

# Trends

## Fiscal Year 2010

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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 FY10 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.

Houston is now experiencing the negative effects of the recession. Our estimates for General Fund revenues for Fiscal Years '09 and '10 show an overall increase of approximately 2.89% and decrease of 0.42%, respectively (not including transfers and pension bond proceeds). FY10's projected revenues reflect modest growth in Property Tax and Indirect Interfund, which are negated by the decreases in Sales Tax, Electric Franchise, and Miscellaneous.

Of concern, our FY10 projection for General Fund revenue is \$38.5 million less than the Administration's FY10 Proposed Budget. The Controller's office used an estimated taxable value of \$154.0 billion calculated by taking the estimated taxable values from Harris County, Fort Bend County, and Montgomery County Appraisal Districts in April 2009 and adjusting that value based on historical actual values over the past three years. The Administration used an internally developed statistical Property Value Model, which returned a value of \$154.7 billion. For our Sales Tax projection we assumed a 4.86% reduction over the prior year.

The budgeted General Fund expenditures and estimated Fund Balance do not include any amounts for the Hurricane Ike shortfall or possible additional penalties levied by the federal Department of Housing and Urban Development (HUD).

In the Enterprise Funds, Aviation revenues are decreasing due to the impact of the Passenger Facility Charge, and decreased passenger activity. Convention & Entertainment revenues are projected to decrease substantially for lower Hotel Occupancy Tax (HOT) revenues. The Combined Utility System's (CUS) revenues are increasing by 7.5%, primarily due to lower projections of rainfall in FY10, combined with the annual water and sewer rate increase.

# Summary of Graphs

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The numbers on each page are from the following sources:

1. **FY08 and prior years are actual results as reported in previous Comprehensive Annual Financial Reports (CAFR).**
2. **FY09 numbers are the Controller's Office April Monthly Financial Operations Report (MFOR) estimates.**
3. **The FY10 General Fund revenues are the most current projections of the Controller's Office.**
4. **Unless otherwise noted, all other FY10 numbers are from the Administration's FY10 Proposed Budget.**

# General Fund Revenues

(amounts expressed in thousands)

Revenues	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	% Change [a]	Admin.'s	Difference [a]
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Controller's Estimate	Controller's Projection		Proposed Budget	
Property Tax	\$ 572,432	\$ 623,100	\$ 636,028	\$ 660,999	\$ 671,294	\$ 705,952	\$ 748,792	\$ 830,889	\$ 888,957	\$ 907,585 [b]	2.10%	\$ 909,715	(2,130)
Industrial Assessments	16,906	15,642	15,014	15,167	14,635	14,314	15,823	17,787	11,000	11,000	0.00%	26,880	(15,880)
Sales Tax	329,705	341,952	322,538	347,982	370,583	422,598	461,417	495,173	512,000	487,121 [c]	-4.86%	507,300	(20,179)
Other Taxes	329,705	341,952	322,538	8,348	8,613	9,279	9,992	10,735	10,700	10,700	0.00%	10,783	(83)
Electric Franchise	87,324	91,455	76,605	76,394	77,760	97,274	99,534	98,141	99,298	96,985	-2.33%	96,985	0
Telephone Franchise	58,290	58,695	56,435	52,926	49,714	50,167	50,434	49,566	47,500	47,500	0.00%	47,150	350
Gas Franchise	17,672	13,740	14,693	16,535	18,520	21,866	20,790	21,507	21,276	21,276	0.00%	21,728	(452)
Other Franchise	12,473	11,469	12,941	15,524	16,269	17,200	18,793	20,981	20,130	20,130	0.00%	20,415	(285)
Licenses & Permits	12,580	12,559	15,335	15,271	17,692	18,086	18,637	20,889	15,820	15,820	0.00%	16,117	(297)
Intergovernmental	8,074	20,028	23,202	11,176	18,958	26,989	41,576	32,950	32,320	32,476	0.48%	32,476	0
Charges for Services	31,020	31,560	37,422	39,875	39,856	41,115	44,844	39,836	35,113	35,113	0.00%	34,185	928
Direct Interfund Services	46,015	62,590	62,099	57,056	61,233	39,497	42,052	41,395	48,283	48,296	0.03%	48,296	0
Indirect Interfund Services	16,961	15,095	15,859	14,647	11,031	14,895	12,712	10,950	12,842	15,530 [d]	20.93%	15,530	0
Muni Courts Fines	40,236	35,208	42,433	45,005	48,827	45,319	44,936	37,140	34,817	35,000	0.53%	35,497	(497)
Other Fines	2,800	2,379	2,185	2,131	2,424	3,681	5,362	4,491	2,635	2,635	0.00%	2,391	244
Interest	11,108	8,394	6,893	5,130	6,414	8,600	15,059	16,992	9,000	9,000	0.00%	9,200	(200)
Misc./Other	9,053	10,994	11,057	16,046	16,253	17,016	4,529	12,315	11,008	9,000	-18.24%	9,069	(69)
<b>Total</b>	<b>\$ 1,602,354</b>	<b>\$ 1,696,812</b>	<b>\$ 1,673,277</b>	<b>\$ 1,400,212</b>	<b>\$ 1,450,076</b>	<b>\$ 1,553,848</b>	<b>\$ 1,655,282</b>	<b>\$ 1,761,737</b>	<b>\$ 1,812,699</b>	<b>\$ 1,805,167</b>	<b>-0.42%</b>	<b>\$ 1,843,717</b>	<b>\$ (38,550)</b>
Transfer from Other Funds			34,440		1,028		4,542	11,219	32,870	17,950		17,950	
Sale of Capital Assets			34,440			6,439	4,757	4,003	5,342	3,450		3,450	
Proceeds from Promissory Note						3,922							
Disaster Recovery Fund Transfer			15,000	6,800									
Pension Bond Proceeds					48,599	59,000	63,000	35,000	20,000	20,000		20,000	
<b>Total Revenues and Transfers</b>	<b>\$ 1,602,354</b>	<b>\$ 1,696,812</b>	<b>\$ 1,757,157</b>	<b>\$ 1,407,012</b>	<b>\$ 1,499,703</b>	<b>\$ 1,623,209</b>	<b>\$ 1,727,581</b>	<b>\$ 1,811,959</b>	<b>\$ 1,870,911</b>	<b>\$ 1,846,567</b>	<b>-0.42%</b>	<b>\$ 1,885,117</b>	<b>\$ (38,550)</b>

[a] The "Percentage Change" column compares our FY10 projection to our FY09 estimate, while the "Difference" column compares our FY10 projection to the proposed budget.

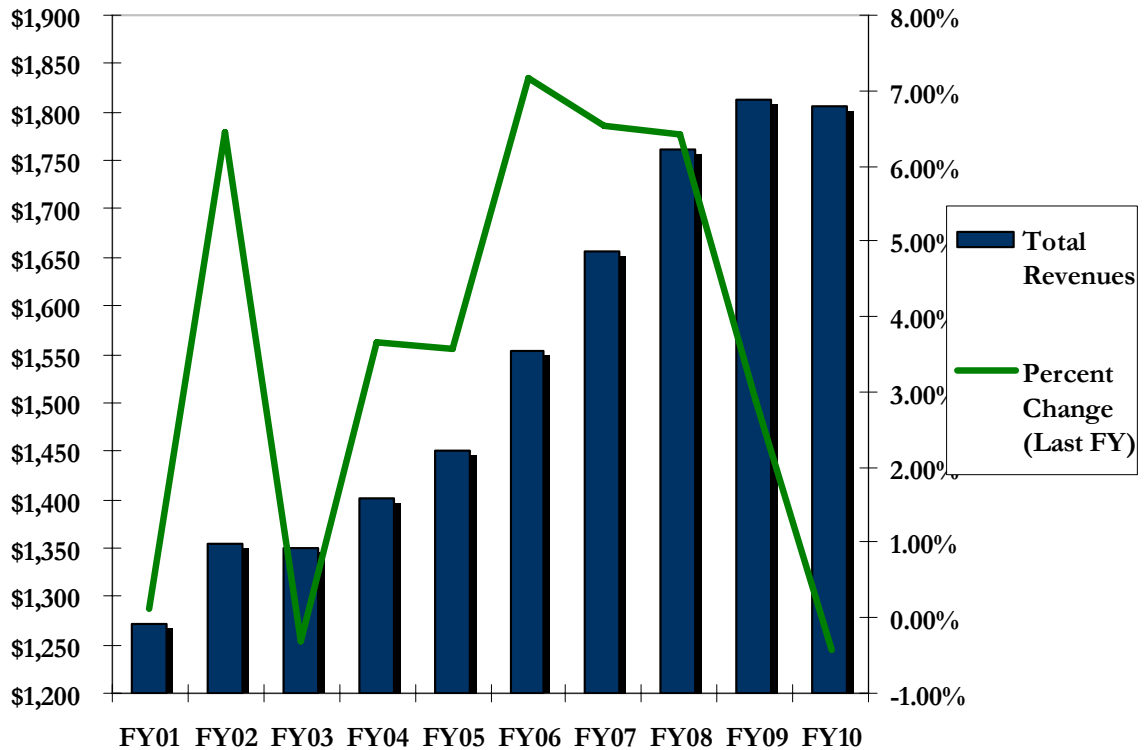
[b] Property Tax revenue is net of refunds and Tax Increment Reinvestment Zone (TIRZ) payments. The Controller's FY10 projection for Property Tax revenues is based on the taxable values provided by Harris County, Fort Bend County, and Montgomery County Appraisal Districts on April 21, 2009. The projection assumes an estimated \$31.4 million in delinquent collections and an estimated \$70.1 million in TIRZ payments. The Administration used an internally developed statistical model for its budget, leaving a variance in FY10 of \$2.1 million.

[c] Sales Tax revenue is based on Dr. Barton Smith's April 2009 estimate of \$492 million, less a 1% margin of error, totaling \$487 million.

[d] The CUS paid less in FY09 for cost recovery. CUS will not have the same adjustment for FY10.

# General Fund Revenues

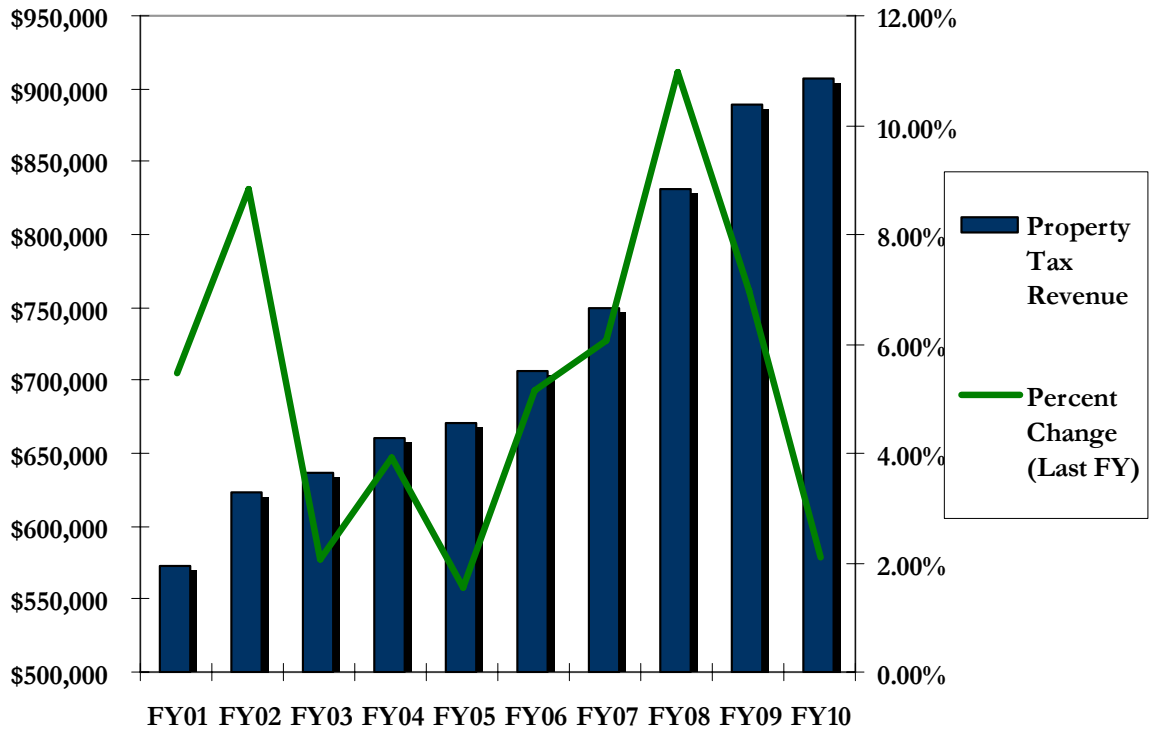
(amounts expressed in millions)



FY10 General Fund revenue is projected to shrink by \$7.5 million, or 0.42%, under our current FY09 estimate. The projected decrease consists mostly of \$25 million in reduced Sales Tax revenue, offset by a \$18.6 million increase in anticipated Property Tax revenue.

# Property Tax Revenue

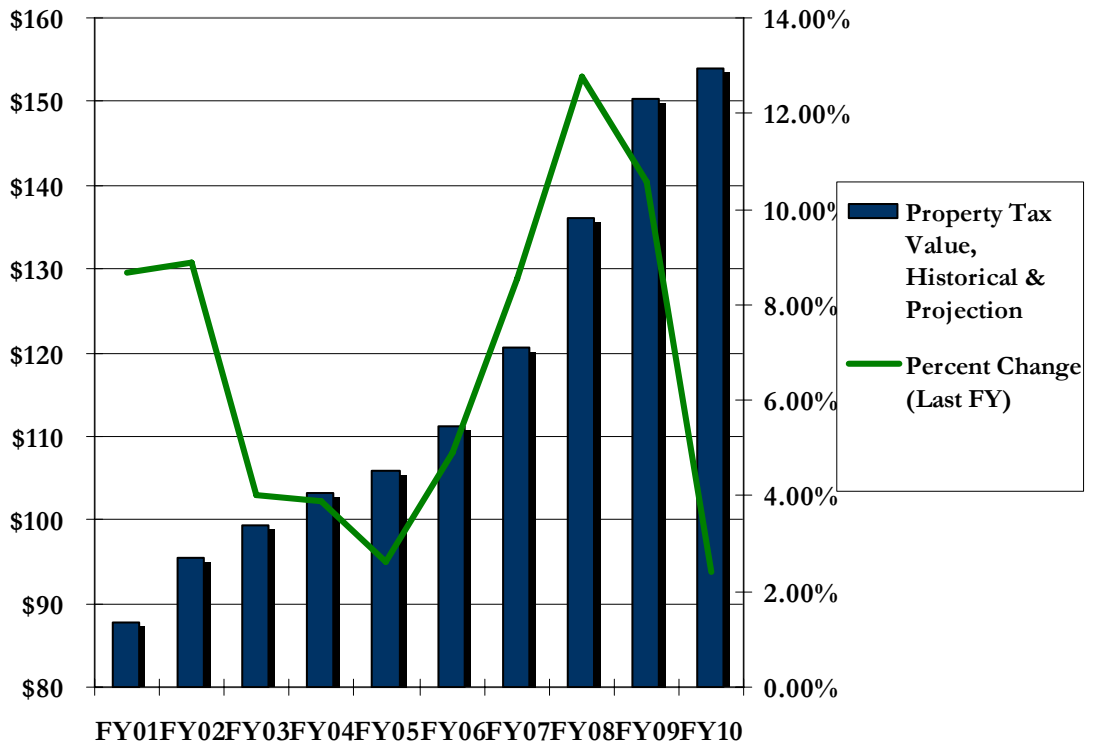
(amounts expressed in thousands)



Property Tax revenue is projected to be up 2.10% over our FY09 estimate. TIRZ payments are projected to increase in FY10 and include a projected budgeted payment of \$70.1 million. Our Property Tax revenue projection is based on a tax rate of 63.875 cents per \$100 valuation and a collection rate of 96.25%.

# Taxable Values Historical & Forecast

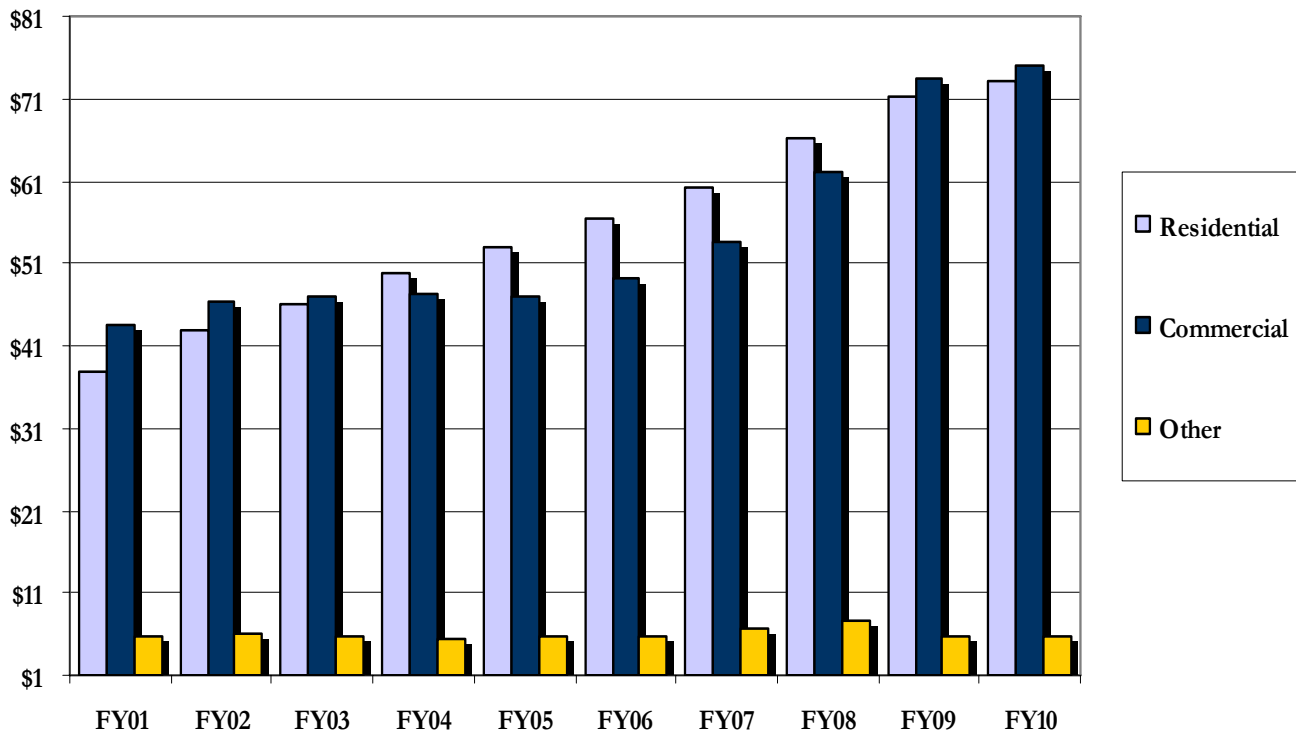
*(amounts expressed in billions)*



The Harris County, Fort Bend County, and Montgomery County Appraisal Districts (the Districts) provide expected taxable values. The actual taxable values for FY09 are above the preliminary value estimates provided at this time last year. Based on their projection for FY10, an increase in valuation of about 2.42% is anticipated. These values are based on the Districts' preliminary projected values, dated April 21, 2009.

# Taxable Values By Property Type Historical & Forecast

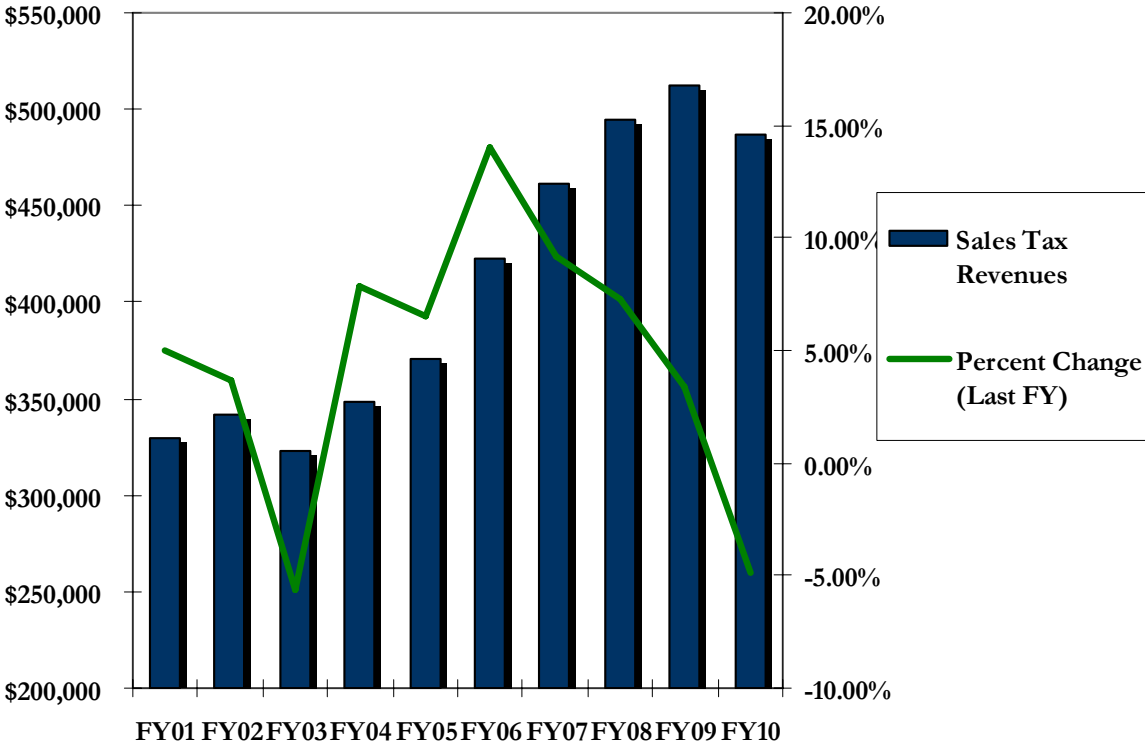
*(amounts expressed in billions)*



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)

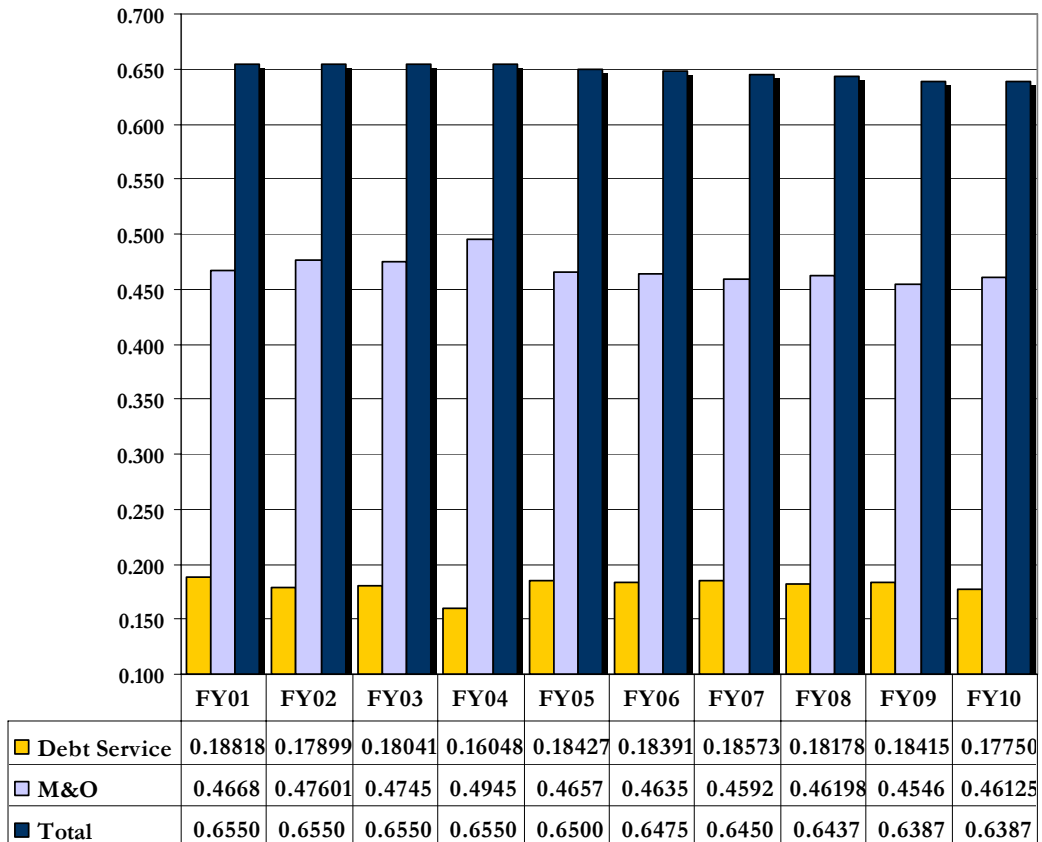


We project Sales Tax revenue to decrease by 4.86% over estimated FY09 Sales Tax receipts. This decrease is based on Dr. Barton Smith’s April report.



# Property Tax Rate

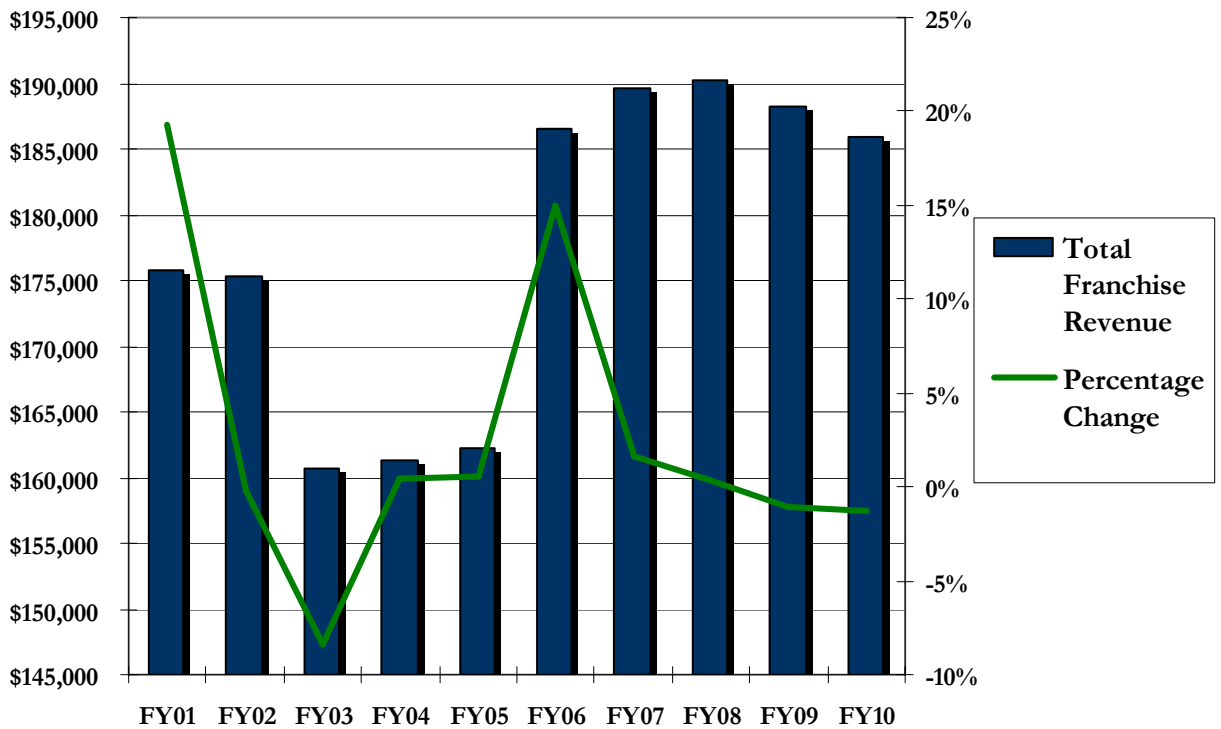
*(Tax Rate per \$100 Valuation)*



The FY10 number is a projection. The final rate will be established by a vote of council in the second quarter of FY10.

# Total Franchise Revenues

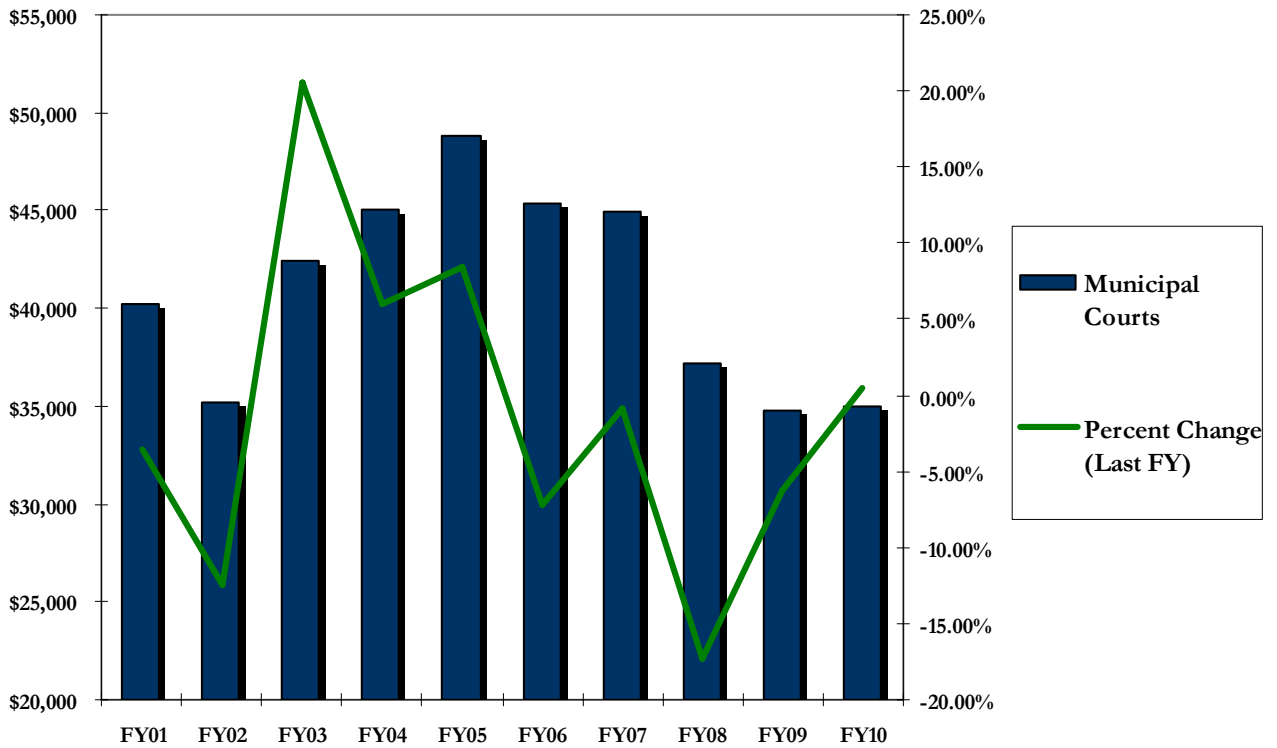
(amounts expressed in thousands)



Franchise revenues are projected to decrease 1.23%. This is the result of a \$2.3 million decline in Electricity Franchise revenues due to the agreement with CenterPoint Energy, and flat growth in Telephone Franchise fees caused by declining use of land lines in favor of wireless service.

# Municipal Courts Revenues

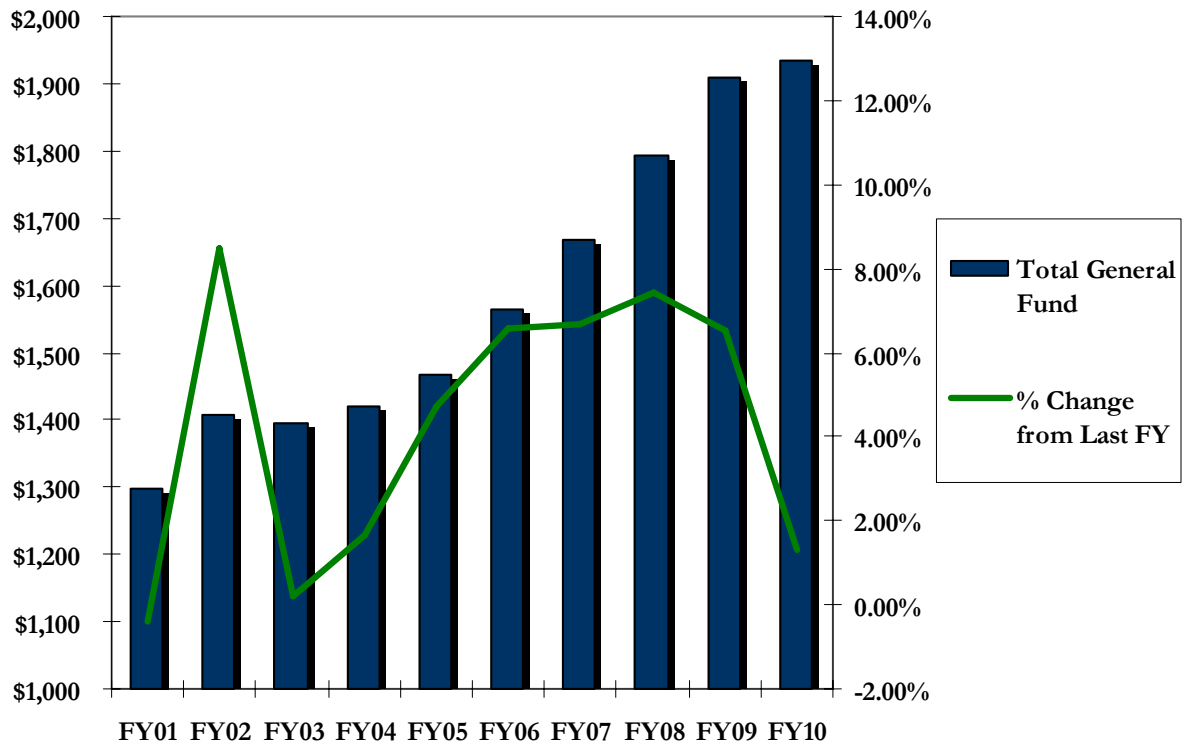
*(amounts expressed in thousands)*



Municipal Courts Fines and Forfeits reflects a projected 0.5% increase for FY10. This number takes into account uncertainty with the new collection processes.

# General Fund Expenditures Budget

*(amounts expressed in millions)*



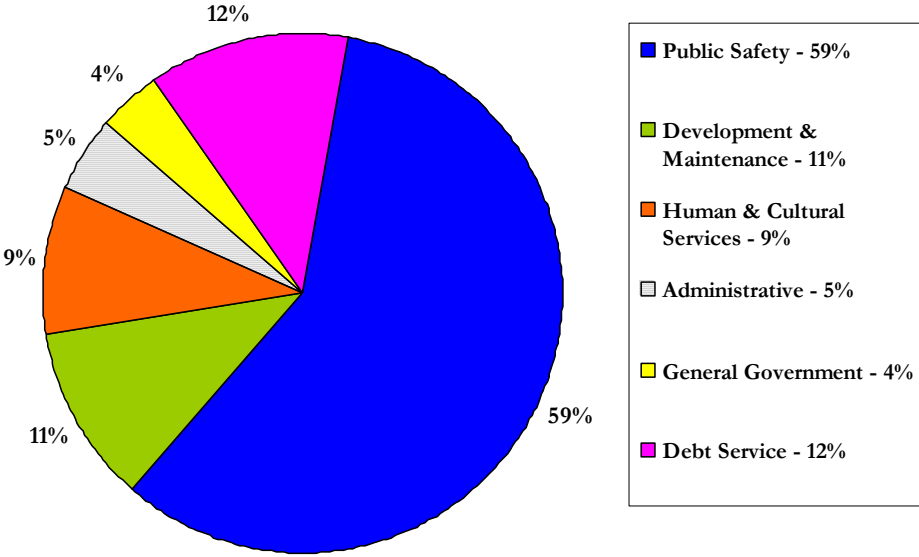
The General Fund expenditure budget is up by 1.31%, an increase of \$25 million over our FY09 estimated expenditures. The gap between Controller's projected revenues and budgeted expenditures will require using \$87.4 million from the Fund Balance to cover the operating deficit.

# General Fund

## Expenditures Percent by

### Function for 2010

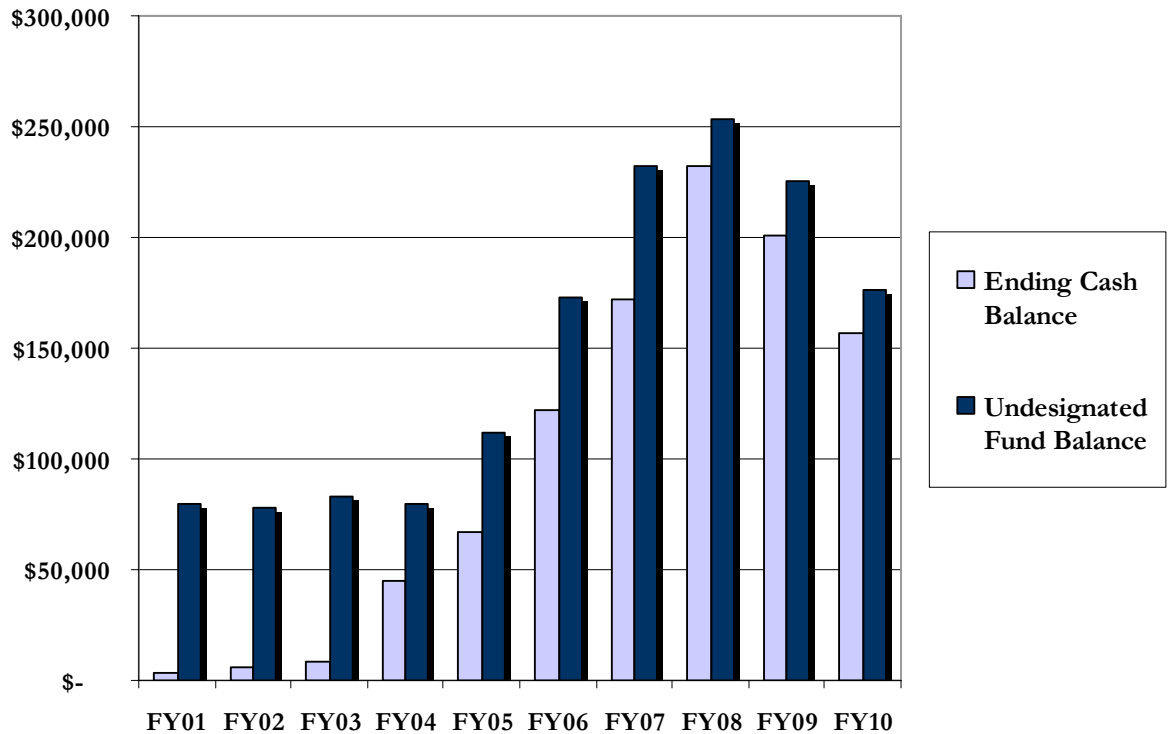
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# Cash vs. Fund Balance

## General Fund

*(amounts expressed in thousands)*

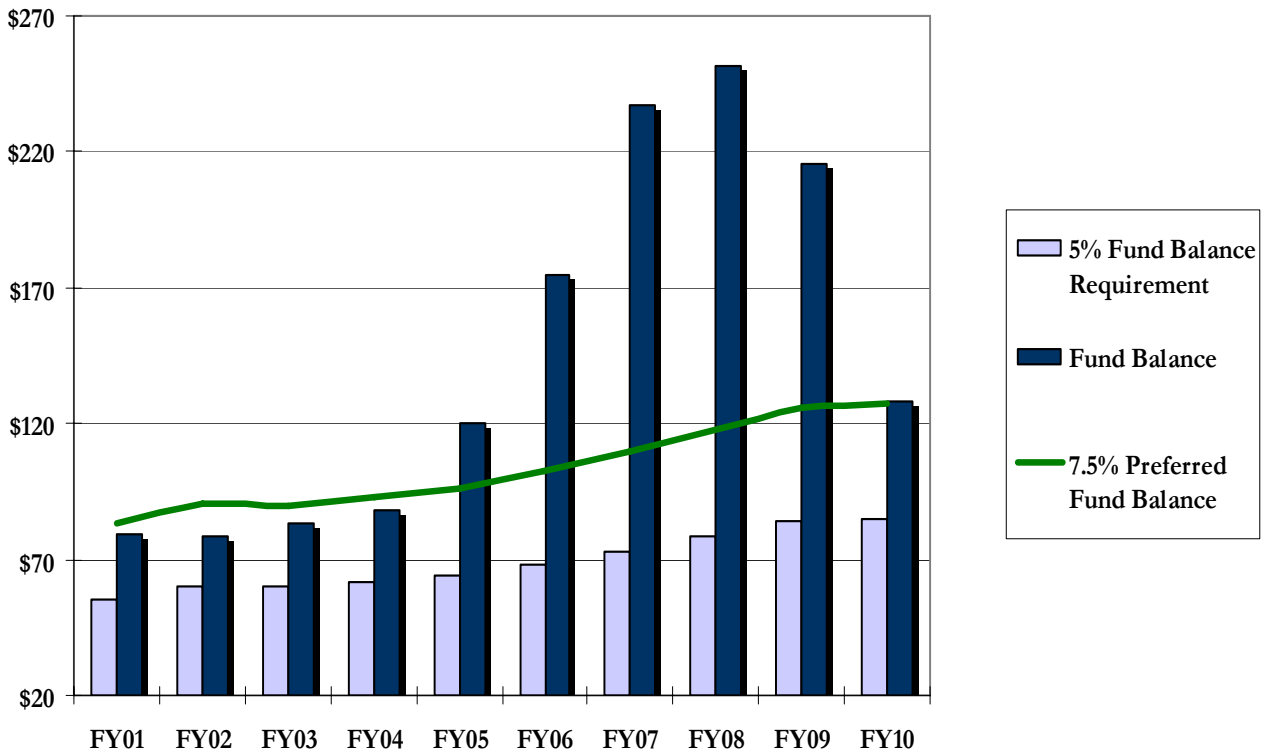


The Undesignated Fund Balance consists of both cash and non-cash items and includes receivables for Sales Tax and Franchise Fees. The Undesignated Fund Balance increased 9% in FY08 and is estimated to decrease 11% in FY09 and by 21.7% in FY10.

# City Ordinance 5% Fund Balance Requirement

## General Fund

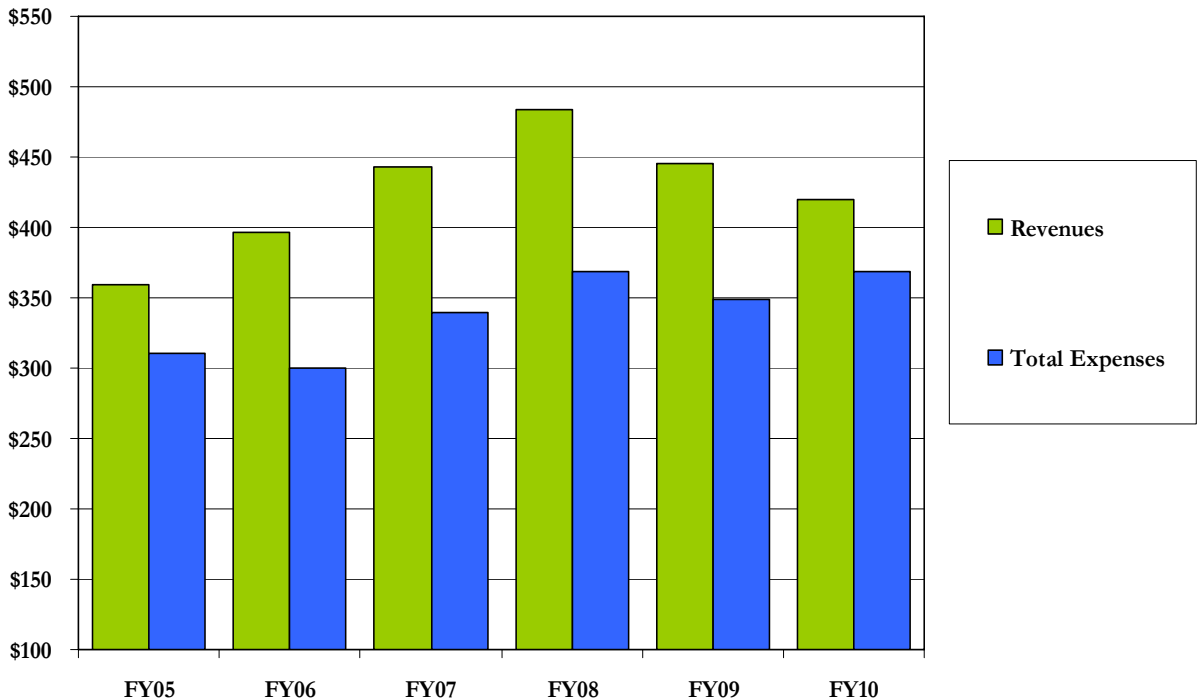
*(amounts shown in Millions)*



City ordinance requires an Undesignated Reserve of 5% of the adopted budget less debt. An Undesignated Reserve of 7.5% is preferred. For FY10 we project a \$1 million cushion over the 7.5% Fund Balance. The projected Fund Balance does not include any amounts for the Hurricane Ike shortfall or any possible additional penalties levied by HUD.

# Aviation Revenues & Expenses

*(amounts expressed in millions)*

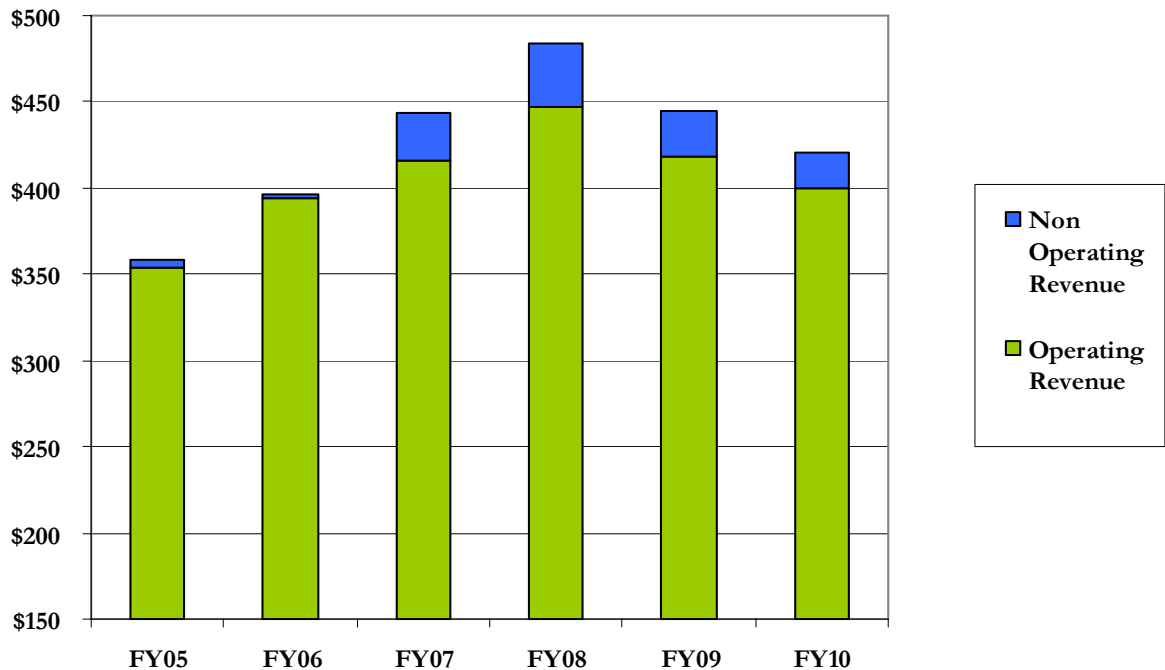


Aviation is projecting revenues to decrease due to ongoing declines in passenger levels and the full year impact of Passenger Facility Charges (PFC) at IAH. Projected increases in expenses are based on anticipated increased spending for Other Services and Charges, Personnel costs and Supplies.



# Aviation Revenues

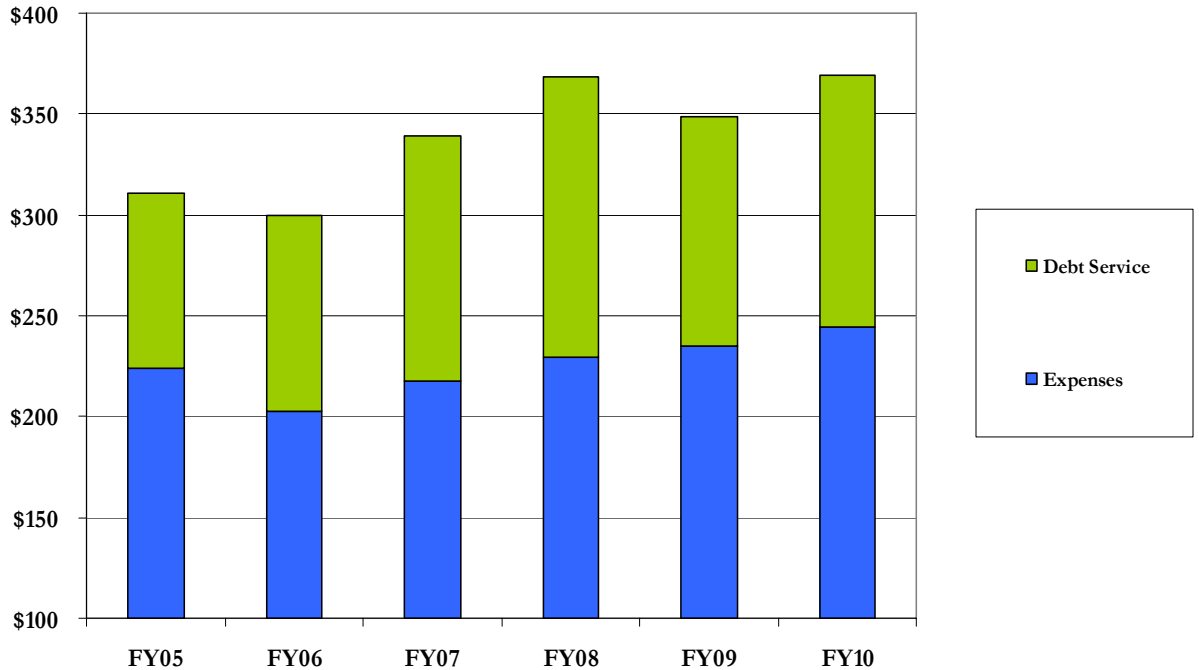
*(amounts expressed in millions)*



FY10 revenues are expected to decrease 5.6%, or \$24.9 million from the FY09 estimate. Approximately \$19 million of this decline is tied to changes related to the full year impact of the PFC, which was implemented at IAH in December 2008. The PFC is used to offset both project amortization (reducing revenues) and debt service payable from revenues. The FY10 revenues are also reduced due to decreased passenger activity at both airports and the corresponding declines in fees for Auto Rentals, Parking and Concessions. There is also a budgeted decrease in Interest revenue for continued low interest earnings on investments.

# Aviation Expenses

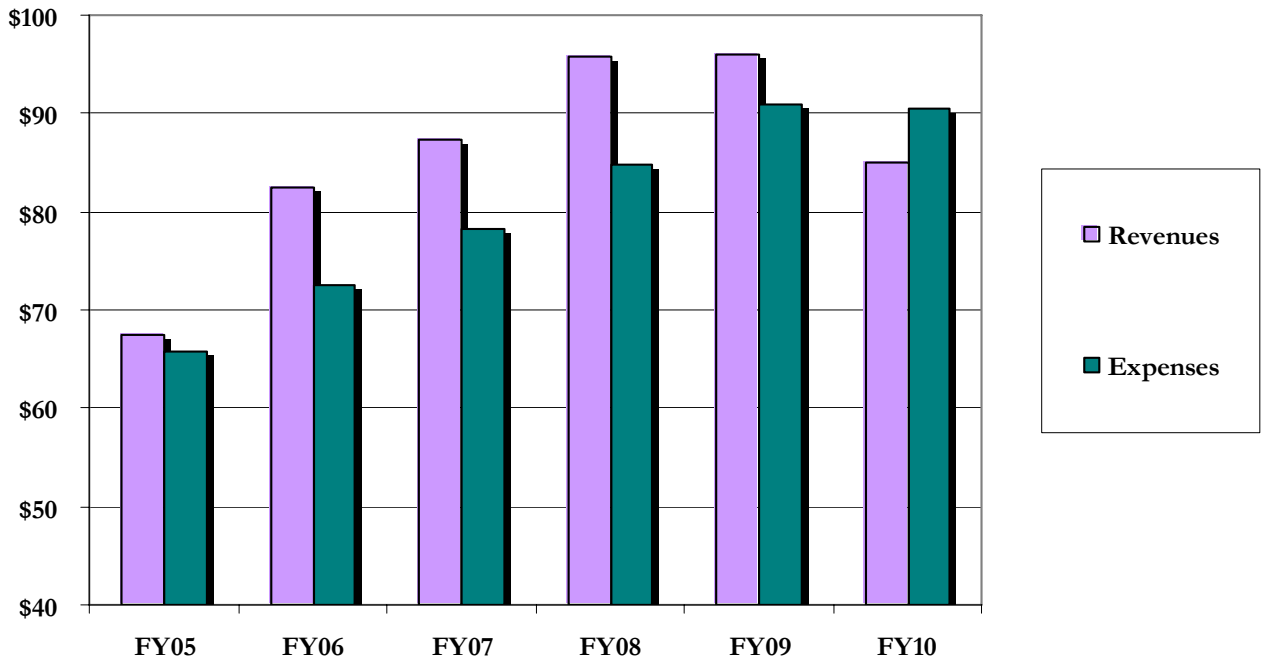
(amounts expressed in millions)



Aviation expects an FY10 expense increase of approximately 4.0%, or \$9.3 million over FY09. Personnel is increasing \$1.7 million, Supplies \$1.6 million, and Other Services \$5.1 million. The FY10 Debt Service budget is rising \$11 million.

# Convention & Entertainment Revenues & Expenses

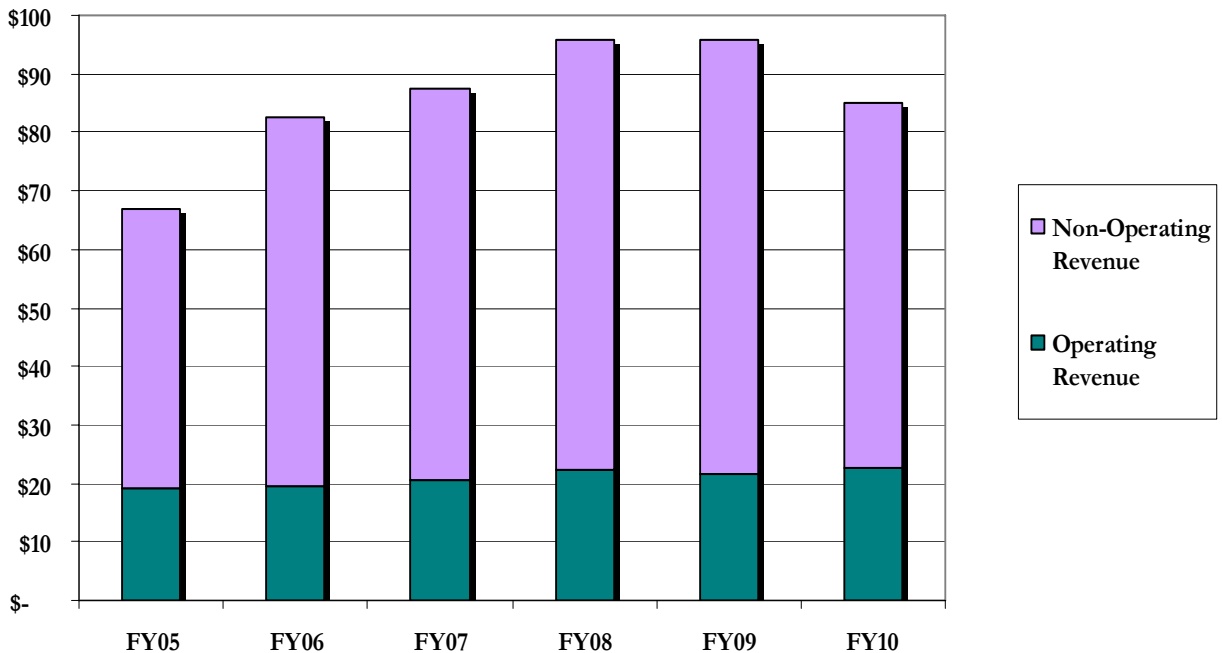
*(amounts expressed in millions)*



In FY10, Convention & Entertainment projects that total expenses will exceed revenues by \$5.5 million, which is primarily attributable to an anticipated decrease in Hotel Occupancy Tax (HOT) revenue due to the economy. The operating deficit is funded by greater than anticipated HOT revenue in prior years which was saved in anticipation of such an economic downturn.

# Convention & Entertainment Revenues

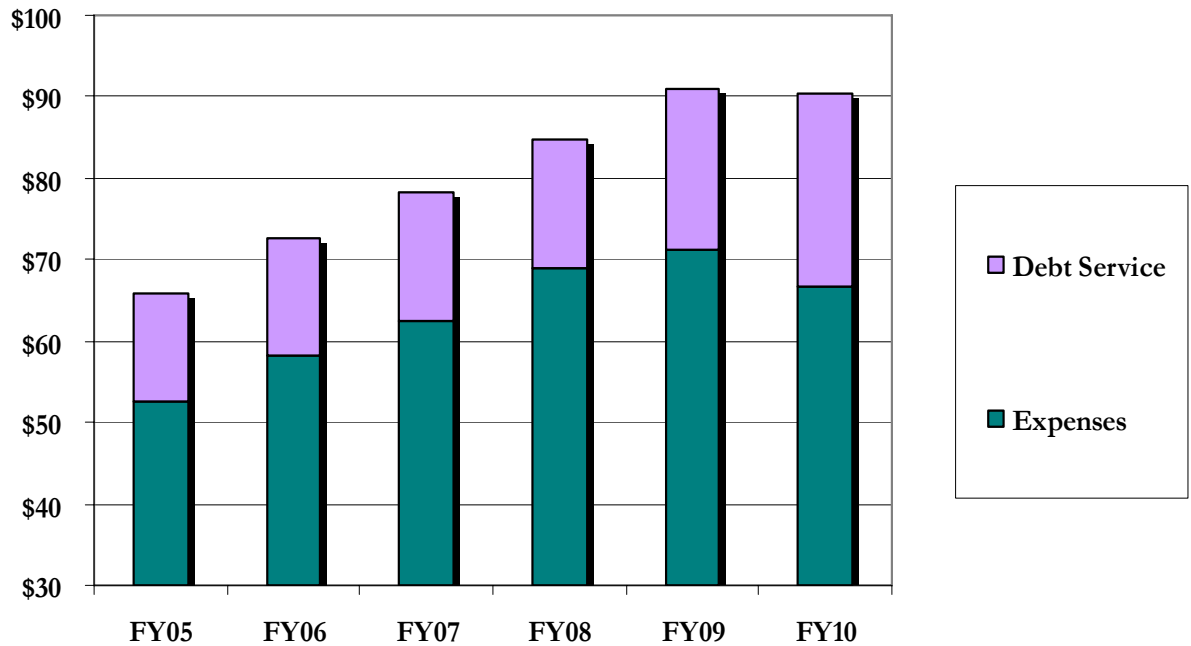
*(amounts expressed in millions)*



Convention & Entertainment total revenues are primarily generated from HOT taxes reported as Non-Operating revenues, and parking fees and facility rentals reported as Operating revenues. Non-Operating revenues are projected to decrease in FY10 by \$8.7 million, based on a \$6.8 million decrease in HOT revenues and a \$1.2 million decrease in interest earnings.

# Convention & Entertainment Expenses

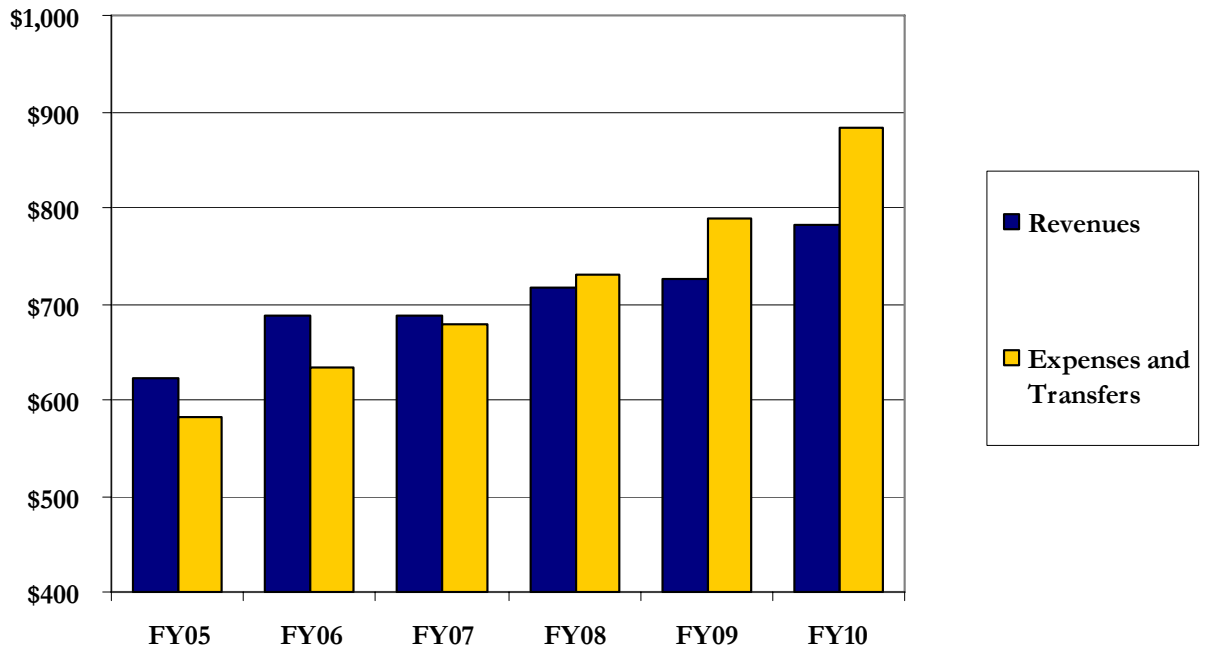
*(amounts expressed in millions)*



Convention & Entertainment expenses are approximately flat from FY09 to FY10.

# Combined Utility System Revenues and Expenses

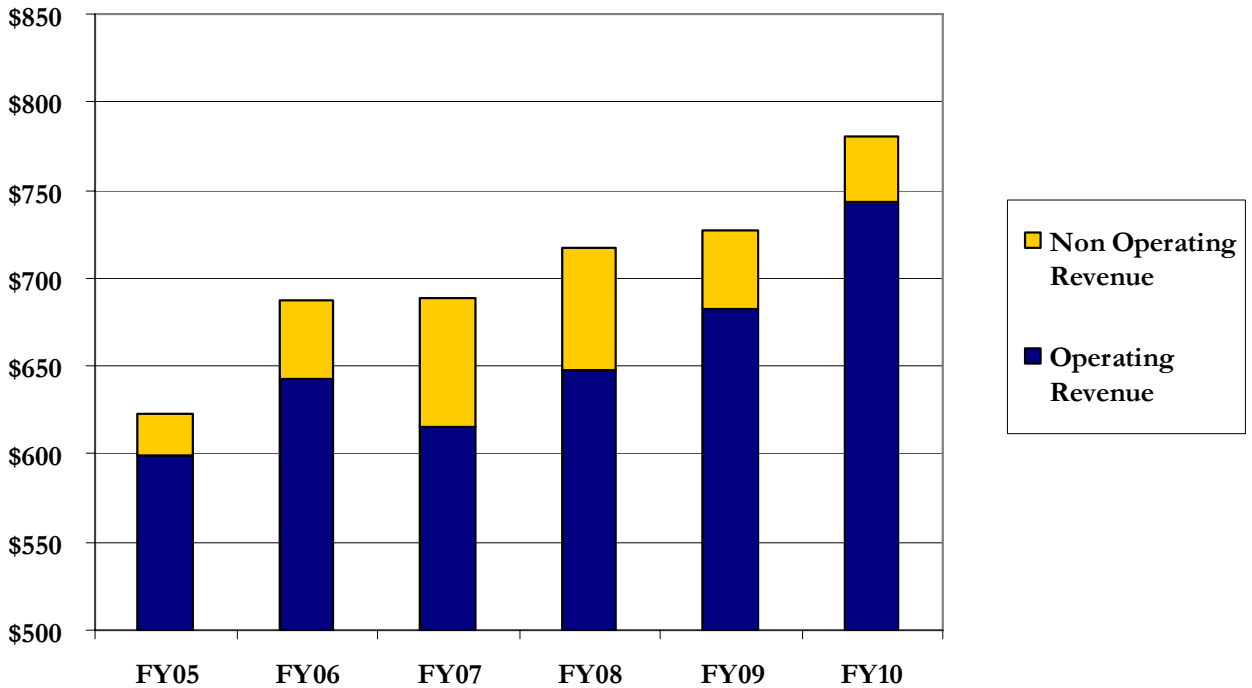
*(amounts expressed in millions)*



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. Due to the deficit, no funds will be available to transfer to the General Purpose Fund in FY10.

# Combined Utility System Revenue

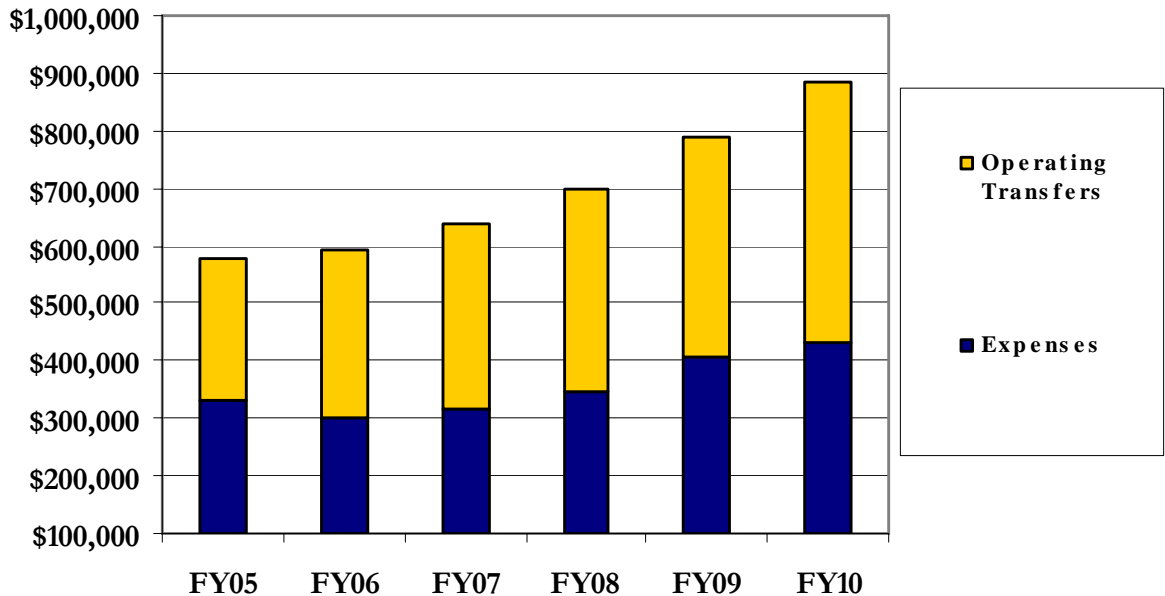
*(amounts expressed in millions)*



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 2007, 2008 and 2009 are 3.5%, 2.8% and 5.1%, respectively. Other factors contributing to year-over-year differences in operating revenues are: rainfall, change in number of customers, regional subsidence regulations, and new Municipal Utility District or municipal customers.

# Combined Utility System Operating Expenses by Category

*(amounts expressed in millions)*

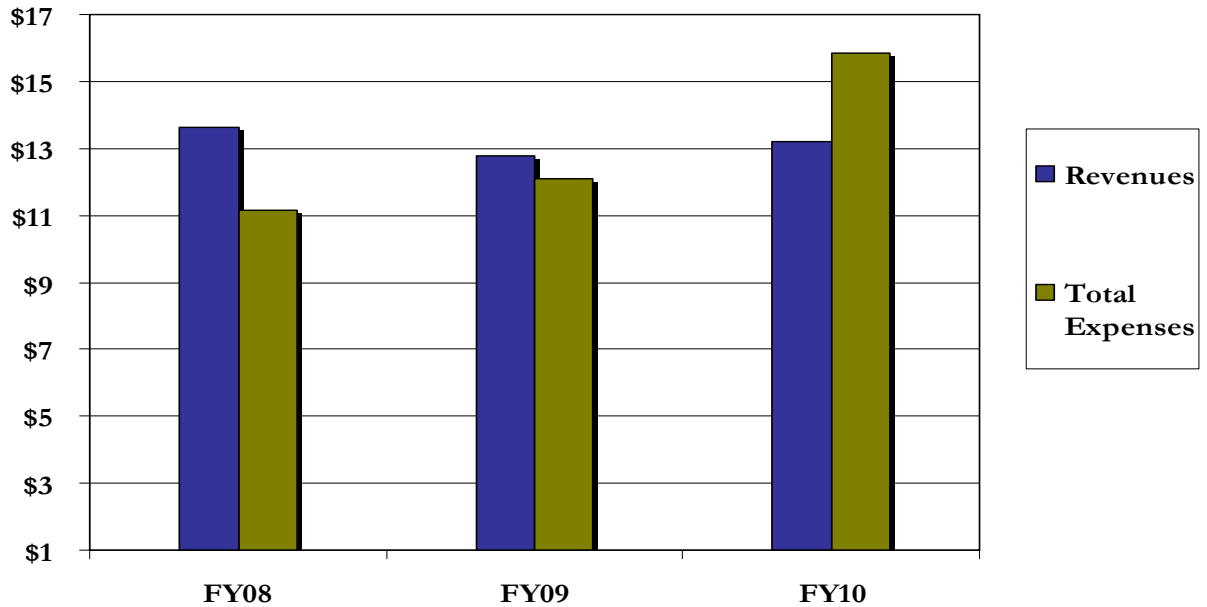


The CUS Operating and Maintenance expenses reflect changes to Energy Expense Components, Employment expenses, additional resources to accommodate new customers or additional regulatory compliance. Operating Transfers include the System's debt service payment obligations as well as the drainage expense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



# Parking Management Revenues and Expenses

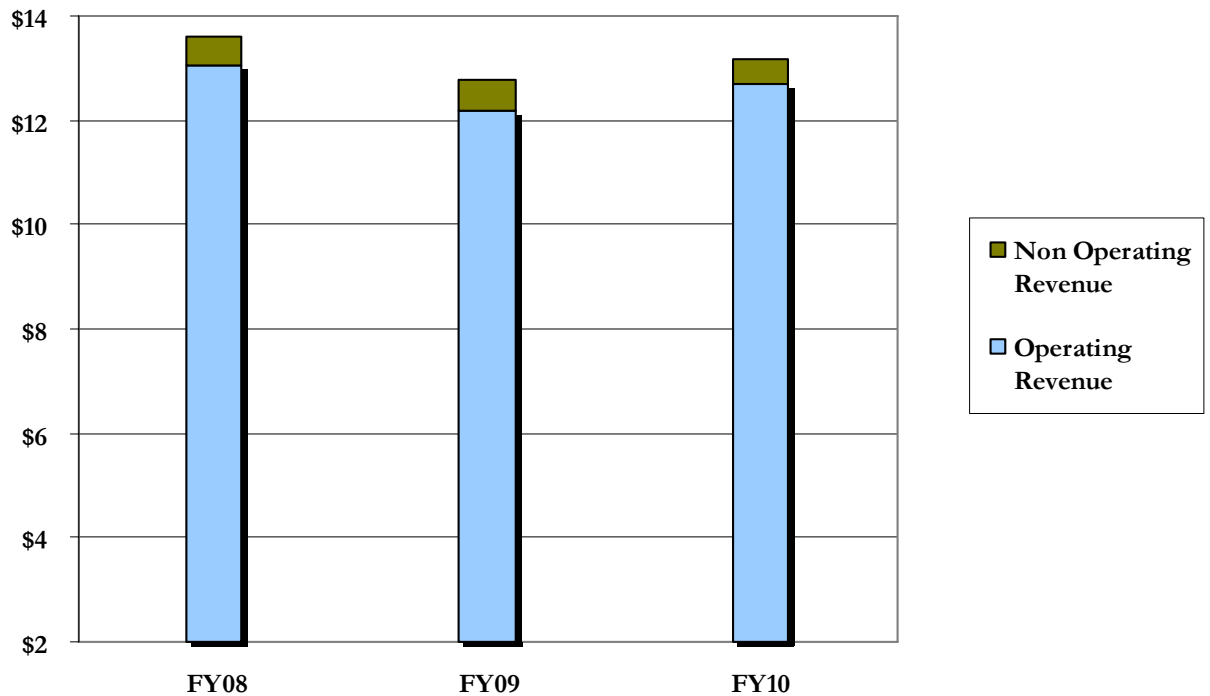
*(amounts expressed in millions)*



The Parking Management Fund was established as an Enterprise Fund in FY08 for funding and managing all parking related improvements, efficiency measures, and operational decisions for street and surface parking, primarily in the Central Business District. The FY09 revenue estimate is expected to be approximately at budget, while expenditures are expected to be 12% below budget, increasing the Fund Balance by \$708,000. The FY10 Proposed Budget will draw down the Fund Balance by approximately \$2.6 million.

# Parking Management Revenue

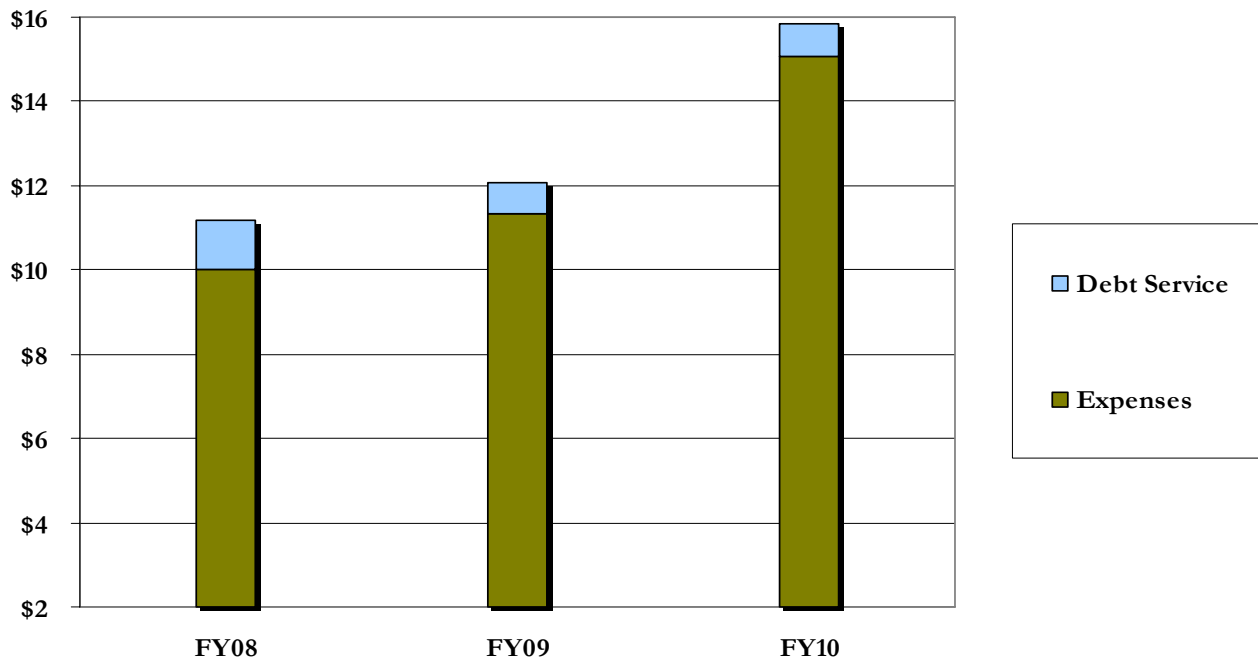
*(amounts expressed in millions)*



Revenues for the Parking Management Fund fluctuate year-over-year due in part to economic uncertainties and construction projects within the City. FY10 Metered Parking revenue is expected to be slightly higher than the FY09 level. Approximately 93% of Parking Management's FY10 Total Revenue Budget is related to Parking Violations (55%), Metered Parking (29%) and Surface Parking (9%). The remainder is spread among eight other permit and fee sources.

# Parking Management Expenses

*(amounts expressed in millions)*



The increase in the Operating expenditures for the Parking Management Fund from the FY09 estimate to FY10 budget reflects cash payments for a new parking management system, relocation costs, increased debt cost, and new construction. The Debt Service/Transfer increase is primarily related to an additional \$500,000 transfer to the General Fund, increasing the FY10 transfer total to \$7.0 million.