FY2025 Proposed Budget

WORKSHOP PRESENTATION

BUDGET AND FISCAL AFFAIRS

MAY 20, 2024

OFFICE OF CITY CONTROLLER CHRIS HOLLINS

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Vision of the City Controller's Office

Accountability

Hold our City government to the highest standards of integrity and efficiency, eliminating waste, fraud, and abuse.

Transparency

Put important information about the City's finances, operations, and services at the fingertips of every Houstonian in a language and format that they can understand.

Innovation

Bring new ideas and best practices to every City department so that we can invest more in – and provide better services to – Houston families and neighborhoods.

Strategic priorities

AUDIT	Protect our tax dollars with aggressive financial audits; improve outcomes with performance audits
FINANCIAL REPORTING	Help Houston chart a path to fiscal sustainability by identifying opportunities to increase revenues and decrease costs; increase transparency with clearer, more relevant communication
OPERATIONS	Increase the efficiency and lower the cost of the City's financial operations
TREASURY	Maximize public funds to pursue refinancing opportunities and to meet urgent needs

City Controller's organizational design

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                    │     RESIDENTS OF HOUSTON      │
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                    │        CHRIS HOLLINS          │
                    │       CITY CONTROLLER         │
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│ DIVISION │ │ DIVISION │ │REPORTING │ │ DIVISION │ │  DIVSION │
│          │ │          │ │ DIVISION │ │          │ │          │
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Strategic alignment with Mayor's priorities

Mayor's priority

 Government that Works

Our Office's programs

| Audit | Executive Oversight | Financial Reporting | Operations | Treasury |

Expenditures by program (in thousands)

Program	FY23 Actual	FY24 Budget	FY24 Estimate	FY25 Proposed	Variance FY25 Proposed/ FY24 Budget	% Change
Audit	1,204	2,361	2,126	2,867	505	21%
Executive Oversight	841	1,036	1,098	1,195	159	15%
Financial Reporting	1,559	1,781	1,781	1,675	(106)	(6%)
Operations	2,995	3,356	3,295	3,361	5	0%
Treasury	1,265	1,342	1,342	1,456	114	8%
Total	**$7,864**	**$9,877**	**$9,642**	**$10,554**	**$677**	**7%**

Total may reflect slight variances due to rounding.

Audit

Priority:	Government that Works
FY2025 FTE Count:	16.1

Program Description

Performs audits and projects focused on risk assessment, contract compliance, performance and efficiency, process reviews, ongoing monitoring, and consideration of fraud, waste, and abuse.

Significant Budget Items

- Includes funding to support performance audits.
- Includes funding for health benefits and pension contribution.

FY25 Prop Budget by Fund

General Fund	$2,867
Total	**$2,867**

Performance

Measure Name	FY23 Actual	FY24 Target	FY24 Estimate	FY25 Target
Average # of engagements completed by each FTE	N/A	N/A	N/A	2.75
Dollar amount of cost/revenue opportunities identified	N/A	N/A	N/A	$1.6M
Percentage of findings agreed to by department	N/A	N/A	N/A	80%
Maximum time to take appropriate action related to fraud, waste, and abuse hotline reports	N/A	N/A	N/A	1 business day

Executive Oversight

Priority:	Government that Works
FY2025 FTE Count:	7.5

Program Description

Sets policy for the City Controller's Office; increases accountability by holding City government to the highest standards of integrity and efficiency, and by working to eliminate fraud, waste, and abuse; serves as the independent financial voice for the City of Houston; increases transparency by putting important information about the City's finances, operations, and services at the fingertips of every Houstonian in a language and format they can understand; and brings new ideas and best practices to every City department so that critical services can be delivered to Houstonians at the high standard we all deserve.

Significant Budget Items

- Includes funding to support communication and engagement program.
- Includes funding for health benefits and pension contribution.

FY25 Prop Budget by Fund

General Fund	$1,195
Total	**$1,195**

Performance

Measure Name	FY23 Actual	FY24 Target	FY24 Estimate	FY25 Target
Annual external newsletter distribution	N/A	N/A	N/A	4
Annual website visitors	N/A	N/A	N/A	70,000
Community events hosted	N/A	N/A	N/A	7
Median response time to media inquiries	N/A	N/A	N/A	3 hours
Median response time to public inquiries	N/A	N/A	N/A	1 business day

Financial Reporting

Priority:	Government that Works
FY2025 FTE Count:	9.6

Program Description

Serves as a trusted custodian of financial information, dedicated to promoting transparency, integrity, and accountability in the city's financial operations. By delivering accurate, timely, and comprehensive financial reports, we empower stakeholders with the information they need to make informed decisions and ensure the responsible stewardship of public resources for the benefit of all residents.

Significant Budget Items

- Includes funding for health benefits and pension contribution.

FY25 Prop Budget by Fund

General Fund	$1,675
Total	**$1,675**

Performance

Measure Name	FY23 Actual	FY24 Target	FY24 Estimate	FY25 Target
Number of audit findings related to the ACFR	N/A	N/A	N/A	0
Number of days to complete the ACFR once the fiscal period closes	N/A	N/A	N/A	80
Expenditures Adopted Budget vs Actual Utilization	88%	98%	107%	98%

Operations

Priority:	Government that Works
FY2025 FTE Count:	21.9

Program Description	Significant Budget Items	FY25 Prop Budget by Fund	
Ensures the availability of funds for city contracts; ensure city invoices and payment requests meet applicable city policies and best practices; maintain the integrity of city records for financial transactions and contracts; maintain internal controls by reconciling cash disbursement against the city's book of accounts; and ensure City vendors do not owe back taxes. Provides the Office of the City Controller with services in human resources, budget, purchasing, and administrative processes to maximize staff productivity.	• Includes funding for health benefits and pension contribution.	General Fund	$3,361
		Total	**$3,361**

Performance

Measure Name	FY23 Actual	FY24 Target	FY24 Estimate	FY25 Target
Percent of contracts routed within 3 days of receipt	100%	100%	100%	100%
Percent of ordinance certification processes completed prior to relevant City Council date	100%	100%	100%	100%
Early payment discounts secured	$862,785	$905,924	$862,785	$951,220
Number of paper checks remitted	34,958	33,210	34,958	32,210
Maximum time to prepare purchase orders and requisitions after request	N/A	N/A	N/A	5 business days

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Treasury

Priority:	Government that Works
FY2025 FTE Count:	7.6

Program Description

Manages the entire City investment portfolio related to the three accounts - General Pool, Tax-Exempt, and HUD Section 108. Ensures that all investments comply with the Texas Public Fund Investment Act. Responsible for the entire City debt portfolio, consisting of each City credit - Airport, Convention & Entertainment, Combined Utility, and General Obligation. Manages the City's commercial paper program. Manages the City's depository banking system.

Significant Budget Items

- Includes funding for health benefits and pension contribution.

FY25 Prop Budget by Fund

General Fund	$1,456
Total	**$1,456**

Performance

| Measure Name	FY23 Actual	FY24 Target	FY24 Estimate	FY25 Target
Percent of City debt service paid on a timely basis	100%	100%	100%	100%
City's total return on investment over the Merrill Lynch Custom Benchmark (which consists of Treasury, T-Bill, and Agency)	N/A	N/A	N/A	5 basis points
Weighted average interest rate of all City's letter of credit commercial paper draws	N/A	N/A	N/A	Under 5%
City's investment portfolio credit rating maintained with Fitch Ratings	N/A	N/A	AAAf	AAAf

Expenditures by fund
(in thousands)

Fund	FY23 Actual	FY24 Budget	FY24 Estimate	FY25 Proposed	Variance FY25 Proposed / FY24 Budget	% Change
General Fund	7,864	9,877	9,642	10,554	677	7%
Total	**$7,864**	**$9,877**	**$9,642**	**$10,554**	**$677**	**7%**

Personnel vs non-personnel costs (in thousands)
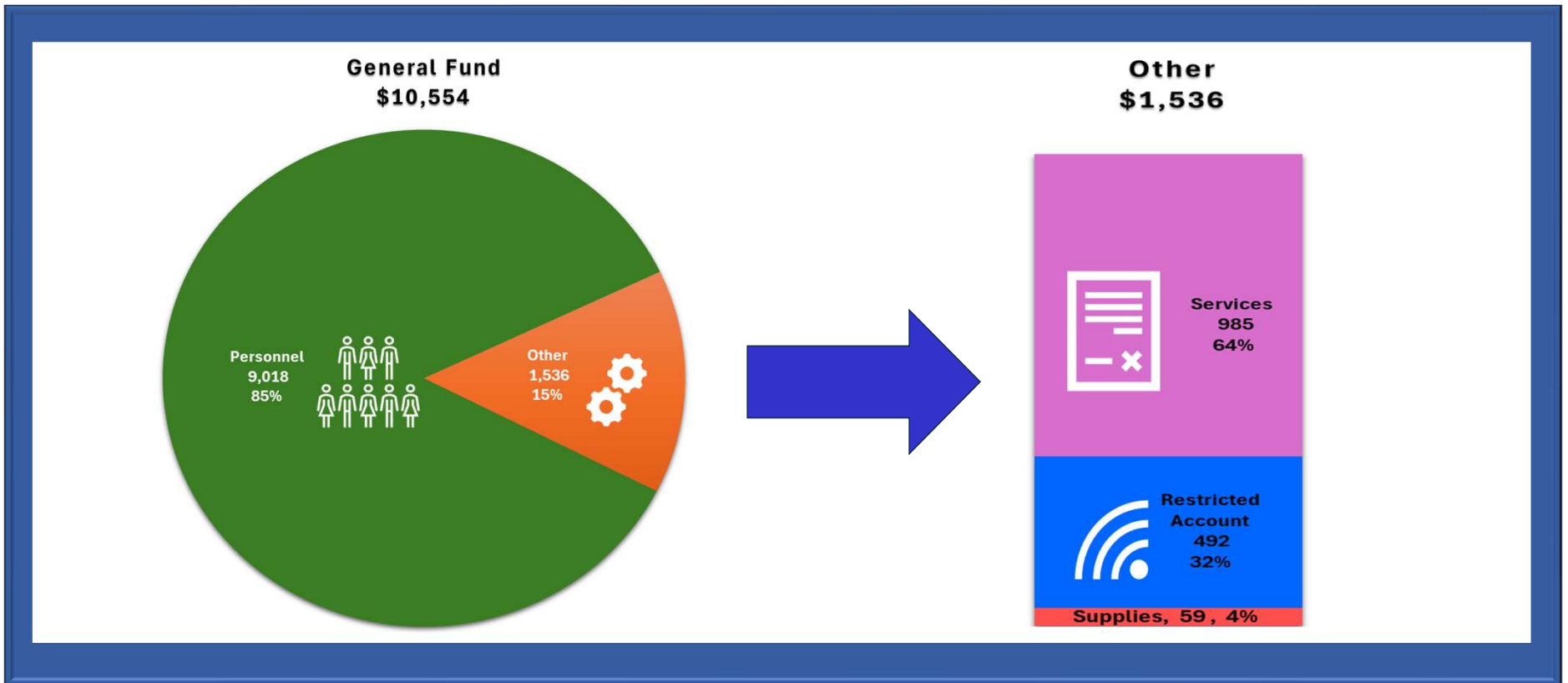
Budget requests

Budget item	Additional amount requested
1. City Auditor salary	$64,011
2. Audit Division expansion	$800,000
3. Transparency tool improvement	$360,000
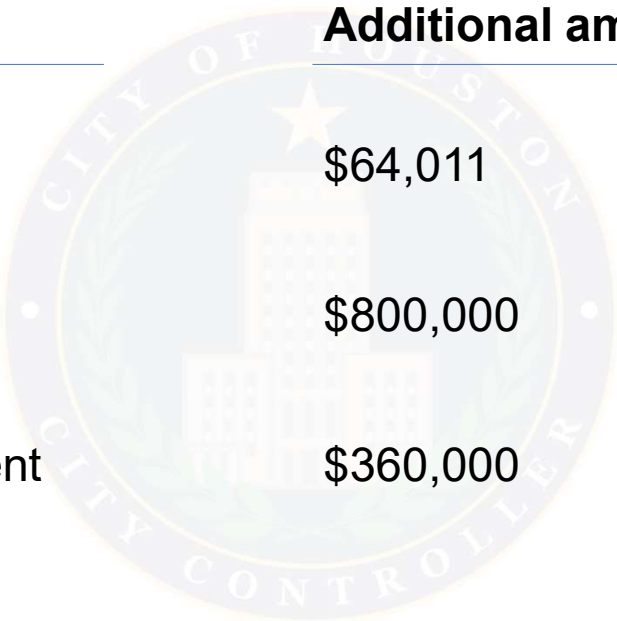
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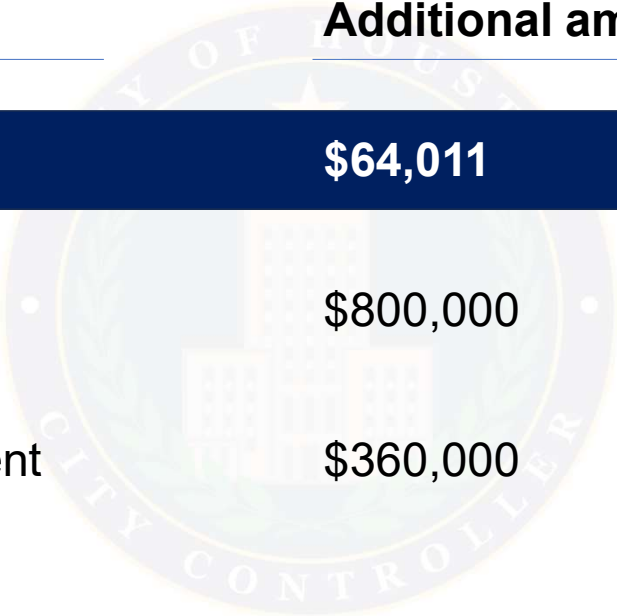
A strong Audit function is critical to our City's future

1. **Financial accountability and transparency**: A strong City audit division ensures that financial transactions and resource allocations are accurately reported and transparent, which builds trust among citizens and stakeholders.

2. **Risk management and fraud prevention**: By regularly auditing City operations and finances, the audit division can identify and mitigate risks, as well as detect and prevent fraudulent activities, safeguarding public funds

3. **Operational efficiency and effectiveness**: Auditors assess the efficiency and effectiveness of city programs and services, providing recommendations for improvements that can lead to cost savings and enhanced service delivery

4. **Informed decision-making**: Audit findings provide valuable insights for City officials, helping them make informed decisions that align with the City's strategic goals and priorities

5. **Compliance with laws and regulations**: A robust audit division ensures that City operations comply with local, state, and federal laws and regulations, avoiding legal penalties and maintaining good governance standards

The City recognizes the value of strong leadership...

Salary rank by City leader

1. City Attorney

2. Police Chief

3. Aviation Director

4. Public Works Director

5. EMS Physician Director

6. Airport COO

7. Public Works COO

8. Deputy Exec. Asst. Police Chief

9. Fire Chief

10. Associate EMS Physician Director

Source: FY2023 salary data

The City recognizes the value of strong leadership...

Salary rank by City leader

1. City Attorney	11. …	21. …	31. …
2. Police Chief	12. …	22. …	32. …
3. Aviation Director	13. …	23. …	33. …
4. Public Works Director	14. …	24. …	34. …
5. EMS Physician Director	15. …	25. …	35. …
6. Airport COO	16. …	26. …	36. …
7. Public Works COO	17. …	27. …	37. …
8. Deputy Exec. Asst. Police Chief	18. …	28. …	38. …
9. Fire Chief	19. …	29. …	39. …
10. Associate EMS Physician Director	20. …	30. …	40. …

Source: FY2023 salary data

...City Auditor salary does not reflect its value

Salary rank by City leader

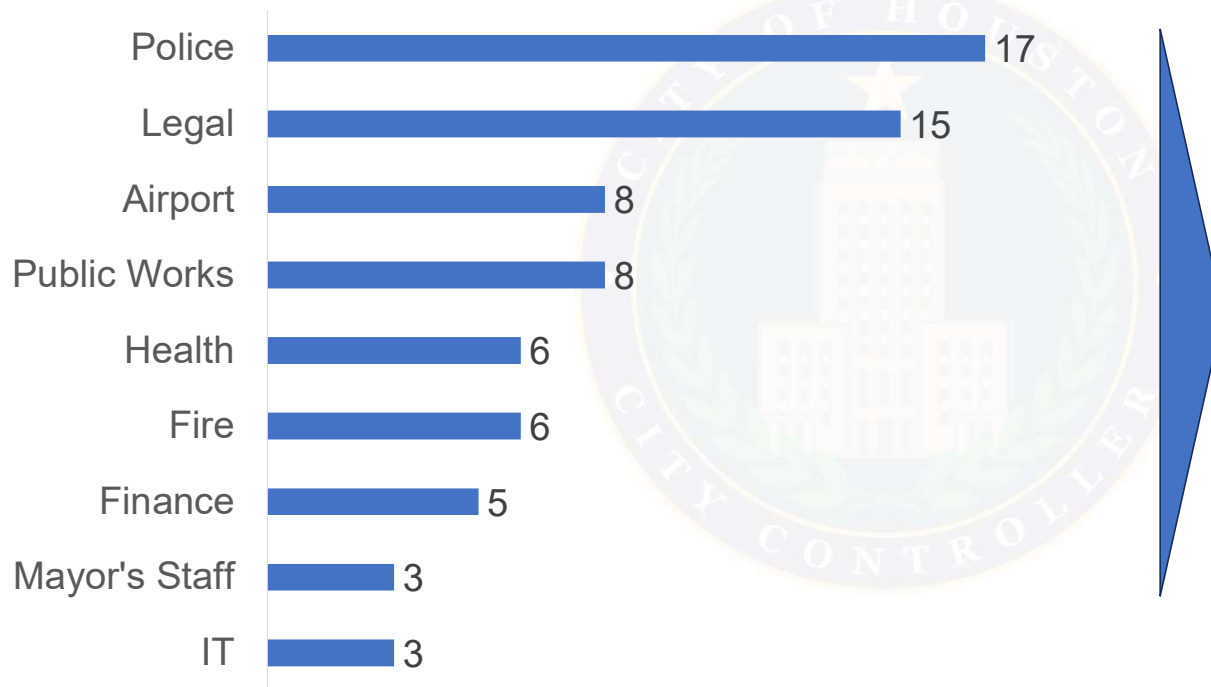|			
41. …	51. …	61. …	71. …
42. …	52. …	62. …	72. …
43. …	53. …	63. …	73. …
44. …	54. …	64. …	74. …
45. …	55. …	65. …	75. …
46. …	56. …	66. …	76. …
47. …	57. …	67. …	**77. City Auditor**
48. …	58. …	68. …	
49. …	59. …	69. …	
50. …	60. …	70. …	
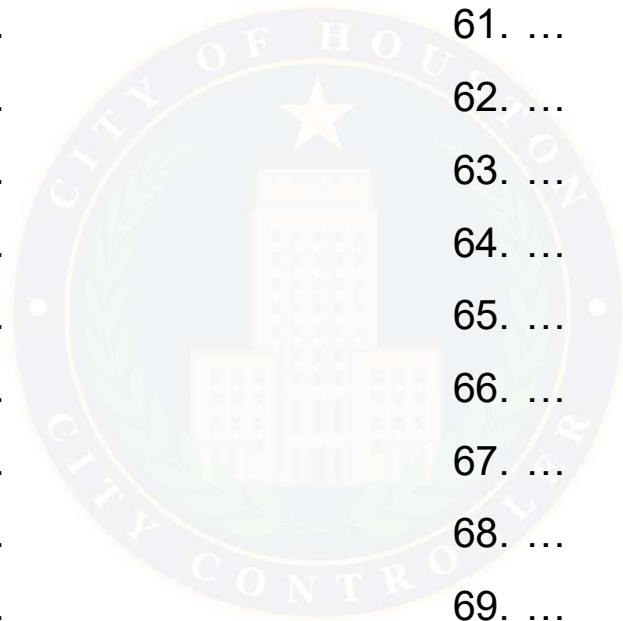
Source: FY2023 salary data

...City Auditor salary does not reflect its value (cont.)

Number of staff with higher salary than City Auditor[1]

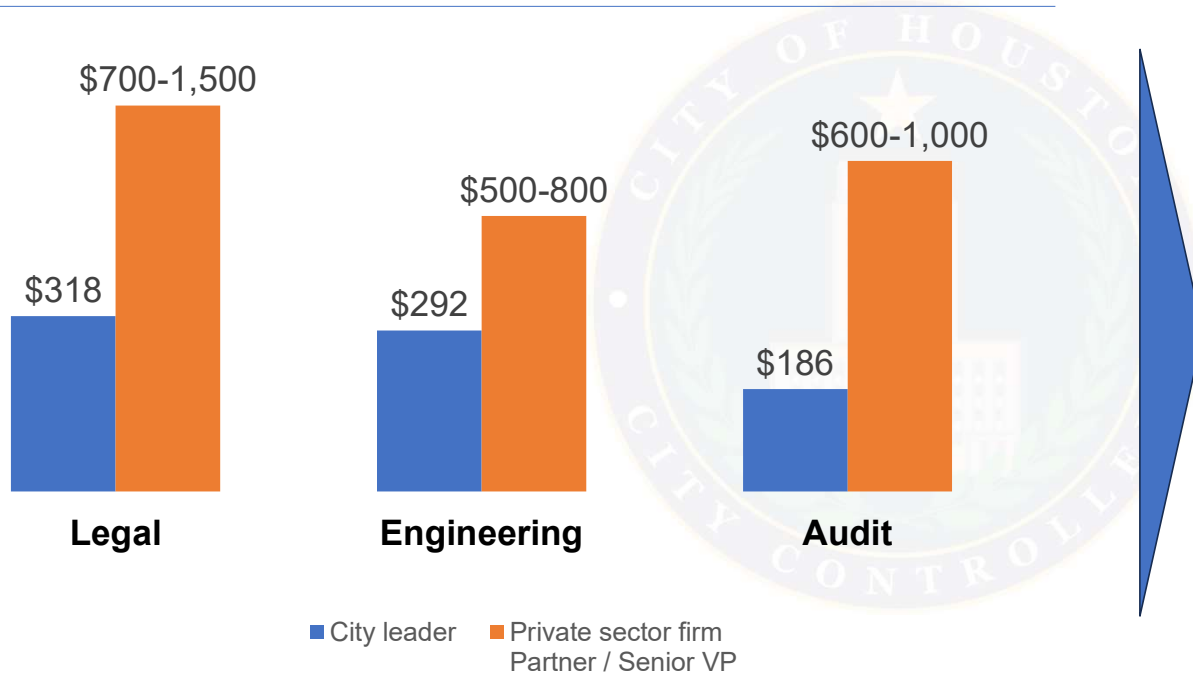| Department	Count
Police	17
Legal	15
Airport	8
Public Works	8
Health	6
Fire	6
Finance	5
Mayor's Staff	3
IT	3

With fiscal responsibility as a critical need for the City for years to come, the City Auditor should be compensated in line with its value and priority

1. Five (5) other City departments each have one (1) staff member with a higher salary than the City Auditor.
Source: FY2023 salary data

City Auditor salary should be set to attract top talent

City leader salary compared to private sector peers[1] ($ thousands)

Legal — City leader: $318, Private sector firm: $700-1,500
Engineering — City leader: $292, Private sector firm: $500-800
Audit — City leader: $186, Private sector firm: $600-1,000

■ City leader   ■ Private sector firm Partner / Senior VP

- It is not feasible to truly compete with private sector salary; a leader with the level of talent we are in search of could always command significantly more at a professional services firm

- Based on multiple interviews and analysis of available data, a $240-260K salary is estimated to be reasonably attractive to a public service-minded professional

1. Figures shared by executive search firm.
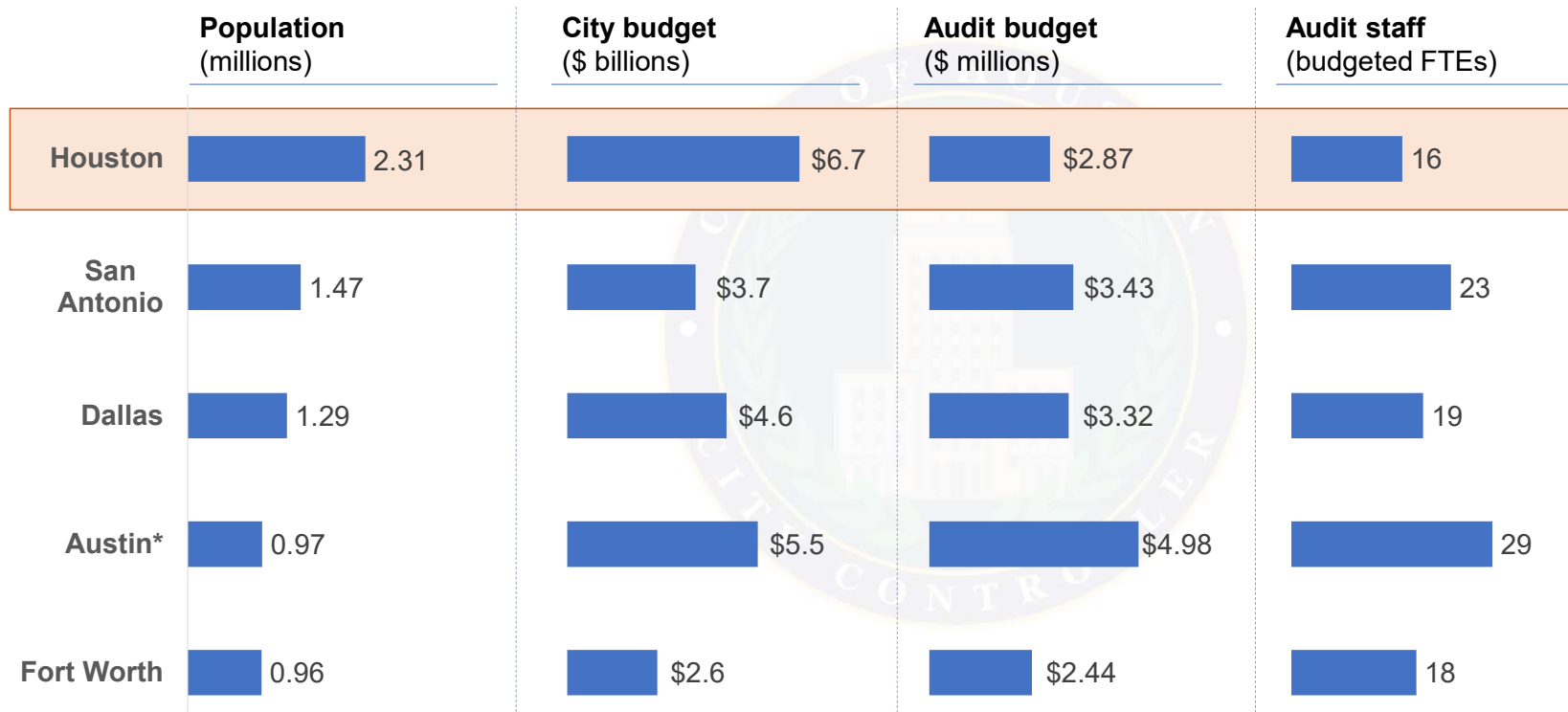Source: FY2023 salary data

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Budget requests

Budget item	Additional amount requested
1. City Auditor salary	$64,011
2. Audit Division expansion	**$800,000**
3. Transparency tool improvement	$360,000

Houston's Audit Division is under-resourced compared to other major cities in Texas

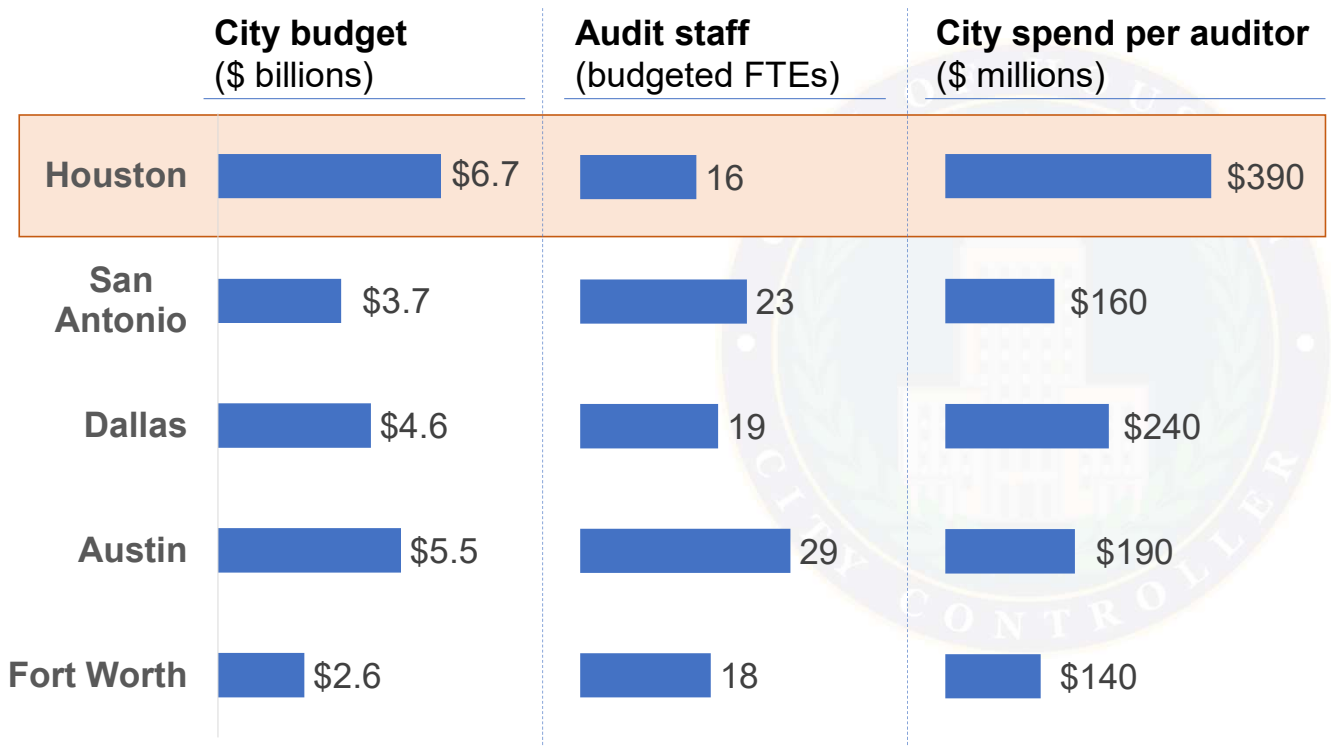|	Population (millions)	City budget ($ billions)	Audit budget ($ millions)	Audit staff (budgeted FTEs)
Houston	2.31	$6.7	$2.87	16
San Antonio	1.47	$3.7	$3.43	23
Dallas	1.29	$4.6	$3.32	19
Austin*	0.97	$5.5	$4.98	29
Fort Worth	0.96	$2.6	$2.44	18

- Houston is the **largest city in the State** of Texas, with the largest municipal budget

- Houston's **Audit Division is the smallest of its peer cities** within Texas, hindering its ability to effectively evaluate the City's internal controls, risks and governance functions

*Austin includes funding for 6 FTEs to support the investigation team.
Source: 2022 Census population estimates; most recent budgets of each city.

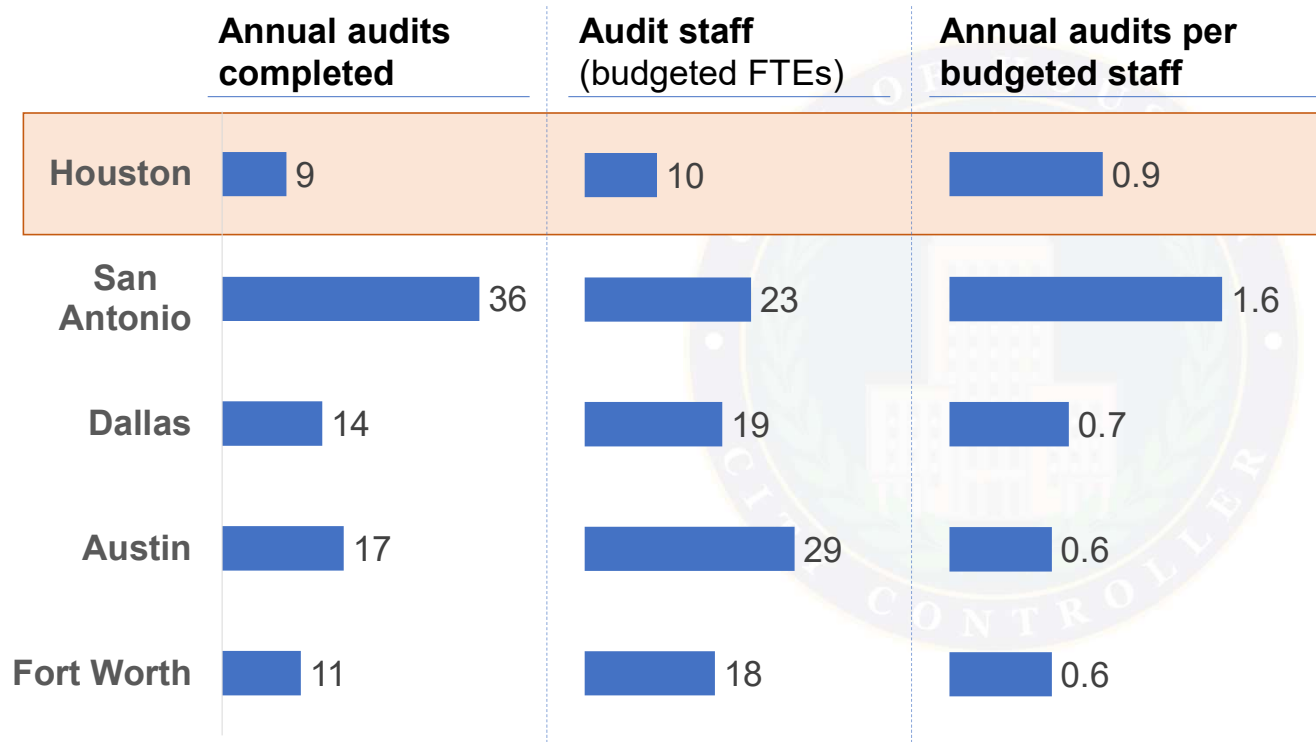# Similarly, Houston's per-auditor responsibility is much higher than its peers

	City budget ($ billions)	Audit staff (budgeted FTEs)	City spend per auditor ($ millions)
Houston	$6.7	16	$390
San Antonio	$3.7	23	$160
Dallas	$4.6	19	$240
Austin	$5.5	29	$190
Fort Worth	$2.6	18	$140

- Per-auditor responsibility in Houston is **more than double the major city peer average** of $185 million, and **more than 60% higher than closest peer** (Dallas)

- To bring Houston in line with closest peer would require a total of 28 auditors (**12 more than currently budgeted**)

*Austin includes funding for 6 FTEs to support the investigation team.
Source: 2022 Census population estimates; most recent budgets of each city.

Despite productivity in line with peers, Houston auditors are faced with unmanageable workload

	Annual audits completed	Audit staff (budgeted FTEs)	Annual audits per budgeted staff
Houston	9	10	0.9
San Antonio	36	23	1.6
Dallas	14	19	0.7
Austin	17	29	0.6
Fort Worth	11	18	0.6

- Although **Houston ranks above all but one if its major city peers** in auditor productivity, its workload is significantly higher

- Responsible for 26 departments and 213 key auditable processes, **Houston has audited only 28 processes (13% of total)** over the last five years

- **Longer audit cycles** driven by understaffing put the City at significant risk

*Austin includes funding for 6 FTEs to support the investigation team.

Source: Most recent complete fiscal year (for Houston, FY2023). Of Houston's 10 FTEs, 8 are committed to the execution of audits. Others are supervisory.

Houston Audit Division is missing core functions

Function	Description	Status
Oversight	City Auditor and support staff	• Exists in status quo (2 FTE) • Beginning recruitment for new City Auditor
Process	Identify and mitigate risk (e.g., Solid Waste cart inventory, GSD security compliance, HPD evidence room compliance)	• Exists in status quo • Understaffed (8 FTE)
Performance and data analysis	Assess the efficiency and effectiveness of city programs and services, providing recommendations for improvements that can lead to cost savings and enhanced service delivery	• Created in FY2024 (7 FTE) • In process of hiring and incorporating into regular audit processes
Contracts	Analyze and monitor contracts to ensure adherence to terms, take advantage of savings/revenue opportunities, and identify discrepancies	• **Does not exist; critical need**
Forensics	Monitor financial and other records to detect and prevent fraud, embezzlement, and other illegitimate behavior	• **Does not exist; critical need**
Grants	Review grant fund usage to ensure compliance and maximize revenue available to the City	• **Does not exist; critical need**

To manage growth responsibly, we recommend increasing Audit Division in phases

Recommended expansion of Audit Division

Function	Current staffing	Recommended FY2025 growth	Recommended FY2026 growth	Recommended staffing
Oversight	2	1	0	3
Process	8	1	1	10
Performance/ data analytics	7	0	1	8
Contracts	0	2	1	3
Grants	0	1	1	2
Forensics	0	1	1	2
Total	**17**	**6**	**5**	**28**

- **Six (6) auditors recommended** in FY2025
  - 1 Auditor V
  - 3 Auditor IVs
  - 2 Auditor IIIs
- **Budget impact of $800,000**

Budget requests

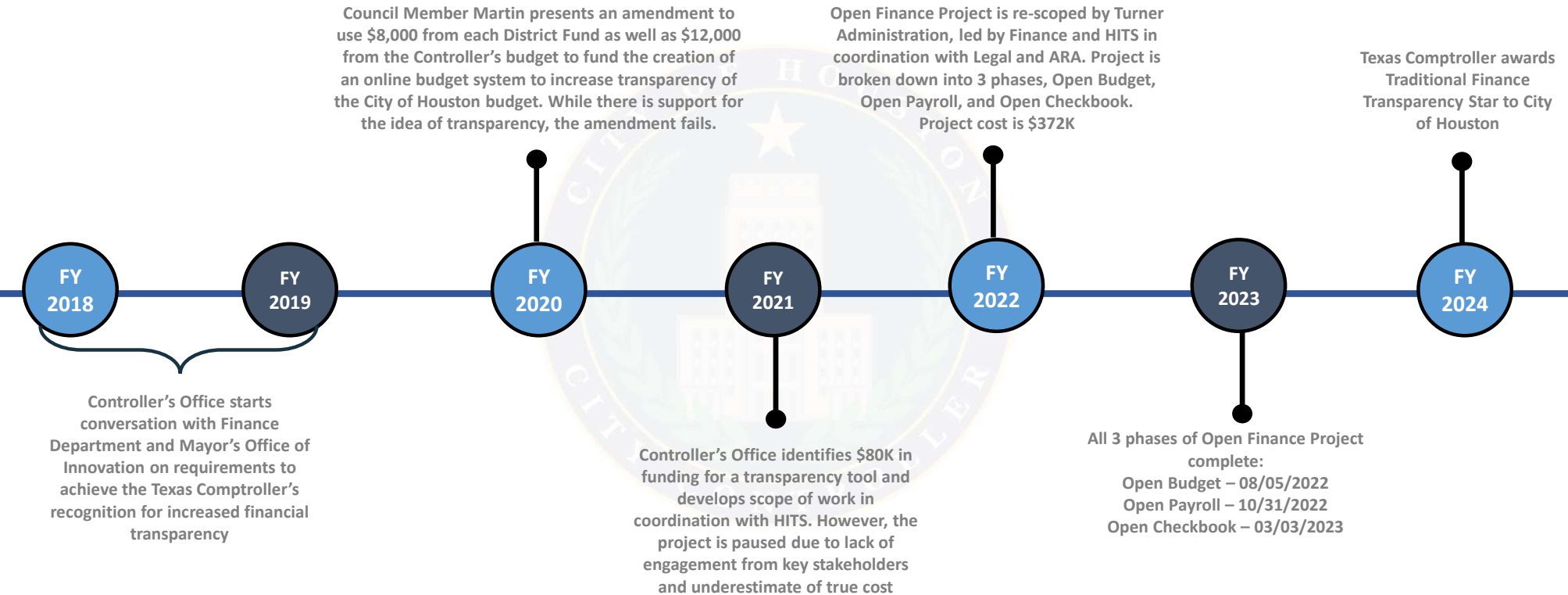| Budget item	Additional amount requested
1. City Auditor salary	$64,011
2. Audit Division expansion	$800,000
3. Transparency tool improvement	**$360,000**

The importance of transparency in City government

Transparency in City government is crucial for building trust between Houstonians and their elected officials

- Ensures that government actions, decisions, and financial dealings are **open to public scrutiny**

- **Reduces the risk of corruption** and misuse of public funds

- **Allows residents to be well-informed** about policy changes, budget allocations, and community projects, fostering greater civic engagement

- **Promotes accountability**, as public officials are more likely to act in the community's best interest when their actions are visible to the public

- **Strengthens democracy** by ensuring that government operations are conducted in an open, honest, and fair manner
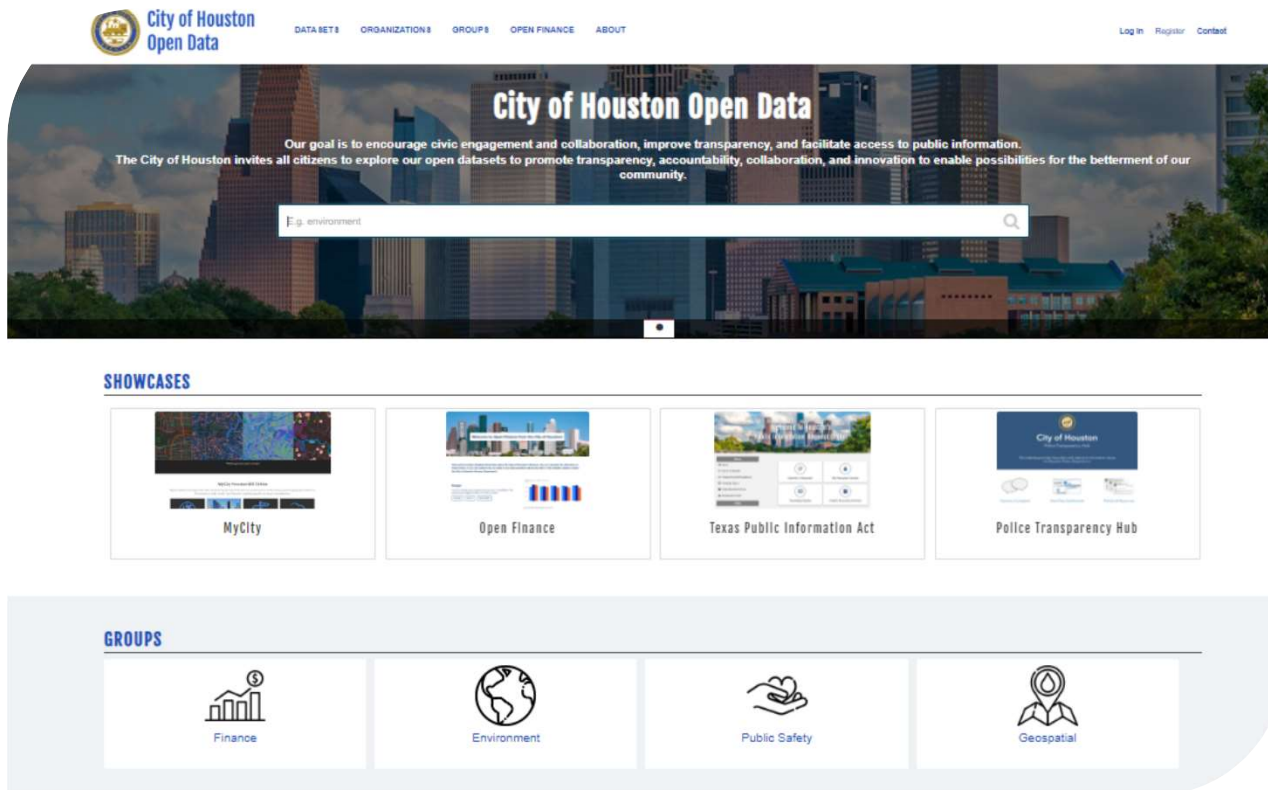
Recent history of City transparency efforts

Council Member Martin presents an amendment to use $8,000 from each District Fund as well as $12,000 from the Controller's budget to fund the creation of an online budget system to increase transparency of the City of Houston budget. While there is support for the idea of transparency, the amendment fails.

Open Finance Project is re-scoped by Turner Administration, led by Finance and HITS in coordination with Legal and ARA. Project is broken down into 3 phases, Open Budget, Open Payroll, and Open Checkbook. Project cost is $372K

Texas Comptroller awards Traditional Finance Transparency Star to City of Houston

FY 2018 • FY 2019 • FY 2020 • FY 2021 • FY 2022 • FY 2023 • FY 2024

Controller's Office starts conversation with Finance Department and Mayor's Office of Innovation on requirements to achieve the Texas Comptroller's recognition for increased financial transparency

Controller's Office identifies $80K in funding for a transparency tool and develops scope of work in coordination with HITS. However, the project is paused due to lack of engagement from key stakeholders and underestimate of true cost

All 3 phases of Open Finance Project complete:
Open Budget – 08/05/2022
Open Payroll – 10/31/2022
Open Checkbook – 03/03/2023

What's currently in place

City of Houston Open Data Portal

- Open Data Portal showcases:
  - MyCity Houston (GIS information)
  - Houston's Public Information Request Center
  - Police Transparency Hub
  - Open Finance

- Open Finance Portal is made up of three (3) parts:
  - Open Budget
  - Open Payroll
  - Open Checkbook

- It is clear that progress has been made, but there are still meaningful gaps in access and functionality

Current suite of tools has several limitations

Issue	Detail
• **Not fully transparent**	• Data is not comprehensive (e.g., there are no names in salary database, and it is believed that some vendors are missing from Open Checkbook)
• **Not user-friendly**	• Non-experts cannot easily locate key data (e.g., instead of a search that returns key information, some tools produce a .csv file that the user must know how to manipulate)
• **Non-intuitive interface**	• Tools lacks clear cues for users to understand how to interact with them effectively
• **Inadequate visualization**	• Suite of tools does not provide simple, clean, consistent, or interactive visuals

Limitation example: Payroll

Problem	Steps	Results
Now how much does John Smith in the Controller's Office make? **Taxpaying Houstonian**	Click the Open Finance link on the Open Data Portal Now, let's click the Payroll link Scroll through 5 pages of charts and graphs or job titles, or download CSV file. There's no data available by employee name	**Information not available** • Data on graphs are aggregated at a high level. Cannot drill down to employee level detail. • More data available in CSV download, but does not include employee name or job title.

Limitation example: Neighborhood projects

Problem	Steps	Results
Where can I find the status of street and drainage projects in my neighborhood? **Taxpaying Houstonian**	• Scan the Open Finance Portal for links related to projects or • Use the search bar to search for projects 	 **Information is not available, or the data doesn't exist in Open Finance**

Limitations example: Just wondering!

Problem	Steps	Results

Problem

I have a homework assignment to determine how many tax dollars are allocated to public safety

Future Taxpaying Houstonian

Steps

Click the Open Finance link on the Open Data Portal

Now, let's click the budget link

Scroll through 6 pages of charts and graphs or download CSV file

Results

Information is too difficult for Houstonians to obtain

- Visuals are limited and cluttered

- Requires above-average Excel skills to utilize CSV files to obtain the desired information

- Simplifying data access and presentation can enhance citizen engagement and understanding

How others are doing it

Here are a few instances showcasing what other cities are implementing to enhance the transparency and accessibility of their finances to residents
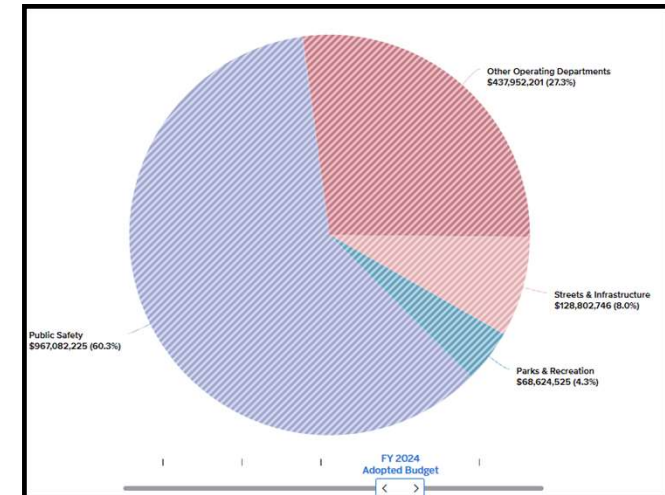
Los Angeles

New York
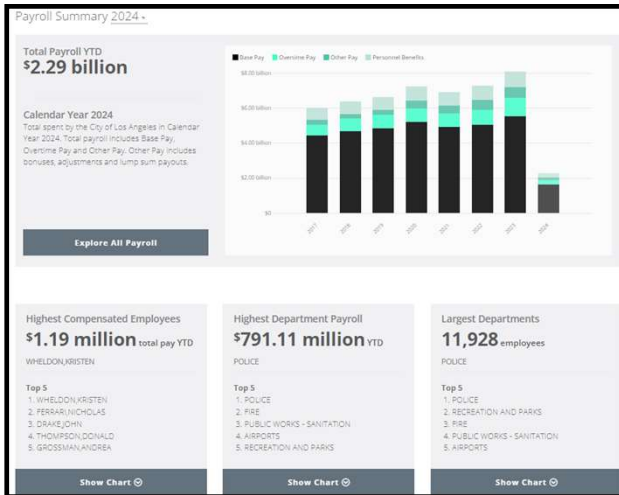
San Antonio

City of Los Angeles has simple and easy-to-navigate payroll information with the ability to drill down to individual employees

City of New York has a searchable Capital Funding site by project name, sponsor, and district

City of San Antonio has easy-to-toggle graphs that can display information in a simple to follow format with meaningful information

We can do better

We want to improve/replace the current suite of transparency tools to be:

1. **Single source -** A single source for all information (vs. multiple tools needed to find different types of information)

2. **Natural language -** Capable of natural language processing (where user can type in a question in sentence form and get an answer)

3. **Visualization -** Improved in terms of overall visualization of data

4. **Geospatial -** Inclusive of geospatial visualization

5. **Plain speak -** In "plain speak" that regular folks understand (vs. data/information being available according to City jargon, departments, etc.)

6. **Comprehensive -** Comprehensive (with very limited exceptions for data that has true security implications)

7. **SEO-optimized -** SEO-optimized so that the tool is in the top few options when anyone searches for this kind of data with major search engines

8. **Contextual -** Where helpful, in appropriate context so that data is better understood

Controller's Office, Mayor's team, and Finance leadership have agreed to these guiding principles

Next steps

- As the elected watchdog of the City's finances, the **Controller's Office bears the duty of upholding transparency and accountability**

- **Engaging HITS is critical** to:
  - **Understand any existing efforts** to address challenges with current suite of tools
  - **Scope forward-looking project**
  - **Ensure integrity and accessibility of data** in new/improved tool

- **Estimated cost** to implement a more functional and accessible transparency tool include:
  - **FY2025: up to $360K** ($160K for design/build, $200K for ongoing support)
  - **FY2026 and beyond: $200K annually**[1] for ongoing support
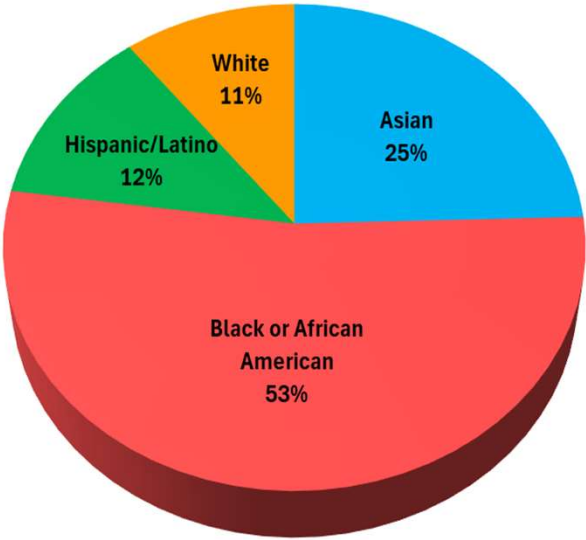
1. Likely escalator of 3-5% per year.

QUESTIONS

APPENDIX

Demographics

Data as of April 2024

Department FY2024 Accomplishments

✓ Environmental, Social, and Governance CP Program increased to 13% -green initiative.

✓ Pricing City of Houston Bonds generated a Debt Service Present Value Savings of approximately $66MM for FY24.

✓ Increase Investment in Mortgage Back Securities, Callable, and Treasuries that outperform over the Merril Lynch Custom Benchmark of $6.1 million.

✓ The City's Investment Portfolio successfully increased its yield from (2.522% - June 2023) to (3.572% - March 2024).

✓ SWAP derivatives increased Fair Value improved by $36 million from ($122 million – June 2023) to (86.3 million – March 2024).

RESTRICTED ACCOUNTS

Description	Justification & Cost Drivers
Interfund - Application Services	Costs include Microsoft Enterprise licenses, 3-1-1 maintenance support and applications, SAP licenses maintenance and support, various Enterprise Application and Server support personnel, CSMART (MCD Only), eSignature, Project Management, Infor, eDiscovery, Cyber Security Office software and support, HITS Budget support via the Finance Department, eSignature.
Interfund - Data Services	Costs associated with software and maintenance support contracts required to maintain city networks, applications, desktop devices, servers, payment card industry security, storage devices, cloud services, telephone systems and network equipment including Phonoscope circuits. Contracts cover Antivirus, Firewall and Network backup systems. Also, the Data Center costs are included in the Data Services restricted account.
Interfund - Voice Services	Monthly costs for Voice/Communication Services. The services include: Local landlines, voice/data circuits, long distance, 1-800 numbers, calling cards, language lines, Citywide ISP/Internet Access. The major vendors are ATT, Department of Information Resources (DIR), Verizon and Century Link.
Interfund - Wireless	Monthly charges for Verizon Business services and mobile devices including cell phones, air cards and tablets.
Interfund - GIS Services	Personnel, software licenses and maintenance costs associated with the city of Houston's Enterprise Geographic Information System (EGIS)
Interfund HR Client Services	Include HR operation cost reflecting health benefits and restricted accounts increase.
Interfund - Insurance	Cost increase for property insurance premium.
Interfund - Voice Labor	Labor costs and parts needed to perform work associated with installation and/or upgrades of telephone systems and cabling. The sole vendor is Selrico.
Interfund - KRONOS Service Charge	Software license and maintenance costs associated with the city of Houston's Time and Attendance System (KRONOS).