

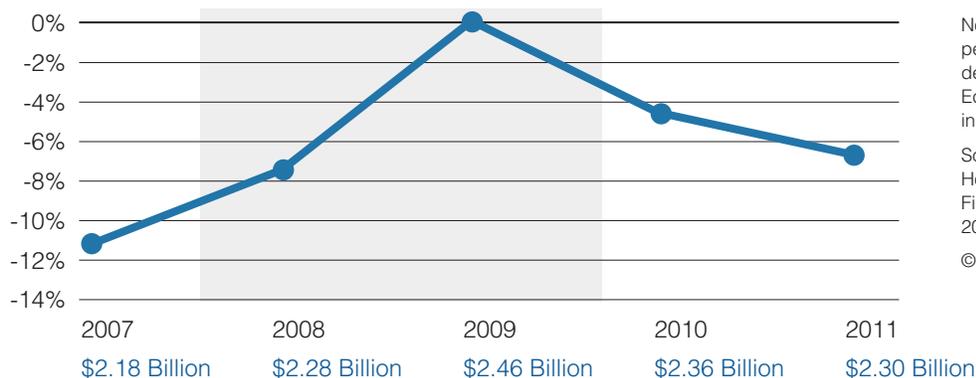
# Houston

## Revenue losses forced spending cuts and ate into Houston's reserves

Houston's revenue was still dropping as of 2011, and the city faced continuing financial challenges two years after the end of the Great Recession. (See Figure 1.) Nearly every revenue category declined from the high in 2009, led by sharp drops in intergovernmental aid and property tax collections. The losses led to dramatic spending cuts and drawdowns from reserves. Underfunded long-term obligations also posed near- and long-term hurdles for Houston's financial future and prompted discussion of pension reform.<sup>1</sup>

FIGURE 1

### Houston Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Houston's Comprehensive Annual Financial Reports for fiscal 2007-11.

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## Stable housing values drove revenue despite property tax limits

Through 2009, a steady local housing market and growing assessments pushed up property tax revenue in Houston even as tax rates dropped slightly.<sup>2</sup> Stable housing values helped Houston weather the early years of the Great Recession, and property tax collections grew \$128 million between 2007 and 2009.<sup>3</sup> Intergovernmental aid increased \$107 million over the same period, with the last year coinciding with passage of the American Recovery and Reinvestment Act.

Houston used the influx of funds to increase its operating spending. The largest areas of growth were public safety, which rose \$94 million, and public works and transportation, which increased \$57 million.<sup>4</sup> In addition, Houston managed to set aside an additional \$15 million in reserves by 2009. And the city would need it.

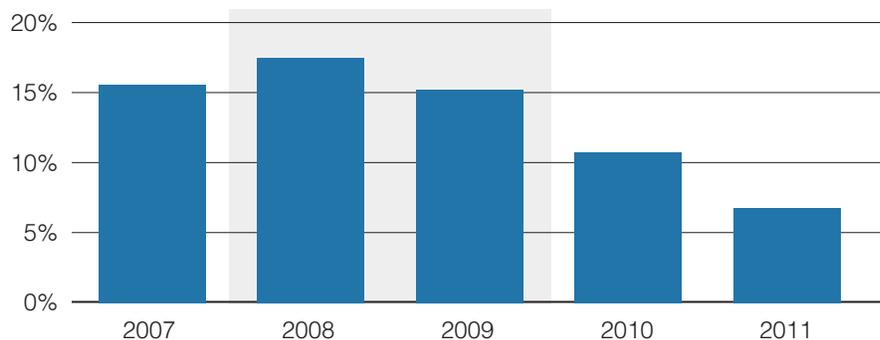
## Steep losses in major revenue streams led to sharp spending cuts

In 2010 and 2011, the housing market downturn finally caught up with Houston, and property tax revenue declined, as did aid from other governments. Furthermore, sales tax revenue tumbled after oil price declines led to oil and gas industry employment cuts in 2010, which in turn led to losses in retail consumption.<sup>5</sup>

In response, Houston drew down on reserves, reducing them by more than half, to \$128 million in 2011. (See Figure 2.) Even that was not enough to forestall large expenditure cuts. Public works spending was reduced 29 percent, from \$412 million in 2009 to \$291 million in 2011, while public safety was cut \$20 million.

FIGURE 2

### Houston Reserve Funds as a Percent of Total General Fund Revenue, 2007-11



Note: Reserve funds are represented by the unreserved general fund balance as a percent of total general fund revenues. Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

Source: Pew calculations from Houston's Comprehensive Annual Financial Reports for fiscal 2007-11.

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## Managing the future: Houston maintained its position in pension funding levels but is exploring changes

Spending commitments, demand for services, and revenue performance are among key factors that will affect Houston's future fiscal health. Two long-term obligations which can be analyzed using the data available are pensions and retiree health care and other benefits.

As in most large cities, long-term obligations pose a significant challenge for Houston's fiscal future.<sup>6</sup> In retiree health care, the city was one of 16 among those studied that had nothing set aside to cover its liabilities, which exceeded \$3 billion as of 2010. Unlike most of the cities examined, however, Houston maintained a relatively stable pension funding level with assets covering about 80 percent of obligations each year from 2007 to 2010. In December 2012, Mayor Annise Parker suggested looking at measures to reduce pension costs, including changes to cost-of-living adjustments and a deferred option retirement program.<sup>7</sup>

See Pew's 30-city interactive at [pewstates.org/City-Fiscal-Conditions-Interactive](http://pewstates.org/City-Fiscal-Conditions-Interactive) for complete data.

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## Endnotes

1 See the full study methodology at [pewstates.org/City-Fiscal-Methodology](http://pewstates.org/City-Fiscal-Methodology) for a detailed explanation of the terms used in this profile and view the underlying data at [pewstates.org/City-Fiscal-Conditions-Interactive](http://pewstates.org/City-Fiscal-Conditions-Interactive).

2 Rates dropped from \$6.45 per \$1,000 of valuation in 2007 to \$6.39 in 2009. City of Houston, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2011* (2011), 221, <http://www.houstontx.gov/controller/cafr/cafr2011printfriendly.pdf>.

3 In 2004, Houston voters approved a ballot measure capping property tax growth. The initiative barred the city from raising the property tax more than the total of the consumer price index plus population growth, with an absolute cap of 4.5 percent. Had housing values fallen sharply, this limit might have constrained the city's revenue. *Carrol G. Robinson, Bruce R. Hotze, and Jeffrey N. Daily, Petitioners v. Annise D. Parker, Mayor, City of Houston, Houston City Council, et al., Respondents* (2009), Supreme Court of Texas, <http://www.supreme.courts.state.tx.us/historical/2011/aug/080658.pdf>.

4 In addition to the other spending increases, a one-time spike in debt service spending in 2009 occurred because bond debt was refinanced.

5 Houston's employment base is heavily dependent on the oil and gas industry, which includes three of the city's largest employers. City of Houston, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2011*, 228; Jane Merriman, "Oil to Rebound, Dip Below \$30 Possible: Goldman," Reuters (Jan. 19, 2009), <http://www.reuters.com/article/2009/01/19/us-goldman-oil-idUSTRE50I3PU20090119>; and U.S. Energy Information Administration, "U.S. Crude Oil First Purchase Price" (2013), [http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pets&s=f000000\\_\\_3&f=m](http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pets&s=f000000__3&f=m).

6 For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), [http://www.pewstates.org/uploadedFiles/PCS\\_Assets/2013/Pew\\_city\\_pensions\\_brief.pdf](http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf).

7 Mike Morris, "City Council seeks options for lowering pension obligations," *Houston Chronicle* (Dec. 11, 2012), <http://www.chron.com/default/article/City-Council-seeks-options-for-lowering-pension-4109858.php>.