



Trends for FY2026

BUDGET AND FISCAL AFFAIRS

MAY 20, 2025

OFFICE OF CITY CONTROLLER CHRIS HOLLINS

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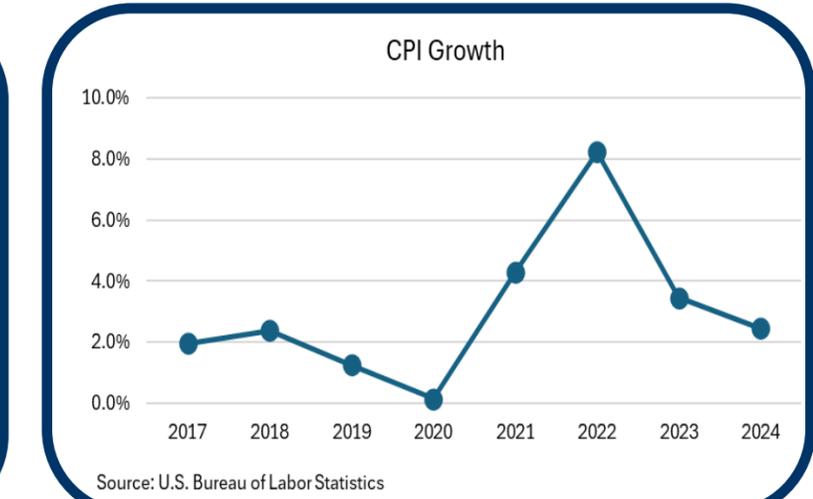
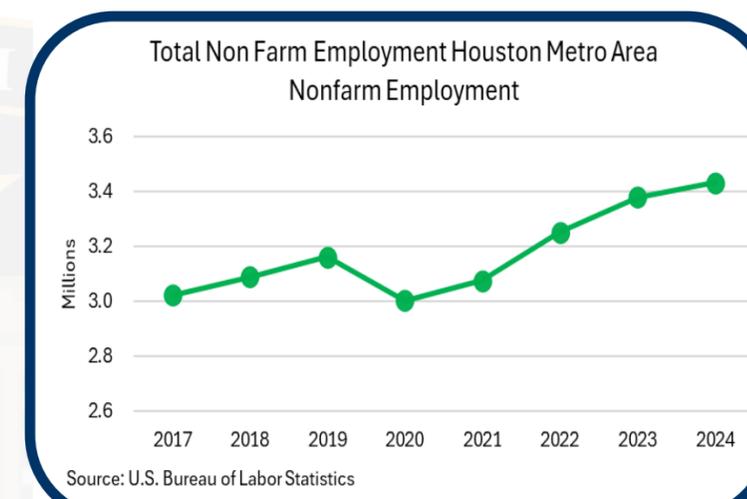
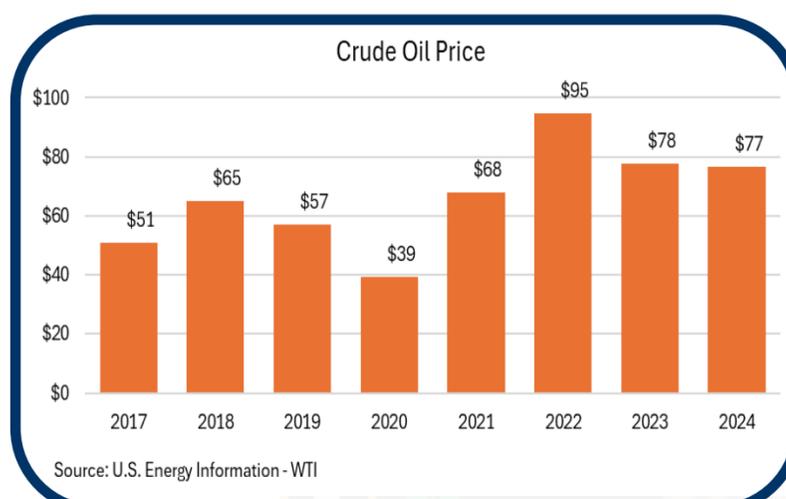
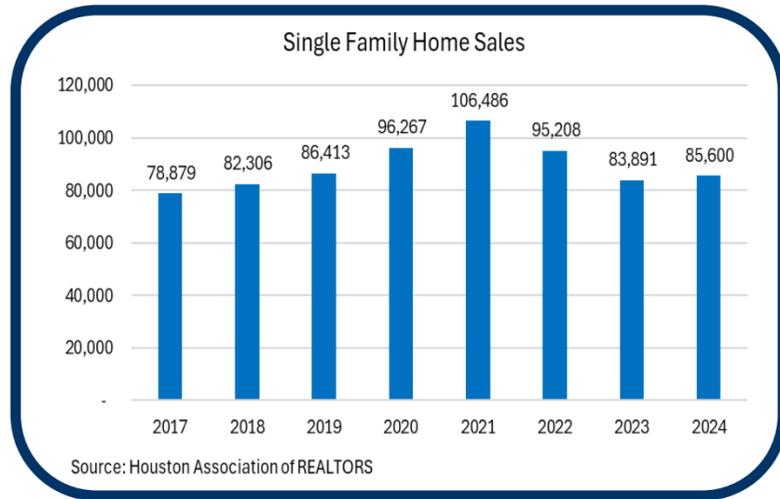
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Economic Outlook

The Houston economy presents a complex picture: while the City of Houston continues to experience growth in key sectors, recent federal tariff policies have introduced significant challenges that affect both business and consumers.



According to HAR, the Houston housing market experienced modest growth in 2024 after two consecutive years of decline. 2025 has shown steady demand and expanding inventory, signaling continued growth. However, tariffs are expected to raise construction costs, reducing affordability and potentially slowing down the housing market.

Oil prices are projected to remain within the \$56 to \$63 per barrel range for the remainder of 2025 due to various factors including global supply dynamics, demand uncertainties and domestic production costs-could influence future price movements.

The Greater Houston Partnership forecasts strong job growth for Houston in 2025, projecting an increase of 71,800 jobs. However, they caution that tariffs and other economic uncertainties could pose challenges to achieving these employment gains.

Inflation is projected to moderate, with some sectors showing signs of price stabilization; however, external factors such as tariffs and labor market dynamics may influence the outlook as the year progresses.



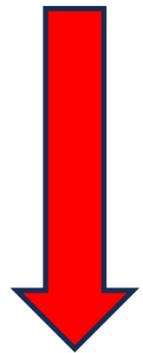
General Fund Revenue

FY2025 General Fund Revenue excluding Other Resources  by \$21 million from FY2025 estimate due to:



Property Tax - \$79 million

offset by



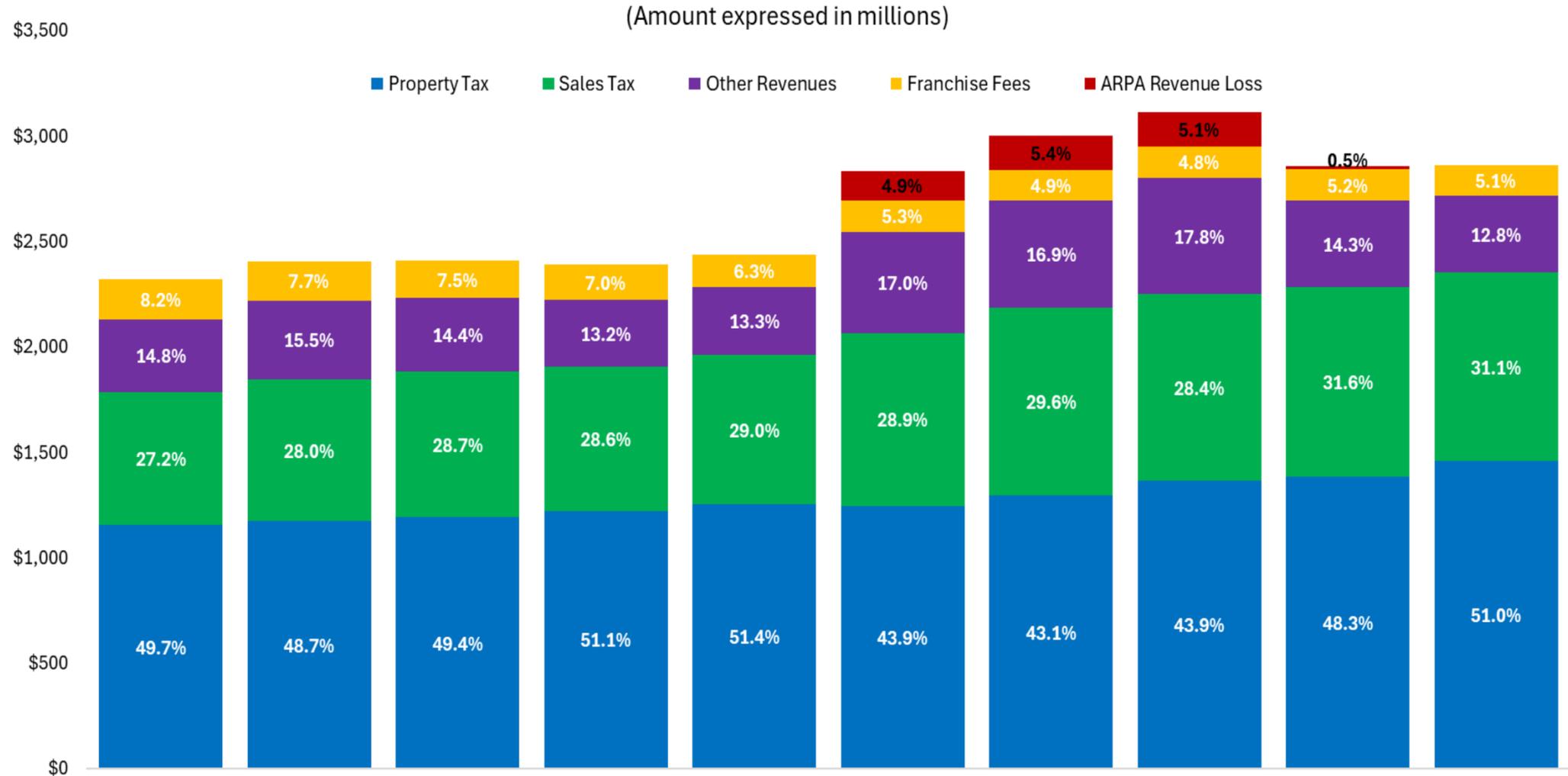
Intergovernmental- \$25 million

ARPA Funding - \$15 million

Sales Tax - \$12 million

Franchise Fees - \$3 million

Misc/Other - \$2 million

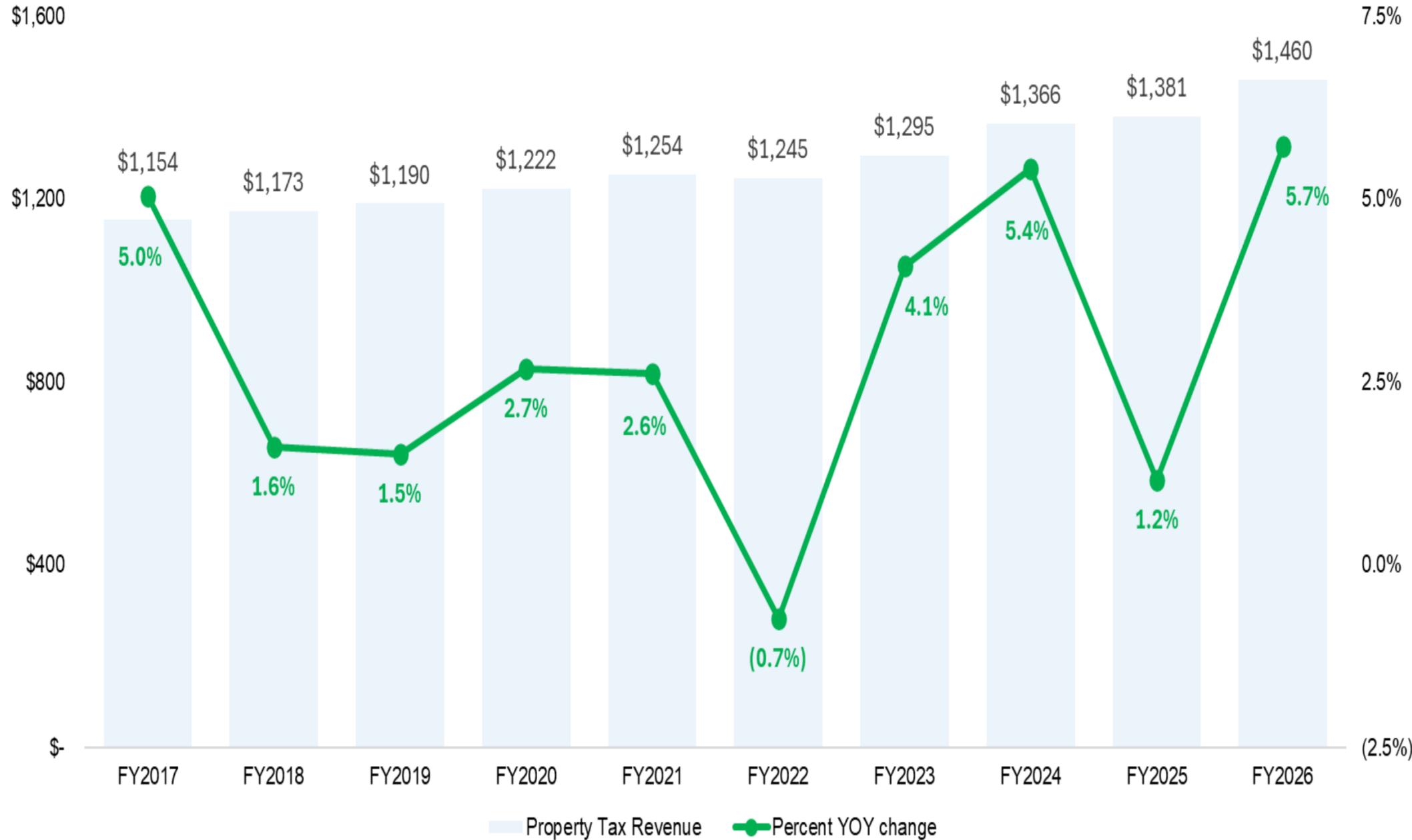


Category	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Property Tax	\$1,154	\$1,173	\$1,190	\$1,222	\$1,254	\$1,245	\$1,295	\$1,366	\$1,381	\$1,460
Sales Tax	\$632	\$674	\$692	\$684	\$707	\$821	\$889	\$883	\$903	\$891
Franchise Fees	\$191	\$186	\$180	\$168	\$154	\$150	\$148	\$149	\$149	\$146
ARPA Revenue Loss	-	-	-	-	-	139	163	160	15	0
Other Revenues	\$344	\$373	\$347	\$316	\$325	\$481	\$507	\$554	\$409	\$366
Total Revenues	\$2,321	\$2,406	\$2,410	\$2,390	\$2,439	\$2,835	\$3,003	\$3,112	\$2,857	\$2,863
Dollar YOY change	62	85	4	(19)	49	396	167	109	(255)	6
Percent YOY change	2.8%	3.7%	0.2%	-0.8%	2.0%	16.2%	5.9%	3.6%	-8.2%	0.2%



Property Tax Revenue

(Amount expressed in millions)



FY2026 increase by 5.7% (\$79 million).

Projection is based on preliminary Prop 1 cap of \$1.460 billion:

- 2.5% - 2024 inflation rate
- 0% - Projected population growth rate

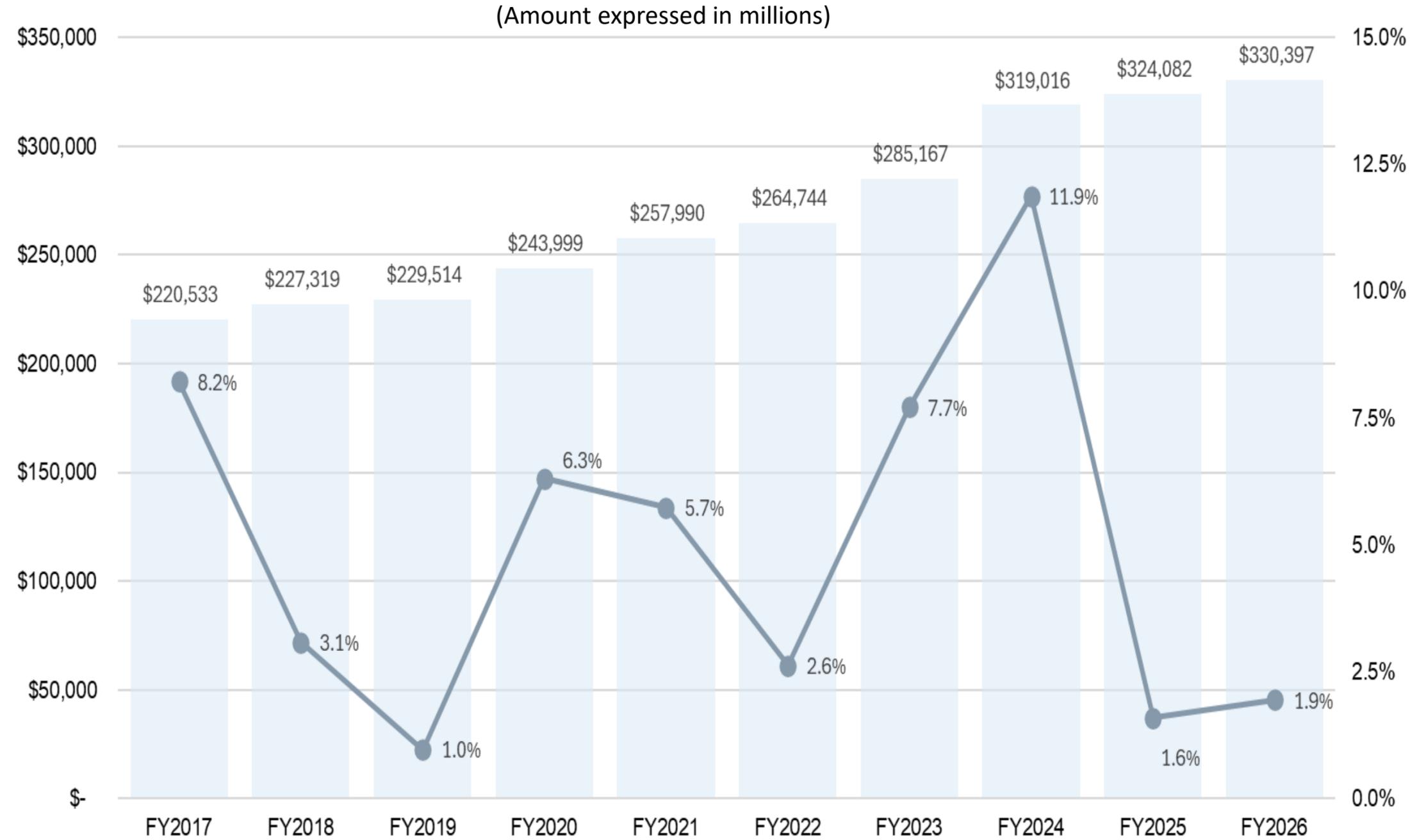
*Population growth will be updated once data becomes available.



Taxable Values

The Harris County, Fort Bend County, and Montgomery County Appraisal Districts provide expected taxable values.

The Appraisal District's preliminary certified taxable value for the City of Houston is \$330 billion, an increase in valuation of 1.9% from FY2025.



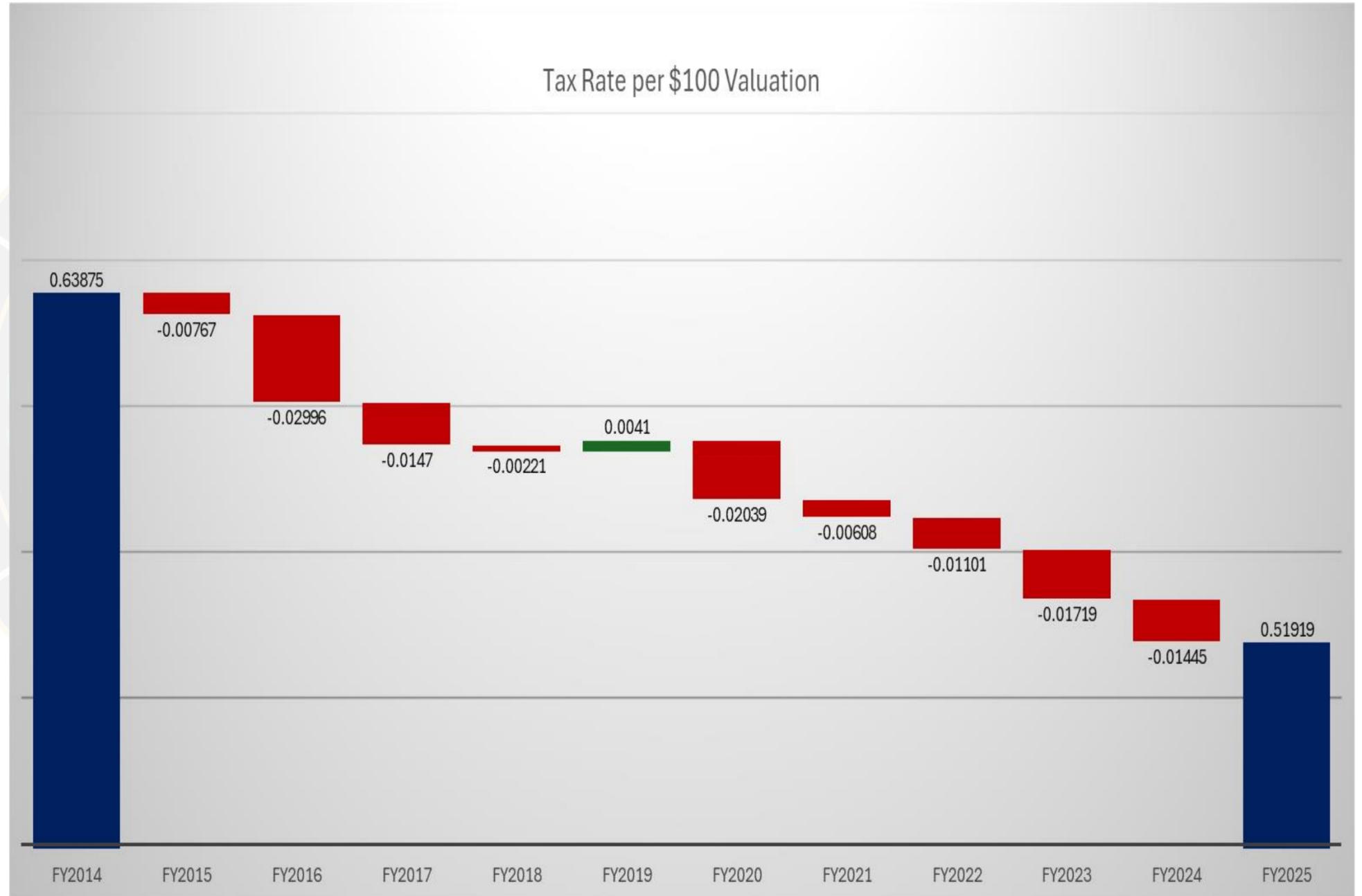
Property Tax Rate

As a result of the tax revenue cap, the tax rate decreased 9 out of the last 11 years since 2015

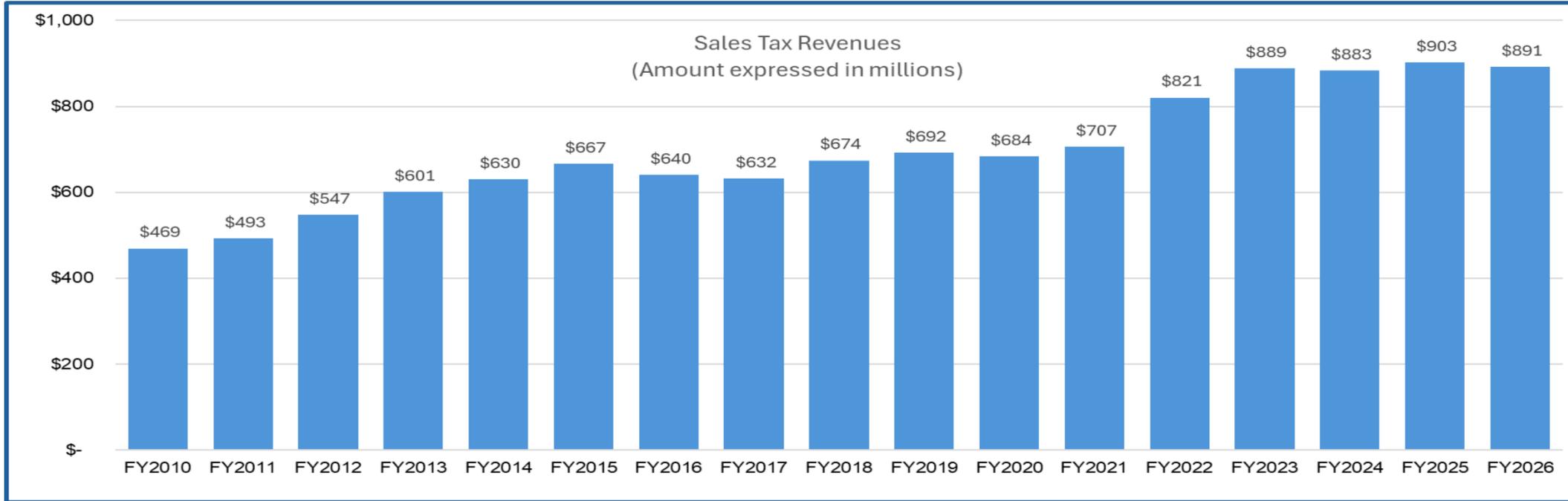
The projected FY2026 tax rate will comply with the property tax revenue limitations established by Proposition 1 and Proposition H; it is also subject to compliance with the State Cap SB2

To reach the property tax cap, it is likely that the FY2026 tax rate will need to be increased

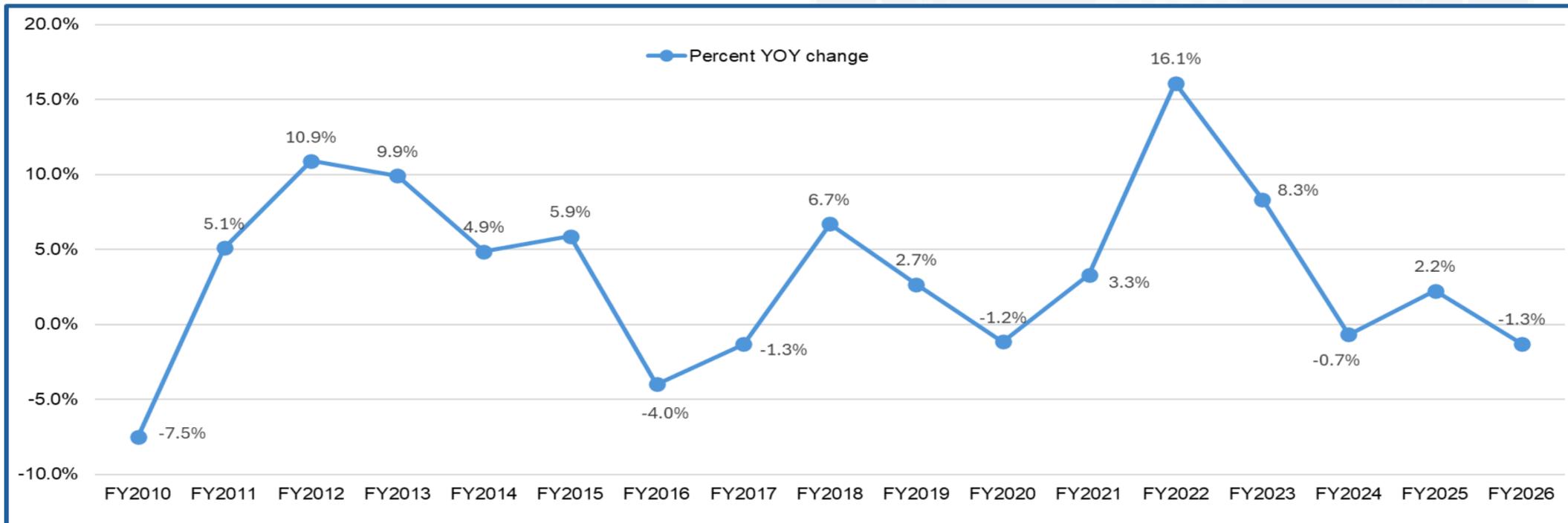
Final tax rate will be established by a vote of Council in Q1 of FY2026 when the Certified Roll is available in late August.



Sales Tax Revenue



FY2026 decrease by 1.3% (\$12 million) from FY2025 estimate of \$903 million. The Institute of Regional Forecasting expects continued economic growth but cautions that federal tariffs may pose potential challenges.



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

(Amount expressed in millions)

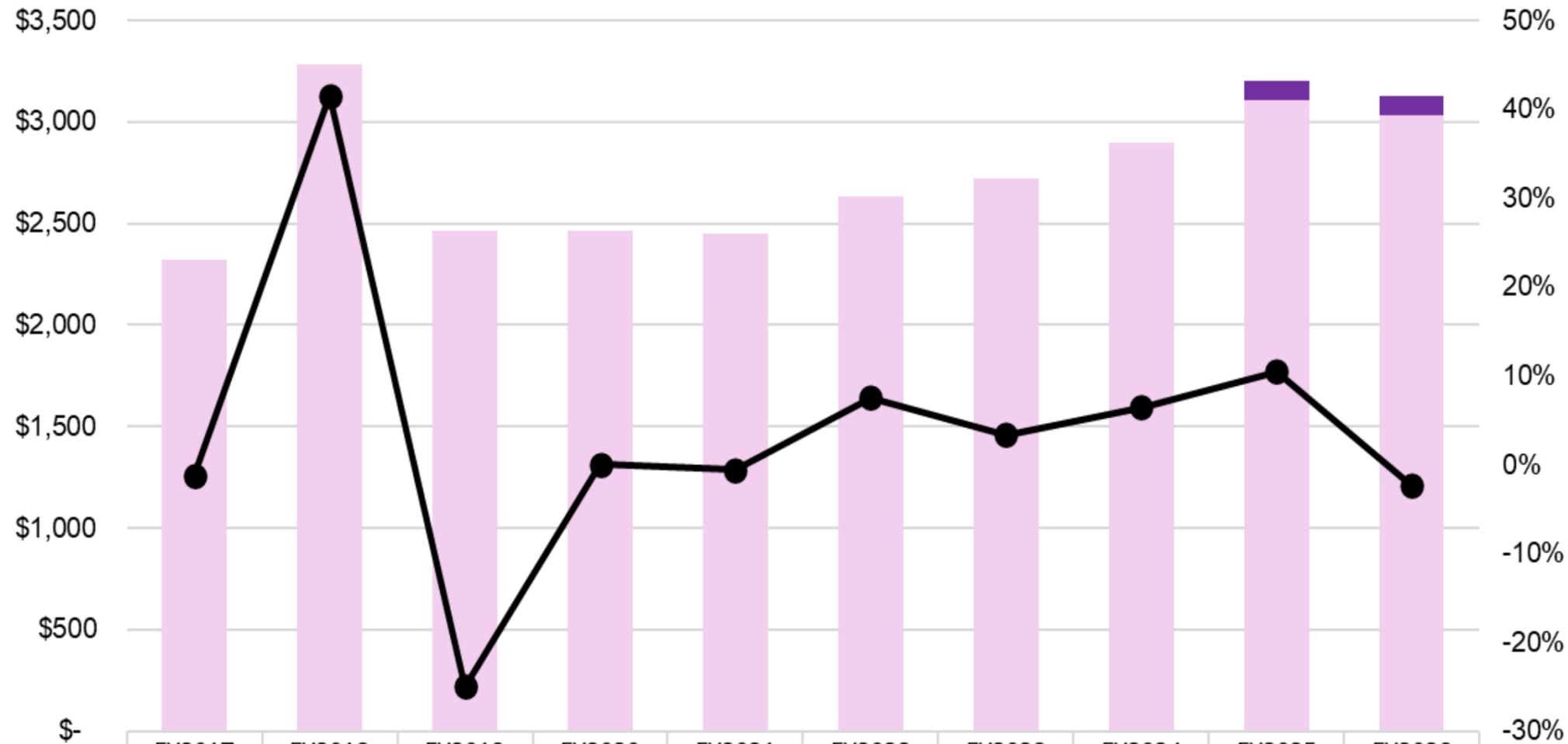


Total Franchise Fees are comprised of Electric Franchise, Telephone Franchise, Gas Franchise, and Other Franchise. FY2026 decrease by 2.2 % (\$3 million) from the FY2025 estimate, primarily due to Telephone Franchise Fees.



General Fund Expenditures (including debt service)

(Amount expressed in millions)



The Administration's proposed budget excludes the full 11.8 cent contribution for streets and drainage, which would result in a cost to the City of \$92 million in FY2025 and \$91 million in FY2026.

	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
11.8 cents full contribution	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$92	\$91
FY2026 Proposed Exp	\$2,319	\$3,282	\$2,462	\$2,463	\$2,448	\$2,633	\$2,721	\$2,896	\$3,108	\$3,033
Percent YOY change	(1.2%)	41.5%	(25.0%)	0.0%	(0.6%)	7.5%	3.4%	6.4%	10.5%	(2.4%)



General Fund Expenditures vs. FY2025 Current Budget

The Proposed FY2026 Budget decreased by 2.4% (\$74 million) compared to the FY2025 estimate

Decrease driven by:

- \$73 million in overtime;
- \$57 million in debt service;
- \$29 million in elimination of positions after Voluntary Retirement;
- \$22 million in pension and OPEB contributions*;
- \$17 million in anticipated savings (expected to come from category management initiative; however, these savings have yet to be identified);
- \$16 million in department reductions; and
- \$14 million in consolidation of various General Fund expenses into the Combined Utility System.

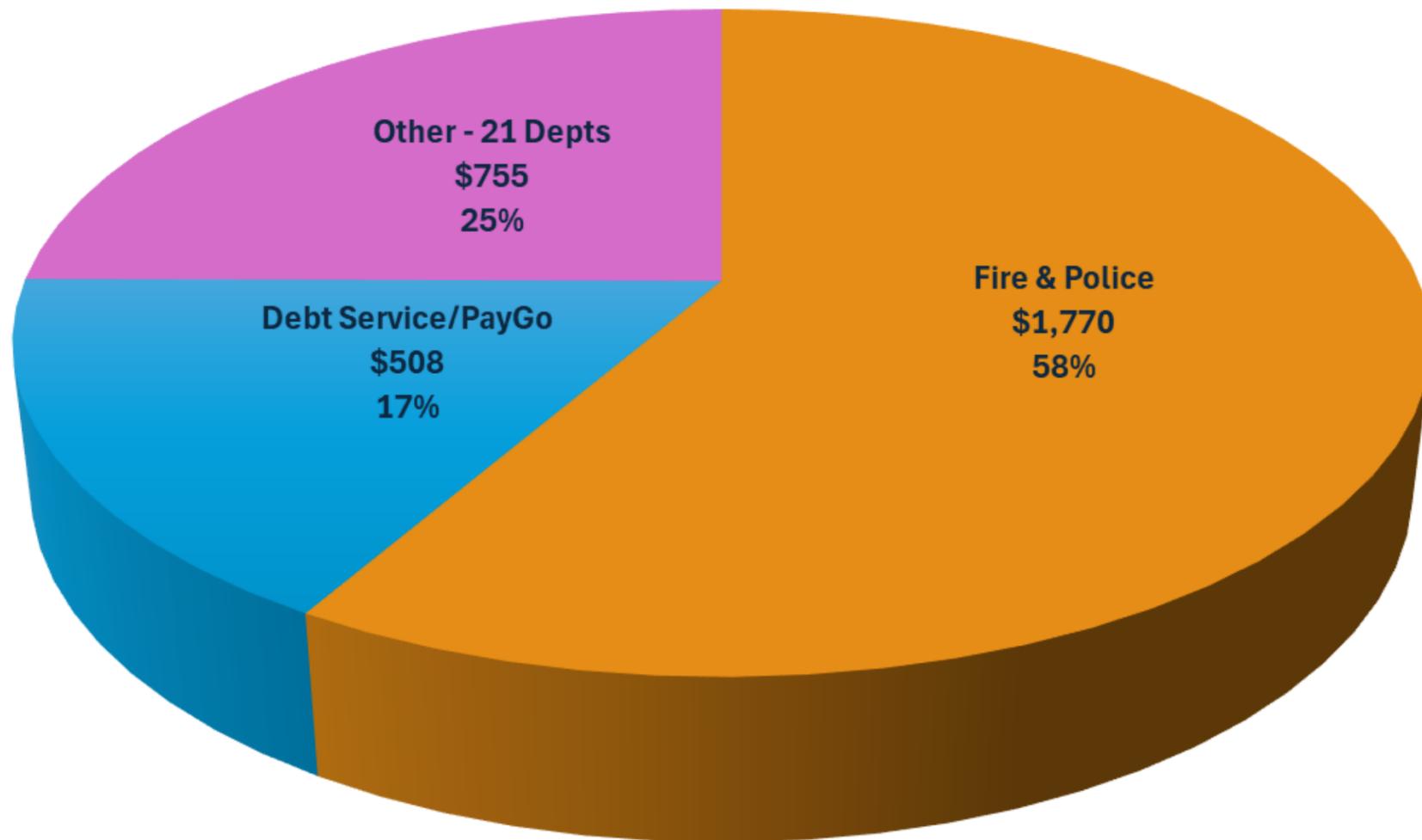
Offset by the following increases:

- \$51 million in employee pay raises (Fire: 3%; Police: 10%; Municipal: 3.5%);
- \$48 million in captured revenue transfer to Streets and Drainage;
- \$38 million in other services and charges;
- \$9 million in restricted account chargebacks;
- \$7 million in health benefits due to rate increase.

* Budgeted OPEB contribution was “zeroed out” in FY2025 and is projected to again be zero in FY2026.

FY2026 Proposed General Fund Expenditures: By Function

Total Expenditures \$3,033*
(Amount expressed in millions)



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.

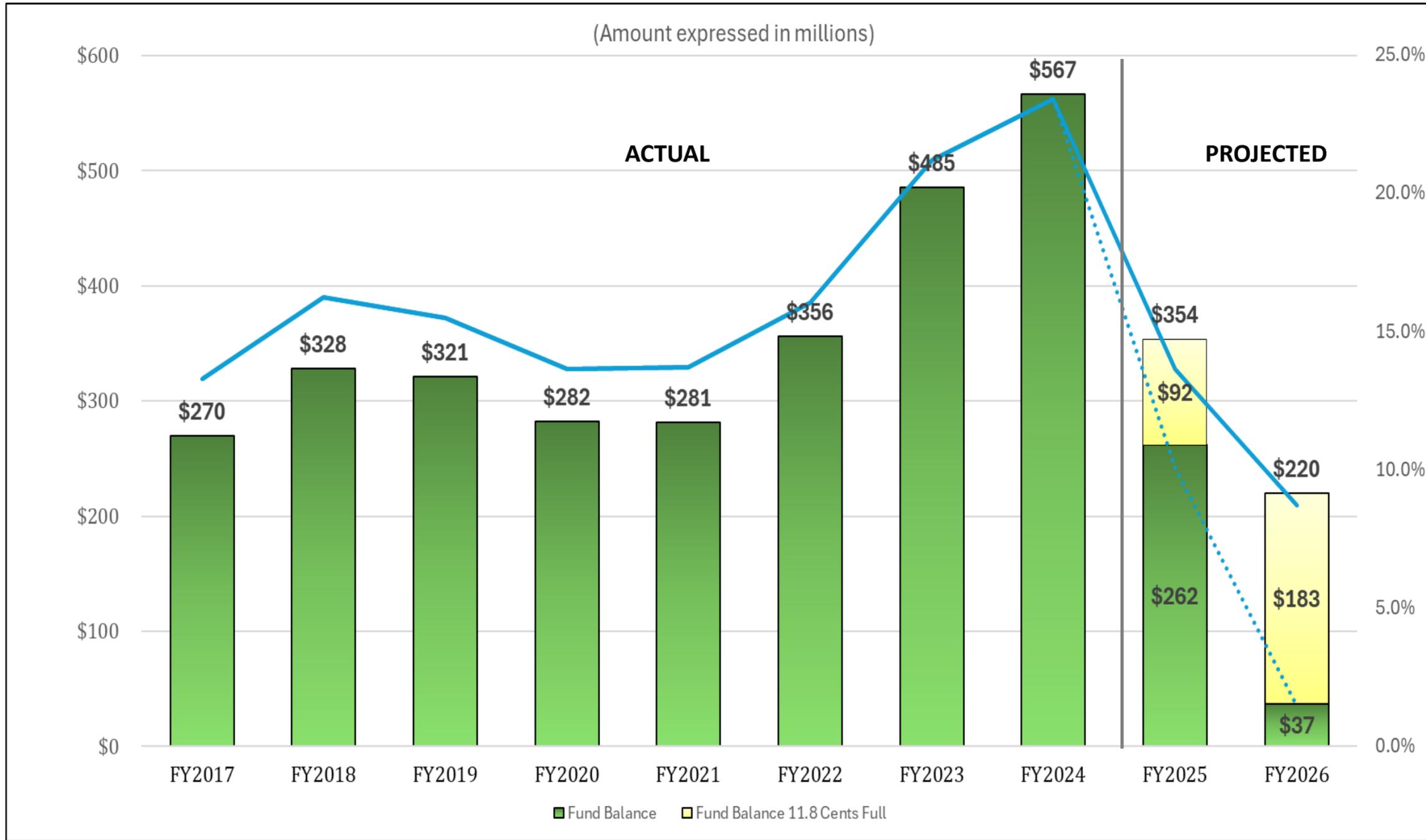
Next largest department budgets:

- General Government - \$260M
- Solid Waste Management - \$101M
- Parks and Recreation - \$88M
- Library- \$50M

* Does not account for contributing the full 11.8 cents for streets and drainage



Fund Balance Requirement



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

If the City **does not** contribute the full 11.8 cents transfer to DDSRF for streets and drainage:

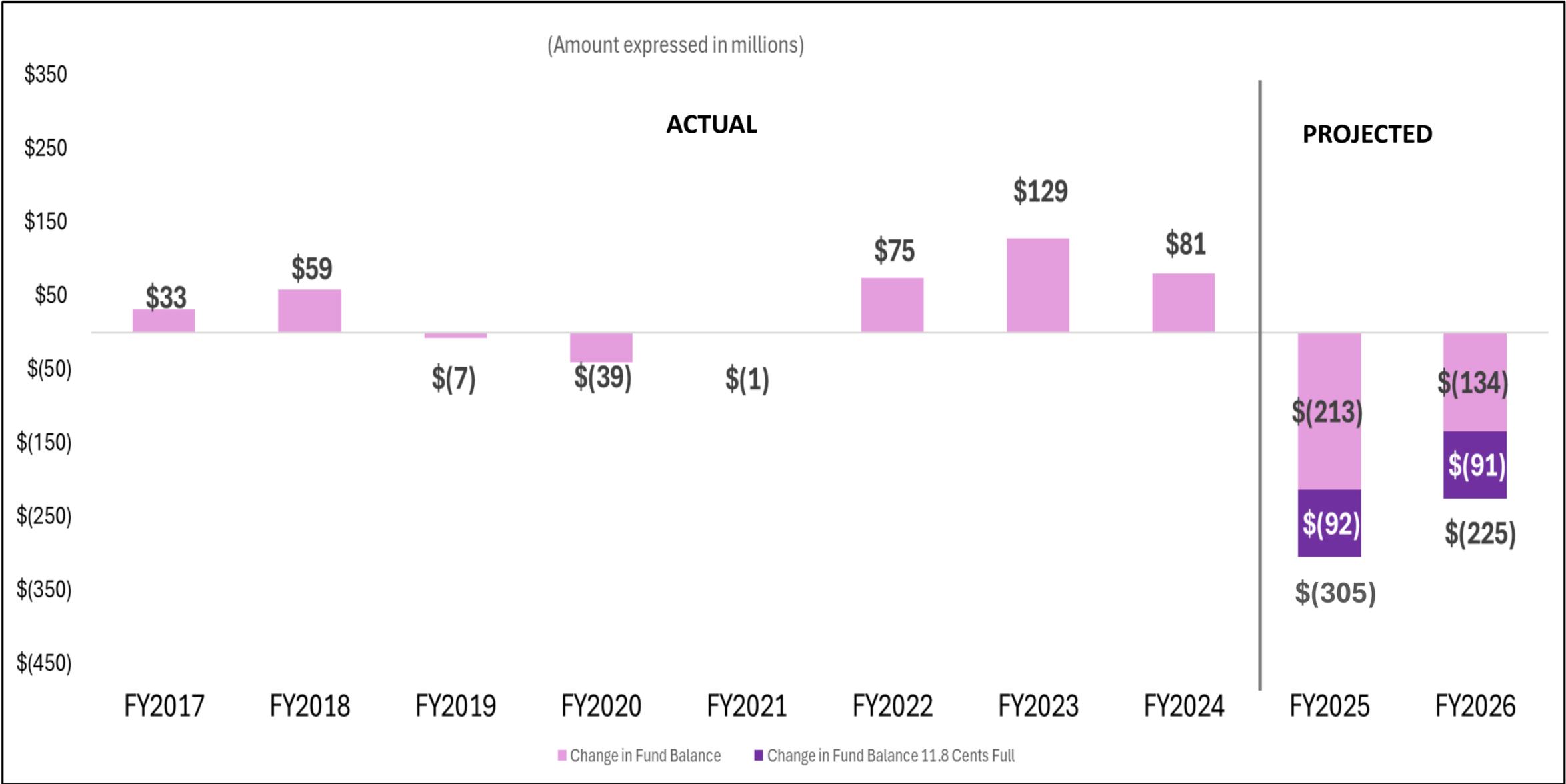
- FY2025 is projected to be **\$159 million above** the 7.5% (13.7%)
- FY2026 is projected to be **\$31 million above** the 7.5% (8.7%)

If the City **does** contribute the full 11.8 cents transfer to DDSRF for streets and drainage:

- FY2025 is projected to be **\$67 million above** the 7.5% (10.1%)
- FY2026 is projected to be **\$153 million below** the 7.5% (1.5%)



Fund Balance Change



Beginning in FY2022, the City began receiving American Rescue Plan Act (ARPA) funding to offset revenue losses, resulting in **significant increases to the fund balance from FY2022 through FY2024**. FY2025 marks the final year of utilizing ARPA funds for revenue replacement.

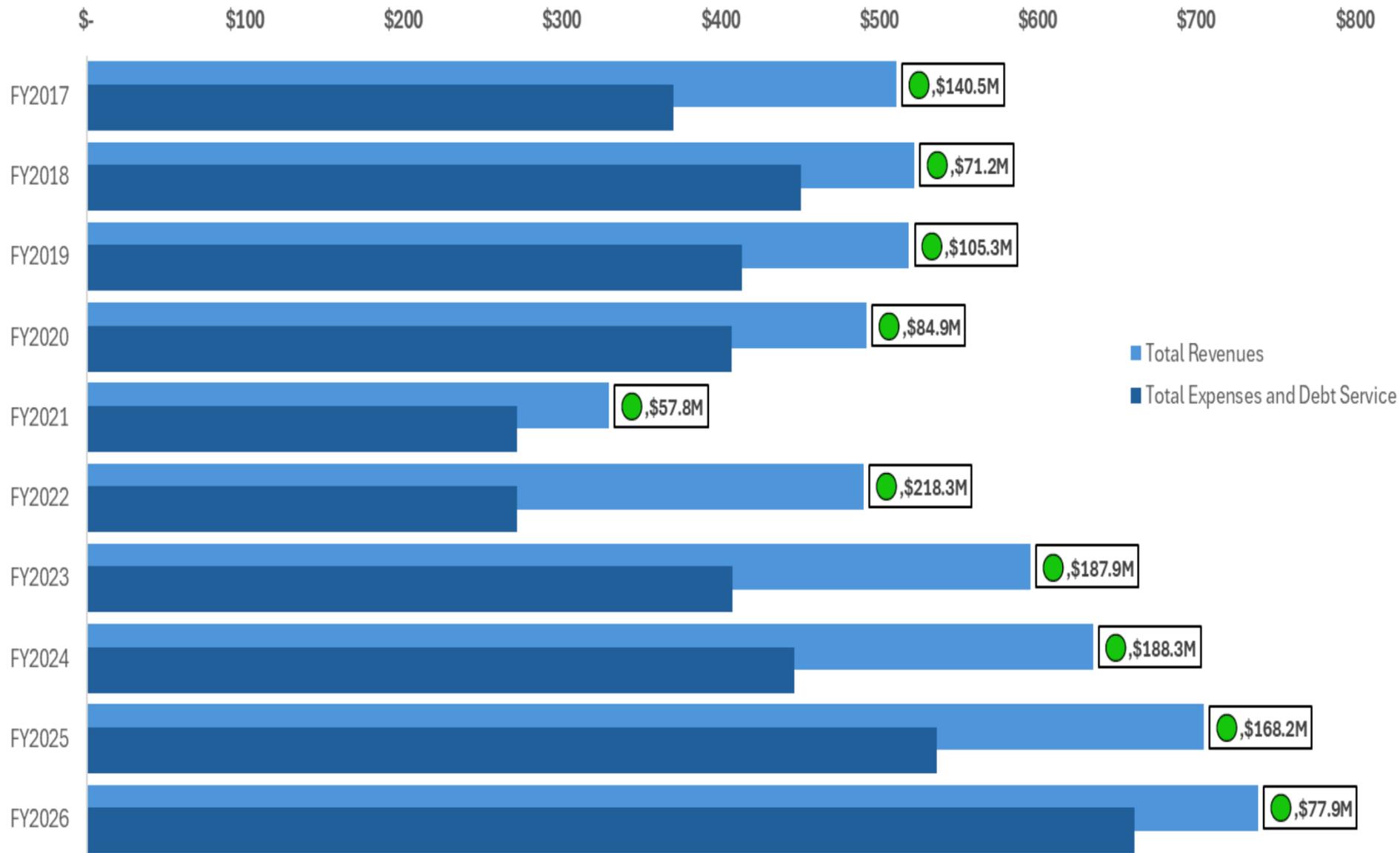
After FY2024 saw the City's fund balance reach the highest amount in history (\$567M), **FY2025 is projected to have the steepest decrease to the fund balance in the City's history (>\$200M)**.

FY2026 is projected to have the second-steepest decrease to the fund balance in the City's history (>\$100M).



Houston Airport System (HAS): Revenues and Expenses

(Amount expressed in millions)



FY2026 revenue projected to increase by 4.8% (\$34 million) to \$739 million, primarily due to higher operating revenues offset by a decrease in interest income



Total expenses and debt service projected to increase by 23.2% (\$124 million) to \$661 million primarily, due to increases in operations and maintenance expenses and higher debt service transfers

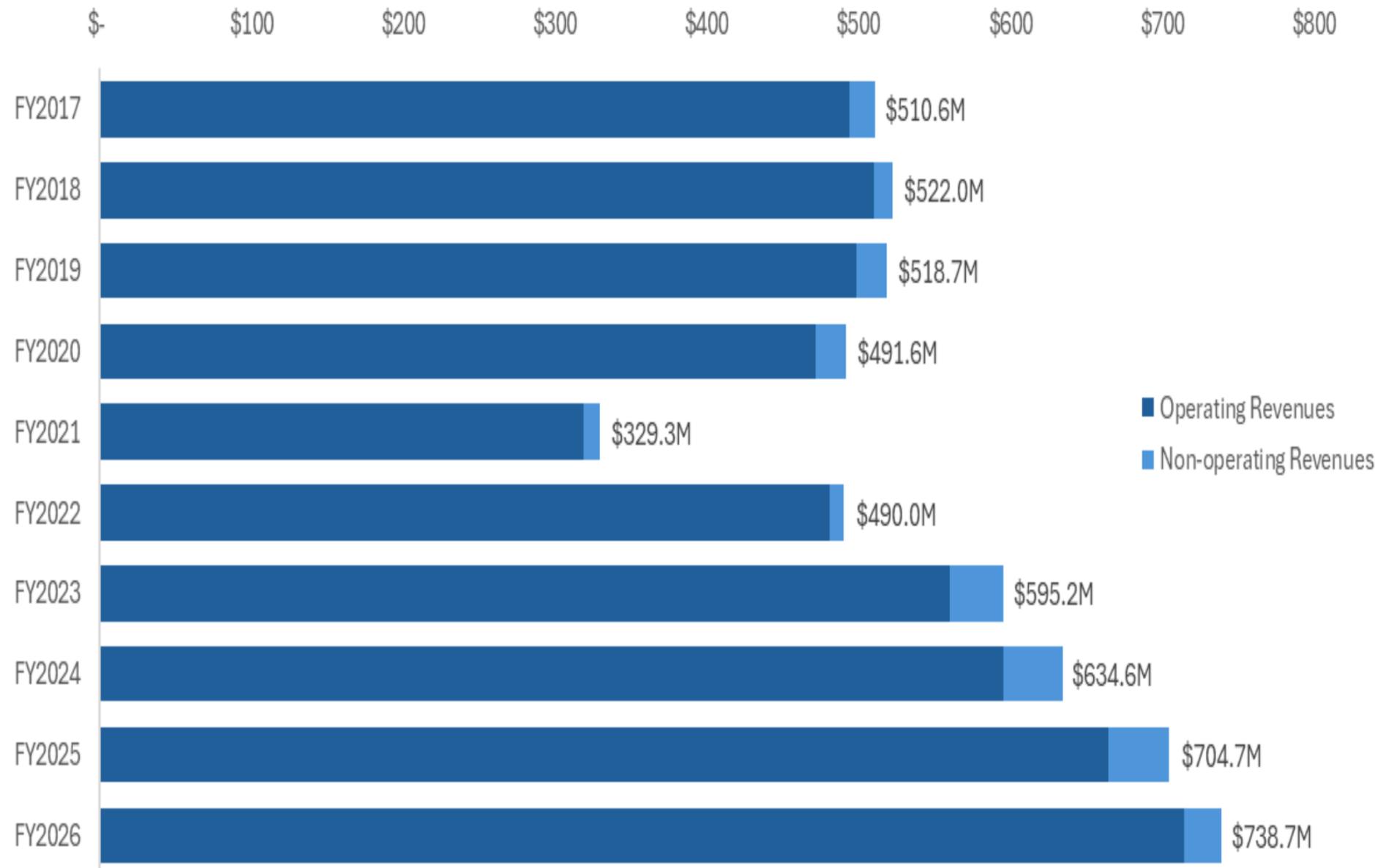


Aviation revenue is projected to exceed expenses by \$78 million, resulting in an increase in ending total net position/fund balance



HAS: Operating and Non-Operating Revenues

(Amount expressed in millions)



REVENUES

FY2026 projected total revenues are \$739 million, a \$34 million increase compared to FY2025 estimate of \$705 million

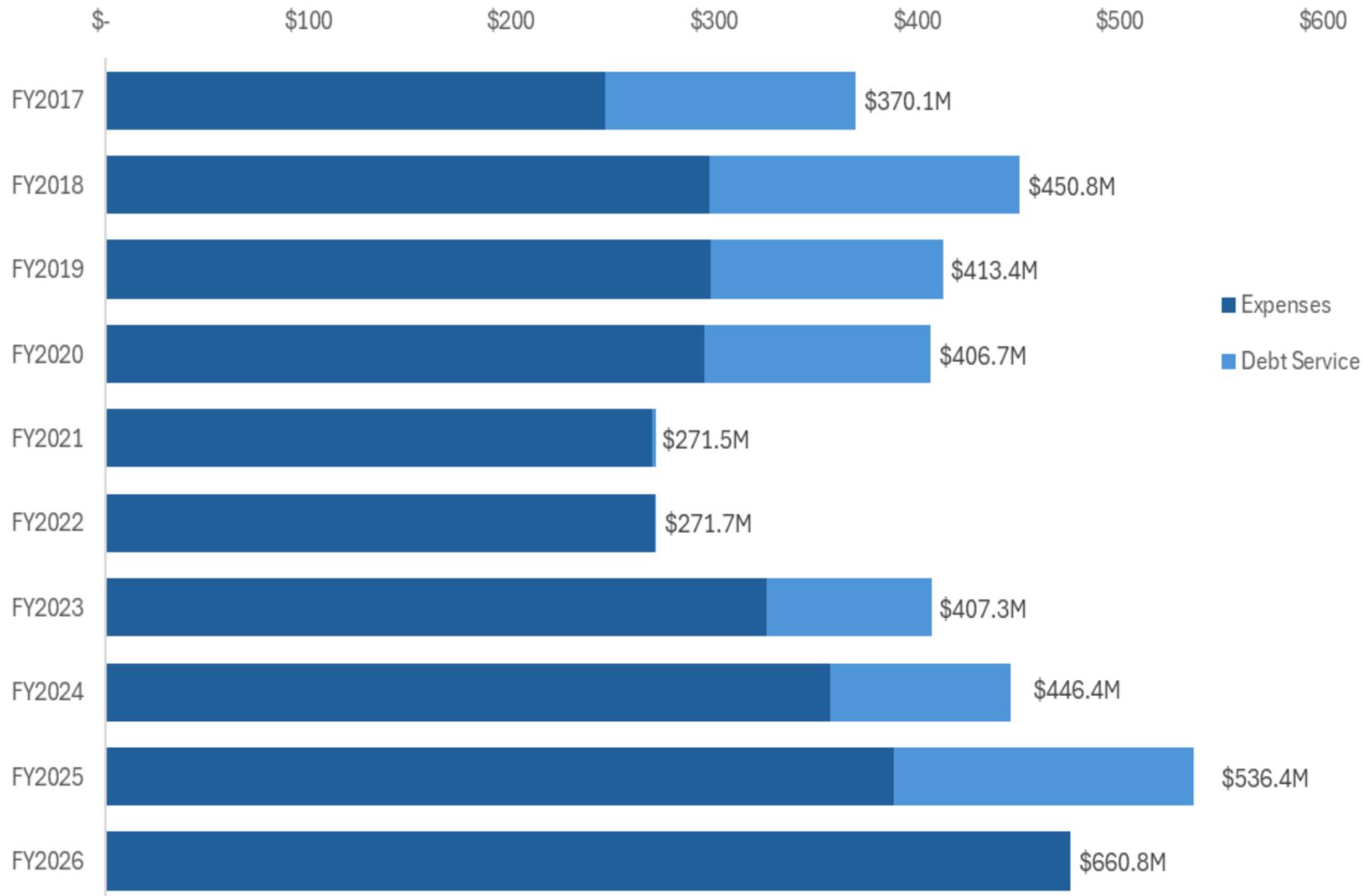
Increase is due to:

- \$50 million in operating revenues due to terminal space rental fees, concessions (retail, auto rental), and garage parking revenue, offset by a
- \$16 million reduction in interest income



HAS: Expenses and Debt Service

(Amount expressed in millions)



EXPENSES

FY2026 projected total expenses are \$661 million, an increase of \$124 million compared to FY2025 of \$536 million

Increase is primarily due to:

- \$89 million in contracted services (Parking service, Skyway contract, modernization and expansion of facilities) and interfund services,
- \$38 million increase in debt service transfer, offset by
- \$3 million in personnel costs savings



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

(Amount expressed in millions)



HOTEL

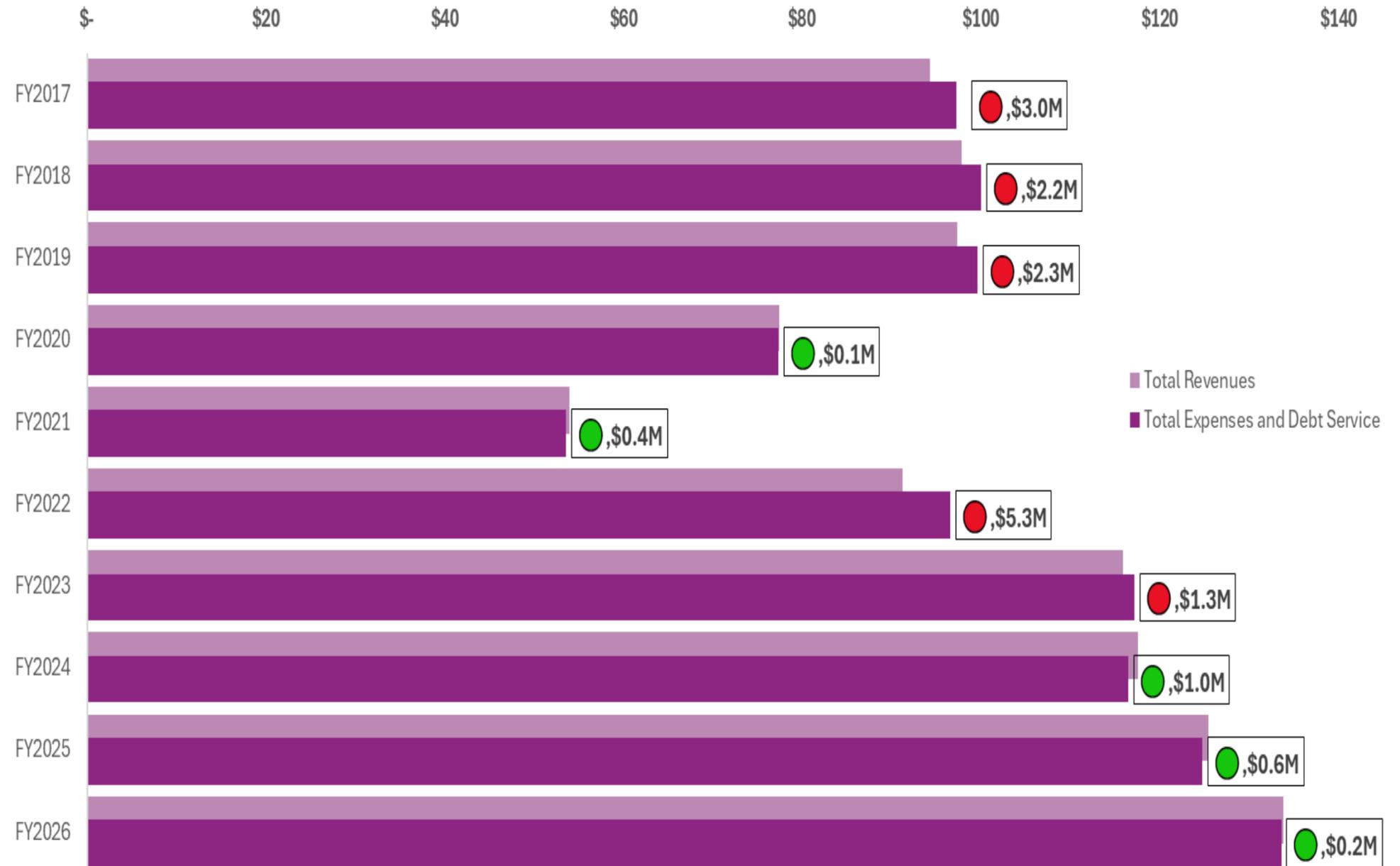
FY2026 revenue projected to increase by 6.7% (\$8 million) to \$133 million compared to FY2025



Total expenses and debt service projected to increase 7.0% (\$9 million) to \$134 million



C&E revenue is projected to exceed expenses by \$0.2 million, resulting in an increase in ending total net position/fund balance

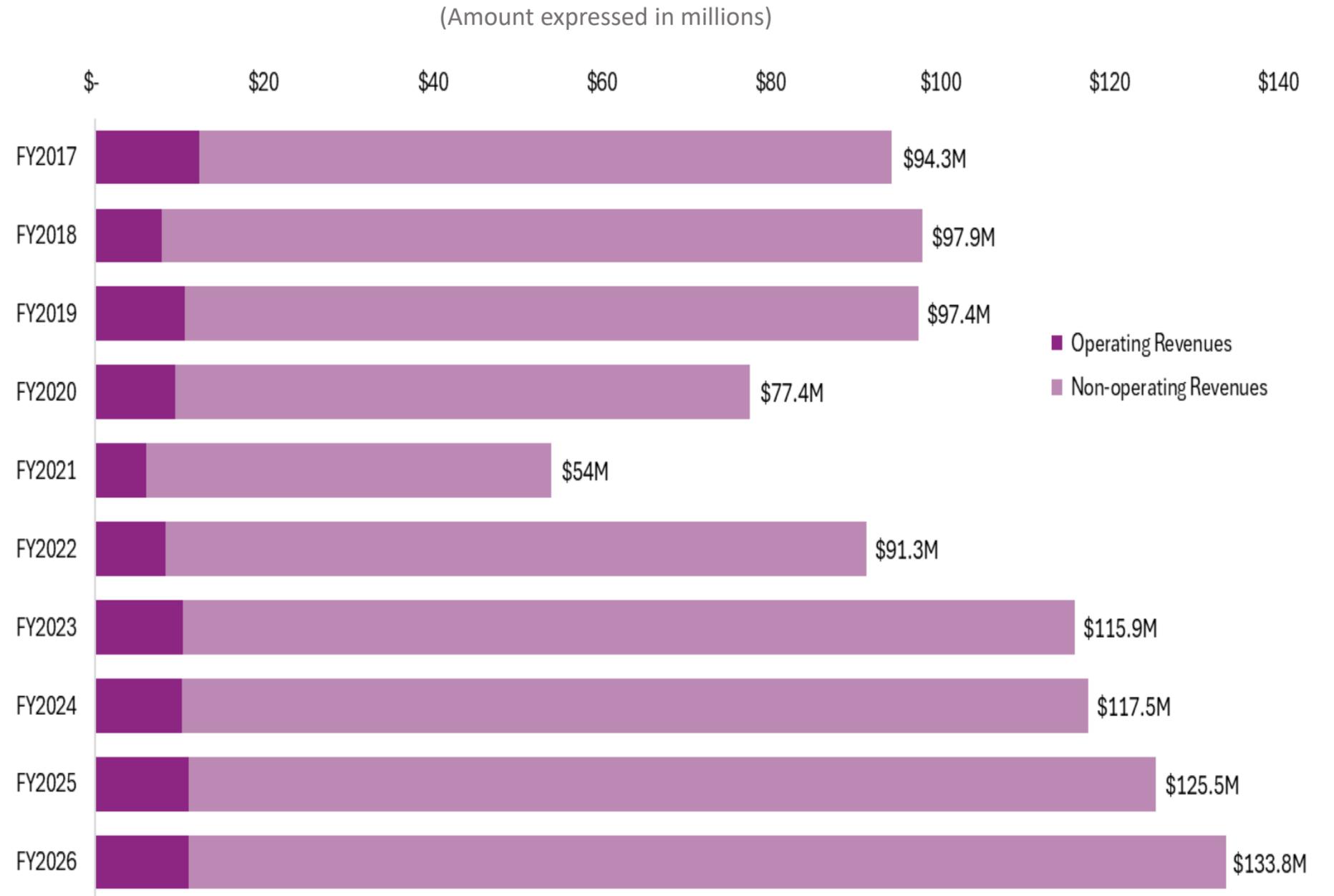


C&E: Operating and Non-Operating Revenues

REVENUES

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

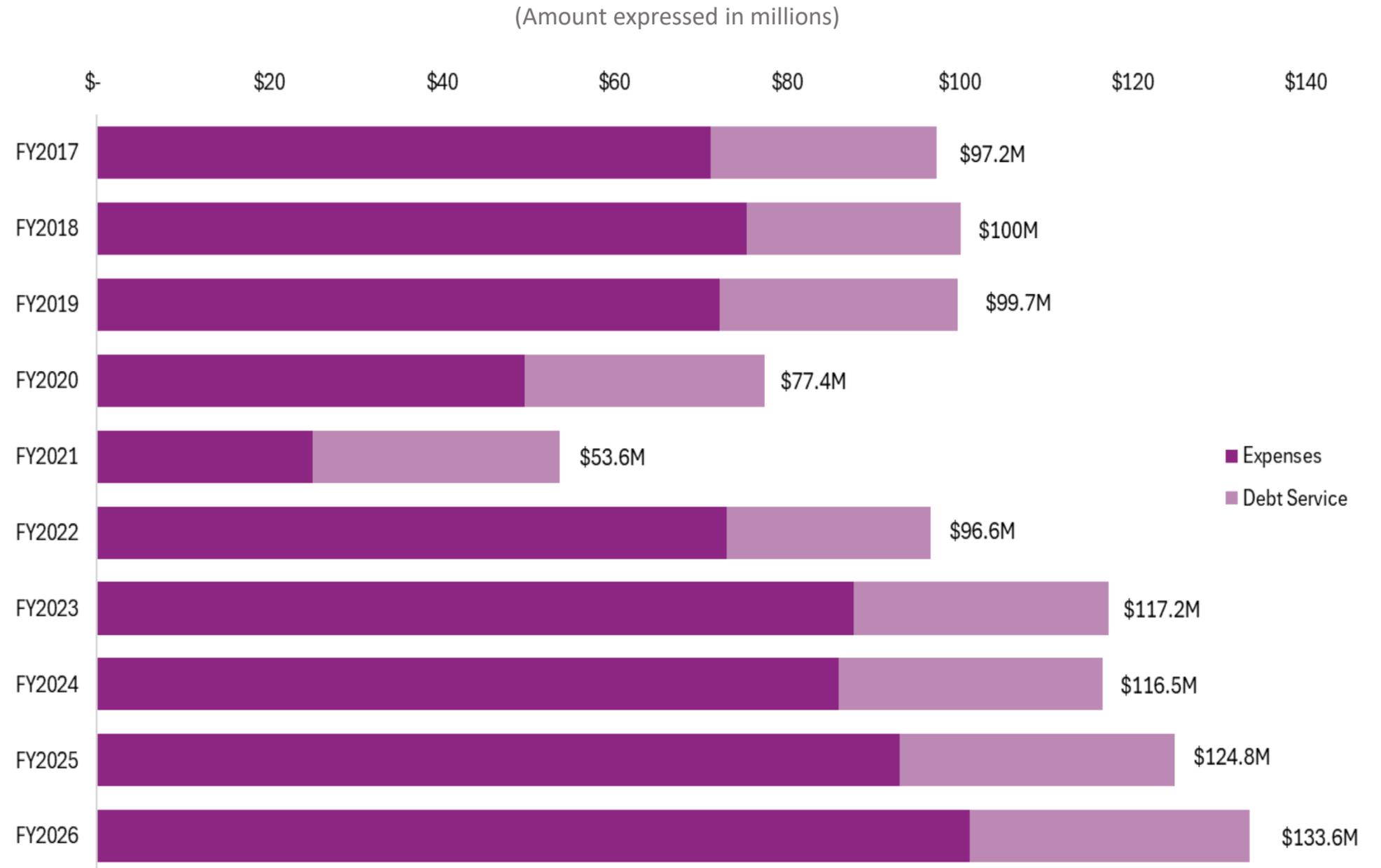
FY2026 projected total revenues are \$134 million, an \$8 million increase compared to FY2025 estimate of \$126 million; the increase is due to higher HOT collection



C&E: Expenses and Debt Service

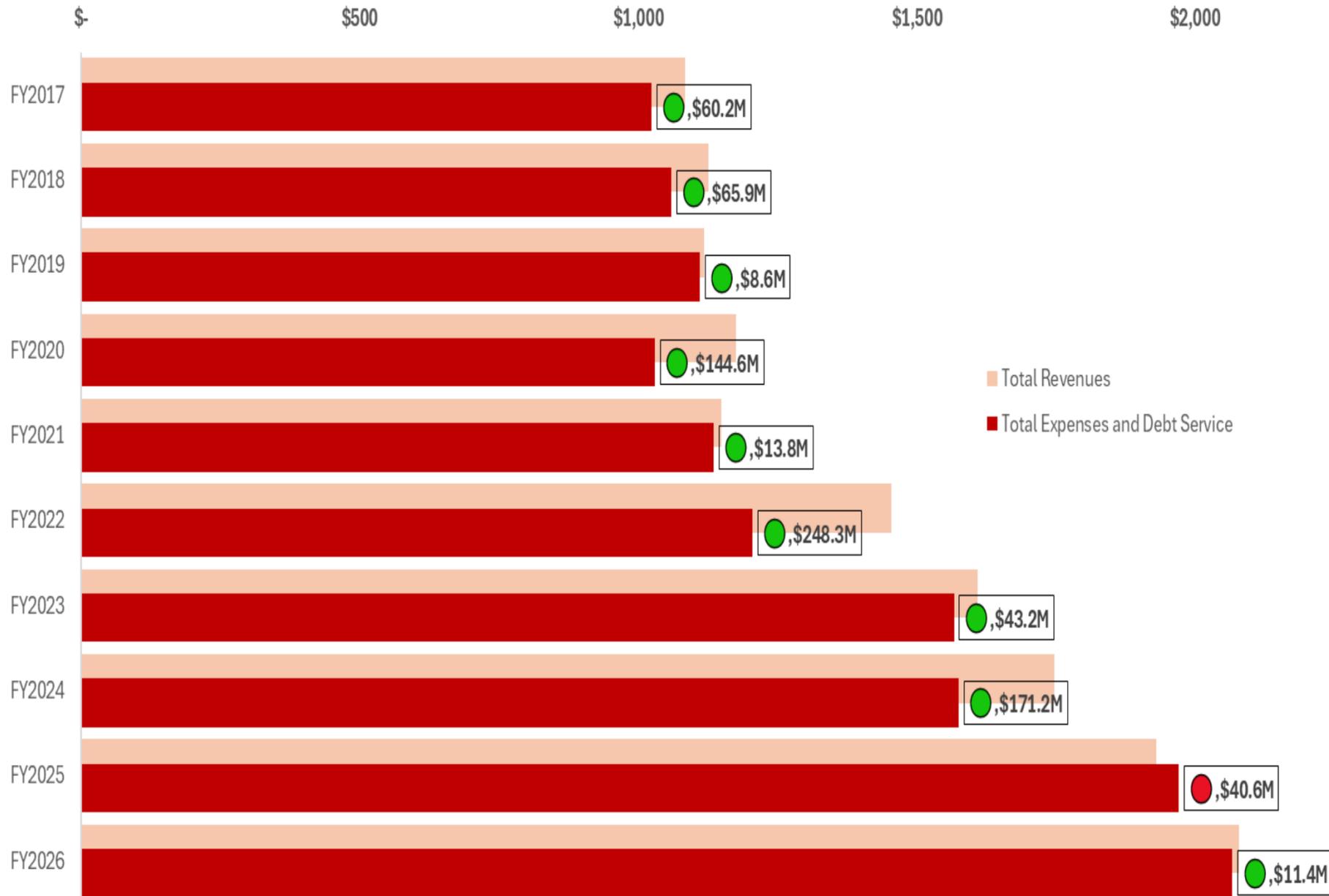
EXPENSES

FY2026 projected total expenses are \$134 million, an increase of \$9 million compared to FY2025 of \$125 million; the increase is primarily due to transfer to Houston First Corporation



Combined Utility System (CUS): Revenues and Expenses

(Amount expressed in millions)



FY2026 revenue projected to increase by 8% (\$148 million) to \$2,078 million compared to FY2025



Total expenses and debt service projected to increase 5% (\$96 million) to \$2,067 million



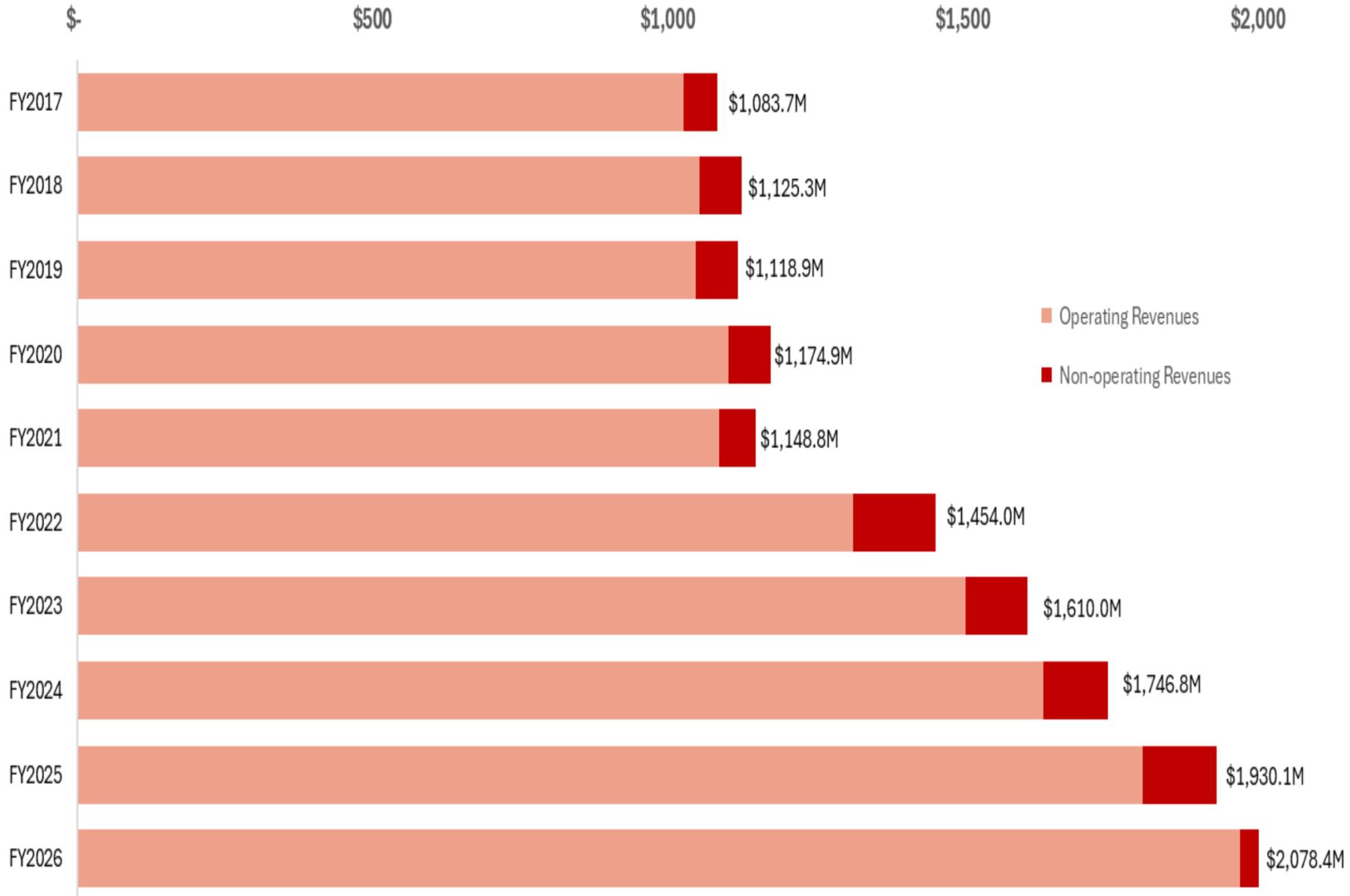
CUS revenue is projected to exceed expenses by \$11 million, resulting in an increase in ending total net position/fund balance

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

(Amount expressed in millions)



REVENUES

FY2026 projected total revenues are \$2,078 million, a \$148 million increase compared to FY2025 estimate of \$1,930 million.

Increase is due to:

- \$165 million in water and sewer sales offset by a
- \$13 million decrease in impact fees and
- \$3 million decrease in other non-operating revenues

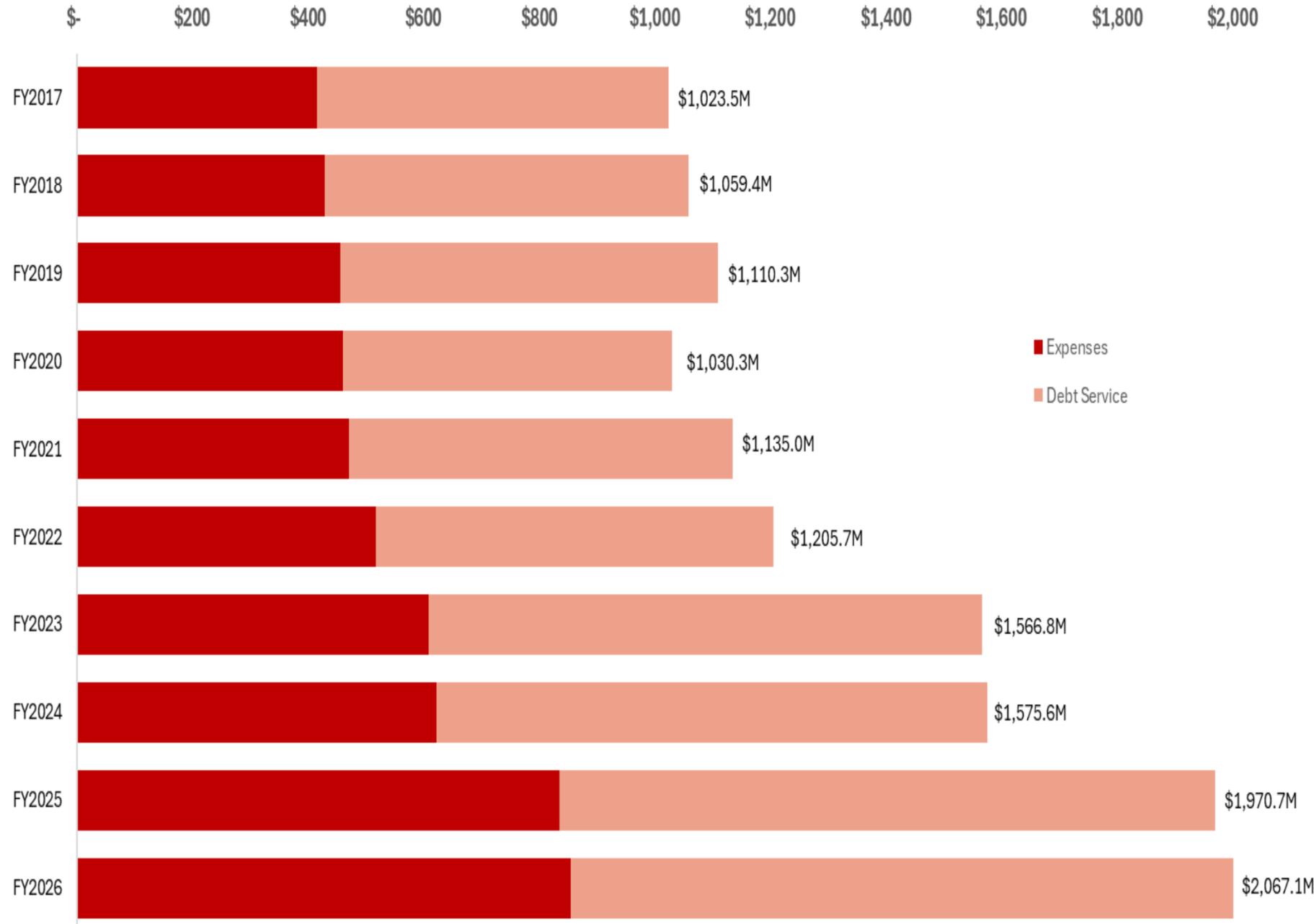
Water and sewer sales are subject to annual rate adjustment equal to the lower of previous years Producer Price Index or Consumer Price Index plus Houston area population. The rate adjustments for FY2017 – FY2026 are as follows:

Fiscal Year	Rate Adjustment	Fiscal Year	Rate Adjustment
2017	1.4%	2022	1.5%
2018	3.4%	2023	5.6%
2019	2.8%	2024	9.2%
2020	2.8%	2025	9.0%
2021	3.5%	2026	6.0%



CUS: Expenses and Transfers

(Amount expressed in millions)



EXPENSES

FY2026 projected total expenses are \$2,067 million, an increase of \$96 million compared to FY2025 of \$1,971 million.

Increase is due to:

- \$19 million in operating and maintenance cost primarily due to higher service contracts and other payment and
- \$77 million in operating transfers (includes CUS debt services payment obligations, transfer to capital projects and other funds as well as drainage expenses).

Note: transfer to other funds includes funding for 311 activities and additional funding for ditch re-establishment program and code enforcement costs.

