11.7M for interest, \$5.5M for Ambulance Fee, \$2M for moving violations, \$1.8M for indirect cost allocation, and \$550k for STR revenue, offset by decrease of \$2.6M for code enforcement
2. Primarily due to \$26M for traffic enforcement, \$8.6M for reimbursement of 380s and MSC

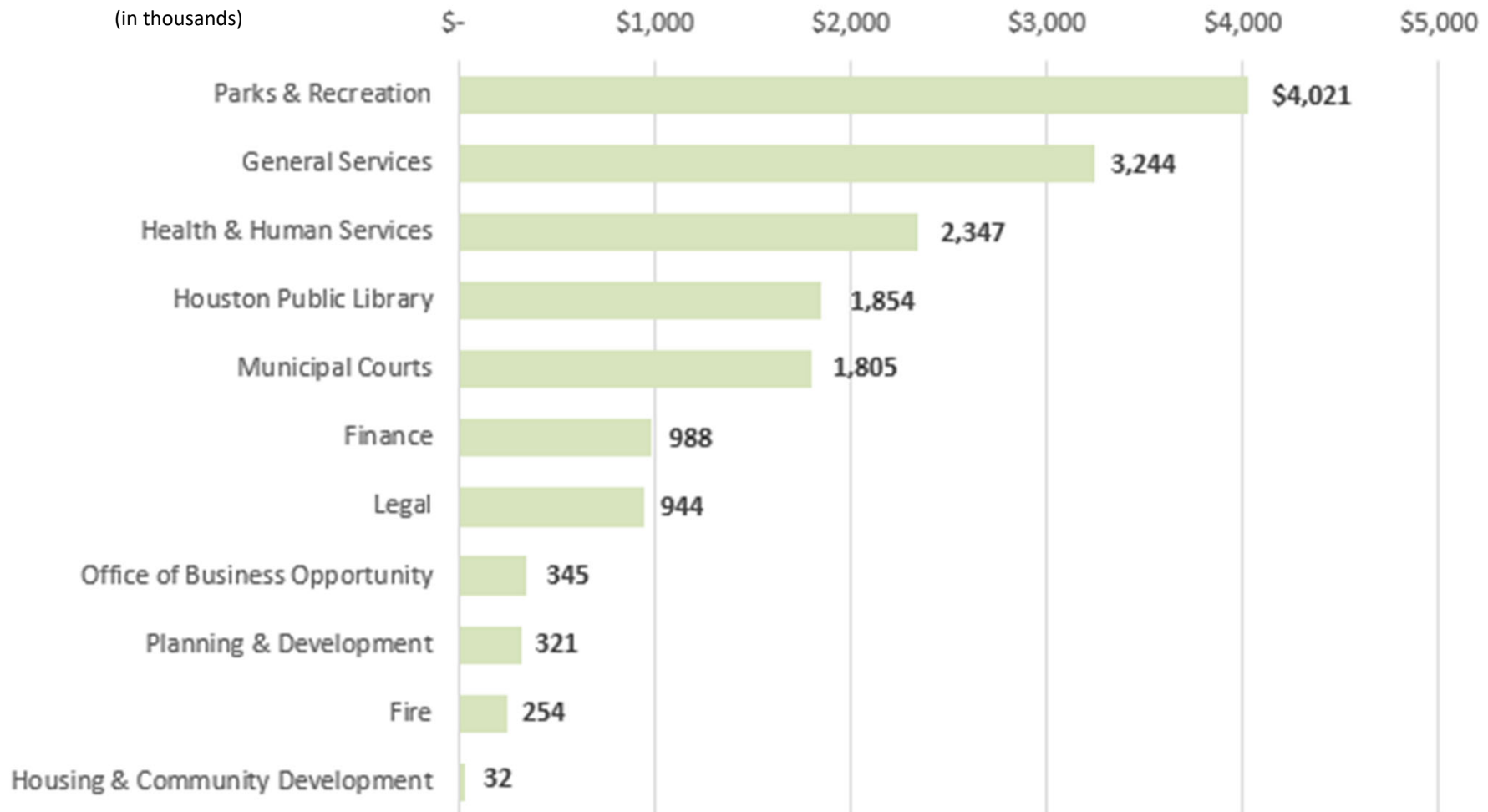


# Department Budget Reductions – General Fund



## Total Savings

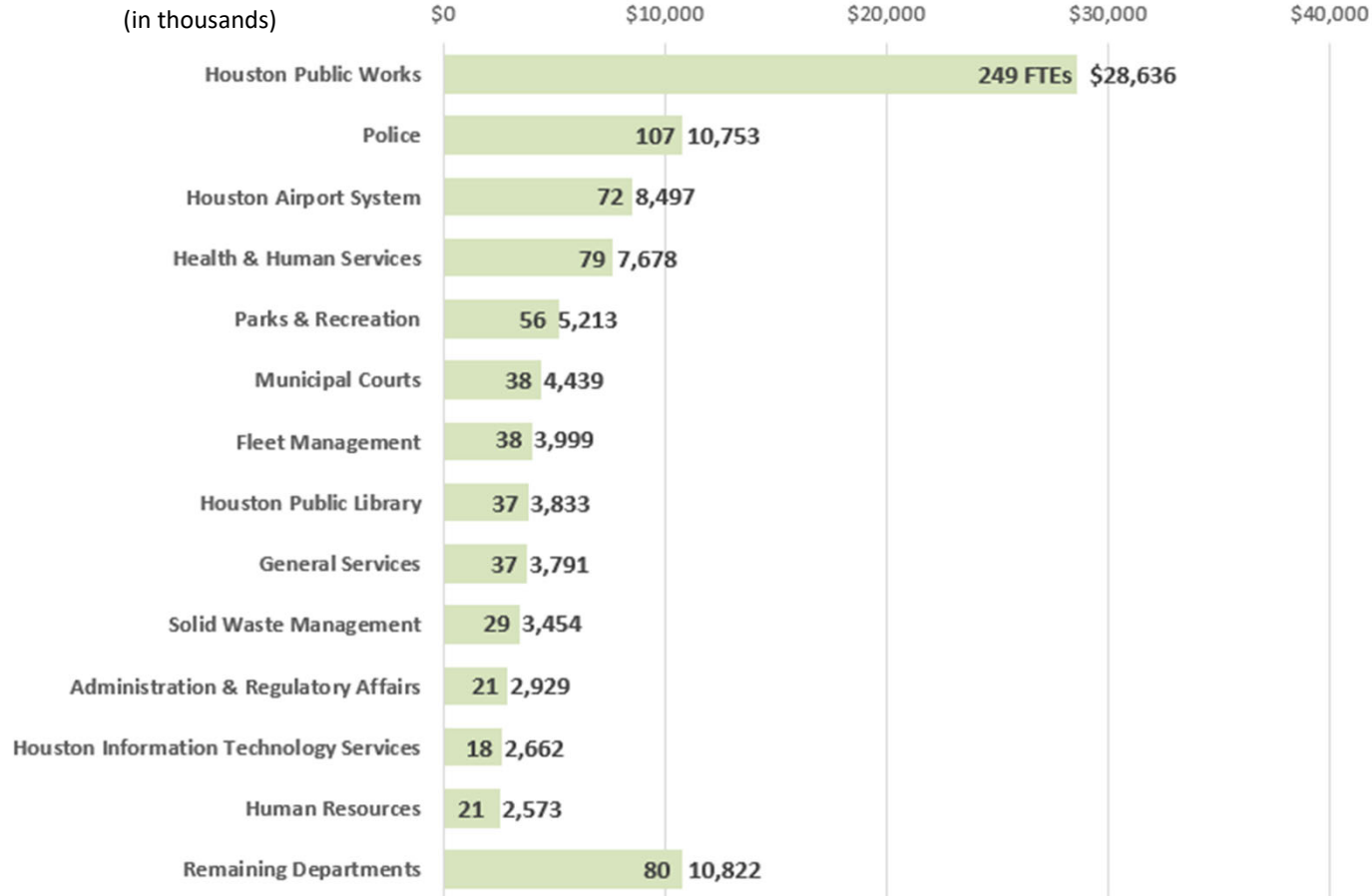
\$16,153,198





# VMERPO – All Funds

Number Eligible for VMERPO	Number Accepting Option*	% Accepting	Savings*
3,041	Total: 1,059	35%	
	Not Eligible for Backfill: 882		\$99,278,666

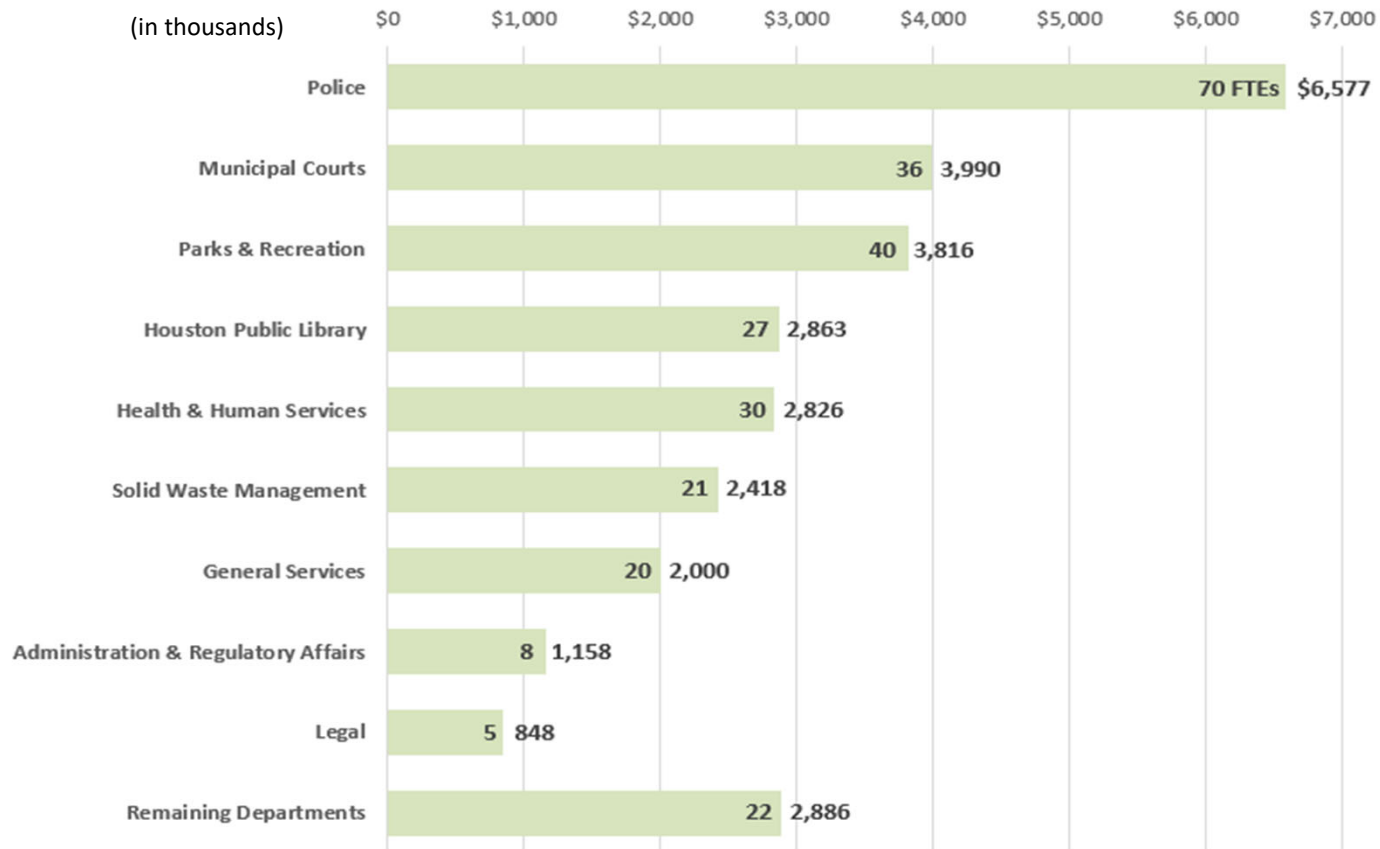


\* Of the 1,059 accepting, 882 positions are not eligible to be backfilled, which will be realized as savings in FY2026+



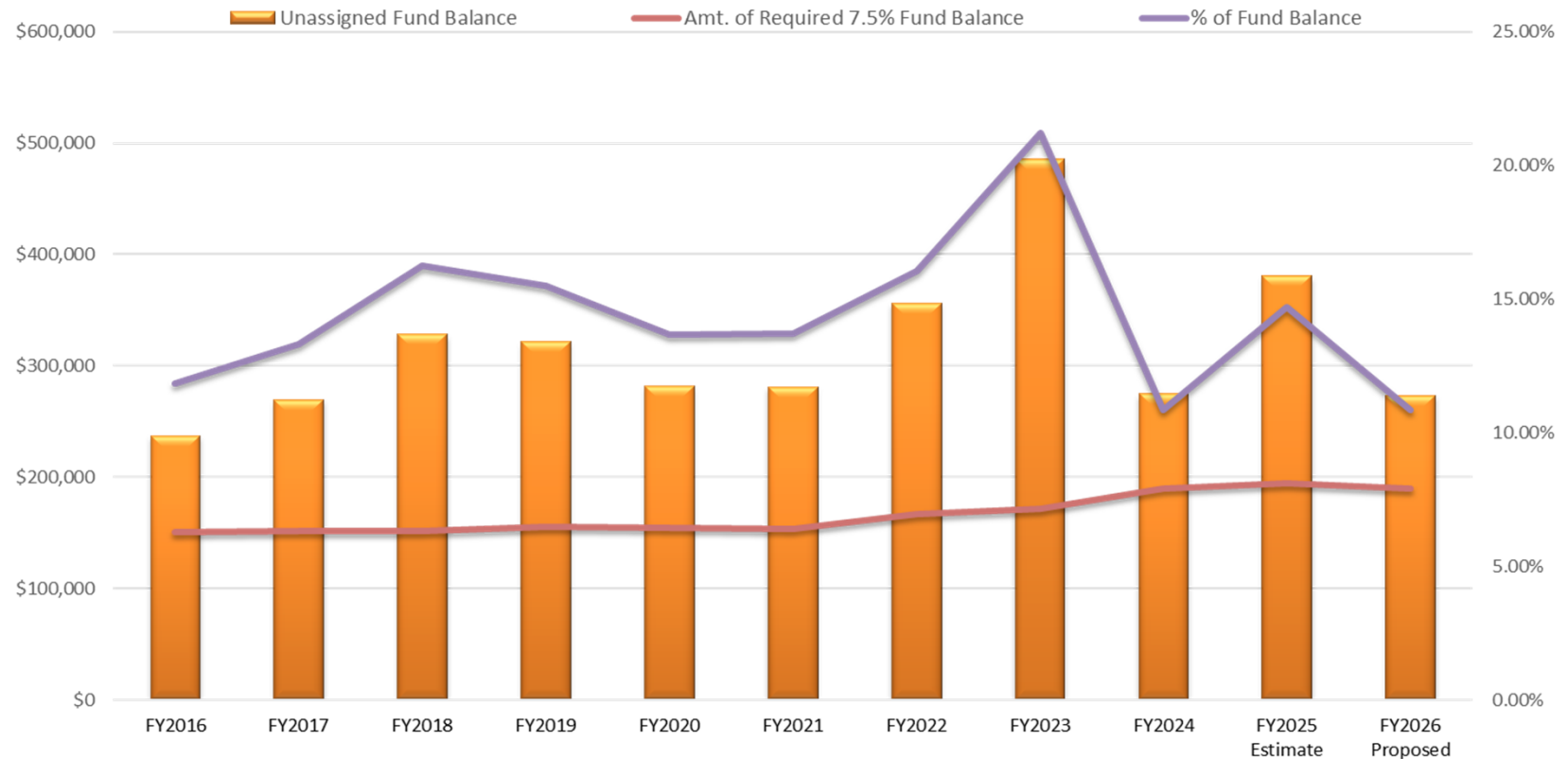
# VMERPO – General Fund

Number Eligible for VMERPO	Number Accepting Option* as of 4/20/2025	% Accepting	Savings*
1,008	Total: 316	31%	
	Not Eligible for Backfill: 279		\$29,381,756



\* Of those accepting as of 4/20/2025, 279 positions are not eligible to be backfilled, which will be realized as savings in FY2026+

# General Fund Unassigned Ending Fund Balance FY2016 - FY2026



Unassigned Fund Balance	\$ 236,947	\$ 269,558	\$ 328,346	\$ 321,436	\$ 282,068	\$ 281,202	\$ 356,332	\$ 485,383	\$ 274,603	\$ 380,798	\$ 273,402
Amt. of Required 7.5% Fund Balance	\$ 150,143	\$ 151,972	\$ 151,587	\$ 155,450	\$ 154,765	\$ 153,812	\$ 166,432	\$ 171,465	\$ 189,752	\$ 194,311	\$ 189,388
% of Fund Balance	11.84%	13.30%	16.25%	15.51%	13.67%	13.71%	16.06%	21.23%	10.85%	14.70%	10.83%
M&O Expenditures	\$ 2,001,911	\$ 2,026,297	\$ 2,021,156	\$ 2,072,672	\$ 2,063,529	\$ 2,050,824	\$ 2,219,090	\$ 2,286,200	\$ 2,530,031	\$ 2,590,816	\$ 2,525,170

## 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.



# General Fund Five Year Forecast FY2026 – FY2030



# Overview

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- 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	FY2026 Proposed	FY2027 - FY2030	Comments
Property Tax Growth %	5.7%	(Low) 2.1% to 4.0% (High)	FY2027 - 2030 estimate is based on the maximum allowed revenue by 2004 Proposition 1 and modified by 2006 Proposition H. Range varies using different assumption for CPI and population growth.
Sales Tax Growth %	1.0%	(Low) 1.9% to 4.8% (High)	FY2027 - 2030 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 %	-3.2%	(Low) -1.8% to -0.9% (High)	FY2027 – 2030 estimate based on historical growth. High range assumes slower decline in franchise fee revenue.
Other Revenue Growth %	-11.1%	(Low) 0.7% to 1.3% (High)	FY2027 – 2030 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

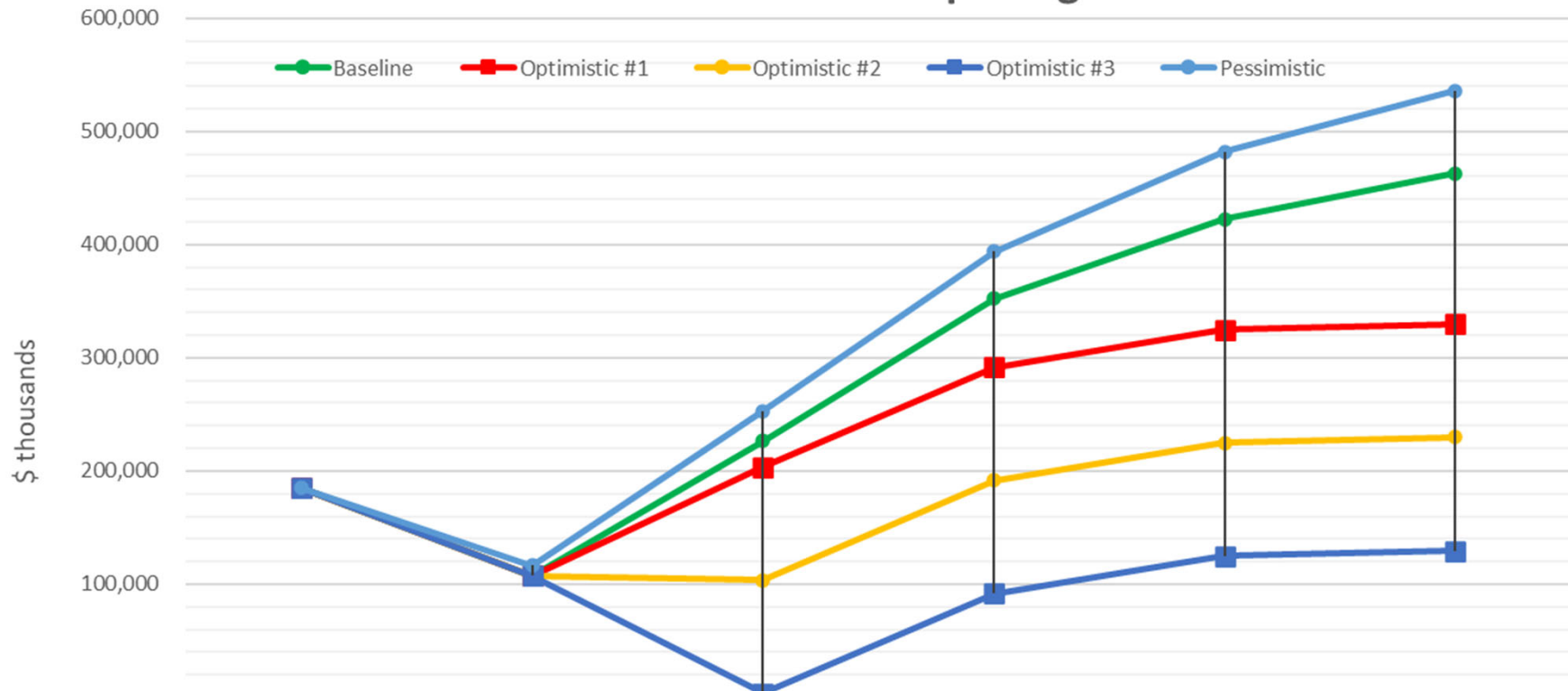
Expenditure Category	FY2026 Proposed	FY2027 Forecast	FY2028 Forecast	FY2029 Forecast	FY2030 Forecast	Comments
<b><u>Personnel</u></b>						
• Police Classified	10%	8%	6%	6%	6.5%	Based on proposed contract increase for police.
• Fire Classified	3%	3%	4%	4%	TBD	Based on Collective Bargaining Agreement (CBA)
• Municipal Employees	3.5%	3.5%	TBD	TBD	TBD	Based on HOPE Meet and Confer Agreement
<b><u>Pension Contribution</u></b>						
• HMEPS	8.54%	8.57%	8.59%	8.61%	8.63%	Based on the midpoint of the corridor
• HMEPS Legacy (\$mm)	\$154	\$158	\$163	\$167	\$172	Legacy liability contribution
• HPOPS	27.10%	(Low) 27.10% to 32.13% (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
<b><u>Health Benefits</u></b>						
• Growth %	3.2%	(Low) 4% to 5% (High)				
<b><u>Total Debt Service and PAYGO (\$mm)</u></b>	\$508.0	\$556.5	\$651.2	\$677.3	\$701.7	

# Current Budget Gap FY2026 - FY2030

(\$ in Thousands)



## Illustrative Five Year Gap Range



	FY2025 Estimate	FY2026 Estimate	FY2027 Estimate	FY2028 Estimate	FY2029 Estimate	FY2030 Estimate
Baseline	185,042	107,444	226,723	352,601	422,645	462,769
Optimistic #1	185,042	107,444	203,749	291,841	324,701	329,667
Optimistic #2	185,042	107,444	103,749	191,841	224,701	229,667
Optimistic #3	185,042	107,444	3,749	91,841	124,701	129,667
Pessimistic	185,042	116,378	253,196	393,950	482,080	536,242



# Addressing the Gap – What's Next?

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- 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
  - Implement recommendations from citywide efficiency assessment
  - Continue hiring control
  - Continue to look for cost collaboration with other levels of government
  - Develop new revenue sources
- Long-term
  - Continuation of implementation of citywide efficiency assessment
  - Collaborate with other jurisdictions