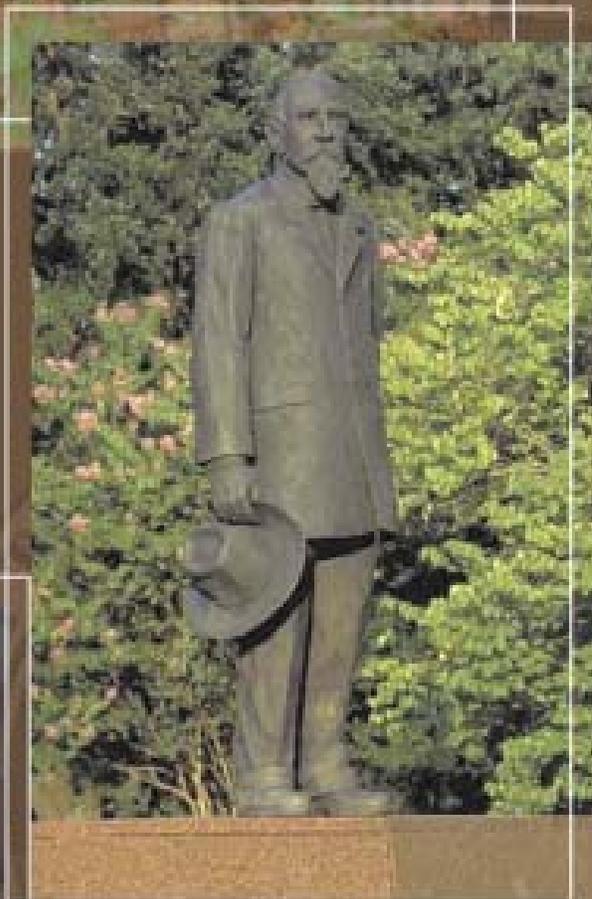


"Art establishes the basic human truths which must serve as the touchstone of our judgment."

John F. Kennedy, U. S. President





# Office of the City Controller

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Houston's City Controller, Annise D. Parker, is the second highest elected official in Houston City Government and its Chief Financial Officer, as dictated by the City Charter. The Office of the Houston City Controller supervises the fiscal affairs of the City, which includes conducting audits, managing its investments and debt, preparing financial statements and providing leadership on policy issues pertaining to the City's financial health. The Controller is asked to balance the fiscal needs of Houston with the politics of popular elections and acts as a check-and-balance to the Mayor and City Council, the executive and legislative branches of City government. She serves as an independently elected "financial watchdog" over City government's fiscal affairs.

Controller Parker was sworn in as Houston's 14th City Controller on January 2, 2004. During her first six months in office, she reorganized the office, creating a brand new division dedicated solely to financial reporting and preparation of the Comprehensive Annual Financial Report (CAFR). This will allow for a greater focus on the office's financial reporting responsibilities.

The Controller's Office Audit Division completed 26 audits in Fiscal Year 2004. Among the audits was a probe of street project delays. This review determined that a lack of coordination and planning at the Houston Department of Public Works and Engineering is the main reason projects are not finished on time. Another audit identified a lack of internal controls at the City's Central Pharmacy. Similar problems were uncovered during an unannounced inventory audit at a public works maintenance facility.

A voter-approved amendment to the Houston City Charter gives the Controller's Office broader audit authority, allowing for performance and management audits. Prior to the November 2004 election, Houston was the only major City with an elected City Controller who did not have a charter-defined right to conduct performance audits. The first of these reviews will be conducted in Fiscal Year 2005.

With the help of the Treasury Division of the Controller's Office, the City of Houston completed a \$3.1 billion restructuring of its water and sewer system debt. The deal is the largest and most complex in the City's history. The refinancing was necessary to facilitate the creation of a new combined utility system that provides water, sewer and drainage services. This is the first time the City has had a dedicated source of funding for storm water drainage improvements. The water and sewer system debt received upgraded bond ratings from both Moody's Investment Services and Fitch Ratings.

The Treasury Division's prudent investment decisions have resulted in a second consecutive 'AAA' credit quality rating for the City of Houston General Investment Pool. It is the highest rating available from Standard and Poor's Investment Services.

Also, in FY 2004, the Operations and Technical Services Division of the Controller's Office launched a new program that is helping to locate the rightful owners of more than \$410,000 of unclaimed cash. More than 10,000 names are on the list. These are individuals or companies that have failed to pick up a water deposit refund, a payroll or vendor check, or money from other transactions with the City.

Although the Financial Reporting Division is ultimately responsible for the final product, the preparation of the CAFR requires a concentrated effort by every division of the City Controller's Office. The CAFR is available on the City Controller's website: [www.houstoncontroller.org](http://www.houstoncontroller.org).



# Annise D. Parker

## HOUSTON CITY CONTROLLER

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**H**ouston City Controller Annise D. Parker is a second generation native Houstonian. She attended Rice University, graduating in 1978 with a Bachelor of Arts degree. In private industry, Ms. Parker spent 20 years working in the oil and gas industry, including 18 years with Mosbacher Energy Company. She also co-owns a bookkeeping and income tax company and for ten years was the co-owner of a bookshop.

Controller Parker was sworn in as the 14th City Controller for the City of Houston on January 2, 2004. She is the second-highest elected city official and serves as the City's Chief Financial Officer.

Prior to her election as Controller in December 2003, Ms. Parker served for six years as an at-large member of Houston City Council. She chaired City Council's Fiscal Affairs and Neighborhood Protection Committees and served on eight other committees. She also represented Houston on the Alliance for Interstate 69 Texas Board and at meetings of the World Energy Cities Partnership.

As a council member, Ms. Parker was instrumental in stopping the diversion of water and sewer revenues for unrelated purposes and establishing the City's \$20 million Rainy Day Fund. In addition, she played a leadership role in the creation of numerous city laws that are improving the quality of life in Houston. They include: a civic art program that is helping to make public infrastructure projects more visually appealing, new regulations for valet parking, a ban on dangerous exotic animals, tighter controls on inner-city development, a pooper-scooper ordinance, restrictions on signage for the downtown area, and a policy that protects city employees from discrimination on the basis of race, religion, age, gender, disability or sexual orientation.

Ms. Parker is quite active in the Houston community. She currently serves on the board of the Holocaust Museum and as an advisory board member of the Houston Zoo, the Montrose Counseling Center, Trees for Houston, Houston Achievement Place and the Municipal Solid Waste Management and Resource Recovery Advisory Council of the Texas Commission on Environmental Quality. Her past activities include service as President of the Houston Gay and Lesbian Political Caucus, the Neartown Civic Association and the Neartown Community Development Corporation.

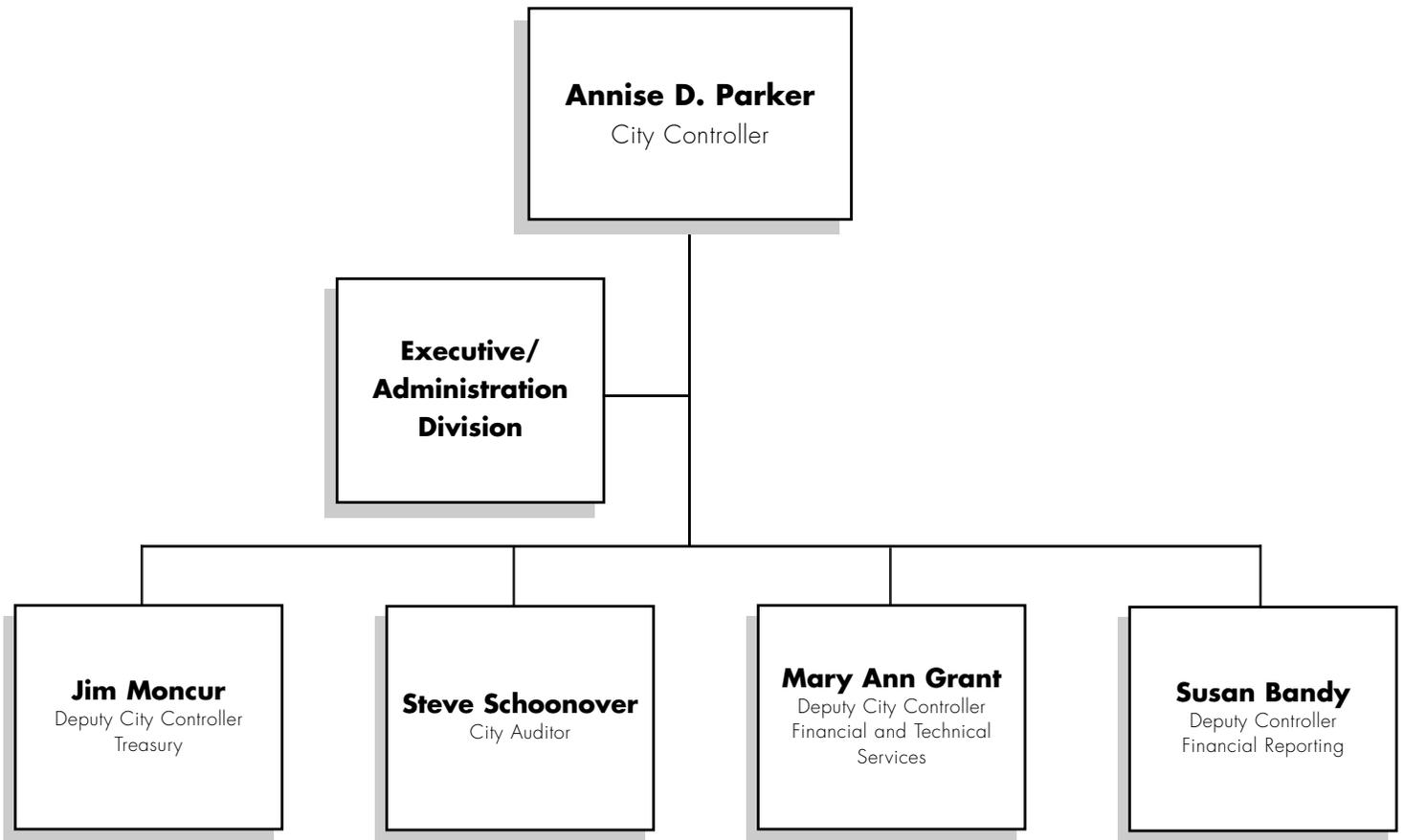
In 2001, Ms. Parker was selected as "Council Member of the Year" by the Houston Police Officers Union. In 2002, she received the "Distinguished Local Elected Official Award" from the Texas Recreation and Park Society. She also received the "Good Brick Award" from the Greater Houston Preservation Alliance for her restoration of historic properties in the Old Sixth Ward.

Controller Parker is the daughter of Kay Dunagan Parker and Ivy "Les" Parker. Ms. Parker and her life partner, Kathy Hubbard, have been together since 1990. They have two children.



# City of Houston

## The Office of the City Controller





# Elected Officials City of Houston, Texas



## Mayor

Bill White

## City Controller

Annise D. Parker

## Council Members

Carol Alvarado, **Mayor Pro-Tem, District I**

Mark Goldberg, **Vice Mayor Pro-Tem, District C**

Mark Ellis, **At-Large Position 1** Gordon Quan, **At-Large Position 2**

Shelly Sekula-Gibbs, **At-Large Position 3** Michael Berry, **At-Large Position 4**

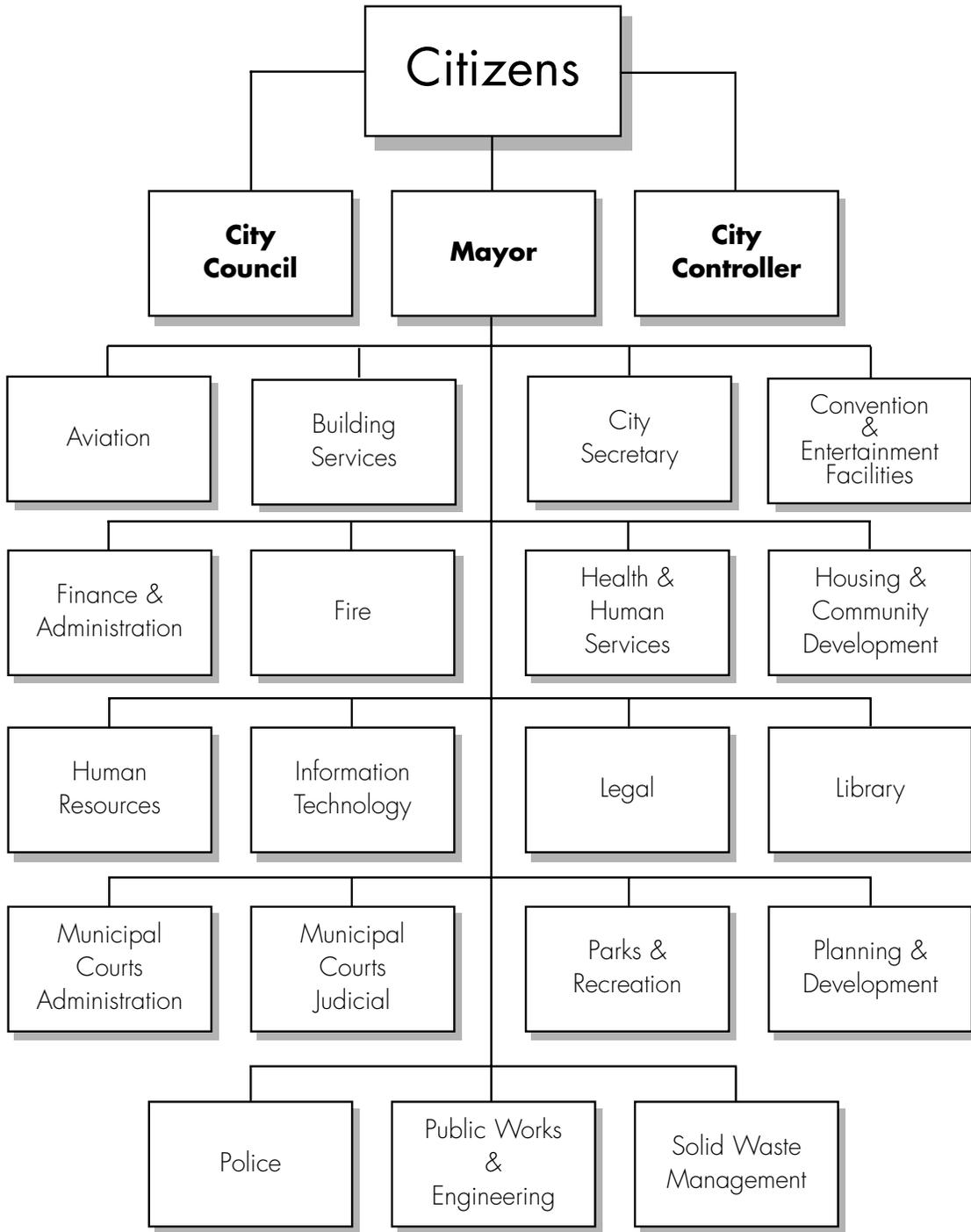
Ronald Green, **At-Large Position 5** Toni Lawrence, **District A**

Carol Galloway, **District B** Ada Edwards, **District D** Addie Wiseman, **District E**

M. J. Khan, **District F** Pam Holm, **District G** Adrian Garcia, **District H**



# Organization Chart City Government



CITY OF HOUSTON, TEXAS





ANNISE D. PARKER

OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

December 29, 2004

Honorable Mayor and City Council Members  
Houston, Texas:

I am pleased to provide you with the Comprehensive Annual Financial Report (CAFR) of the City of Houston, Texas (City) for the year ended June 30<sup>th</sup>, 2004, including the independent auditor's report prepared by Deloitte & Touche LLP. The CAFR was prepared by the City Controller's Office and satisfies my responsibilities under the City Charter and State law. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data, as presented, is accurate in all material respects and is organized in a manner which fairly sets forth the financial position and results of operations of the City as measured by the financial activity of its various funds.

These financial statements have been prepared in accordance with generally accepted accounting principles for local governments as prescribed by the Governmental Accounting Standards Board (GASB.)

The CAFR is presented in three sections. The introductory section includes this transmittal letter, a list of elected City officials, organizational charts for the Office of the City Controller and for Houston's City Government. The financial section includes Management's Discussion and Analysis (MD&A), basic financial statements, combining and individual fund statements and schedules, as well as the independent auditor's report on the basic financial statements. The MD&A is a narrative introduction, overview, and analysis to accompany the basic financial statements. The statistical section includes selected financial and demographic information generally presented on a multi-year basis.

### **The Reporting Entity and Its Services**

The Basic Financial Statements of the City include all government activities, organizations and functions, including those legally separate organizations for which the City is financially accountable as defined by the GASB.

The City provides a full range of municipal government services to approximately 2.01 million residents and to an estimated 23 million conventioners and other visitors annually. Municipal services provided include police and fire protection, emergency medical services, pretrial detention services, traffic and municipal courts, water production and distribution, solid waste collection,

sanitary code enforcement, wastewater treatment, health and human services, building and housing code enforcement, construction and maintenance of streets and bridges, traffic and signal installation and maintenance, parks and recreation, library, convention and cultural activities and operation of three municipal airports: George Bush Intercontinental Airport, William P. Hobby Airport and Ellington Field.

The City does not operate hospitals, schools, transportation systems, or higher education systems. Special districts and governmental entities with independent taxing authority administer the public hospitals, public schools, and public transportation within the city.

## **Financial Information**

The Mayor serves as the Chief Executive Officer of the City. The City Controller is the second highest ranking elected official within City government and serves as the City's Chief Financial Officer. The legislative body of the City is the City Council, which consists of nine district members and five at-large members. The Mayor, City Controller, and Council Members are limited to three two-year elected terms.

The City's management is responsible for establishing and maintaining a system of internal controls designed to provide reasonable, but not absolute, assurance that the assets of the City are protected from loss, theft, or misuse and the reliability of financial records for preparing financial statements and maintaining accountability of assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgments by management.

Under state law and the City Charter, the City is required to adopt a balanced budget each year. Based upon recommendations by the Mayor, City Council adopts an annual budget for the General Fund, Debt Service Fund, Special Revenue Funds, Internal Service Funds, and Proprietary Funds. Exceptions are the Grant Revenue, Disaster Recovery, Health Special, and Housing Special Revenue Funds, for which City Council adopts separate operating or program budgets throughout the year. The City also does not budget capital projects and other capital expenditures related to the General Fund. Instead, City Council authorizes these expenditures through individual appropriation ordinances.

Proprietary Fund budgets (also called Enterprise Funds) exclude depreciation and amortization expenses. These Proprietary Fund budgets include debt service and capital equipment costs, but exclude buildings and improvements (with the exception of Aviation, which budgets its current year expenses for these projects). As with General Fund capital projects, approval of each Proprietary Fund capital project is accomplished through individual appropriation ordinances. No City expenditures may be made without an appropriation. City Council can legally appropriate only those amounts of money that the City Controller has previously certified are, or will be, in the City treasury.

Although the legal level of budgetary control is at the departmental level within a fund, the City maintains internal budgetary control at the expenditure category (i.e., Personnel Services, Supplies, Other Services and Capital Outlay.) Budget control is primarily managed using an automated encumbrance and accounts payable system.

The City is required to undergo an annual Single Audit in conformity with the provisions of the Single Audit Act, the U. S. Office of Management and Budget Circular A-133, "Audits of State and Local Governments and Non-profit Organizations," and the State of Texas Single Audit Circular. These audits are conducted simultaneously with the City's annual financial statement audit.

Information related to these Single Audits, including the schedules of financial assistance, findings and recommendations, and auditors' reports on the internal control structure and compliance with applicable laws and regulations is included in separate Single Audit Reports.

### **Award**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Houston for its comprehensive annual financial report for the fiscal year ended June 30, 2003. This was the 4<sup>th</sup> consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **The Local Economy and Outlook**

The local economic forecast is very positive. According to the Perryman Group, Houston will outperform the nation as a whole over the next quarter-century. This prominent Texas-based economic forecasting firm predicts employment to rise at a 1.40 percent annual rate and population growth averaging 1.80 percent annually in the Houston region.

Houston is still the U.S. base of operations for the international energy industry. However, ongoing business diversification is a vital contributor to our increasing economic stability. Since the 1980s, that portion of the Houston economy that is virtually unaffected by energy prices has expanded its share of base employment from 15.7 percent to 54.3 percent. In the last ten years, this energy independent portion of the local economy has accounted for 98 percent of the area's job growth. This diversification has helped mitigate the effects of fluctuations in energy prices. As a result, it is unlikely that Houston will ever again have to endure the boom and bust cycles of the 1970s and 1980s.

Houston is the fourth most populous U.S. city, trailing New York, Los Angeles, and Chicago. The city's population is just as diverse as its economy. According to the 2000 Census, no single group comprises a majority. Hispanics are the largest group, accounting for 37.4 percent of the city's population; Anglos are in second place with 30.8 percent of the population; African-Americans have a 25 percent share of the population; and Asians and Pacific Islanders comprise 5.5 percent of the population.

There is no question that Houston is an international city. Foreign-owned firms and domestic firms with significant international operations help support nearly 38 percent of all jobs in the Houston metropolitan area. At least 340 European companies have affiliates in the Houston area and 110 Japanese companies have operations here. According to an annual survey by the Greater Houston Partnership, more than 3,400 local companies are engaged in international business activities. Europe and Latin America are Houston's top seaborne trading partners, accounting for 39.1 percent and 21.4 percent, respectively, of the total foreign shipments through the Port of Houston. There are 25 foreign-owned banks and 79 foreign consulates, making the local consular corps one of the top three in the nation. More than 150 countries are represented in Houston's populace and more than 100 different languages are spoken here. Over one in five Houstonians are foreign-born.

Houston offers a low cost-of-living that is 9 percent below the nationwide average. This is largely due to housing costs that are 21 percent below the national average. The city also offers a young and highly educated workforce. More than one-fourth of all adult Houstonians have completed college. The city's median age of 32.5 is the lowest among the 10 largest metropolitan areas. All of these factors are contributing to Houston's status as a major corporate center.

In 2004, Citco Petroleum Corporation announced it was relocating to Houston from Tulsa, Oklahoma. The move will bring 700 jobs to Houston. In addition, Chevron/Texaco is moving its international upstream operations from California and will consolidate most of its Houston-region operations and staff in Houston. Twenty companies on the 2004 *Fortune* 500 list are headquartered in Houston. Among other U.S. cities, only New York and Chicago can claim more *Fortune* 500 headquarters.

### **Throughout the City**

Houston had sports fever in 2004! The year began with Super Bowl XXXVIII at Houston's Reliant Stadium. More than 70,000 fans packed the stadium while a television audience of more than 140 million tuned in from around the world to see the New England Patriots beat the Carolina Panthers, 32-29. An analysis conducted by the City Controller's Office determined that Super Bowl XXXVIII generated direct spending of just under \$129 million for the Houston area. Estimates from the Texas State Comptroller's Office placed the total economic impact at \$300 million.

A majority of out-of-towners polled after Super Bowl XXXVIII said they enjoyed their stay in Houston, plan to come back, and will recommend Houston to others. The Super Bowl Image Study commissioned by the Greater Houston Convention and Visitors Bureau showed visitors' opinions of Houston were generally favorable to begin with and increased by 10 percentage points during their stay. After their stay, 30 percent of those polled said Houston was very attractive and an equal share rated it somewhat attractive.

Houston did such a good job of hosting Super Bowl XXXVIII that it is now a serious candidate to host the big game again. NFL commissioner Paul Tagliabue has been quoted as saying, "the host committee effort – the planning that went into it and the product that was produced – was very, very impressive."

Just five months after Super Bowl XXXVIII, Houston welcomed 30,000 out-of-state fans to town for Major League Baseball's 75<sup>th</sup> All-Star Game. According to projections by Marketing Information Masters Inc., a consulting firm hired by the Houston Astros, the game pumped \$48 million into the local economy.

In October, the Houston Astros grabbed the sports spotlight as they battled for their first trip to the World Series. While the Astros lost game 7 of the National League Series to the St. Louis Cardinals, Houston fans were energized and look forward to the Astros 2005 season.

Houston also hosted the Tennis Masters Cup and all three of the major professional golf tours. In 2011, the NCAA men's Final Four will return to Houston.

Houston has made a billion dollar investment in new sports venues over the last decade. The \$175 million Toyota Center is home to the Houston Rockets NBA team, the Houston Comets WNBA team, and the Houston Aeros AHL team. The Houston Texans NFL team and the world famous Houston Livestock Show and Rodeo share Reliant Stadium. Considered one of the finest baseball

parks in the country, Minute Maid Park, features a retractable roof and is home to the Houston Astros.

Houston is also investing in its transportation improvements. On January 1, 2004, the new 7.5-mile Main Street light rail line began operation. The \$324 million project links the downtown business and entertainment district with the Museum District, Hermann Park and the Houston Zoo, the Texas Medical Center and Reliant Park. As of September 2004, average weekday boardings on the rail line topped 32,000.

In August 2004, the Metropolitan Transit Authority of Harris County (METRO) submitted an application for \$830 million in federal funding for two extensions of the Main Street rail line to the north and southeast areas of Houston. The so-called Metro Solutions transit expansion plan approved by local voters in 2003 calls for an additional 72 miles of light rail over the next two decades. However, given the Main Street line's high crash rate, more than 60 accidents in the first ten months of operation, light rail may not be the best option for future transit corridors. Monorail and Automated People Movers are among the alternatives being discussed.

The Main Street line is the centerpiece of a major revitalization of downtown Houston. Miles of streets, utilities, and sidewalks have been rebuilt. These infrastructure improvements were enhanced by thousands of tree plantings and other landscaping, fountains, new lights and improved parking. With laser light shows, street performers and outside dining, *The Main Event*, held on Friday and Saturday nights on the streets of downtown, is billed as the city's newest "place to be." A total of 51 new restaurants, bars, and clubs opened in downtown in the 12 months ended July 2004.

Houston Mayor Bill White has announced plans for a new 13-acre downtown park. The \$80 million project will be located near the newly expanded George R. Brown Convention Center and the Hilton Americas-Houston Hotel, the official convention center hotel for Houston. The park is to be open by the end of 2007. Financing will be provided by both public and private sources.

With 13,000 theater seats, second only to New York, Houston's theater district offers a variety of options for theater patrons. Houston is one of only five cities in the country with resident companies in the four disciplines of the performing arts – Houston Ballet, Houston Grand Opera, Houston Symphony, and the Society for the Performing Arts.

Houston's Museum District, the 4<sup>th</sup> largest in the United States, features 15 world-class museums. The Museum of Fine Arts, Houston is one of the world's renowned art museums and the largest in the Southwest. In addition to the large, well-known museums, there are also many smaller, specialized museums and attractions. Among them are the Holocaust Museum, Art Car Museum, the National Museum of Funeral History, the Beer Can House, the Orange Show, and Project Row Houses.

Downtown isn't the only section of Houston undergoing major improvements. After years of legal wrangling by opponents who argue it will have a negative impact on the surrounding area, construction is finally underway on the Port of Houston's new Bayport Container and Cruise Terminal. Once fully constructed, the \$1.2 billion Bayport facility will have enough space for seven ships, a new cruise port, and a 378-acre container storage yard. The Port of Houston is already one of the busiest ports in the country, ranking first in the nation in foreign tonnage. About 190 million tons of cargo moved through the port and a total of 6,301 vessel calls were recorded during 2003.

The Houston Airport System (HAS) is also expanding. At George Bush Intercontinental Airport (IAH), Continental Airlines' new Terminal E opened in January 2004. With the addition of this 600,000 square foot, state-of-the-art terminal, Continental now has access to over 100 gates in four terminals at IAH. The new terminal is part of a \$2.9 billion expansion and renovation plan for HAS. In early 2005, the new Federal Inspection Services Building, which will house the U.S. Customs and Immigration Service, will be opened at IAH. Once the new Customs house opens, Terminal E will become the airport's second international terminal.

At William P. Hobby Airport, Concourses B and C have been replaced with a new \$80 million central concourse, to be used exclusively by Southwest Airlines. The new concourse offers improved passenger amenities and services, including new ticket counters, moving sidewalks, restaurants, and gift shops. In the future, Concourse A will be replaced with a new East Concourse and the main terminal building will be remodeled. This \$130 million project is slated for completion in 2008.

It is estimated that HAS is responsible for more than \$8 billion in economic activity annually in the Houston area, and generates more than 90,000 jobs for the region. The Houston Airport System is the fourth largest multi-airport system in the United States and the sixth largest in the world. George Bush Intercontinental Airport is the nation's eighth largest passenger airport and 11th largest in the world. In 2003, HAS served more than 42 million passengers.

### **Acknowledgements**

The preparation of this report on a timely basis could not have been accomplished without the dedicated services and hard work of a highly qualified staff. The City of Houston has such a staff in the City Controller's Office. Although much time and effort in preparation of this report lies in the Financial Reporting Division, they were supported by other divisions of the Office: Administration, Audit, Executive, Operations and Technical Services and Treasury. I would like to express my appreciation to the entire staff of the City Controller's Office, and to the staffs of the Finance and Administration, Aviation, Convention and Entertainment Facilities, and Public Works and Engineering departments who assisted and contributed to the preparation of this report.

The City Controller's Office also received invaluable assistance and support from many others outside our immediate organization. Within the City of Houston, the accounting staffs of the operating departments and the technical staff of the Information Services Division all played key roles in producing this report. Deloitte & Touche LLP was not only our independent auditor, but also served as an invaluable source of information and ideas for improving the way that City finances are reported. The design is the creative work of Carlos St. Mary of PMG Advertising and Marketing. We also acknowledge the Mayor and City Council Members who have consistently supported the City's goal of excellence in all aspects of financial management. Their support is greatly appreciated, and I look forward to working together to continue improving the City's financial condition.

Finally, we want to thank Pam Ingersoll, the City's municipal art coordinator, Andrea Campos of the Controller's Office, and Eric Davis for their assistance in compiling the photos that have captured the beauty of Houston's public art collection.

### **Request for Information**

This financial report is designed to provide a general overview of the City of Houston's finances for all those with an interest in the government's finances. Questions concerning any of the

information provided in this report or requests for additional financial information should be addressed to the Office of the City Controller, 901 Bagby, 8<sup>th</sup> Floor, Houston, Texas 77002.

A handwritten signature in black ink that reads "Annise D. Parker". The signature is written in a cursive style with a large initial 'A'.

Annise D. Parker  
City Controller

Sources:

Greater Houston Convention and Visitors Bureau  
Greater Houston Partnership  
Federal Reserve Bank of Dallas  
Port Authority of Houston  
Houston Aviation System  
Metropolitan Transit Authority of Harris County  
Houston Downtown Management District and Central Houston

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Houston,  
Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Nancy L. Zjelke*

President

*Jeffrey R. Emer*

Executive Director