

**Office of the City Controller**



**Houston, Texas**

# **Trends for Fiscal Year 2016**

**May 2015**

**Ronald C. Green**  
**City Controller**

# Trends

## Fiscal Year 2016

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 FY16 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 2015 are expected to increase 6.7% from Fiscal Year 2014 revenues. However, Fiscal Year 2016 revenues are anticipated to increase approximately 2.9% (not including transfers and sale of assets). Fiscal Year 2016's projected revenues primarily reflect increases in Property Tax and Sales Tax.

Of concern, our FY16 projection for General Fund resources is \$10.7 million less than the Administration's FY16 Proposed Budget. To calculate Property Tax revenue, the Controller's Office used an estimated taxable value of \$205.7 billion, calculated by taking the estimated taxable values from Harris County, Fort Bend County, and Montgomery County Appraisal Districts in April 2015 and a 97.7% collection rate. This is mute, as the Prop 1 limit is \$1.114 billion, and \$53 million lower than our calculated amount. The Administration's Property Tax uses a lower Prop 1 cap, as they had to estimate the Population number, which was just released last week by the U S Census Bureau.

For our Sales Tax projection, we assumed growth of 2.61%, which is Dr. Gilmer's March Low Forecast projection, less 1% margin of error. Dr. Gilmer's Likely projection is 3.74%. The Administration is using 1.8% growth, applied to their higher FY15 estimate.

We need to point out that the General Fund Beginning Fund Balance shown in the Proposed Budget is \$20.6 million higher than our draft FY15 April MFOR projection. Combined with the fact that the 2016 Proposed Budget for the General Fund reduces fund balance \$86.5 million, our projected Ending Fund Balance for FY16 is \$122.3 million, or 5.8% of the expenditures other than debt service, which is below the required amount of 7.5%, or \$156.9 million. The Proposed Budget is also not in compliance with the City's Financial Policies, Ord.2014-1078, concerning the calculation of the minimum unassigned Fund Balance, and the Budget Stabilization Fund amount. The Administration is proposing a change in the calculation of these amounts, to include funding for pay-as-you-go items with Debt Service for the calculation. There is an ordinance on this week's agenda to approve the change in the calculation methodology.

In the Enterprise Funds, Aviation revenues are increasing slightly due to higher Terminal, Parking and Landings revenues. Convention & Entertainment revenues are increasing from higher HOT tax revenues. The Combined Utility System's (CUS) revenues are increasing as well, primarily due to the annual water and sewer rate increase.

# Summary of Graphs

The numbers on each page are from the following sources:

1. **FY14 and prior years are actual results as reported in previous Comprehensive Annual Financial Reports (CAFR).**
2. **FY15 numbers are the Controller's Office April Monthly Financial Operations Report (MFOR) draft estimates.**
3. **The FY16 General Fund revenues are the most current projections of the Controller's Office.**
4. **Unless otherwise noted, all other FY16 numbers are from the Administration's FY16 Proposed Budget.**

# General Fund Revenues

*(amounts expressed in thousands)*

Revenues	FY11	FY12	FY13	FY14	FY15	FY16	% Change [a]	Admin.'s	Difference [a]
	Actual	Actual	Actual	Actual	Controller's April Proj.	Controller's Projection		Proposed Budget	
Property Tax	\$ 859,413	\$ 866,141	\$ 910,034	\$ 976,240	\$ 1,069,372	\$ 1,114,029	4.18% [b]	\$ 1,111,248	2,781
Industrial Assessments	14,458	37	29,845	16,534	15,000	17,000	13.33%	18,200	(1,200)
Sales Tax	492,824	546,543	600,256	629,441	668,314	685,757	2.61% [c]	688,837	(3,080)
Other Taxes	10,450	9,717	10,083	14,056	15,500	16,275	5.00%	16,679	(404)
Electric Franchise	98,108	99,765	103,941	101,054	100,670	101,142	0.47%	101,142	-
Telephone Franchise	46,722	45,466	45,143	43,913	42,295	40,600	-4.01%	40,865	(265)
Gas Franchise	21,890	22,009	19,194	16,493	14,538	14,840	2.08%	14,840	-
Other Franchise	23,844	25,520	27,026	28,529	29,710	30,300	1.99%	30,945	(645)
Licenses & Permits	18,714	24,586	34,220	35,757	36,549	37,280	2.00%	37,870	(590)
Intergovernmental	58,895	12,124	12,354	20,897	24,924	26,470	6.20%	26,470	-
Charges for Services	38,166	45,370	42,232	56,059	58,313	52,500	-9.97%	53,207	(707)
Direct Interfund Services	46,034	41,469	43,520	43,257	49,004	50,705	3.47%	50,705	-
Indirect Interfund Services	16,328	18,255	16,908	18,558	23,420	26,750	14.22% [d]	26,750	-
Muni Courts Fines	36,319	34,416	31,814	30,493	25,014	25,000	-0.06%	28,698	(3,698)
Other Fines	2,903	2,774	4,666	4,683	4,448	4,000	-10.07%	4,156	(156)
Interest	5,788	4,433	3,081	2,407	2,800	3,000	7.14%	3,000	-
Misc/Other	11,872	4,070	10,129	15,432	12,350	10,000	-19.03% [e]	12,757	(2,757)
<b>Total</b>	<b>\$ 1,802,728</b>	<b>\$ 1,802,695</b>	<b>\$ 1,944,446</b>	<b>\$ 2,053,803</b>	<b>\$ 2,192,221</b>	<b>\$ 2,255,648</b>	<b>2.89%</b>	<b>\$ 2,266,369</b>	<b>\$ (10,721)</b>
Transfers from Other Funds	23,561	53,144	30,742	26,639	30,286	30,725	1.45%	30,725	-
Sale of Capital Assets	13,766	1,504	4,602	1,017	28,419	5,500	-80.65% [f]	5,500	-
Proceeds from Promissory Note	-	-	10,666	-	-	-	-	-	-
Pension Bond Proceeds	-	-	-	-	-	-	-	-	-
<b>Total Revenues and Transfers</b>	<b>\$ 1,840,055</b>	<b>\$ 1,857,343</b>	<b>\$ 1,990,456</b>	<b>\$ 2,081,459</b>	<b>\$ 2,250,926</b>	<b>\$ 2,291,873</b>	<b>1.82%</b>	<b>\$ 2,302,594</b>	<b>\$ (10,721)</b>

[a] The “Percentage Change” column compares our FY16 projection to our FY15 estimate, while the “Difference” column compares our FY16 projection to the Administration’s proposed budget.

[b] Property Tax revenue is net of refunds and Tax Increment Reinvestment Zone (TIRZ) payments. The Controller’s FY16 calculation for Property Tax revenues is based on the taxable values provided by Harris County on April 30, 2015. The projection assumes an estimated \$21 million in delinquent collections and an estimated \$122 million in TIRZ payments. The calculated amount is \$1.166 billion, but being projected at the **Prop 1 cap amount of \$1.114 billion.**

[c] Sales Tax revenue uses our FY15 Sales Tax revenue estimate plus Dr. Robert Gilmer’s March 2015 estimated Low Forecast growth rate of 3.61%, less 1% for error, for FY16 growth of 2.61%.

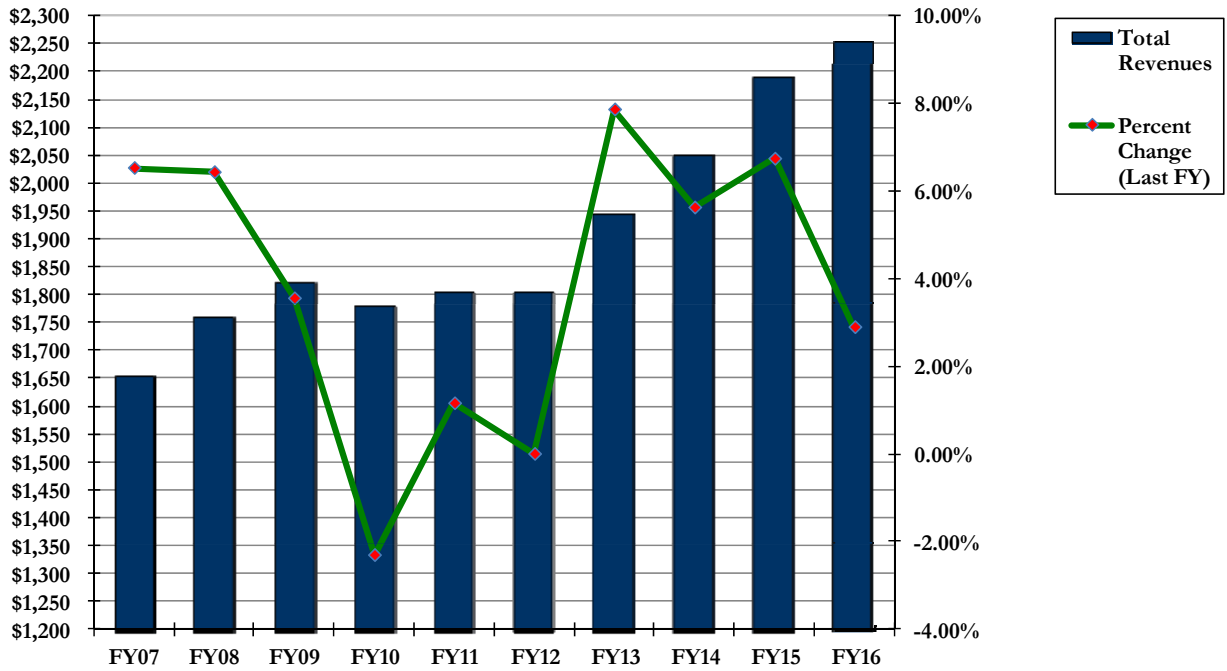
[d] Indirect Interfund increase of 14.22% is due to higher General Fund administrative overhead costs, which are allocated to other funds.

[e] Miscellaneous/Other decrease of 19.03% is from one-time Judgements & Claims received in FY2015.

[f] Sale of Capital Assets decrease of 80.65% is from one-time sale of Gillette property in FY2015.

# General Fund Revenues

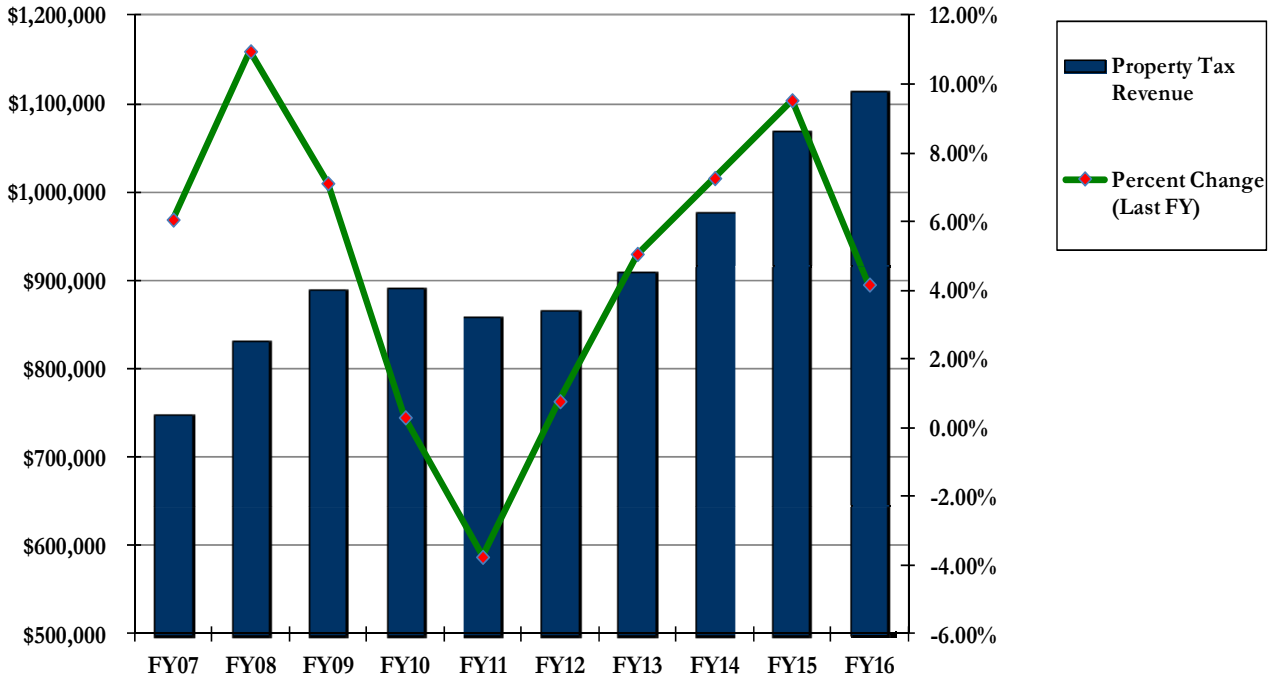
*(amounts expressed in millions)*



FY16 General Fund revenue is projected to increase by \$63.4 million, or 2.9% over our current FY15 estimate. The projected increase consists mostly of increased property tax of \$44.7 million and sales tax of \$17.4 million.

# Property Tax Revenue

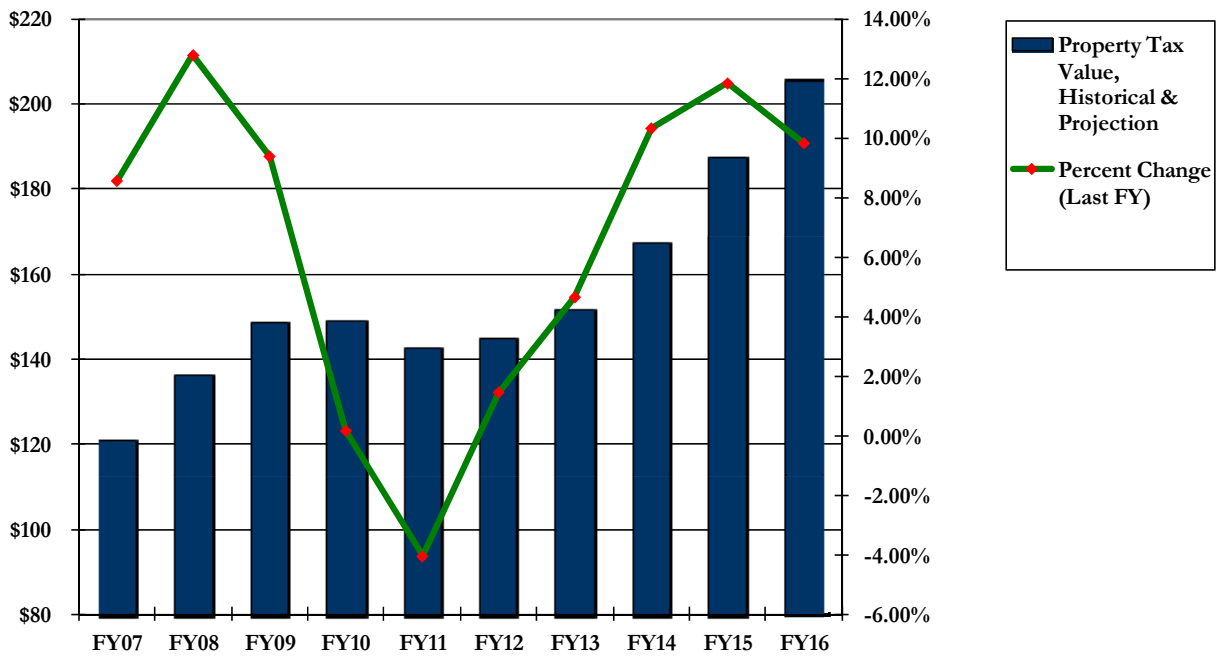
*(amounts expressed in thousands)*



Property Tax revenue is projected to be higher than the FY15 estimate by 4.2%. Controller's Property Tax revenue projection is based on the Prop 1 cap amount of \$1.114 billion. This amount is \$52.6 million below our calculated amount. The rate will not be known until the Certified Roll is received around the end of August. TIRZ payments are increasing to \$122 million, and delinquent tax collections are decreasing to \$21 million.

# Taxable Values Historical & Forecast

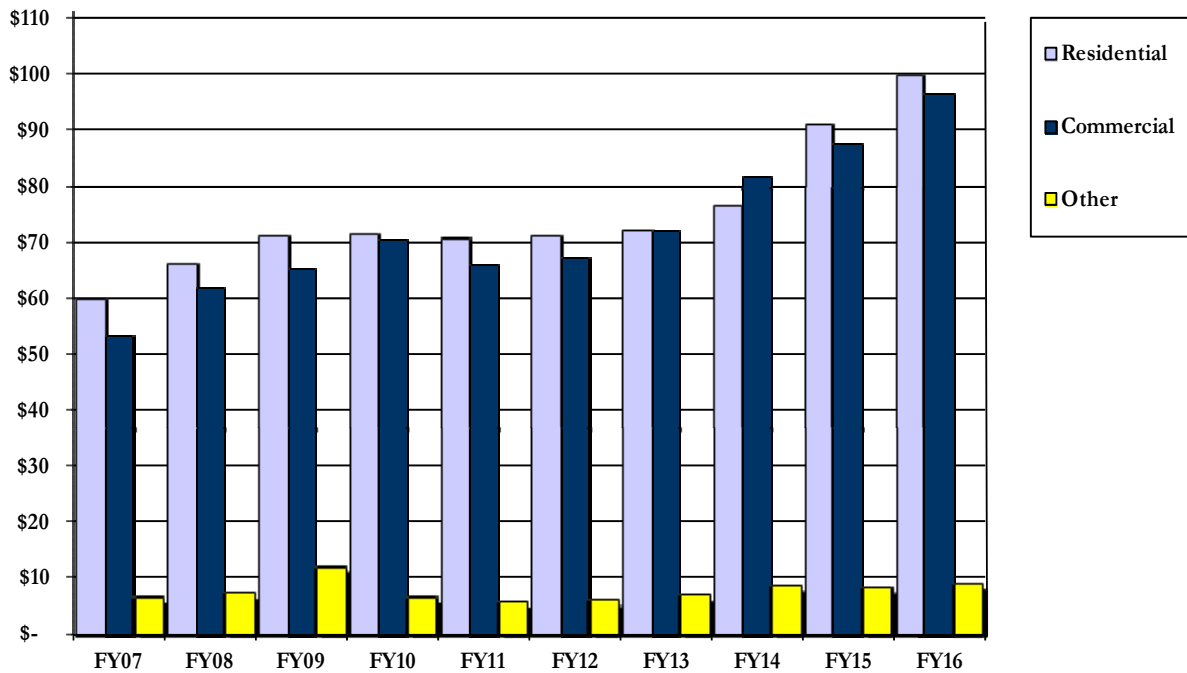
*(amounts expressed in billions)*



The Harris County, Fort Bend County, and Montgomery County Appraisal Districts (the Districts) provide expected taxable values. The actual taxable values for FY15 are above the preliminary value estimates provided at this time last year. However, based on the Districts' projection for FY16, an increase in valuation of about 9.8% is anticipated. These values are based on the Districts' preliminary projected values, dated April 30, 2015. This does not reflect the Administrations increase in the Senior/Disabled exemption from \$80,000 to \$160,000.

# Taxable Values By Property Type Historical & Forecast

*(amounts expressed in billions)*

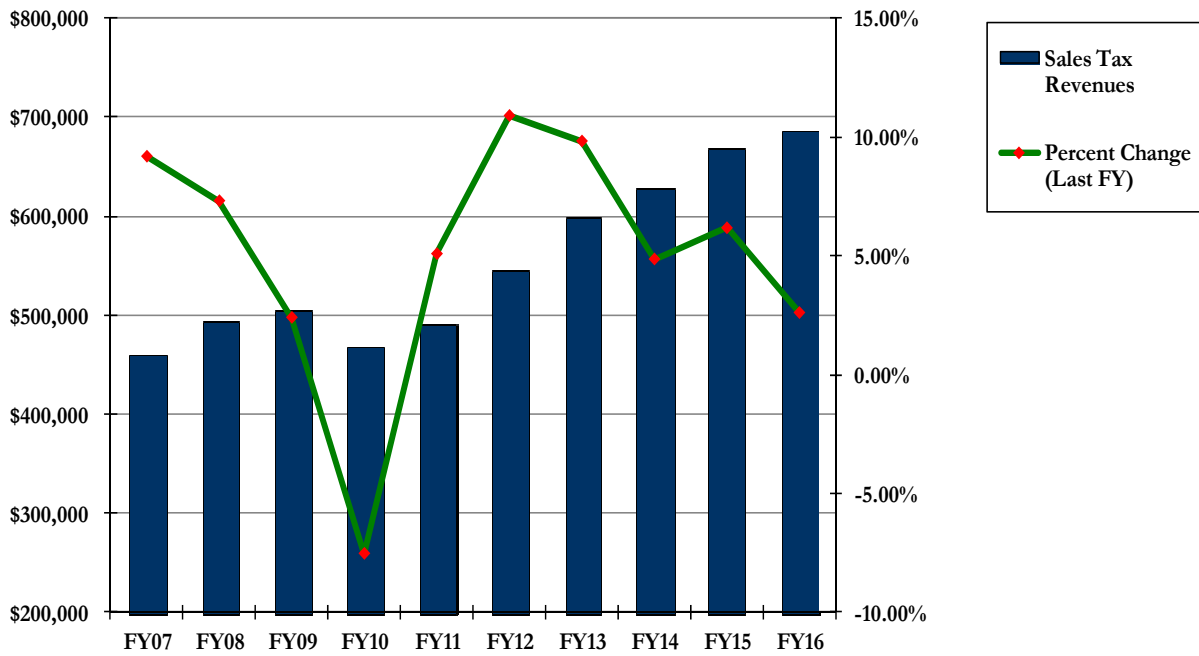


Residential and commercial properties in the City of Houston make up 95% of the taxable values.



# Sales Taxes Revenue

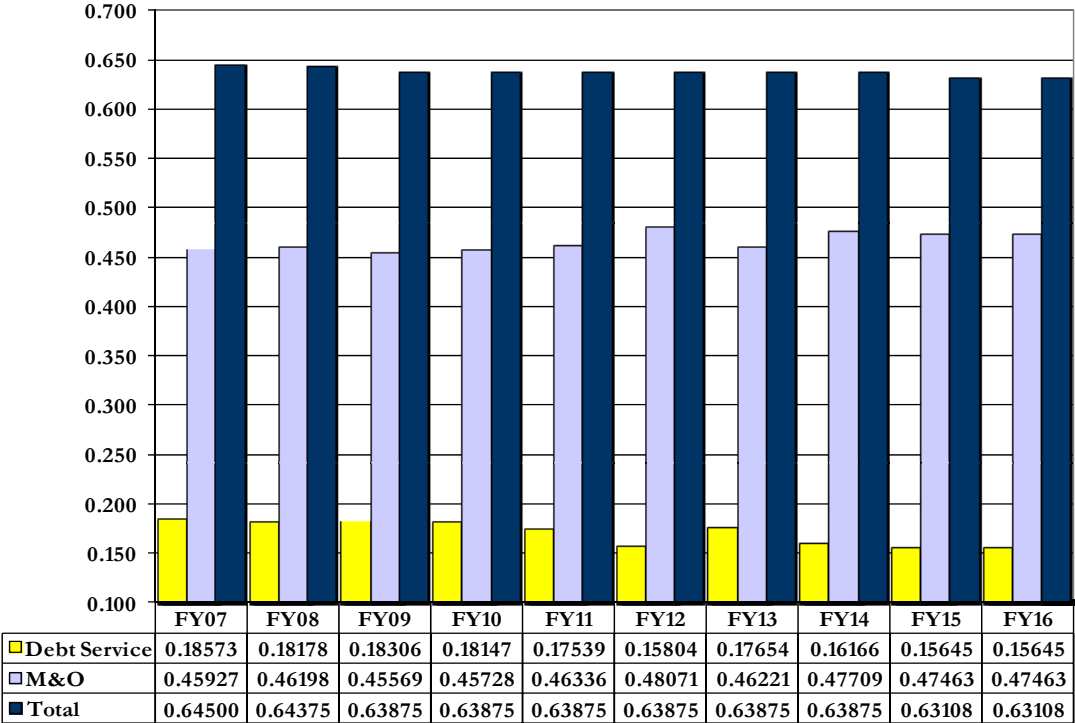
*(amounts expressed in thousands)*



FY16 Sales tax revenue is projected to be 2.61% higher than FY15 Sales Tax receipts. This increase is based on the Low Forecast estimated growth of Dr. Robert Gilmer's March report, less 1% margin of error.

# Property Tax Rate

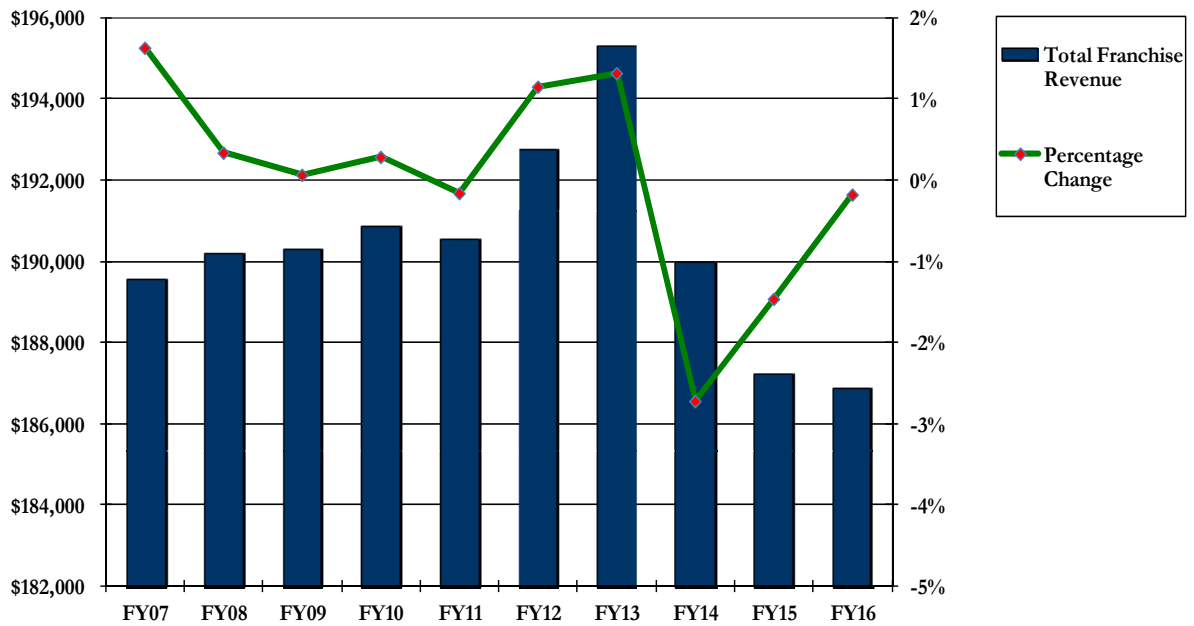
*(Tax Rate per \$100 Valuation)*



The FY16 number is a projection. The final rate will be established by a vote of Council in the first quarter of FY16 when the Certified Roll is available. It will be lower than last year's rate due to the effect of the Prop 1 cap.

# Total Franchise Revenues

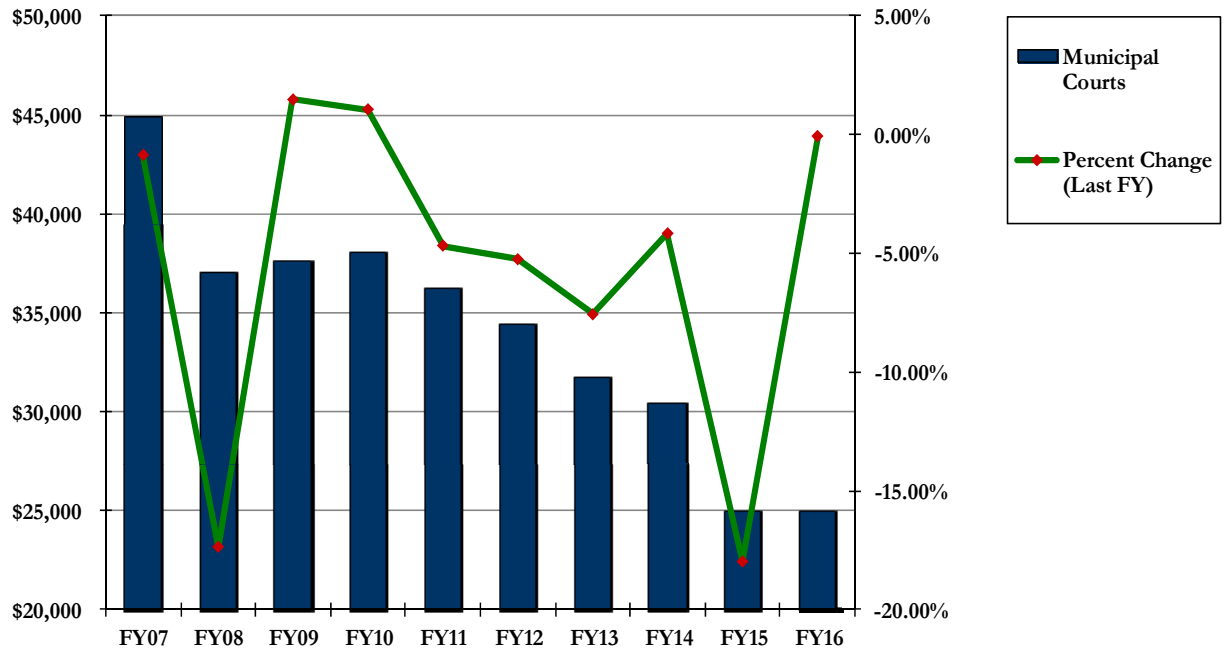
*(amounts expressed in thousands)*



Total Franchise revenues are projected to decrease slightly for FY16. Although a large decrease is expected in Telephone Franchise, small increases in Electricity, Gas, and Other Franchise are expected.

# Municipal Courts Revenues

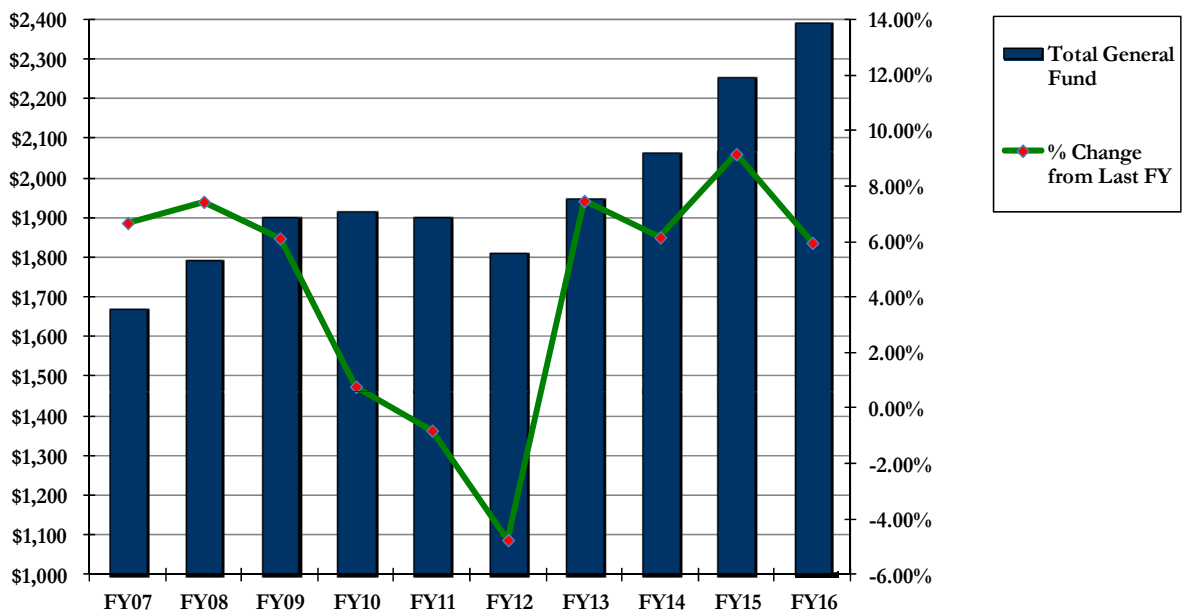
*(amounts expressed in thousands)*



Municipal Courts Fines and Forfeits are expected to remain approximately flat in FY16.

# General Fund Expenditures Budget

*(amounts expressed in millions)*

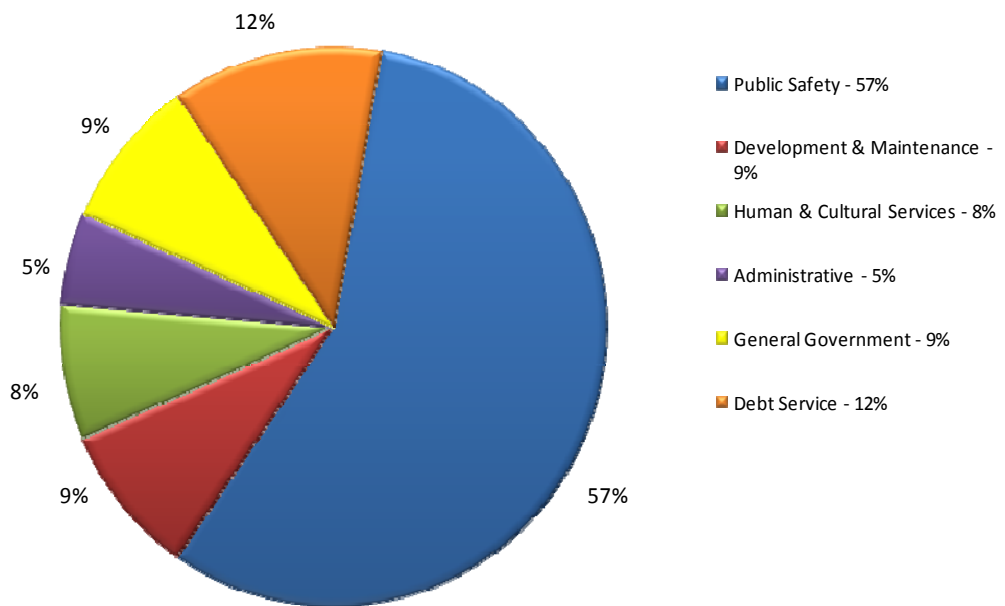


The General Fund expenditure budget is up by 6%, an increase of \$134 million from our FY15 estimated expenditures. The gap between Controller's projected revenues/resources and budgeted expenditures will require using \$96.8 million from the Fund Balance to cover the operating deficit for FY16.

# General Fund

## Expenditures Percent by

### Function for 2016



**Public Safety** – Fire, Houston Emergency Center, Municipal Courts, Police

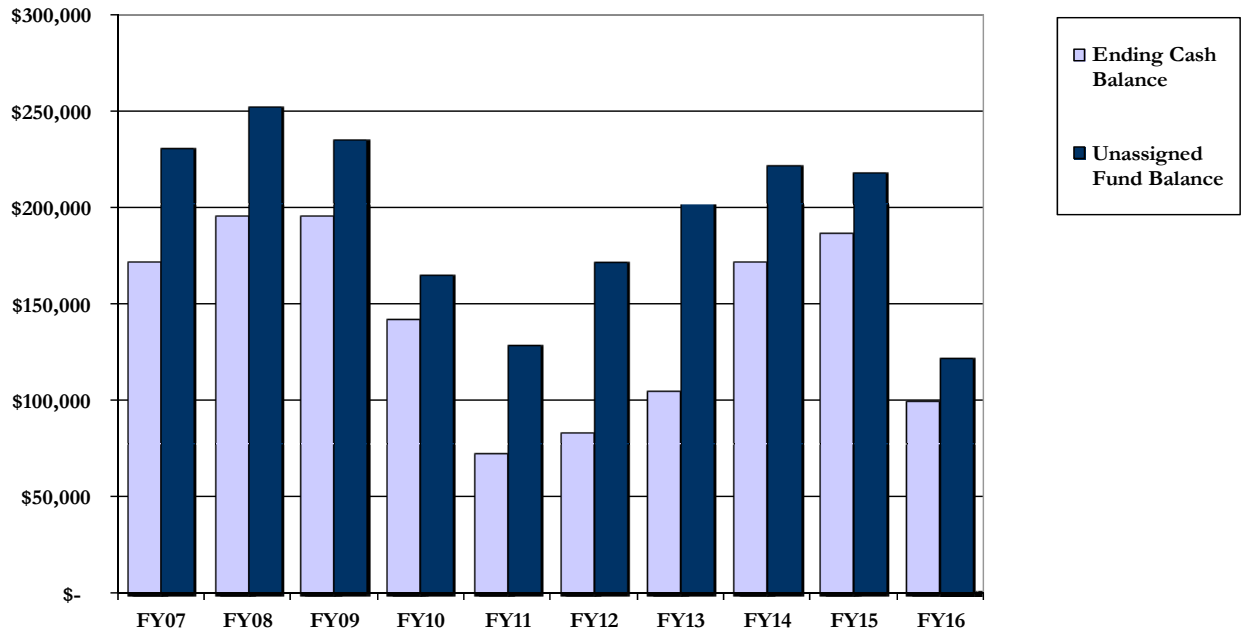
**Development & Maintenance** – General Services, Planning, Public Works, Solid Waste

**Human & Cultural** – Neighborhoods, Health, Housing, Library, Parks

**Administrative** – Administration & Regulatory Affairs, Controllers, Council, City Secretary, Finance, IT, HR, Legal, Mayor, Office of Business Opportunity

# Cash vs. Fund Balance General Fund

*(amounts expressed in thousands)*

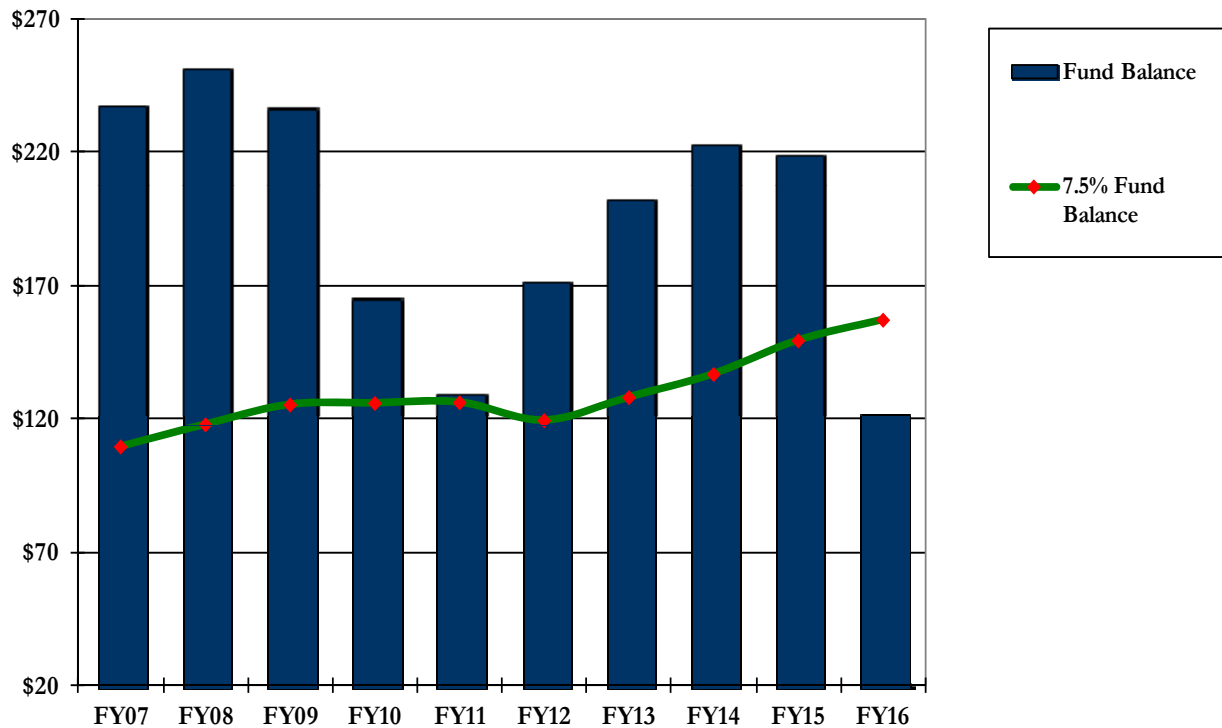


The Unassigned Fund Balance consists of both cash and non-cash items and includes receivables for Sales Tax and Franchise Fees. The Unassigned Fund Balance is expected to decrease by \$4 million in FY15 and decrease by \$97 million in FY16.

# City Ordinance 7.5% Fund Balance Requirement

## General Fund

*(amounts shown in Millions)*

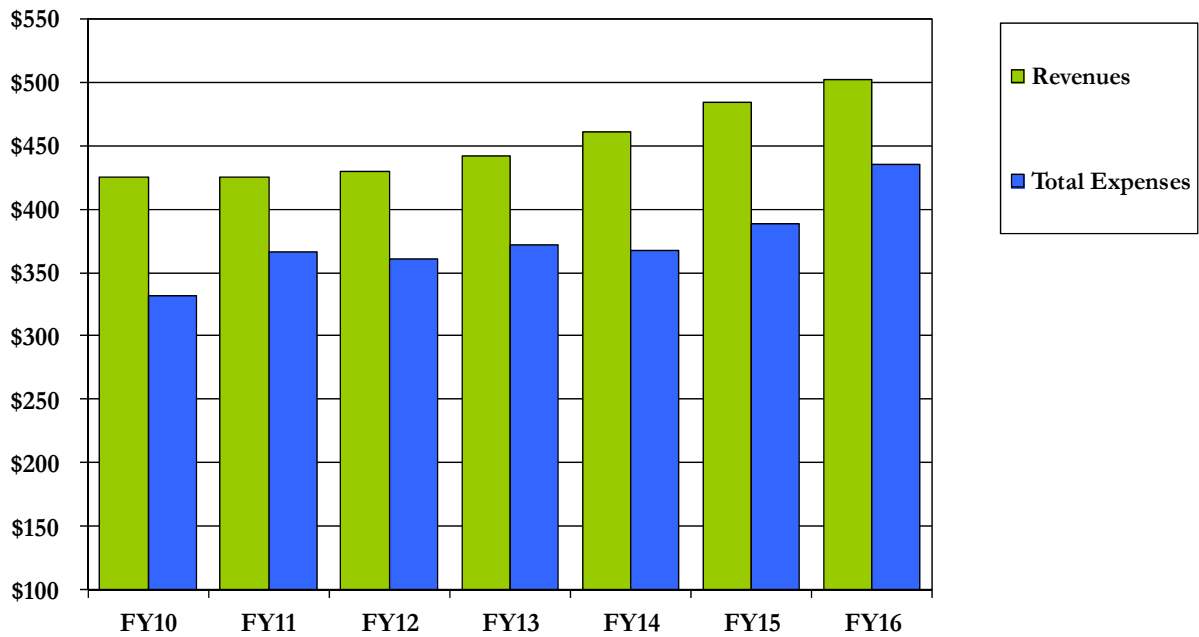


City ordinance 2014-1078, adopted December 2014, requires an Undesignated Reserve of 7.5% of the General Fund Expenditures, less Debt Service Payments. For FY16, we are projecting an ending fund balance \$34.6 million below the 7.5% required. We are using the current approved formula of calculating the fund balance requirement, not the Administration’s proposed changed method, which results in a lower amount.



# Aviation Revenues & Expenses

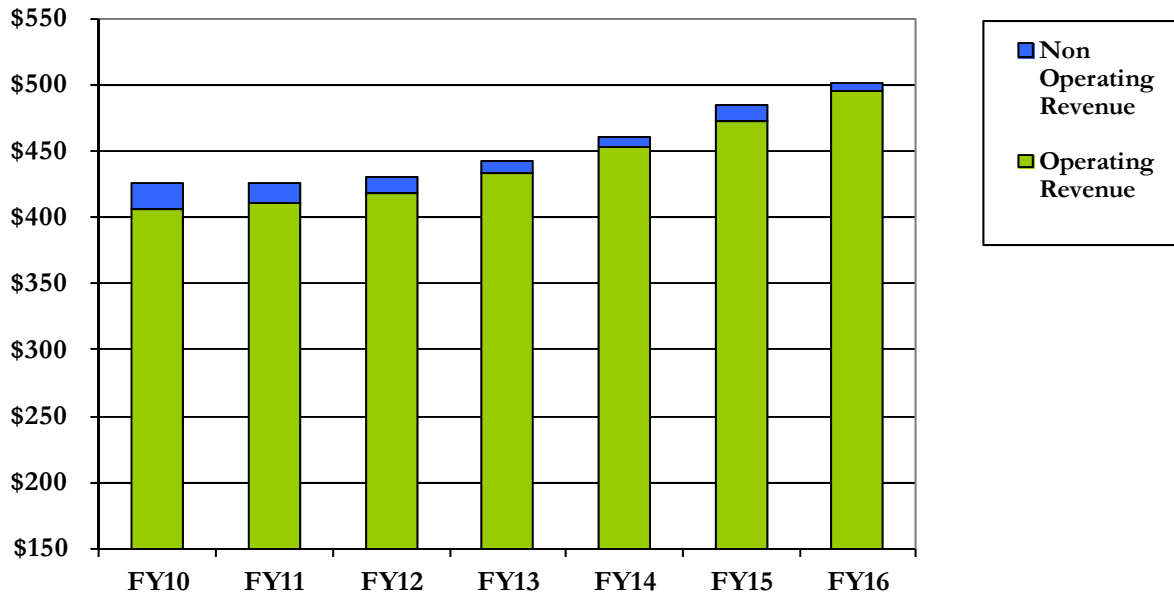
*(amounts expressed in millions)*



Aviation is projecting revenues to increase slightly due to additional operating revenues. Projected increases in expenses are based on anticipated increased spending for Personnel costs (Health Benefits and Pension) and Debt Service.

# Aviation Revenues

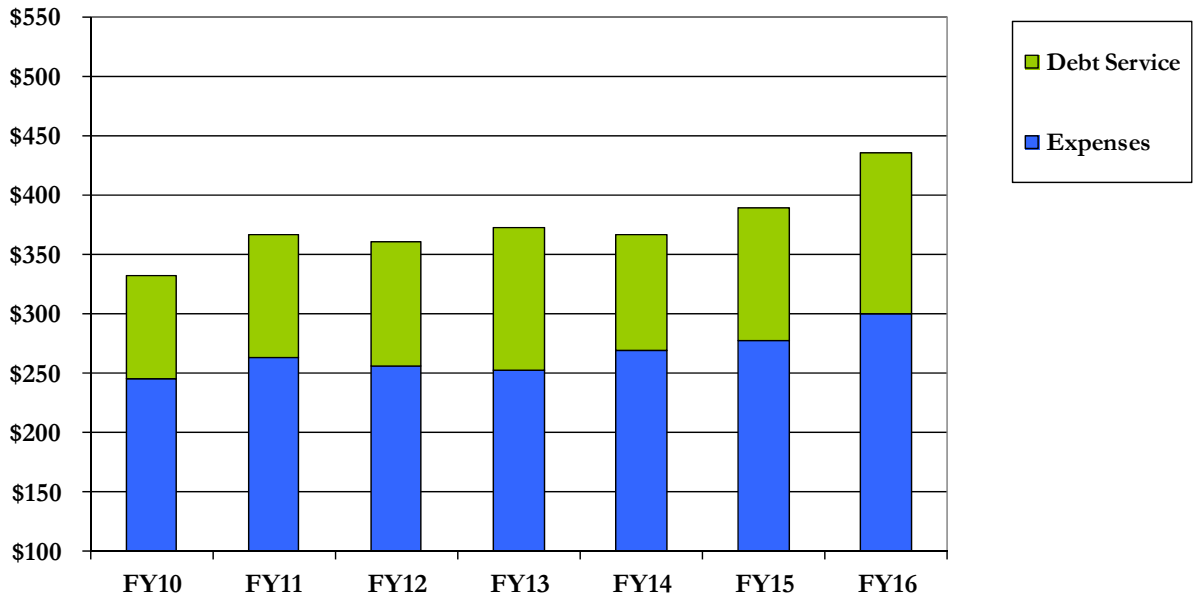
*(amounts expressed in millions)*



FY16 revenues are expected to increase 3.53%, or \$17.1 million from the FY15 estimate, primarily related to a budgeted increase in Terminal Space Rentals and Garage Parking.

# Aviation Expenses

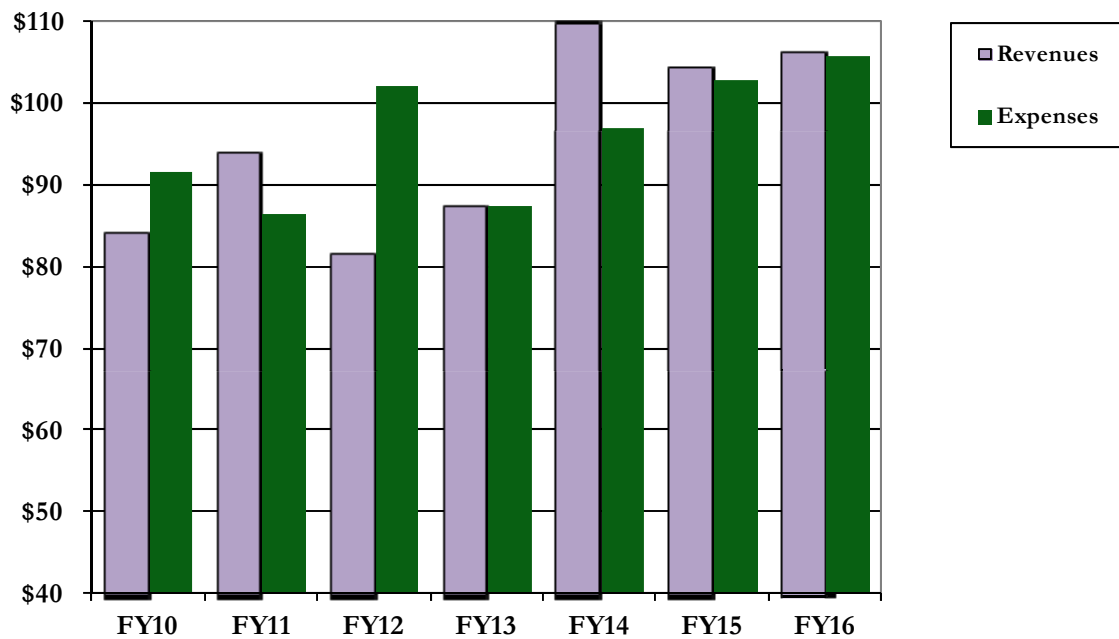
*(amounts expressed in millions)*



Aviation expects an FY16 expense increase of approximately 12.1%, or \$47 million over the FY15 estimate.

# Convention & Entertainment Revenues & Expenses

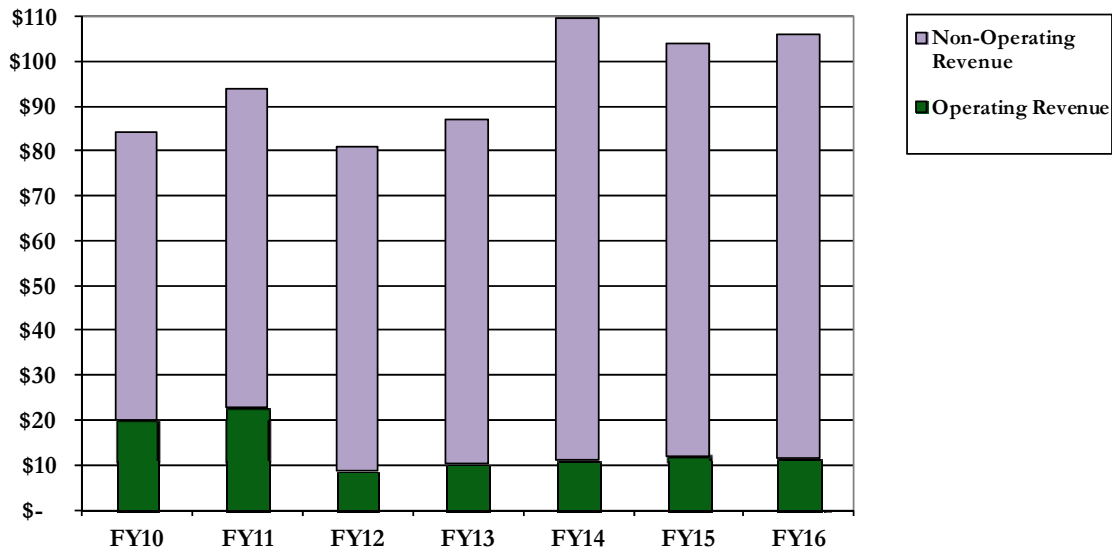
*(amounts expressed in millions)*



Convention & Entertainment projects the expenses to be basically level with the revenues in FY16.

# Convention & Entertainment Revenues

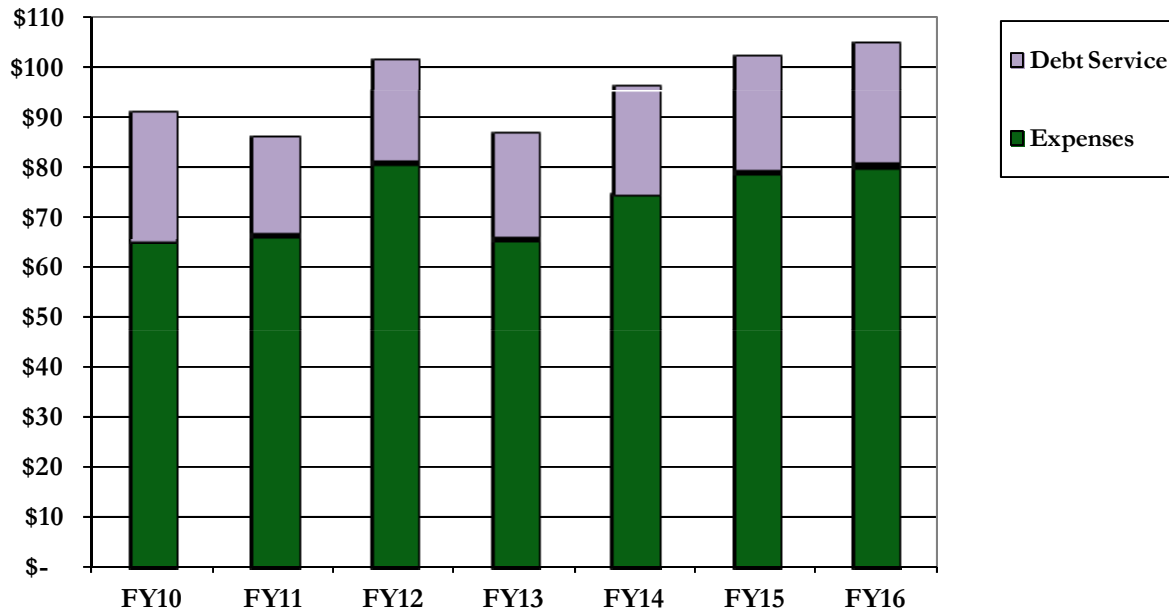
*(amounts expressed in millions)*



Convention & Entertainment total revenues are primarily generated from HOT taxes reported as Non-Operating revenues, followed by pledged parking fees reported as Operating revenues. HOT tax revenues are projected to increase 2.2% in FY16 to \$92.5 million when compared to estimated FY15 revenues of \$90.5 million.

# Convention & Entertainment Expenses

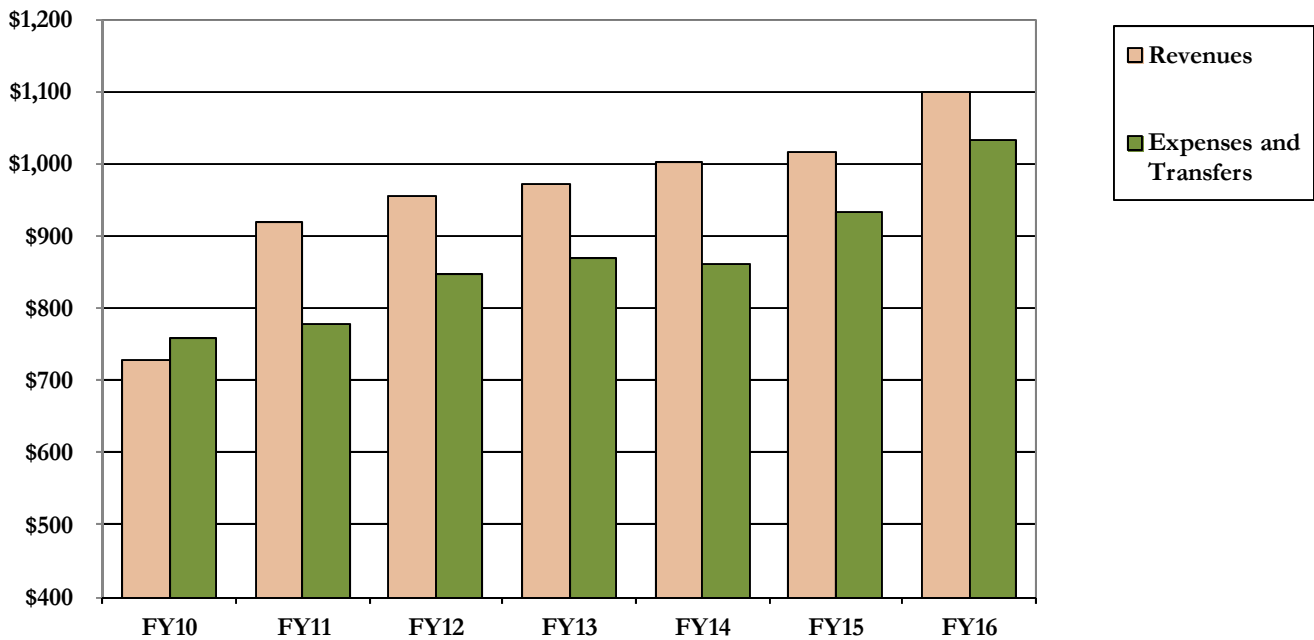
*(amounts expressed in millions)*



Convention & Entertainment is projecting an overall expense increase of \$3.1 million from FY15 levels, up 2.98% in FY16.

# Combined Utility System Revenues and Expenses

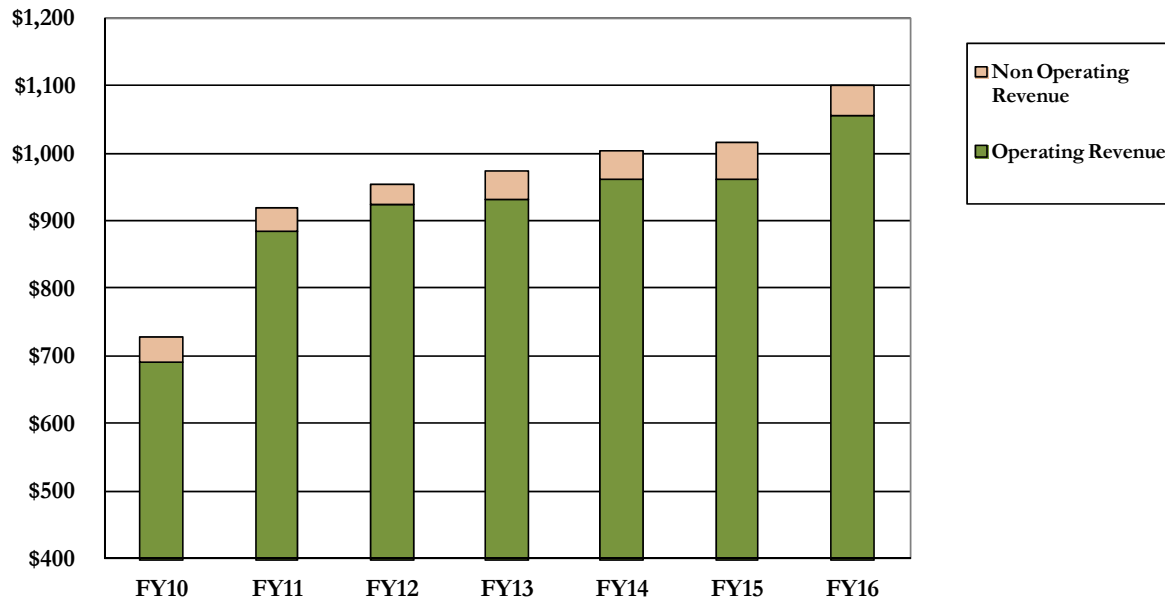
*(amounts expressed in millions)*



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)*

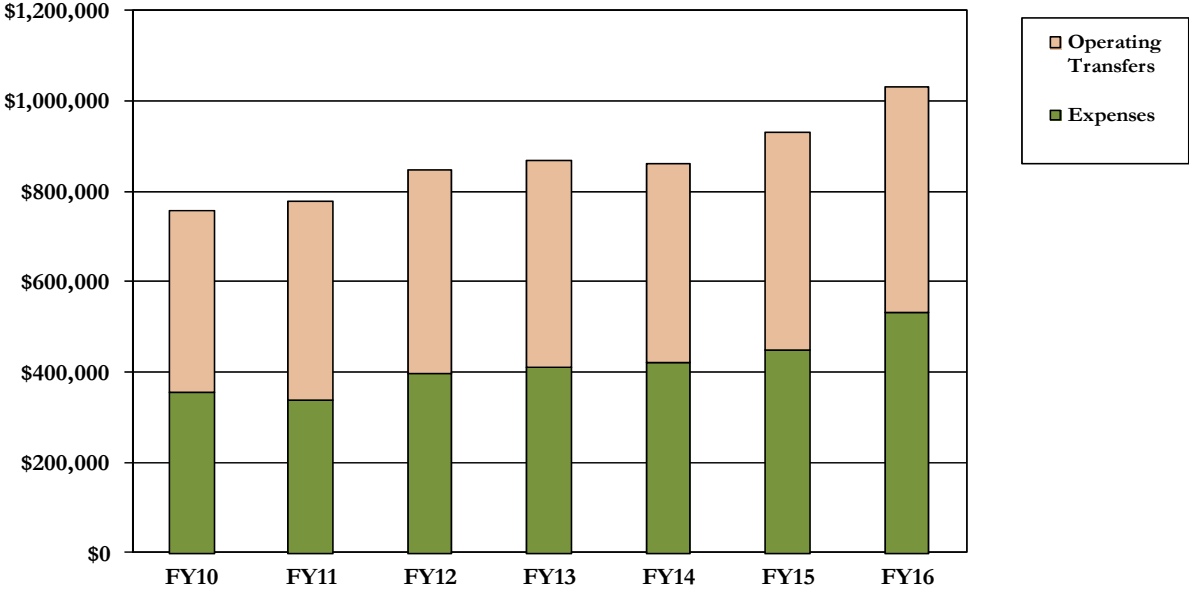


Operating Revenues for the Combined Utility System are projected to increase year-over-year due in part to an annual rate adjustment equal to the previous calendar year's Consumer Price Index for the area including Houston, Galveston and Brazoria Counties. The rate adjustments for Fiscal Years 2009, 2010, 2011, 2012, 2013, 2014, and 2015 are 5.1%, 0.3%, 1.9%, 3.3%, 3.6%, 1.2%, and 4.4% 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.