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Houston's Audit Underscores Ongoing Financial Challenges

Working Paper

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Bill King, John W. Diamond, and Joyce Beebe

Executive Summary

The [City of Houston's Annual Comprehensive Financial Report](#) (ACFR) for FY2023–2024 highlights the City's ongoing financial challenges, despite short-term improvements in its net position.

While the City reported record revenues of \$7.3 billion and a \$1.3 billion surplus last year, much of that improvement was driven by business-like activities, such as the airport and water systems. In contrast, the governmental fund continues to have a large unrestricted net position deficit of \$4.9 billion.

Although there have been improvements in pension liabilities, the City remains burdened by the contributions required to fund its pension and debt service on pension bonds taken out to shore up the funds.

Grant income has seen dramatic growth since 2018, reaching an astonishing 35% of all revenue by 2022. However, this increase has begun to reverse, as grants decline toward historical levels, raising concern about the City's reliance on these funds.

Compounding these financial pressures, the City's population has stagnated since 2017, threatening its ability to grow its tax base.

In addition to these challenges, the City's General Fund faces further strain due to two significant legal rulings last year. First, a settlement with firefighters over backpay resulted in a one-time expense of \$650 million, phased in over the next five years and increased firefighter compensation going forward. Second, the City lost a lawsuit resulting in an order mandating transfers from the General Fund to the Dedicated Drainage and Street Renewal Fund (DDSRF) of roughly \$100 million annually.

The Combined Utility System (CUS) has shown financial improvement, primarily due to a series of rate increases. Still, it continues to face infrastructure challenges, highlighted by a consent decree with the Environmental Protection Agency (EPA) that requires billions in investments for improvements.

Tax Increment Reinvestment Zones (TIRZs) remain a significant issue, as they continue to divert a growing portion of property tax revenue away from the General Fund, complicating Houston's financial landscape. Last year, the diversion to the TIRZs reached \$200 million for the first time.

Houston's fiscal outlook remains precarious, requiring urgent structural reforms to address long-term budget imbalances, manage pension liabilities, and secure sustainable funding for critical infrastructure needs.

Overview

The City of Houston recently released its Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2024. In the report, the current controller warns that the City has a structural budget deficit that “creates a precarious financial situation and hinders the City’s ability to plan for and address future needs effectively.” (ACFR, p. xiii). Similar warnings have been included in the City’s annual report for at least a decade. A detailed review of the report clearly shows the reasons for the Controller’s concern.

Government-Wide Financial Position

At the highest level, the City reports its “government-wide” financial position. This is roughly comparable to a consolidated presentation in the private sector. However, as described in more detail below, the City’s finances are segregated into dozens of funds. These funds have various restrictions on how they can be used and the degree to which the City can transfer money between them.

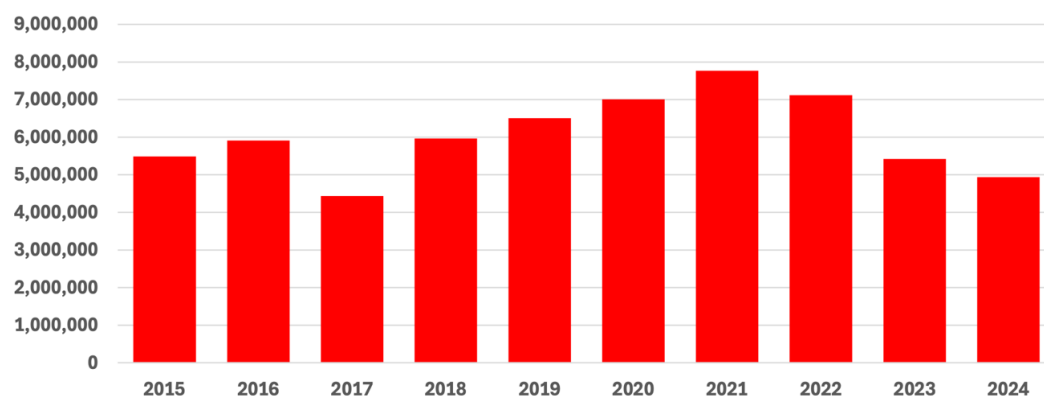
Additionally, Governmental Accounting Standards Board (GASB) rules require that the governmental entities separately report their “governmental” and “business-like” (also sometimes referred to as “business-type”) activities. In Houston’s case, the airport system, the combined utility system (water & sewer), and the Convention/Entertainment are the major business-like funds. The business-like funds constitute about 40% of the City’s total revenue and expenses and nearly 70% of the City’s net position. The legal requirements and restrictions can make a review of the City’s government-wide finances somewhat misleading. Nonetheless, the view provides some insights into the overall health of the City’s finances.

For FY2023–2024, the City had revenues of \$7.3 billion, compared to \$6.9 billion in the previous year (+6%). Its expenses were \$6.0 billion, compared to \$5.1 billion the previous year (+16.2%). Therefore, on a consolidated basis, the City had a surplus of \$1.3 billion and increased its net position from \$7.6 billion to \$8.9 billion (+\$17%). However, it is important to note that the business-like entities made up 72% of the improvement in the City’s government-wide net position.

It is particularly important to note that the City continues to report a very large deficit in its unrestricted net position (-\$4.9 billion) in its governmental activities. That deficit has significantly declined over the last three years. However, the decline was primarily due to a reduction in the City’s pension expense and a massive influx of federal assistance. Both are discussed in more detail below. While those were positive developments for

Houston’s financial condition, neither alters the embedded structural deficit the City faces.

Figure 1 – City of Houston Governmental Activities Deficit



Source: City of Houston ACFRs, 2015–24.

Houston’s Lingering Pension Legacy

Houston maintains three defined-benefit pension systems: one for its police force (Houston Police Officers’ Pension System, HPOPS), one for its firefighters (Houston Firefighters’ Relief and Retirement Fund, HFRRF), and a third for the rest of its employees (Houston Municipal Employees Pension System, HMEPS). In the early 2000s, reforms to the Houston pensions led to rapidly growing costs and unfunded liabilities of these three systems.

Attempts to rein in the pension costs began in the early 2000s and continued every few years through 2017; these agreements usually included some combination of reductions in pension benefits and reduced city contributions below the actuarially required amount.¹ However, the costs and unfunded liability of the plans continued to rise until 2017, when the Turner administration was able to secure legislative changes that made substantial changes in an attempt to allow the City to solve this problem over a longer time horizon. As part of those reforms, the City also issued an additional \$1 billion of pension bonds and contributed the proceeds to two of the plans. Specifically, the reform was characterized by the following measures:

- Reduced the anticipated rate of return on assets to 7% and recognized all existing gains and losses in the system. This increased the City’s estimated liability from \$5.6 to \$8.1 billion.
- Legacy liability of HMEPS was set apart and the city is required to make scheduled payments that increase at 2.75% per year until 2047. Legacy liability is defined as the HMEPS unfunded actuarial accrued liability (“UAAL”) as of July 1, 2016, according to the initial Risk Sharing Valuation Study. This amount was set apart and will be repaid over a closed 30-year window from 2017 to 2047. In

addition, the City must fund new liabilities as they are accrued by making an additional contribution of roughly 8.5% of payroll on top of the legacy liability which is roughly 20% of payroll.

- Enacted benefit reductions in all three pension systems, which reduced liability by \$2.5 billion.
- Required the City to fully fund the system on an annual and actuarial basis.
- Required the City to issue \$1 billion in pension obligation bonds to make up for past underfunding, with \$250 million to HMEPS and \$750 million to HPOPS.
- Implemented a 30-year closed amortization window that ends in 2047.
- Created a corridor mechanism that lays out the City's contribution amount given the performance of the pension systems and could potentially protect the City from contributing more than a predetermined maximum amount.

In 2016, before the implementation of the 2017 reforms, the City reported an unfunded pension liability of just over \$6 billion. However, the actuarial computation of that liability relied on very aggressive assumptions for the plans' future likely investment returns. The change in the investment return assumption in the 2017 reform increased the City's estimated liability to \$8.1 billion.

In the 2017 ACFR, the City reported a negative pension expense of \$1.2 billion due to the actuarial estimate of the reduced costs associated with benefit reductions. This contributed to the net pension liability falling by just over \$1 billion in 2017 and the City's unrestricted funds to increase by a similar amount. When the City agreed to issue the additional pension bonds, it fell by another \$1 billion. In the 2017–2018 ACFR, the City reported the unfunded liability was slightly over \$4 billion.

Other factors have also affected the impact of pension funding on the City's finances. In 2015, the GASB significantly changed how governmental entities report on defined benefit pensions. One of the most significant changes was how differences in the plan's actual and assumed investment earnings would be recognized each year in the net pension expense and, therefore, the pension liability. When investment returns are volatile, this rule can cause large swings in the pension expense and liability from year to year.

Significant changes can also occur because of changes in the demographic assumptions embedded in the actuarial calculations. Under the GASB rule, such changes must also be reflected in the year they are made. These occur less frequently than investment return fluctuations, but the impacts on pensions' expenses and liabilities can be significant.

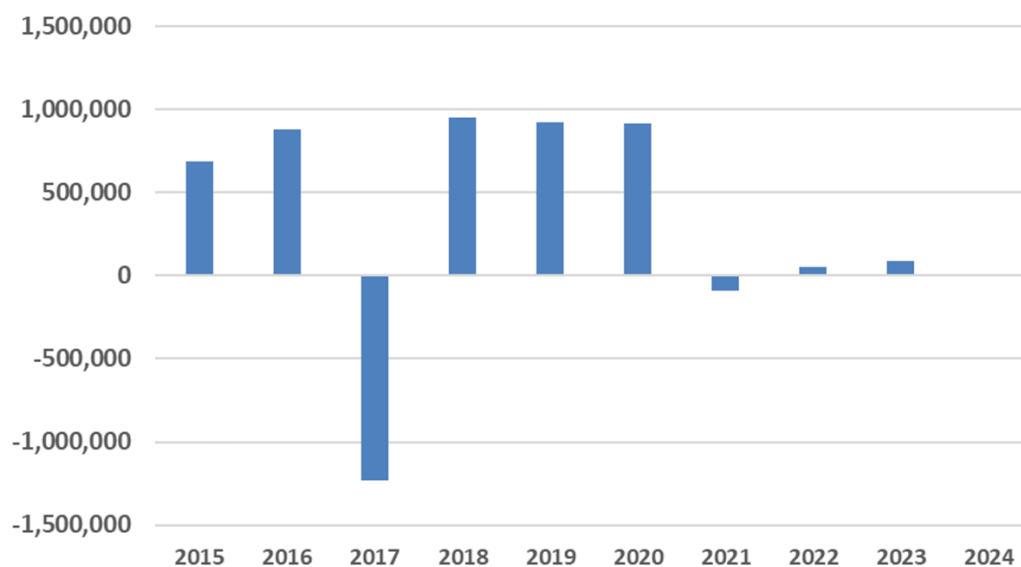
When pensions play a prominent role in governmental entities' overall financial results, as they do in Houston and many other large cities, the swings can be significant and obscure other trends.

This phenomenon has been dramatically demonstrated in Houston’s pension results after FY2017–2018. The plans had tepid investment returns for the next three years, and the pension expense and liability remained elevated. However, with the bull market in place since 2021, the plans have substantially outperformed the assumptions, dramatically reducing the pension expense and liability.

The improvement in the net pension liability has accounted for most of the reduction in the City’s unrestricted deficit over the last three years. However, there is a disconnect between the GASB reporting method for pensions and the year-to-year fiscal impact on a governmental entity. GASB reporting seeks to describe the long-term outlook of pension plans, not the immediate cash flow issues to the City’s budget plan.

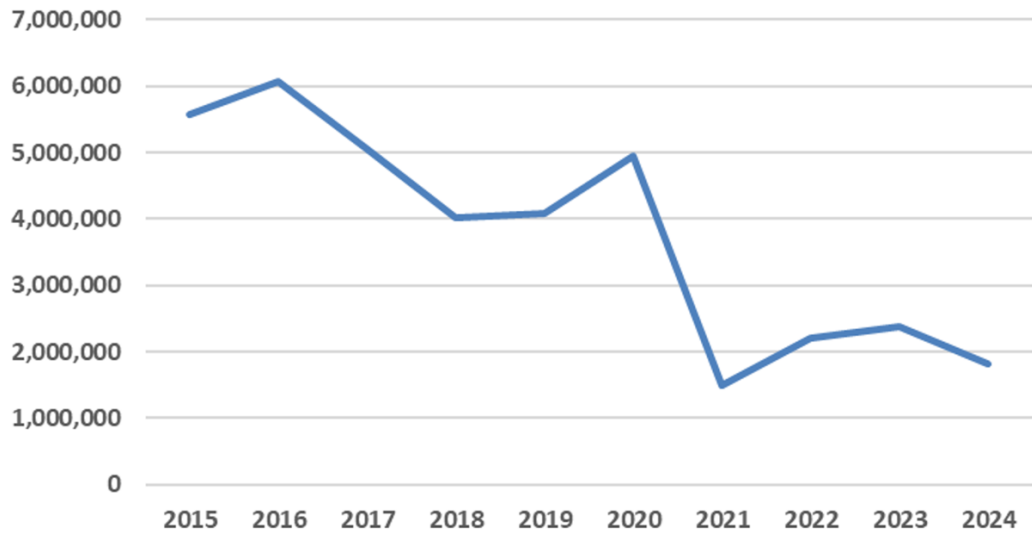
Houston is a good example of this disconnect. Since the 2017 reforms, the contributions the City has been required to pay to the pension have steadily risen, mostly because of the legacy liability payments that increase at 2.75% each year, the requirement to make the full actuarially required contribution, and the closed amortization window. In addition to the contributions to the plan, the City is also paying about \$100 million per year to service the outstanding \$1.4 billion in pension bonds. So, while the reported pension expense and liabilities consistent with GASB rules have significantly moderated, the City, from a cash flow perspective, still has to come up with over \$500 million annually related to its pensions. Most of the money is owed by the General Fund, and the pension outlays from it represent a significant component of the stress on that fund.

Figure 2A – City of Houston Pension Expense



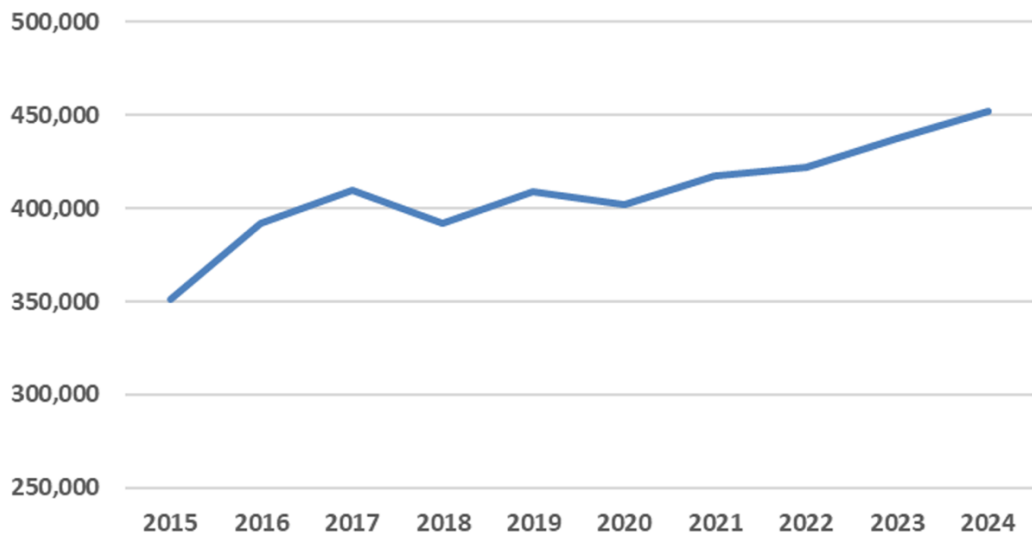
Source: City of Houston ACFRs, 2015–24.

Figure 2B – Net Pension Liability



Source: City of Houston ACFRs, 2015–24.

Figure 3 – City Annual Contributions to Pensions



Source: City of Houston ACFRs, 2015–24.

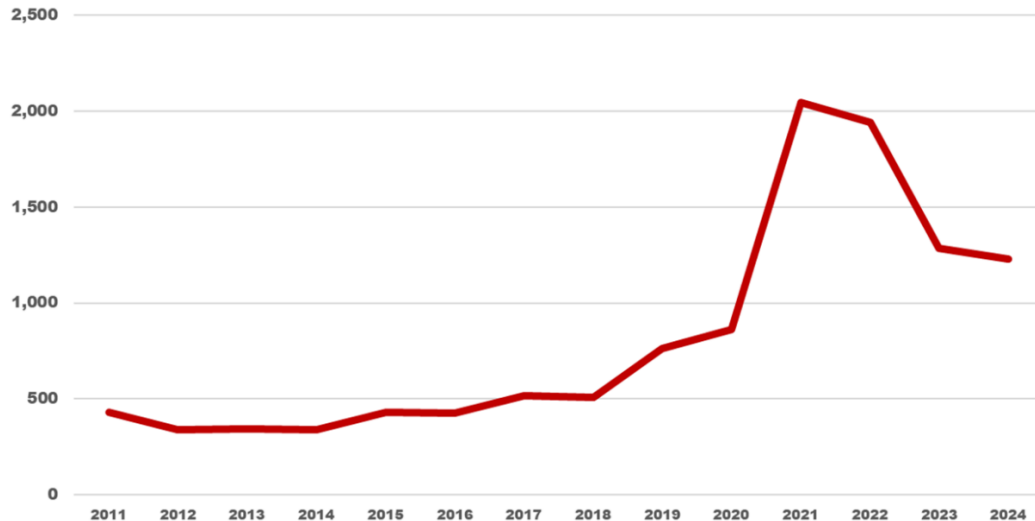
Reliance on Federal and State Grants

Like other cities, Houston relies on grants from other governmental entities to fund various activities. The federal government is by far the largest source of grants. Historically, grants have provided an important, but relatively limited component of the City revenue base. From 2011–2018, grants comprised only about 10% of the City’s total revenue.

However, beginning in 2018, grant income began to rise dramatically with massive COVID and hurricane relief infusions. In 2021 and 2022, the City received a total of \$4 billion in grants, accounting for an astonishing 30% of its total revenues. However, grant income has begun to subside in the last two years although still at elevated levels. In FY2023–2024, the City received \$1.2 billion in grants, representing 23% of its revenue.

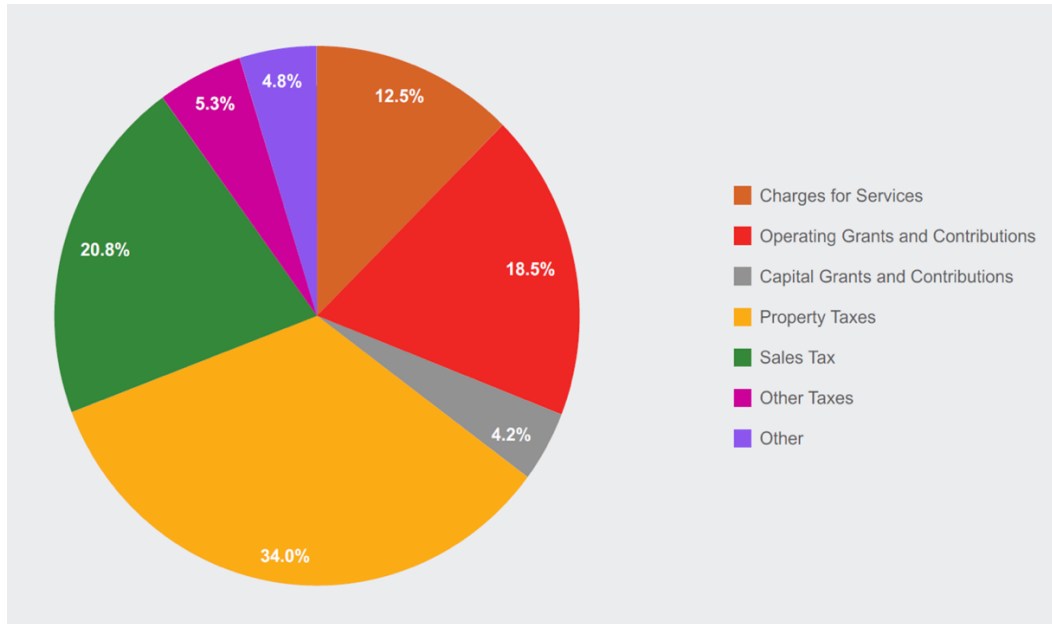
While the City used these grant funds for many purposes, a significant portion was spent to cover recurring expenses. Of course, paying for recurring expenses with one-time income is always dangerous. Also, relying on an income source largely outside the City’s control clearly posed an additional financial risk. The rapid decline in grants over the last two years and the current national political climate suggest there is a significant risk of continued reductions over the next several years.

Figure 4A – Contributions and Grants Received by the City (Millions)



Source: City of Houston ACFRs, 2015–24.

Figure 4B – Contributions and Grants Received by the City (Percentage)



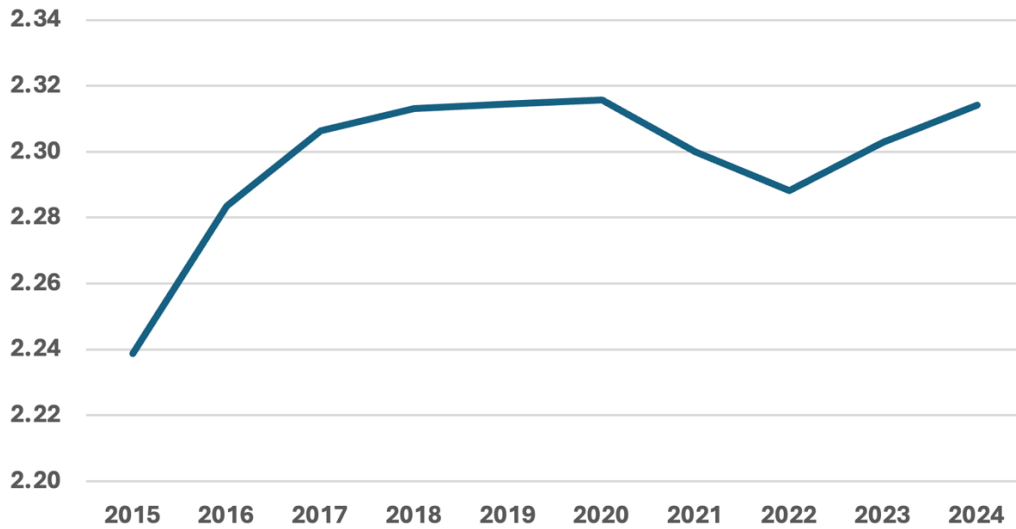
Source: City of Houston’s [“Annual Comprehensive Financial Report,”](#) FY 2023–24.

The End of Population Growth?

For most of the 20th century, Houston enjoyed phenomenal population growth. From 1920 to 1980, the City grew more than tenfold. Except for a setback in the 1980s from the crash in oil prices, the City’s population growth continued until 2017, when it suddenly stalled at just over 2.3 million. Since then, the City has seen virtually no population growth (ACFR, p.270).

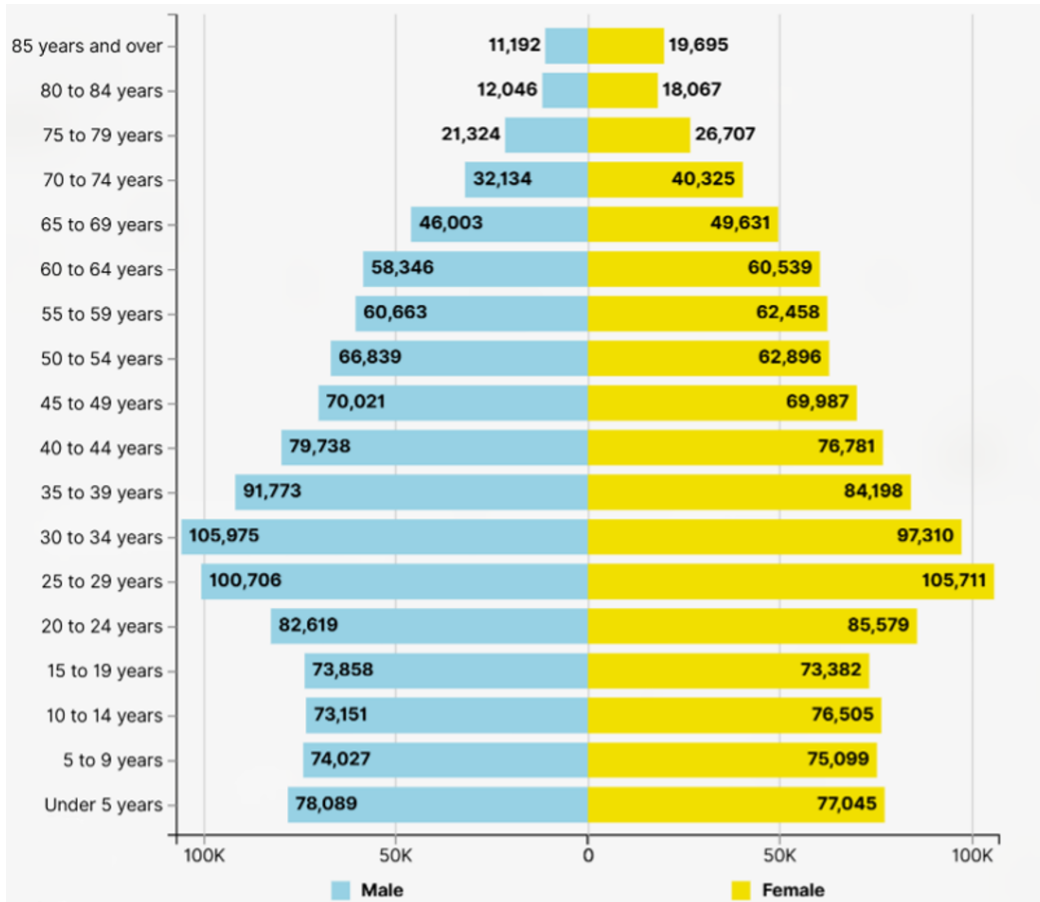
The lack of population growth has manifested in several other statistics maintained by the City and reflected in ACFRs. For example, from 2015 to last year, water usage and the amount of refuse picked up by the City were virtually unchanged (ACFR, p.274). Also, the City’s sales tax collections have barely kept pace with inflation for the last decade. This is discussed further below.

Figure 5 – Houston Population (Millions)



Source: City of Houston ACFRs, 2015–24.

Figure 6 – Population Pyramid for City of Houston: 2023



Source: Created by authors using [U.S. Census 2023 American Community Survey](#) data.

This population pyramid for the City was generated by the U.S. Census 2023 American Community Survey.

The bulge in the 20–40 cohorts is most likely due to the immigration of young, working-age adults. However, the tapering off in the 0–19 cohorts indicates that immigrants in Houston are not having many children, or at least not enough to make up for the decline in the birth rate in the native population. The shape of the City’s population pyramid suggests a stagnant to declining population unless it is replenished by immigration.

It is our view that large-scale immigration into the City is unlikely, given the current political climate and more restrictive immigration policies. However, some demographic analysts, such as those at the Houston-Galveston Area Council and the Texans Demographic Center believe, immigration will more closely track historical trends. If there is a significant downturn in immigration Houston will find it challenging to grow or perhaps even maintain its current population level.

Fund Accounting

As indicated in the introduction, the City’s finances are segregated into different funds. For the most part, the accounting rules require that each of the funds be reported separately, and there are many legal restrictions on transfers between the funds. While some of the inter-fund activity is significant and important to understand, the individual funds must be viewed and analyzed on a segregated basis, almost as if they were separate entities.

There are about three dozen different funds. In addition, the City has a number of semi-autonomous units that are “discreetly” reported on the ACFR. The most notable of these are the City’s twenty-eight tax increment reinvestment zones (TIRZs). Further complicating the City’s financial reporting is a requirement that it report its governmental activities and business-type activities separately.

The City’s largest funds are the General Fund, the Combined Utility System (CUS), the Airport System, and Houston First Corporation. Most governmental functions, such as public safety, solid waste disposal, parks, and the health department, are financed through the General Fund. The CUS is the City’s water and sewer system. The Airport System operates Houston’s three airports. Houston First Corporation manages Houston’s convention facilities and markets the City as a convention destination.

The General Fund and the CUS account for approximately 90% of the City’s revenues and expenses. They are also the funds that have faced the most serious financial challenges in recent years. Therefore, most of this review will be devoted to those two funds and other funds that interact more directly with them.

General Fund

Last year, the General Fund collected just under \$3 billion in revenue. This represents 41% of the government-wide revenues and 71% of the governmental-activity revenue. Property and sales taxes accounted for 45% and 30% of General Fund revenues, respectively. Intergovernmental transfers, mostly federal assistance, were just over 7% of total revenues.

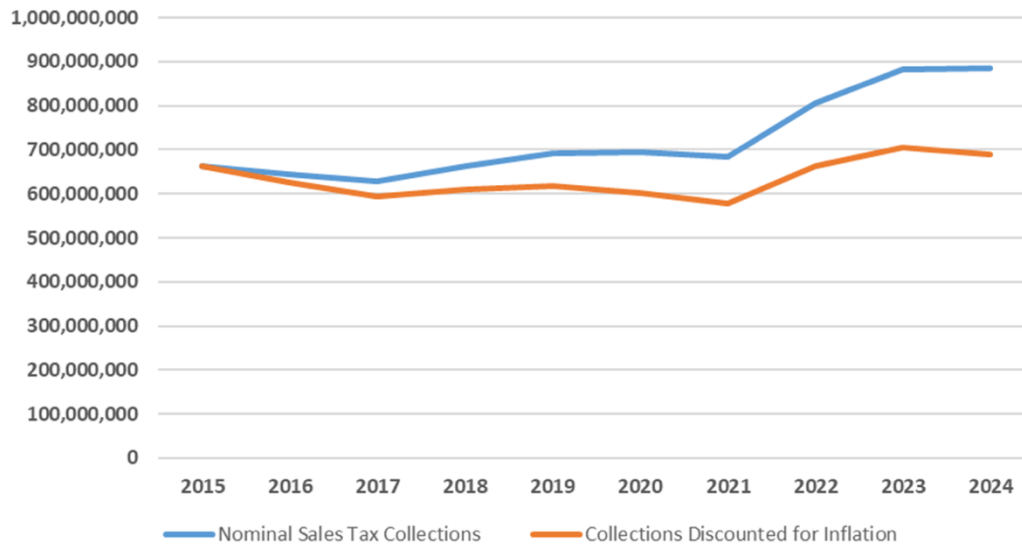
General Fund revenues rose by \$120 million from the previous year, a 4.5% increase. Just over half of the increase came from increased property tax receipts which rose by \$71 million (5.4%). Sales taxes fell by slightly under 1%.

The drop in sales tax receipts is consistent with a longer-term trend of slowing sales tax growth that has been in place for the last decade. Since 2015, sales tax collections have increased only slightly higher than inflation.

General Fund expenses were 2.5 billion, a 4.3% increase from the previous year. Two-thirds of General Fund expenses were for public safety, police, fire, and municipal courts (\$1.65 billion). General Government is the next largest expenditure category at \$328 million (13%). This catch-all category includes “limited purpose annexation payments, which are offset by revenues claims and judgment payments, health insurance for retired civilians, citywide memberships, and tax appraisal fees” ([City FY2023–2024 Budget](#), p. II-23.) Public Works rounded out the top three expense categories at \$230 million (9%) (ACFR, p.171). However, as discussed below, this is just a portion of the Public Works budget.

In addition to the General Fund expenses, the City transferred \$562 million to other funds. About two-thirds of those transfers were to pay debt on bonds. The report indicates that most of the balance of the transfers were “nonmajor governmental funds.” Those are detailed in a schedule and appear generally to track the explanation in the City budget referenced above (ACFR, p. 182–183). The transfers to other funds were partially offset by transfers of \$75 million from other funds (ACFR, p. 140, Note 12A.)

Figure 7 – City of Houston Sales Tax Growth



Source: State Comptroller’s [Allocation Payment Detail reports](#), adjusted using Department of Labor Consumer Price Index for the Houston region.

The net result was that the General Fund balance increased by \$80 million for the year. However, without the \$220 million of federal funds, there would have been a \$140 million shortfall.

Developments in two lawsuits, after the report date, will dramatically affect the General Fund in the coming years. First, the City entered into a settlement agreement with its firefighters to resolve a long-standing pay dispute. Under the agreement, the City agreed to pay \$650 million in backpay and pay increases to be phased in over the next five years. The backpay portion of the settlement was financed with bonds. The settlement will be reflected in the next ACFR and will add a substantial challenge to balancing the General Fund (ACFR p. 143).

Second, the Texas Supreme Court upheld a lower court ruling that the City had been shortchanging transfers to the Dedicated Drainage and Street Renewal Fund (DDSRF). This ruling will require the City to transfer approximately \$100 million annually from the General Fund to the DDSRF. Details are discussed further below.

The ACFR makes it clear that the City will have to find new revenue or significantly reduce expenses to balance its General Fund. The City recently commissioned Ernst & Young to perform an efficiency study of all City departments. While the study does not quantify the potential savings from its findings, City officials have indicated the savings could be as high as \$100 million.

Combined Utility System

For decades, the CUS operated at a deficit. In 2009, the deficit reached an all-time high of \$175 million. However, in 2009, the City raised rates and implemented an automatic adjustment based on inflation and population growth. After that increase, the fund's finances slowly improved, but as late as 2016, the CUS's liabilities still exceeded its assets.

In 2021, the City implemented another, more aggressive round of rate increases to be phased in over a six-year period. The FY2023–2024 report reflects three years of these stepped rate increases. The effect on the CUS's revenue and net position has been dramatic. Revenues from water and sewer have increased by nearly 50% (from \$1.1 million to \$1.63 million) and the net position shot up by 818% (from \$491 million to \$3.9 billion).

However, the CUS's financial condition remains clouded by long-standing compliance issues with the U.S. Environmental Protection Agency (EPA) regarding its wastewater system. The City has been under regulatory scrutiny since the 1980s over violating the Clean Water Act by allowing untreated sewage to be discharged into the environment, which ultimately flows into Houston's bayou system and Galveston Bay.

In 2021, Houston entered a Consent Decree with the EPA. The agreement requires the City to pay a \$4.4 million civil penalty and implement certain remedial measures to address the sewage overflows over a 15-year period. The ultimate cost of the remedial measures is unknown but has been estimated to be as high as \$9 billion or over twice the CUS's current net position (ACFR, p. 142).

Also, the East Water Purification Plant (EWPP), a critical facility supplying water to approximately 75% of Houston-area residents, is facing significant challenges due to its aging infrastructure. The plant, which was originally built in 1954, will need to be largely reconstructed. The City has estimated that it will [cost \\$4 billion and take as long as nine years to reconstruct the plant](#).

The City estimates it will eventually spend \$15 billion in capital investment in the CUS over the next 15 years, along with other, more routine improvements and replacements. So, while the CUS fund balance seems robust currently, it will likely be challenged for many years as the City addresses these issues.

Dedicated Drainage and Street Renewal Fund

In 2012, the City implemented a drainage fee pursuant to Council action and a charter referendum that dictated how the new fee would be administered and used. The charter amendment required that the drainage be held in a separate account to be used mostly for capital improvements to the City's streets and drainage system. This fund is referred to as the DDSRF, as mentioned further above.

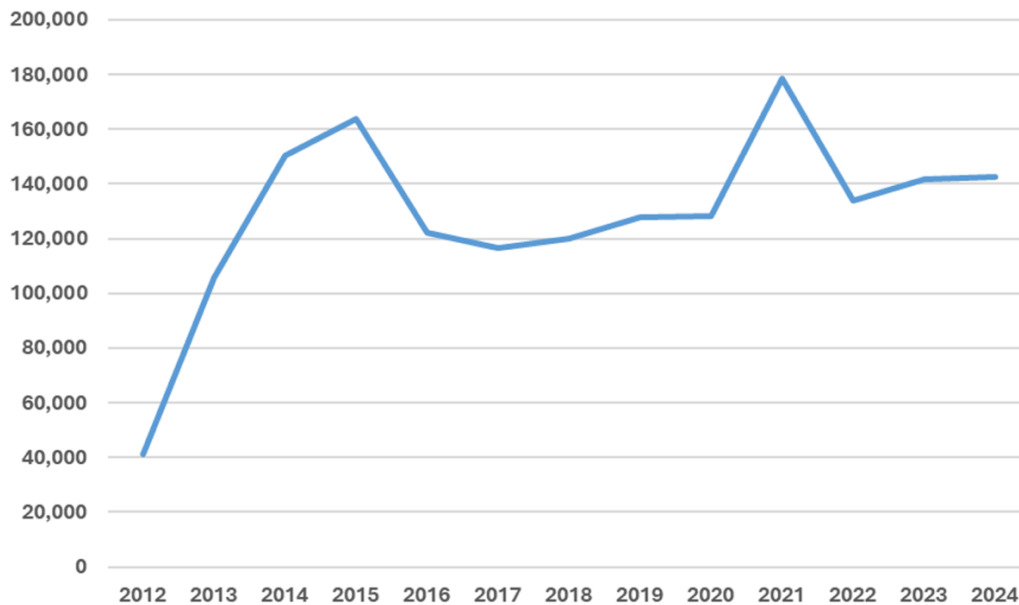
In addition to regulating the use of the drainage fee, the charter amendment prohibited the City from issuing new debt to finance street and drainage improvements. It also specified that savings from reducing future debt service payments would be restricted to road and drainage improvements and repairs.

The DDSRF’s revenue has steadily increased, rising from \$174 million in 2012 to \$348 million last year (ACFR. p. 192–194). Since the fund’s inception, it has received \$3.1 billion in revenue. The largest sources have been the drainage fee (48%), transfers from Metro (26%), and bond debt service recapture (23%).

About two-thirds of revenues have been spent on capital projects and another 22% has been used to pay current expenses, mostly salaries in the Public Works department. As of the end of last year, the DDSRF had \$357 million on hand, representing 11% of the all-time revenue.

It was anticipated that the amount of money going to capital improvement would increase over time as the debt service on the existing bonds was paid down and the drainage fee grew. However, that expectation has been largely unrealized, and instead, the amount the fund has generated for capital investment has seen only modest improvement with significant fluctuations.

Figure 8 – Transfers to Infrastructure Projects



Source: City of Houston ACFRs, 2015–24.

One reason for the tepid growth is that in 2016, the City began using a calculation to determine the amount transferred to the DDSRF from the debt service savings. This calculation adjusted the amount by any reduction in the property tax rate, which caused

the City's property tax cap. In 2019, two engineers who had been involved with passing the charter amendment sued the City over the use of this calculation.

In April 2024, the [14th Court of Appeals ruled in favor](#) of the plaintiffs, holding that the City's adjustment violated the City charter amendment and enjoining the City from making the adjustment. In January, the Texas Supreme Court upheld the Court of Appeals ruling (ACFR, p. 143). However, the ACFR did not disclose the City had been ordered to stop making the adjustment by the Court of Appeals or the effect on the General Fund if the order was upheld. City officials have estimated that the ruling will require it to transfer approximately [an additional \\$100 million annually](#) from the General Fund to the DDSRF.

It is important to note that this ruling will not increase the City's expenses, as some have characterized its effect. Rather, it requires the City to invest additional funds in its capital improvements, which most who have studied the City's finances believe is needed. However, the ruling will put additional strain on the General Fund.

Capital Projects Fund

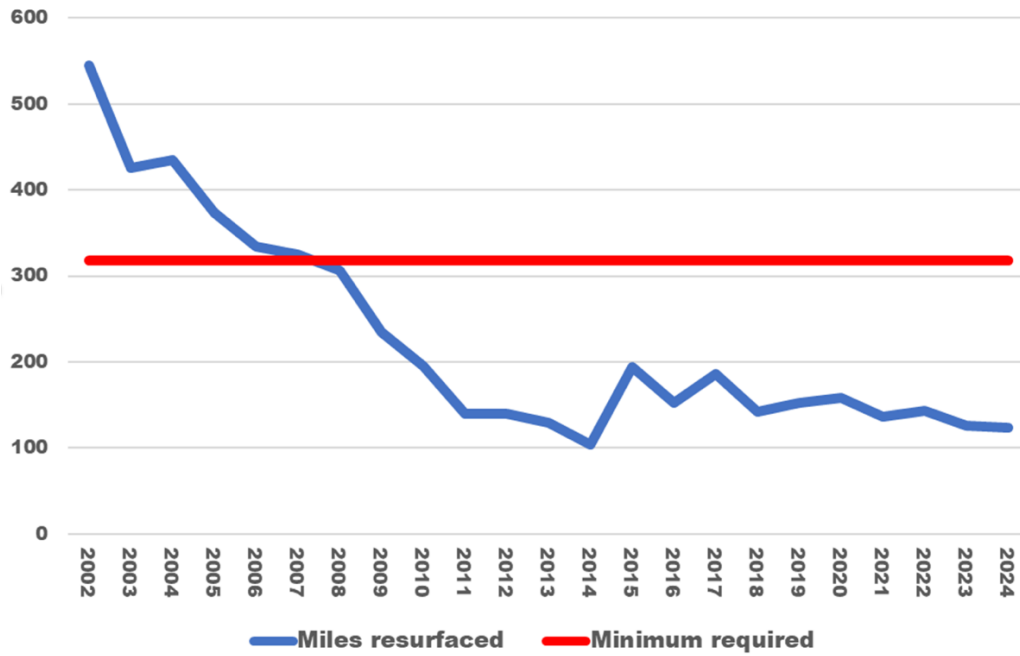
The Capital Projects Fund is used to account for the acquisition and/or construction of capital assets by the City in its governmental activity capacity, i.e., it does not include capital projects by the business-like units (ACFR, p. 169).

There are many indicators that the City has struggled to maintain and improve its capital assets. The condition of its streets has been probably the most visible example.

Currently, the City has 15,991 lane miles of streets (AFCR, p. 275). The useful life of streets depends on many factors, such as whether they are concrete or asphalt, the quality of the original construction, the frequency of use, and soil and weather conditions. However, general guidelines suggest that asphalt streets need resurfacing every 10–15 years and complete reconstruction in 20–30 years. Concrete streets usually require resurfacing every 15–25 years and full reconstruction in 30–50 years. This suggests that the City should resurface from about 300–1,500 lane miles annually.

Last year the City resurfaced 123 lane miles (ACFR, p. 274). This is the lowest number of lane miles resurfaced in many years. The City has not come close to the estimated guidelines since the early 2000s.

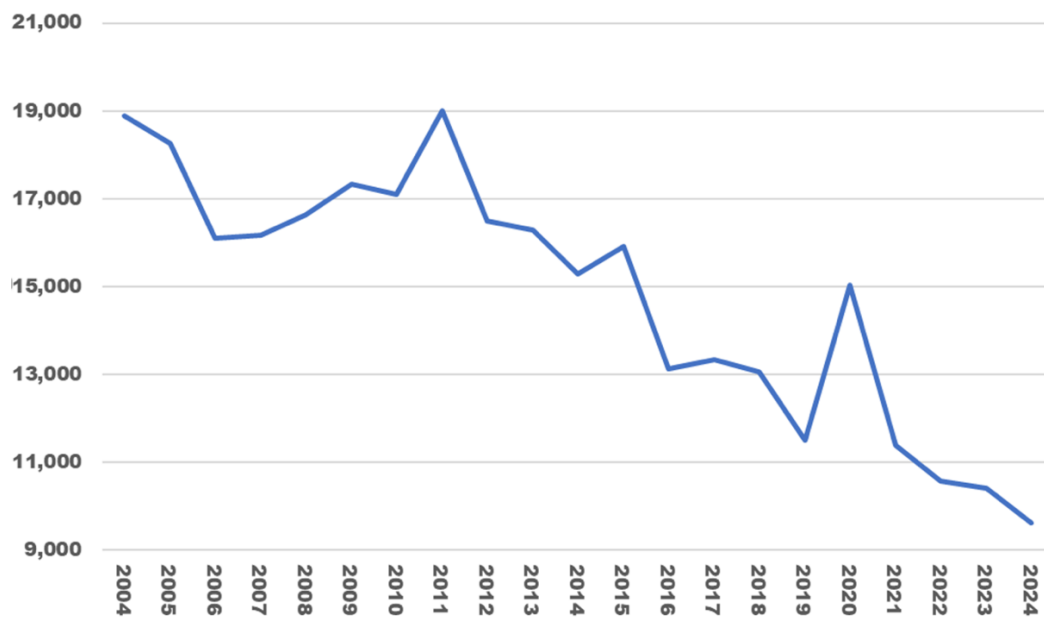
Figure 9 – Lane Miles Resurfaced by the City (2002–24)



Source: City of Houston ACFRs, 2011–24.

Similarly, its asphalt purchases for less extensive repairs and reconstructions have fallen by half in the last two decades.

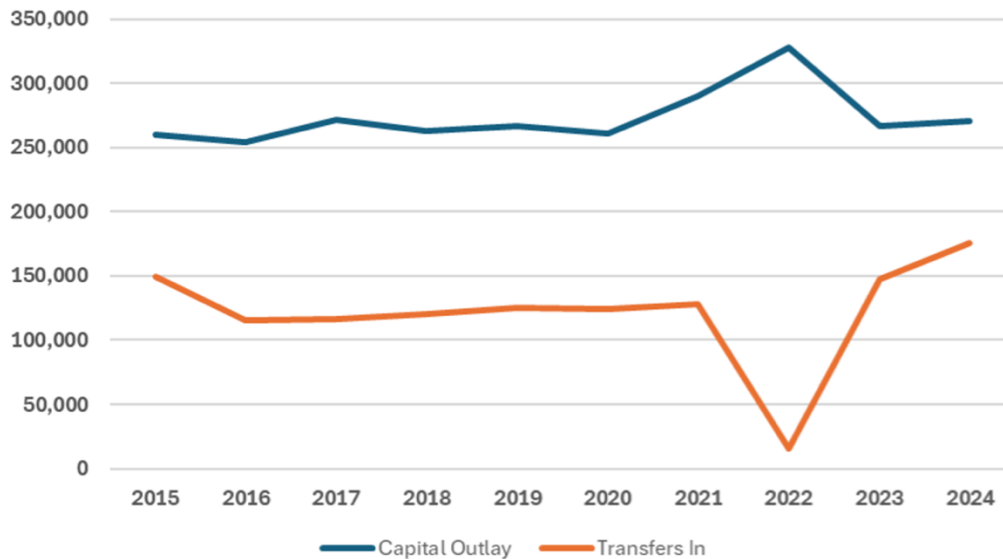
Figure 10 – Tons of Asphalt Used by City (2004–24)



Source: City of Houston ACFRs, 2012–24.

The City has struggled to respond to its infrastructure because the funds coming into the Capital Project Fund have largely stalled over the last decade.

Figure 11 – Capital Project Fund Incoming Transfers and Outlays



Source: City of Houston ACFRs, 2015–24.

There was an expectation that when the drainage fee was imposed, the DDSRF established that the funds available for capital improvements would grow over time. However, the City’s failure to contribute the savings from debt service and tepid growth in the drainage fee have resulted in very little new revenue for capital projects. And because of the charter amendment, the City cannot supplement funds for capital projects with new borrowing.

To some extent, the lack of capital investment reflected in the ACFR is overstated. Metro and the TIRZs also make capital investments inside the City that are not reflected in the ACFR. The Metro projects have been somewhat limited; however, the new Whitmire administration appears to be committed to [substantially increasing](#) them.

The TIRZs’ capital projects are more substantial and discussed below.

Tax Increment Reinvestment Zones

In 1987, the Texas Legislature authorized local governmental entities to create tax increment reinvestment zones (TIRZs). The original concept was that areas struggling with attracting investment would be allowed to keep any growth in the area’s property tax receipts to invest in projects that would spur additional investment and development. However, over time, tax increment financing has morphed far beyond its origins.

Houston has been particularly active in tax increment financing. Its first TIRZ was created in 1990, and 27 more have been added. Houston has also routinely extended the terms and boundaries of its TIRZs. Because of this expansion policy, the TIRZs have come to significantly affect the City's overall finances.

The effect of the TIRZs is not readily apparent from reviewing the City ACFR. This is because, for accounting purposes, they are treated as discreetly presented entities. This means they are reflected in statements for government-wide purposes (ACFR, p. 17) but not for primary government reports (ACFR, p. 7). Since most of the focus in ACFR is on primary government activities, the significance of TIRZs is frequently overlooked.

A good example is the City's property tax collections. The primary government statement regarding the change in net position for FY2023–2024 shows that the City collected \$1.4 billion in property taxes (ACFR, p. 8). However, the Ad Valorem Tax Levies and Collections in the Statistical section of the ACFR shows total property tax collections at \$1.6 billion (ACFR, p. 265). While there are several adjustments to reconcile these two totals, the principal difference is that the property taxes collected by the City but remitted to the TIRZs are not included in the primary government statements.

In FY2023–2024, the City property tax contributions to the TIRZs hit an all-time high of \$203 million (ACFR, p. 92). As a result, it turned over 12.6% of its property tax collections to the TIRZs. Some of this money comes back to the City in the form of various fees and the City has forced the TIRZs to take over some expenses that the General Fund would otherwise shoulder. However, the TIRZs nonetheless represent a significant reduction in property taxes that would otherwise flow into the General Fund.

The TIRZs have also become a significant part of the overall Capital Improvement Plan. For the current five-year plan (2025–2029), the City expects [the TIRZs will fund \\$877 million of the Capital Improvement](#). The TIRZs also run up just under \$1 billion in debt. Ironically, the charter amendment that created the DDSRF would have prohibited the City from issuing this debt directly. However, the City is still indirectly liable for the debt payment since the only source of revenue to repay the TIRZs' bonds is the transfer of City property tax receipt to the TIRZs.

Conclusion

Houston's ACFR for FY2023–2024 paints a mixed financial picture. While the City has made some recent improvements in its net fund balance, the underlying structural deficit persists, particularly within the General Fund. The City's reliance on one-time federal aid and favorable investment returns to reduce pension liabilities masks the fragility of its finances. Moreover, the need for massive infrastructure investments while having a stagnant population presents significant financial risks in the years ahead.

Houston must implement structural reforms to ensure long-term stability, including cost-cutting measures, revenue diversification (including reducing revenue diversions), and strategic infrastructure investments. Without decisive action, the City faces growing financial instability, which could hinder its ability to provide essential services and maintain a high quality of life for residents.

Note

¹ For detailed information on the many attempts, see John W. Diamond, "[Houston's Pension Shortfall: Implications of Basic Pension Analysis](#)," Rice University's Baker Institute for Public Policy, September 14, 2016.

