OFFICE OF THE CITY CONTROLLER

CITY OF HOUSTON
INTEROFFICE CORRESPONDENCE

To: Mayor Bill White
City Council Members

From: Annise D. Parker
City Controller

Date: March 28, 2008

Subject: February 2008 Financial Report

Attached is the Monthly Financial and Operations Report for the period ending February 29, 2008.

GENERAL FUND

We are now projecting a $1.4 million budget surplus. This is the net impact of an increase in revenue projections of $4.4 million and expenditure projection increases of $2.9 million from last month.

Due to year-to-date collections and the addition of some new Limited Purpose Annexations, we are increasing our projection for Sales Tax revenues by $3.1 million. The projection for Other Franchise Fees is $1.2 million higher than last month to reflect higher than anticipated collections of Cable Franchise Fees. We have increased our projection for Miscellaneous/Other revenues by just under a million dollars due to current collection trends, primarily in Recoveries and Refunds. We have also increased the projection for Sale of Capital Assets by $1.4 million to account for the sale of fire station 6 on Henderson and two land sales. These revenue increases are somewhat offset by a $2.7 million decrease in Direct Interfund Services for 3-1-1 and information technology charges that will not be received from the Combined Utility System.

Our overall projection for General Fund expenditures has increased $2.9 million from last month's report. Most of this change is attributed to the 3 percent salary increases included in the new contract between the City and the HOPE union. Several departments including Solid Waste, Legal, the City Secretary, Planning, Human Resources, and Public Works are offsetting the pay hikes through cost savings in other areas. In addition, the police department projects increased spending of $2.5 million due to higher fuel prices. The projection for the fire department has decreased by $500,000 because of delays in start up of the Ask-A-Nurse program. The projection for Municipal Courts has decreased $619,000 for savings in IT costs.

ENTERPRISE FUNDS

The only change of any significance for the Aviation Department is $367,000 of savings from lower than anticipated spending for electricity and natural gas costs.

In the Convention & Entertainment Operating fund, we have increased our projection for operating revenues by $831,000. The main reason for this is to recognize the annual rental payment from Lakewood Church of $396,000 for the use of the old Compaq Center. We have decreased our projection for operating expenses by $270,000. This is the net impact of a half million dollars of adjustments tied to meter reading errors for water and sewer services, a $330,000 increase in Structural Construction Services and an increase in electricity costs of $248,000. We are also projecting a decrease in Capital Outlay expenses due to lower than anticipated CIP costs. Within the Operating Transfer section, we have decreased our projection for Transfers for Principal expenses by $1 million, to reflect current actual costs.

Our projection for the Combined Utility System revenues was relatively unchanged. The projection for operating expenses increased $3.4 million. This is related to prior year adjustments for 3-1-1 costs and the Indirect Cost allocation.

We are not projecting any significant changes in the Parking Management and Stormwater enterprise funds this month.

COMMERCIAL PAPER AND BONDS

The City's practice has been to maintain no more than 20% of the total outstanding debt for each type of debt in a variable rate structure. The City plans to refund most of its Airport System commercial paper in the spring as well as $250 million auction rate debt. Convention and Entertainment issued a higher percentage of variable rate debt based on agreements with the Hotel Corporation.

As of February 29, 2008 the ratio for each type of outstanding debt was:

General Obligation	16.5%
Combined Utility System	12.1%
Aviation	22.6%
Convention and Entertainment	29.6%

Since November 2007 the City has been paying considerably higher auction rates than it has been receiving on its LIBOR based swap indexes for the Combined Utility System. Our bond documents specify that the Combined Utility System auction bonds hedged by the swaps be categorized at the swap fixed rate. When the hedges are not fully effective, the variable rate exposure is understated. The City is actively working to convert most of its auction rate products to other modes of debt.

Respectfully submitted,

Annise D. Parker

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City Controller