



City of Houston
CONTROLLER'S OFFICE ANNUAL REPORT
JANUARY-DECEMBER 2011



Ronald C. Green
Controller

January 2, 2012



Dear fellow Houstonians,

I am pleased to present the Controller's Office 2011 Annual Report containing what we consider the highlights of this office in 2011.

Like all U.S. cities, the City of Houston has had numerous challenges due to revenue shortfalls. Mandated budget cuts resulted in a workforce reduction of 11 employees in the Controller's Office. The Controller's FY 2012 budget is \$746,000 less than FY 2011. I salute the staff for their commitment to their jobs and this office—and to the citizens.

I am especially pleased that through our municipal bond refinancing, we have saved the City over \$150 million in the coming decade without extending the terms of the debt.

At one point in FY 2011, the City of Houston had a budget shortfall of \$100 million. This was largely due to the reductions in both property taxes and sales taxes—which, combined, account for 71 percent of the city's General Fund. Unlike many state governments and the federal government, the City of Houston must close its fiscal year with a balanced budget; we cannot carry debt into the following year. Hence, there were some difficult choices to make during FY 2011.

However, both the depth and length of Houston's recession were moderate in comparison with the 20 largest metro areas in the country. Houston's 4 percent job loss occurred over 16 months—along with Boston, the shortest period of continuous job losses. (Washington D.C. with 21 months of job loss was third of the 20 metro areas, with other areas ranging as high as 42 months and still not recovering.) As FY 2011 came to a close, 88 percent of the job losses in Houston had been recovered—far better than any other metro area. Health care, education, hotel and food services and administrative support had fully recovered, while other sectors—notably, real estate and construction—were in recovery mode but slower.

With the increases in the job sectors, there occurred a robust recovery in sales tax, expected to finish 2011 at about a 6 percent increase over 2010. Houston's housing market remained relatively stable throughout the recession with home prices no lower than the highs in 2007; other urban areas in the U.S. saw home prices fall as much as 35 percent. Two months into FY 2012, this trend continues with home sales 17 percent above August 2010; average and median prices in city are up, 6.5% and 3.2% respectively. Though these market trends are positive, the city's revenue from property tax will take another year to reach the level of FY 2009. Finally, manufacturing remained strong in Houston. The Houston Purchasing Managers Index (PMI) averaged 60.9 over 2005-2007, fell to 39.0 in March 2009; and rebounded to 61.4 in May 2011.

Though energy is the dominant force in the area, international trade, transportation, education and health care play critical roles in the area's economy. The City's ability to provide services is a reflection of the economic health of the area and, though the recovery is slow, there is much to be optimistic about.

If you have any questions about the City's finances or about my office, please do not hesitate to contact me.

A handwritten signature in green ink that reads "Ronald C. Green".

Ronald C. Green

www.houstontx.gov/controller

The Controller's web site has hundreds of pages of useful and interesting information, as well as financial archives. On the home page, take a moment and watch Controller Green's welcome. Here is some of what's on the site:

[Audit Division Reports](#), [Monthly and Annual Financial Reports](#), [Investment Policy/Reports](#), [Vendor Liaison](#), [History of the Controller's Office](#), [News Releases](#), [Speeches](#), [Glossary of Financial Terms](#), [Photo Gallery](#), [Links to Government](#), [University and Financial Institution Sites](#), [Volunteer Opportunities](#), [E-Vendor Disbursement site](#).

Houston City Controller Ronald C. Green is the second highest elected official in Houston City Government and its Chief Financial Officer. The Office of the Houston City Controller superintends the fiscal affairs of the City and is responsible for:

- conducting audits;
- managing investments and debt;
- managing all payroll and vendor payments;
- preparing accurate and timely financial statements;
- providing leadership on policy issues pertaining to the City's financial health;
- conducting independent performance reviews of the City bureaucracy;
- assessing the City's future financial condition with accurate forecasts of projected revenues and expenses and area's economic outlook.

Because FY 2011 was so financially challenging for the City, Controller Green received many requests for speaking engagements where he could elucidate the City's budget complexities. Those venues included the Houston Realtors Association, Greater Houston Partnership, Association for Corporate Growth, Exchange Club of Houston, Institute of Management Accountants, Leadership Houston, West Side Chamber of Commerce, National League of Cities Futures Panel, Houston Association of Realtors, Houston Contractors Association, Houston Council of Engineering Companies, Women Professionals in Government, Heights Chamber of Commerce, Clear Lake Chamber of Commerce, Turnaround Management Association and University Rotary Club among others. Additionally, Controller Green spoke to several classes at both the University of Houston and Texas Southern University.

*Questions for the Controller? Please write to: controllers@houstontx.gov
Follow us on Twitter at COHController. Join our Facebook page at Office of Houston City Controller.*

Executive Division

The "voice" of the Controller's Office

The Executive Division oversees the initiatives, reports and requests for information that are the responsibility of the Controller's Office. The division serves as liaison to City Council and the City's departments. The division continued the Bank on Houston initiative, a City-sponsored program to connect unbanked residents with the financial mainstream.



Controller Green participated in a Bloomberg News panel on municipal finance.

2011 Highlights

- Provided constituents a means to communicate their concerns and requests via the Controller's website.
- Controller Green spoke to numerous chambers of commerce, civic groups and professional associations about the City's budget challenges and the area's economic outlook. Also during 2011, Controller Green had four opinion-editorials in the Houston Chronicle on the topics of the City's budget, area's economy, the City's two new districts and the importance of protecting funding sources for colleges.
- Continued production of the monthly "The Green Report" on HCC TV. The half-hour program sees Controller Green interviewing prominent Houstonians about current issues; guests included Rice University Prof. Steven Klineberg, HISD Board President Paula Harris and Big Brothers and Big Sisters' Kime Smith.
- "The Green View" premiered on HTV, the City's municipal TV channel. Guests included Mayor Annise Parker and Harris County Commissioner El Franco Lee.
- Continued for a second year the Controller's Office internship program for local college and university students.
- The Controller's Office was represented at 25 events hosted by various non-profits; 35 events hosted by surrounding high schools, colleges, and universities; and 114 community-wide events.

Treasury Division: Debt and Investment

Seizing the moment for re-financing

The Treasury Division is responsible for managing the City's \$2.4 billion investment portfolio in accordance with state law and the City's investment policy. Fitch has awarded the City's general investment its highest portfolio rating, AAA, and Standard and Poor's rates the portfolio AA. The Treasury Division is also responsible for overseeing a debt program of approximately \$13 billion. The City has 14 commercial paper programs totaling \$1.75 billion, seven auction-rate security issues, nine series of variable rate demand obligation bonds, SIFMA indexed notes, and two interest rate swaps with a total notional amount of \$902 million and credit agreements totaling \$ 2.76 billion.

The City's general obligation debt is rated Aa2 by Moody's; AA by Standard and Poor's; and AA by Fitch Ratings. In its most recent general obligation ratings report, Moody's cited the City's large tax base, demographic trends and above average economic outlook as strengths. Standard and Poor's affirmed the City's AA rating on its general obligation debt based on the City's "sizable, deep, and diverse economic base."

2011 Highlights

- June 28, 2011: >\$500 million refunding airport debt = \$30 million savings.
- July 19, 2011: \$200 million for Convention & Entertainment refinancing = \$10 million savings
- August 23, 2011: \$167 million bond sale (utility system) = \$30.5 million in savings.

Audit Division

Promoting efficiency, quality assurance

The Audit Division performs the Internal Audit function for the Office of the City Controller. This includes provision of independent, objective assurance, attestation, and consulting services designed to add value and improve the City's operations. The Audit Division helps City departments bring a systematic, disciplined approach to evaluate and improve the effectiveness of various processes (i.e. risk management, control, and governance).

The Audit Division is fully compliant with professional auditing standards (Government Auditing Standards and International Standards as issued by the Institute of Internal Auditors). During Fiscal Year 2011, the Audit Division engaged in 17 Audits and Special Projects that produced six Audit Reports as posted on the Controller's website. The projects completed during the year 2011 focused on compliance, performance/efficiency, process reviews, ongoing monitoring, consideration of fraud, waste or abuse, and quality assurance. These efforts resulted in over \$2.25 million dollars in direct cost-savings realized or identified in 2011.

The Audit Division remains committed to its development of a specialized IT Audit Function. This is supported by providing aggressive training and staff development to efficiently analyze data from disparate systems. The current focus of the IT Audit Function includes using technology tools that are integrated with the City's ERP System (SAP).

2011 Highlights

- Houston Airport System Construction Contract Audit
- Houston Airport System Concessionaire Contract
- Parks and Recreation Department – Golf Courses Management Audit
- A-133/Single Audit Testwork

Financial Reporting Division

Pulling together the numbers for public disclosure

The Financial Reporting Division is ultimately responsible for the preparation of both the Monthly Financial and Operations Report (MFOR) and the Comprehensive Annual Financial Report (CAFR), although every division of the City Controller's Office contributes to the CAFR effort. The CAFR is available on the City Controller's website: www.houstoncontroller.org and on a CD disc upon request.

2011 Highlights

- Issued Comprehensive Annual Financial Report (CAFR).
- Issued Monthly Operations and Financial Report (MFOR) in conjunction with Finance Department.
- Issued Annual Trends Report for FY2012.
- Certified FY2011 revenues.
- Certified FY2012 budget in compliance with Proposition 1.

Operations and Technical Services Division

The "workhorse" of the Controller's Office

The Operations and Technical Services Division is responsible for certification of funds for contracts. It is responsible for accounts payables (AP), bank reconciliation, payroll payments, and record retention for all City-wide departments. Additionally, the division disburses checks for all City and private vendors and fulfills the Vendor Liaison function. In the coming year, the Division's goal is to develop AP streamline processing via an on-line vendor invoice interfacing feature in SAP-AP module with the related City wide teams to reduce manual effort; and continue to coordinate the City's move to a paperless approval system for invoices and encouraging direct deposit payment by City vendors and employees.



Controller Green and several staff held a Town Hall Teleconference, April 20. Just over 1,000 people participated in the question and answer presentation.

2011 Highlights

- Maintained Accounts Payable records through various electronic devices for future reference and audit trail to lower the storage cost of paper documents.
- Enhanced automated Accounts Payable (AP) processing from budget setup, procurement processing, cash flow monitoring, and disbursement via banking services for efficiency and high performance.
- Tested payroll processing facilities at a different safeguard location (HEC) to ensure that the capability of performing payroll and disbursement disaster recovery procedures is well maintained.
- Ensured that all payroll and vendor payments through various payment methods were reconciled by Bank Reconciliation group, and ensured that check issuing, purging and escheating were processed within time frame to meet Texas State and IRS requirements.
- Reviewed SAP financial and accounting - AP system blue print procedures periodically to ensure that IT – ERP and the Controller's Office are working as a team for the safeguard of security setup and the efficiency and internal control purposes of AP operations.
- Performed system program runs and reconciliation on the monthly investment interest apportionment and the financial/accounting operations monthly closing.
- Maintained Controller's Office computer servers/technical program services pertaining to departments and City-wide financial/accounting, information technical and auditing systems.

Ronald C. Green

Ronald C. Green was elected Houston's City Controller on December 12, 2009, after serving three terms on Houston City Council, At-Large, Position Four. On Council, he chaired the Budget and Fiscal Affairs Committee, overseeing the City's annual budget of nearly \$4 billion. While he served on City Council, his work entailed regular financial and operations reports, strategic purchasing, and municipal court reform. He also served as a member of the Transportation, Infrastructure and Aviation Committee and the Ad-Hoc Committee on Legislative Affairs.

Controller Green was unopposed for his second term as Controller.

Controller Green earned both a Bachelor of Science and a Master of Business Administration from the University of Houston, as well as a law degree from Texas Southern University's Thurgood Marshall School of Law. He is licensed to practice law in the State of Texas, the District of Columbia, the 5th Circuit Court of Appeals and the United States Supreme Court. He is also a licensed real estate broker.

Mr. Green is a founding partner of his own law firm and a member of Alpha Phi Alpha Fraternity, Inc., 100 Black Men of America, Inc., UH Alumni Organization, UH Black Alumni Association, Thurgood Marshall School of Law Alumni Association, Government Finance Officers Association, National Association of Bond Lawyers, Houston Lawyers Association, and Leadership Houston Class XXIII. He is married to Judge Hilary Harmon Green, Justice of the Peace, Harris County Precinct Seven, Place 1. They have a son and are active in their community and Windsor Village United Methodist Church.

Controller's Office History

While most cities have some agent that oversees its finances, few have a popularly elected City Controller and one who has as much independence and authority as does Houston's City Controller. Nor do other similar entities combine politics and professionalism to the extent Houston's Office of the City Controller does.

On March 20, 1903, the Texas legislature passed legislation that allowed for the creation of the Office of the City Controller. On July 1, 1903, City Council passed an ordinance that actually created the office and named Assistant City Auditor Tom Bringhurst as the first City Controller of the City of Houston.

Recent Controllers have broadened the scope of the office beyond bookkeeping, taking on issues that are more political. Each Controller has worked to control spending and eliminate that which is deemed unwise or unnecessary, even if such elimination has meant extended and difficult battles with the other branches of government.

Recent Controllers:

Leonel Castillo, 1972-1977

Kathryn Whitmire, 1978-1982

Lance Lalor, 1982-1988

George Greanias, 1988-1996

Lloyd Kelly, 1996-1998

Sylvia Garcia, 1998-2002

Judy Gray Johnson, 2003

Annise Parker, 2004-2009

Ronald Green, 2010-

BANK ON HOUSTON
www.bankonhouston.org

Bank on Houston is a collaborative effort of the City of Houston Controller's Office, the Federal Deposit Insurance Corporation (FDIC), the National League of Cities, the Federal Reserve Bank, 26 participating banks, credit unions, and numerous nonprofit organizations to bring the city's unbanked individuals into the financial mainstream. There are 65 Bank On programs in the U.S.

The Bank on Houston goals are:

- Raise awareness among unbanked consumers, especially the low to moderate income market, about the benefits of account ownership and spur them to open accounts.
- Make quality money management education more easily available to low to moderate income Houstonians.

In August 2011, Bank on Houston was awarded a grant from the National League of Cities with a focus on "Improving Data Collection in Municipal Bank On Initiatives."

An informational flyer about Bank on Houston was sent to all City of Houston Water Department customers (466,000 residences) in August 2011.

BANK ON HOUSTON
Protect Your Money.

A partnership of the City of Houston Controller's Office, National League of Cities, Federal Reserve Bank, FDIC, area banks and credit unions and financial education providers.

Participating Bank On Houston banks and credit unions are:

- Offering no or low cost checking accounts.
- Free ATM or debit cards
- Accounts for people who may have had problems in the past, such as bounced checks or overdraft fees*
- Free online banking
- Remittances
- Waiver of overdraft fees
- Free checks

*Note: Not all bank branches offer Bank On Houston services, so contact banks to locate the branch close to you that offers Bank On Houston services. go to the website www.bankonhouston.org for a list, or call the Bank On Houston information line: 832.793.3406.
*Bank and credit unions are willing to give banks to accept customers who don't meet regular account requirements.
Grateful acknowledgement to Capital One Bank, Amegy Bank, Central Bank and BFC Bank for underwriting costs of this informational flyer and mailing.



"You've worked hard for your money – protect it!" -- Houston City Controller Ronald C. Green

The Office of the City Controller is committed to eliminating fraud and waste in City government. If you are aware of fraudulent activities being committed by government employees or officials, citizens, or business entities defrauding the City of Houston, you can help save taxpayer money by furnishing this information to the Office of the City Controller. See "Report Fraud" on the Controller's home page, www.houstontx.gov/controller

