

Office of the City Controller



Houston, Texas

Trends for Fiscal Year 2012

May 2011

Ronald C. Green
City Controller

Trends

Fiscal Year 2012

The information on the following pages was compiled by the Controller's Office with the goal of assisting City Council in putting the Administration's FY12 Proposed Budget into historical perspective. The trends presented here give council members a broader picture and, hopefully, will help in the budget decision-making process.

Our estimates for General Fund revenues for Fiscal Year 2011 are expected to remain flat from Fiscal Year 2010 revenues. However, Fiscal Year 2012 revenues are anticipated to decline approximately 2.78% (not including transfers and sale of assets). Fiscal Year 2012's projected revenue reflect mostly a decline in Intergovernmental Revenue because of the METRO revenue being allocated to the Dedicated Drainage and Street Renewal Fund instead of the General Fund.

Of concern, our FY12 projection for General Fund resources is \$28 million less than the Administration's FY12 Proposed Budget. To calculate Property Tax revenue, the Controller's office used an estimated taxable value of \$140.557 billion calculated by taking the estimated taxable values from Harris County, Fort Bend County, and Montgomery County Appraisal Districts in April 2011 and adjusting that value based on the County Appraisal District's prior overstatement of estimation last year and a 96.8% collection rate. The Administration's projection returned a value of \$141.997 billion using 96.9% collection rate. For our Sales Tax projection, we assumed growth of 3.44%.

We need to point out that although the 2012 Proposed Budget for the General Fund does not anticipate any reductions to fund balance, it does not address restoring the fund balance to the preferred level of 7.5%. If our revenue projections occur, the fund balance will be only \$62 million, or \$57 million less than the target fund balance.

In the Enterprise Funds, Aviation revenues are decreasing slightly due to lower interest revenue rates. Convention & Entertainment revenues are projected to remain relatively flat. The Combined Utility System's (CUS) revenues are increasing by 19.8%, primarily due to the annual water and sewer rate increase.

Summary of Graphs

The numbers on each page are from the following sources:

1. **FY10 and prior years are actual results as reported in previous Comprehensive Annual Financial Reports (CAFR).**
2. **FY11 numbers are the Controller's Office April Monthly Financial Operations Report (MFOR) estimates.**
3. **The FY12 General Fund revenues are the most current projections of the Controller's Office.**
4. **Unless otherwise noted, all other FY12 numbers are from the Administration's FY12 Proposed Budget.**

General Fund Revenues

(amounts expressed in thousands)

Revenues	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	% Change [a]	Admin.'s	Difference [a]
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Controller's Apr. Projection	Controller's Projection		Budget	
Property Tax	\$ 646,377	\$ 660,999	\$ 671,294	\$ 705,952	\$ 748,792	\$ 830,889	\$ 890,088	\$ 892,865	\$ 849,382	\$ 832,512	-1.99% [b]	\$ 842,478	(9,966)
Industrial Assessments	15,014	15,167	14,635	14,314	15,823	17,787	19,133	15,817	14,800	14,800	0.00%	14,800	-
Sales Tax	322,538	347,982	370,583	422,598	461,417	495,173	507,103	468,965	489,600	506,442	3.44% [c]	518,912	(12,470)
Other Taxes	7,817	8,348	8,613	9,279	9,992	10,735	10,813	10,577	10,250	10,760	4.98%	10,806	(46)
Electric Franchise	76,605	76,394	77,760	97,274	99,534	98,141	99,612	97,248	98,151	99,694	1.57%	99,694	-
Telephone Franchise	56,435	52,926	49,714	50,167	50,434	49,566	48,229	48,263	46,150	44,483	-3.61%	44,483	-
Gas Franchise	14,693	16,535	18,520	21,866	20,790	21,507	21,258	21,729	21,890	22,009	0.54%	22,009	-
Other Franchise	12,941	15,524	16,269	17,200	18,793	20,981	21,223	23,628	23,365	23,437	0.31%	24,044	(607)
Licenses & Permits	15,335	15,271	17,692	18,086	18,637	20,889	17,511	18,636	18,500	17,896	-3.26%	19,741	(1,845)
Intergovernmental	15,385	11,176	18,958	26,989	41,576	32,950	33,027	32,148	59,719	11,161	-81.31% [d]	11,161	-
Charges for Services	37,422	39,875	39,856	41,115	44,844	39,836	35,743	34,156	36,195	38,734	7.01%	40,747	(2,013)
Direct Interfund Services	62,099	57,056	61,233	39,497	42,052	41,395	47,890	46,906	45,271	45,255	-0.04%	45,255	-
Indirect Interfund Services	15,859	14,647	11,031	14,895	12,712	10,950	13,190	16,012	16,110	18,522	14.97%	18,522	-
Muni Courts Fines	42,433	45,005	48,827	45,319	44,936	37,140	37,692	38,096	36,379	35,000	-3.79%	35,894	(894)
Other Fines	2,185	2,131	2,424	3,681	5,362	4,491	2,692	2,029	2,297	2,297	0.00%	2,562	(265)
Interest	6,893	5,130	6,414	8,600	15,059	16,992	8,826	6,858	5,385	4,500	-16.43%	3,000	1,500
Misc./Other	11,057	16,046	16,253	17,016	4,529	12,315	10,276	8,215	9,189	5,555	-39.55% [e]	6,740	(1,185)
Total	\$ 1,361,088	\$ 1,400,212	\$ 1,450,076	\$ 1,553,848	\$ 1,655,282	\$ 1,761,737	\$ 1,824,306	\$ 1,782,148	\$ 1,782,633	\$ 1,733,057	-2.78%	\$ 1,760,848	\$ (27,791)
Transfers from Other Funds	49,440		1,028		4,542	11,219	35,810	38,658	30,392	38,758	27.53%	38,758	-
Sale of Capital Assets				6,439	4,757	4,003	4,798	6,548	8,027	10,655	32.74% [f]	13,550	(2,895)
Proceeds from Promissory Note				3,922	-	-	-	-	-	-	-	-	-
Disaster Recovery Fund Transfer		6,800		0	-	-	-	-	-	-	-	-	-
Pension Bond Proceeds			48,599	59,000	63,000	35,000	20,000	20,000	-	-	-	-	-
Total Revenues and Transfers	\$ 1,410,528	\$ 1,407,012	\$ 1,499,703	\$ 1,623,209	\$ 1,727,581	\$ 1,811,959	\$ 1,884,914	\$ 1,847,354	\$ 1,821,052	\$ 1,782,470	-3.51%	\$ 1,813,156	\$ (30,686)

[a] The "Percentage Change" column compares our FY12 projection to our FY11 estimate, while the "Difference" column compares our FY12 projection to the proposed budget.

[b] Property Tax revenue is net of refunds and Tax Increment Reinvestment Zone (TIRZ) payments. The Controller's FY12 projection for Property Tax revenues is based on the taxable values provided by Harris County on April 28, 2011. This amount was reduced an additional 1% to reflect the rate of overstatement of the prior years taxable values. The projection assumes an estimated \$23 million in delinquent collections and an estimated \$60 million in TIRZ payments.

[c] Sales Tax revenue uses our FY11 Sales Tax revenue estimate plus Dr. Barton Smith's April 2011 estimated growth rate of 5.44% for FY12. This is then reduced by Dr. Barton Smith's margin of error of 2%.

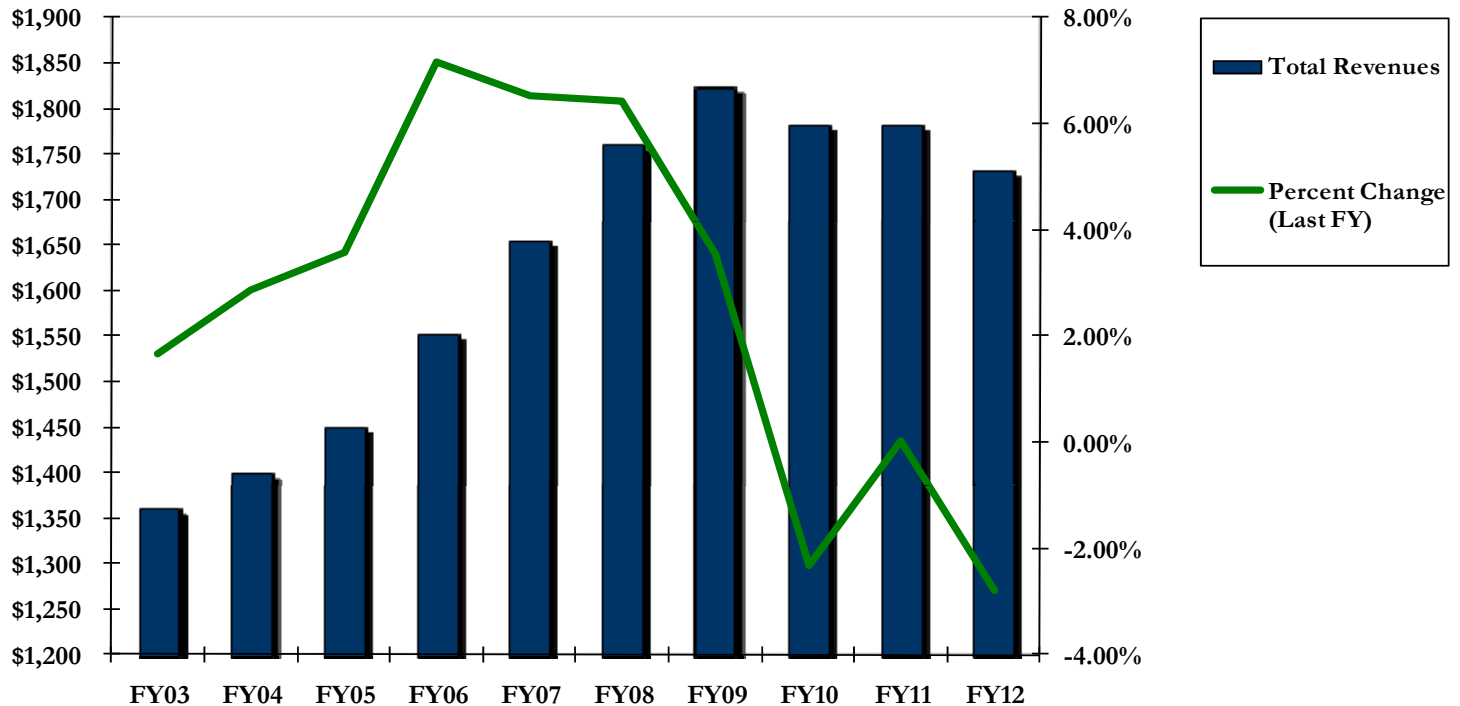
[d] METRO funding revenues will be recognized in the Dedicated Drainage and Street Renewal Fund instead of the General Fund.

[e] Miscellaneous other revenue in FY12 is lower mainly due to prior year revenue adjustments in FY11 that will not be forthcoming in FY12.

[f] Due to the uncertainty that these sales will take place, and the value to be received, the Controller's office anticipates that only about three fourths of the Administration's budgeted amount of these capital assets will be received.

General Fund Revenues

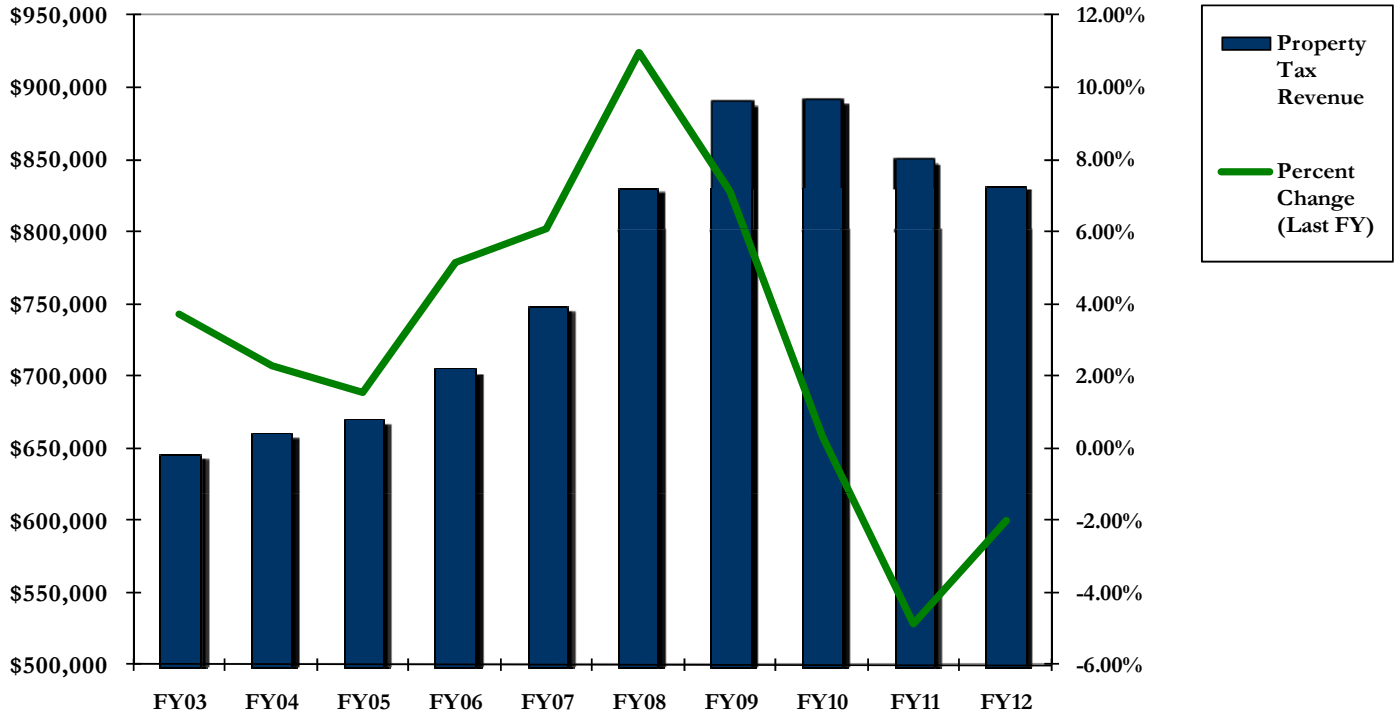
(amounts expressed in millions)



FY12 General Fund revenue is projected to shrink by \$50 million, or 2.78%, under our current FY11 estimate. The projected decrease consists mostly of reduced METRO funding revenue that will be recognized in the Dedicated Drainage and Street Renewal Fund. We are also projecting a decrease of \$16.9 million in Property Tax, which is offset by an increase of \$16.8 million in Sales Tax.

Property Tax Revenue

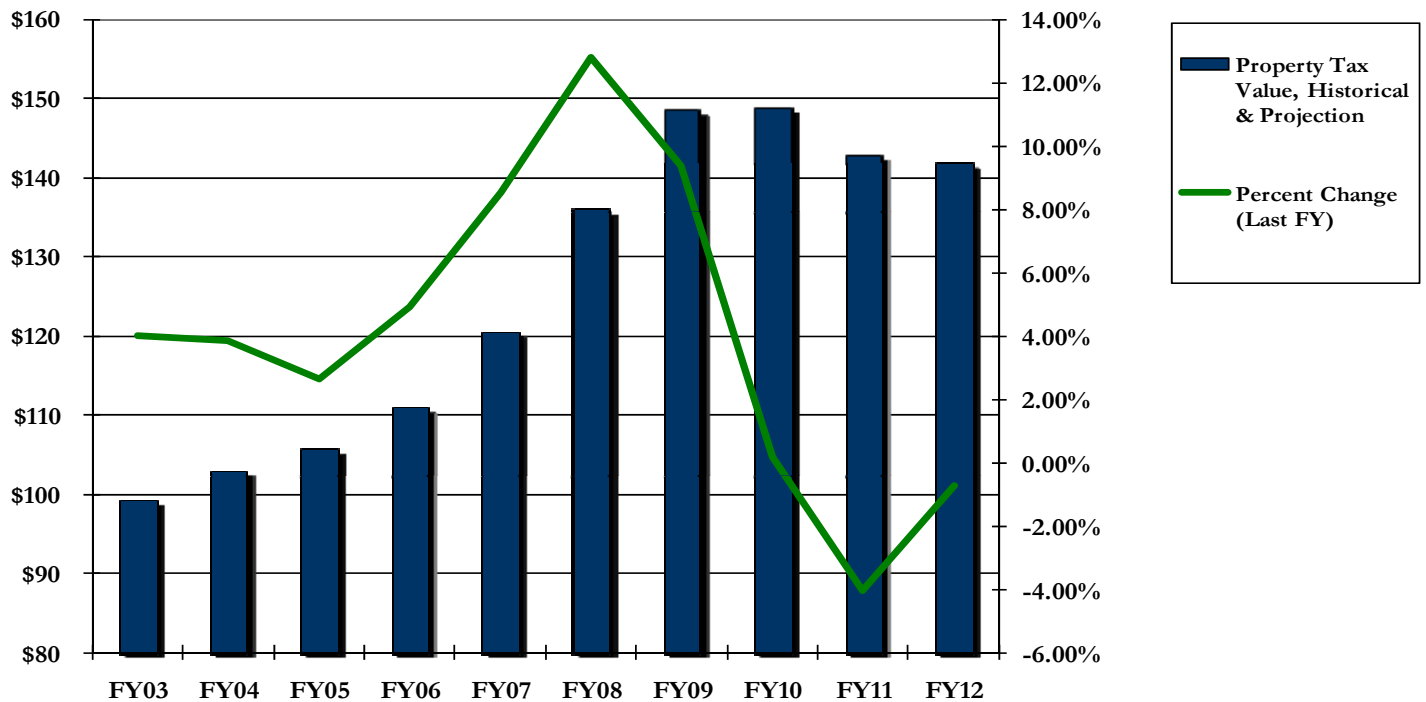
(amounts expressed in thousands)



Property Tax revenue is projected to be lower than the FY11 estimate by 1.99%. TIRZ payments, delinquent tax collections and rebates are expected to remain stable as compared to FY11. Our Property Tax revenue projection is based on a tax rate of 63.875 cents per \$100 valuation and a collection rate of 96.8%.

Taxable Values Historical & Forecast

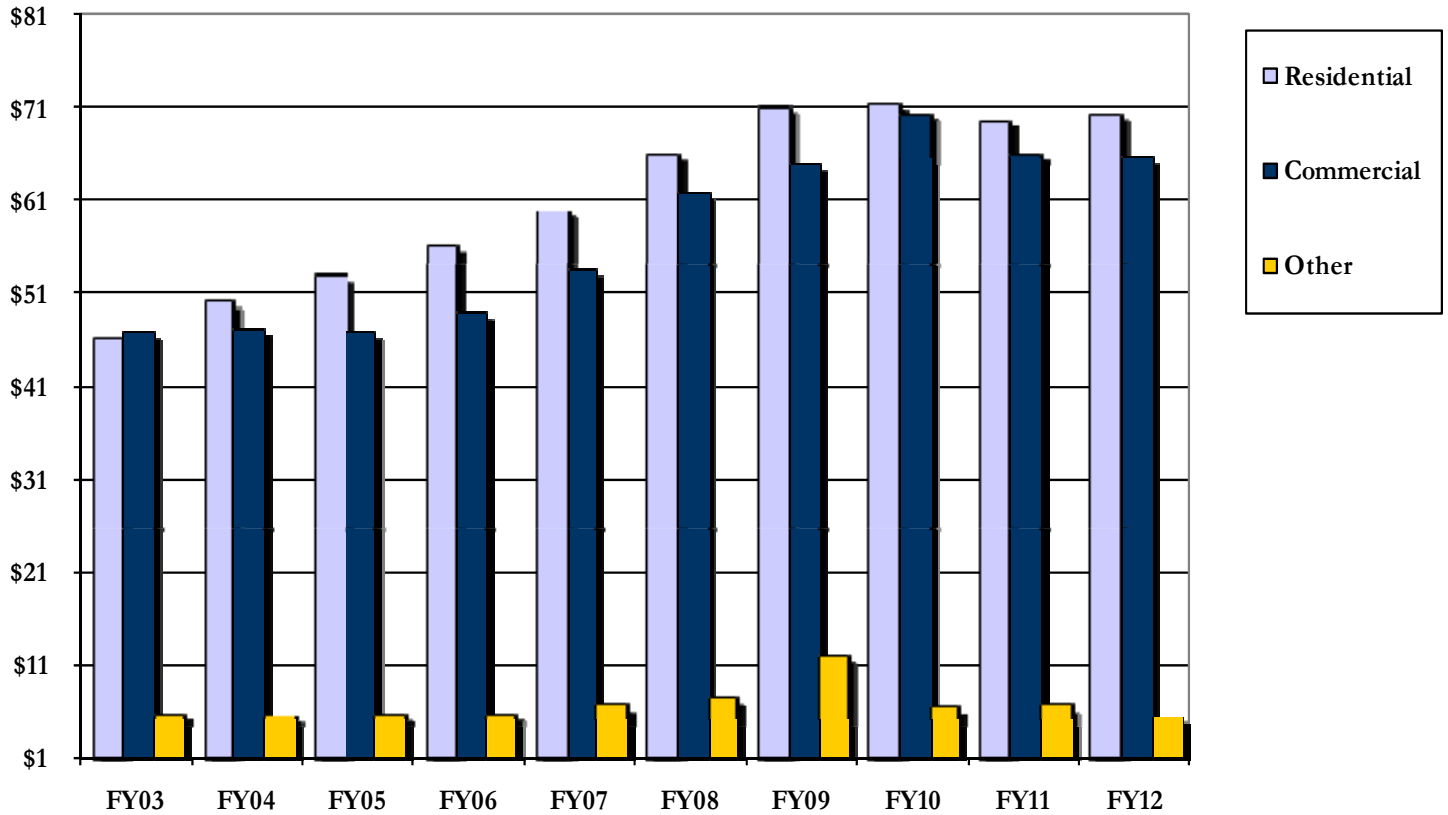
(amounts expressed in billions)



The Harris County, Fort Bend County, and Montgomery County Appraisal Districts (the Districts) provide expected taxable values. The actual taxable values for FY11 are above the preliminary value estimates provided at this time last year. However, based on the Districts' projection for FY12, a decrease in valuation of about 0.7% is anticipated. These values are based on the Districts' preliminary projected values, dated April 28, 2011, and reduced 1% to reflect the over projection of the prior year.

Taxable Values By Property Type Historical & Forecast

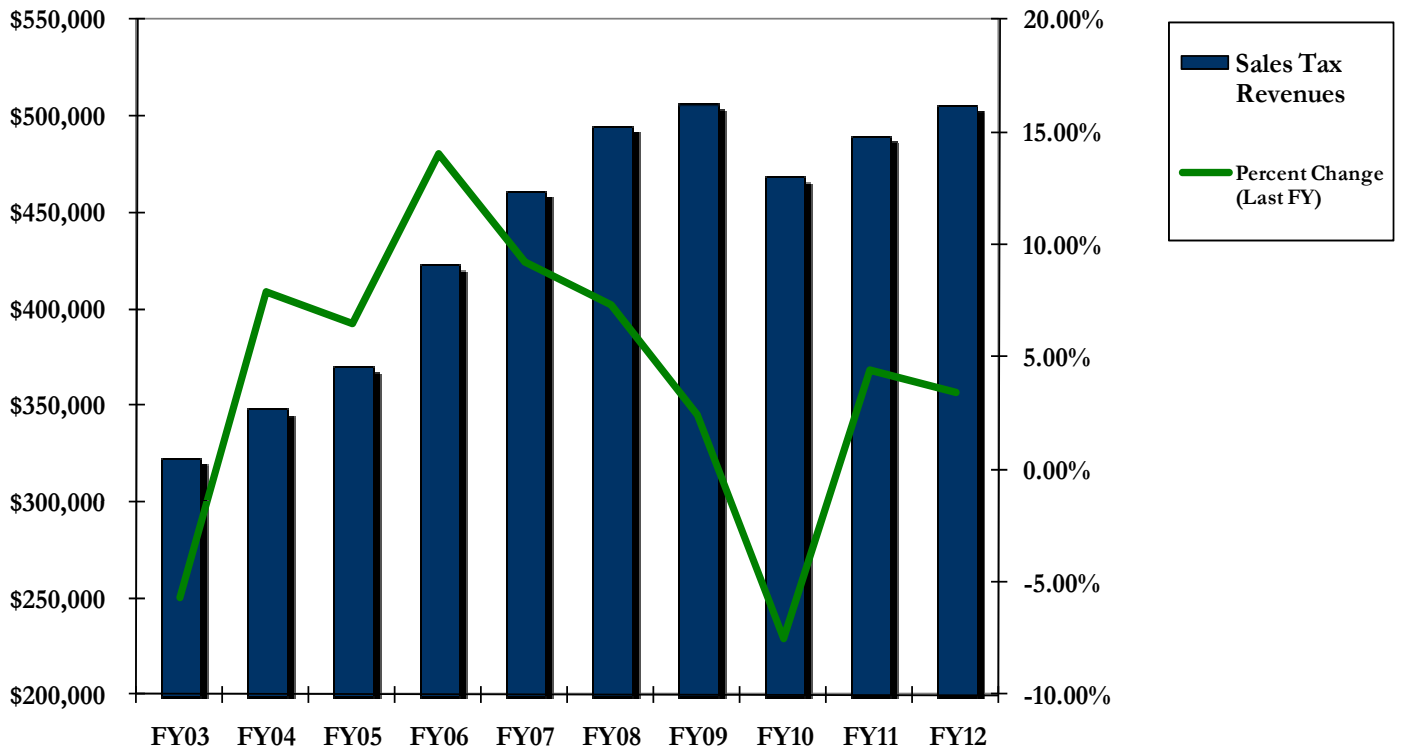
(amounts expressed in billions)



Residential and commercial properties in the City of Houston make up 96% of the taxable values reported by the Districts.

Sales Taxes Revenue

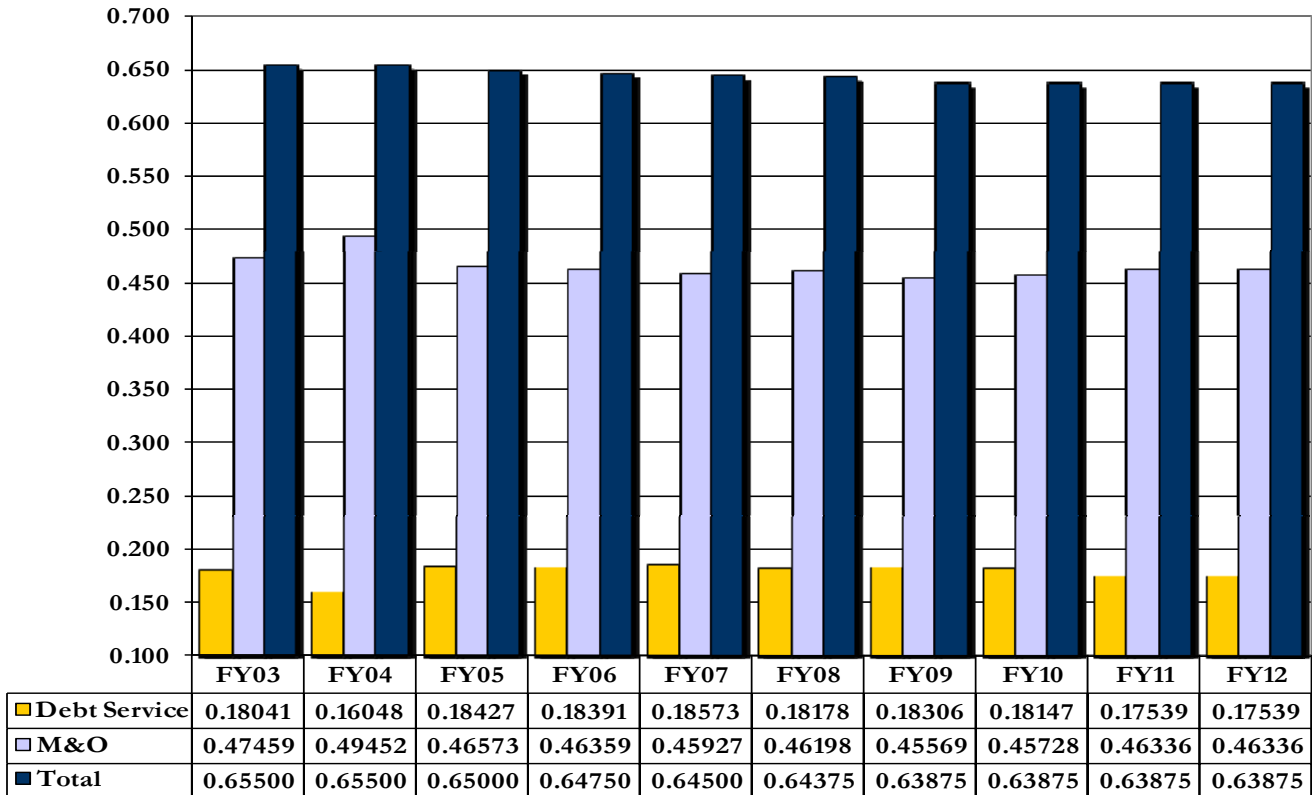
(amounts expressed in thousands)



Sales tax revenue is projected to be 3.44% higher than FY11 Sales Tax receipts. This increase is based on the 5.44% estimated growth of Dr. Barton Smith's April report plus an error rate reduction of 2%.

Property Tax Rate

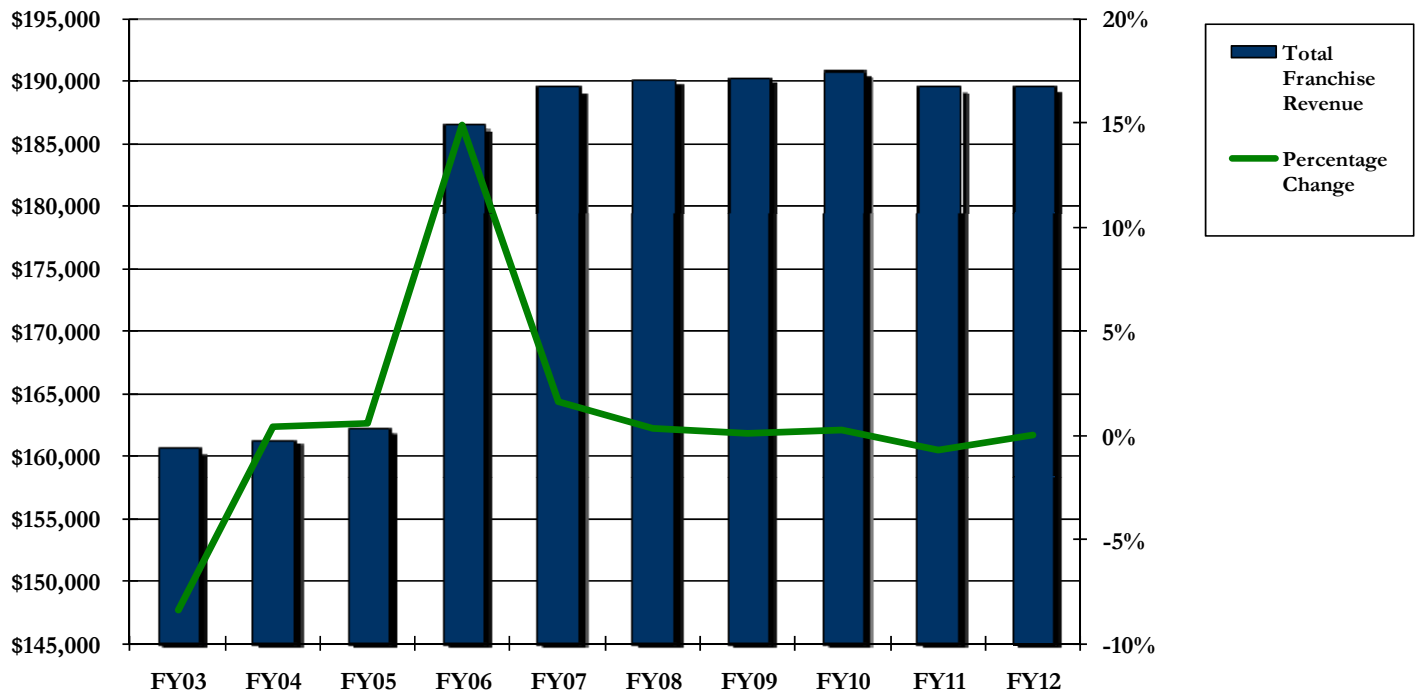
(Tax Rate per \$100 Valuation)



The FY12 number is a projection. The final rate will be established by a vote of council in the second quarter of FY12.

Total Franchise Revenues

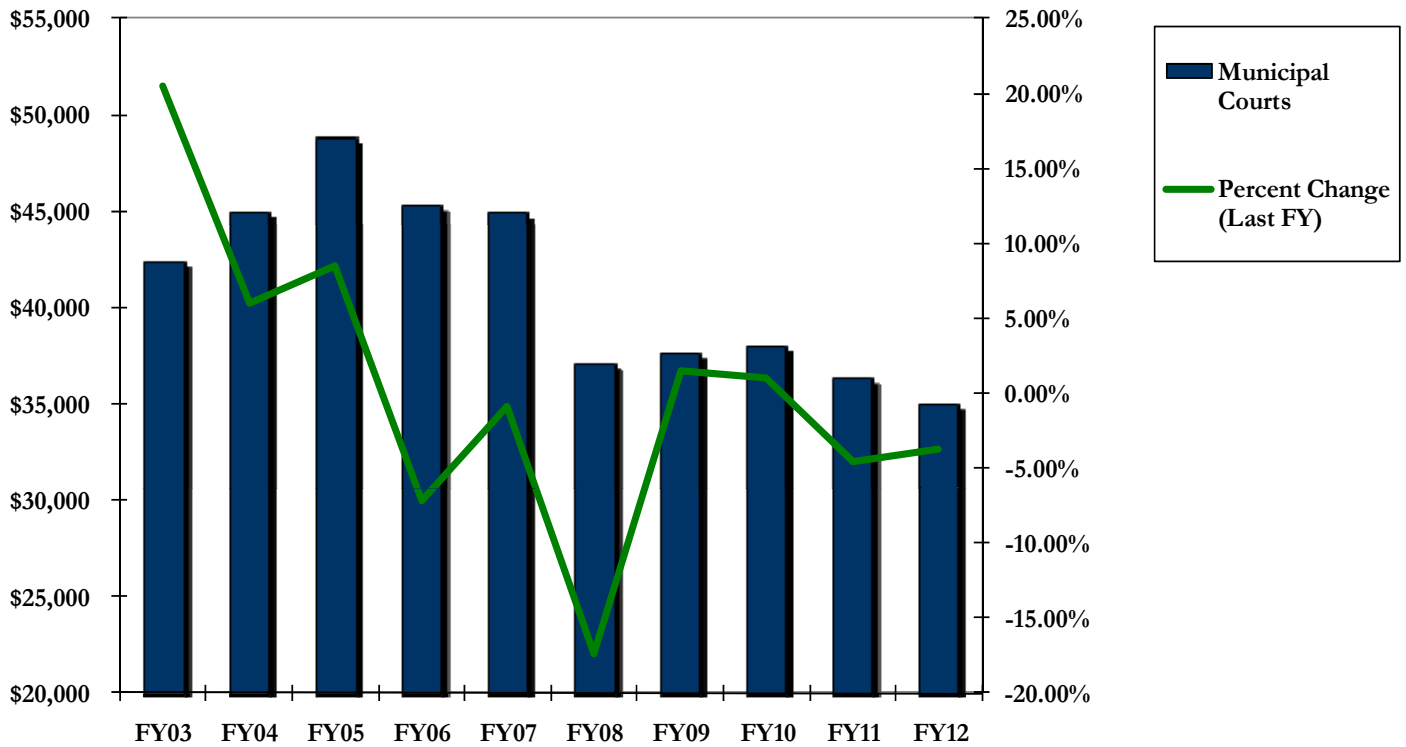
(amounts expressed in thousands)



Franchise revenues are projected to remain relatively stable from FY11. For the seventh year in a row, Telephone Franchise Revenues are expected to decrease. The decrease in Telephone Franchise revenues is projected to be offset by a similar increase in Electricity Franchise Revenues.

Municipal Courts Revenues

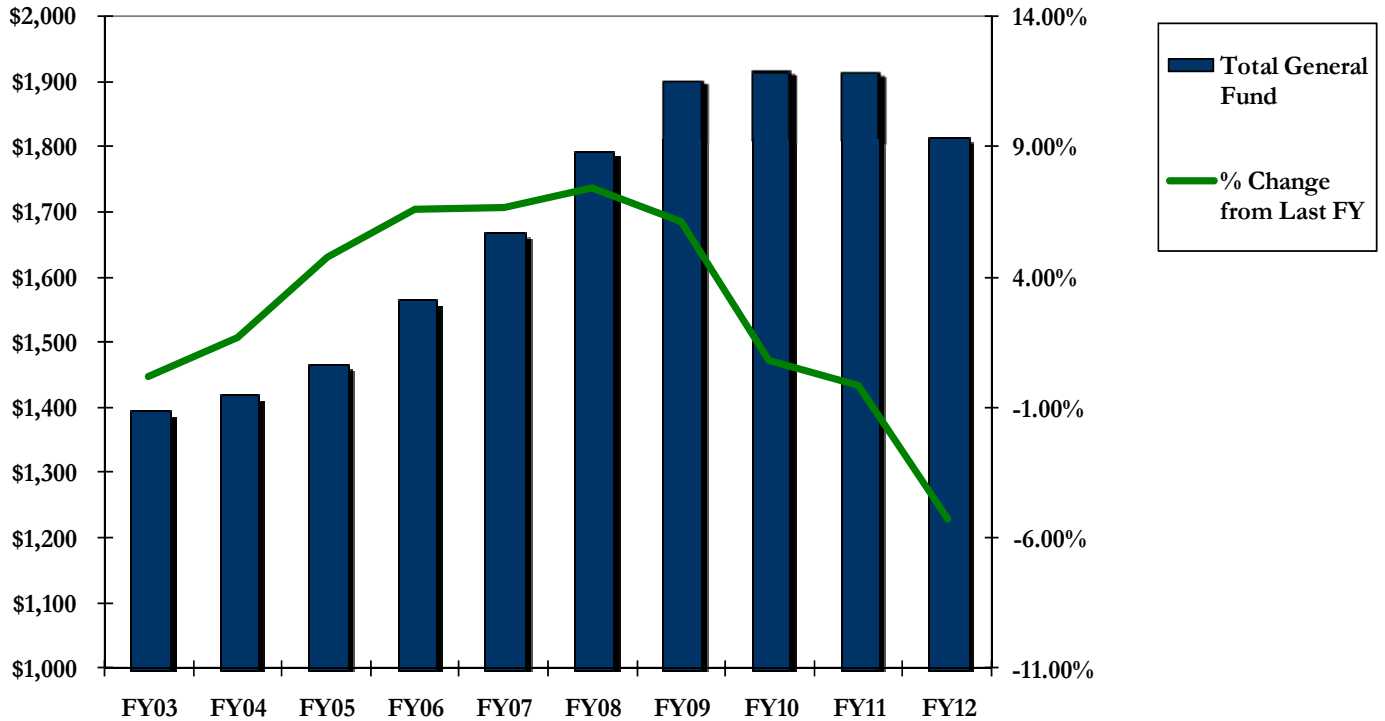
(amounts expressed in thousands)



Municipal Courts Fines and Forfeits is 3.79% lower than FY11. This number takes into account uncertainty with the new collection processes.

General Fund Expenditures Budget

(amounts expressed in millions)

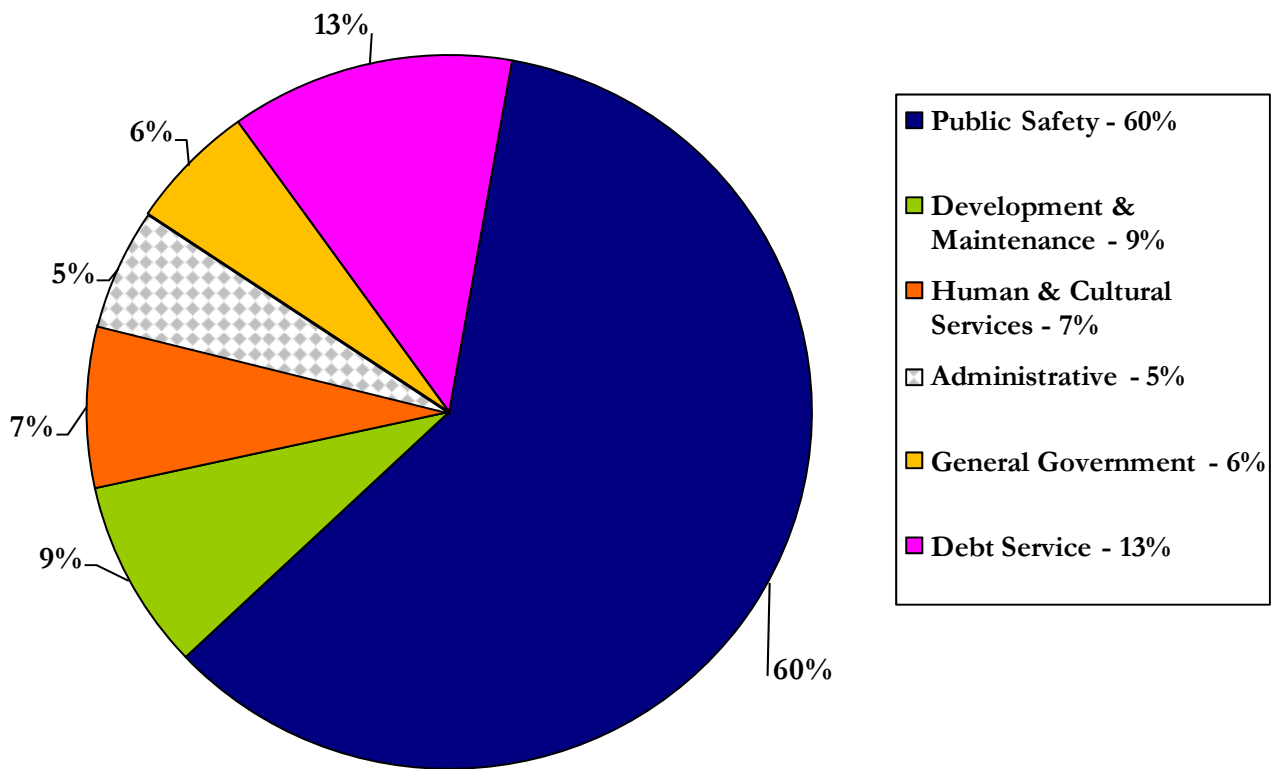


The General Fund expenditure budget is down by 5%, a decrease of \$100 million from our FY11 estimated expenditures. The gap between Controller's projected revenues and budgeted expenditures will require using \$31 million from the Fund Balance to cover the operating deficit.

General Fund

Expenditures Percent by

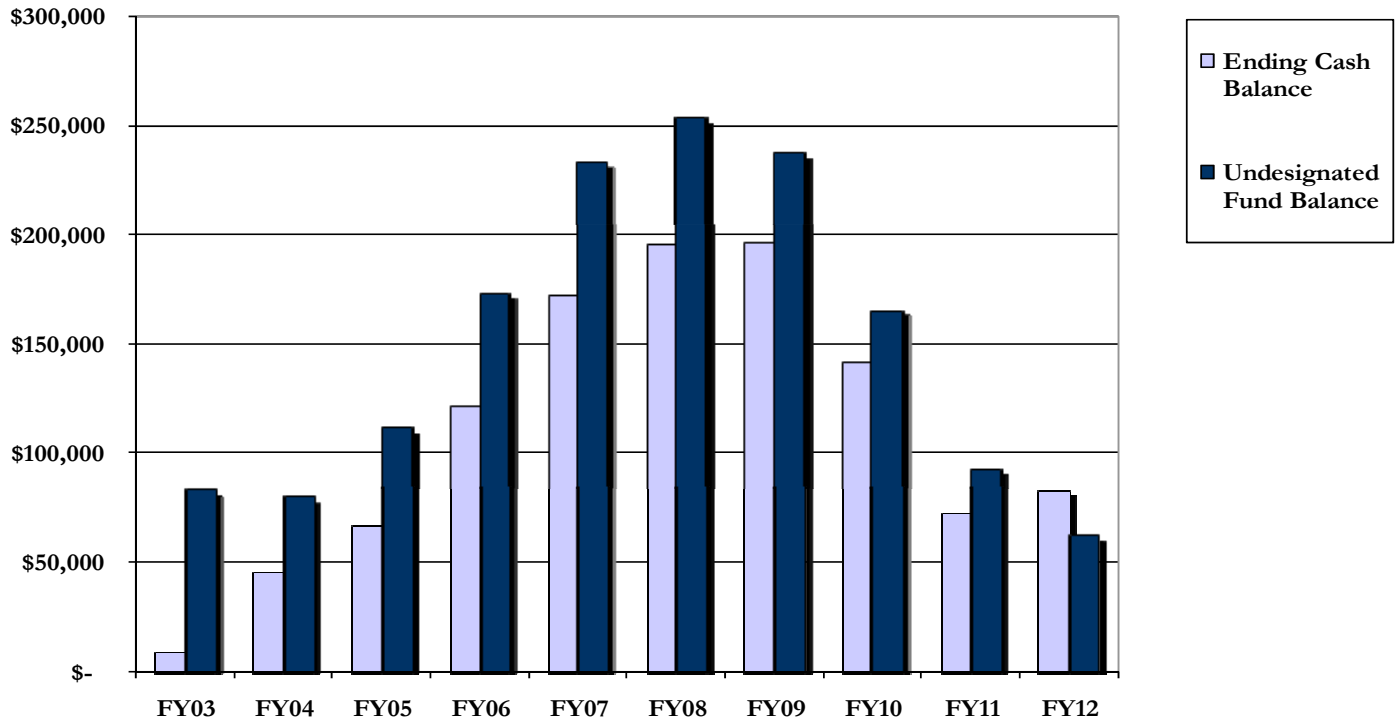
Function for 2012



Cash vs. Fund Balance

General Fund

(amounts expressed in thousands)

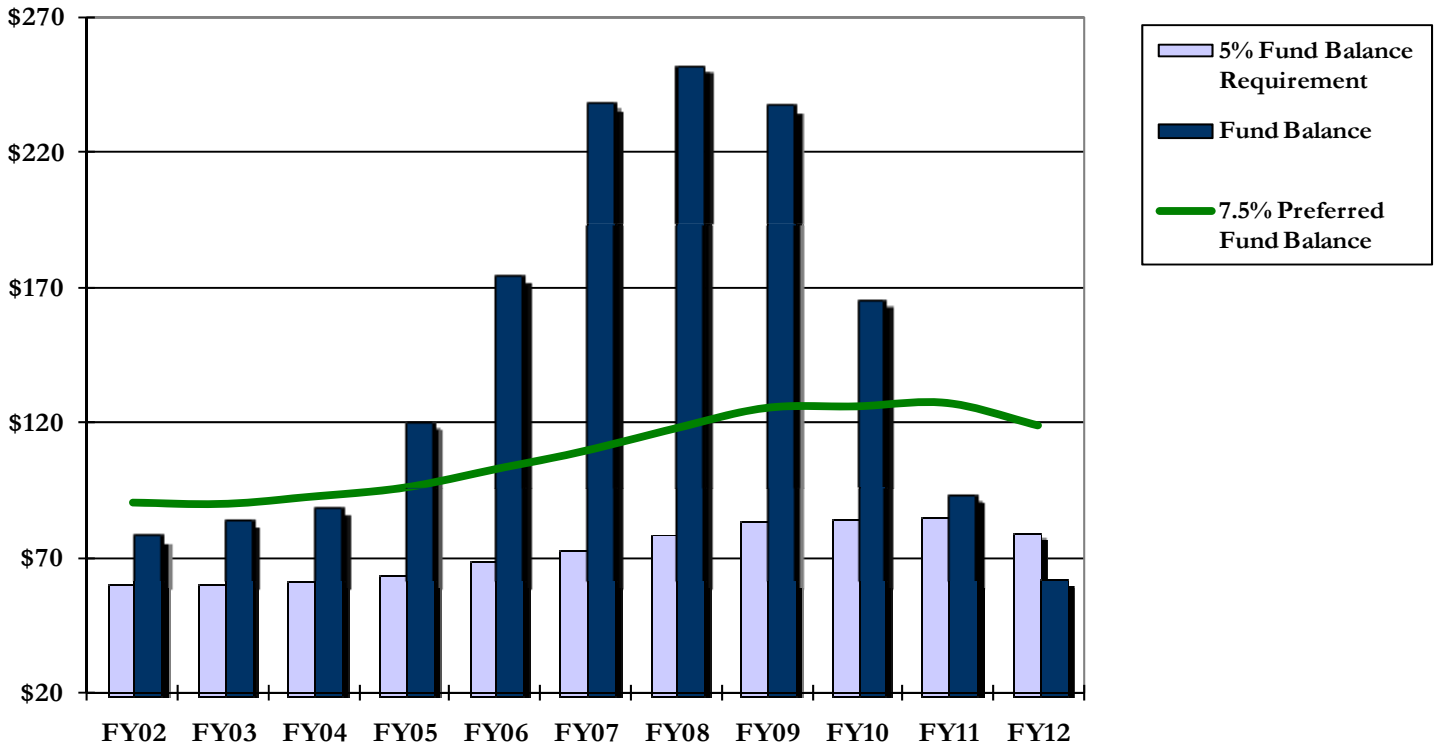


The Undesignated Fund Balance consists of both cash and non-cash items and includes receivables for Sales Tax and Franchise Fees. It also includes \$20 million from the Rainy Day Fund which became Undesignated within the General Fund in FY11. The Undesignated Fund Balance is expected to decrease by \$72 million in FY11 and \$31 million in FY12.

City Ordinance 5% Fund Balance Requirement

General Fund

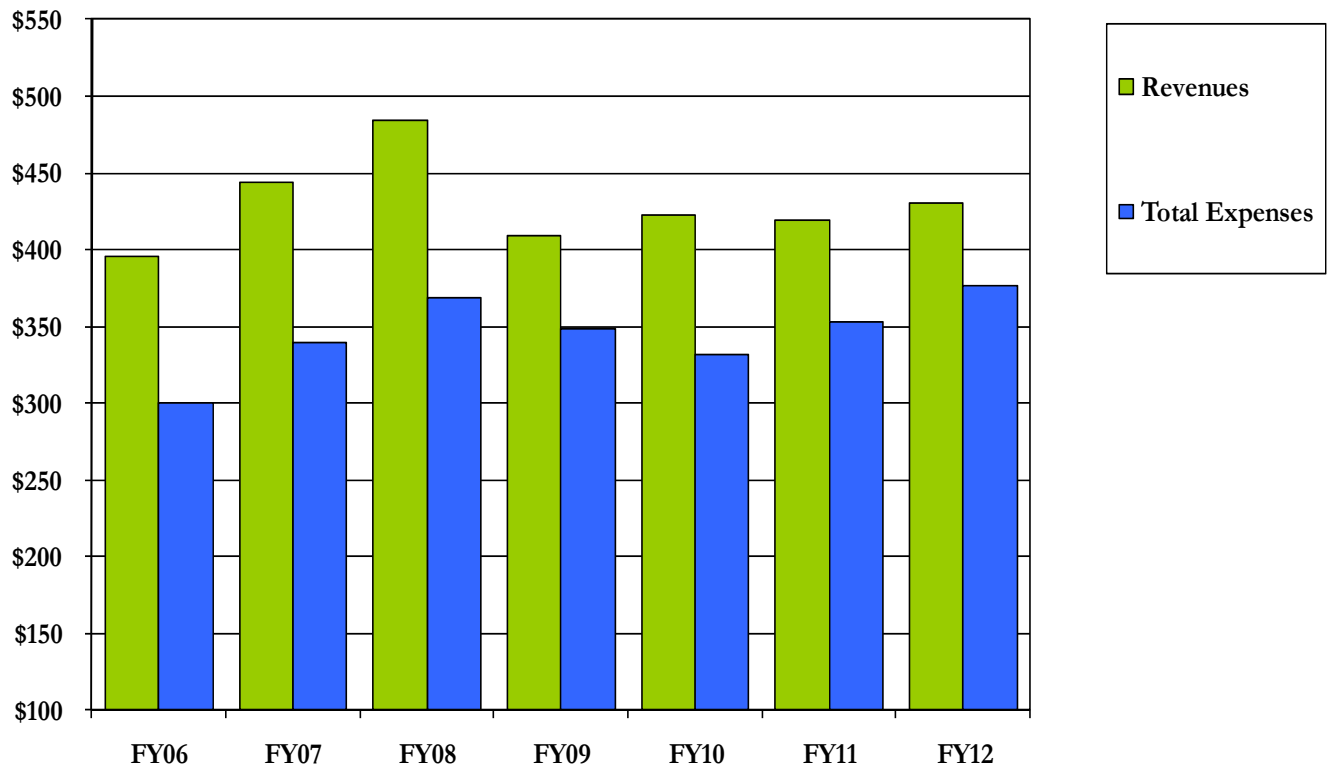
(amounts shown in Millions)



City ordinance requires an Undesignated Reserve of 5% of the Adopted Budget less Debt Service. An Undesignated Reserve of 7.5% is preferred. For FY12 we project a \$57 million deficit under the 7.5% Fund Balance. This is due to a difference in revenue of \$28 million and Fund Balance difference of \$29 million.

Aviation Revenues & Expenses

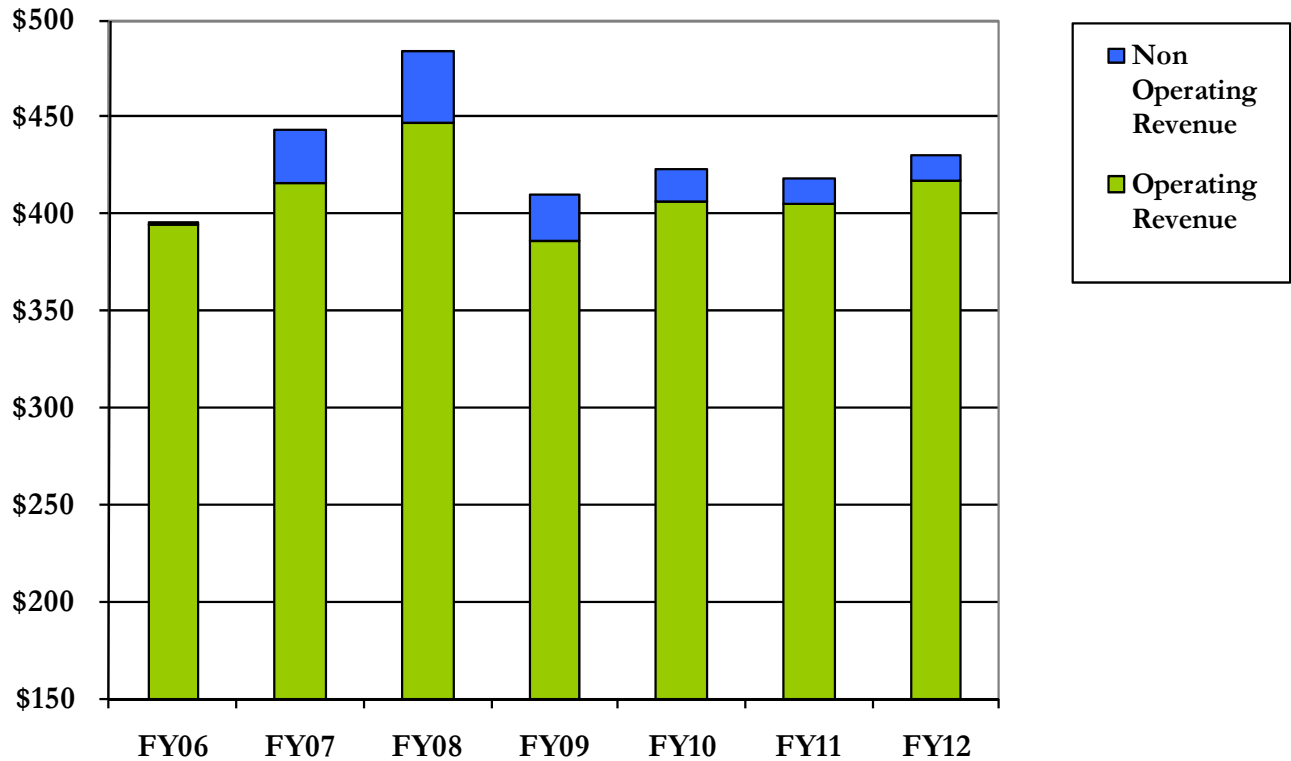
(amounts expressed in millions)



Aviation is projecting revenues to increase slightly due to additional operating revenues. Projected increases in expenses are based on anticipated increased spending for Debt Service.

Aviation Revenues

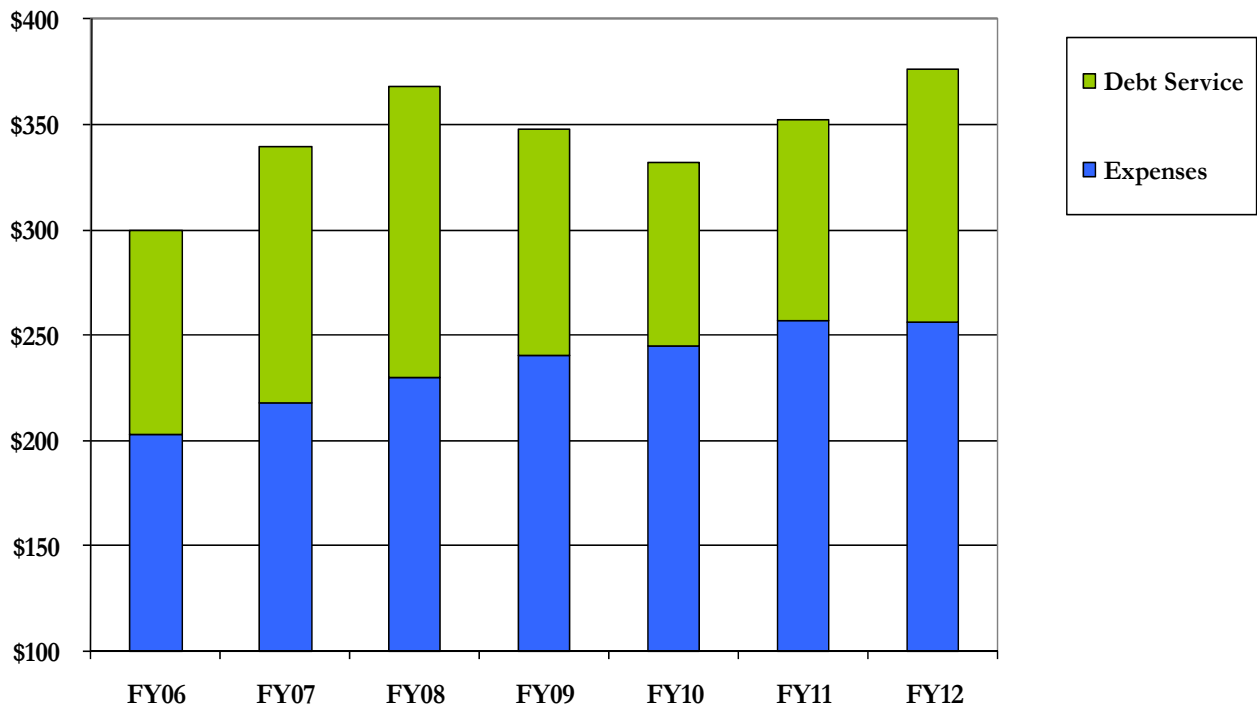
(amounts expressed in millions)



FY12 revenues are expected to increase 2.85%, or \$2.7 million from the FY11 estimate, primarily related to a budgeted increase in Landing Fees, Terminal Rentals, and Retail Concessions.

Aviation Expenses

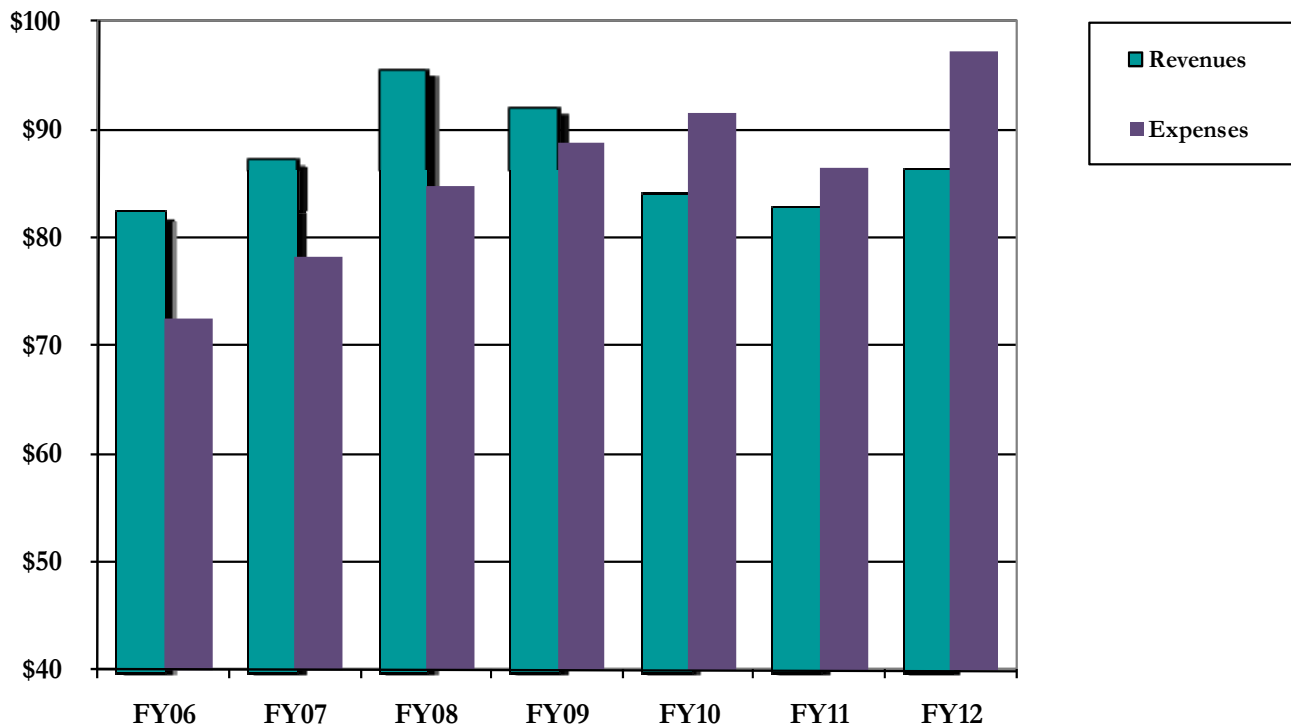
(amounts expressed in millions)



Aviation expects an FY12 expense increase of approximately 6.8%, or \$23.9 million over the FY11 estimate. The FY12 Debt Service budget is increasing due to other funding sources used in FY11 that are not available for FY12.

Convention & Entertainment Revenues & Expenses

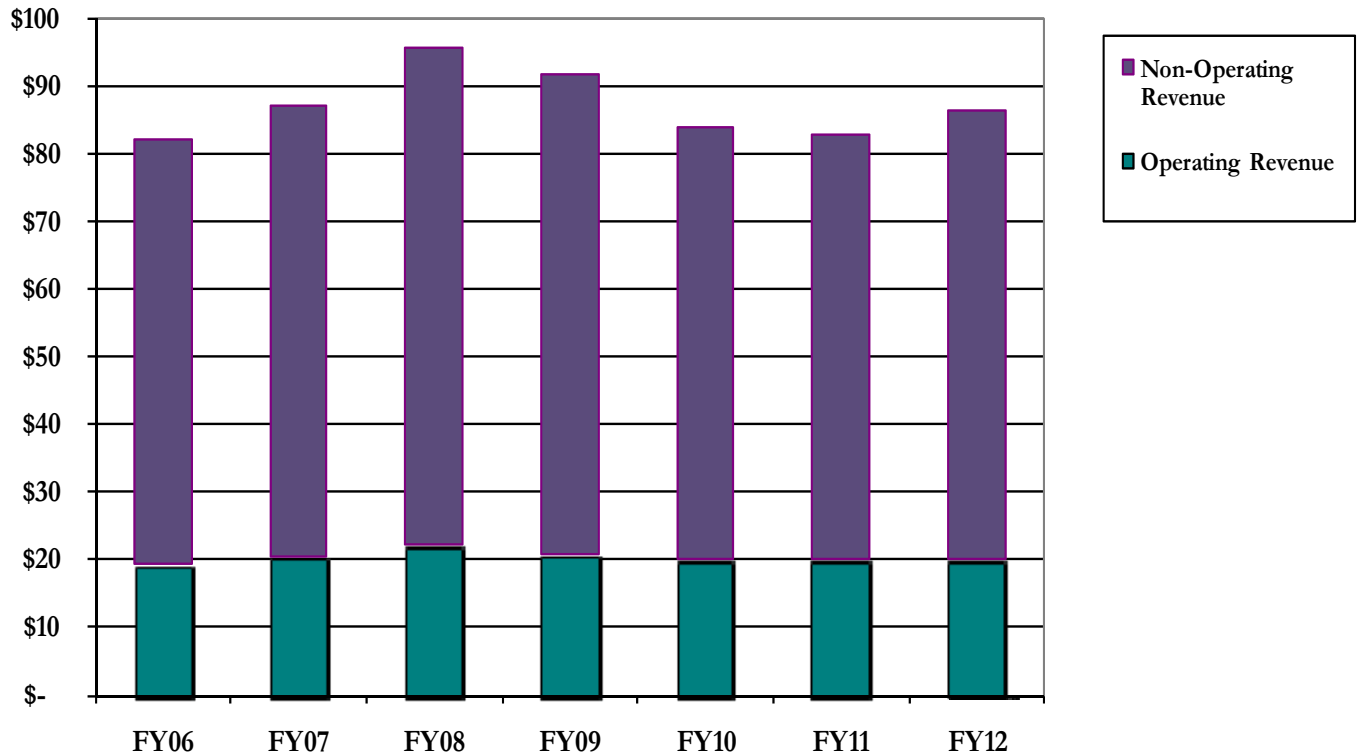
(amounts expressed in millions)



Convention & Entertainment projects that FY12 total expenses will exceed revenues by \$10.7 million, which is primarily attributable to the department's "pay-as-you-go" funding philosophy for capital and non-recurring projects. Such FY12 projects include facility upgrades and major maintenance projects. The operating deficit is funded by a fund balance that retained the balance of record HOT revenues in FY08 and FY09 in anticipation of the need for these projects.

Convention & Entertainment Revenues

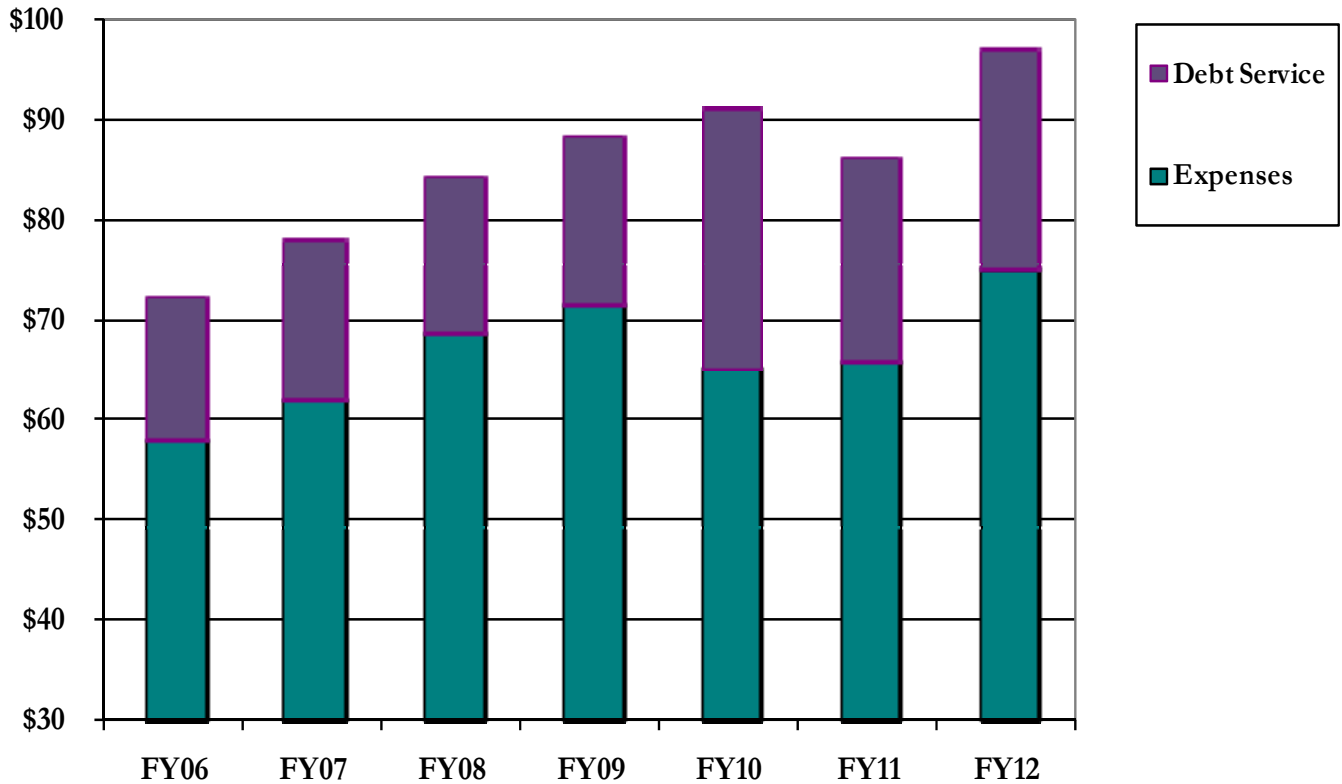
(amounts expressed in millions)



Convention & Entertainment total revenues are primarily generated from HOT taxes reported as Non-Operating revenues, followed by parking fees and facility rentals with related concession revenues reported as Operating revenues. Non-Operating and Operating revenues are projected to increase 4.28% in FY12 when compared to estimated FY11 revenues.

Convention & Entertainment Expenses

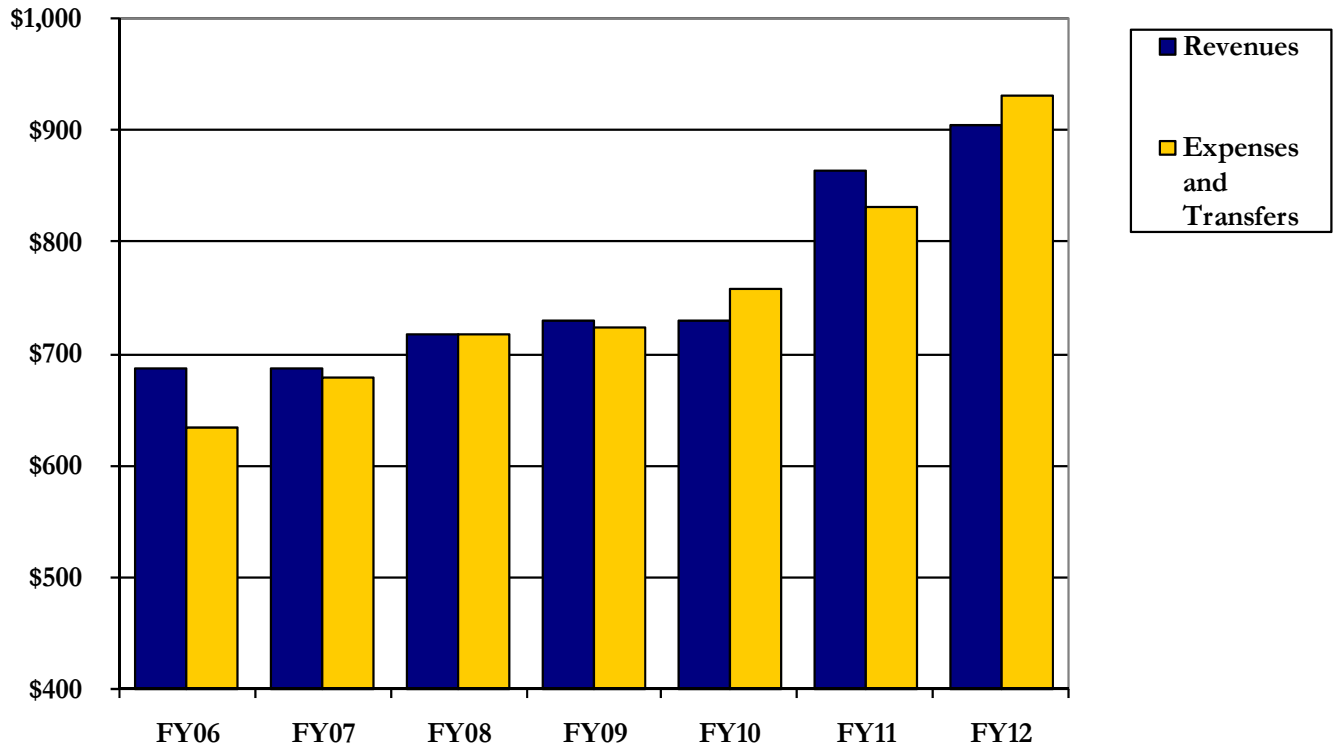
(amounts expressed in millions)



Convention & Entertainment is projecting an increase in expenses due to the department's "pay-as-you-go" funding philosophy for capital and non-recurring projects. Such FY12 projects include facility upgrades and major maintenance projects. Debt service is relatively flat.

Combined Utility System Revenues and Expenses

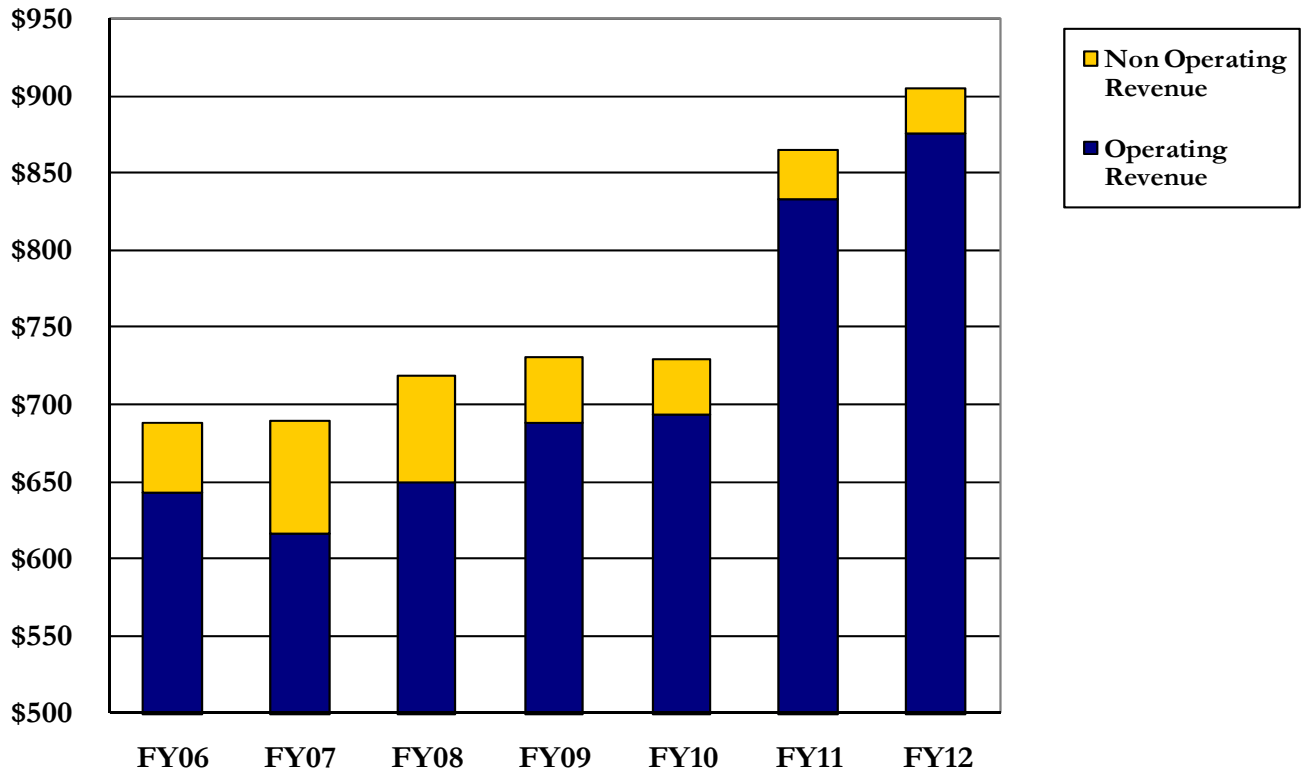
(amounts expressed in millions)



City ordinance directs that remaining funds, after all expenses and other financial obligations are met (the System's net revenues), are transferred to the CUS General Purpose Fund. The funds within the CUS General Purpose Fund are available to pay for any lawful System purpose and for drainage purposes, subject to certain restrictions.

Combined Utility System Revenue

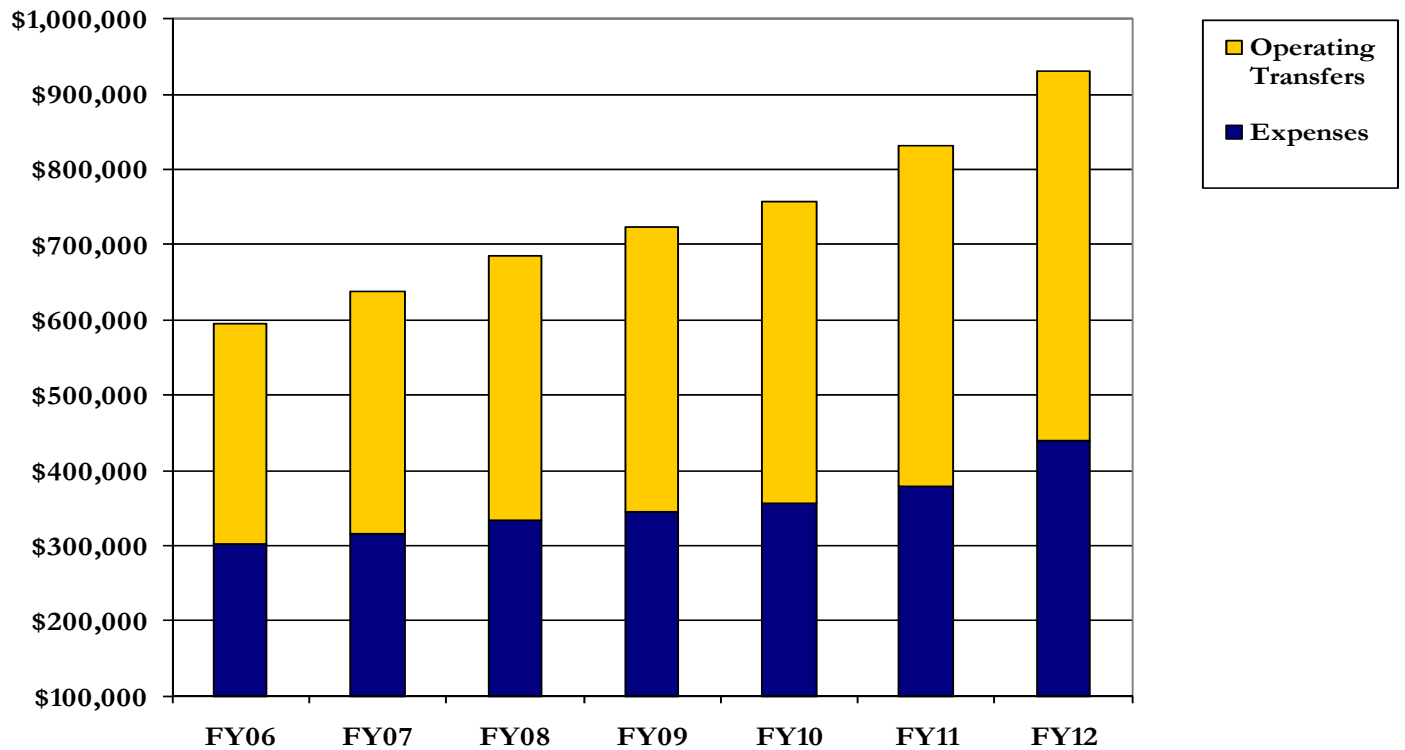
(amounts expressed in millions)



Operating Revenues for the Combined Utility System are projected to increase year-over-year due in part to an annual rate adjustment equal to the previous calendar year's Consumer Price Index for the area including Houston, Galveston and Brazoria Counties. The rate adjustments for Fiscal Years 2008, 2009, 2010, and 2011 are 2.8%, 5.1%, 0.3%, and 1.9% respectively.

Combined Utility System Operating Expenses by Category

(amounts expressed in millions)



The CUS Operating and Maintenance expenses reflect changes to Energy Expense Components, Employment expenses, additional resources to accommodate new customers or additional regulatory compliance. Operating Transfers include the System's debt service payment obligations as well as the drainage expense and debt service funding obligations. These numbers are the Administration's projections, not numbers generated by the Controller's Office.