

FY2026

Proposed Budget

WORKSHOP PRESENTATION

BUDGET AND FISCAL AFFAIRS

MAY 20, 2025

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



Strategic alignment with Mayor’s priorities

Mayor’s priority



Government that Works

Our Office’s programs

Audit



Executive Oversight



Financial Reporting



Operations



Treasury



Voluntary Municipal Employee Retirement Payout Option (VMERPO)

Number of Eligible VMERPO	Number Accepting Option	% Accepting
12	4	33%

Reductions Included in Proposed Budget		
	Number of Employees	Value of Reduction
Non-critical positions accepting offer before April 20th	0	\$0



Proposed Department Restructure

	Current State	Proposed State
Average Span of Control	3.0	4.6

Recommended New Job Classifications
Senior Assistant City Auditor (Exec. Level) – Pending Creation
Assistant City Auditor III, IV, and V (Executive Level) – Pending Creation



Expenditures by Fund

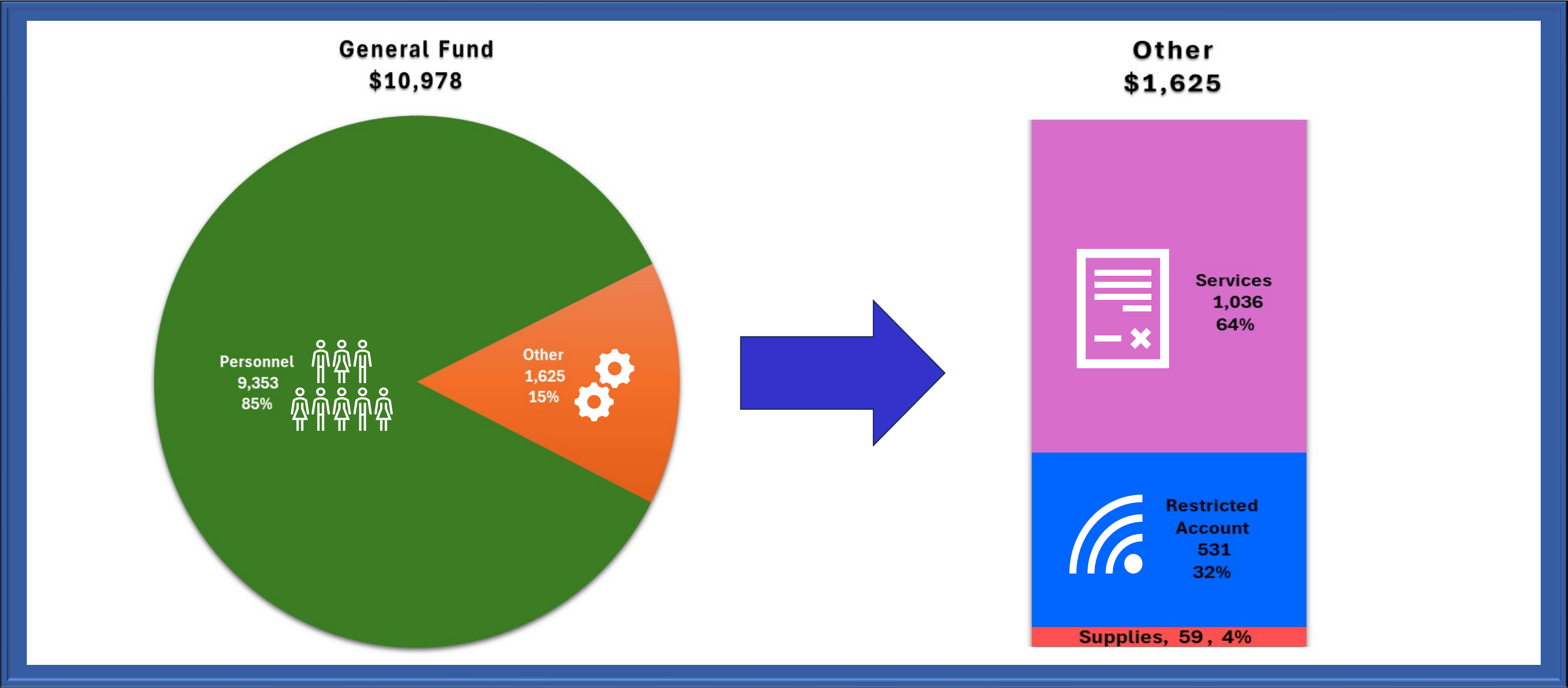
(in thousands)

Fund	FY24 Actual	FY25 Current Budget	FY25 Estimate	FY26 Proposed	Variance FY26 Proposed/ FY25 Budget	% Change
General Fund	\$8,823	\$10,861	\$10,861	\$10,978	\$118	1%
Total	\$8,823	\$10,861	\$10,861	\$10,978	\$118	1%

Total may reflect slight variances due to rounding.



Personnel vs Non-Personnel Costs (in thousands)



Expenditures by Program

(in thousands)

Program	FY24 Actual	FY25 Current Budget	FY25 Estimate	FY26 Proposed	Variance FY26 Proposed/ FY25 Budget	% Change
Audit	\$1,706	\$2,101*	\$2,101*	\$2,667	\$566	27%
Executive Oversight	893	1,182	1,182	1,145	(38)	-3%
Financial Reporting	1,545	1,914	1,914	1,910	(4)	0%
Operations	3,394	4,185*	4,185*	3,648	(536)	-13%
Treasury	1,285	1,479	1,479	1,608	129	9%
Total	\$8,823	\$10,861	\$10,861	\$10,978	\$118	1%

* FY2025 includes a one-time allocation of \$587,000 from vacancy savings for asbestos abatement and new carpeting across five floors of City Hall. This funding is listed under the Debt Service and Interfund Transfers Program in the Proposed Budget Book.

Total may reflect slight variances due to rounding.



Expenditures by Program before adjustments (in thousands)

Program	FY24 Actual	FY2025 Current Budget*	FY25 Estimate	FY26 Proposed	Variance FY26 Proposed/ FY25 Current	% Change
Audit	\$1,706	\$2,688*	\$2,101	\$2,667	\$21	1%
Executive Oversight	893	1,182	1,182	1,145	(38)	-3%
Financial Reporting	1,545	1,914	1,914	1,910	(4)	0%
Operations	3,394	3,598*	4,185	3,648	51	1%
Treasury	1,285	1,479	1,479	1,608	129	9%
Total	\$8,823	\$10,861	\$10,861	\$10,978	\$118	1%

* FY2025 Current Budget does not includes a one-time allocation of \$587,000 from vacancy savings for asbestos abatement and new carpeting across five floors of City Hall.

Total may reflect slight variances due to rounding.



Audit

Priority:	Government that Works
FY2025 FTE Count:	14.2

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
<ul style="list-style-type: none">Includes funding for health benefits and pension contribution and municipal contractual pay increases.

FY26 Prop Budget by Fund	
General Fund	\$2,667
Total	\$2,667

Performance

Measure Name	FY24 Actual	FY25 Target	FY25 Estimate	FY26 Target
Average # of findings per Quality Review report	N/A	N/A	N/A	2
Dollar amount of cost/revenue opportunities identified	N/A	\$1.6M	\$6.0M	\$2.6M
Maximum business days to issue the report after completion of field work	N/A	N/A	N/A	45
Percentage of findings and recommendations agreed to by the auditee (does not include non-response findings)	N/A	80%	80%	80%



Executive Oversight

Priority:	Government that Works
FY2025 FTE Count:	7.0

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
<ul style="list-style-type: none">Includes funding for health benefits and pension contribution and municipal contractual pay increases

FY26 Prop Budget by Fund	
General Fund	\$1,145
Total	\$1,145

Performance

Measure Name	FY24 Actual	FY25 Target	FY25 Estimate	FY26 Target
Annual external newsletter distribution	N/A	4	4	4
Annual website visitors	N/A	70,000	70,000	70,000
Community events hosted	N/A	7	7	7
Community events participation	N/A	N/A	N/A	80



Financial Reporting

Priority:	Government that Works
FY2025 FTE Count:	9.5

Program Description	Significant Budget Items	FY26 Prop Budget by Fund	
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.	<ul style="list-style-type: none">Includes funding for health benefits and pension contribution and municipal contractual pay increases.	General Fund	\$1,910
		Total	\$1,910

Performance

Measure Name	FY24 Actual	FY25 Target	FY25 Estimate	FY26 Target
Number of insight reports	N/A	N/A	1	4
Variance of sales tax forecast from actual	N/A	N/A	N/A	2.0%
Expenditures Adopted Budget vs Actual Utilization	98%	98%	103%	98%



Operations

Priority:	Government that Works
FY2025 FTE Count:	21.4

Program Description	Significant Budget Items	FY26 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.	<ul style="list-style-type: none">Includes funding for health benefits and pension contribution and municipal contractual pay increases	General Fund	\$3,648
		Total	\$3,648

Performance

Measure Name	FY24 Actual	FY25 Target	FY25 Estimate	FY26 Target
Early payment discounts secured	\$3,034,357	\$951,220	\$2,000,000	\$2,000,000
Number of paper checks remitted	39,291	32,210	35,000	32,210
Number of unclaimed funds captured	N/A	N/A	N/A	30
Percent of ordinance certification processes completed prior to relevant City Council date	100%	100%	100%	100%
Received invoices paid within one week	N/A	N/A	N/A	100%



Treasury

Priority:	Government that Works
FY2025 FTE Count:	7.6

Program Description	Significant Budget Items	FY26 Prop Budget by Fund	
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.	<ul style="list-style-type: none">Includes funding for health benefits and pension contribution and municipal contractual pay increases	General Fund	\$1,608
		Total	\$1,608

Performance

Measure Name	FY24 Actual	FY25 Target	FY25 Estimate	FY26 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	5 basis points	5 basis points	5 basis points
Maintain healthy cash balance	N/A	N/A	\$11M - \$13M	\$11M - \$14M
Weighted average interest rate of all City's letter of credit commercial paper draws	N/A	< 5%	< 5%	< 5%
City's investment portfolio credit rating maintained with Fitch Ratings	AAAf	AAAf	AAAf	AAAf



Budget requests

Budget item	Additional amount requested
1. Audit division expansion	\$677,000
2. COH Enterprise Risk Assessment	\$250,000
3. Transparency tool improvement	\$378,000

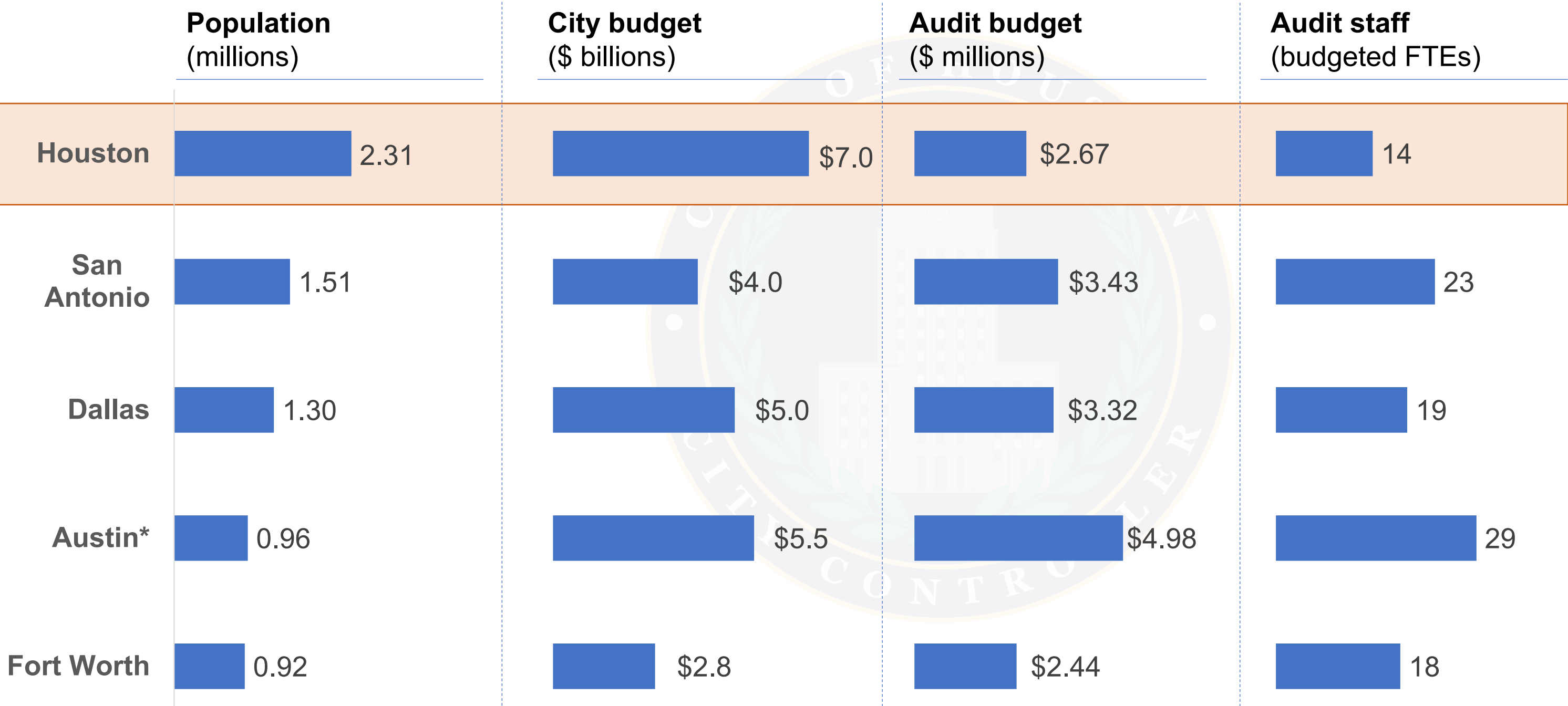


Budget requests

Budget item	Additional amount requested
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Houston’s Audit Division is under-resourced compared to other major cities in Texas

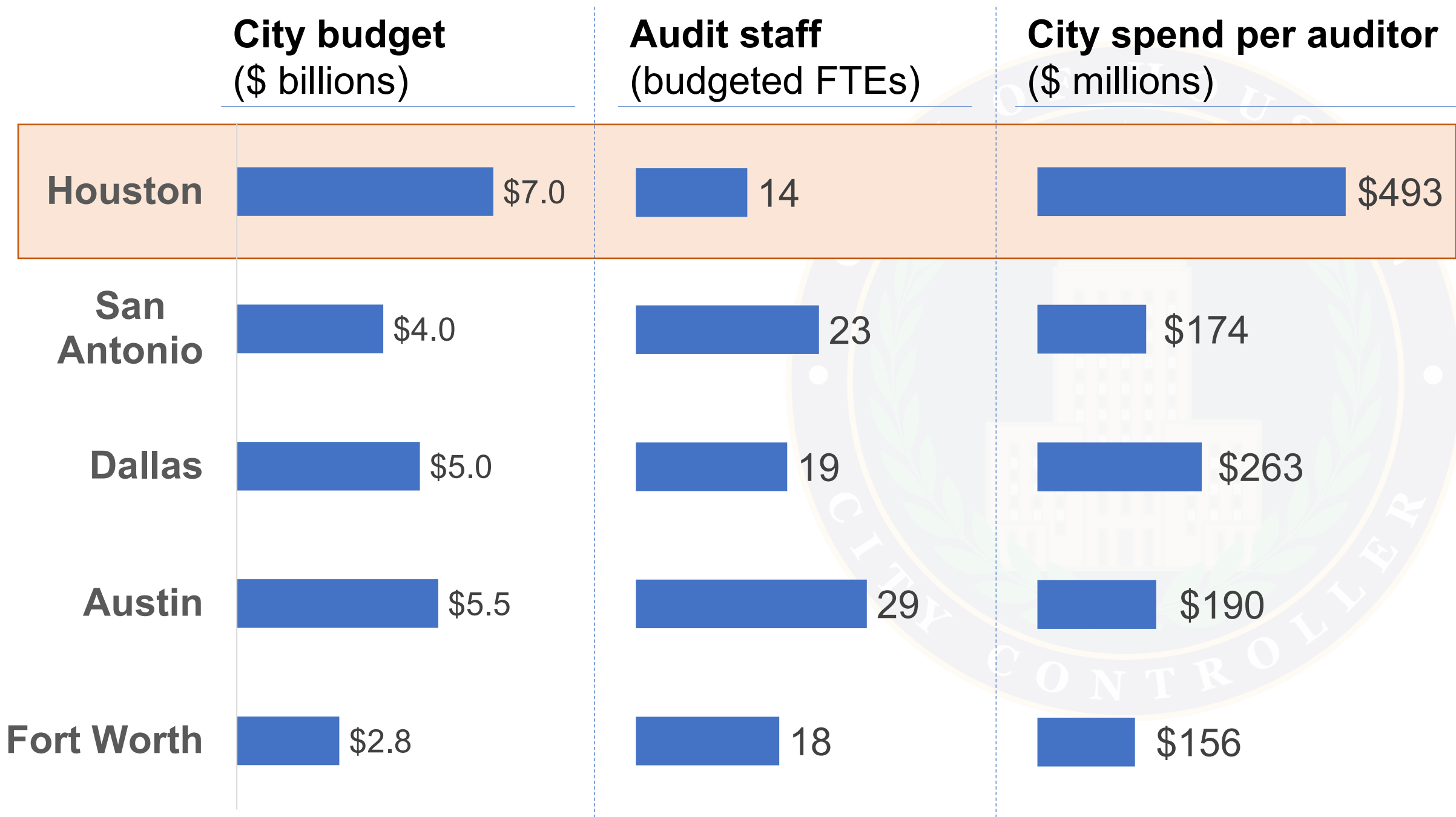


- Houston is the **largest city in the State** of Texas, with the largest municipal budget
- Houston’s **Audit Division is the smallest of its peer cities** within Texas, hindering its ability to effectively evaluate the City’s internal controls, risks and governance functions

*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



- Per-auditor responsibility in Houston is **more than double the major city peer average** of \$196 million, and **more than 87% higher than closest peer** (Dallas)
- To bring Houston in line with closest peer would require a total of 27 auditors (**11 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.



Houston Audit Division is missing core functions

Function	Description	Status
Oversight	City Auditor and support staff	<ul style="list-style-type: none">Exists in status quo (3 FTE)
Process	Identify and mitigate risk (e.g., Solid Waste cart inventory, GSD security compliance, HPD evidence room compliance)	<ul style="list-style-type: none">Exists in status quoUnderstaffed (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	<ul style="list-style-type: none">Exists in status quoUnderstaffed (2 FTE)
Contracts	Analyze and monitor contracts to ensure adherence to terms, take advantage of savings/revenue opportunities, and identify discrepancies	<ul style="list-style-type: none">Created in FY2025 (1 FTE)In process of hiring and incorporating into regular audit processes
Forensics	Monitor financial and other records to detect and prevent fraud, embezzlement, and other illegitimate behavior	<ul style="list-style-type: none">Does not exist; critical need
Information Technology	Evaluating current security systems, identifying potential risks, ensuring regular practice of IT controls, and safeguarding all IT assets	<ul style="list-style-type: none">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 FY2026 growth	Recommended FY2027 growth	Recommended staffing
Oversight	4	1	0	5
Process	8	1	0	9
Performance	2	0	2	4
Contracts	1	1	1	3
Forensics	0	1	1	2
IT	1	1	2	4
Total	16	5	6	27

- **Five (5) auditors recommended in FY2026**
 - 1 Auditor V
 - 2 Auditor IVs
 - 2 Auditor IIIs
- **Budget impact of \$677,000**

* Three positions are pending fulfillment.



Budget requests

Budget item	Additional amount requested
1. Audit division expansion	\$677,000
2. COH Enterprise Risk Assessment	\$250,000
3. Transparency tool improvement	\$378,000



Comprehensive Enterprise Risk Assessment is critical

Key aspects of Enterprise Risk Assessment (ERA)

1. **Identify comprehensive set of risks to City**
 - Includes internal and external risks
 - Covers financial, operational, cybersecurity, compliance, and strategic risks
2. **Assess likelihood and potential impact of each (probability and severity)**
3. **Prioritize risks based on threat level**
 - Focus on more likely, high-impact threats
4. **Develop mitigation strategies for priority risks**
 - Includes performing audits in priority area(s)
5. **Monitor and update**

Need for high-quality ERA

- **Makes leaders aware of threats, a necessary first step to protecting against them**
- **Enhances decision-making and long-term resilience**
- **Commits City to continuous improvement regardless of economic or political cycles**
- **In addition to being a best practice for organizations, ERA is required by the IIA Global Internal Audit Standards on at least an annual basis to ensure its relevance and accuracy**

Current approach to ERA is severely deficient

Selected aspects of current approach

- ERA is performed by assessing City Departments on a rotational basis, with each assessment taking place every 4-5 years
- Only considers inherent risk (level of risk that exists in a process or activity before any controls or mitigation measures are applied)
- Risk rankings are primarily assigned by the Audit Division, with minimal input from Department Directors
- Required 4 internal audit staff approximately 4-5 months to complete

Problem(s) created by this approach

- Department-level assessment does not consider risks to the entire City across all key business processes
- 4–5 years between reviews significantly increases the risk of missing critical issues that may arise in the interim
- Ignores residual risk (actual risk that remains after an organization has identified mitigation measures), over-prioritizing areas that are already well-managed and under-prioritizing those with weak or failing controls
- Department Directors do not find value in the final product, and it often does not align with their perceived concerns (“what keeps them up at night”)
- With Audit Division already under-resourced, committing such a substantial proportion of staff to single exercise is impractical and takes away from other audit priorities



One-time investment in ERA can put us back on track

Benefits of this approach

Recommended solution

Make one-time investment in ERA by external firm, which will:

- Update the City risk “heat map” to account for residual risk
- Update comprehensive set of City-wide processes
- Identify mitigating activities for top risks
- Identify potential FY27 audits that would validate mitigating activities and internal controls related to top risks

- **High-quality, credible results:** after years of limited utility, a well-executed ERA will restore confidence among stakeholders, making the resulting output meaningful and actionable
- **Accelerated timeline and turnaround:** external partner can complete the ERA efficiently without the learning curve that would burden internal staff; what takes months internally can be delivered faster and more thoroughly externally
- **Independent and unbiased viewpoint:** external partner brings fresh eyes to organizational risks, uninfluenced by internal politics or historical blind spots, resulting in honest, objective insights about vulnerabilities and priorities
- **Focus on core business operations:** allows internal team to remain focused on core responsibilities (execution of current audit plan)
- **Transfer of knowledge to internal team:** qualified firm can partner with the Audit Division to build internal capacity through methodology sharing, training, and templates that will enhance future in-house assessments

Focused effort will enable internal team to execute efficient, high-quality, high-utility ERAs going forward



Budget requests

Budget item	Additional amount requested
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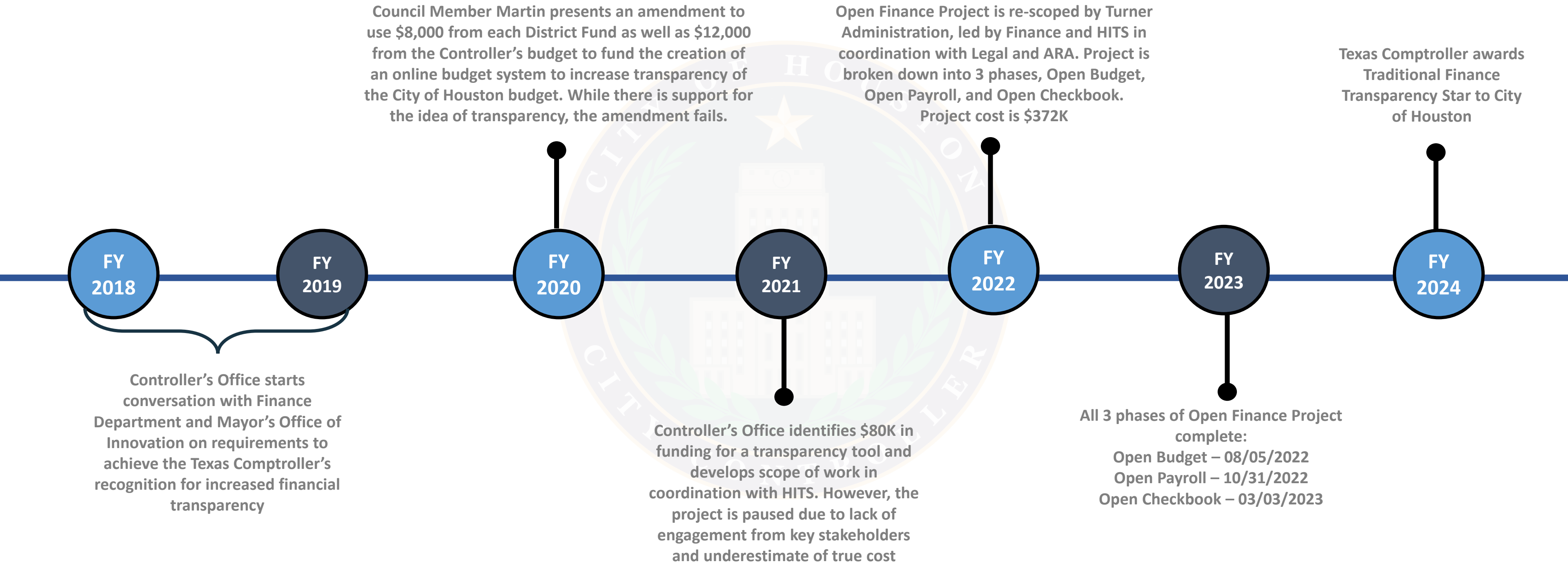


The importance of transparency in City government

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

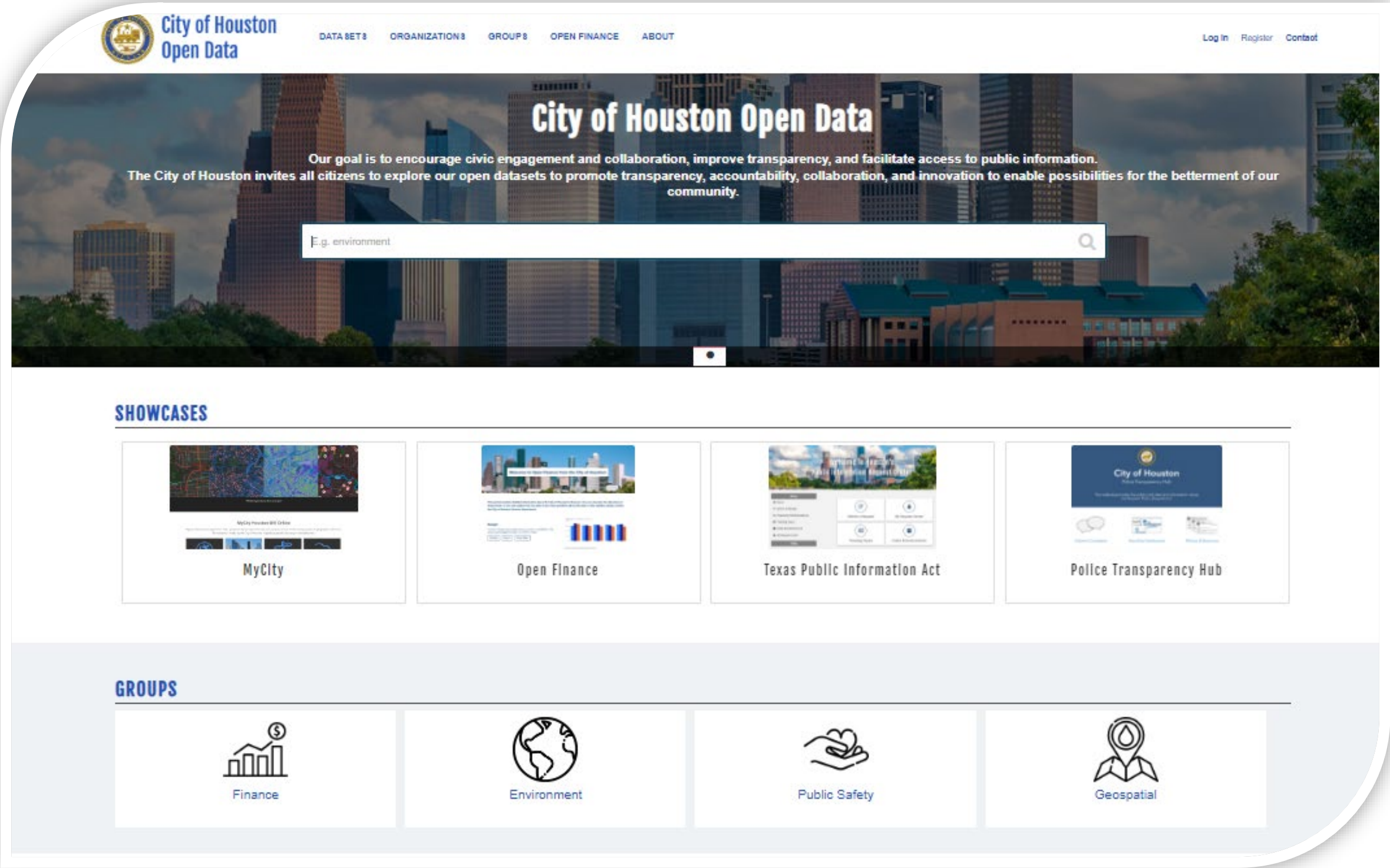
- Ensures that government actions, decisions, and financial dealings are **open to public scrutiny**
- **Reduces the risk of corruption** and misuse of public funds
- **Allows residents to be well-informed** about policy changes, budget allocations, and community projects, fostering greater civic engagement
- **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



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
<ul style="list-style-type: none">• Not fully transparent	<ul style="list-style-type: none">• 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)
<ul style="list-style-type: none">• Not user-friendly	<ul style="list-style-type: none">• 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)
<ul style="list-style-type: none">• Non-intuitive interface	<ul style="list-style-type: none">• Tools lacks clear cues for users to understand how to interact with them effectively
<ul style="list-style-type: none">• Inadequate visualization	<ul style="list-style-type: none">• Suite of tools does not provide simple, clean, consistent, or interactive visuals



Limitation example: Payroll

Problem

Now how much does John Smith in the Controller's Office make?



Taxpaying Houstonian

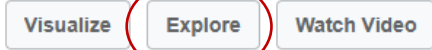
Steps

Click the Open Finance link on the Open Data Portal



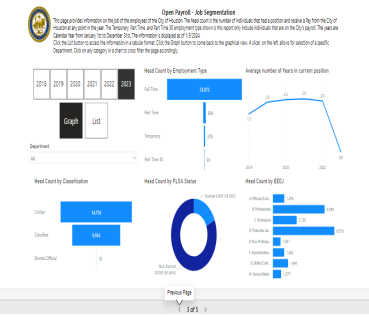
Payroll

There are over 20,000 employees working for the present.



Now, let's click the "Explore" link under Payroll

Scroll through 5 pages of charts and graphs, or download CSV file. There's no data available by employee name



Results



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

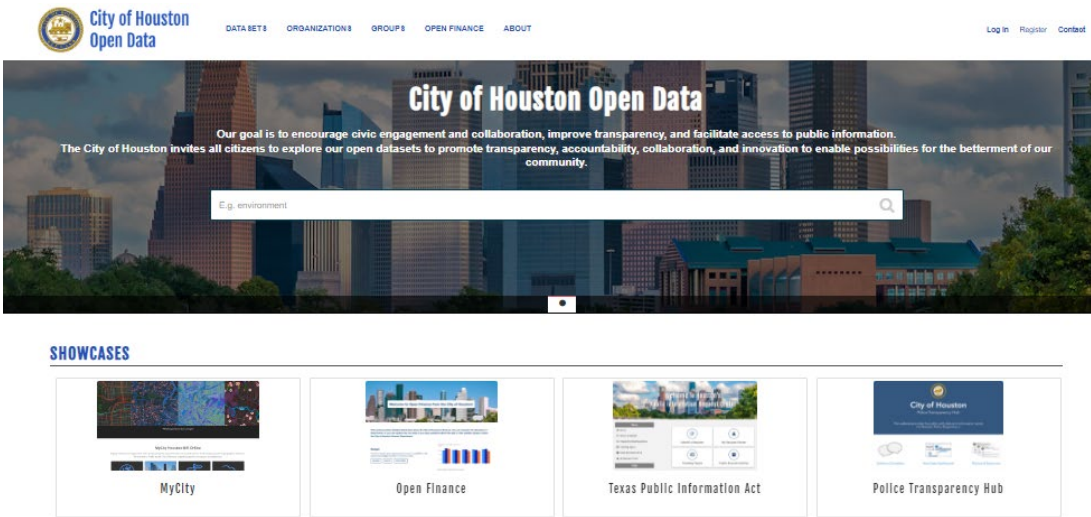
Where can I find the status of street and drainage projects in my neighborhood?



Taxpaying Houstonian

Steps

- Scan the Open Finance Portal for links related to projects or
- Use the search bar to search for projects



Results



Information is not available, or the data doesn't exist in Open Finance



Limitations example: Just wondering!

Problem

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



Future Taxpaying Houstonian

Steps

Click the Open Finance link on the Open Data Portal



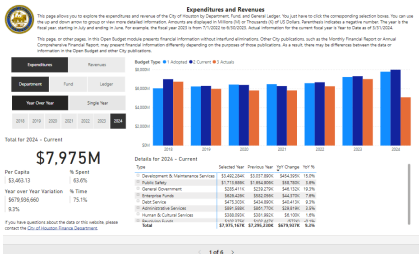
Budget

The City of Houston has an annual operating bud present.



Now, let's click the "Explore" link under Budget

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



Results



Information is too difficult for Houstonians to obtain

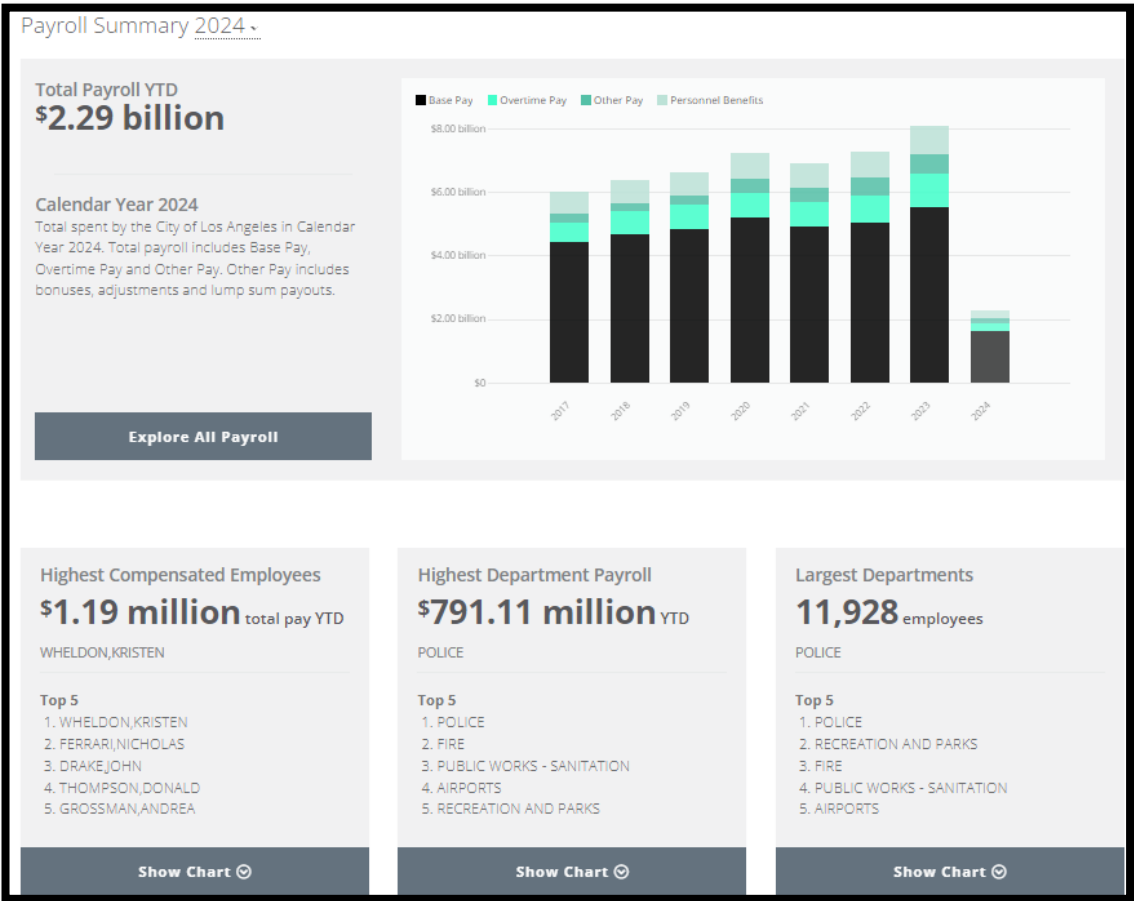
- Visuals are limited and cluttered
- Requires above-average Excel skills to utilize CSV files to obtain the desired information
- Simplifying data access and presentation can enhance citizen engagement and understanding



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



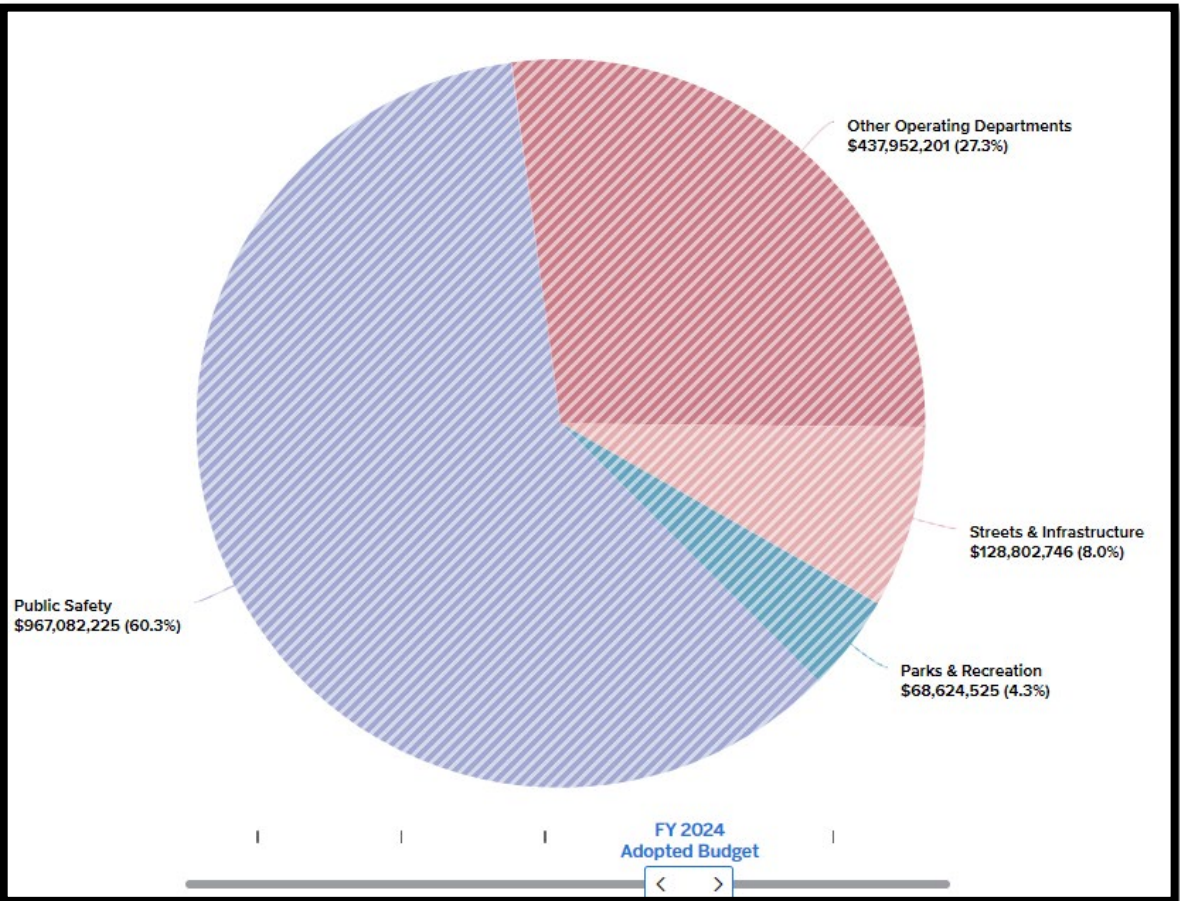
City of Los Angeles has simple and easy-to-navigate payroll information with the ability to drill down to individual employees

New York



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

San Antonio



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**
- Submitted **funding request on February 4, 2025**
 - Pending Administration approval
- **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:
 - **FY2026: up to \$378K** (\$168K for design/build, \$210K for ongoing support)
 - **FY2027 and beyond: \$210K annually**¹ for ongoing support

1. Potential escalator of 3-5% per year.



QUESTIONS



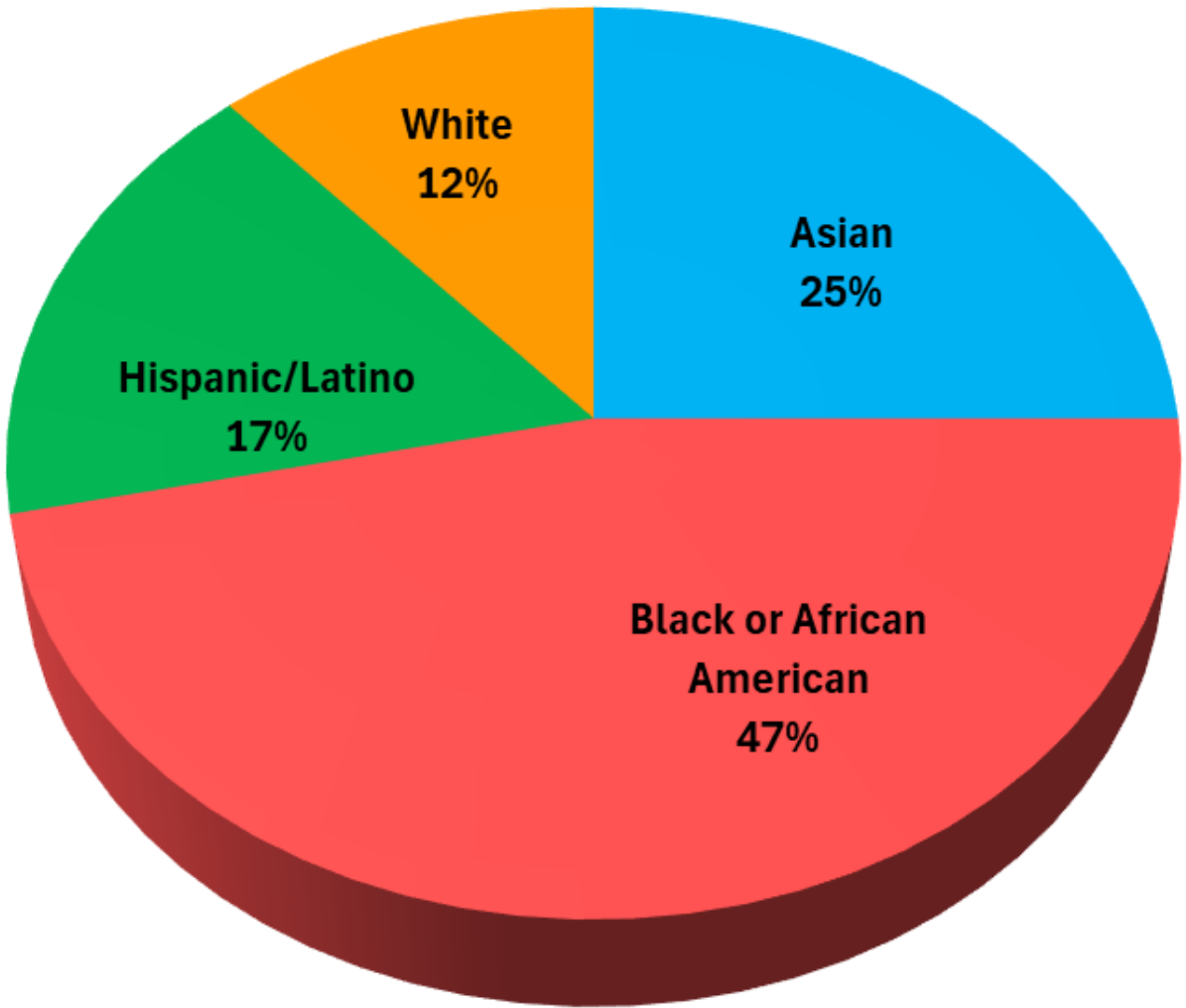


Demographics

GENDER



ETHNICITY



Data as of April 2025



Department FY2025 Accomplishments

Release of the City's first-ever Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2024. This marks a milestone in our commitment to transparency and public engagement. This new report breaks down the complex financial information into a clear, concise and visually accessible format, making it easier for residents and stakeholders to understand the City's financial health and priorities.

Over the last three quarters, the average yield on commercial paper has increased to 17%, up from 12% the previous year, leading to an increased allocation in the City's investment portfolio.

Increased public engagement efforts including greater participation in Super Neighborhood meetings, community activities, town halls etc.

Completed and passed peer review.

Partnered with BakerRipley to offer free tax services to city employees, serving over 90 employees across 12 city departments.

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).

