

Office of the City Controller



Houston, Texas

Trends for Fiscal Year 2023

May 2022

Chris B. Brown
City Controller

Trends

Fiscal Year 2023

The Controller's Office compiled the information on the following pages to assist City Council in putting the Administration's Fiscal Year 2023 Proposed Budget into a historical perspective. The trends presented here provide Council members a broader picture and, hopefully, help in the budget decision-making process.

For the remainder of Fiscal Year 2022, we expect an increase of 9.0% from the Fiscal Year 2021 revenues. The increase is mainly due to improved economic conditions as most COVID-19 related restrictions were lifted. However, in Fiscal Year 2023, we anticipate revenues to remain stable (not including transfers, sale of assets or the budget stabilization reserve) from our Fiscal Year 2022 March projections. Fiscal Year 2023's projected revenues reflect increases in Property Taxes, Industrial Assessments, Electric Franchise, Gas Franchise, Licenses and Permits, Intergovernmental, Direct Interfund Services, and Interest, offset by decreases in Sales Tax, Telephone Franchise, Indirect Interfund Services, and Muni Court Fines.

Our Fiscal Year 2023 projection for General Fund resources is \$57.7 million lower than the Administration's Fiscal Year 2023 Proposed Budget. To calculate Property Tax revenue, the Controller's Office used an estimated taxable value of \$289 billion, calculated by taking the estimated taxable values from Harris County, Fort Bend County, and Montgomery County Appraisal Districts in April 2022 and a 96.75% collection rate. This calculation is moot, as the Estimated Proposition 1 limit is approximately \$1.280 billion, which is lower than our calculated amount of \$1.344 billion. To estimate the Proposition 1 limit, both the Administration and the Controller's Office are using a growth of 4.28% for the Consumer Price Index and have elected to wait for the Census results to be released later this month before factoring the population growth. In addition, the City is still subject to the provisions of Senate Bill 2.

For our Sales Tax projection, we assumed a decrease of 4.8%. The COVID stimulus money is rapidly coming to an end as the dollars get absorbed into the economy. We expect the inflationary impact on sales tax to continue in FY 23 but will not completely offset the normalization of the economy returning to pre-pandemic levels. Our office will continue to monitor FY 2022 actuals as additional data will help to better forecast the FY 2023 sales tax number.

Our projected Ending Fund Balance for the General Fund for Fiscal Year 2023 is \$241 million, or 10.4% of the expenditures, other than debt service and PAYGO, which is above the required amount of 7.5%, or \$173 million.

In the Enterprise Fund, Aviation revenues are increasing due to an expected recovery in passenger traffic resulting in increased revenues in concessions, parking, and terminal space rentals. Convention & Entertainment revenues are expected to be higher due to increased collections on Hotel Occupancy Tax (HOT) and parking fees. The Combined Utility System's revenues are expected to increase, primarily due to an increase in water and sewer rate and inflation adjustments.

Summary of Graphs

The numbers on each page are from the following sources:

1. **FY21 and prior years are actual results as reported in previous Annual Comprehensive Financial Reports.**
2. **FY22 numbers are the Controller's Office March Monthly Financial Report (MFR) estimates.**
3. **The FY23 General Fund revenues are the most current projections of the Controller's Office.**
4. **Unless otherwise noted, all other FY23 numbers are from the Administration's FY23 Proposed Budget.**

General Fund Revenues

(amounts expressed in thousands)

Revenues	FY18	FY19	FY20	FY21	FY22	FY23	% Change [a]	Admin.'s	Difference [a]
	Actual	Actual	Actual	Actual	Controller's March Proj.	Controller's Projection		Proposed Budget	
Property Tax	\$ 1,172,543	\$ 1,190,243	\$ 1,222,154	\$ 1,254,016	\$ 1,230,985	\$ 1,279,853	3.97% [b]	\$ 1,279,853	-
Industrial Assessments	18,278	19,755	24,797	25,435	21,813	22,000	0.86%	24,393	(2,393)
Sales Tax	674,279	692,271	684,425	706,829	798,000	760,000	-4.76% [c]	806,920	(46,920)
Other Taxes	17,370	18,026	15,379	14,561	20,000	20,000	0.00%	20,743	(743)
Electric Franchise	102,260	100,590	100,774	98,834	94,919	95,000	0.09%	95,980	(980)
Telephone Franchise	39,704	37,501	30,309	21,576	20,400	17,000	-16.67% [d]	17,795	(795)
Gas Franchise	13,791	12,324	12,386	13,034	12,821	13,000	1.40%	13,056	(56)
Other Franchise	30,019	29,225	24,666	20,157	21,100	21,000	-0.47%	21,146	(146)
Licenses & Permits	33,412	35,301	32,507	31,386	32,612	33,000	1.19%	33,052	(52)
Intergovernmental	76,390	60,205	44,523	67,258	210,071	217,823	3.69%	217,823	-
Charges for Services	58,034	63,839	65,841	65,698	73,139	73,139	0.00%	75,414	(2,275)
Direct Interfund Services	54,449	62,214	59,174	59,308	62,892	65,855	4.71%	65,855	-
Indirect Interfund Services	28,910	26,603	27,789	24,688	25,063	22,718	-9.36%	22,718	-
Muni Courts Fines	20,980	21,702	16,988	14,993	15,964	15,000	-6.04%	15,664	(664)
Other Fines	4,021	3,933	3,424	3,023	3,282	3,000	-8.59%	3,206	(206)
Interest	7,531	11,802	10,485	5,133	2,500	3,000	20.00%	4,704	(1,704)
Misc/Other	53,564	24,066	14,692	13,290	12,014	12,000	-0.12%	12,755	(755)
Total	\$ 2,405,535	\$ 2,409,600	\$ 2,390,313	\$ 2,439,219	\$ 2,657,575	\$ 2,673,388	0.60%	\$ 2,731,077	\$ (57,689)
Transfers from Other Funds	20,617	20,660	12,954	6,031	6,771	10,585	56.33% [e]	10,585	-
Sale of Capital Assets	4,090	26,022	21,487	2,543	3,474	3,304	-4.89%	3,304	-
Total Revenues and Resources	\$ 3,340,232	\$ 2,456,282	\$ 2,424,754	\$ 2,447,793	\$ 2,667,820	\$ 2,687,277	0.73%	\$ 2,744,966	\$ (57,689)

[a] The “Percentage Change” column compares our FY23 projection to our FY22 estimate, while the “Difference” column compares our FY23 projection to the Administration’s proposed budget.

[b] Property Tax revenue is net of refunds and Tax Increment Reinvestment Zone (TIRZ) payments. The Controller’s FY23 calculation for Property Tax revenues is based on the taxable values provided by the 3 appraisal districts in April 2022. The projection assumes an estimated \$8 million in delinquent collections and an estimated \$176 million in TIRZ payments. The calculated amount is \$1.279 billion which is the Estimated Prop 1 cap amount.

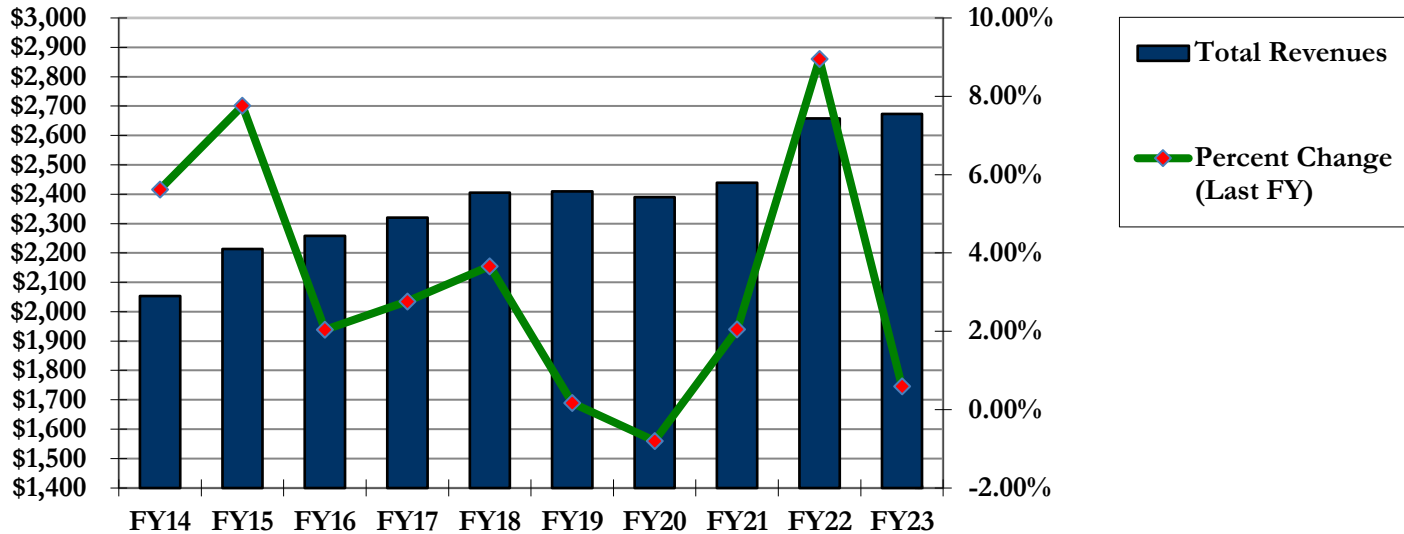
[c] FY23 Sales Tax revenue projection begins with our FY22 Sales Tax revenue estimate, which is the highest it has ever been. Sales tax will continue to be monitored for the remainder of FY22. However, we expect to see a decline in receipts for FY23 as the effects of federal stimulus funds into the economy during FY21 and FY22 dwindle.

[d] Telephone Franchise Taxes is expected to decrease by \$3.4 million or 16.67% due to a decline in the number of access lines of consumers and the impact of SB 1152.

[e] Transfers from Other Funds increased \$3.8 million or 56.33% primarily due to more projected claw backs.

General Fund Revenues

(amounts expressed in millions)

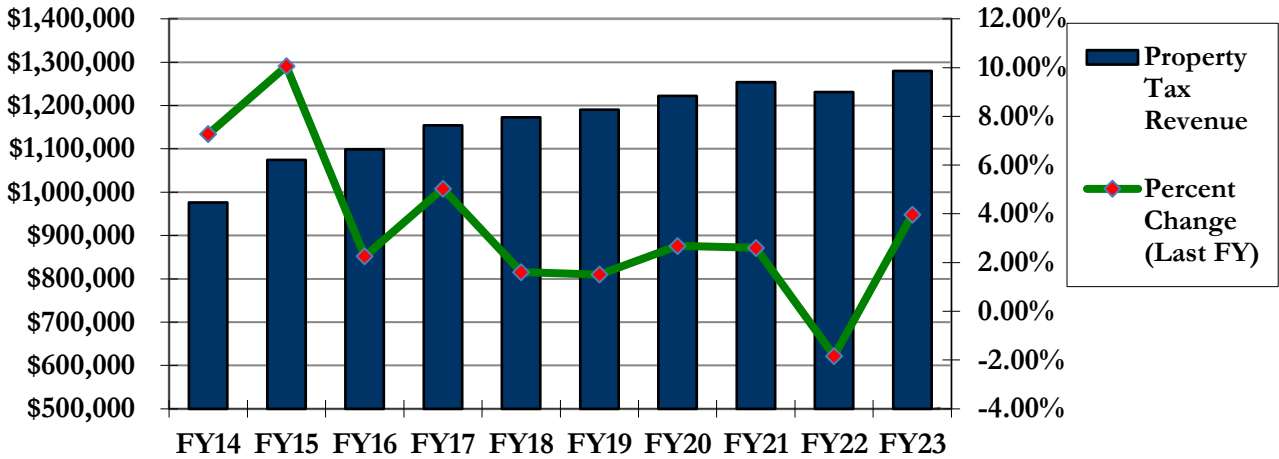


FY23 General Fund revenue is projected to increase by \$15.8 million, or 0.60% above our current FY22 estimate.

The projected increase consists primarily of increases in Property Tax of \$48.9 million and Intergovernmental Revenue of \$7.8 million offset by a decrease in Sales Tax of \$38 million, and a decrease in Telephone Franchise of \$3.4 million.

Property Tax Revenue

(amounts expressed in thousands)

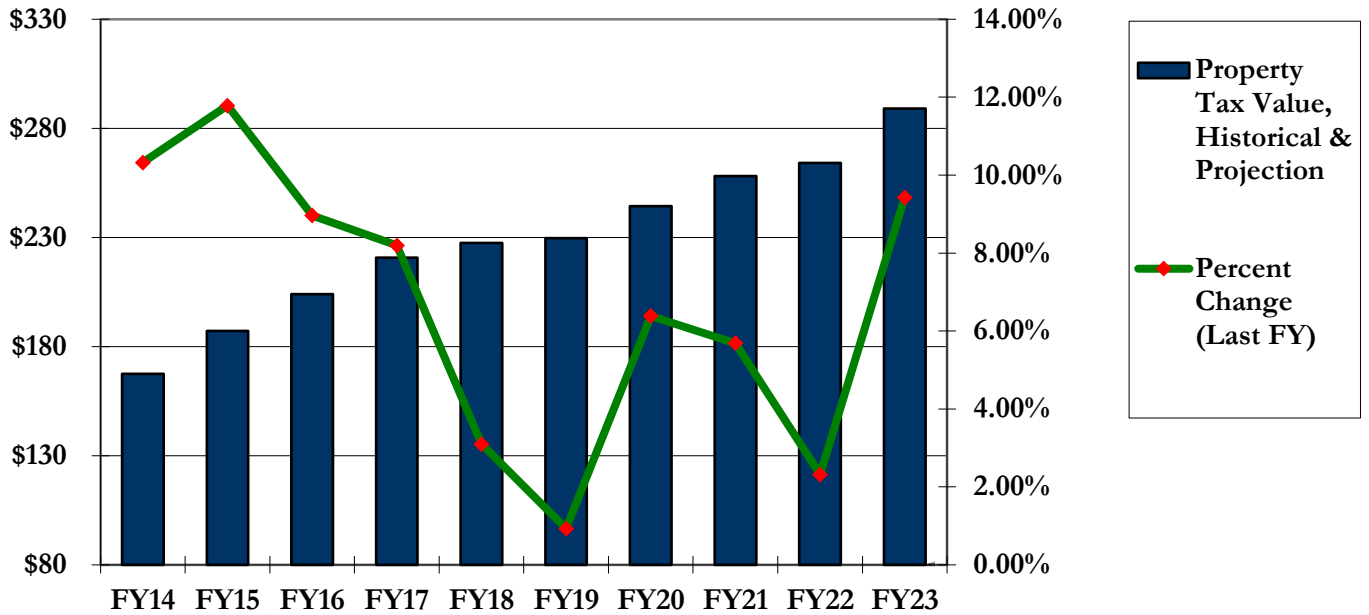


Property Tax revenue is projected to be higher than the FY22 estimate by 3.97%. Controllers Office’s Property Tax revenue projection is based on a preliminary Prop 1 cap amount of \$1.279 billion. The Prop 1 revenue cap amount will be updated once Census data is released, and CPI growth is finalized. The tax rate will not be known until the Certified Roll is received around the end of August. The City’s property tax rate is also subject to compliance with SB2. TIRZ payments are projected at \$176 million, and delinquent tax collections are projected at \$8 million.

Note: The U.S. Census Bureau’s estimated City of Houston 2021 population will be reported on May 19, 2022. The Controller’s Office will update our Prop 1 calculation upon receipt of the official estimate and the Census.

Taxable Values Historical & Forecast

(amounts expressed in billions)

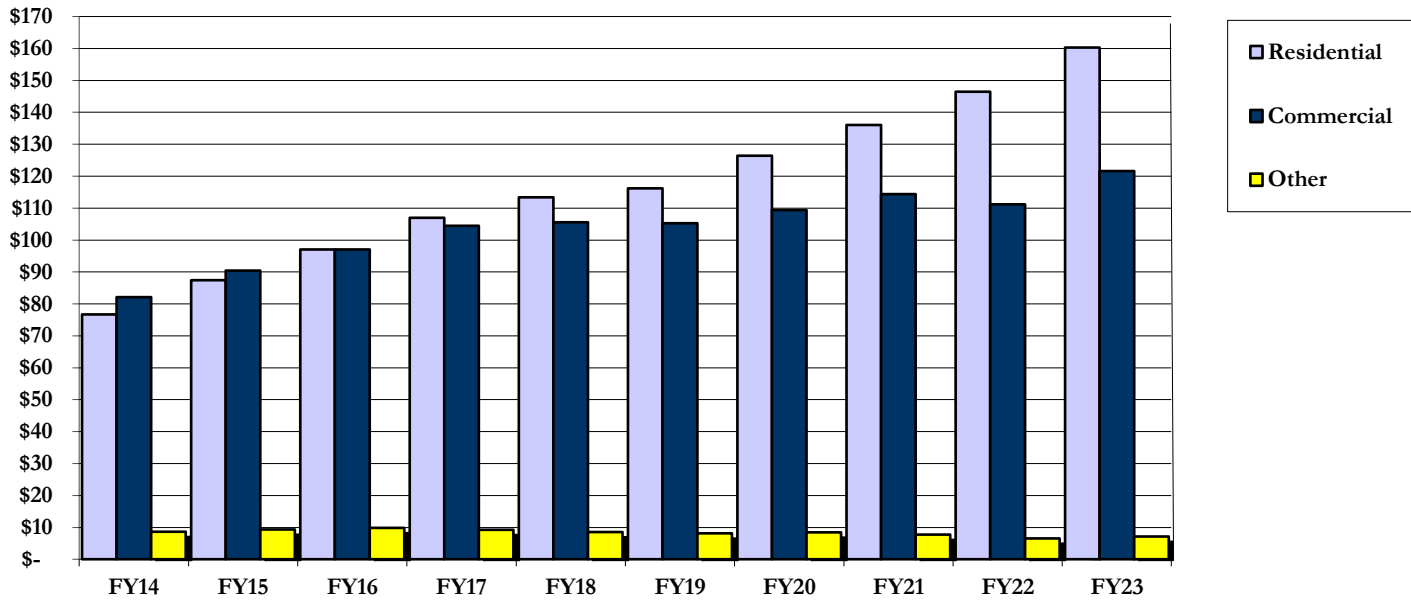


The Harris County, Fort Bend County, and Montgomery County Appraisal Districts (the Districts) provide expected taxable values. The actual taxable values for FY22 are below the preliminary expected taxable value provided at the same time last year. However, based on the Districts' projection for FY23, an increase in valuation of about 9.42% is anticipated.

These values are based on the Districts' preliminary projected values, dated April 27, 2022. Harris County taxable values comprise over 99% of the City's total taxable value.

Taxable Values By Property Type

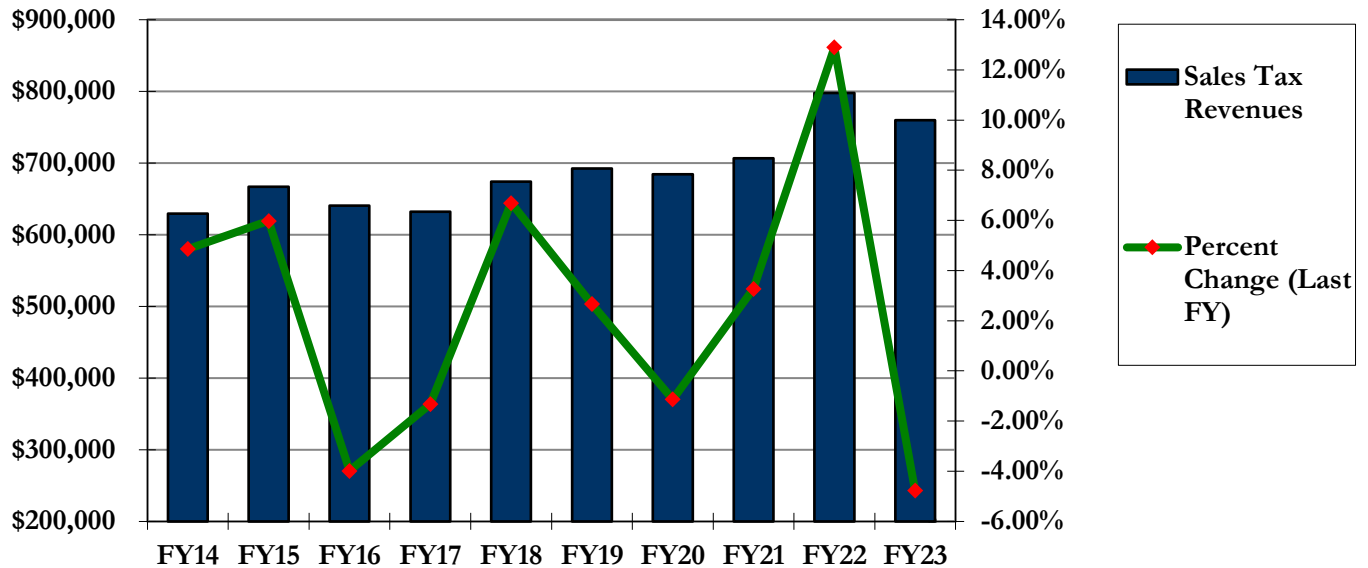
Historical & Forecast



In the City of Houston, residential properties make up 53.4% of taxable values and commercial properties make up 43.8% of the taxable values. Collectively, the two property types make up 97.2% of taxable values.

Sales Taxes Revenue

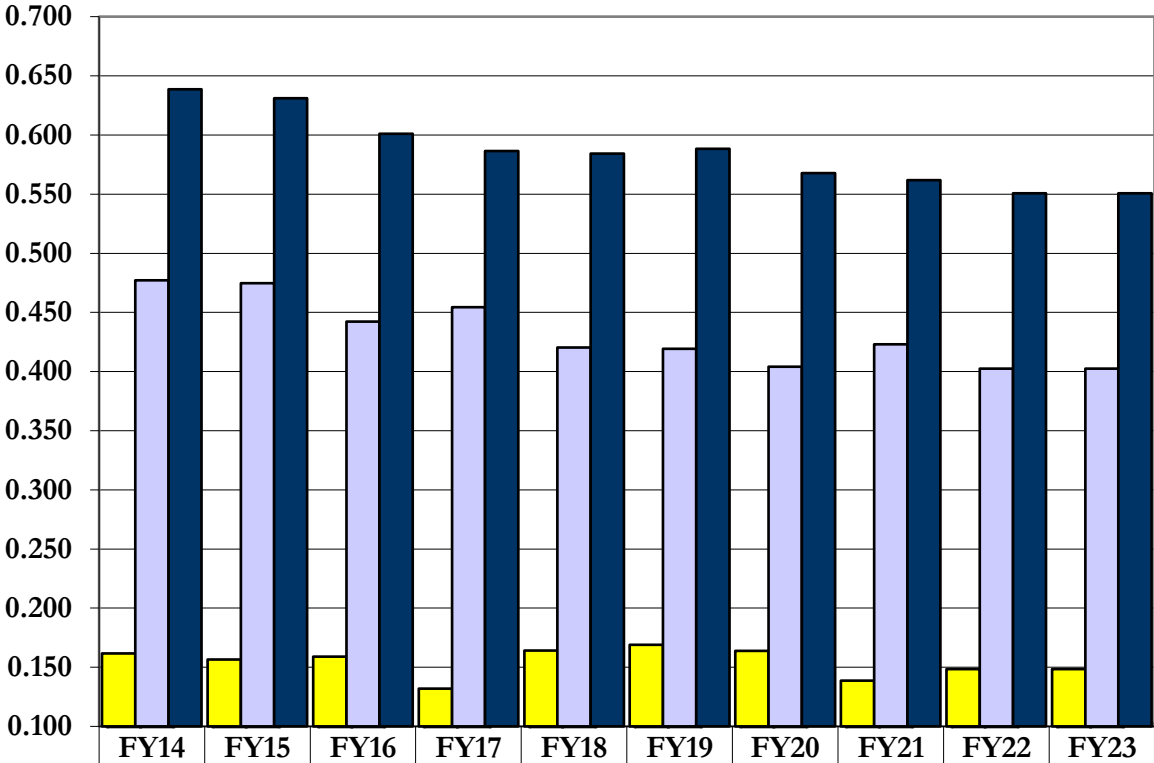
(amounts expressed in thousands)



Fiscal Year 2023 Sales Tax revenue is projected to be 4.76% lower than the forecasted Fiscal Year 2022 Sales Tax receipts. This decrease is due to the federal stimulus effect tapering off later in the year. We expect inflation to buoy FY 2023 sales tax numbers but caution that the normalization of the economy could offset its impact. Additional data will help our analysis and increase our confidence as to where FY 2023 sales tax will fall.

Property Tax Rate

(Tax Rate per \$100 Valuation)

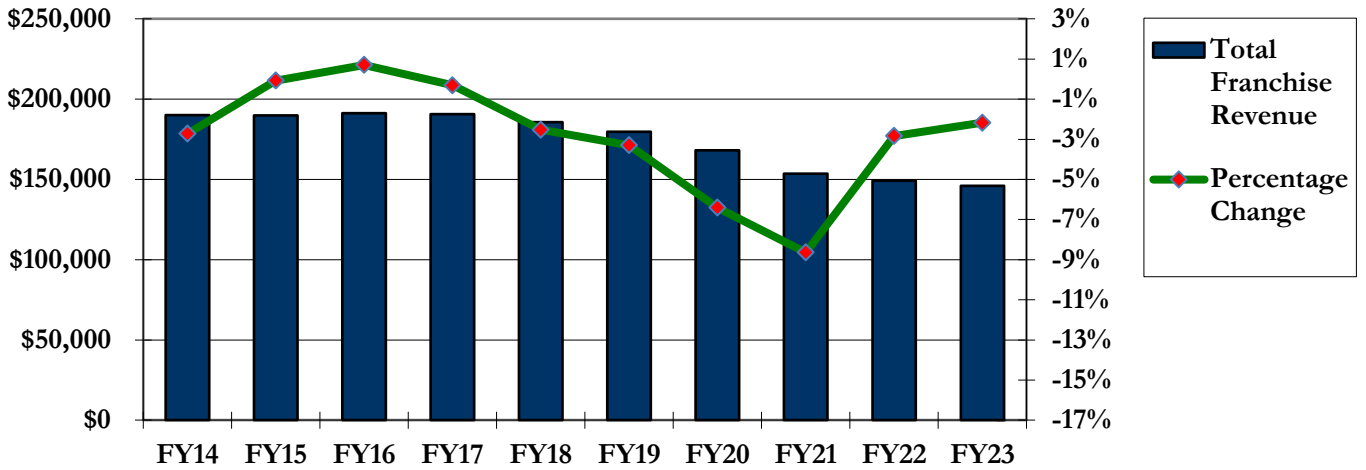


■ Debt Service	0.16166	0.15645	0.15893	0.13196	0.16398	0.16907	0.16379	0.13875	0.14836	0.14836
■ M&O	0.47709	0.47463	0.44219	0.45446	0.42023	0.41924	0.40413	0.42309	0.40247	0.40247
■ Total	0.63875	0.63108	0.60112	0.58642	0.58421	0.58831	0.56792	0.56184	0.55083	0.55083

The FY23 tax rate projection is based off the FY22 tax rate. The final tax rate will be established by a vote of Council in the first quarter of FY23 when the Certified Roll is available.

Total Franchise Revenues

(amounts expressed in thousands)

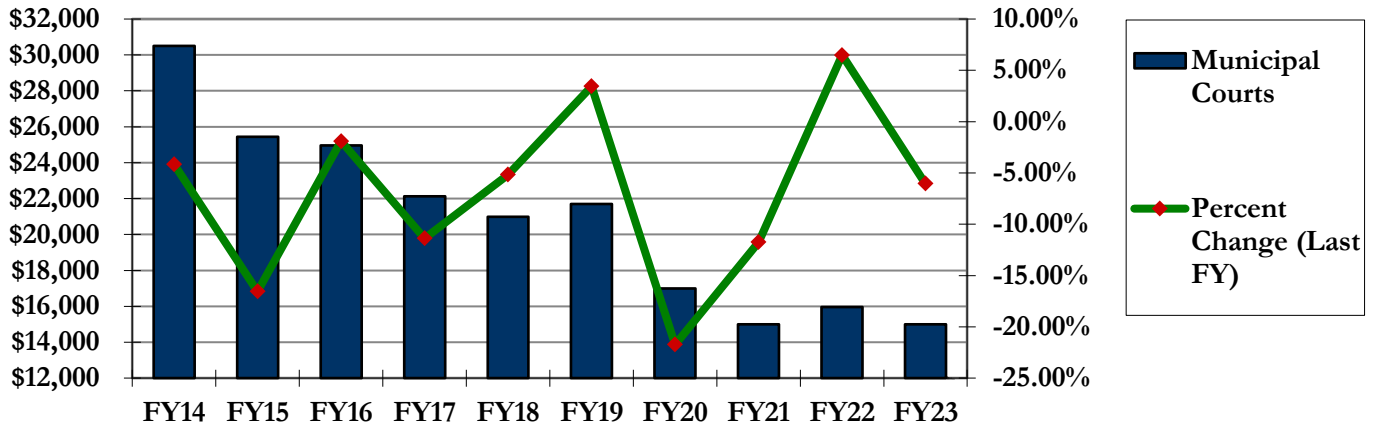


Total Franchise Fee revenues are projected to decrease \$3.2 million, or 2.2%, for FY23. Total Franchise Fees is comprised of Electric Franchise, Telephone Franchise, Gas Franchise, and Other Franchise.

Decreases are expected in Telephone Franchise of \$3.4 million and Cable Franchise of \$100 thousand. Electric Franchise and Gas Franchise are expected to remain flat.

Municipal Courts Revenues

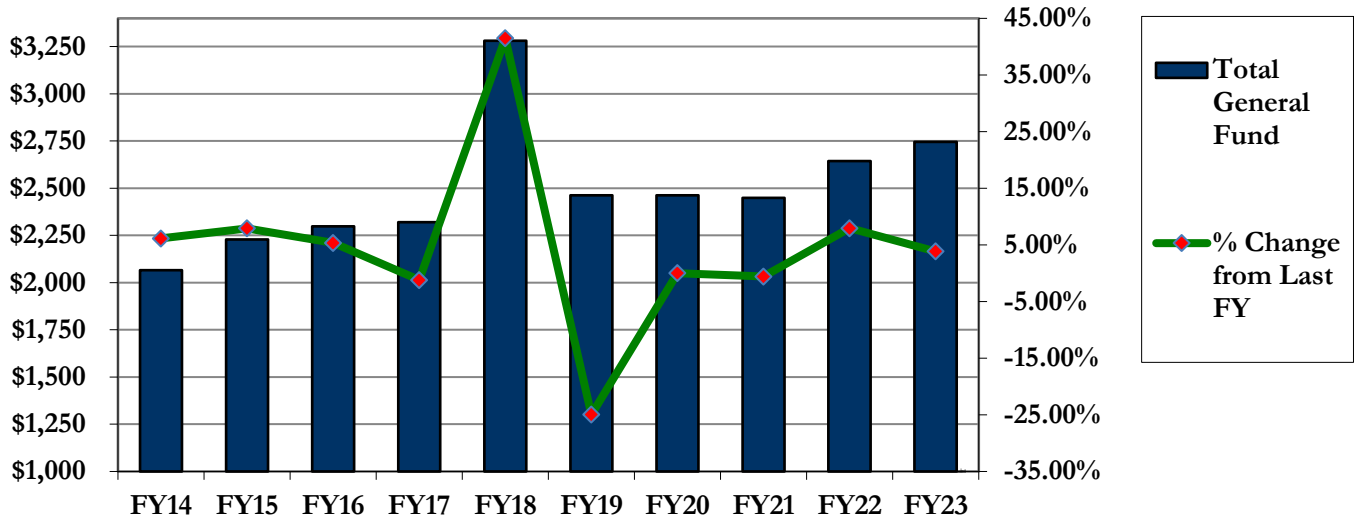
(amounts expressed in thousands)



Municipal Courts Fines and Forfeits are expected to decrease by 6% for FY23 based on an expected decrease in collections, moving violations, fees, and court operation's revenue.

General Fund Expenditures Budget

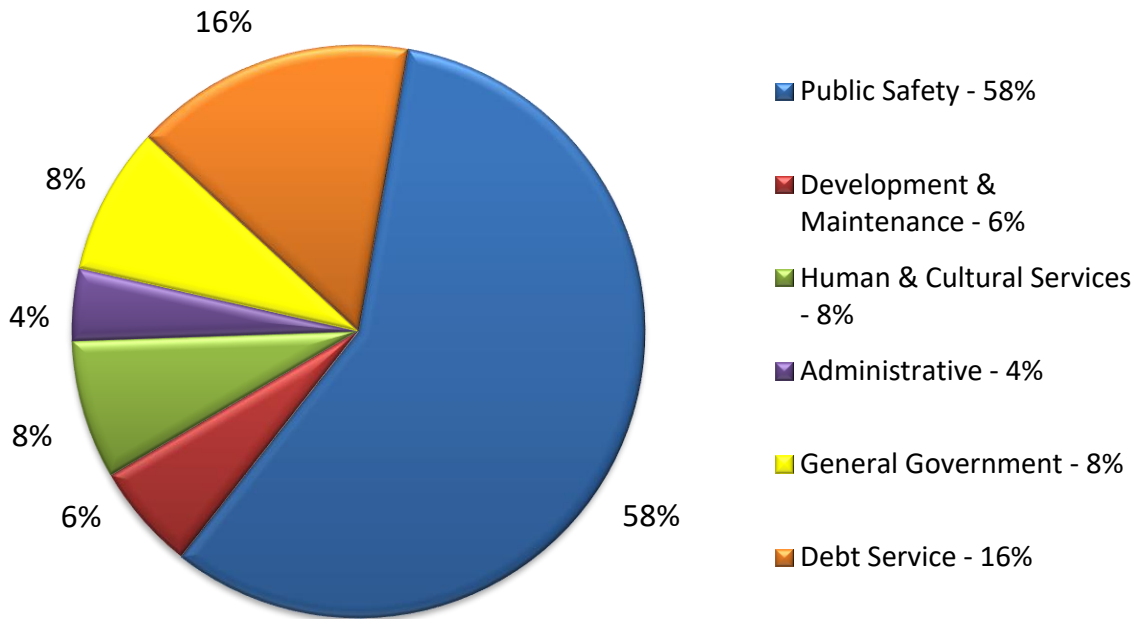
(amounts expressed in millions)



The FY23 General Fund total expenditure budget is expected to be up by 3.8% over FY22 projected expenditures, an increase of \$101.7 million from our FY22 estimated expenditures.

General Fund

Expenditures Percent by Function



Public Safety – Fire, Houston Emergency Center, Municipal Courts, Police

Development & Maintenance – General Services, Planning, Public Works, Solid Waste

Human & Cultural – Neighborhoods, Health, Housing, Library, Parks

Administrative – Administration & Regulatory Affairs, Controllers, Council, City Secretary, Finance, IT, HR, Legal, Mayor, Office of Business Opportunity

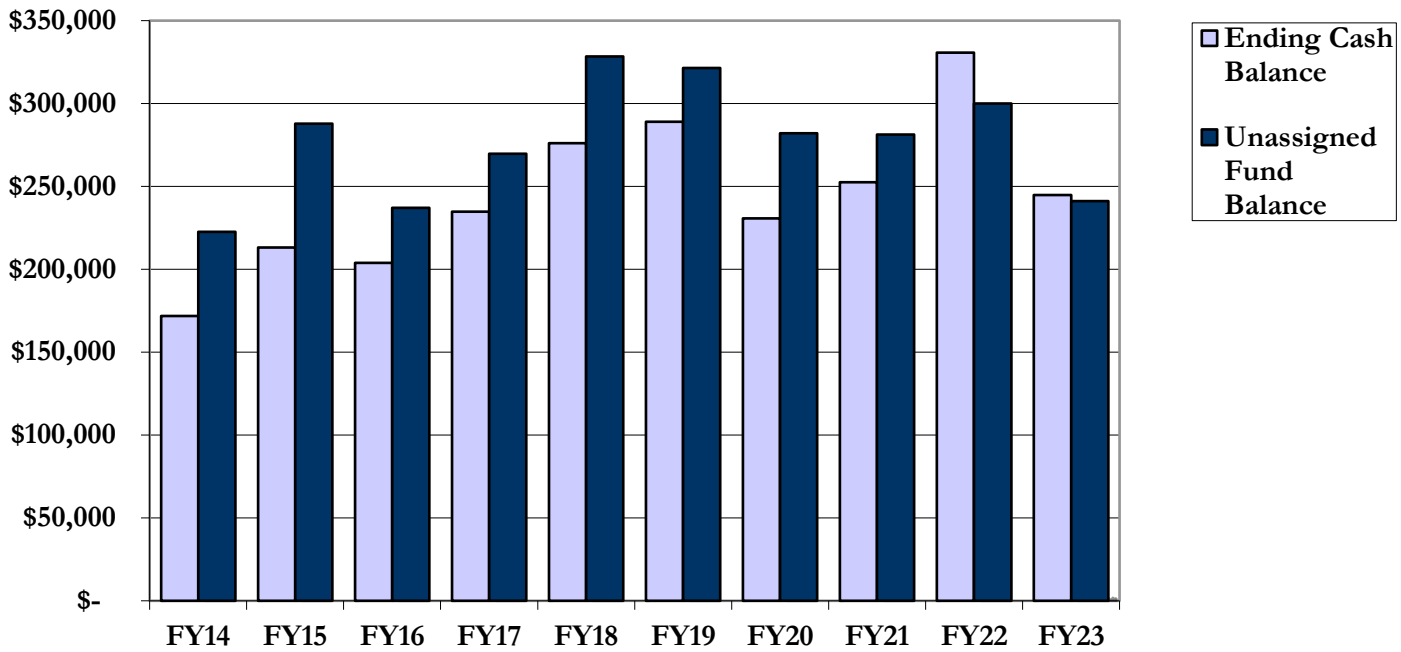
General Government – Citywide costs that are not attributable to any single department (Payments to LPAs, Transfers to Component Units, Transfers to Special Rev. Funds, Health Benefit Costs for Retired Civilians, Lease Payments for 611 Walker, etc.)

Debt Service – Debt Service Payments, General Obligation

Cash vs. Fund Balance

General Fund

(amounts expressed in thousands)

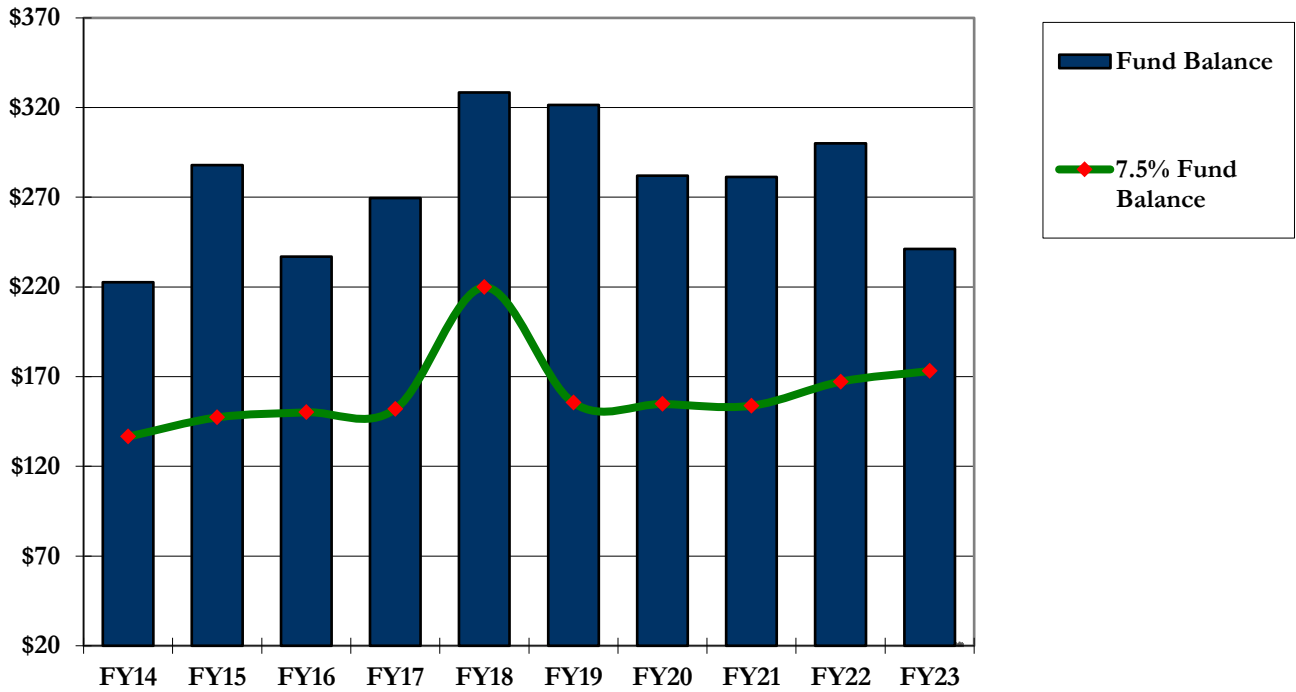


The Unassigned Fund Balance consists of both cash and non-cash items and includes receivables for Sales Tax and Franchise Fees. The Unassigned Fund Balance is expected to increase by \$18.8 million in FY22 and decrease by \$58.8 million in FY23. The projected Unassigned Fund Balance for Fiscal Year 2022 and Fiscal Year 2023, respectively, is \$300 million and \$241 million.

City Ordinance 7.5% Fund Balance Requirement

General Fund

(amounts shown in Millions)

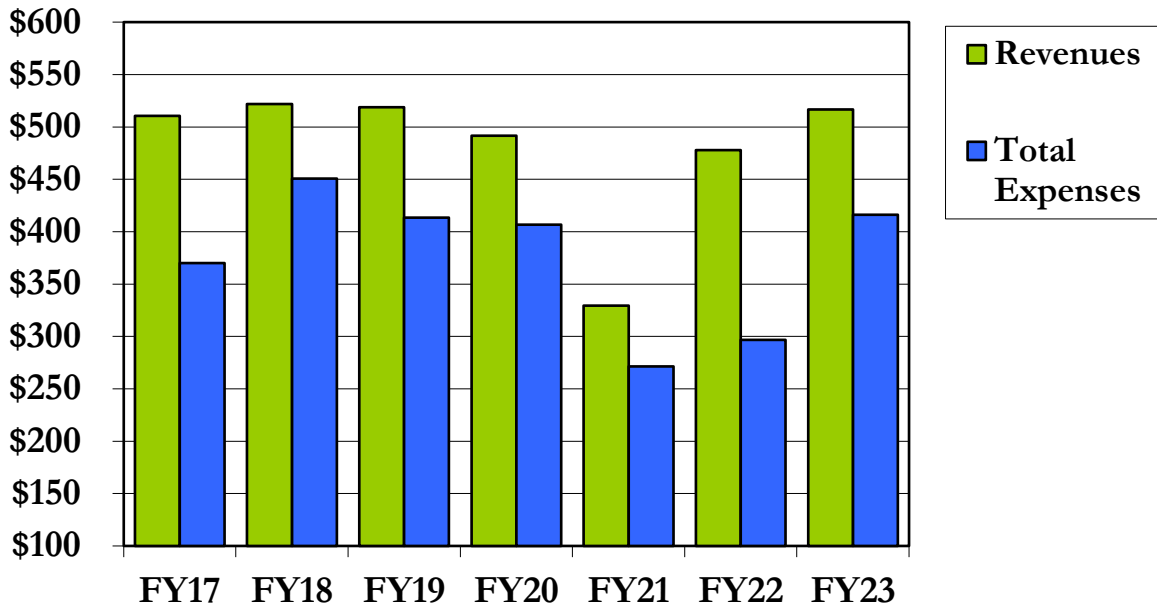


City Ordinance 2014-1078, adopted December 2014, requires an Undesignated Reserve of 7.5% of the General Fund Expenditures, less Debt Service Payments and PAYGO.

For FY23, we are projecting an ending fund balance of \$68 million above the 7.5% required. The projected ending fund balance for FY23 would represent 10.4% of budgeted expenditures excluding debt-service and PAYGO.

Aviation Revenues & Expenses

(amounts expressed in millions)

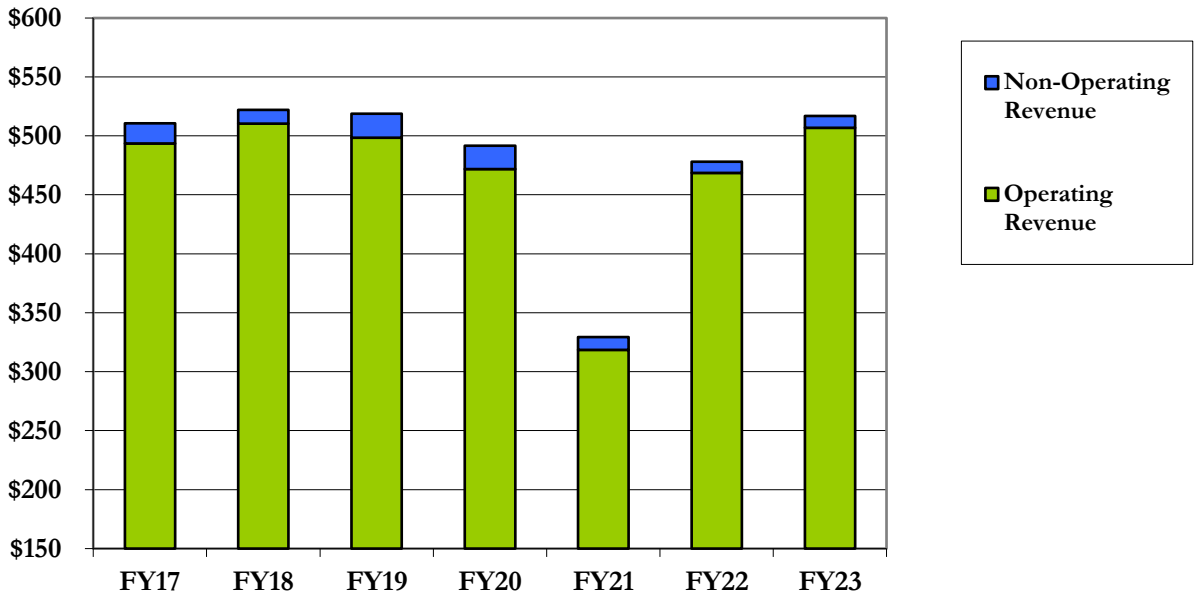


Aviation is projecting revenues to increase by \$38.7 million or 8.1% to \$516.7 million in FY23, predominately due to an increase in operating revenues. Expenses are expected to increase by \$13.2 million or 4.5% to \$310.0 million in FY23 due to increased costs in operations & maintenance expenses.

Aviation is eligible to receive reimbursable grant funds for eligible costs in accordance with agreements with the Federal Aviation Administration, including operating & maintenance expenses and debt-service payments, through COVID-19 related federal grant programs. It is expected that a significant amount of ARPA dollars will be requested in FY23.

Aviation Revenues

(amounts expressed in millions)

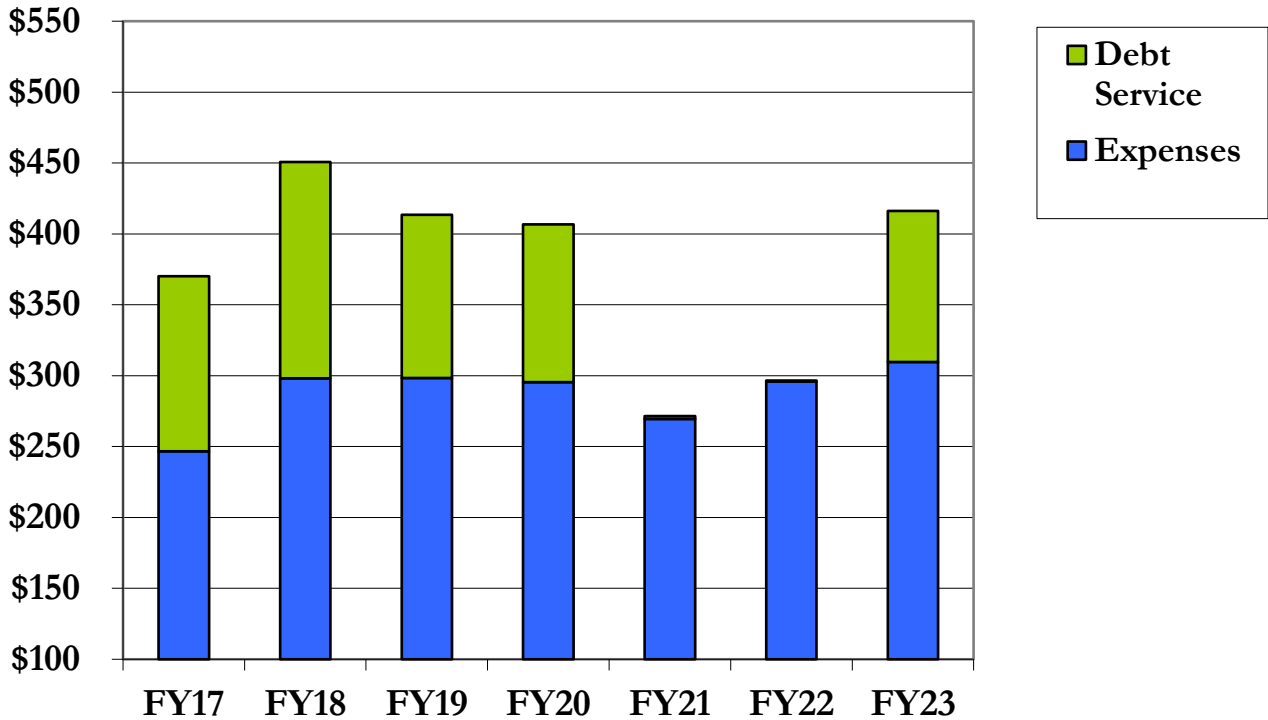


Projected total revenues for Aviation for FY23 is \$516.7 million. This is an increase of \$38.7 million or 8.1% compared to FY22 estimate of \$478.0 million. The increase is mainly due to an increase of \$38.3 million or 8.2% in operating revenues as total number of passengers for FY23 is estimated to be higher than FY22. Non-operating revenues are estimated to be \$10.0 million for FY23, a small increase of \$0.5 million or 4.7% compared to FY22.

The use of ARPA funds are treated as grant dollars and are not included in revenue projections.

Aviation Expenses

(amounts expressed in millions)

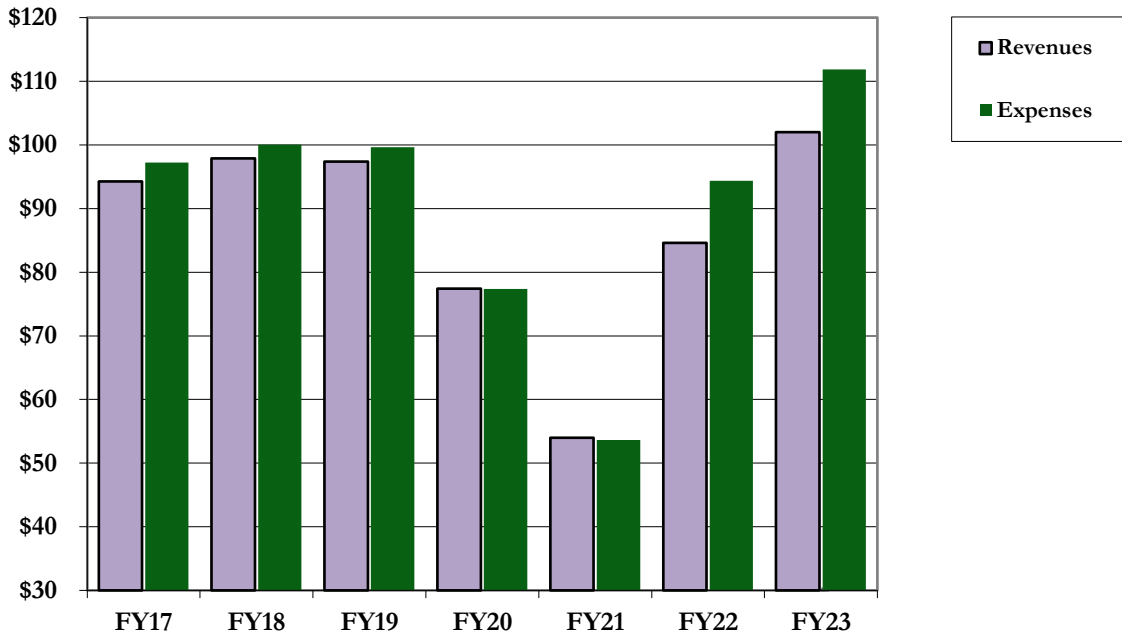


Projected total expenses for Aviation for FY23 is \$310.0 million, excluding debt service. This is an increase of \$13.2 million or 4.5% compared to the FY22 estimate of \$296.8 million. The increase is primarily due to a \$6.3 million or 5.5% increase in Personnel costs as estimated number of full-time equivalent employees is expected to increase by 30 to 1,152. In addition, other services and charges are expected to increase by \$6.8 million or 4.0% in FY23 compared to FY22. This increase is mainly related to increases in contracted services and interfund police and fire services.

For FY23, an estimated total of \$50.0 million debt service payments will be reimbursed by the ARPA grant funding, while the remainder debt service for Aviation will be covered by the operating and maintenance budget of \$106.5 million as well as Passenger Facility Charges.

Convention & Entertainment Revenues & Expenses

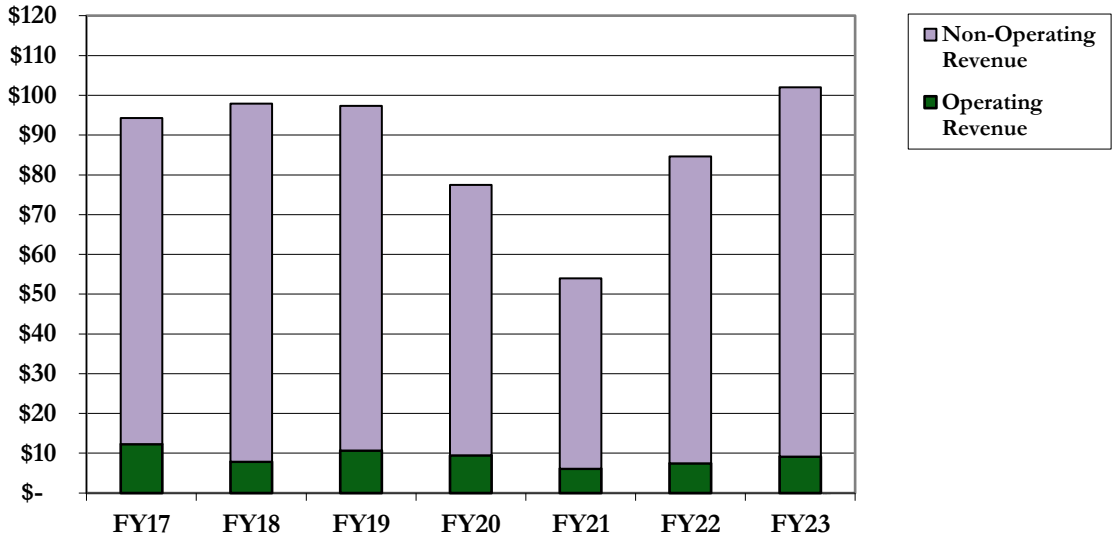
(amounts expressed in millions)



Convention & Entertainment is projecting an increase in total expenses of \$17.5 million or 18.6% to \$111.9 million in FY23 compared to FY22, while revenues are projected to total \$102.0 million in FY23, an increase of \$17.4 million or 20.6% compared to FY22. Convention & Entertainment expenses are projected to exceed revenues by approximately \$9.9 million in FY23, resulting a decrease in ending total net position / fund balance.

Convention & Entertainment Revenues

(amounts expressed in millions)

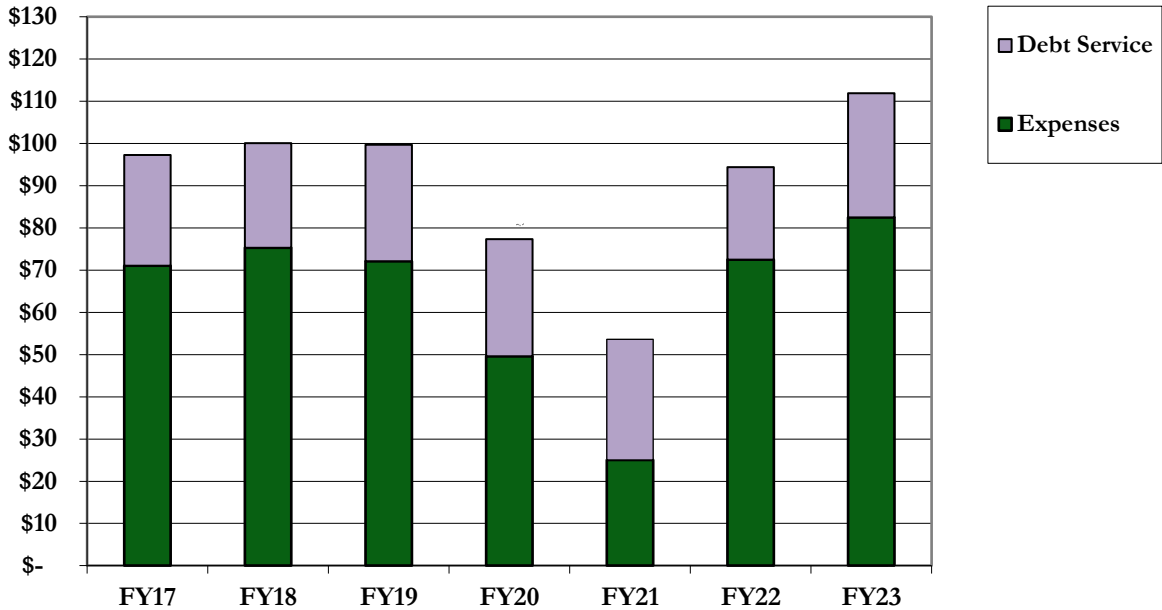


Convention & Entertainment’s revenues are primarily generated from Hotel Occupancy Tax (HOT), which is reported as non-operating revenues. In addition, facility rentals and parking are reported as operating revenues.

Revenues are projected to total approximately \$102.0 million in FY23. Collection of HOT is projected to increase by \$15.8 million or 20.5% to \$92.5 million in FY23 compared to FY22 due various COVID-19 restrictions being lifted, resulting an increase in visitors to the City. In addition, total operating revenues is projected to increase by \$1.7 million or 22.5% to \$9.1 million in FY23 compared to FY22 due to higher parking revenues as Houstonians returning to work downtown and COVID-19 restrictions being lifted for entertainment venues resulting increased parking.

Convention & Entertainment Expenses

(amounts expressed in millions)

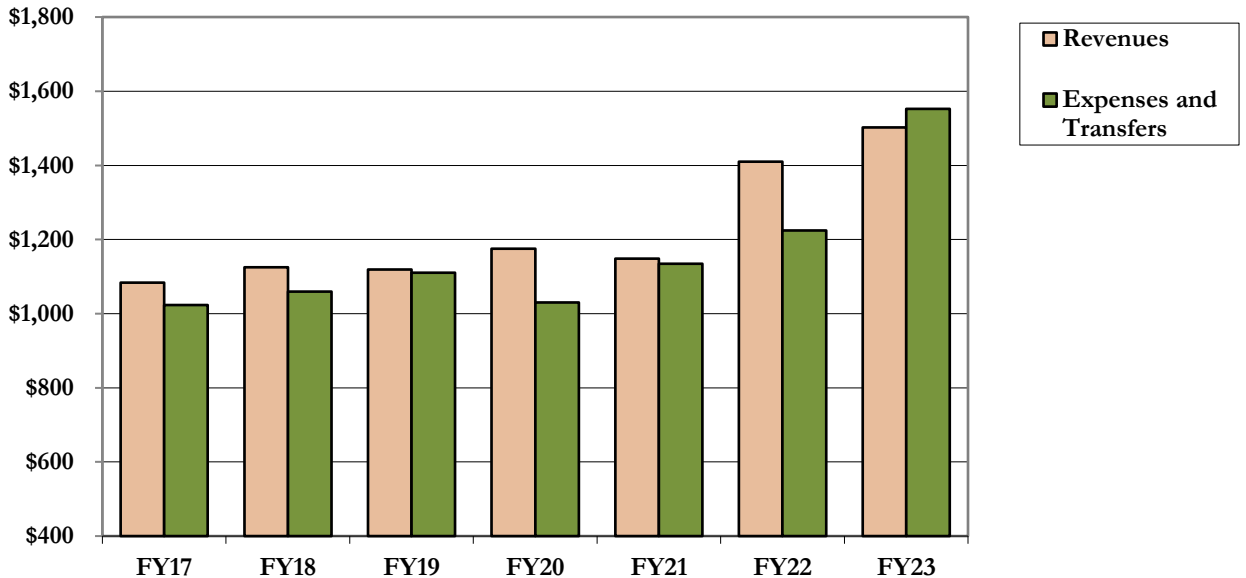


Convention & Entertainment is projecting an increase of \$17.5 million or 18.6% in total expenses to approximately \$111.9 million in FY23 compared to FY22. The increase is mainly due to an increase in debt service payments of \$7.5 million or 34.4% to \$29.4 million in FY23 from \$21.9 million in FY22 and an increase in transfers to component unit of \$10.0 million or 13.8% to \$82.5 million in FY23 from \$72.5 million in FY22.

Combined Utility System

Revenues and Expenses

(amounts expressed in millions)

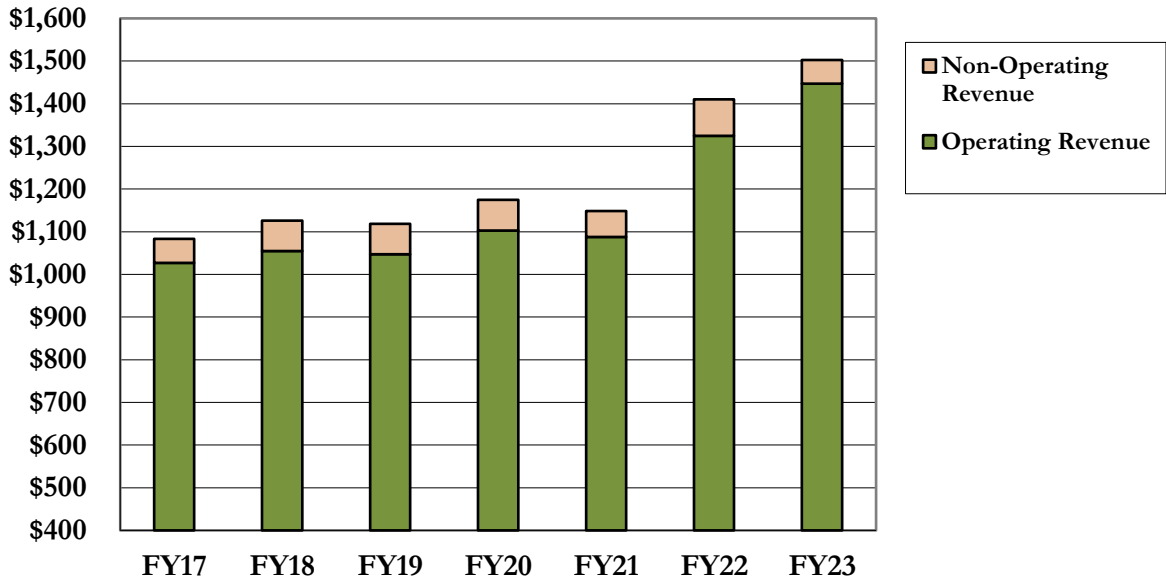


The Combined Utility System's (CUS) expenditures are expected to exceed revenues by \$50.2 million for FY23. Revenues are expected to increase by \$92.6 million or 6.6% to \$1.5 billion in FY23. Expenditures are expected to increase by \$328.1 million or 26.8% to \$1,552.8 million in FY23, mainly due to increases in transfer to capital projects as well as operating expenses such as personnel, supplies, and contract services.

City ordinance directs that remaining funds, after all expenses and other financial obligations are met (CUS' 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 purpose and for drainage purposes, subject to certain restrictions.

Combined Utility System Revenues

(amounts expressed in millions)



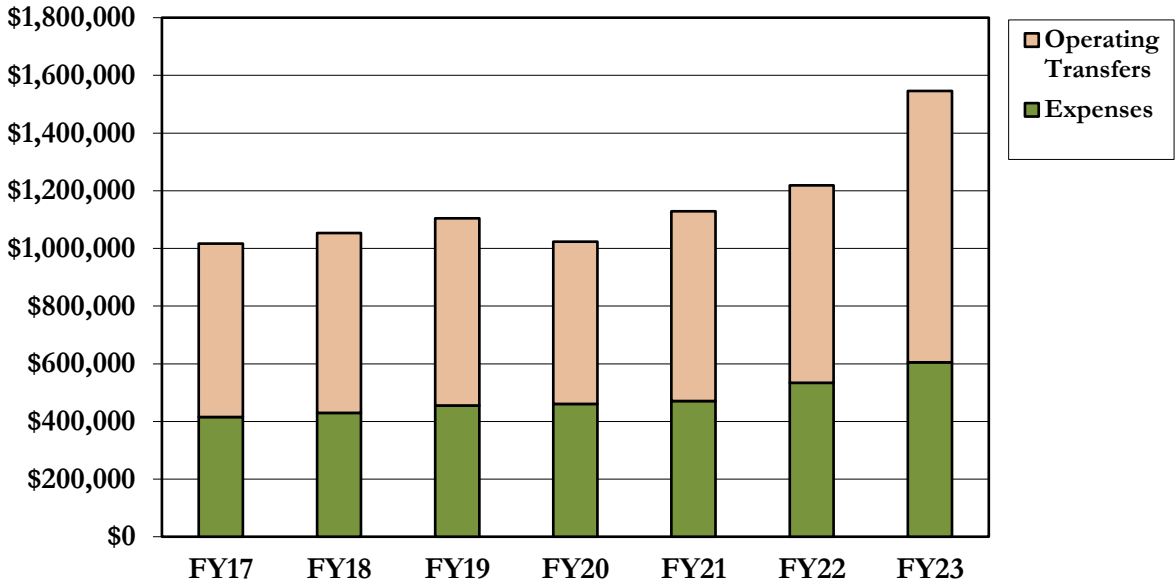
CUS' Revenues are expected to increase by \$92.6 million or 6.6% compared to FY22. The increase is primarily due to projected increases of \$36.8 million and \$86.0 million in water and sewer sales to a total of \$742.8 million and \$678.4 million, respectively. In addition, interest income is estimated to increase by \$2.3 million to \$11.3 million in FY23. The increases in water, sewer, and interest income are offset by decreases of \$2.3 million, \$11.1 million, and \$18.7 million in projected sales of scraps, other revenues, and impact fees, respectively. Water and sewer sales are subject to an annual rate adjustment equal to the previous calendar year's Producer Price Index (PPI) or Consumer Price Index (CPI) and population for the area including Houston, Galveston and Brazoria Counties.

Note: The rate adjustments for fiscal years 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, and 2023 - are 3.6%, 1.2%, 4.4%, 1.4%, 3.4%, 2.8%, 2.8%, 3.5%, 1.5%, and 5.6%, respectively.

Combined Utility System

Operating Expenses by Category

(amounts expressed in millions)



CUS' expenditures are expected to increase by \$328.1 million or 26.8% to \$1.6 billion in FY23 compared to FY22 primarily due to increases in operating & maintenance costs of \$70.8 million to \$605.1 million, debt transfer of \$32.2 million to \$570.5 million, and transfer to capital projects of \$230.0 million to \$300.0 million.

Changes in operating and maintenance expenses reflect increases to personnel expenses, energy expense components, supplies, and additional resources to accommodate new customers or additional regulatory compliance. The number of full-time equivalent employees (FTEs) is expected to increase by 123 FTEs to 2,329 FTEs in FY2023.

Operating transfers include the CUS' debt service payment obligations, transfers to capital projects and other funds as well as drainage expenses.