

Office of the City Controller



Houston, Texas

Trends for Fiscal Year 2021

May 2020

**Chris B. Brown
City Controller**

Trends

Fiscal Year 2021

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 Fiscal Year 2021 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.

For the remainder of Fiscal Year 2020 we expect a decrease of 1.99% from Fiscal Year 2019 revenues. Most decreases are a direct result of the impact of COVID-19 on the City's resources. As a result, Fiscal Year 2021 revenues are expected to decrease by 1.26% (not including transfers, sale of assets or the budget stabilization reserve) from our Fiscal Year 2020 March projections. Fiscal Year 2021's projected revenues reflect increases in Property Tax, Telephone Franchise, Gas Franchise, Other Franchise, Intergovernmental, Charges for Services and Direct Interfund Services with decreases in Industrial Assessments, Sales Tax, Other Taxes, Electric Franchise, Licenses and Permits, Indirect Interfund Services, Municipal Courts, Interest and Miscellaneous/Other.

Our Fiscal Year 2021 projection for General Fund resources is \$88.5 million lower than the Administration's Fiscal Year 2021 Proposed Budget. To calculate Property Tax revenue, the Controller's Office used an estimated taxable value of \$259.4 billion, calculated by taking the estimated taxable values from Harris County, Fort Bend County, and Montgomery County Appraisal Districts in April 2020 and a 98.4% collection rate. This is moot, as the Estimated Proposition 1 limit is \$1.244 billion and is lower than our calculated amount. The Administration is using a slightly higher population estimate (Planning Department) than the Controller's Office (Census Bureau historical ratio), which returns a higher Prop 1 cap estimate. The U.S. Census Bureau is scheduled to release the population number on May 23, 2020 which will allow for a final Prop 1 cap calculation at that time.

For our Sales Tax projection, we assumed a decline of 9.96% due to COVID-19's impact on the City's economy and low oil prices. This was applied to our Fiscal Year 2020 estimate. The Administration is using 0.74% decrease, applied to their Fiscal Year 2020 estimate.

Our projected Ending Fund Balance for the General Fund for Fiscal Year 2021 is \$45 million, or 2.1% of the expenditures other than debt service and PAYGO, which is below the required amount of 7.5%, or \$160 million.

In the Enterprise Fund, Aviation revenues are decreasing due to severe declines in Concessions, Parking, Terminal Space Rentals, and Interest Income. Convention & Entertainment revenues are down due to lower HOT tax and Parking fees. The Combined Utility System's (CUS) revenues are decreasing, primarily due to a decrease in deferred rental fees for facilities.

Summary of Graphs

The numbers on each page are from the following sources:

1. FY19 and prior years are actual results as reported in previous Comprehensive Annual Financial Reports (CAFRs).
2. FY20 numbers are the Controller's Office March Monthly Financial Operations Report (MFOR) estimates.
3. The FY21 General Fund revenues are the most current projections of the Controller's Office.
4. Unless otherwise noted, all other FY21 numbers are from the Administration's FY21 Proposed Budget.

General Fund Revenues

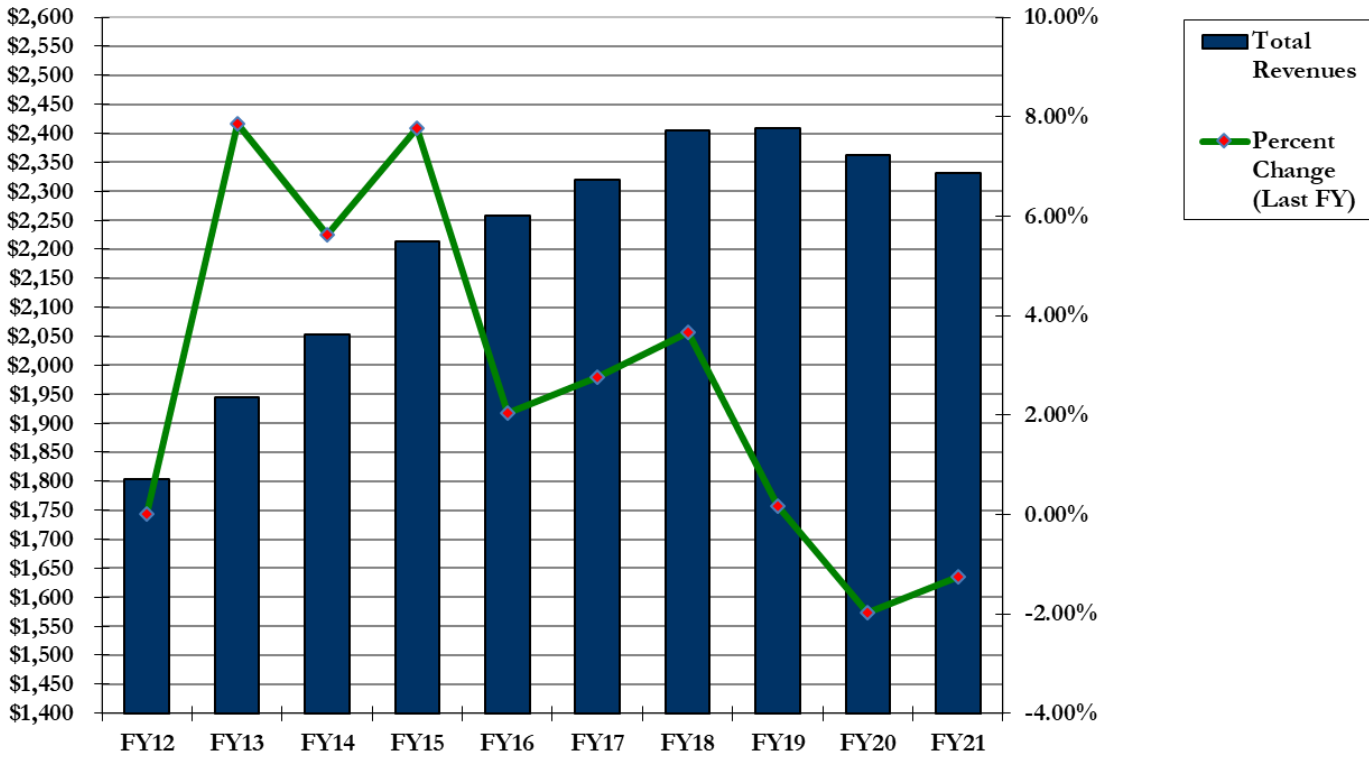
(amounts expressed in thousands)

Revenues	FY16	FY17	FY18	FY19	FY20	FY21	% Change [a]	Admin.'s	Difference [a]
	Actual	Actual	Actual	Actual	Controller's March Proj.	Controller's Projection		Proposed Budget	
Property Tax	\$ 1,098,664	\$ 1,153,991	\$ 1,172,543	\$ 1,190,243	\$ 1,215,745	\$ 1,243,535	2.29% [b]	\$ 1,244,606	(1,071)
Industrial Assessments	19,239	19,291	18,278	19,755	19,000	18,050	-5.00%	19,311	(1,261)
Sales Tax	640,476	631,993	674,279	692,271	677,451	610,000	-9.96% [c]	675,000	(65,000)
Other Taxes	16,271	16,896	17,370	18,026	17,100	15,390	-10.00% [d]	19,528	(4,138)
Electric Franchise	101,212	102,654	102,260	100,590	100,450	97,465	-2.97%	99,454	(1,989)
Telephone Franchise	43,061	41,928	39,704	37,501	23,050	23,966	3.97%	24,455	(489)
Gas Franchise	14,840	15,016	13,791	12,324	12,000	12,774	6.45%	13,034	(260)
Other Franchise	32,056	30,988	30,019	29,225	17,665	19,909	12.70% [e]	20,315	(406)
Licenses & Permits	39,608	38,020	33,412	35,301	33,120	31,464	-5.00%	33,989	(2,525)
Intergovernmental	53,663	71,040	76,390	60,205	51,736	54,682	5.69%	54,682	-
Charges for Services	62,553	60,046	58,034	63,839	59,906	78,809	31.55% [f]	82,197	(3,388)
Direct Interfund Services	54,024	53,523	54,449	62,214	62,665	63,175	0.81%	63,175	-
Indirect Interfund Services	26,611	27,399	28,910	26,603	27,671	24,258	-12.33% [g]	24,258	-
Muni Courts Fines	24,960	22,122	20,980	21,702	18,757	16,881	-10.00% [h]	19,744	(2,863)
Other Fines	4,952	4,778	4,021	3,933	3,413	3,072	-10.00% [h]	3,846	(774)
Interest	3,700	5,051	7,531	11,802	9,011	6,900	-23.43% [i]	9,011	(2,111)
Misc./Other	22,367	25,876	53,564	24,066	13,024	11,722	-10.00% [h]	13,978	(2,256)
Total	\$ 2,258,257	\$ 2,320,612	\$ 2,405,535	\$ 2,409,600	\$ 2,361,764	\$ 2,332,052	-1.26%	\$ 2,420,583	\$ (88,531)
Transfers from Other Funds	34,656	20,901	20,617	20,660	17,956	10,199	-43.20% [j]	10,199	-
Sale of Capital Assets	7,934	10,302	4,090	26,022	21,491	2,500	-88.37% [k]	2,500	-
Pension Bond Proceeds	-	-	909,990	-	-	-	0.00%	-	-
Budget Stabilization Fund Reserve	-	-	-	-	-	1,328	0.00%	1,328	-
Total Revenues and Resources	\$ 2,300,847	\$ 2,351,815	\$ 3,340,232	\$ 2,456,282	\$ 2,401,211	\$ 2,346,079	-2.30%	\$ 2,434,610	\$ (88,531)

- [a] The “Percentage Change” column compares our FY21 projection to our FY20 estimate, while the “Difference” column compares our FY21 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 FY21 calculation for Property Tax revenues is based on the taxable values provided by the 3 appraisal districts in April 2020. The projection assumes an estimated \$6 million in delinquent collections and an estimated \$162 million in TIRZ payments. The calculated amount is \$1.220 billion but being projected at the Estimated Prop 1 cap amount of \$1.244 billion.
- [c] FY21 Sales Tax revenue projection begins with our FY20 Sales Tax revenue estimate and adjusts downward by 9.96% due to the expected impact of COVID-19 and low oil prices.
- [d] Other Taxes decreased \$1.7 million, or 10%, primarily due to decreased Mixed Beverage Tax.
- [e] Other Franchise increased \$2.2 million, or 12.7%, primarily due to an expected increase in Cable Franchise.
- [f] Charges for Services increased \$18.9 million, or 31.55%, primarily due to expected revenues from container lease fees and digital billboards.
- [g] Indirect Interfund Services decreased \$3.4 million, or 12.33% mainly due to increased revenue from CUS of \$1.5 million and other indirect recoveries of \$1.1 million.
- [h] Municipal Courts Fines, Other Fines and Miscellaneous/Other revenue decreased \$3.5 million, or 10% due to the impact of COVID-19.
- [i] Interest decreased \$2.1 million, or 24.43% due to a the outlook for interest rates.
- [j] Transfers from Other Funds decreased 43.20% primarily due less projected claw backs.
- [k] Sale of Capital Assets increased in FY20 by \$17 million due to the sale of land at 1800 Texas Ave. in April 2020.

General Fund Revenues

(amounts expressed in millions)



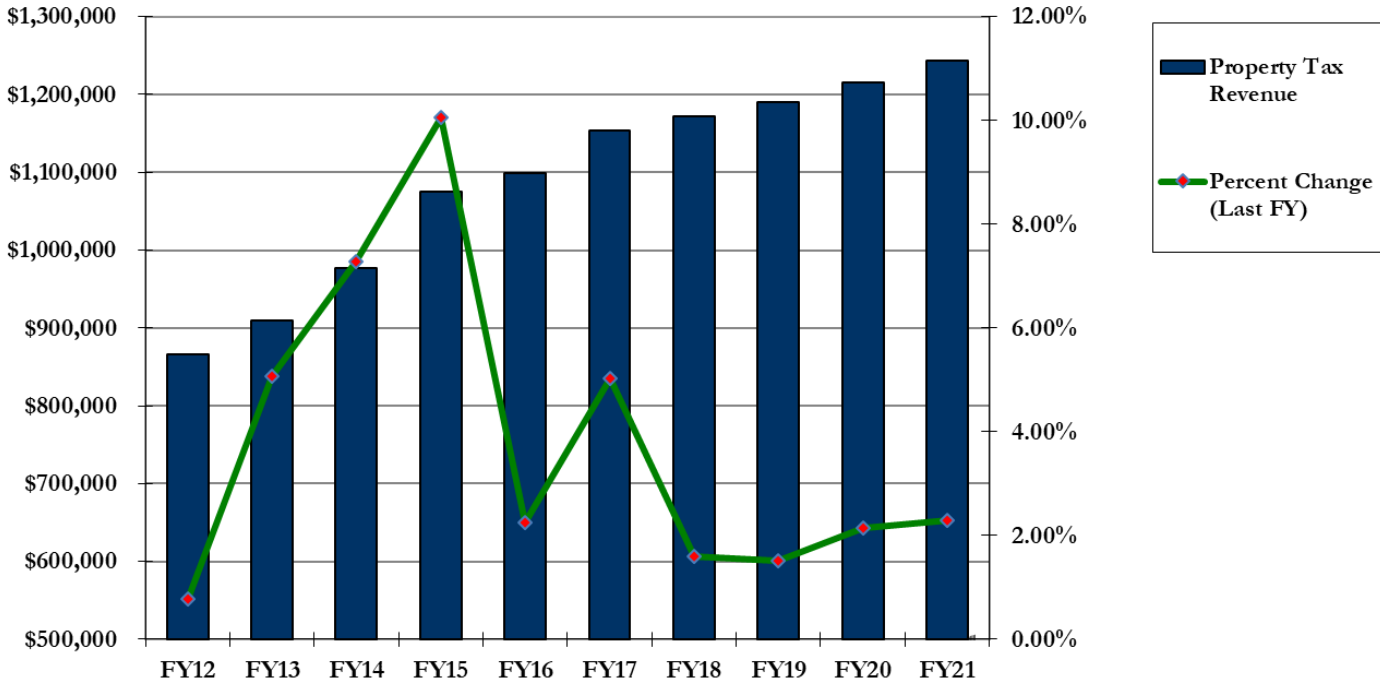
FY21 General Fund revenue is projected to decrease by \$29.7 million, or 1.26% below our current FY20 estimate.

The projected decline consists primarily of decreases in Sales Tax of \$67 million, Industrial Assessment and Other Taxes of \$2.7 million, Electric Franchise of \$2.9 million, Licenses & Permits of \$1.7 million, Indirect Interfund Services of \$3.4 million, Municipal Courts & Other Fines of \$2.2 million, and Interest/Misc. Other of \$3.4 million.

The decreases were partially offset by increases in Property Tax of \$28 million, Telephone Franchise of \$916,000, Gas Franchise of \$774,000, Other Franchise of \$2.2 million, Intergovernmental of \$2.9 million, Direct Interfund of \$510,000 and Charges for Services of \$18.9 million.

Property Tax Revenue

(amounts expressed in thousands)

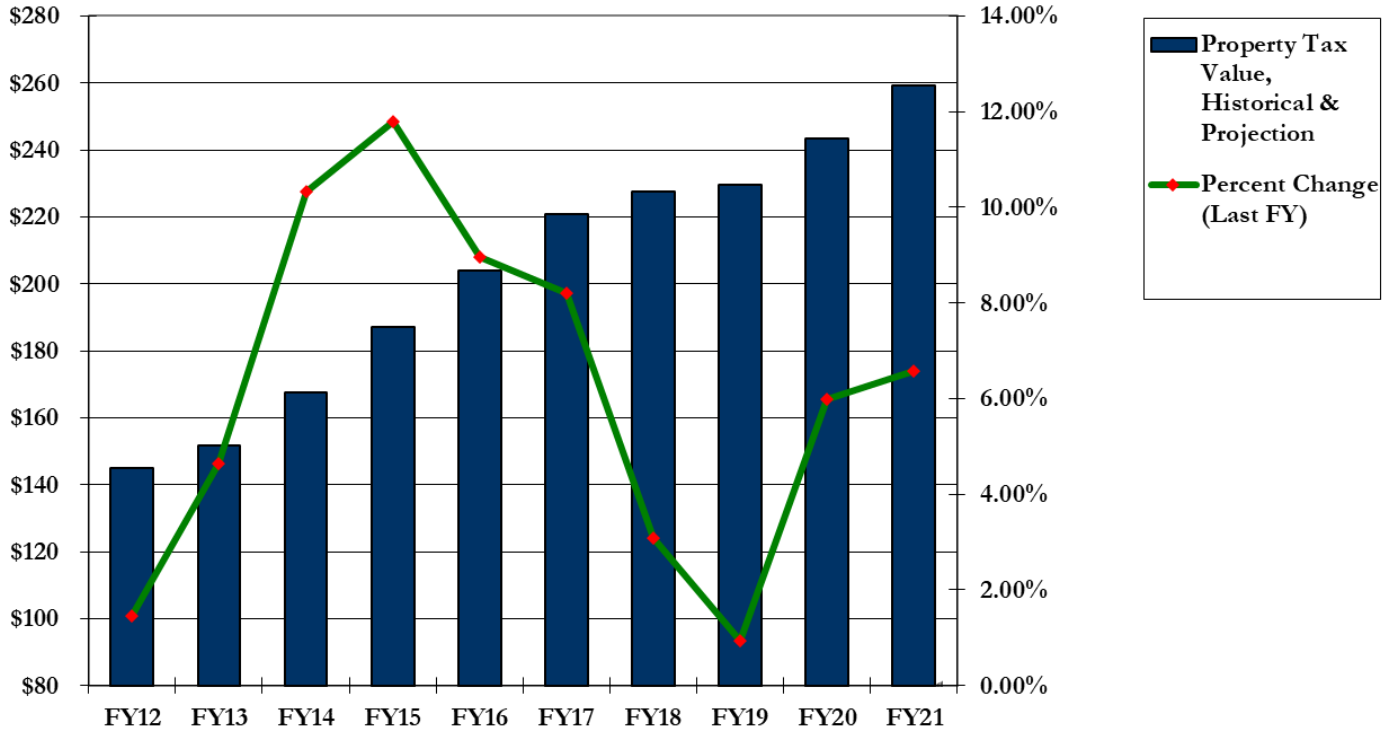


Property Tax revenue is projected to be higher than the FY20 estimate by 2.29%. Controller’s Property Tax revenue projection is based on the Estimated Prop 1 cap amount of \$1.244 billion. The tax rate will not be known until the Certified Roll is received around the end of August. TIRZ payments are projected at \$162 million, and delinquent tax collections are projected at \$7 million.

Note: The U.S. Census Bureau’s estimated City of Houston 2019 population will be reported on May 26, 2020. The Controller’s Office will update our Prop 1 calculation upon receipt of the official estimate.

Taxable Values Historical & Forecast

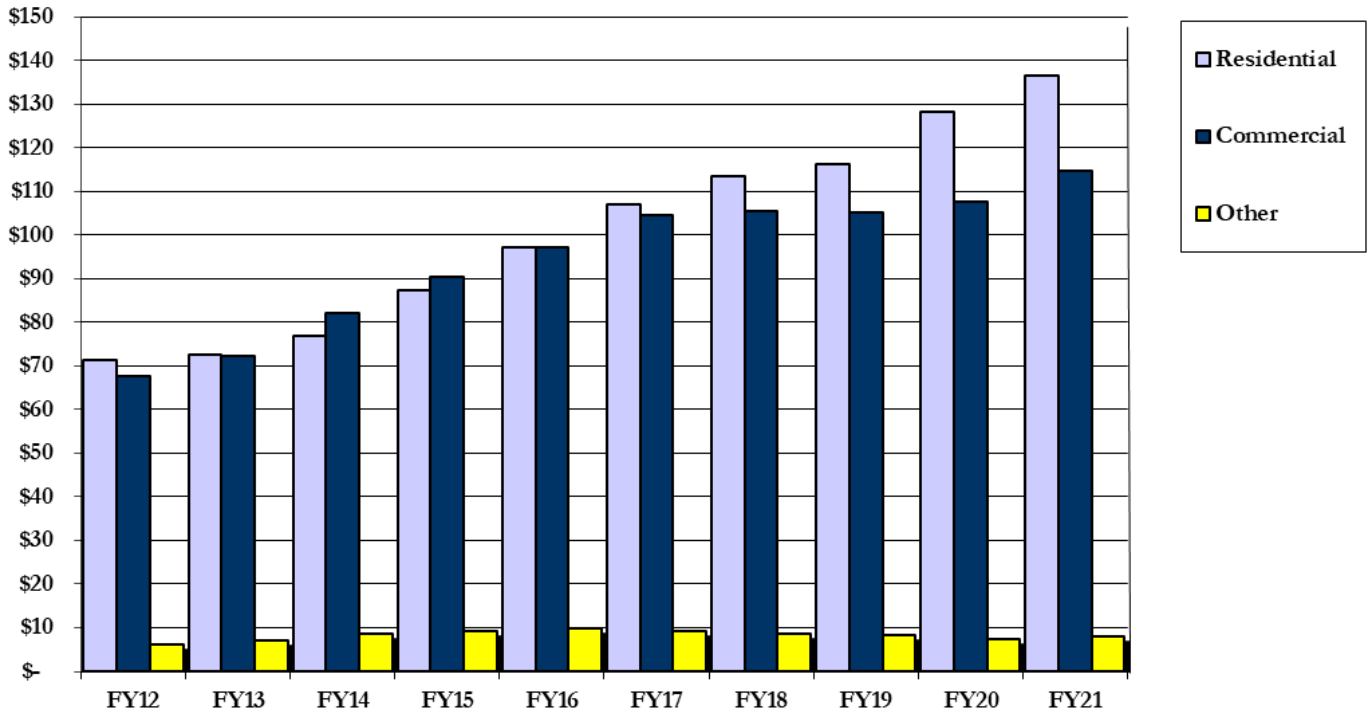
(amounts expressed in billions)



The Harris County, Fort Bend County, and Montgomery County Appraisal Districts (the Districts) provide expected taxable values. The actual taxable values for FY20 are below the preliminary value estimates provided at this time last year. However, based on the Districts' projection for FY21, an increase in valuation of about 6.58% is anticipated. These values are based on the Districts' preliminary projected values, dated April 30, 2020. Harris County taxable values comprise over 99% of the total.

Taxable Values By Property Type Historical & Forecast

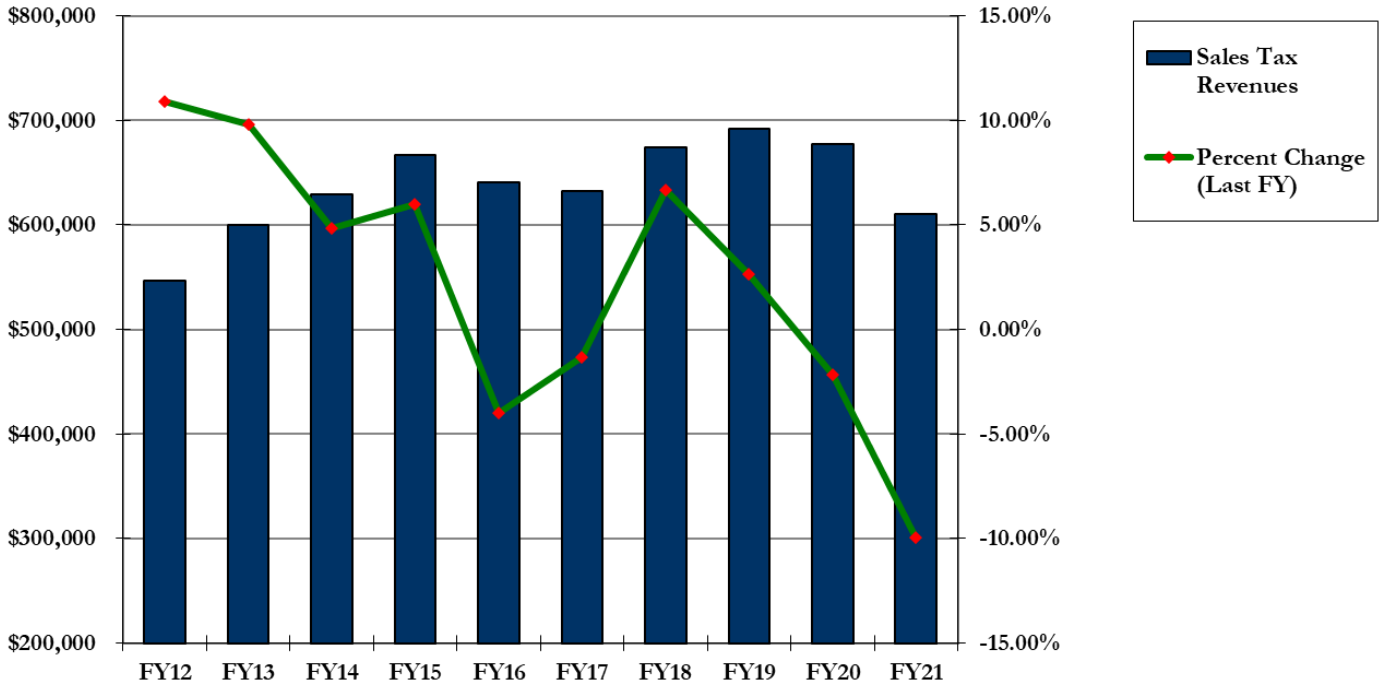
(amounts expressed in billions)



Residential and commercial properties in the City of Houston make up 95.95% of the taxable values.

Sales Taxes Revenue

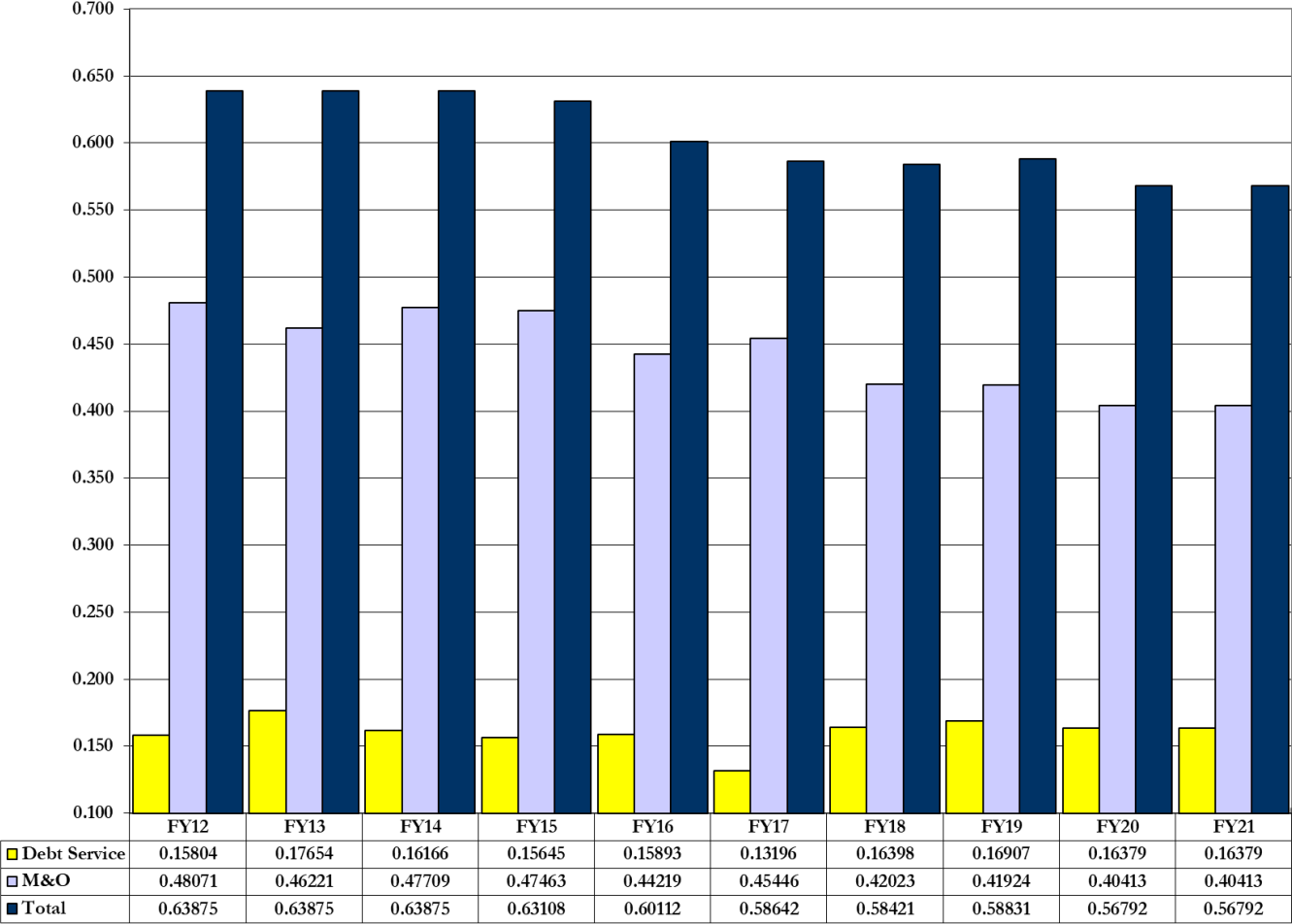
(amounts expressed in thousands)



FY21 Sales tax revenue is projected to be 9.96% lower than the forecasted FY20 Sales Tax receipts. This decrease is due to the impact of COVID-19 on the City's economy and the possibility of a prolonged period of low oil prices.

Property Tax Rate

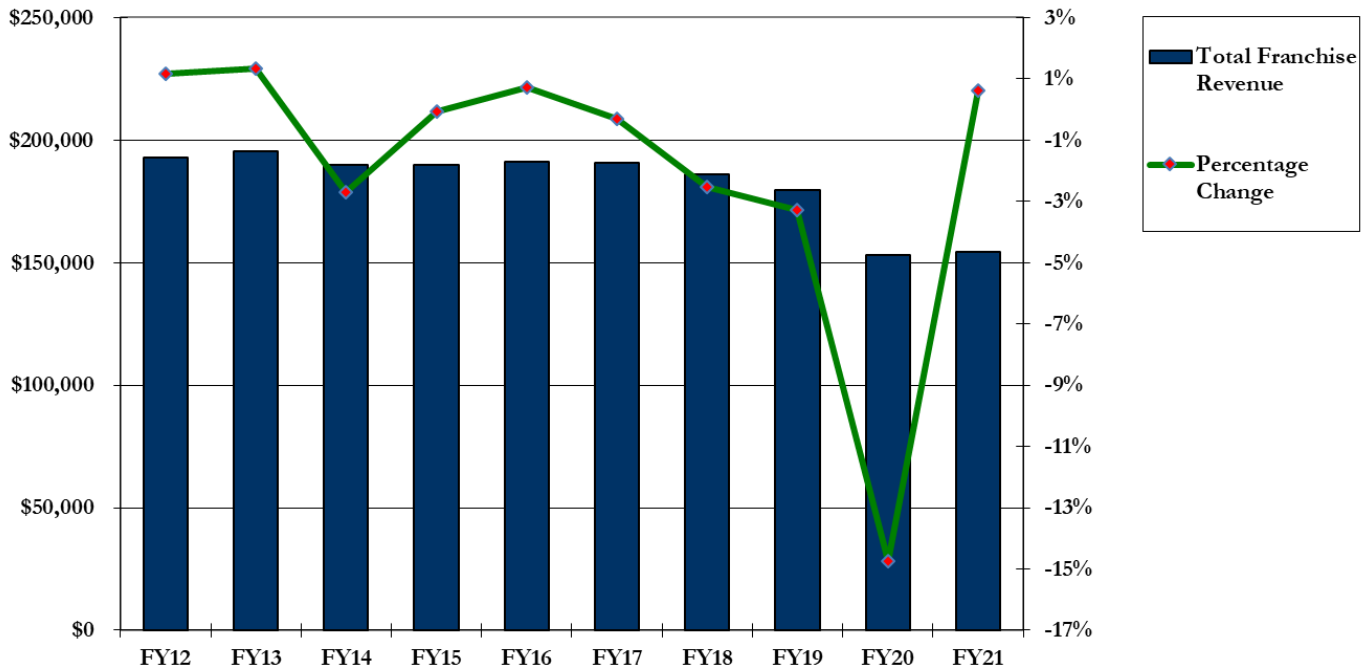
(Tax Rate per \$100 Valuation)



The FY21 number is a projection. The final rate will be established by a vote of Council in the first quarter of FY21 when the Certified Roll is available.

Total Franchise Revenues

(amounts expressed in thousands)

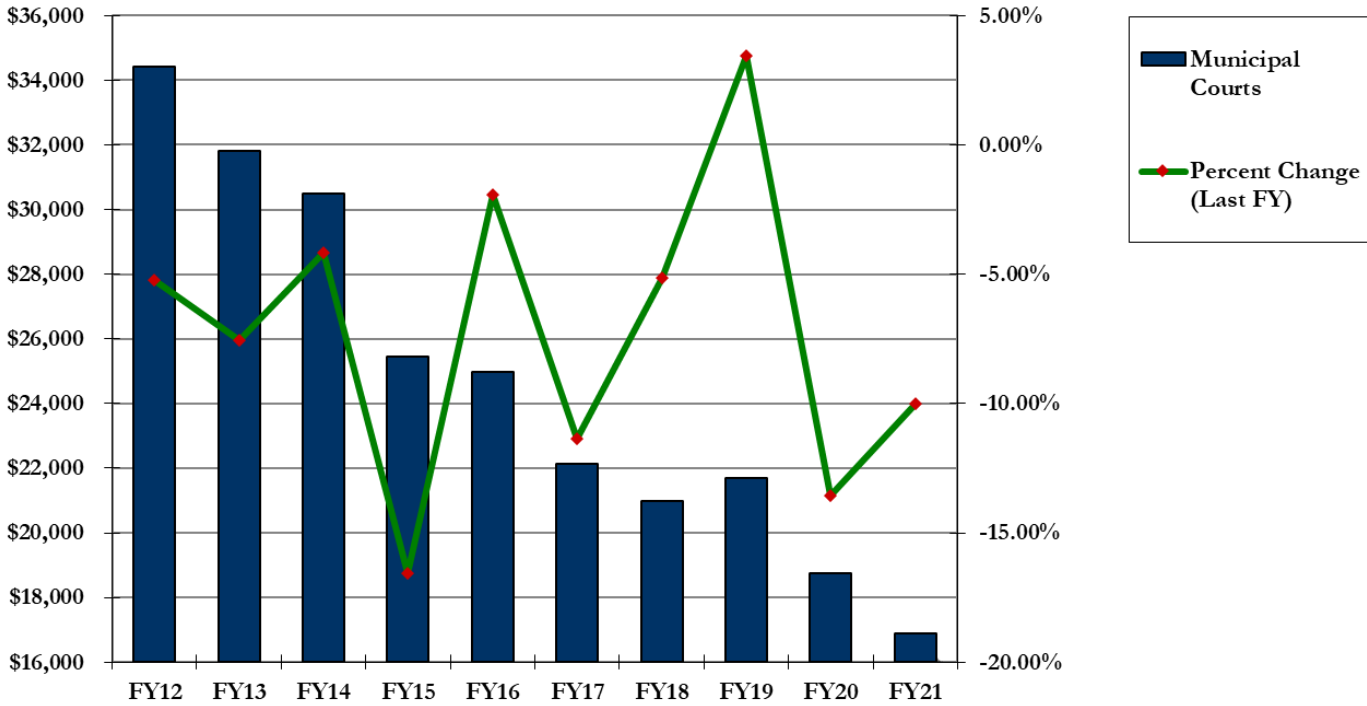


In total, Franchise Fee revenues are projected to increase \$949,000, or 0.62%, for FY21.

Decreases are expected in Electric Franchise of \$2.985 million and increases are expected for Telephone Franchise, Gas and Cable Franchise increased by a total of \$3.934 million.

Municipal Courts Revenues

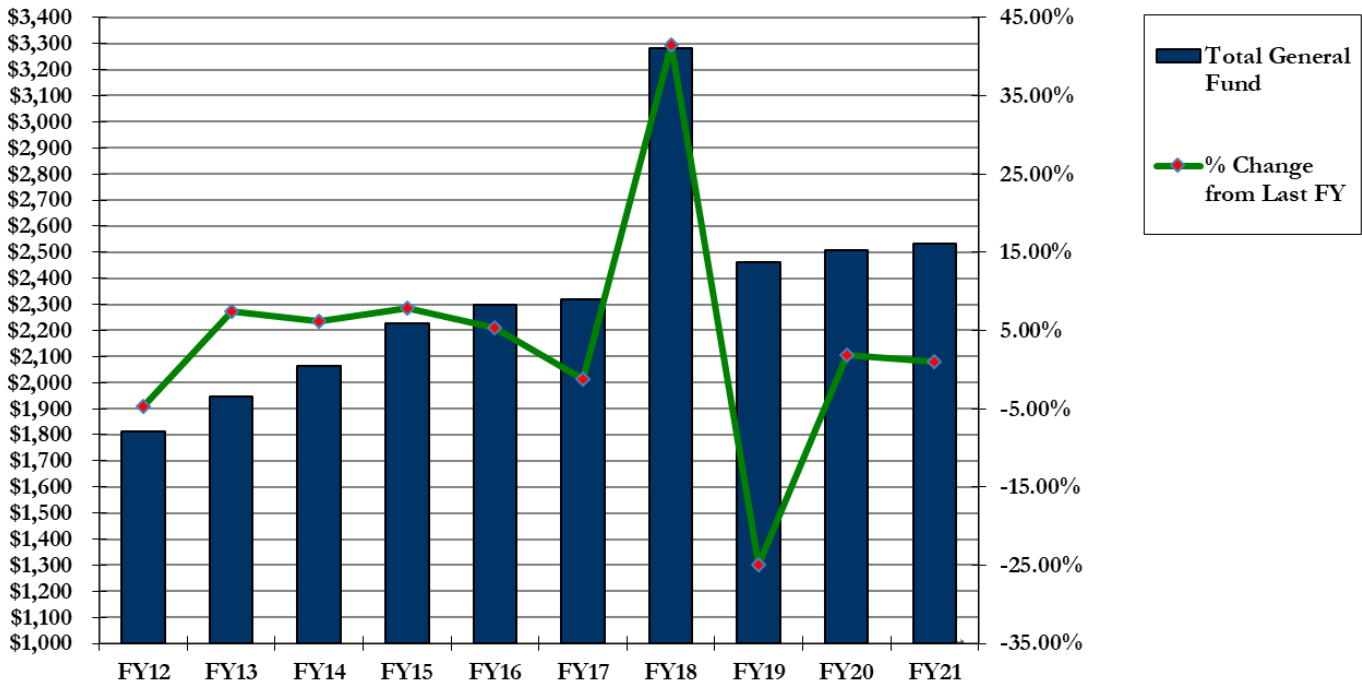
(amounts expressed in thousands)



Municipal Courts Fines and Forfeits are expected to decrease by 10% for FY21 based on historical trends and the impact of COVID-19.

General Fund Expenditures Budget

(amounts expressed in millions)

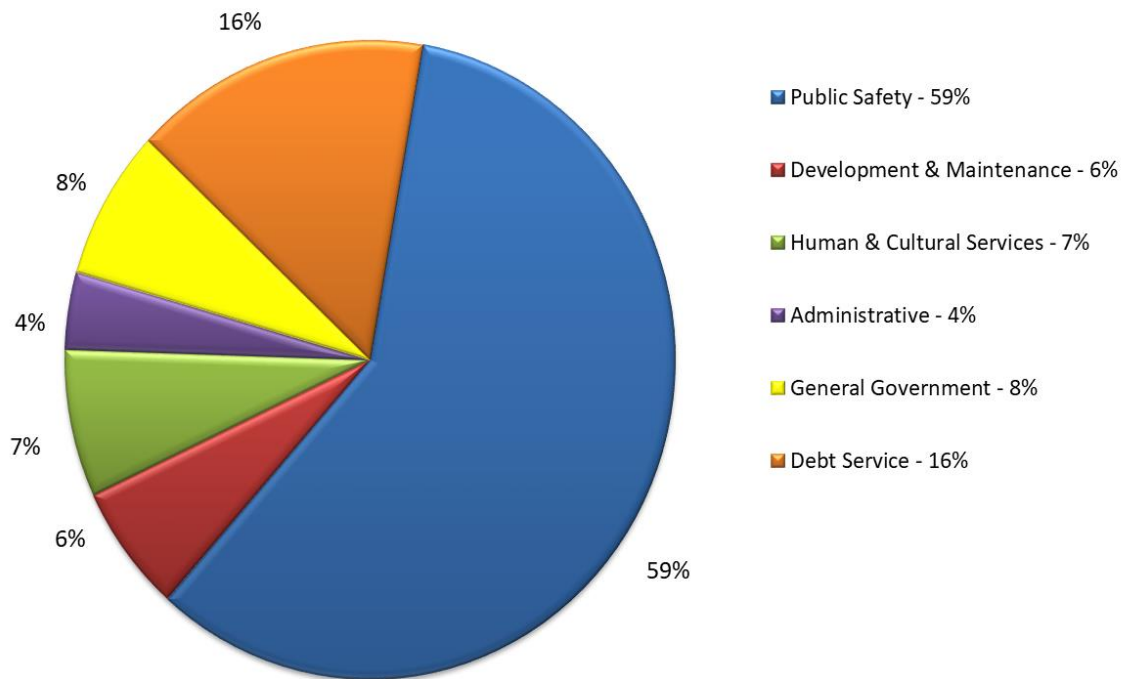


The General Fund total expenditure budget is up by .97%, an increase of \$24 million from our FY20 estimated expenditures.

The gap between Controller’s projected revenues/resources and budgeted expenditures will require the use of a significant portion of Fund Balance and may require other adjustments from management to cover the operating deficit for FY21.

General Fund

Expenditures Percent by Function for FY 2021



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

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

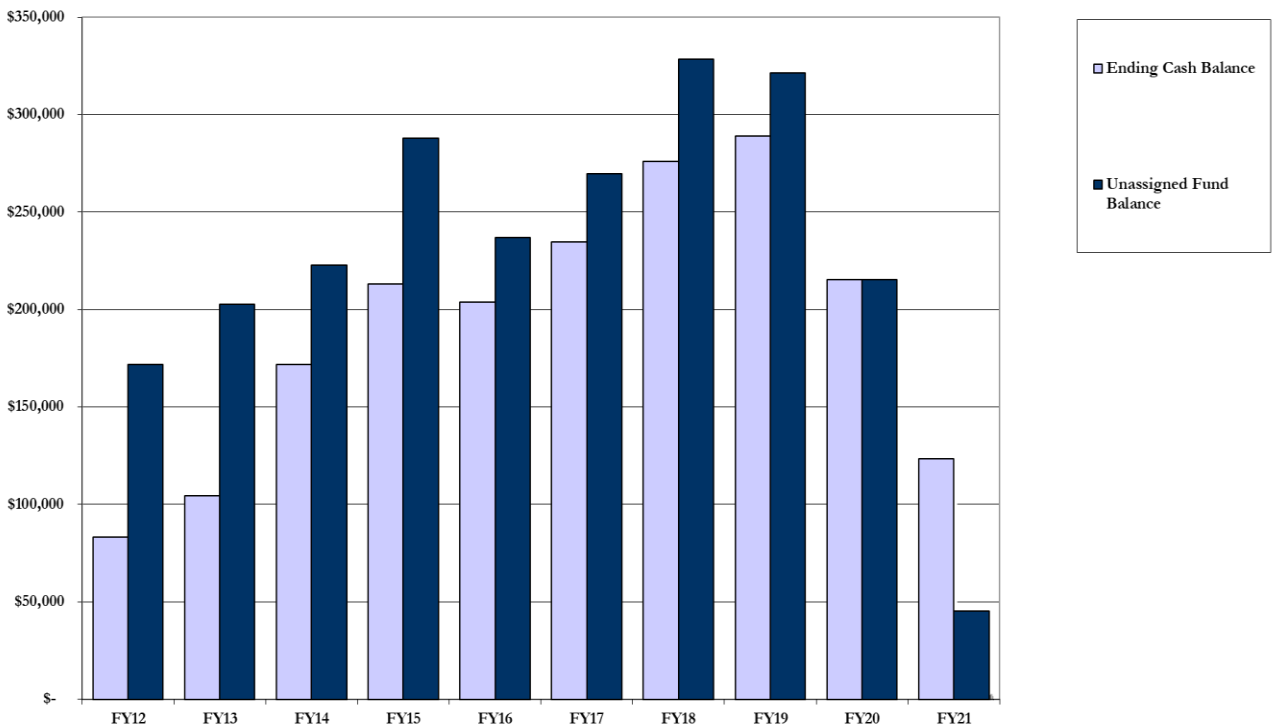
Human & Cultural – Neighborhoods, Health, Housing, Library, Parks

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

Debt Service – Debt Service Payments, General Obligation

Cash vs. Fund Balance General Fund

(amounts expressed in thousands)

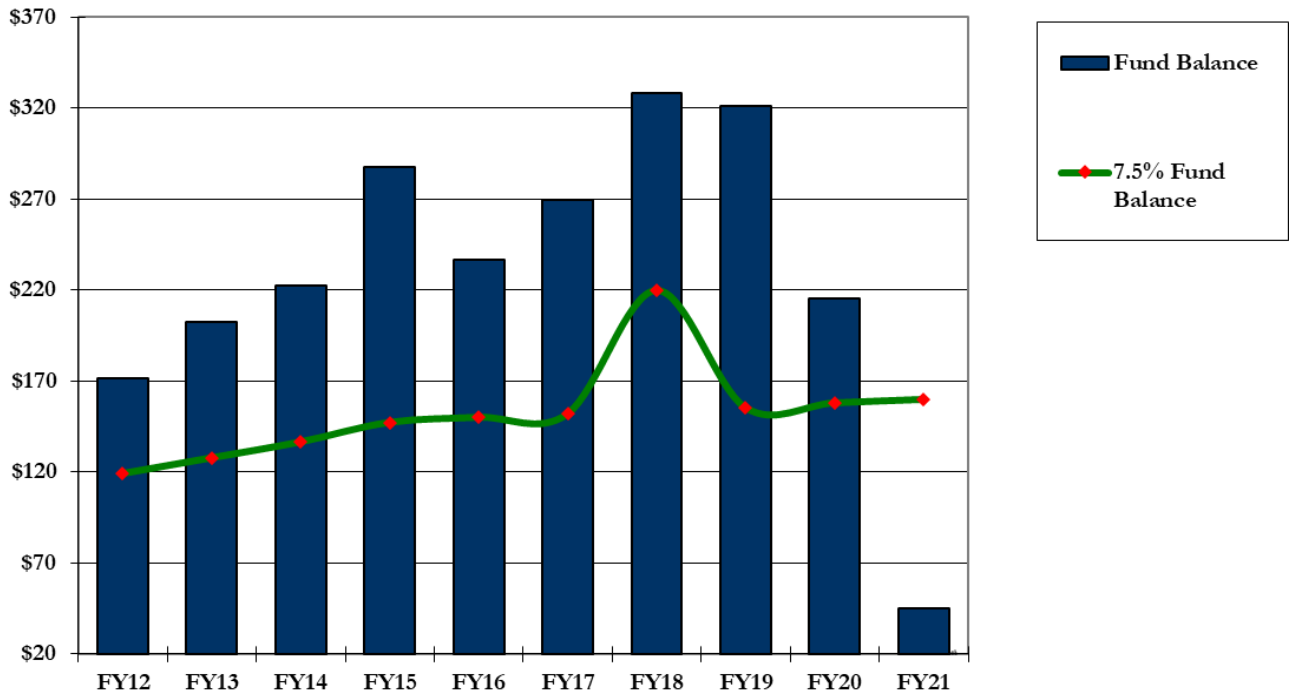


The Unassigned Fund Balance consists of both cash and non-cash items and includes receivables for Sales Tax and Franchise Fees. The Unassigned Fund Balance is expected to decrease by \$106 million in FY20 and decrease by \$170 million in FY21. The projected Unassigned Fund Balance for Fiscal Year 2020 and Fiscal Year 2021, respectively, is \$215 million and \$45 million.

City Ordinance 7.5% Fund Balance Requirement

General Fund

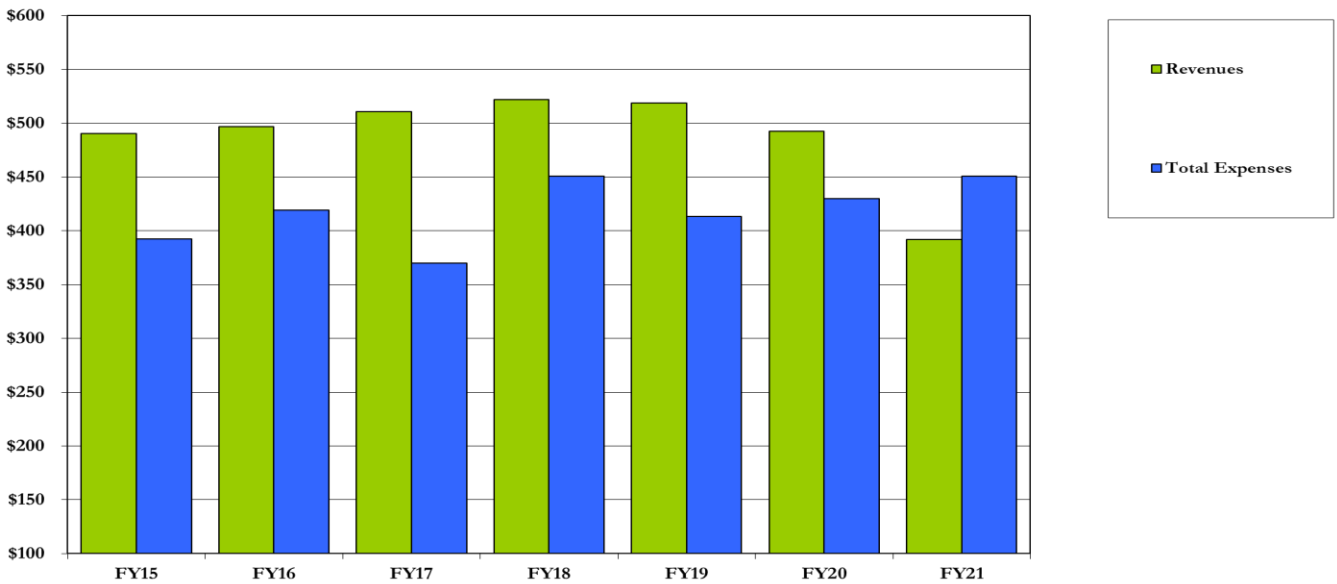
(amounts shown in Millions)



City ordinance 2014-1078, adopted December 2014, requires an Undesignated Reserve of 7.5% of the General Fund Expenditures, less Debt Service Payments and PAYGO. For FY21, we are projecting an ending fund balance of \$115 million below the 7.5% required.

Aviation Revenues & Expenses

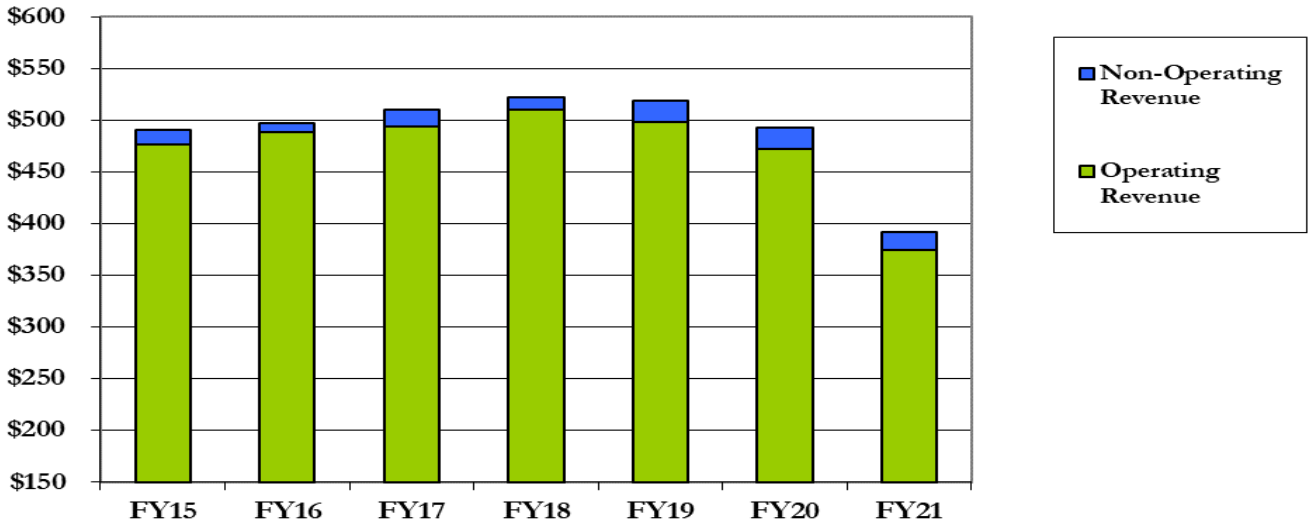
(amounts expressed in millions)



Aviation is projecting revenues to decrease predominately due to a decrease in operating revenues. The revenue decline is based on a 64% reduction in air traffic. Expenses are expected to increase due to increased costs in Maintenance and Operations.

Aviation Revenues

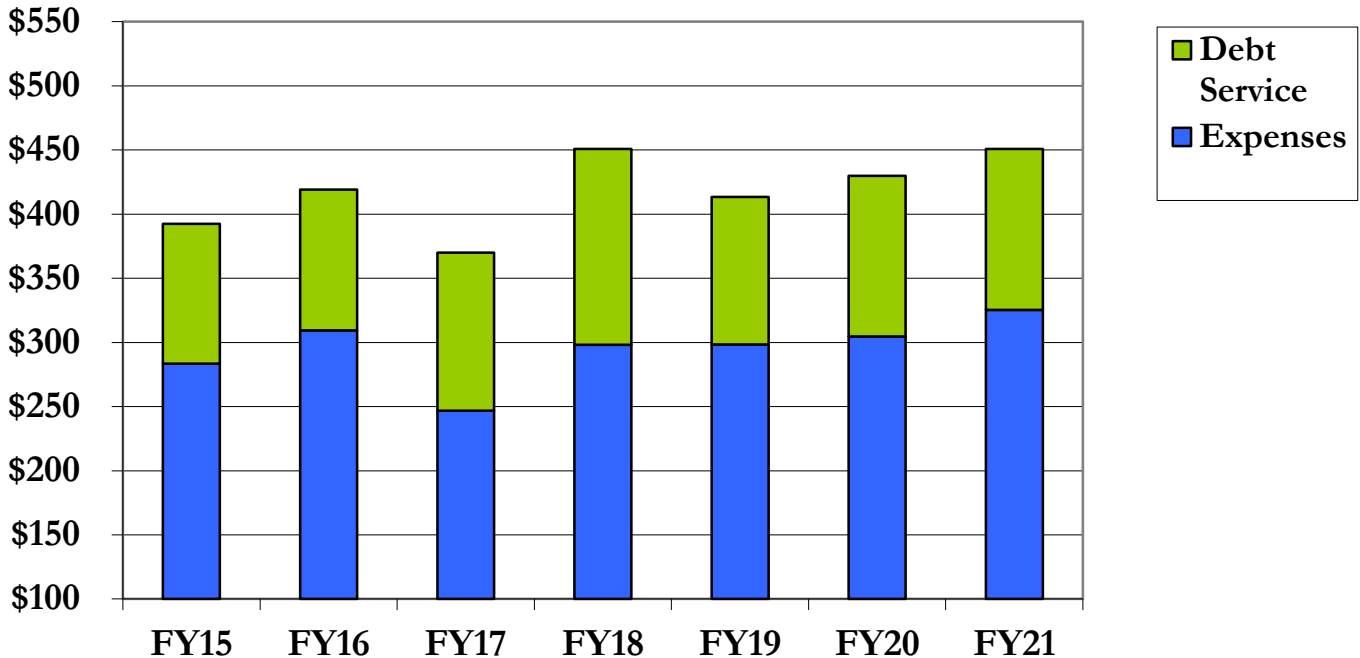
(amounts expressed in millions)



FY21 revenues are expected to decrease 20.4%, or \$101 million from the FY20 estimate, primarily related to a budgeted decrease in Concessions and Parking and a decline in enplanements.

Aviation Expenses

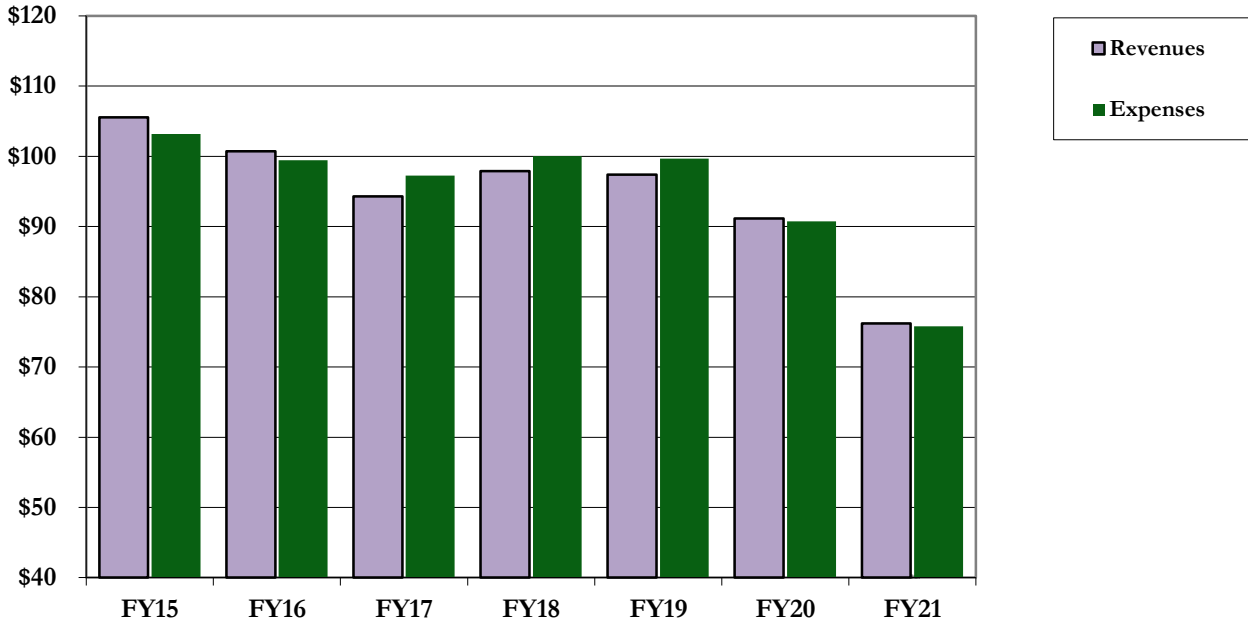
(amounts expressed in millions)



Aviation expects an overall FY21 expense (excluding Debt Service) increase of 9%, or \$37 million under the FY20 estimate. This is due to an approximately \$9.8 million increase in personnel costs; Other Services and Charges is projected to increase by \$12 million driven primarily by contractual increases in the Parking, Facility Maintenance, Security and Waste Disposal contracts as well as increased expenses associated with environmental monitoring, asset assessments, the energy management program, several marketing initiatives associated with the eventual recovery from COVID-19 and consultants for finance, strategy and parking; \$1.9 million decrease in supplies and a \$12 million increase in debt service.

Convention & Entertainment Revenues & Expenses

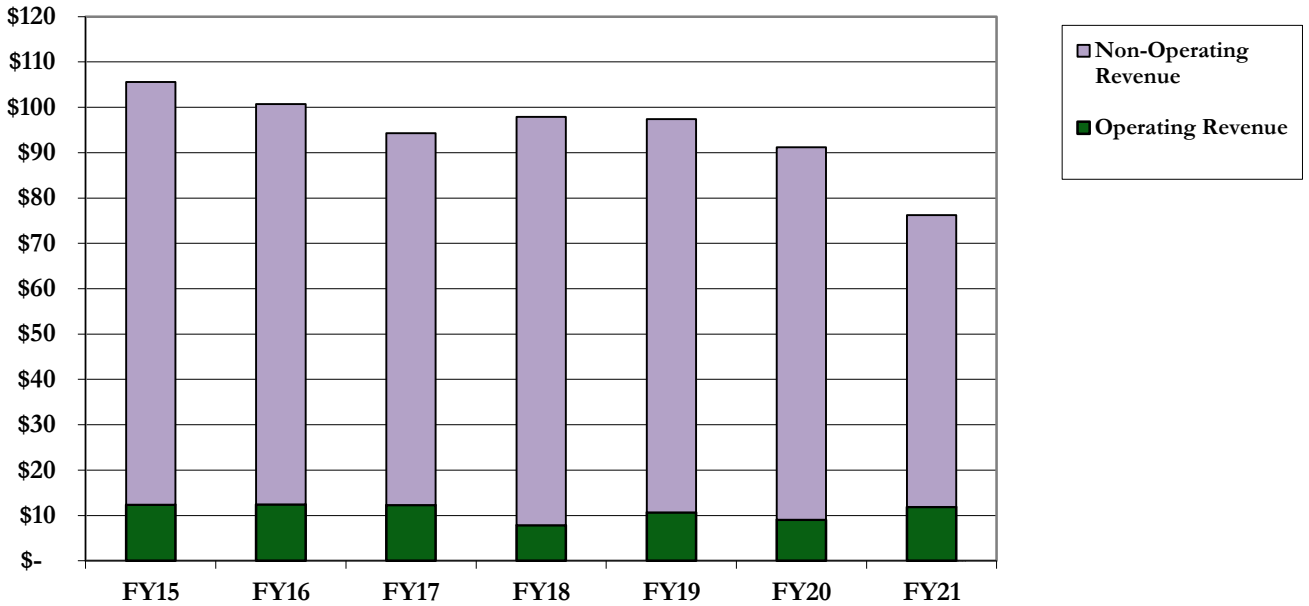
(amounts expressed in millions)



Convention & Entertainment is projecting an overall expense decrease of \$14.95 million from FY20 levels, down 16.48%. FY21 revenues are projected to decrease by 16.36% or \$14.92 million. Convention & Entertainment revenues are projected to be slightly above expenditures in FY21.

Convention & Entertainment Revenues

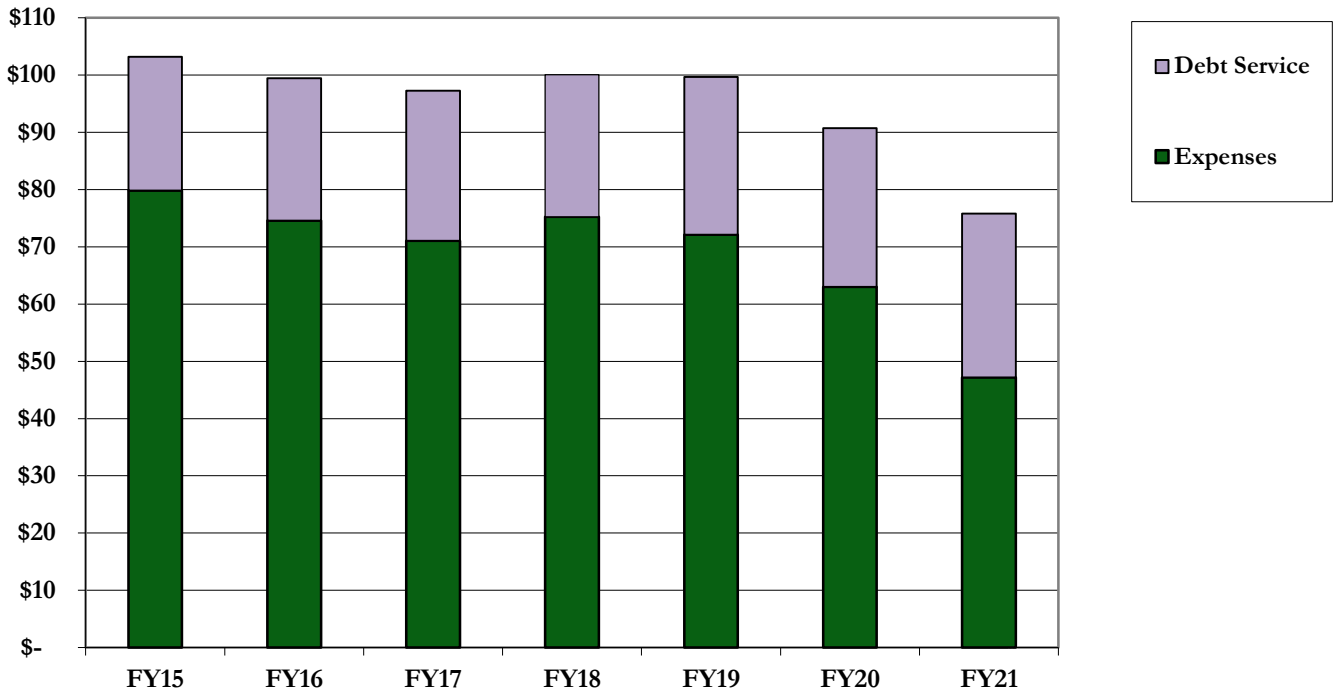
(amounts expressed in millions)



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 decrease in FY21 by \$17.7 million. Overall, FY21 revenues are projected to decrease by 16.4% or \$14.9 million.

Convention & Entertainment Expenses

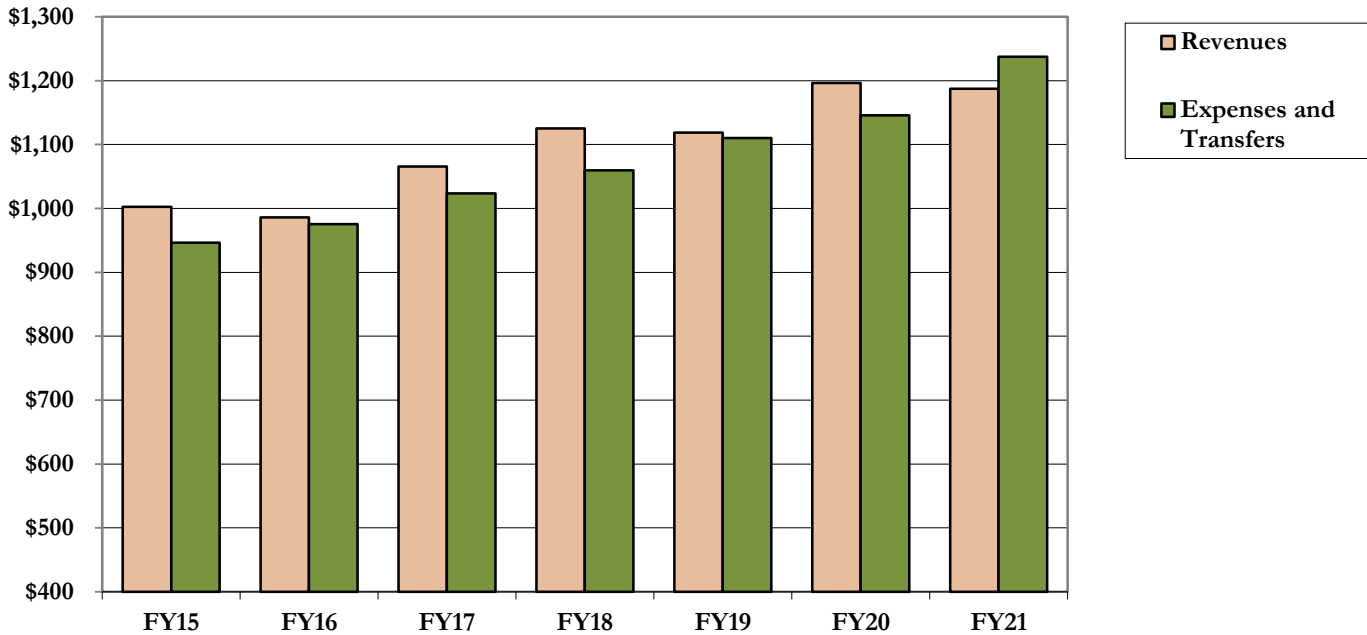
(amounts expressed in millions)



Convention & Entertainment is projecting an overall expense decrease of \$14.95 million from FY20 levels, down 16.48%. The primary decreases are \$2.56 million in Transfers for Principal payments and \$15.80 million in Transfers to Component Unit. The decrease is offset by an increase in Transfers for Interest payments of \$3.31 million.

Combined Utility System Revenues and Expenses

(amounts expressed in millions)

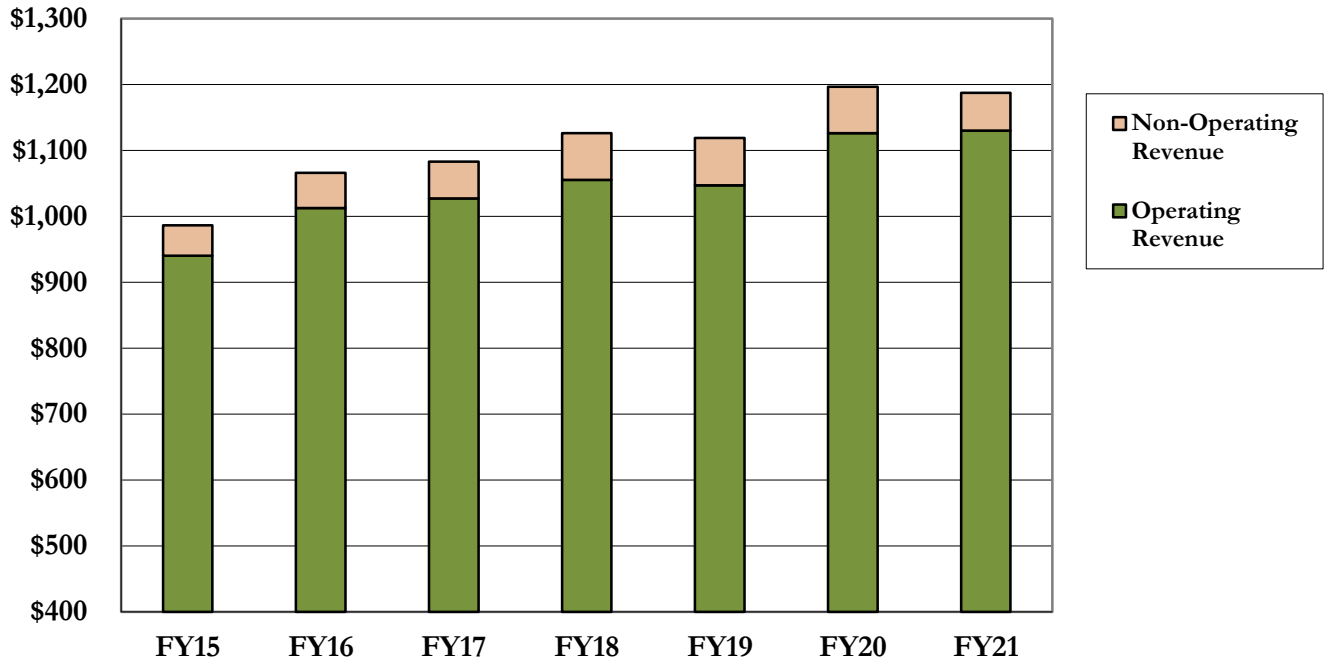


CUS's expenditures are expected exceed revenues for FY21. The increase in expenditures is primarily due to increase debt service, maintenance costs, and refuse disposal.

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)

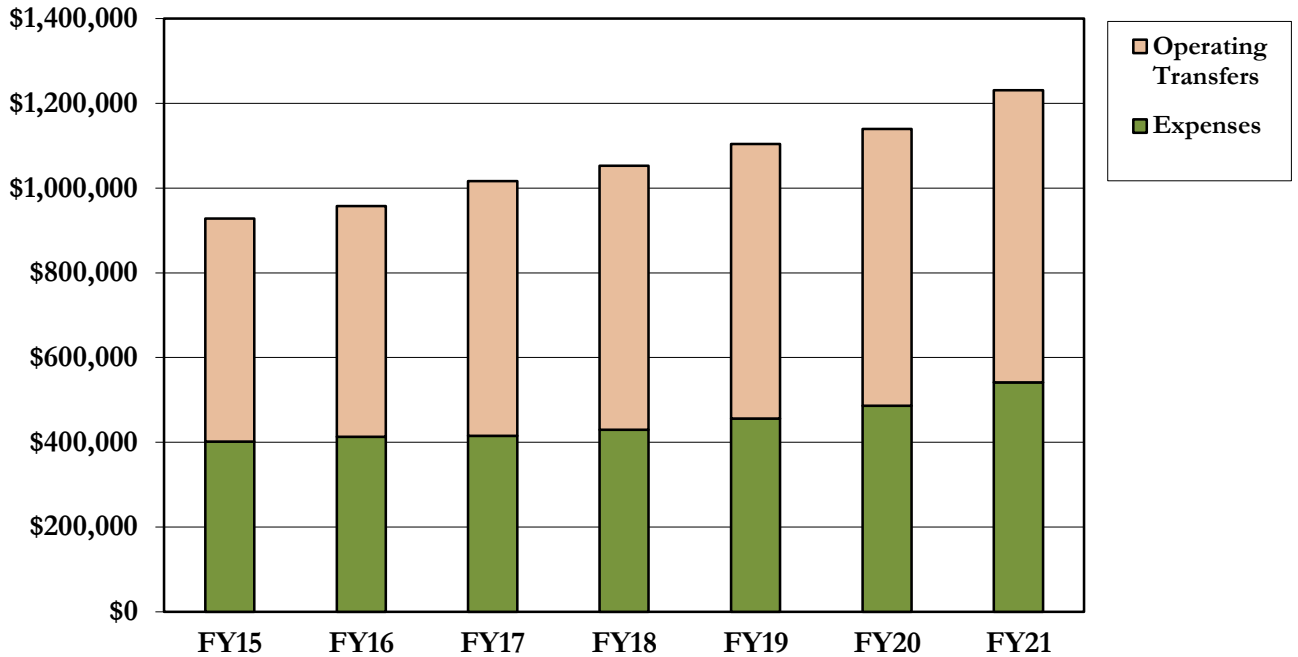


Total Revenues are expected to decrease by \$2.3 million, or 0.2%. The decrease is partially offset by an increase in year-over-year Operating Revenues due to an annual rate adjustment equal to the previous calendar year's Producers Price Index (PPI) or Consumer Price Index (CPI) and population for the area including Houston, Galveston and Brazoria Counties.

Note: The rate adjustments for Fiscal Years 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019 and 2020 are 5.1%, 0.3%, 1.9%, 3.3%, 3.6%, 1.2%, 4.4%, 1.4%, 3.4%, 2.8%, 2.8% and 3.5% respectively.

Combined Utility System Operating Expenses by Category

(amounts expressed in millions)



CUS expenditures are expected to increase by \$92 million primarily due to increases in debt service transfer payments and operating expenses.

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.