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 27, 2009

Subject: **February 2009 Financial Report**

Attached is the Monthly Financial and Operations Report for the period ending February 28, 2009.

GENERAL FUND

We are currently projecting a shortfall of $71 million. This is up by about $7 million from last month. The change is due to a decrease of $10.7 million in our overall revenue projection and a $3.7 million decrease in projected expenditures.

The presentation of the General Fund (pages 1-3) has been modified to show only Fund 1000 and the amount available for future spending. Please note that we project that the surplus amount available for appropriation will drop to around $56 million at the end of FY 09. The amounts designated for Sign Abatement and the Rainy Day Fund are now displayed separately on page 37.

We have decreased our projection for Property Tax revenues by $10.6 million to reflect current collection trends, and the Lyondell bankruptcy mentioned in last month's report. Our projection for Industrial Assessments is up $1.3 million to account for actual valuation amounts being received from the Harris County Appraisal District. We have also reduced our projection for Charges for Services by $1 million. This is due to a decrease in year-to-date collection trends for Ambulance Fees.

General Fund expenditures for Health are down $319,000 for savings in supplies and services. The projection for Public Works decreased $1 million to offset the difference between budgeted amounts and current trends in spending for street lights. Finally, Solid Waste spending is down $673,000 due to overtime savings in personnel.

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 one reason we are projecting such a large shortfall.

ENTERPRISE FUNDS

The projection for Aviation Department Non-operating Revenues is down $1 million to reflect continued lower interest earnings on pooled investments. Our projection for Debt Service Interest decreased significantly, by $34.6 million, because a major refunding originally planned for this fiscal year is now expected to occur in FY 10. Implementation of the Passenger Facility Charge, and its corresponding increased revenue, is also having a positive impact on payments for Debt Service Interest. Any decline in anticipated revenues and expenses has a corresponding impact on the amount of dollars available for the Capital Improvement Operating Transfer. Therefore, we are also increasing that line item by about $33.4 million.

In the Convention & Entertainment Facilities (CEF) Operating Fund we have decreased our projection for Operating Revenues by $484,000. Parking decreased $821,000 to reflect Discovery Green parking revenue, which should not be included in the Operating Fund, and Food and Beverage increased $314,000 because of additional event bookings. In other positive trends, there is a $2.4 million increase in the projection for Net Hotel Occupancy Taxes. The increase in revenues mandates a corresponding increase of $1.7 million for Advertising and Promotion Contract expenses. We are decreasing Operating Expenses by $4.2 million to reflect the transfer of $3.8 million in Capital Projects to the Construction Fund, and some savings in personnel tied to attrition. The transfer of capital projects to the Construction Fund is also the reason for a $1.1 million decrease in our projection for Capital and Non-Capital Outlays. Finally, our projection for Total Operating Transfers decreased $499,000. This is attributed to lower interest rates and an additional $340,000 from FEMA.

In the Parking Management Operating Fund we have decreased our projection for Parking Violations by $1 million and increased projected revenues for Metered Parking by $740,000 due to current trends. We decreased Total Operating Expenses by $895,000 to account for delays in parking lot upgrades, the purchase of a new information system, and Personnel savings. Finally, we decreased our projection for Capital Outlay by $253,000 for delays in purchasing a new Parking Citation Management System.

Our projection for Combined Utility System (CUS) Fund Operating Expenses is down by $2.1 million, primarily due to lower than expected chemical prices. We have increased the projection for Total Operating Transfers by $2.1 million. This is the net impact of a $4.1 million increase in interest payments on Variable Rate Demand Notes and a decrease of $1.7 million for Pension Liability Interest to reflect the lower interest payments resulting from last January's refunding of pension obligation bonds.

There are no significant changes in the Stormwater 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. As a result of the temporary alternative minimum tax reprieve provided in the economic stimulus package, the Houston Airport System is evaluating its plans to refund Houston Airport System commercial paper and its other variable rate debt. The Convention and Entertainment maintains a higher percentage of variable rate debt due to agreements with the Hotel Corporation.

As of February 28, 2009, the ratio of unhedged variable rate debt for each type of outstanding debt was:

General Obligation	13.1%
Combined Utility System	9.1%
Aviation	23.4%
Convention and Entertainment	30.0%

Respectfully submitted,

Annise D. Parker
City Controller