TEN HARD TRUTHS
ABOUT HOUSTON'S PROPOSED FY 2026 BUDGET

Every household has a budget. Whether it's groceries, car notes, light bills, rent, or setting a little aside for emergencies, people know that if the math doesn't work, things can fall apart quickly. Cities aren't so different—except the numbers are bigger, the stakes are higher, and the consequences affect every resident.

The Controller's job is to cut through the spin to provide Houstonians with clear, honest insight into how tax dollars are being managed. We don't write the budget—but we do review it, certify it, and call out the risks others might overlook.

In that spirit, here are ten hard truths about the administration's proposed FY 2026 budget—truths that every Houstonian deserves to understand before decisions are finalized.

1. **The proposed budget plugs a $100+ million hole with deficit spending.**[1] Instead of cutting spending or identifying sustainable revenue, the proposal draws down the City's savings account—the general fund balance—by over $100 million to paper over a deficit.
2. **It counts on a property tax increase.**[2] Revenue projections exceed what the current tax rate would generate. To meet this projection, the City will have to raise our taxes this fall.
3. **It includes a rate hike—a 6% water rate increase.**[3] Whether labeled a "new" fee or not, your bill is going up. Let's just be honest about that.
4. **It quietly reduces services.**[4] The administration has framed this budget as "preserving services," but that's not what the numbers show. The public deserves clarity on what's actually being scaled back.
5. **It assumes $183 million in savings from a court-approved settlement that doesn't yet exist.**[5] The proposed drainage settlement still needs a judge's signoff. If the court doesn't approve, significant cuts will be necessary, yet the budget moves forward as if that risk doesn't exist.
6. **It repeats last year's overtime miscalculation.**[6] The same flawed overtime assumptions that led to a $70 million overage last year appear again in this proposal. That's not financial learning—it's doubling down.
7. **It includes more than $17 million in vague "savings" with no explanation.**[7] The budget assumes this money will somehow be saved—but doesn't specify how, or from where. That's not a plan—it's a placeholder.
8. **It repeats a costly mistake that created large unfunded liabilities for the city in the past.**[8] The budget once again reduces funding our pension and retiree health care obligations. This is how cities dig financial holes for themselves—and it's repeating a mistake Houston made until significant reforms were passed in 2017.
9. **It shifts core services onto your water bill.**[9] Expenses for 311, Code Enforcement, and the Houston Emergency Center are being moved to the Combined Utility System—costs that were never intended to be covered by water and sewer fees.
10. **It risks a credit rating downgrade.**[10] By relying on one-time fixes, deferred obligations, and questionable assumptions, this budget threatens the City's financial reputation—and that could cost taxpayers even more in the future.

OFFICE OF CITY CONTROLLER CHRIS HOLLINS

Endnotes

1 This administration's spending has already cut the savings account balance from $567 million when it took office to $262 million today. The administration projects that it will spend down an additional $107 million in this proposed budget to address the budget gap. (See p. 29 of https://www.houstontx.gov/council/committees/bfacommittee/20250507/FY2026-Budget-Overview-Five-Year-Plan-Proposed-Budget.pdf). The Controller's Office projects a deficit of at least $134 million. (See p. 14 of https://www.houstontx.gov/council/committees/fy26workshops/fy2026-trends-may20.pdf), Other unrealistic projections will worsen this projection.

2 The administration plans to increase property tax revenue 5.7%. The increase in value of the property tax base is projected to be only 1.9%. This implies a necessary tax rate increase of 2-5%. (See pp. 5 and 6 of https://www.houstontx.gov/council/committees/fy26workshops/fy2026-trends-may20.pdf).

3 The Combined Utility System budget projects a rate increase of 6%. (See p. 22 of https://www.houstontx.gov/council/committees/fy26workshops/fy2026-trends-may20.pdf).

4 The proposed budget includes $45 million in proposed savings by eliminating positions and making other department-level cuts. One example of service reductions is to cut the frequency of mowing the grass in parks, from once every 3 weeks, to once every 6-7 weeks. (See p. 11 of https://www.houstontx.gov/council/committees/fy26workshops/fy2026-trends-may20.pdf). The Parks Department has laid out other possible cuts, including scaling back of some programs, delayed opening hours at community centers, reduced frequency of grounds maintenance at parks, libraries, and multi-service centers, slower response times for facility maintenance work orders, and decreased park patrols.

5 A court ruling in March determined that the City had been underfunding streets and drainage projects in violation of the City Charter. The Court issued a mandate and declaratory judgment that required the City to comply with the Charter. (See https://search.txcourts.gov/SearchMedia.aspx?MediaID=50031c01-f151-436c-bdb7-9de97aaf8f2f). The estimated financial impact of that judgment is roughly $92 million in FY2025 (NOW) and $91 million in FY2026 (the proposed budget). The City is currently seeking an amended ruling from the Court that will allow the City to continue operating in violation of the Charter for three additional years (FY2025, FY2026, and FY2027). If the Court does not approve the City's request, fund balance will immediately drop to 10% and will further decline to 1.5% ($153 million below required reserve amounts) by the end of FY2026.

6 After spending nearly $140 million in **overtime** in FY2025, the City is only budgeting for $64 million in FY2026. (See p. 11 of https://www.houstontx.gov/council/committees/fy26workshops/fy2026-trends-may20.pdf). This is after budgeting $63 million in FY2025 and missing that target by more than $70 million (2X). (See https://www.houstontx.gov/council/committees/bfacommittee/20250401/overtime-analysis.pdf). There is no reasonable rationale that would lead one to believe that the City could achieve the $64 million aspiration without meaningful operational changes.

7 The administration projects $17,500,000 in savings from "Category Management" but does not remove that amount from any department's budget. (See p. 29 of https://www.houstontx.gov/council/committees/bfacommittee/20250507/FY2026-Budget-Overview-Five-Year-Plan-Proposed-Budget.pdf).

8 *Pension:* The proposed budget reduces pension contributions by $22 million. (See p. 27 of https://www.houstontx.gov/council/committees/bfacommittee/20250507/FY2026-Budget-Overview-Five-Year-Plan-Proposed-Budget.pdf). The City's unfunded pension liability is upward of $1.8 billion. *OPEB:* The proposed budget also "zeroes" out contributions to a trust for a second year in a row that will cover other post-employment benefits (OPEB). (See p. 11 of https://www.houstontx.gov/council/committees/fy26workshops/fy2026-trends-may20.pdf). Current OPEB liability is north of $1.9 billion. A plan was previously in place to reduce OPEB liability to $1.1 billion by 2048 with consistent contribution to the trust, but the City is "delaying" that plan—the epitome of kicking the can down the road, passing off our problems to our children and grandchildren.

9 Houstonians' water bill payments, which keep the water system functioning and should, for example, be paying to replace pipes that are currently leaking 30 billion gallons per year, are instead going to pay for other unrelated costs – at the same time water bills are going up. (See p. 29 of https://www.houstontx.gov/council/committees/bfacommittee/20250507/FY2026-Budget-Overview-Five-Year-Plan-Proposed-Budget.pdf; p. 22 of https://www.houstontx.gov/council/committees/fy26workshops/fy2026-trends-may20.pdf).

10 The City of Houston has been placed on "negative outlook" (greater than 1/3 chance of downgrade) by two ratings agencies due to increased deficit spending and increasing debt (recently, $650 million borrowed to award back pay to firefighters). (See https://www.fitchratings.com/research/us-public-finance/fitch-rates-houston-tx-trans-f1-affirms-idr-at-aa-outlook-revised-to-negative-12-09-2024; https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3208665). Specifically, Fitch noted that sustained decline in general fund reserves below 15% of spending would increase the likelihood of downgrade. This budget unquestionably takes Houston below that threshold. S&P noted that not structurally balancing the budget would increase the likelihood of downgrade. This budget includes the second-highest deficit in Houston history. On the positive side, S&P highlighted the City's attempts to decrease pension and OPEB liability as factors that could prevent a downgrade. This budget decreases pension contributions and zeroes out contributions to the OPEB trust for the second year in a row.