Trends for FY2027

BUDGET AND FISCAL AFFAIRS

MAY 19, 2026

OFFICE OF CITY CONTROLLER CHRIS HOLLINS

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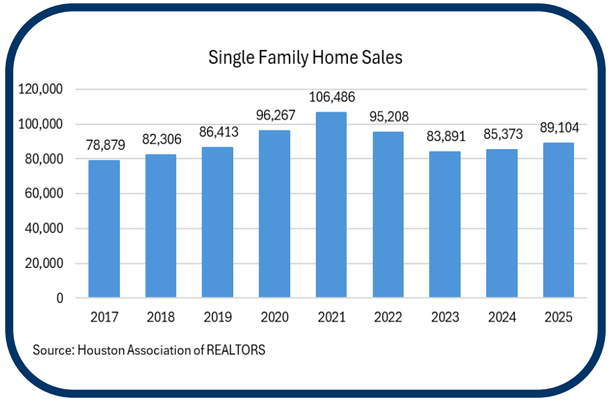
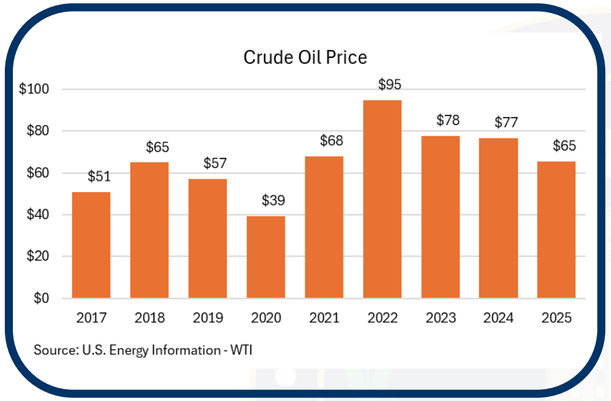
Economic Outlook

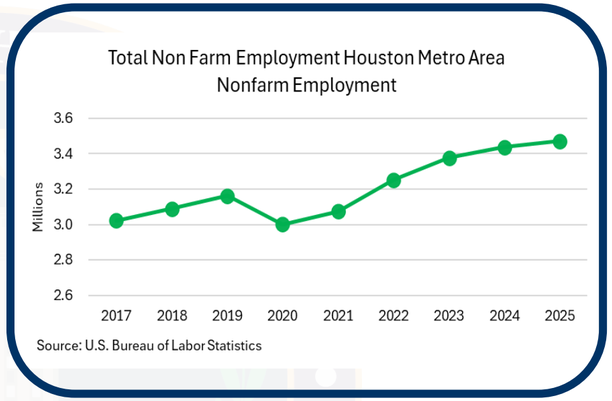
The Houston economy is expected to experience moderate but stable growth across employment and real estate, underpinned by its diverse economic base and ongoing energy transformation. The city's long-term fundamentals appear to remain resilient, but significant economics-dependent risk factors have emerged.



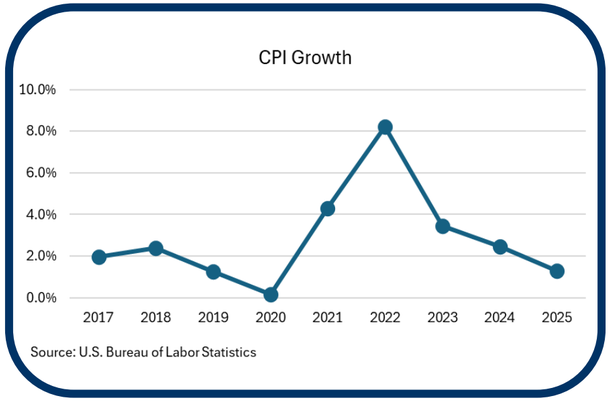
According to HAR, the Houston housing market in 2025 returned to a balanced, pre-pandemic pace, with steady demand pushing total property sales above 2024. Inventory expansion and moderating prices created a healthier market, while easing interest rates improved affordability for most buyers throughout the year. Economists expect continued growth heading into 2026.



Crude oil prices in 2026 are expected to remain volatile, with most forecasts placing West Texas Intermediate (WTI) in a broad range from the low $50s to the mid $80s. Due to higher-risk geopolitical scenarios, the combined influence of steady U.S. shale output, OPEC production management, and elevated global supply-chain tensions, prices could skew higher. The current WTI futures price is above $100.



The Greater Houston Partnership forecasts 30,900 new jobs added in 2026. Job gains are expected to be driven primarily by health care, public administration, construction, and professional services, which offset anticipated losses in energy-related sectors. This balanced pattern of growth reflects Houston's increasingly diversified economy and positions the region for steady expansion moving into 2027.

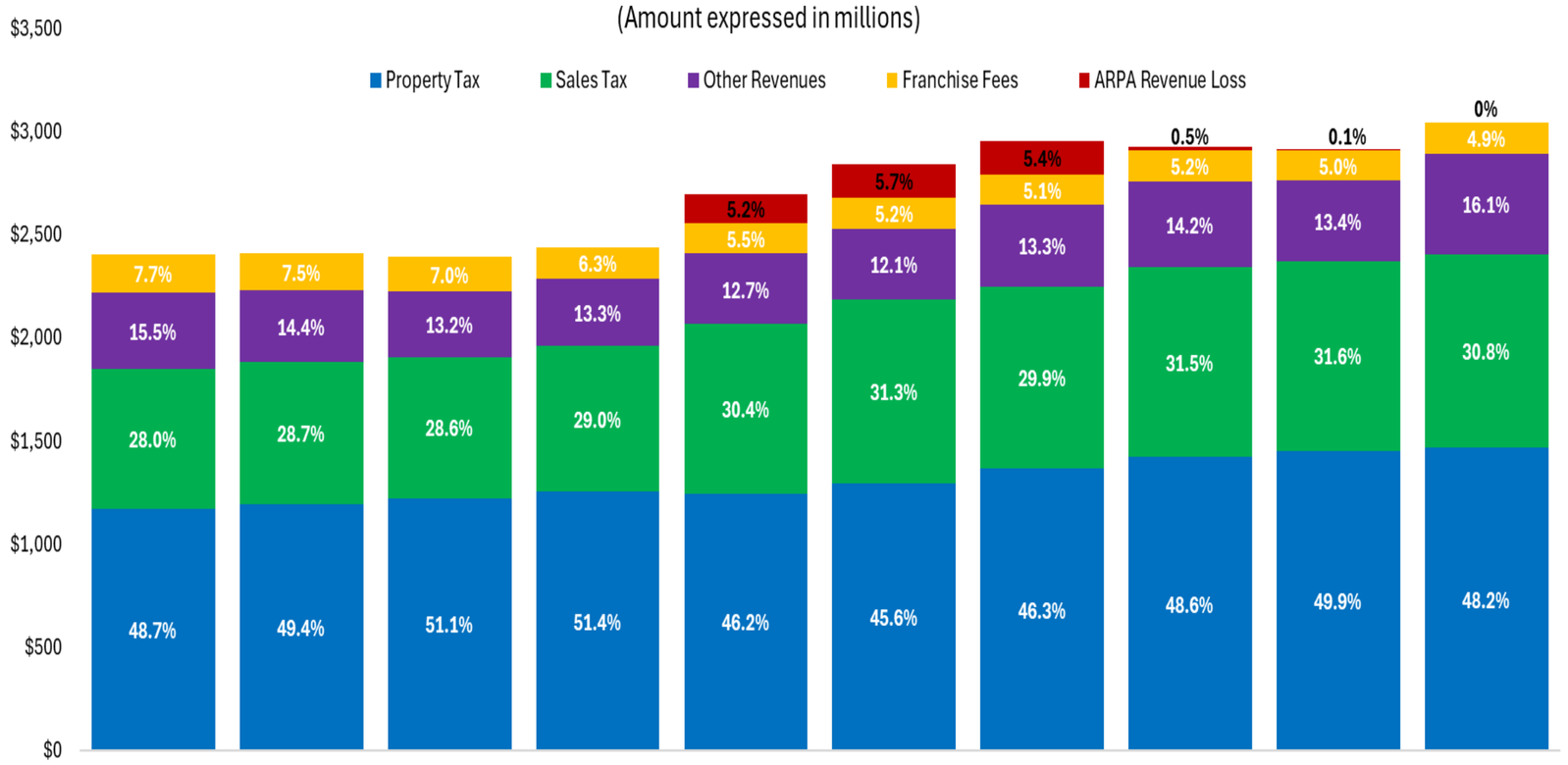


Houston's inflation outlook for 2026 remains moderate, with CPI rising 2.8% year-over-year, below the national average of 3.8%. While energy costs increased sharply, the overall inflation environment is still comparatively favorable among major U.S. metros. Recent developments indicate significant risk that CPI will rise beyond current estimates.

General Fund Revenue*

FY2027 General Fund Revenue excluding Other Resources increase by $132 million from FY2026 estimate primarily due to:

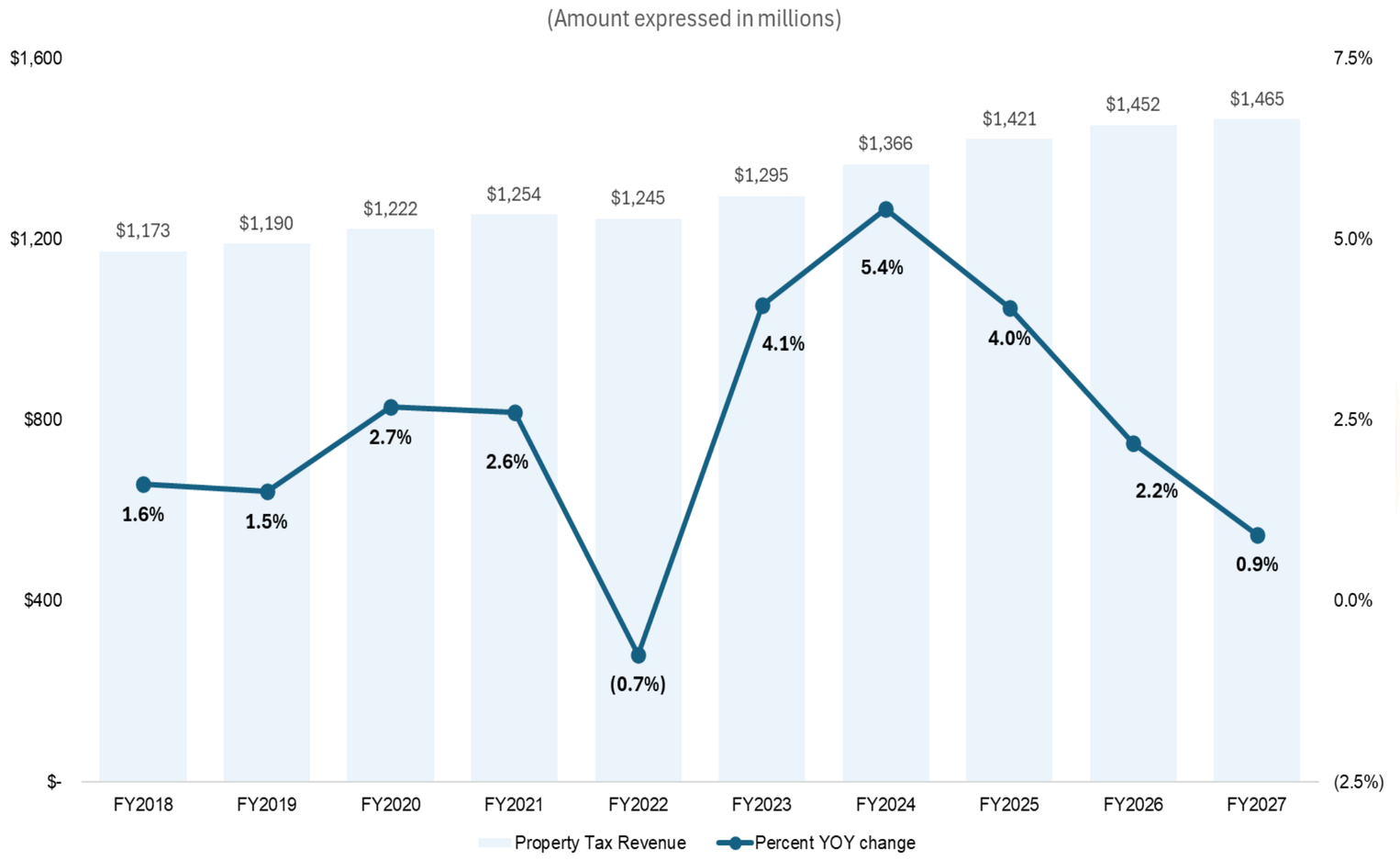
- Property Tax - $12 million
- Sales Tax - $18 million
- Other Revenues - $101 million
- Increases of:
  - Right-of-Way Fees - $104 million
  - Municipal Services Fees TIRZ - $16 million
- Offset by decreases of:
  - Licenses & Permits - $8 million
  - Solid Waste revenues (transferred to CUS) - $6 million
  - Misc/Other - $5 million



Category	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Property Tax	$1,173	$1,190	$1,222	$1,254	$1,245	$1,295	$1,366	$1,421	$1,452	$1,465
Sales Tax	$674	$692	$684	$707	$821	$889	$883	$919	$920	$938
Franchise Fees	$186	$180	$168	$154	$150	$148	$149	$151	$146	$148
ARPA Revenue Loss	-	-	-	-	139	163	160	15	3	$0
Other Revenues	$373	$347	$316	$325	$341	$345	$394	$416	$391	$491
Total Revenues	**$2,406**	**$2,410**	**$2,390**	**$2,439**	**$2,696**	**$2,840**	**$2,952**	**$2,922**	**$2,911**	**$3,042**
Dollar YOY change	*85*	*4*	*(19)*	*49*	*257*	*144*	*112*	*(29)*	*(12)*	*132*
Percent YOY change	*3.7%*	*0.2%*	*-0.8%*	*2.0%*	*10.5%*	*5.4%*	*3.9%*	*-1.0%*	*-0.4%*	*4.5%*

* Excluding Other Resources (transfers and land sales)

Property Tax Revenue



Assuming a flat tax rate of $0.51919 per $100 assessed valuation, FY2027 property tax revenue increases by 0.9% ($13 million).

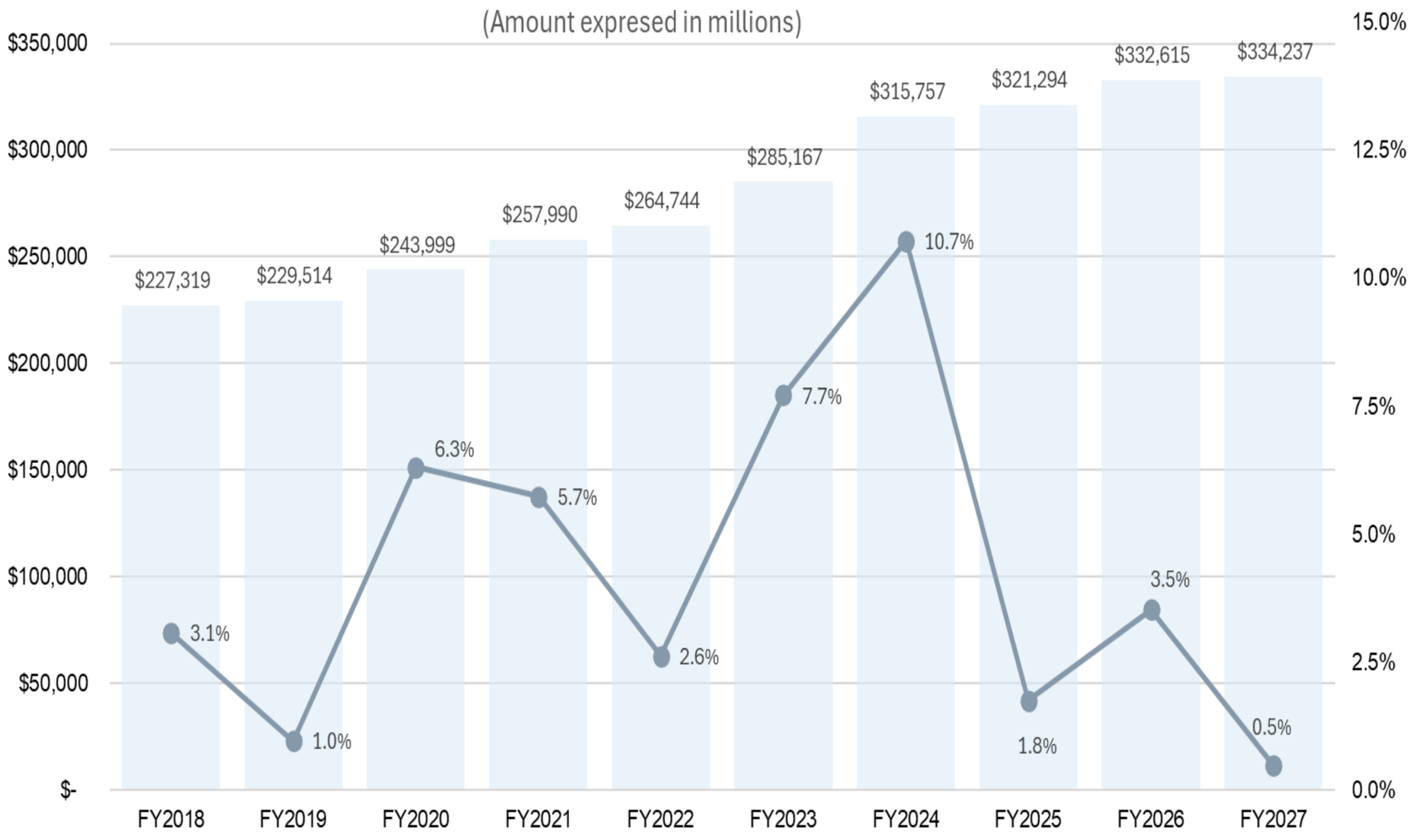
This is $62 million below the Prop 1 cap of $1.527 billion. The cap assumes:

- 1.3% - 2025 inflation rate
- 0.3% - 2025 population growth rate

Taxable Values

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

The estimated taxable value for the City of Houston is $334 billion, an increase in valuation of 0.5% from FY2026.



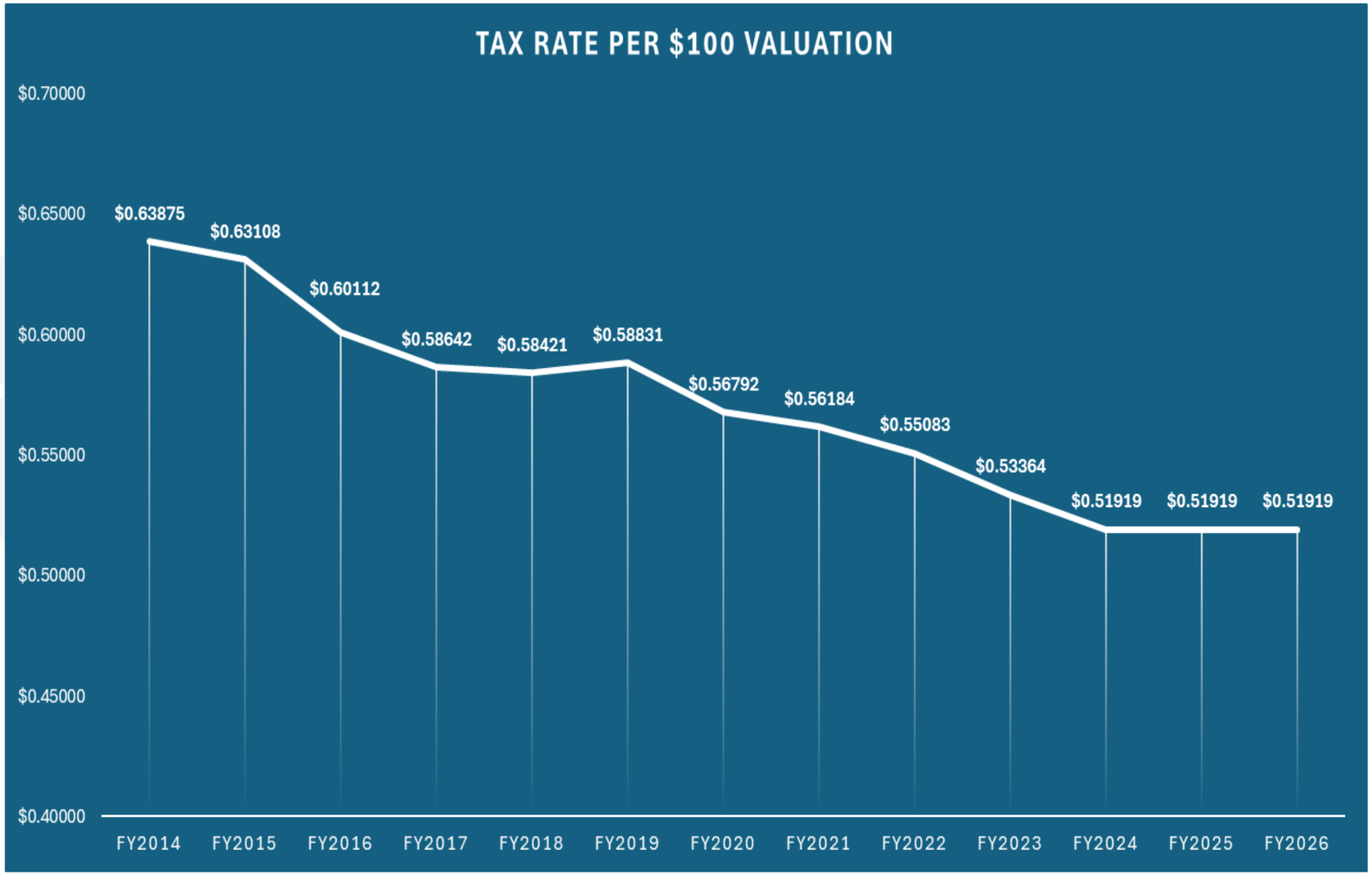
Property Tax Rate

As a result of the tax revenue cap, the tax rate decreased **9** out of the last **12 years** since 2015

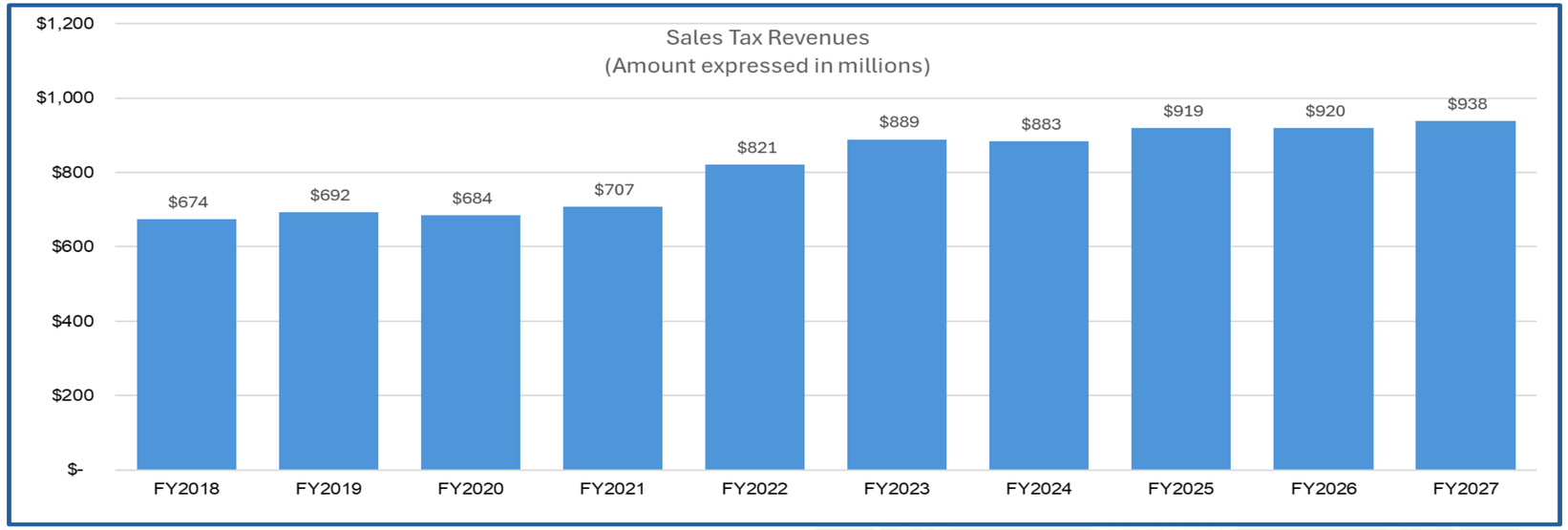
The tax rate will comply with the property tax revenue limitations established by Proposition 1 and Proposition H; it is also subject to compliance with the State Cap SB2

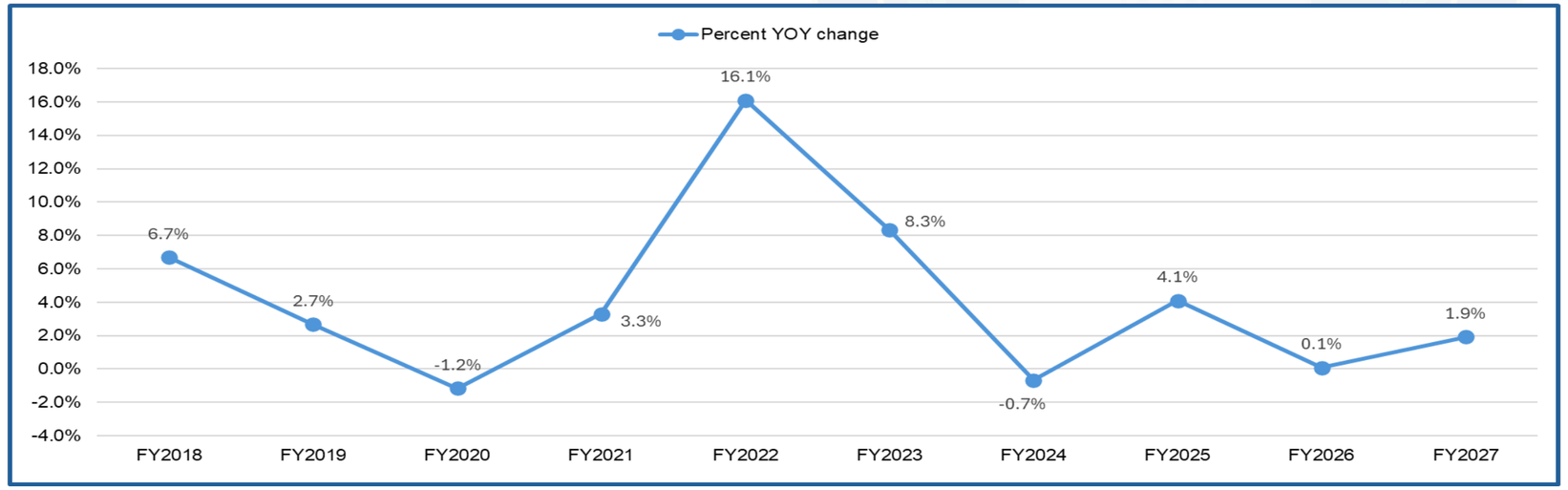
To reach the property tax cap, it is likely that the FY2027 tax rate would need to be increased

Final tax rate will be established by a vote of Council in Q1 of FY2027 when the Certified Roll is available in late August



Sales Tax Revenue



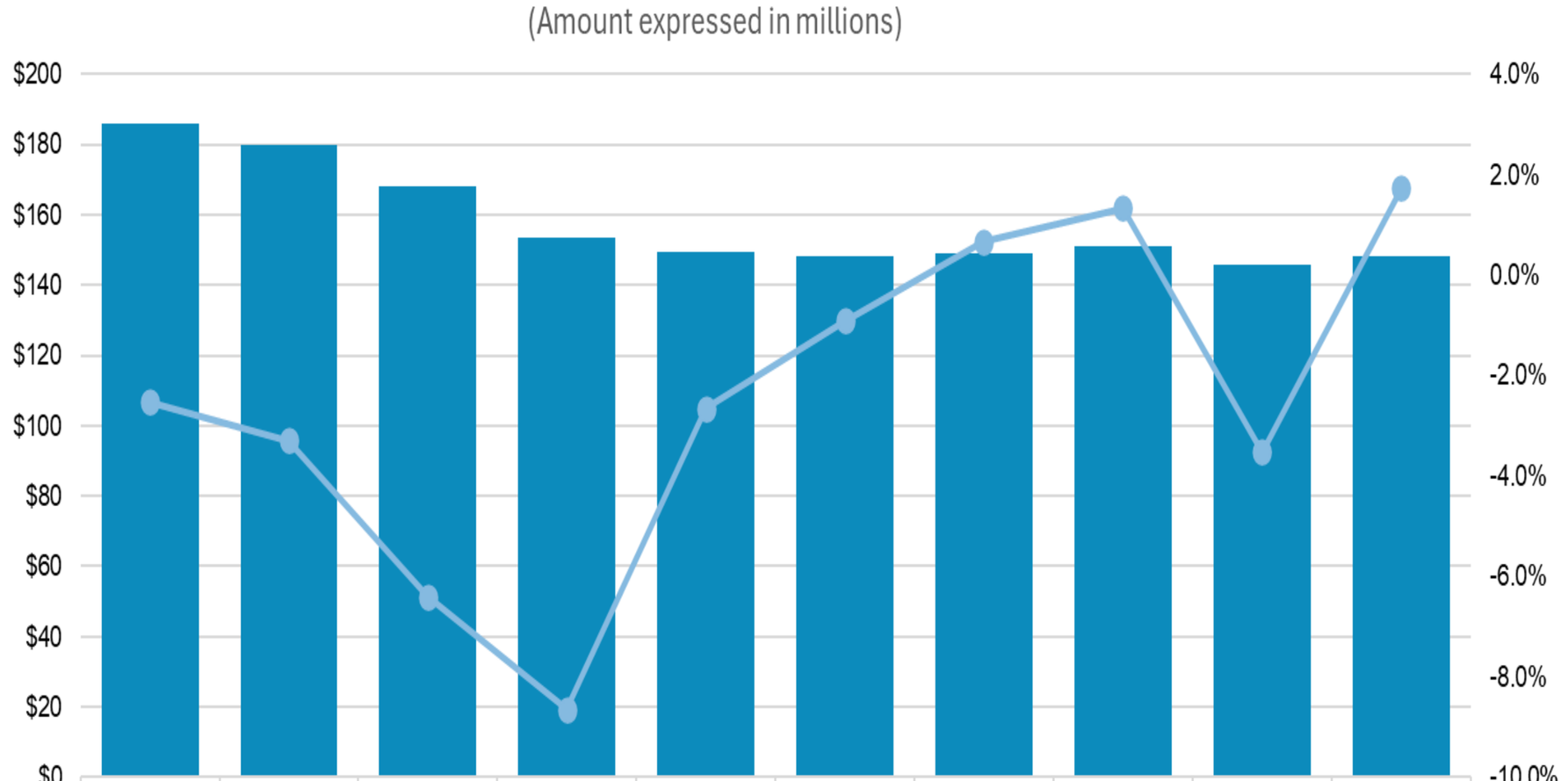


Estimated sales tax revenue for FY2027 increases by 1.9% ($18 million) from the FY2026 estimate of $920 million. Historically, sales tax growth can vary considerably year over year. This is attributed to the sensitivity of sales tax to market shifts as consumer spending habits mirror market trends.

Given its volatility, we will continue to monitor and adjust.

Franchise Tax Revenue

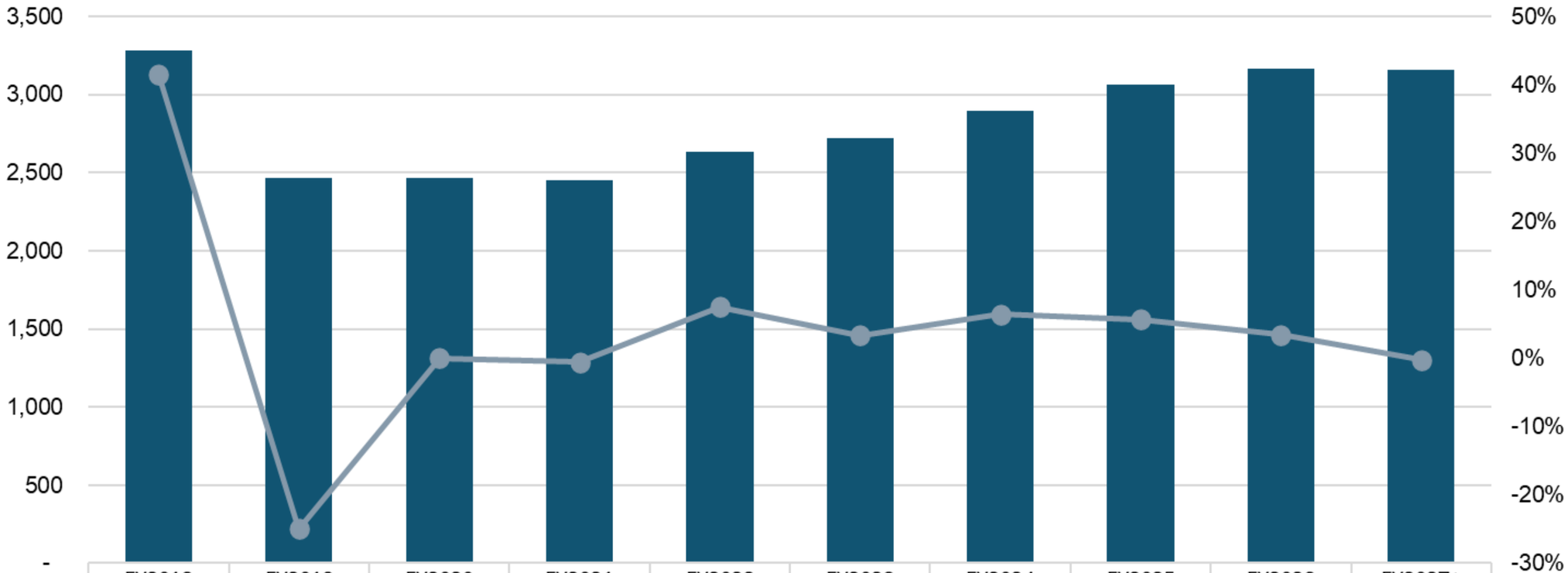
Total Franchise Fees are comprised of Electric Franchise, Telephone Franchise, Gas Franchise, and Other Franchise. FY2027 increases by 1.7% ($2.5 million) from the FY2026 estimate, primarily due to Electric Franchise Fees.



	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Total Franchise Revenue	$186	$180	$168	$154	$150	$148	$149	$151	$146	$148
Percent YOY change	-2.5%	-3.3%	-6.4%	-8.6%	-2.7%	-0.9%	0.7%	1.3%	-3.5%	1.7%

General Fund Expenditures (including debt service)

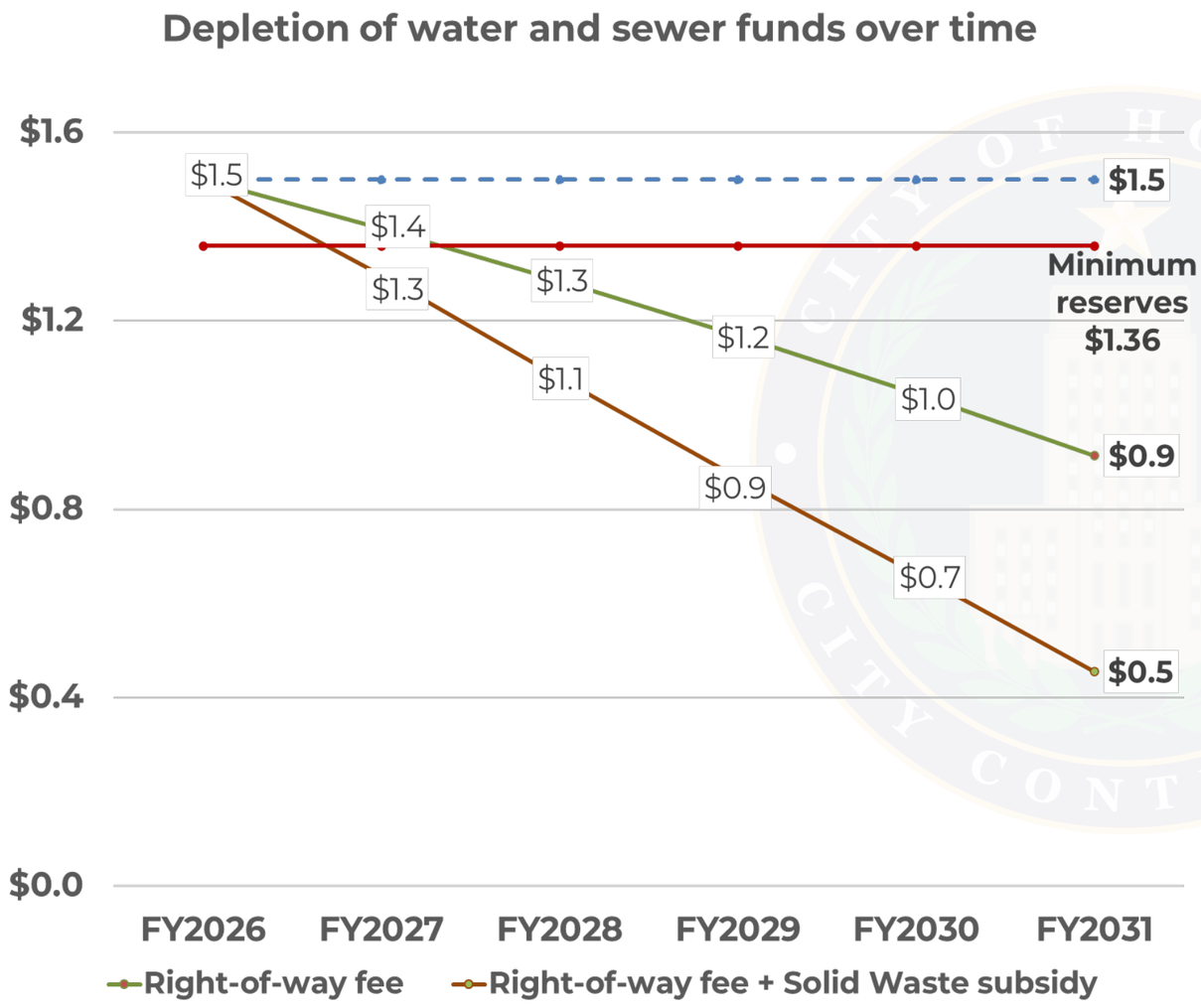
(Amount expressed in millions)



	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027*
Total Expenditures	3,282	2,462	2,463	2,448	2,633	2,721	2,896	3,060	3,165	3,157
Percent YOY change	41.5%	(25.0%)	0.0%	(0.6%)	7.5%	3.4%	6.4%	5.7%	3.4%	(0.2%)

*Includes $104 million transfer to CUS from Solid Waste.

Right-of-Way Fee and Solid Waste Subsidy



This proposal diverts water and sewer funds to pay for trash, police, and firefighters instead of committing them to water infrastructure

If the proposal is followed:

- The water fund will be below its minimum reserve threshold in the first year.
- The water fund balance would be squandered by $1 billion in 5 years, in a similar manner that Houston's General Fund savings has been depleted

General Fund Expenditures vs. FY2026 Adopted Budget

The Proposed FY2027 Budget increased by 3.6% ($109 million) compared to the FY2026 Adopted Budget

Increases driven by:

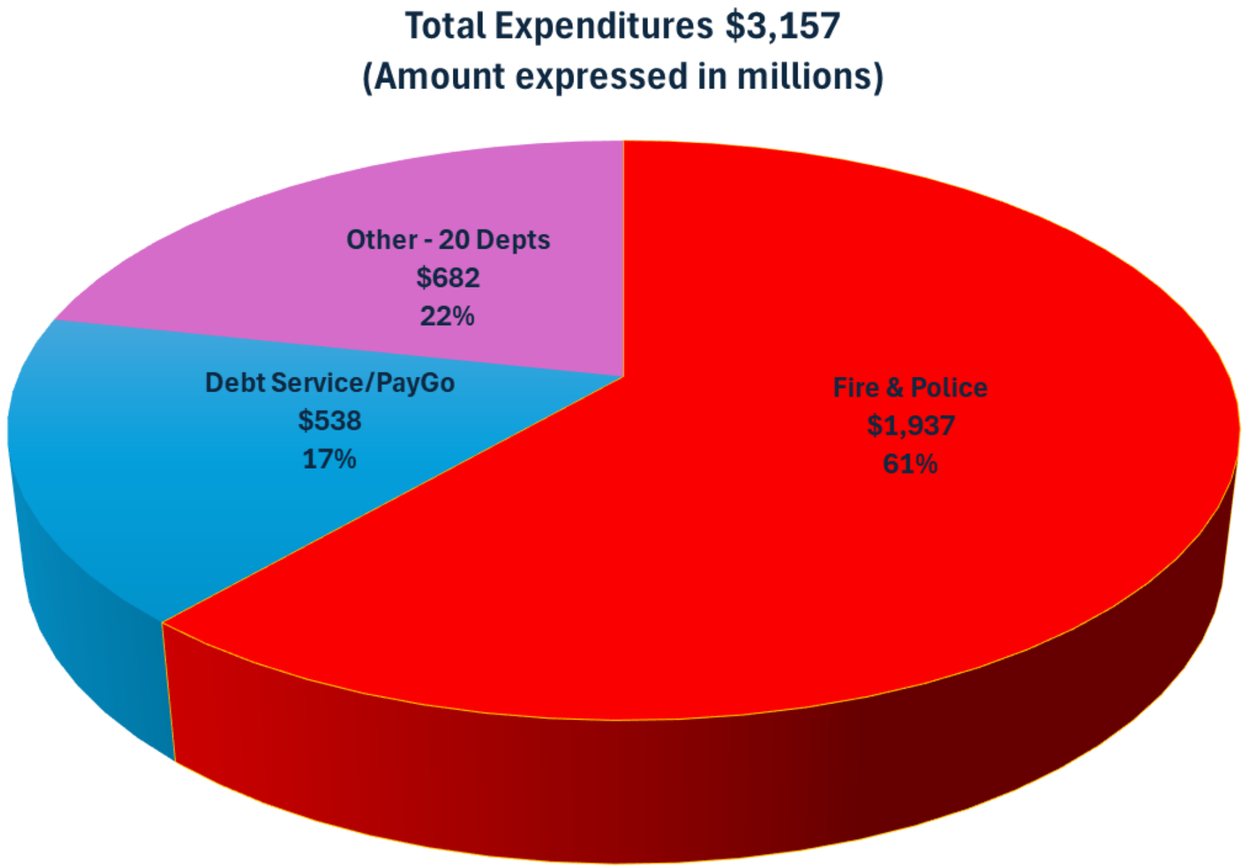
- $94 million increase for employee contractual pay raises (Fire classified – 3%, Police Classified – 8%, Municipal – 3.5%)
- $31 million increase in captured revenue transfer to Dedicated Streets and Drainage Funds
- $26 million due to rate increase for health benefits
- $25 million for pension costs
- $21 million in other services and charges*
- $15 million in overtime costs
- $15 million due to procurement savings never identified

Offset by the following decreases:

- $101 million for Solid Waste Department transfer to the Combined Utility System
- $13 million in department reductions
- $3 million in SWAT funding

*Includes costs such as HPD technology expenses, service chargeback costs, classified special pay, and OPEB trust contributions.

FY2027 Proposed General Fund Expenditures: By Function



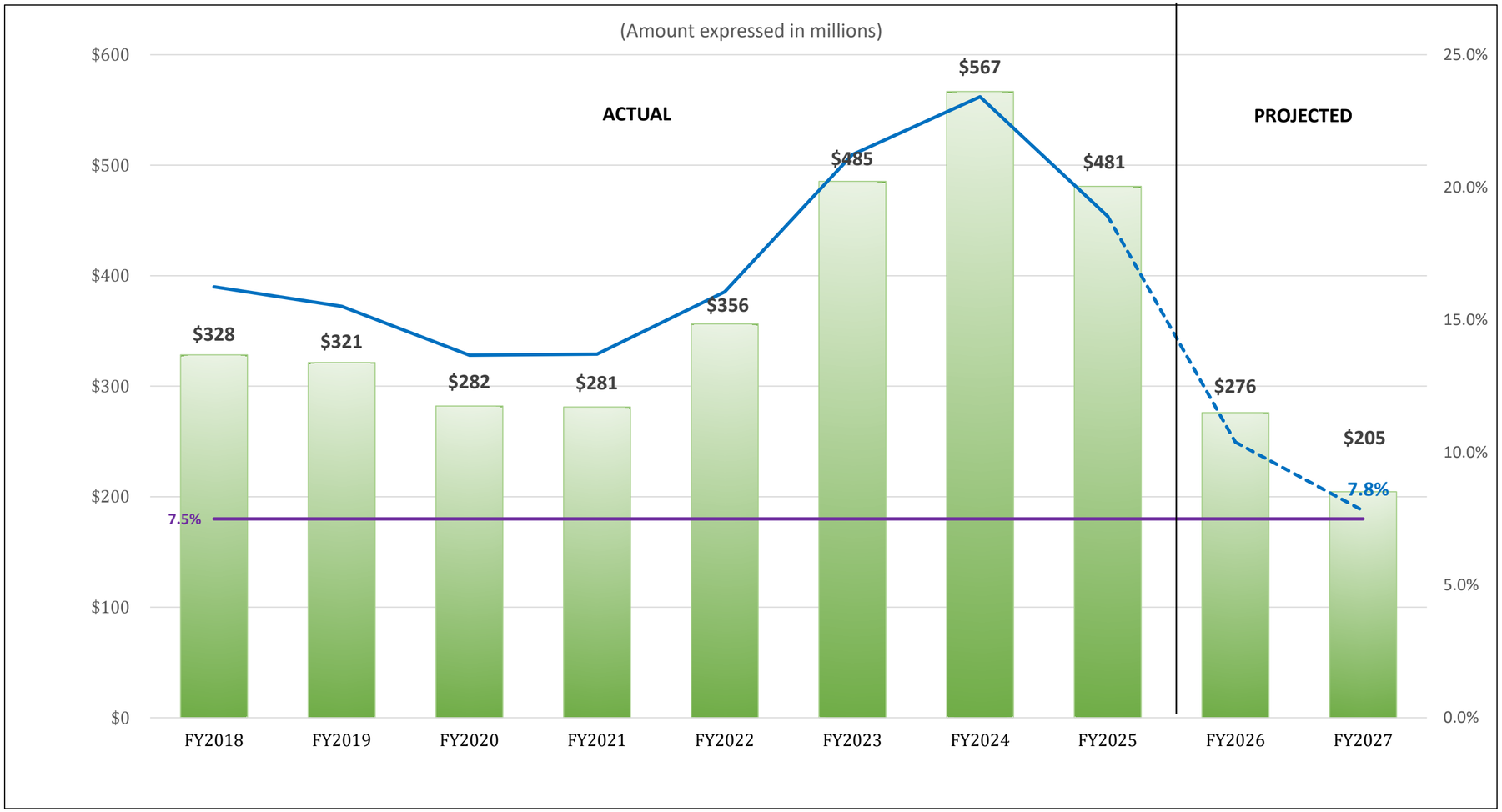
Other - 20 Department includes:			
Administration and Regulatory Affairs	Finance	Houston Emergency Center	Mayor's Office
City Controller	*General Government	Houston Public Works	Municipal Courts
City Council	General Services	Human Resources	Office of Business Opportunities
City Secretary	Houston Health	Legal	Parks & Recreation
Department of Neighborhoods	Housing & Community Development	Library	Planning

*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 - $289M
- Parks and Recreation - $89M
- Library- $51M
- General Services - $47M

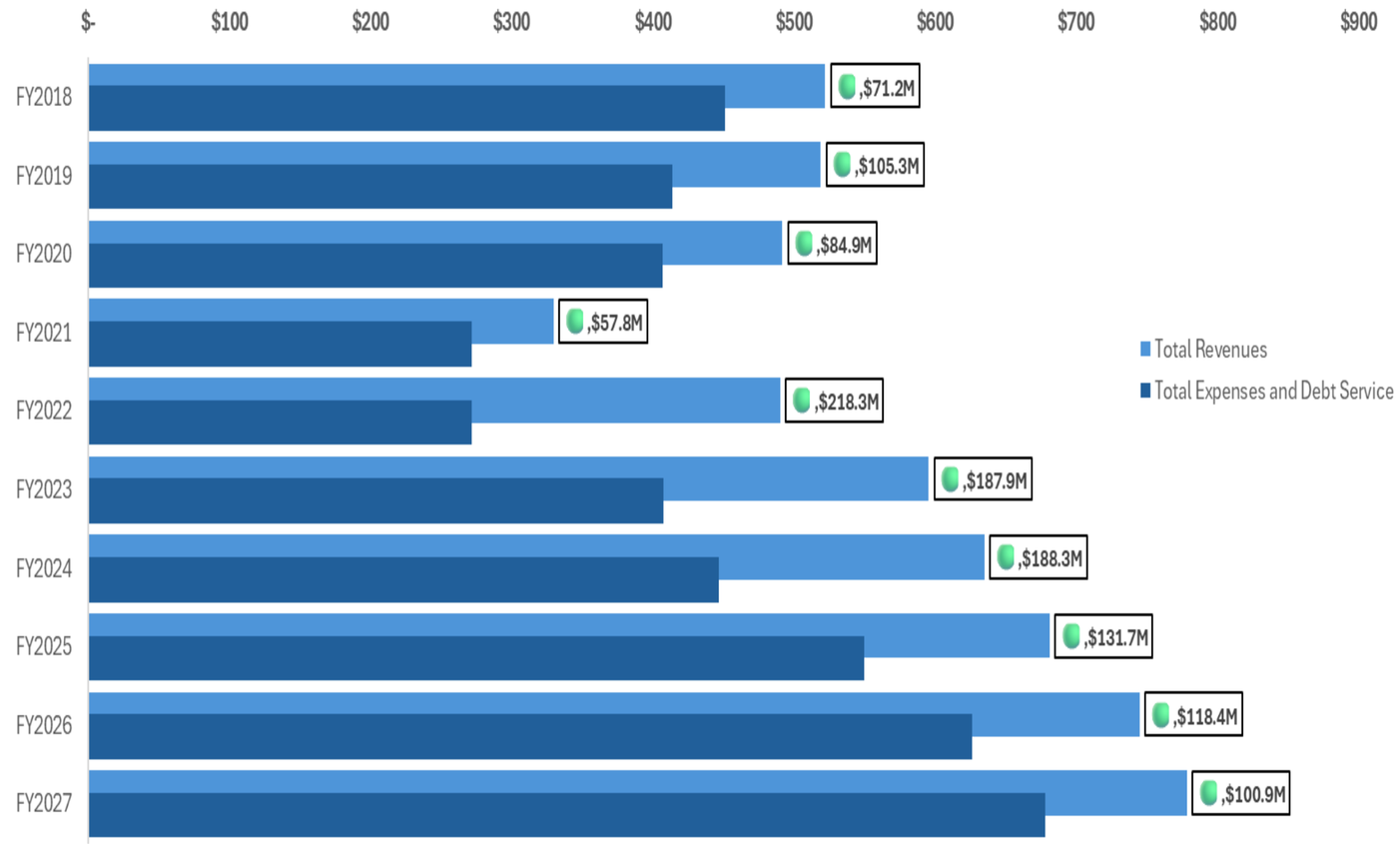
Fund Balance Requirement



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

Houston Airport System (HAS): Revenues and Expenses

(Amount expressed in millions)



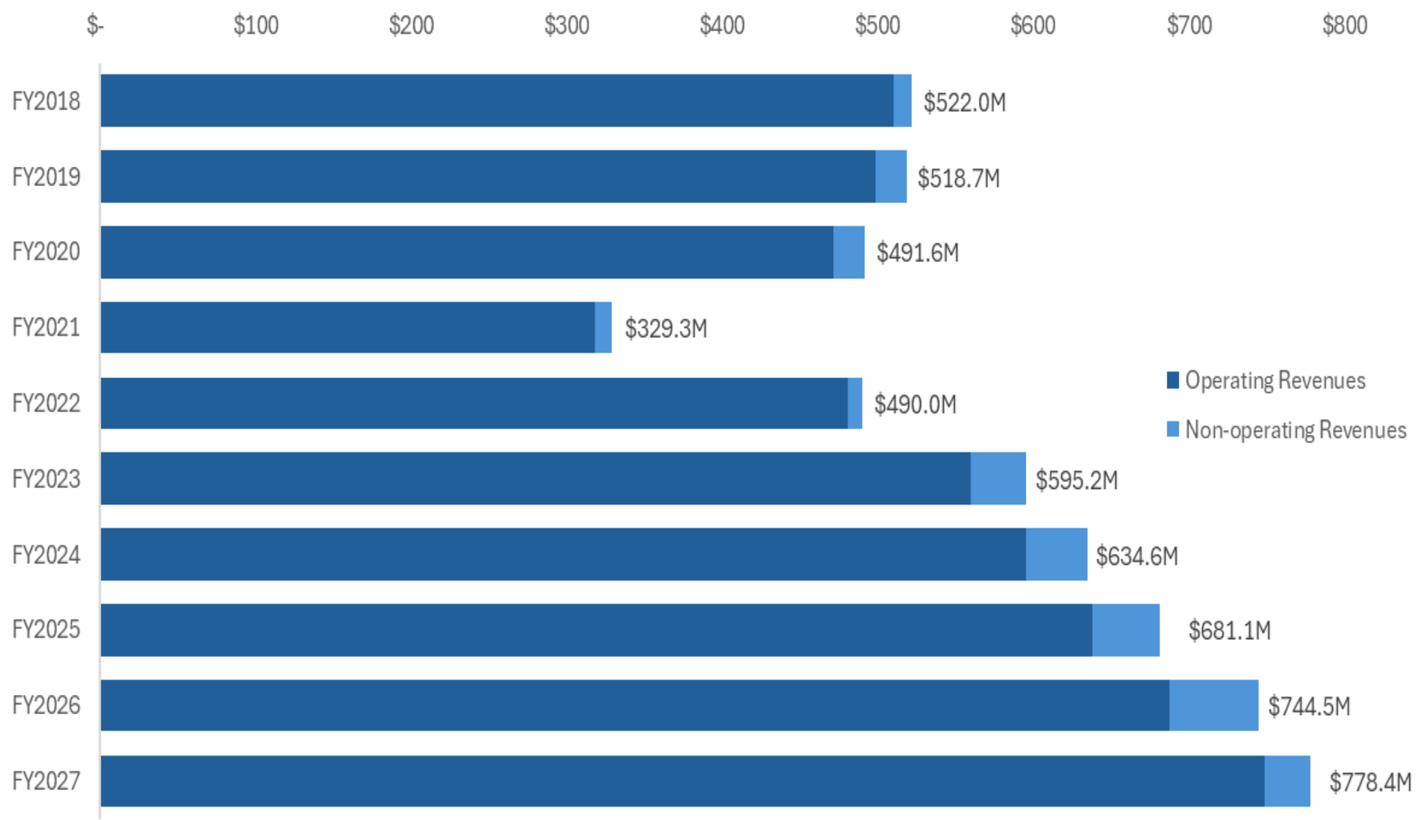
FY2027 revenue projected to increase by 9.3% ($34 million) to $778 million compared to the FY2026 estimate

Total expenses and debt service projected to increase by 8.2% ($51 million) to $677 million compared to the FY2026 estimate

Aviation revenue is projected to exceed expenses by $101 million, resulting in an increase in ending total net position/fund balance

HAS: Operating and Non-Operating Revenues

(Amount expressed in millions)



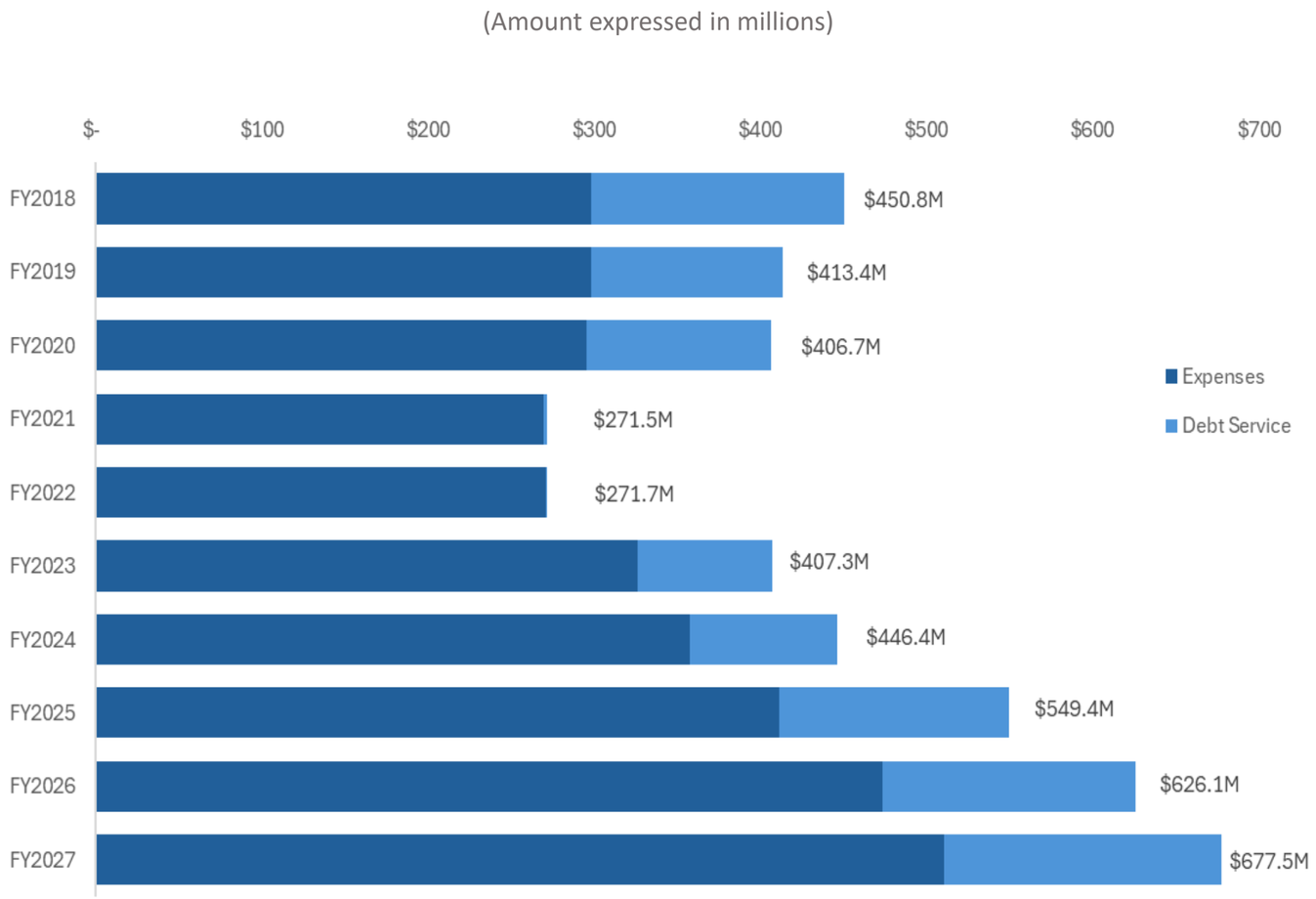
REVENUES

FY2027 projected total revenues are $778 million, a $34 million increase compared to the FY2026 estimate of $745 million

Increase is due to:

- $60 million in operating revenues due to terminal space rental fees, concessions (retail, auto rental), and garage parking revenue, offset by a
- $26 million reduction in one-time land sales and interest income

HAS: Expenses and Debt Service



EXPENSES

FY2027 projected total expenses are $678 million, an increase of $51 million compared to FY2026 estimate of $626 million

Increase is primarily due to:

- $37 million in contracted services (Parking service, Skyway contract, modernization and expansion of facilities), interfund services, and personnel expenses
- $14 million increase in debt service transfer

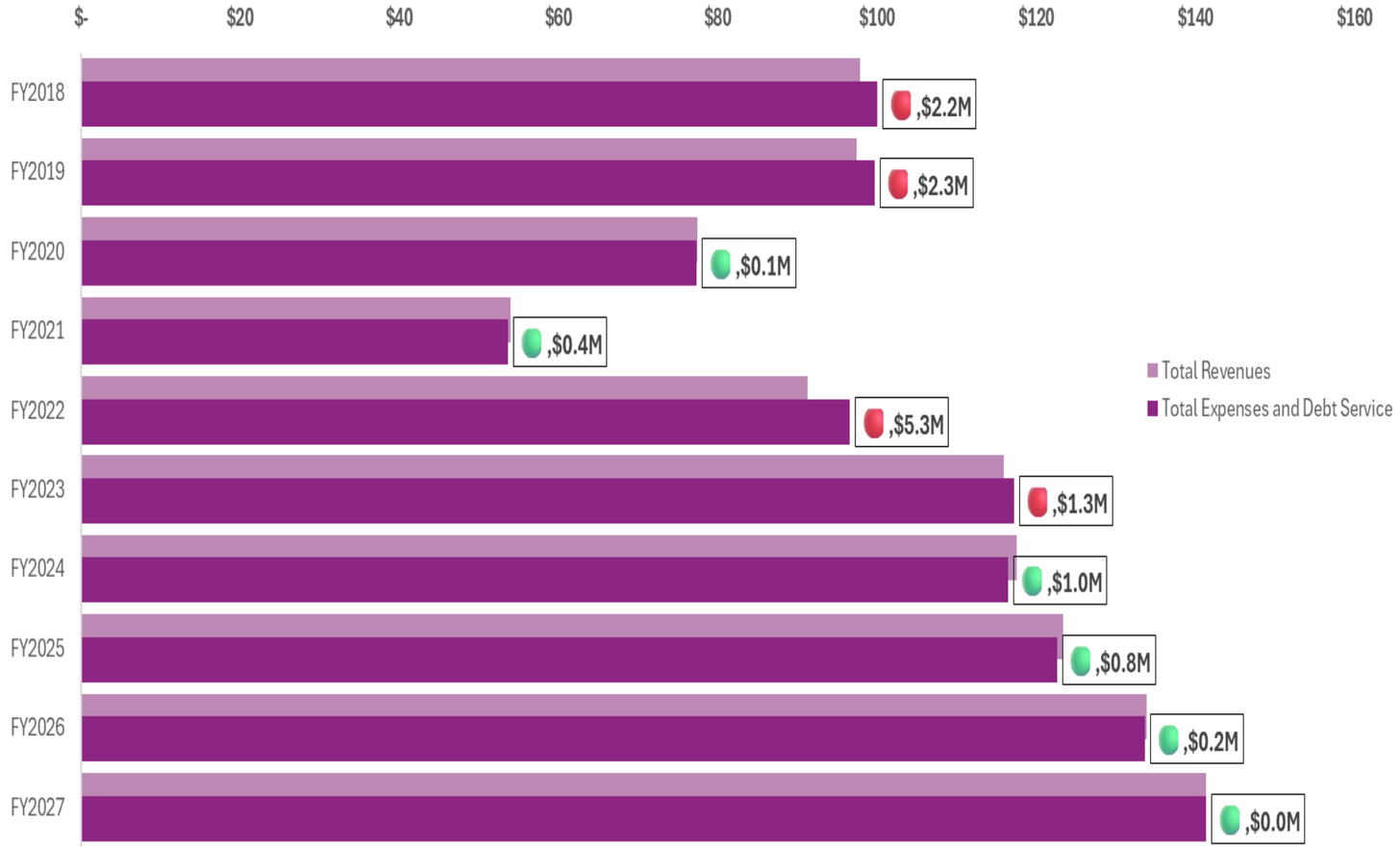
Convention and Entertainment (C&E): Revenues and Expenses

FY2027 revenue projected to increase by 5.6% ($8 million) to $141 million, compared to the FY2026 estimate

Total expenses and debt service projected to increase 6.0% ($7 million) to $141 million compared to the FY2026 estimate

C&E revenue is projected to fully offset expenses, resulting in no change in the ending total net position/fund balance

(Amount expressed in millions)

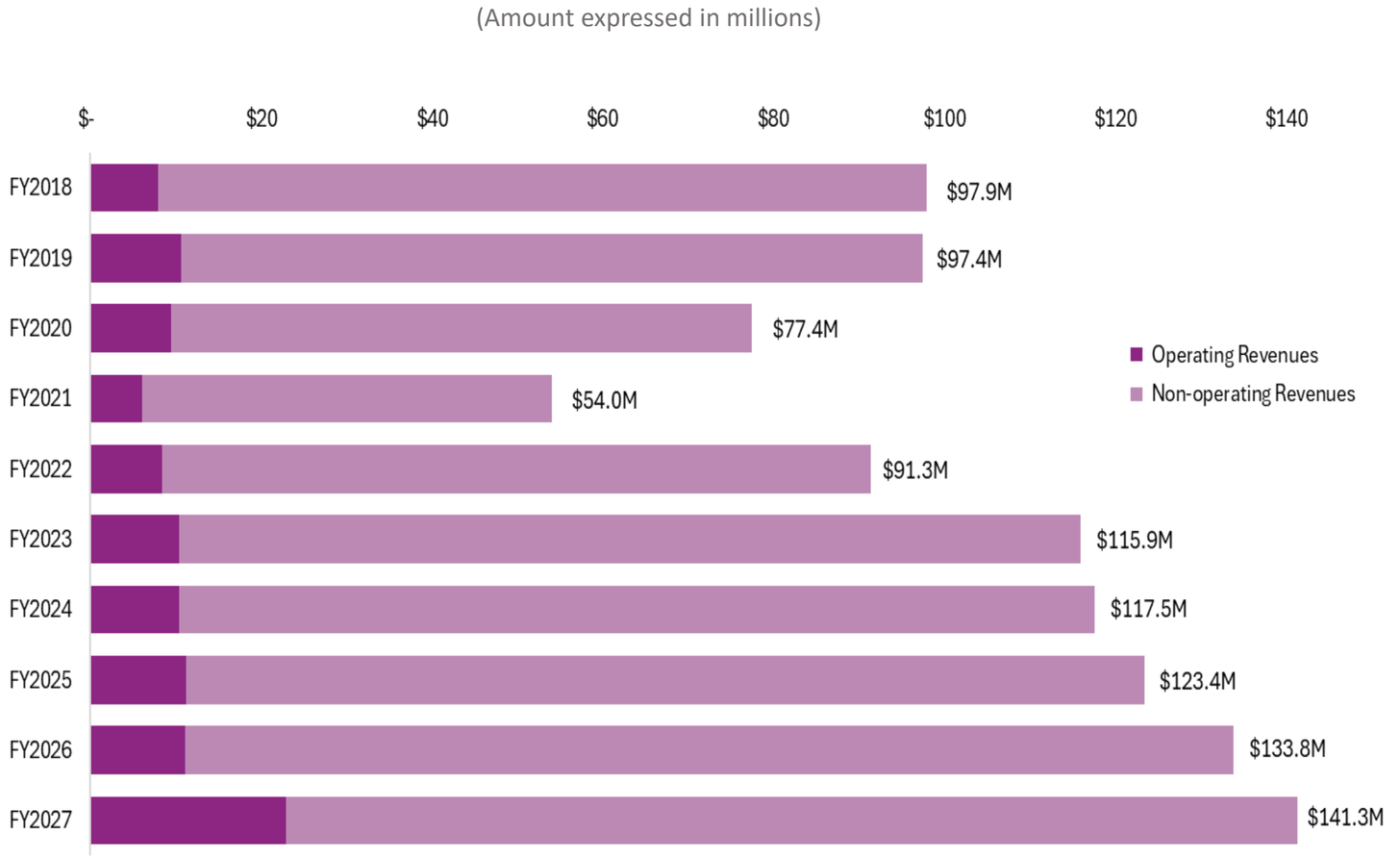


C&E: Operating and Non-Operating Revenues

REVENUES

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

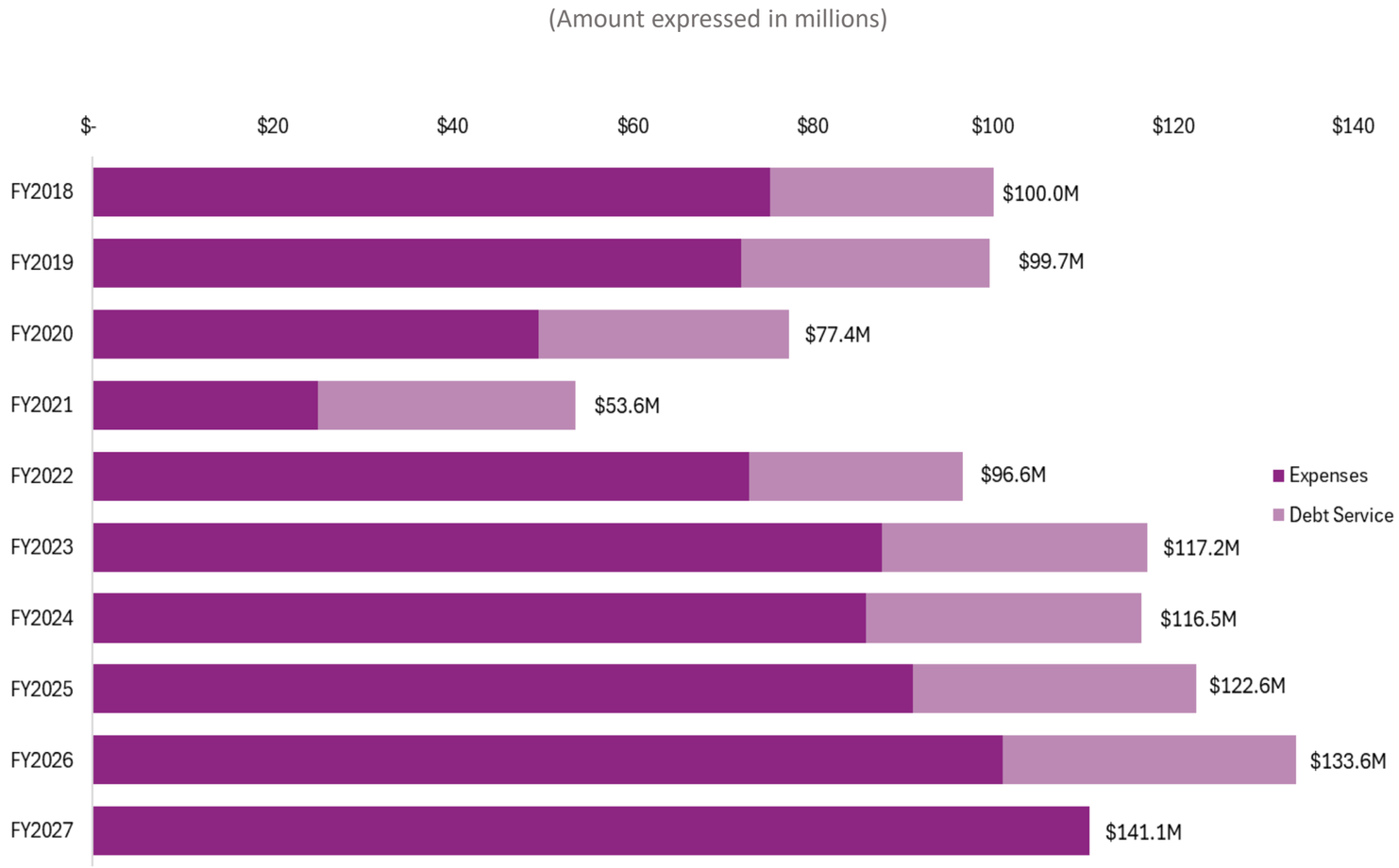
FY2027 projected total revenues are $141 million, an $8 million increase compared to the FY2026 estimate of $134 million; primarily due to parking and other revenues related to the GRB expansion project



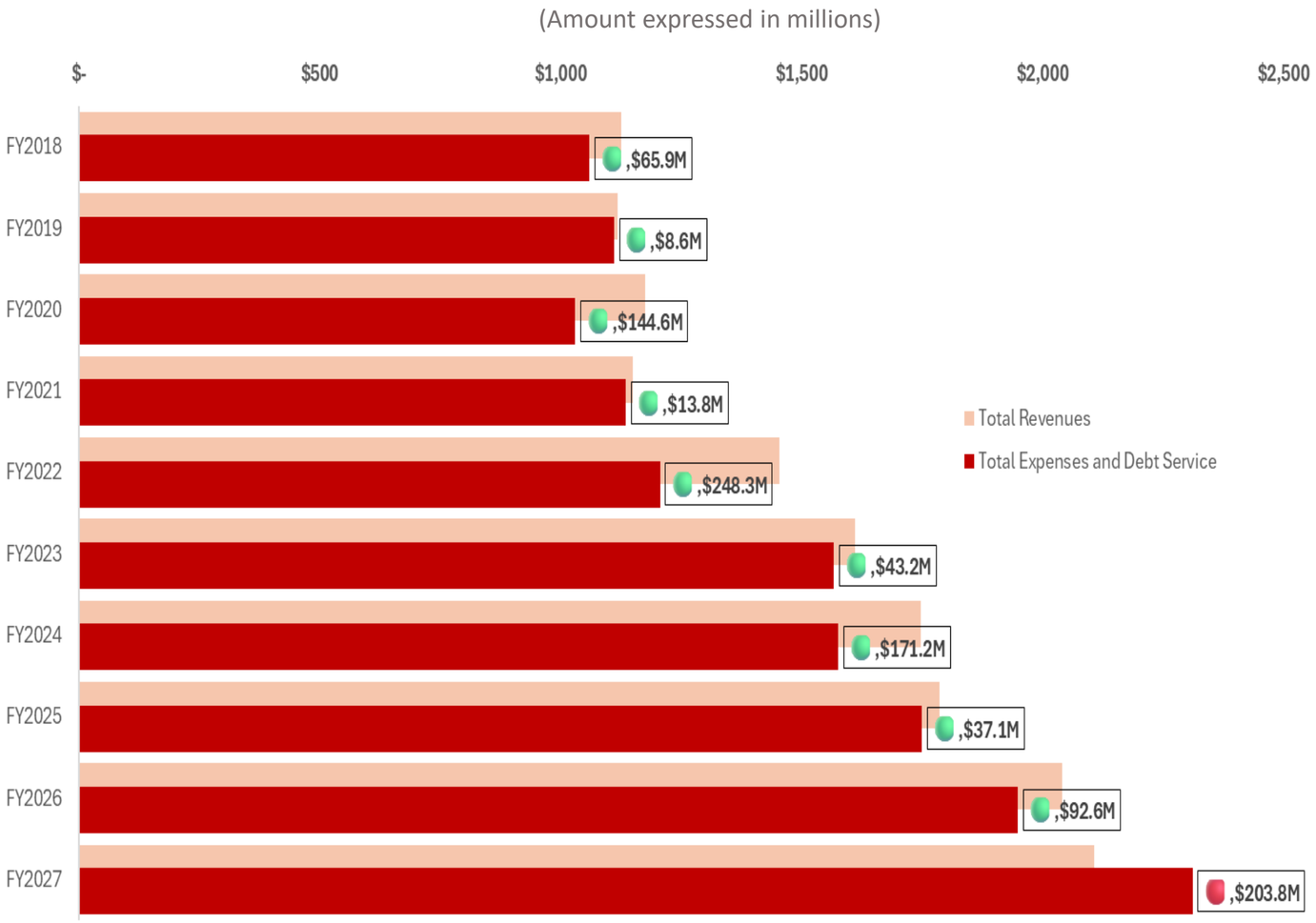
C&E: Expenses and Debt Service

EXPENSES

FY2027 projected total expenses are $141 million, an increase of $7 million compared to the FY2026 estimate of $134 million; the increase is primarily due to transfer to Houston First Corporation



Combined Utility System (CUS): Revenues and Expenses



FY2027 revenue projected to increase by 3% ($66 million) to $2,107 million compared to the FY2026 estimates

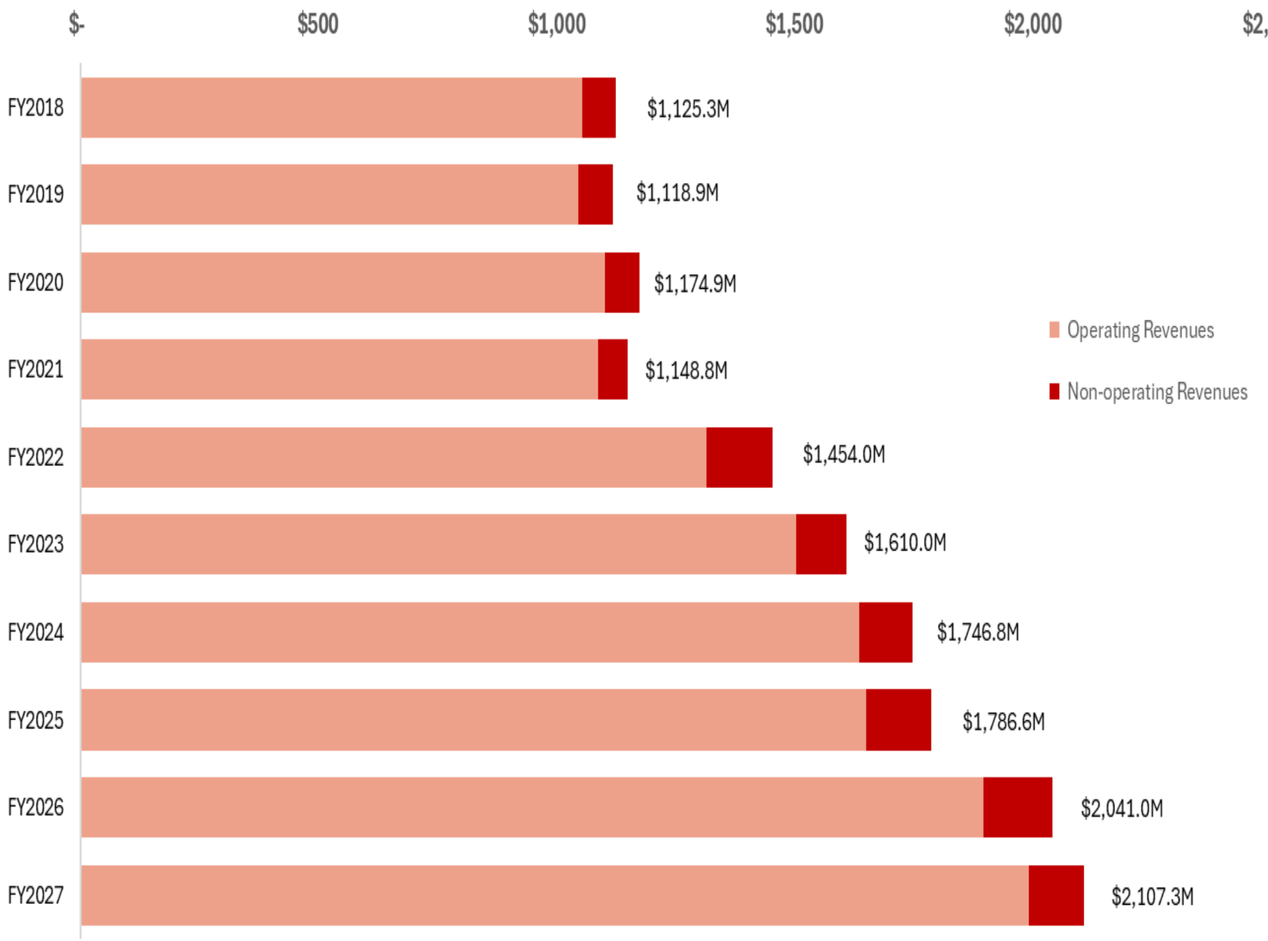
Total expenses and debt service projected to increase 18.6% ($363 million) to $2,311 million compared to the FY2026 estimates

CUS expenses are projected to exceed revenues by $204 million, resulting in a decrease in ending total net position/ fund balance

City Ordinance requires remaining funds, after all expenses and other financial obligations are met, to be transferred to the CUS General Purpose Fund. This fund is to be used for any lawful purpose and for drainage purposes, subject to certain restrictions.

CUS: Operating and Non-Operating Revenues

(Amount expressed in millions)



REVENUES

FY2027 projected total revenues are $2,107 million, a $66 million increase compared to the FY2026 estimate of $2,041 million.

Increase is due to:

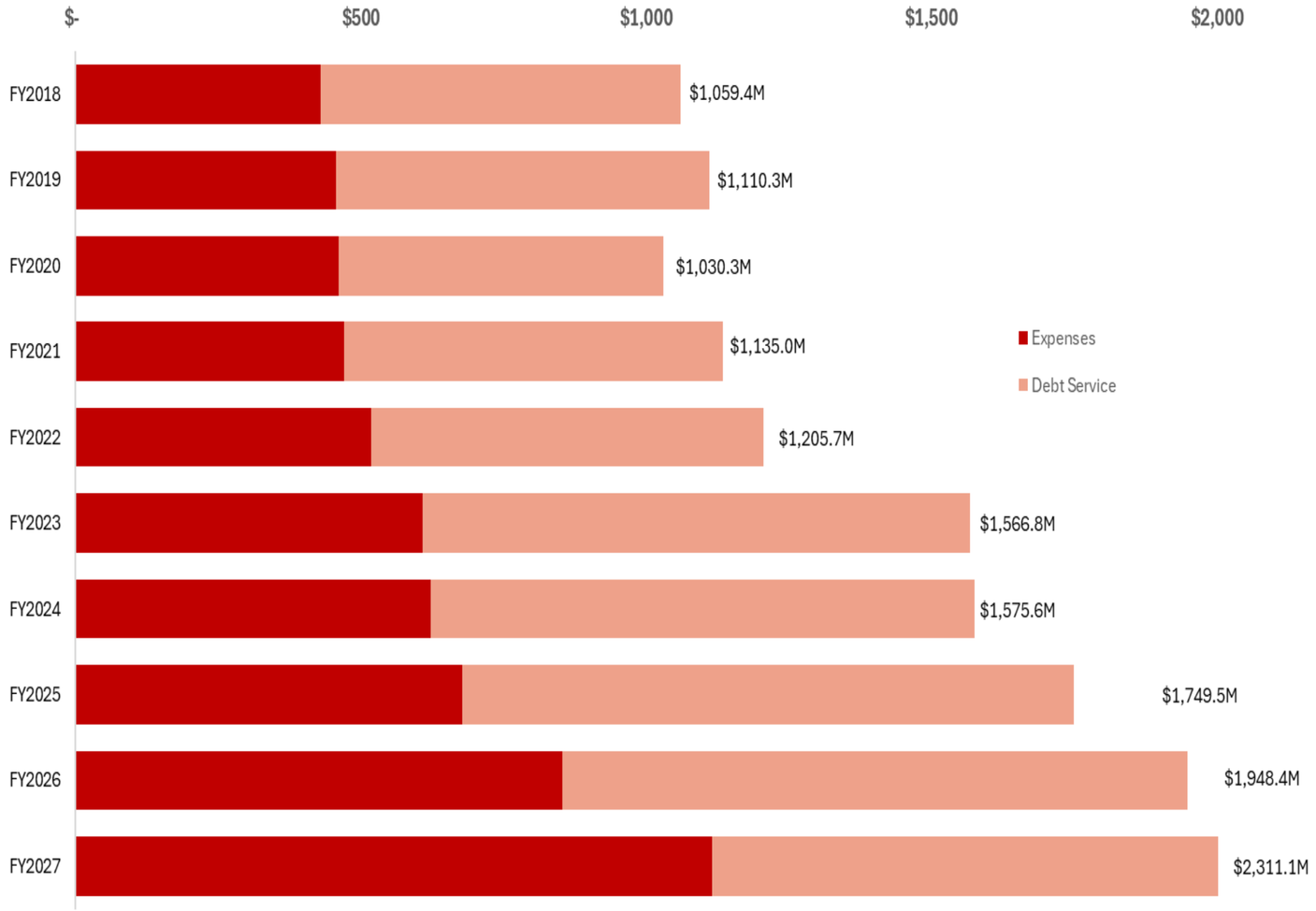
- $75 million in water and sewer sales
- $35 million in Solid Waste operating revenues, offset by a decrease of
- $20 million in other non-operating revenues
- $14 million in other operating revenues
- $10 million in impact fees

Water and sewer sales are subject to annual rate adjustment equal to the lower of the previous year's Producer Price Index or Consumer Price Index, plus the change in the Houston area population. The rate adjustments for FY2018 – FY2027 are as follows:

Fiscal Year	Rate Adjustment	Fiscal Year	Rate Adjustment
2018	3.4%	2023	5.6%
2019	2.8%	2024	9.2%
2020	2.8%	2025	9.0%
2021	3.5%	2026	6.0%
2022	1.5%	2027	7.9%

CUS: Expenses and Transfers

(Amount expressed in millions)



EXPENSES

FY2027 projected total expenses are $2,311 million, an increase of $363 million compared to the FY2026 of $1,948 million

Increase is due to:

- $261 million in operating and maintenance costs primarily due to Solid Waste Management, Right-of-Way fee paid to the General Fund, personnel, higher service contracts, and other payments and
- $101 million in operating transfers (includes CUS debt services payment obligations, equipment purchases, transfer to other funds as well as drainage expenses, **offset by lower transfers to capital projects**)