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## Houston Is Barreling Toward 'Fiscal Cliff' When Stimulus Runs Out, Watchdog Warns.

**Even if the US avoids recession, fourth-largest city's financial position in 'unsustainable,' controller says**

Houston's budget watchdog is warning that America's fourth-biggest city is headed toward a "fiscal cliff" once federal stimulus money runs out.

That could trigger City Hall layoffs and perhaps even privatization of some municipal services to balance annual budgets, Chris Brown, the city's elected controller, said during an interview with Bloomberg News on Thursday. The former equity trader's gloomy outlook stands in stark contrast to Mayor Sylvester Turner's recent assessment that the oil capital of the Western Hemisphere is in "pretty good shape" financially.

Brown said that although Houston is in robust fiscal health right now, the threat lurking just below the surface is "irrational exuberance" brought on by hefty injections of federal dollars intended to keep US municipalities and the broader economy afloat amid the worst ravages of the Covid-19 pandemic. Rather than using the stimulus windfall to make upgrades to municipal assets that would lower operating costs over the long term, the city has plowed those dollars into things like pay raises, he said.

"The challenge is when you use one-time financing sources to fund recurring revenues, you make that problem worse in the future," said Brown, 46, who occupies the city's second-highest elected office. "It's not sustainable."

In the wake of the global pandemic, the Biden administration funneled \$350 billion to cities, counties and state governments to stabilize their finances via the American Rescue Plan. Houston used a lot of its allocation to plug a roughly \$150 million shortfall that, left unfilled, would have imperiled thousands of municipal jobs, Brown said.

With stimulus funds scheduled to run out at the end of 2024, the city of Houston will find itself with financial obligations far in excess of revenues, most of which emanate from property and sales taxes, Brown warned. By 2025, Houston could be facing a \$300 million annual shortfall, he said.

For his part, Turner dismissed Brown's dire outlook during a separate interview last week. In his seven years as mayor, Houston has never resorted to layoffs, he said.

Houston's options for raising more revenue are limited but could involve selling real estate; past administrations have taken such steps, selling assets such as the Compaq Center pro basketball arena, Brown noted. But there may be no avoiding job cuts and inviting the private sector to take charge of some city services, he said.

"It's not something that I like talking about, but you need that alternative perspective," said Brown. "Yeah, things are good now because we have this surplus of cash, but structurally we've actually

made the problem worse.”

## **Bloomberg Markets**

By David Wethe and Danielle Moran

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