OFFICE OF THE CITY CONTROLLER

CITY OF HOUSTON
INTEROFFICE CORRESPONDENCE

To: Mayor Bill White
City Council Members

From: Annise D. Parker
City Controller

Date: November 26, 2008

Subject: **October 2008 Financial Report**

Attached is the Monthly Financial and Operations Report for the period ending October 31, 2008.

GENERAL FUND

We are currently projecting a shortfall of $63 million. This is up by about $8 million from last month. The change is due almost entirely to an $8.4 million decrease in our overall revenue projection. The projection for Property Tax revenues is up by $4.7 million to account for another increase in the anticipated tax roll by the Harris County Appraisal District. Our projection for Sales Tax is down by $6.3 million due to the smaller than expected growth trend in the first three months of the fiscal year. There are also decreases of $2.5 million in Municipal Courts Fines & Forfeits to reflect the current revenue trend and $1.8 million in Indirect Interfund revenues to account for the final Cost Allocation for the Combined Utility System. Interest revenues have decreased $2.5 million due to lower than expected returns on the City's investments.

Our projections for General Fund expenditures have decreased $203,000. Spending by the Department of Administration & Regulatory Affairs is up by $621,000 to cover costs associated with the Mayor's Anti-gang division. There are corresponding decreases in expenditures for Police and General Government totaling $621,000. Projected spending by General Services is down $291,000 to reflect the transfer of grounds maintenance responsibilities to Parks. Housing anticipates $300,000 worth of increased expenditures to cover relocation services for residents displaced from dangerous apartments. Legal's budget is up by $1.4 million for salary equity adjustments. Public Works projects a $624,000 decrease due to lower costs for Construction Materials, Electrical Parts, and Infrastructure Maintenance.

The FY 09 budget adopted by City Council anticipated drawing down the fund balance by $51 million. This is not reflected in our projections, which is part of the reason we are projecting such a large shortfall.

ENTERPRISE FUNDS

The projection for the Convention & Entertainment Facilities (CEF) Operating fund has decreased $2.7 million. Projected Services and Capital Outlay expenses are down $462,000 and $490,000, respectively, to account for the postponement of various capital projects. The projection for Other Interest is down $440,000 and Transfers for Interest expense has decreased $1 million. Both of these declines are tied to lower than expected interest earnings.

Our projection for Combined Utility System (CUS) Fund Operating Revenues is down by $3 million to account for a decline in sewer revenues following Hurricane Ike. The projection for Operating Expenses is up $1 million. This is the net impact of $4.4 million in reduced Personnel costs, lower Indirect Costs of $1.7 million, and an increase in Contracts of $7.5 million for water authority costs. Finally, our projection for Operating Transfers for equipment acquisition has decreased $4.7 million because the purchase of new meters will now be funded by a transfer from Capital Infrastructure.

Our projection for Parking Management fund decreased $747,000 due to delays in construction projects.

Our projection for Stormwater Fund Expenditures has decreased $1.3 million. This is due to a decrease in Personnel of $325,000 to account for staffing savings, and a $1 million decrease in Other Services that is tied to the elimination of a retention pond contract, and lower usage of the camera system that detects blockages in our storm sewers.

There are no significant changes in the Aviation Enterprise Fund.

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. On November 12, 2008 the City refunded approximately $320 million of its general obligation commercial paper. Adjusting for this refunding reduces the City's general obligation variable rate exposure to 11%. Plans to refund its Airport System commercial paper and $250 million of Airport's auction rate debt have been on hold pending improvements in market conditions. Convention and Entertainment maintains a higher percentage of variable rate debt due to agreements with the Hotel Corporation.

At October 31, 2008, the ratio for each type of outstanding debt was:

General Obligation	20.9%
Combined Utility System	7.9%
Aviation	23.4%
Convention and Entertainment	30.1%

Respectfully submitted,

Annise D. Parker

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City Controller