Office of the City Controller

Trends for Fiscal Year 2012

May 2011

Ronald C. Green
City Controller
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 FY12 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 2011 are expected to remain flat from Fiscal Year 2010 revenues. However, Fiscal Year 2012 revenues are anticipated to decline approximately 2.78% (not including transfers and sale of assets). Fiscal Year 2012’s projected revenue reflect mostly a decline in Intergovernmental Revenue because of the METRO revenue being allocated to the Dedicated Drainage and Street Renewal Fund instead of the General Fund.

Of concern, our FY12 projection for General Fund resources is $28 million less than the Administration’s FY12 Proposed Budget. To calculate Property Tax revenue, the Controller’s office used an estimated taxable value of $140.557 billion calculated by taking the estimated taxable values from Harris County, Fort Bend County, and Montgomery County Appraisal Districts in April 2011 and adjusting that value based on the County Appraisal District’s prior overstatement of estimation last year and a 96.8% collection rate. The Administration’s projection returned a value of $141.997 billion using 96.9% collection rate. For our Sales Tax projection, we assumed growth of 3.44%.

We need to point out that although the 2012 Proposed Budget for the General Fund does not anticipate any reductions to fund balance, it does not address restoring the fund balance to the preferred level of 7.5%. If our revenue projections occur, the fund balance will be only $62 million, or $57 million less than the target fund balance.

In the Enterprise Funds, Aviation revenues are decreasing slightly due to lower interest revenue rates. Convention & Entertainment revenues are projected to remain relatively flat. The Combined Utility System’s (CUS) revenues are increasing by 19.8%, primarily due to the annual water and sewer rate increase.
Summary of Graphs

The numbers on each page are from the following sources:

1. FY10 and prior years are actual results as reported in previous Comprehensive Annual Financial Reports (CAFR).

2. FY11 numbers are the Controller’s Office April Monthly Financial Operations Report (MFOR) estimates.

3. The FY12 General Fund revenues are the most current projections of the Controller’s Office.

4. Unless otherwise noted, all other FY12 numbers are from the Administration’s FY12 Proposed Budget.
# General Fund Revenues

(amounts expressed in thousands)

<table>
<thead>
<tr>
<th>Revenues</th>
<th>FY03 Actual</th>
<th>FY04 Actual</th>
<th>FY05 Actual</th>
<th>FY06 Actual</th>
<th>FY07 Actual</th>
<th>FY08 Actual</th>
<th>FY09 Actual</th>
<th>FY10 Controller’s Apr. Projection</th>
<th>FY11 Controller’s Projection</th>
<th>FY12 Proposed Budget</th>
<th>Admin’s Budget Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax</td>
<td>$646,377</td>
<td>$609,979</td>
<td>$671,234</td>
<td>$765,952</td>
<td>$748,742</td>
<td>$680,889</td>
<td>$690,986</td>
<td>$892,605</td>
<td>$849,582</td>
<td>$832,512</td>
<td>$682,478 ($7,966)</td>
</tr>
<tr>
<td>Industrial Assessments</td>
<td>15,014</td>
<td>15,167</td>
<td>14,635</td>
<td>14,314</td>
<td>15,823</td>
<td>17,776</td>
<td>19,133</td>
<td>15,817</td>
<td>14,800</td>
<td>14,800</td>
<td>0.00%</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>322,538</td>
<td>347,982</td>
<td>370,383</td>
<td>422,596</td>
<td>461,417</td>
<td>495,173</td>
<td>507,103</td>
<td>486,965</td>
<td>489,600</td>
<td>506,442</td>
<td>3.44% [c]</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>7,817</td>
<td>8,348</td>
<td>8,613</td>
<td>9,279</td>
<td>9,992</td>
<td>10,735</td>
<td>10,951</td>
<td>10,577</td>
<td>10,250</td>
<td>10,760</td>
<td>4.98% (46)</td>
</tr>
<tr>
<td>Electric Franchise</td>
<td>76,605</td>
<td>76,394</td>
<td>77,760</td>
<td>97,274</td>
<td>99,534</td>
<td>98,141</td>
<td>99,612</td>
<td>97,248</td>
<td>98,151</td>
<td>99,604</td>
<td>1.57%</td>
</tr>
<tr>
<td>Telephone Franchise</td>
<td>56,435</td>
<td>52,026</td>
<td>49,714</td>
<td>59,167</td>
<td>59,434</td>
<td>49,566</td>
<td>48,229</td>
<td>48,263</td>
<td>46,150</td>
<td>44,483</td>
<td>-3.61%</td>
</tr>
<tr>
<td>Gas Franchise</td>
<td>14,003</td>
<td>16,535</td>
<td>18,520</td>
<td>21,866</td>
<td>20,790</td>
<td>21,507</td>
<td>21,258</td>
<td>21,729</td>
<td>21,800</td>
<td>22,009</td>
<td>0.54%</td>
</tr>
<tr>
<td>Other Franchise</td>
<td>12,941</td>
<td>15,524</td>
<td>16,269</td>
<td>17,200</td>
<td>18,793</td>
<td>20,981</td>
<td>21,223</td>
<td>23,628</td>
<td>23,365</td>
<td>23,437</td>
<td>0.31%</td>
</tr>
<tr>
<td>Licenses &amp; Permits</td>
<td>15,335</td>
<td>15,271</td>
<td>17,692</td>
<td>18,086</td>
<td>18,637</td>
<td>20,889</td>
<td>17,511</td>
<td>16,636</td>
<td>18,500</td>
<td>17,896</td>
<td>-3.26%</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>15,385</td>
<td>11,176</td>
<td>18,958</td>
<td>26,989</td>
<td>41,576</td>
<td>32,950</td>
<td>33,027</td>
<td>32,148</td>
<td>59,719</td>
<td>11,161</td>
<td>-81.31% [d]</td>
</tr>
<tr>
<td>Charges for Services</td>
<td>37,422</td>
<td>39,875</td>
<td>39,856</td>
<td>41,115</td>
<td>44,844</td>
<td>39,836</td>
<td>35,743</td>
<td>34,156</td>
<td>36,195</td>
<td>38,734</td>
<td>7.01%</td>
</tr>
<tr>
<td>Direct Interfund Services</td>
<td>62,099</td>
<td>57,056</td>
<td>61,233</td>
<td>39,497</td>
<td>42,052</td>
<td>41,935</td>
<td>47,890</td>
<td>45,906</td>
<td>45,271</td>
<td>45,255</td>
<td>-0.04%</td>
</tr>
<tr>
<td>Indirect Interfund Services</td>
<td>15,899</td>
<td>14,647</td>
<td>11,031</td>
<td>14,985</td>
<td>12,712</td>
<td>10,550</td>
<td>13,100</td>
<td>16,012</td>
<td>16,110</td>
<td>18,522</td>
<td>14.97%</td>
</tr>
<tr>
<td>Muni Courts Fines</td>
<td>42,433</td>
<td>45,005</td>
<td>48,827</td>
<td>45,319</td>
<td>44,936</td>
<td>37,140</td>
<td>37,092</td>
<td>38,096</td>
<td>36,379</td>
<td>35,000</td>
<td>-3.79%</td>
</tr>
<tr>
<td>Other Fines</td>
<td>2,185</td>
<td>2,131</td>
<td>2,424</td>
<td>3,081</td>
<td>3,162</td>
<td>2,491</td>
<td>2,692</td>
<td>2,257</td>
<td>2,297</td>
<td>2,297</td>
<td>0.00%</td>
</tr>
<tr>
<td>Interest</td>
<td>6,893</td>
<td>5,130</td>
<td>6,414</td>
<td>8,000</td>
<td>15,059</td>
<td>16,992</td>
<td>8,265</td>
<td>6,858</td>
<td>5,285</td>
<td>4,500</td>
<td>-16.43%</td>
</tr>
<tr>
<td>Misc/Other</td>
<td>11,057</td>
<td>16,866</td>
<td>16,253</td>
<td>17,016</td>
<td>4,520</td>
<td>12,315</td>
<td>10,276</td>
<td>8,215</td>
<td>9,100</td>
<td>5,555</td>
<td>-39.53% [e]</td>
</tr>
<tr>
<td>Total</td>
<td>$1,361,088</td>
<td>$1,400,212</td>
<td>$1,499,703</td>
<td>$1,623,209</td>
<td>$1,553,848</td>
<td>$1,653,282</td>
<td>$1,747,737</td>
<td>$1,824,396</td>
<td>$1,782,633</td>
<td>$1,733,897</td>
<td>$1,760,488 ($27,793)</td>
</tr>
</tbody>
</table>

| Transfers from Other Funds | 49,440 | 1,028 | 4,542 | 11,219 | 35,810 | 38,658 | 36,379 | 35,000 | 35,859 | 35,859 | -27.53% |
| Sale of Capital Assets | 6,439 | 4,757 | 4,003 | 4,789 | 6,548 | 8,027 | 10,655 | 32.74% [f] | 13,550 | (2,895) |
| Proceeds from Promissory Note | - | - | - | - | - | - | - | - | - | - | - |
| Disaster Recovery Fund Transfer | 6,800 | 0 | - | - | - | - | - | - | - | - | - |
| Pension Bond Proceeds | 48,599 | 59,000 | 63,000 | 35,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | - |
| Total Revenues and Transfers | $1,410,528 | $1,407,012 | $1,499,703 | $1,623,209 | $1,653,282 | $1,727,581 | $1,811,959 | $1,848,314 | $1,847,354 | $1,823,052 | $1,782,470 |

[a] The “Percentage Change” column compares our FY12 projection to our FY11 estimate, while the “Difference” column compares our FY12 projection to the proposed budget.

[b] Property Tax revenue is net of refunds and Tax Increment Reinvestment Zone (TIRZ) payments. The Controller’s FY12 projection for Property Tax revenues is based on the taxable values provided by Harris County on April 28, 2011. This amount was reduced an additional 1% to reflect the rate of overstatement of the prior years taxable values. The projection assumes an estimated $23 million in delinquent collections and an estimated $60 million in TIRZ payments.

[c] Sales Tax revenue uses our FY11 Sales Tax revenue estimate plus Dr. Barton Smith’s April 2011 estimated growth rate of 5.44% for FY12. This is then reduced by Dr. Barton Smith’s margin of error of 2%.

[d] METRO funding revenues will be recognized in the Dedicated Drainage and Street Renewal Fund instead of the General Fund.

[e] Miscellaneous other revenue in FY12 is lower mainly due to prior year revenue adjustments in FY11 that will not be forthcoming in FY12.

[f] Due to the uncertainty that these sales will take place, and the value to be received, the Controller’s office anticipates that only about three fourths of the Administration’s budgeted amount of these capital assets will be received.
FY12 General Fund revenue is projected to shrink by $50 million, or 2.78%, under our current FY11 estimate. The projected decrease consists mostly of reduced METRO funding revenue that will be recognized in the Dedicated Drainage and Street Renewal Fund. We are also projecting a decrease of $16.9 million in Property Tax, which is offset by an increase of $16.8 million in Sales Tax.
Property Tax revenue is projected to be lower than the FY11 estimate by 1.99%. TIRZ payments, delinquent tax collections and rebates are expected to remain stable as compared to FY11. Our Property Tax revenue projection is based on a tax rate of 63.875 cents per $100 valuation and a collection rate of 96.8%.
The Harris County, Fort Bend County, and Montgomery County Appraisal Districts (the Districts) provide expected taxable values. The actual taxable values for FY11 are above the preliminary value estimates provided at this time last year. However, based on the Districts’ projection for FY12, a decrease in valuation of about 0.7% is anticipated. These values are based on the Districts’ preliminary projected values, dated April 28, 2011, and reduced 1% to reflect the over projection of the prior year.
Residential and commercial properties in the City of Houston make up 96% of the taxable values reported by the Districts.
Sales tax revenue is projected to be 3.44% higher than FY11 Sales Tax receipts. This increase is based on the 5.44% estimated growth of Dr. Barton Smith’s April report plus an error rate reduction of 2%.
Property Tax Rate

(Tax Rate per $100 Valuation)

The FY12 number is a projection. The final rate will be established by a vote of council in the second quarter of FY12.
Franchise revenues are projected to remain relatively stable from FY11. For the seventh year in a row, Telephone Franchise Revenues are expected to decrease. The decrease in Telephone Franchise revenues is projected to be offset by a similar increase in Electricity Franchise Revenues.
Municipal Courts Revenues

(amounts expressed in thousands)

Municipal Courts Fines and Forfeits is 3.79% lower than FY11. This number takes into account uncertainty with the new collection processes.
The General Fund expenditure budget is down by 5%, a decrease of $100 million from our FY11 estimated expenditures. The gap between Controller's projected revenues and budgeted expenditures will require using $31 million from the Fund Balance to cover the operating deficit.
General Fund

Expenditures Percent by Function for 2012

- Public Safety: 60%
- Development & Maintenance: 9%
- Human & Cultural Services: 7%
- Administrative: 5%
- General Government: 6%
- Debt Service: 13%
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. It also includes $20 million from the Rainy Day Fund which became Undesignated within the General Fund in FY11. The Undesignated Fund Balance is expected to decrease by $72 million in FY11 and $31 million in FY12.
City ordinance requires an Undesignated Reserve of 5% of the Adopted Budget less Debt Service. An Undesignated Reserve of 7.5% is preferred. For FY12 we project a $57 million deficit under the 7.5% Fund Balance. This is due to a difference in revenue of $28 million and Fund Balance difference of $29 million.
Aviation is projecting revenues to increase slightly due to additional operating revenues. Projected increases in expenses are based on anticipated increased spending for Debt Service.
FY12 revenues are expected to increase 2.85%, or $2.7 million from the FY11 estimate, primarily related to a budgeted increase in Landing Fees, Terminal Rentals, and Retail Concessions.
Aviation expects an FY12 expense increase of approximately 6.8%, or $23.9 million over the FY11 estimate. The FY12 Debt Service budget is increasing due to other funding sources used in FY11 that are not available for FY12.
Convention & Entertainment
Revenues & Expenses

(amounts expressed in millions)

Convention & Entertainment projects that FY12 total expenses will exceed revenues by $10.7 million, which is primarily attributable to the department’s “pay-as-you-go” funding philosophy for capital and non-recurring projects. Such FY12 projects include facility upgrades and major maintenance projects. The operating deficit is funded by a fund balance that retained the balance of record HOT revenues in FY08 and FY09 in anticipation of the need for these projects.
Convention & Entertainment Revenues

(amounts expressed in millions)

Convention & Entertainment total revenues are primarily generated from HOT taxes reported as Non-Operating revenues, followed by parking fees and facility rentals with related concession revenues reported as Operating revenues. Non-Operating and Operating revenues are projected to increase 4.28% in FY12 when compared to estimated FY11 revenues.
Convention & Entertainment
Expenses
(amounts expressed in millions)

Convention & Entertainment is projecting an increase in expenses due to the department’s “pay-as-you-go” funding philosophy for capital and non-recurring projects. Such FY12 projects include facility upgrades and major maintenance projects. Debt service is relatively flat.
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.
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 2008, 2009, 2010, and 2011 are 2.8%, 5.1%, 0.3%, and 1.9% 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.