OFFICE OF THE CITY CONTROLLER

CITY OF HOUSTON
INTEROFFICE CORRESPONDENCE

To: Mayor Bill White
City Council Members

From: Annise D. Parker
City Controller

Date: February 27, 2009

Subject: **January 2009 Financial Report**

Attached is the Monthly Financial and Operations Report for the period ending January 31, 2009.

GENERAL FUND

We are currently projecting a shortfall of $64 million. This is up by about $11 million from last month. The change is the net affect of a decrease of $12 million in our overall revenue projection, and a $929,000 decrease in projected expenditures.

There are many changes in our revenue projections this month, most of which appear to be tied to the ongoing economic downtown. Because there are more adjustments than usual, we have decided to use bullet points for easier reading and understanding.

- We have decreased our projection for Industrial Assessments by $7.8 million to reflect the possible delay of payments on several properties included in the Lyondell bankruptcy. Lyondell's problems may also impact Property Tax revenues. Right now, we are aware of approximately $6.7 million of property taxes at risk of being paid late. We should have a better picture next month and will make any adjustments to our Property Tax projections at that time.
- Our projection for Sales Taxes is up $3 million to account for better than expected December receipts. We believe this revenue category continues to perform well because people are still purchasing materials for hurricane repairs.
- We are reducing our projection for Licenses and Permits by $925,000. This is primarily tied to a $1.4 million decrease in revenues for Special Fire Permits, coupled with an increase in Coin Vending Permits of $595,000.
- Our projection for Charges for Services is down a total of $2.7 million due to declines in collection of Demolition Liens, Weed cutting Liens, Certified Copy Fees and Building Space Rentals.
- Direct Interfund revenue is projected to increase $415,000 to reflect the recovery of Houston HOPE expenses from various departments.
- Other Fines and Forfeits has decreased $1.7 million to reflect lower interest earnings on liens. This is tied to lower prices for foreclosure properties sold at tax sale, which in turn mean less money available to apply toward nuisance liens after the back taxes and judgments have been satisified.
- We have decreased our Interest revenue projection by $1 million to more accurately reflect lower interest earnings on lower cash balances.
- Our projection for Miscellaneous/Other revenues decreased by $342,000 due to year-to-date collection trends.
- The projection for Transfers from Other Funds increased $300,000 for FEMA receipts.
- Finally, we have decreased our projection for Sales of Capital Assets due to lower sales than originally budgeted.

The only change in General Fund expenditures is a $700,000 decrease in projected personnel spending for the Library.

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 Operating Revenues is down $1.2 million. This decrease is due to an anticipated settlement of prior aircraft parking charges of $670,000, and a budgeting adjustment of $490,000 for Interfund Engineering Services, which has increased Other Nonoperating Revenues by the same amount. Interest revenue is projected to come in $2 million lower than last month. This is the same situation noted for the General Fund. Our cash balances are lower so our interest earnings are less. Our projection for operating expenses has decreased $9.8 million. More than $8 million of this change is tied to lower than anticipated spending on Services and Non-Capital Outlay. The rest is due to expense savings for Personnel and Supplies. Finally, we are decreasing the projection for Interfund Transfers by $1.2 million, to reflect lower projected O&M, which requires a 2 month reserve. 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 $7.5 million.

In the Convention & Entertainment Facilities (CEF) Operating Fund, we have increased our projection for Operating Revenues by $513,000 because event bookings are up.

Our projection for Combined Utility System (CUS) Fund Operating Revenues is down by $2 million due to lower than expected water and sewer sales volume. We have also decreased the projection for Interest on Investments $3 million, again for lower rates and cash balances. Finally, we have reduced Impact Fees by $4.8 million due to the downturn in the construction and housing market.

There are no significant changes in the Stormwater or Parking Management 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 provisions 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. Convention and Entertainment maintains a higher percentage of variable rate debt due to agreements with the Hotel Corporation.

As of January 31, 2009, the ratio of unhedged variable rate debt for each type of outstanding debt was:

General Obligation	12.2%
Combined Utility System	8.6%
Aviation	23.4%
Convention and Entertainment	30.0%

Respectfully submitted,

Annise D. Parker
City Controller