



City of Houston

Long Range Financial Management Task Force

Deep Dive on City Revenue
Part 1

September 19, 2011



Agenda

- General Fund Revenue
 - Overview & Historical Data
 - Property Tax
 - Sales Tax
 - Franchise Fees
 - Other Revenue & Sources
 - Revenue Outlook



General Fund Sources of Fund Overview

Operating Revenue

- Property Tax
- Sales Tax
- Franchise Fees:
 - Electric Franchise
 - Telephone Franchise
 - Gas Franchise
 - Other Franchise
- Industrial Assessments
- Licenses and Permits
- Intergovernmental
- Charges for Services
- Interfund Services
- Fines and Forfeits
- Interest
- Miscellaneous/Other

Other Sources

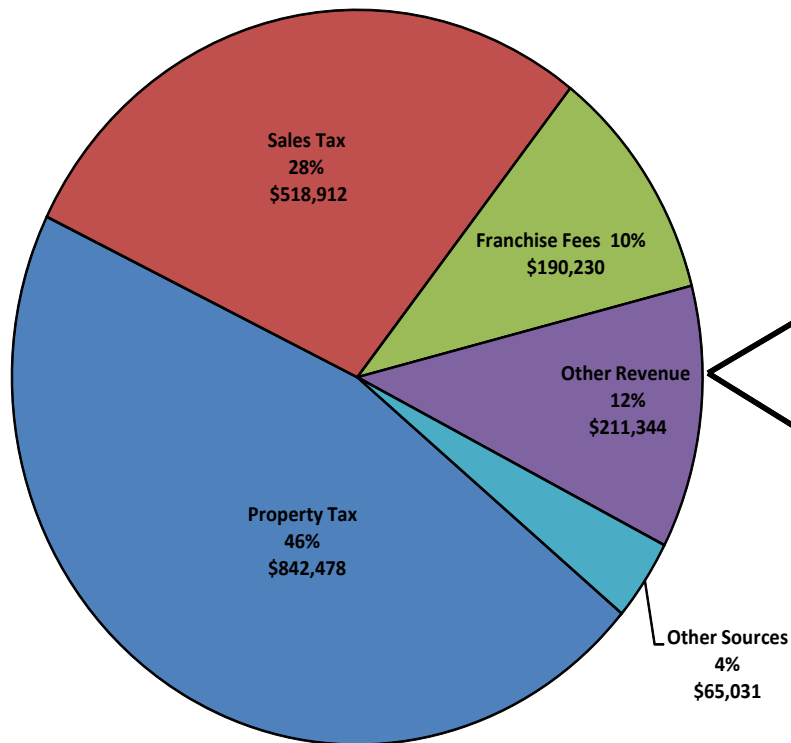
- Sale of Capital Assets
- Transfers from Other Funds



FY2012 Revenue & Other Sources Overview

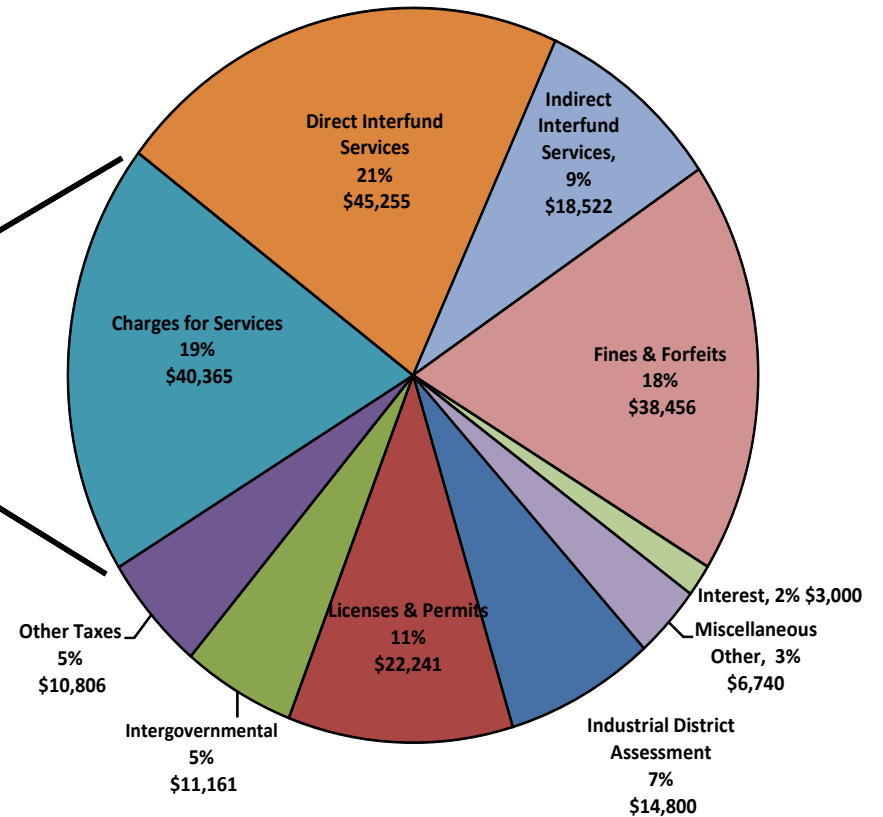
(\$ in Thousands)

Total Revenue & Other Sources



Total \$1,827,995

Other Revenue



Total \$211,346



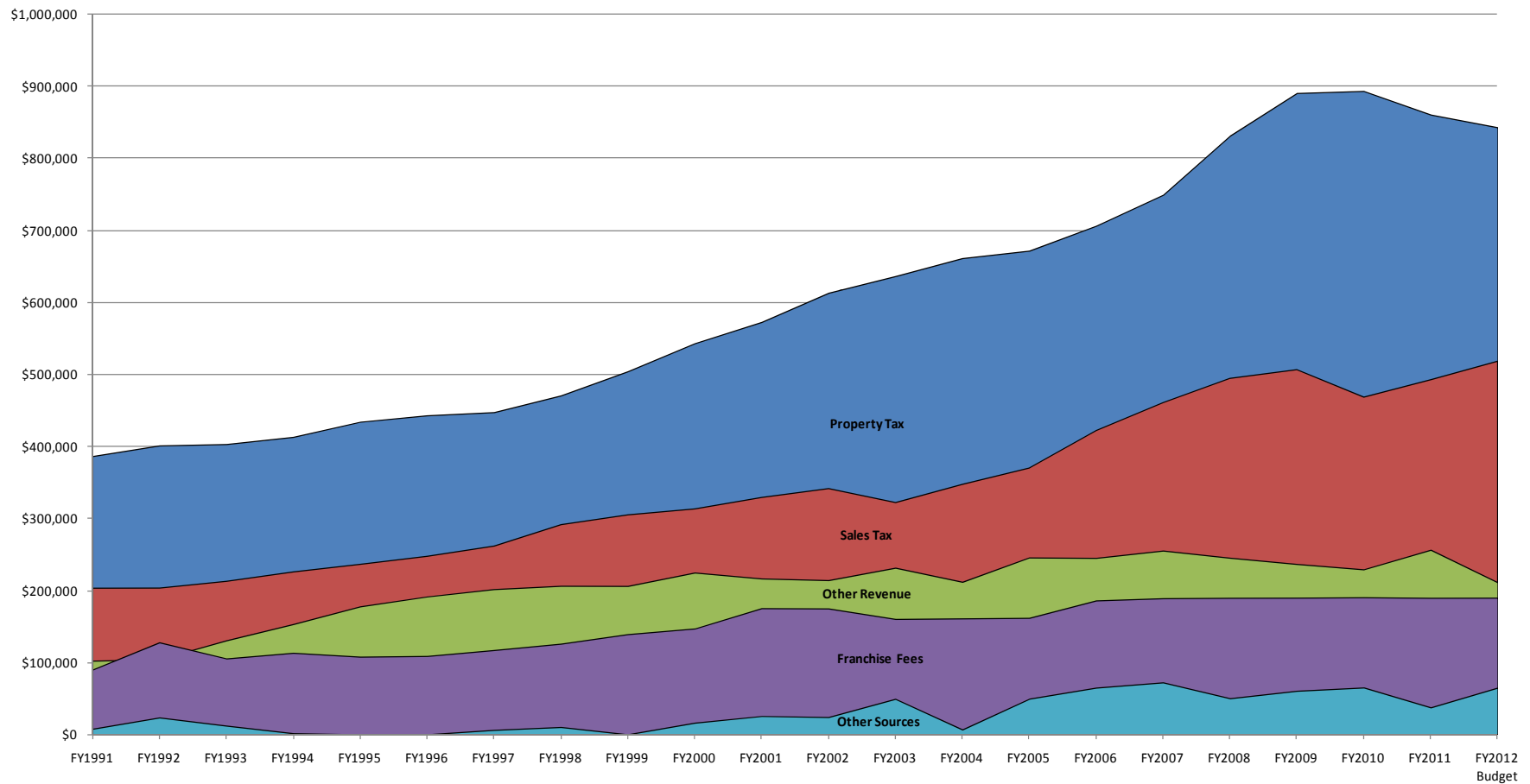
General Fund Sources of Funds

- Property and Sales Taxes are the major sources. On average, it is approximately 71% of all revenues received.
- Other Revenue and Franchise Fees category average approximately 16% and 12% of all revenues received.
- Other Sources category is comprised of Transfers from Other Sources and Sales of Capital Assets.
 - On average, represents approximately 2% of total revenue received.
 - Some of these revenues are one-time occurrences.



General Fund Sources of Funds

(\$ in Thousands)



% of Total Budget																						
Fiscal Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 Budget
Property Tax	48.86%	46.58%	46.59%	45.48%	45.34%	44.67%	43.22%	42.56%	43.62%	43.59%	43.36%	44.78%	45.42%	47.58%	44.76%	43.44%	43.34%	45.86%	47.22%	48.33%	46.81%	46.09%
Sales Tax	25.78%	23.67%	24.65%	24.94%	24.76%	25.01%	25.33%	26.41%	26.44%	25.21%	24.97%	24.98%	23.03%	25.05%	24.71%	26.00%	26.71%	27.33%	26.90%	25.39%	26.84%	28.39%
Other Revenue	12.97%	12.13%	15.11%	16.89%	18.59%	19.33%	19.51%	18.68%	17.87%	18.07%	16.42%	15.67%	16.54%	15.26%	16.40%	15.09%	14.79%	13.55%	12.56%	12.42%	13.97%	11.56%
Franchise Fees	11.42%	14.89%	12.23%	12.51%	11.31%	11.00%	11.34%	11.42%	12.07%	11.83%	13.31%	12.81%	11.47%	11.62%	10.82%	11.48%	10.97%	10.50%	10.10%	10.33%	10.34%	10.41%
Other Sources	0.98%	2.72%	1.41%	0.18%	0.00%	0.00%	0.60%	0.93%	0.00%	1.30%	1.93%	1.76%	3.53%	0.49%	3.31%	4.00%	4.18%	2.77%	3.22%	3.53%	2.04%	3.56%



City of Houston

Property Tax



Property Tax Key Concepts

- Tax Rate = \$0.63875 / \$100 assessed value
- Fiscal Year (FY) versus Tax (Calendar) Year (TY)
- Homestead 10% cap – effective January 1, 1998:
 - Article VIII, Sec. 1(i) of the Texas Constitution limits the maximum appraised value of a residence homestead for ad valorem tax purposes in a tax year to the lesser of the most recent market value of the residence homestead as determined by the appraisal entity or 110 percent, or a greater percentage, of the appraised value of the residence homestead for the preceding tax year.
 - Texas Property Tax Code Sec 23.23 implements the cap on increase in values based on the lower of (1) Market Value or (2) Previous year's appraised value plus 10% for each year since last reappraisal plus the value of any new improvements added since the preceding year.
- Starting in FY2009 (TY2008), the taxable values are established by Harris, Montgomery and Fort Bend County Appraisal Districts
- Tax revenues are collected by the County tax office
- City Council approves exemptions such as homestead, 65 and over, disabled as well as Freeport exemptions



Property Tax Key Concepts

- Effective tax rate – annual calculation as mandated by State Law:
 - Evaluate the relationship between taxes for the preceding year and current year, based on a tax rate that would produce the same amount of taxes if applied to the same properties taxed in both years

$$\text{Effective Tax Rate} = \text{Last year's Adjusted Taxes} / \text{This year's Adjusted Taxable Value Base}$$

- Rollback tax rate – calculation as mandated by State Law:
 - To avoid injuring a taxing unit's ability to pay its debt service. It splits the rate into two separate components – a maintenance and operations (M&O) rate and a debt service rate. The rollback tax rate, however, is the sum of M&O and debt service rates
 - M&O includes such things as salaries, utilities and day-to-day operations. Rollback calculation is based on the tax rate that would be needed to raise the amount the unit levied in the preceding year plus 8 percent
 - Debt service covers the interest and principal on bonds and other debt secured by property tax revenues. Rollback calculation is based on the tax rate necessary to pay the unit's debt payments in the coming year

$$\text{Rollback Tax Rate} = ((\text{Last year's Adjusted Operating Taxes} / \text{This year's Adjusted Taxable Value Base}) \times 1.08) + \text{This year's Debt Rate}$$

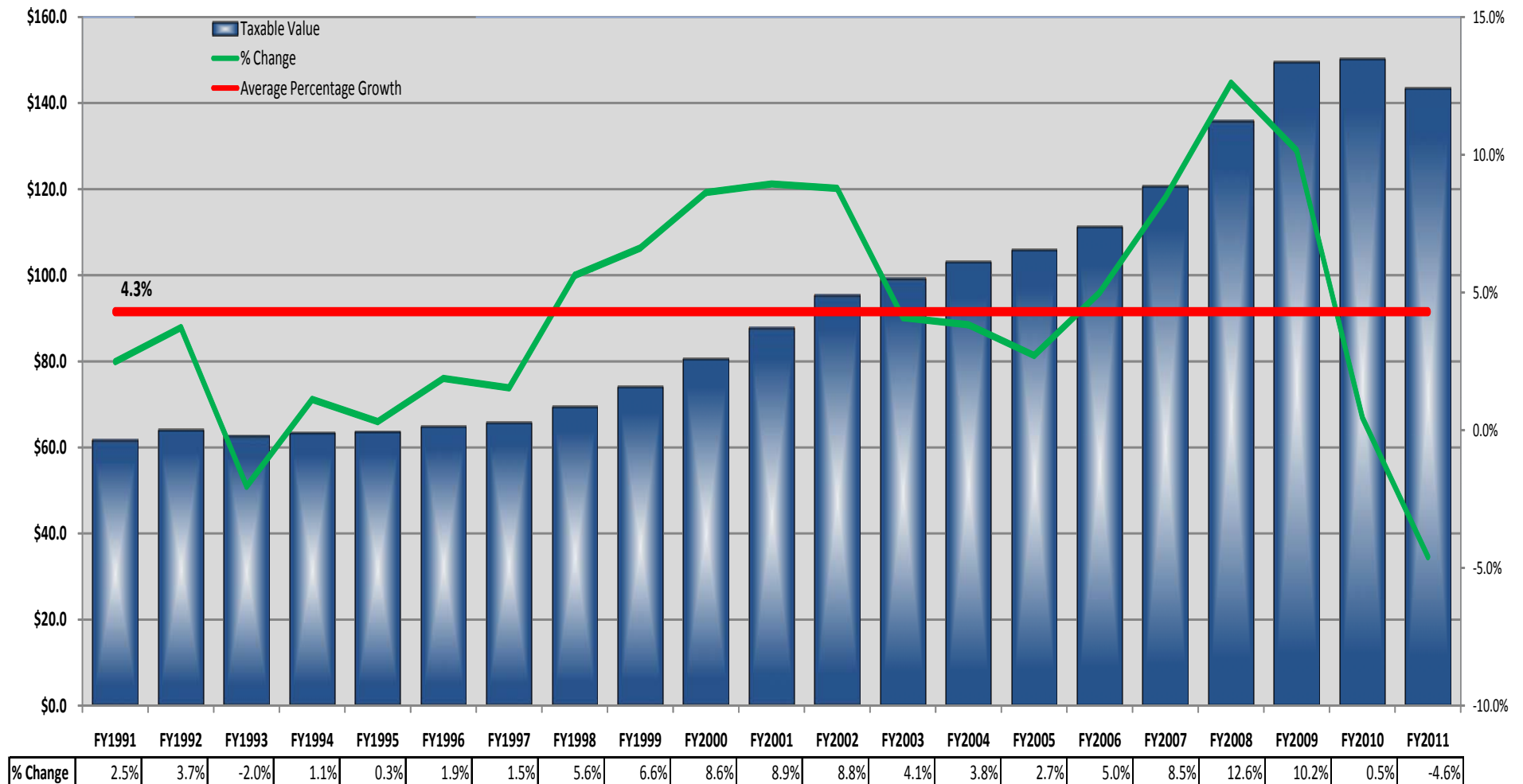
- Adopted tax rate: set and adopted by the City

$$\text{Property Tax Revenue Projection} = \text{Current Tax (Taxable Values} \times \text{Adopted Tax Rate} \times \text{Collection Rate)} \text{ plus Delinquent Payment plus Tax Rebates}$$



Harris County Taxable Value

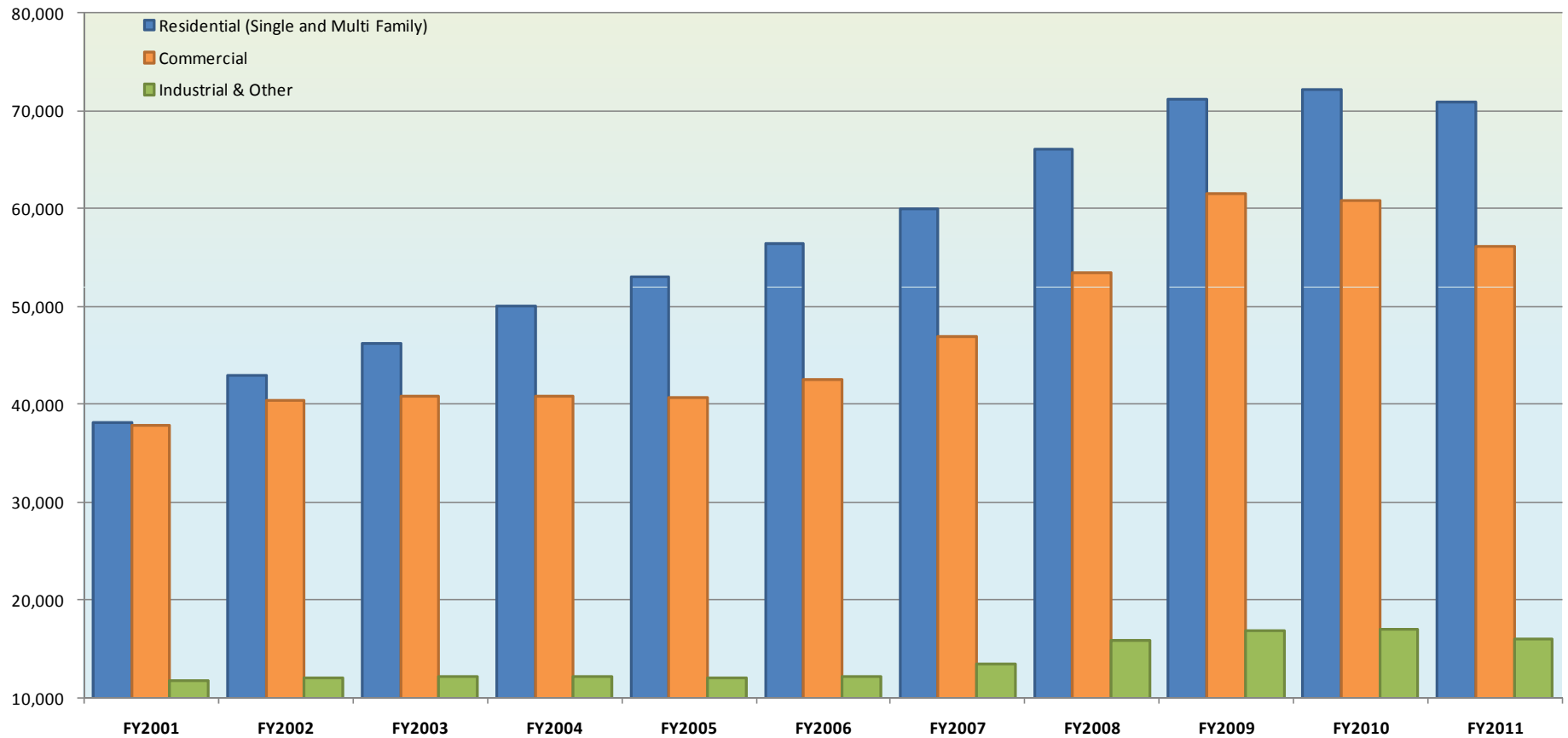
(\$in Billions)





Harris County Taxable Value by Category

(\$in Thousands)



% of Taxable Value

Fiscal Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Residential (Single and Multi Family)	43.50%	45.07%	46.53%	48.54%	50.10%	50.76%	49.83%	48.81%	47.58%	48.12%	49.55%
Commercial	43.10%	42.34%	41.14%	39.63%	38.42%	38.27%	38.96%	39.44%	41.15%	40.49%	39.26%
Industrial & Other	13.40%	12.59%	12.32%	11.83%	11.47%	10.97%	11.22%	11.75%	11.27%	11.39%	11.18%



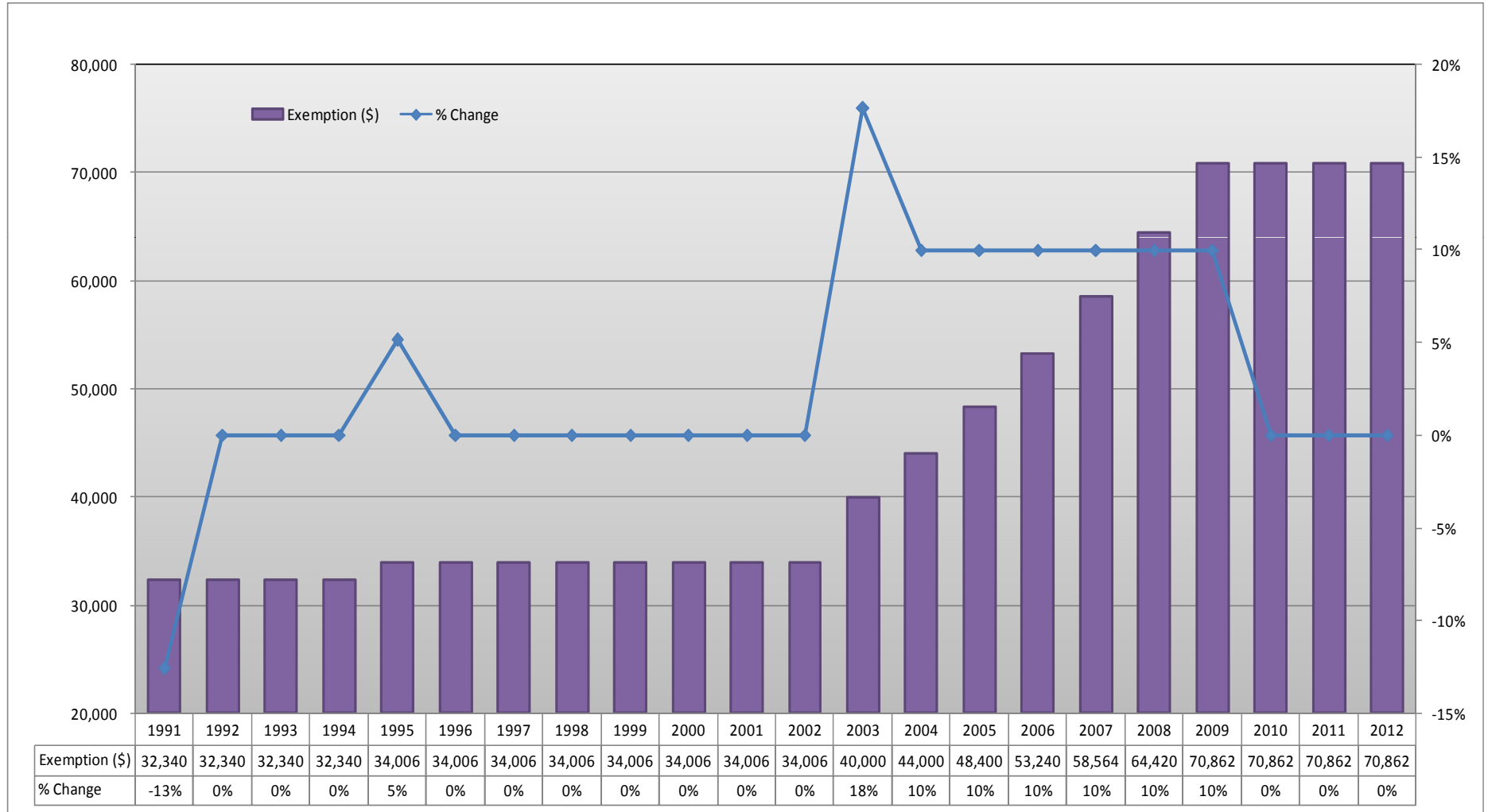
Property Tax Revenue

Key Points

- FY2012 (TY2011) Tax Rate
 - Adopted Tax Rate = \$0.638750 / \$100 assessed value
 - Effective Tax Rate = \$0.665285 / \$100 assessed value
 - Rollback Tax Rate = \$0.679260 / \$100 assessed value
- The tax rate decreased consecutively from FY2005-09
 - Property tax receipts continued to increase during the rate cuts largely due to new construction and increasing taxable values during that time
 - Property tax receipts declined starting in FY2010 as taxable values decreased and foreclosures increased
 - Senior and Disabled tax exemption increased from FY2003-09



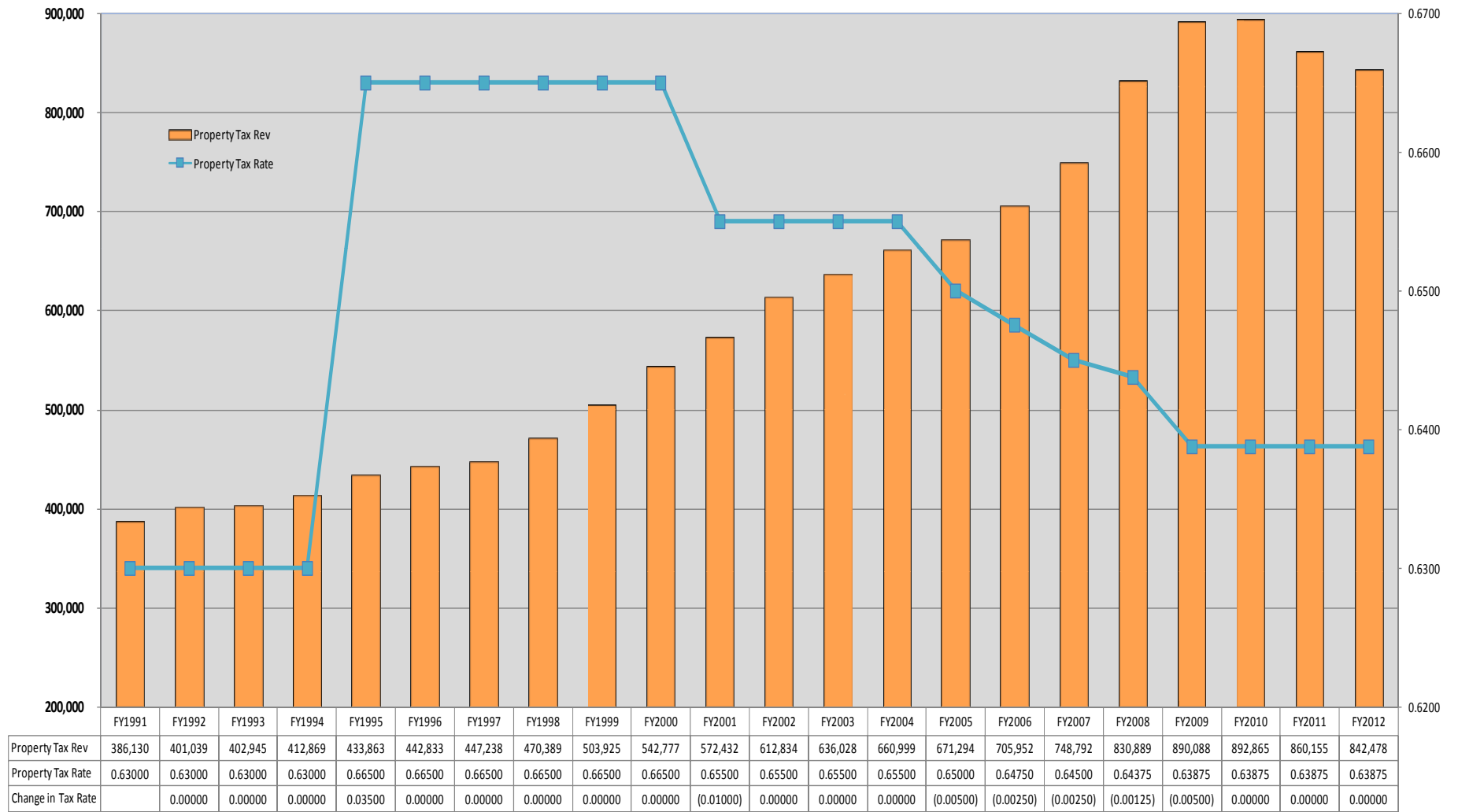
Senior and Disabled Exemption





Property Tax Revenue & Tax Rate

(\$in Thousands)





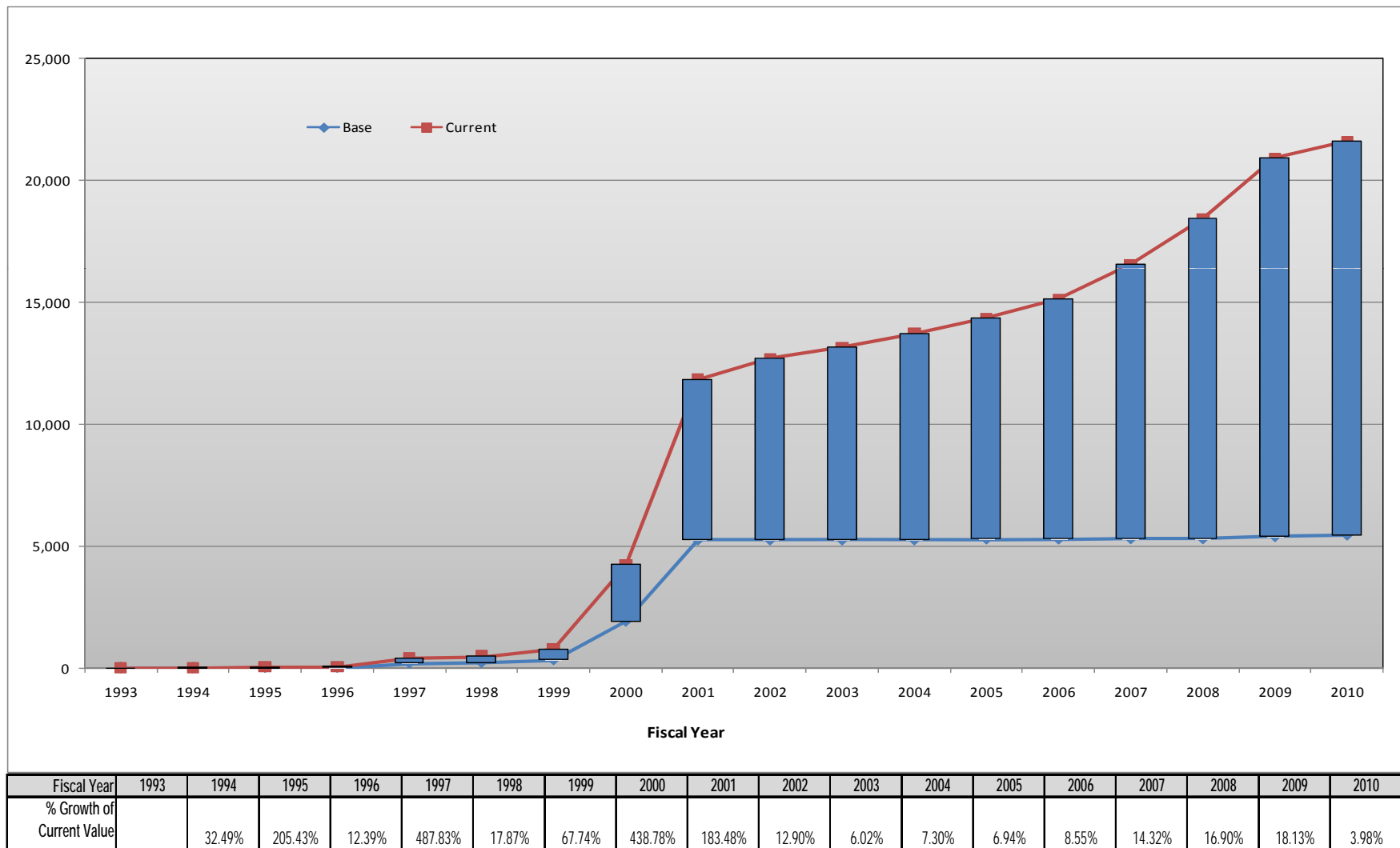
Tax Increment Reinvestment Zones (TIRZ)

- City of Houston's Property Tax revenue is net of TIRZ
- Currently there are 22 TIRZ
- Local jurisdictions typically participate in TIRZ:
 - City, County, ISD
- Taxable Base Value remains in City of Houston
- The increment taxable value from properties within the zone goes to TIRZ for the development of the zones
 - As a result, TIRZ typically has a higher growth rate than City of Houston.
- Limit of total value amount included in TIRZ is 25% of COH property taxable value
- City funding received from TIRZ:
 - (a) Admin Fees (5%), (b) Municipal Service Fees, (c) Affordable Housing and (d) Source of funding for CIP



TIRZ Taxable Value

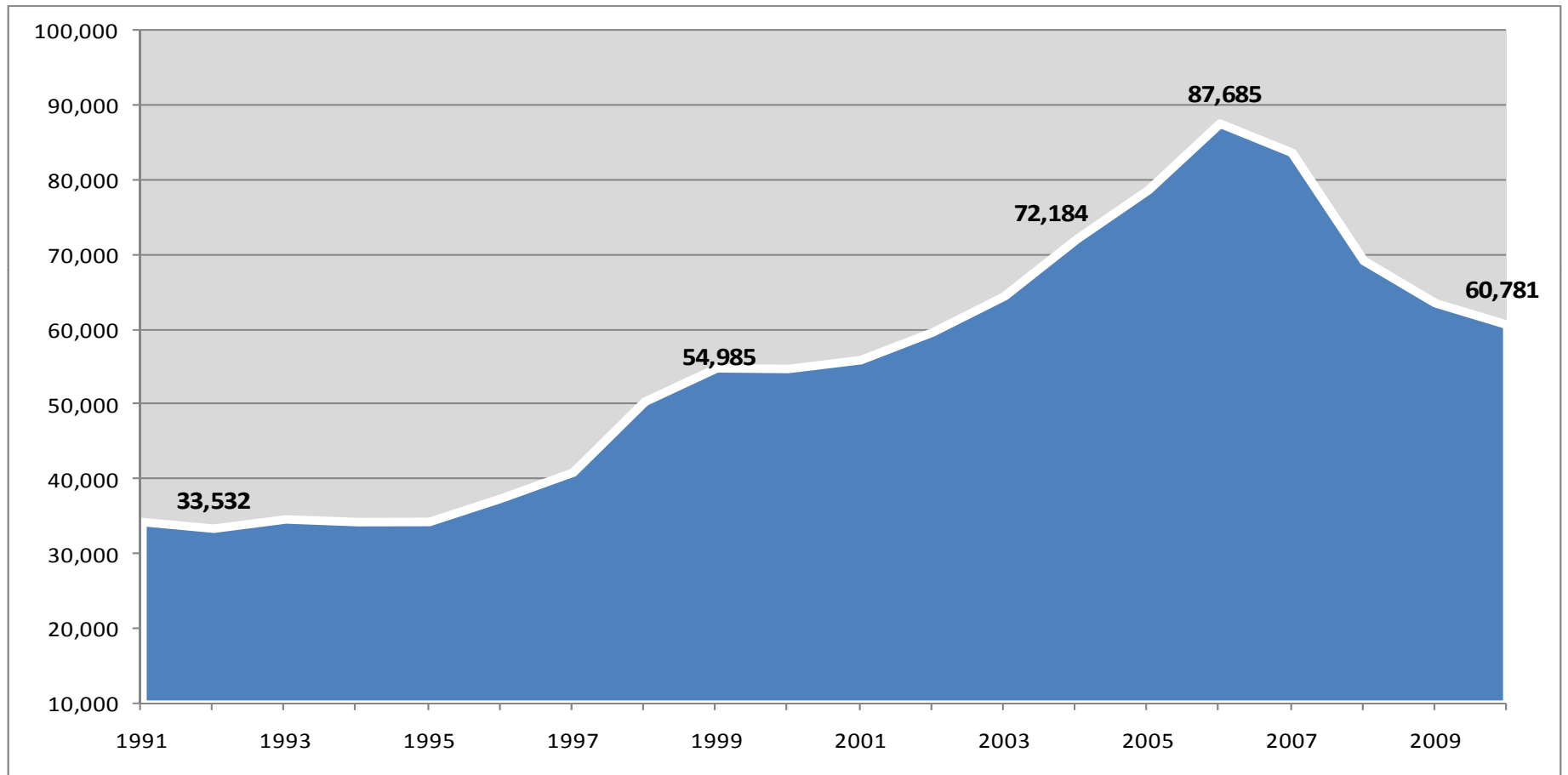
COH portion (\$in Millions)





Area Real Estate Sales

MLS Sales
Houston Metropolitan Area
(\$ in Thousands)

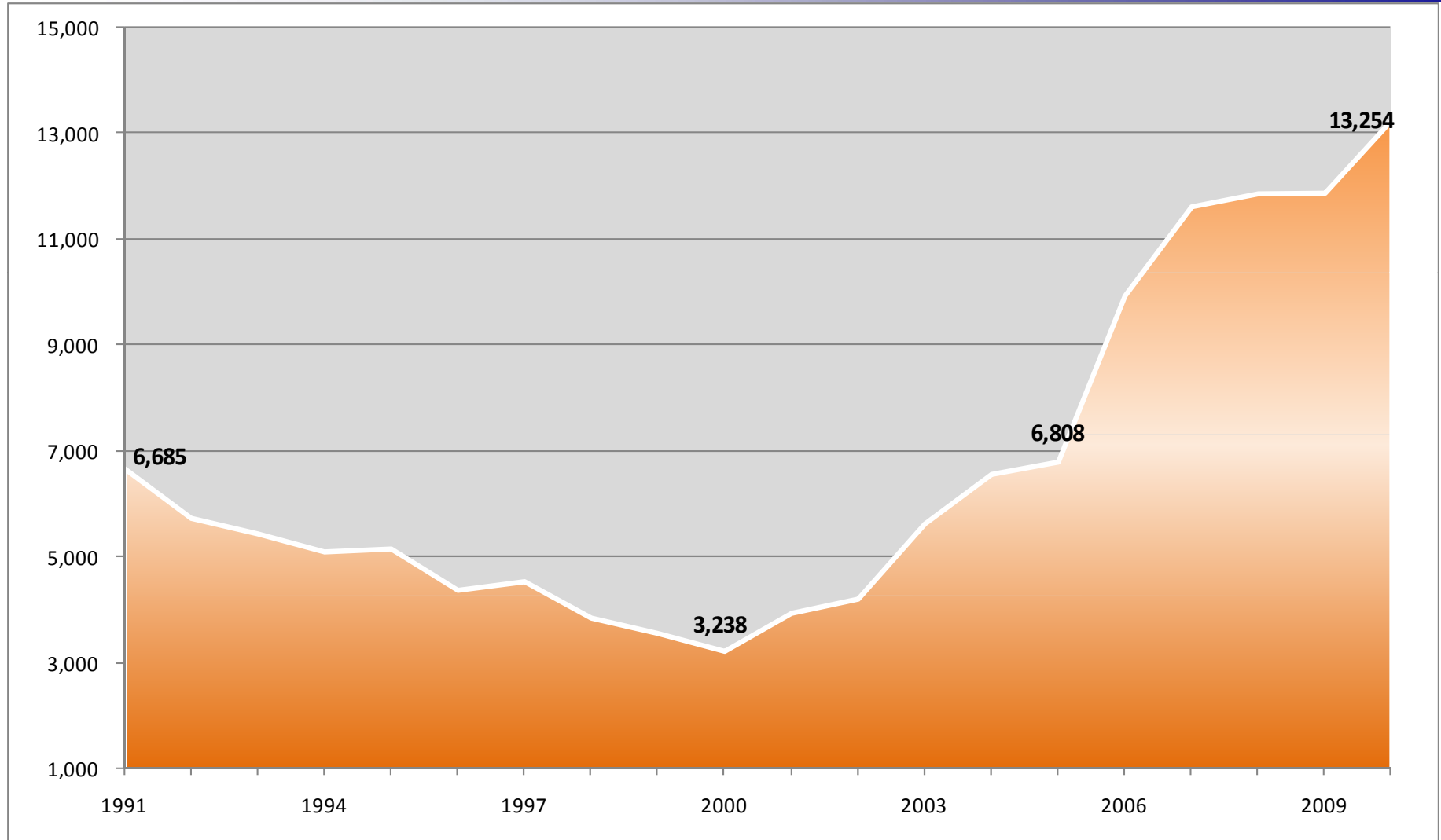




Area Real Estate

Harris County Foreclosures

(\$ in Thousands)





City of Houston

Sales Tax



Sales Tax

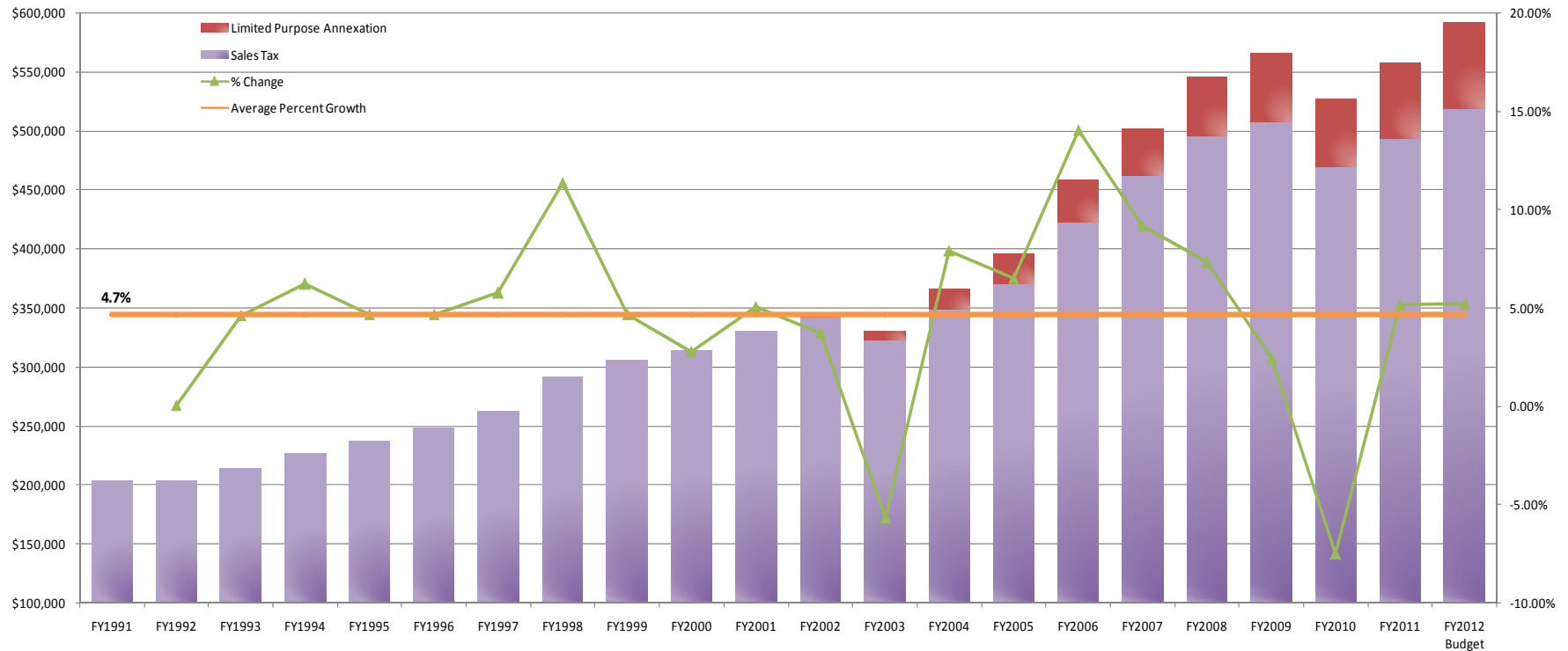
Key Concepts

- Sales Tax for the month earned is received two months later from the State
(example: December 2010 earned is received February 2011)
- A volatile revenue source:
 - Highly correlated with employment
 - 1 job loss = \$240 of revenue loss
 - Employment has decreased since FY2008
 - Area unemployment increased starting in FY2007; presently, it is at 8.5%
- Sales Tax Rate is 8.25% comprised of:
 - 6.25% State
 - 1.00% City
 - 1.00% Metro



Sales Tax Revenue

(\$in Millions)

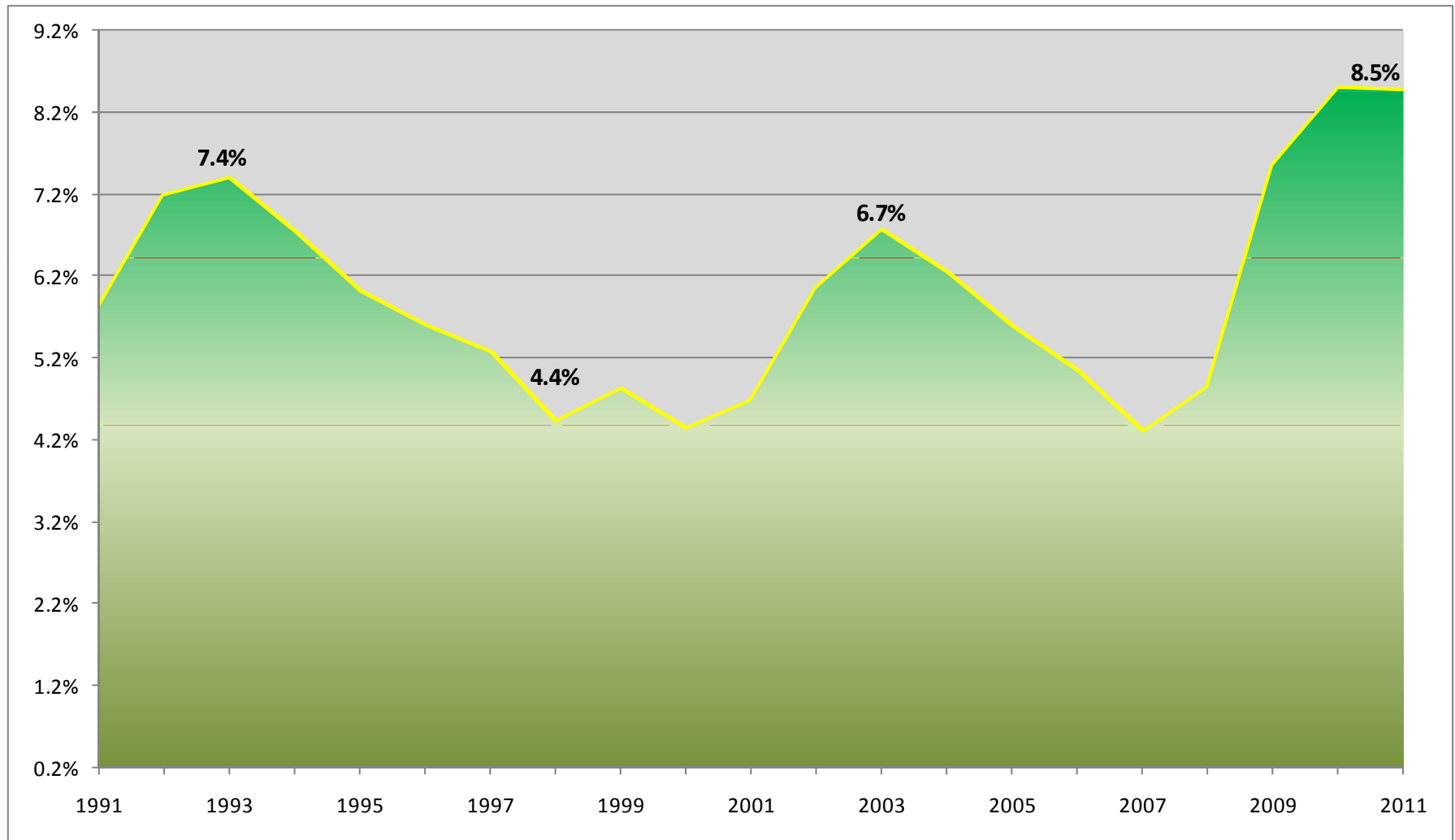


Fiscal Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 Budget
Sales Tax \$	\$203,717	\$203,773	\$213,165	\$226,361	\$236,879	\$247,915	\$262,149	\$291,899	\$305,472	\$313,864	\$329,705	\$341,952	\$322,538	\$347,982	\$370,583	\$422,598	\$461,417	\$495,173	\$507,103	\$468,965	\$493,118	\$518,912
Sales Tax % Change		0.03%	4.61%	6.19%	4.65%	4.66%	5.74%	11.35%	4.65%	2.75%	5.05%	3.71%	-5.68%	7.89%	6.49%	14.04%	9.19%	7.32%	2.41%	-7.52%	5.15%	5.23%
LPA \$ Amount												\$1,656	\$7,082	\$18,289	\$25,307	\$35,237	\$39,965	\$50,226	\$58,557	\$58,252	\$64,141	\$72,600
City LPA % of Sales Tax												0.24%	1.10%	2.63%	3.41%	4.17%	4.33%	5.07%	5.77%	6.21%	6.50%	7.00%



Area Unemployment

Houston Unemployment Rate, Seasonally Adjusted
Houston-Sugar Land-Baytown MSA (Including Austin & San Jacinto Counties)
July 2011



Source: Bureau of Labor Statistics

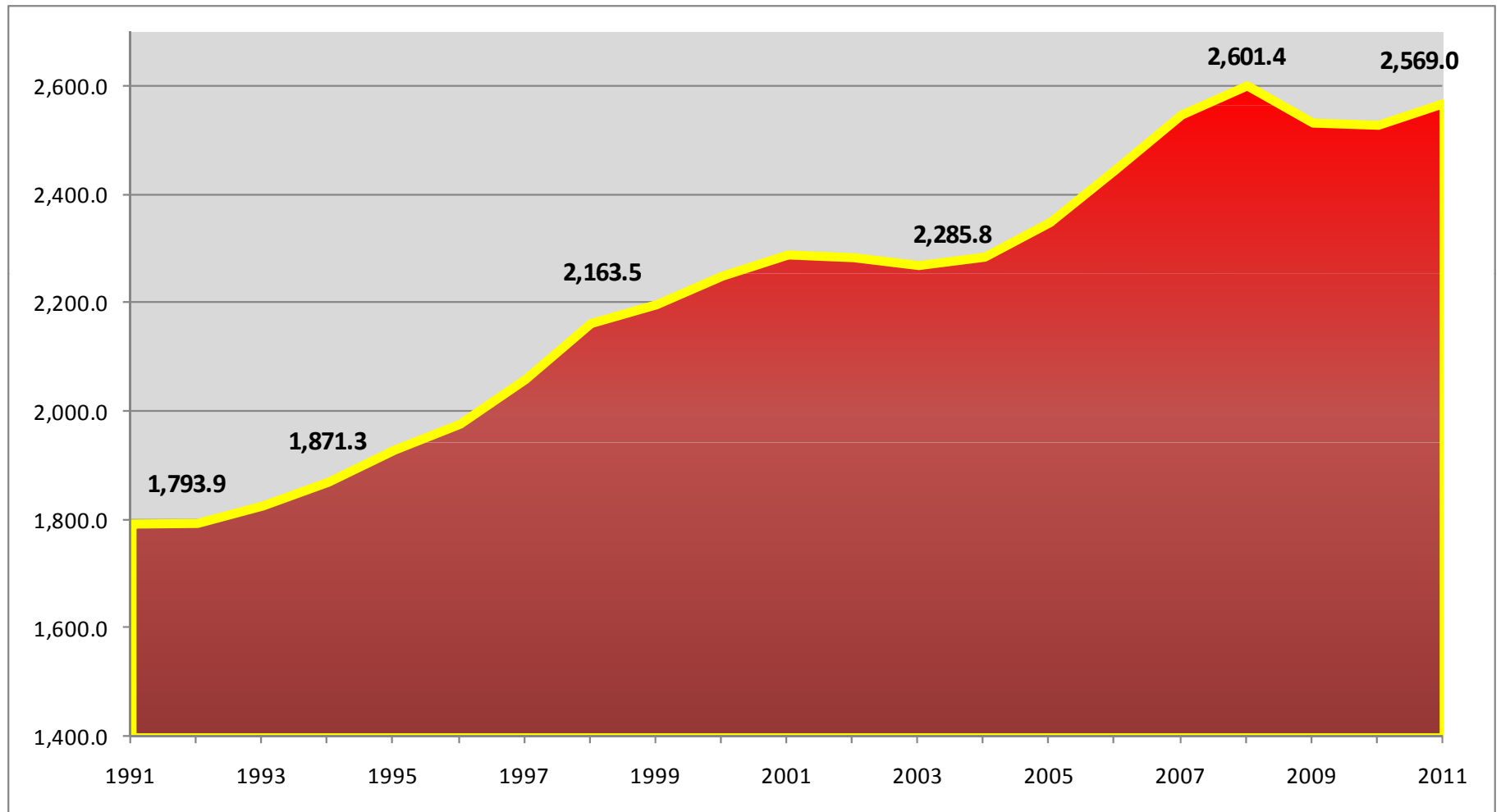


Area Employment

Total Nonagricultural Wage and Salary Employment, Seasonally Adjusted
Houston-Sugar Land-Baytown MSA (Including Austin & San Jacinto Counties)

July 2011

(\$ in Thousands)



Source: Bureau of Labor Statistics



Sales Tax Concepts

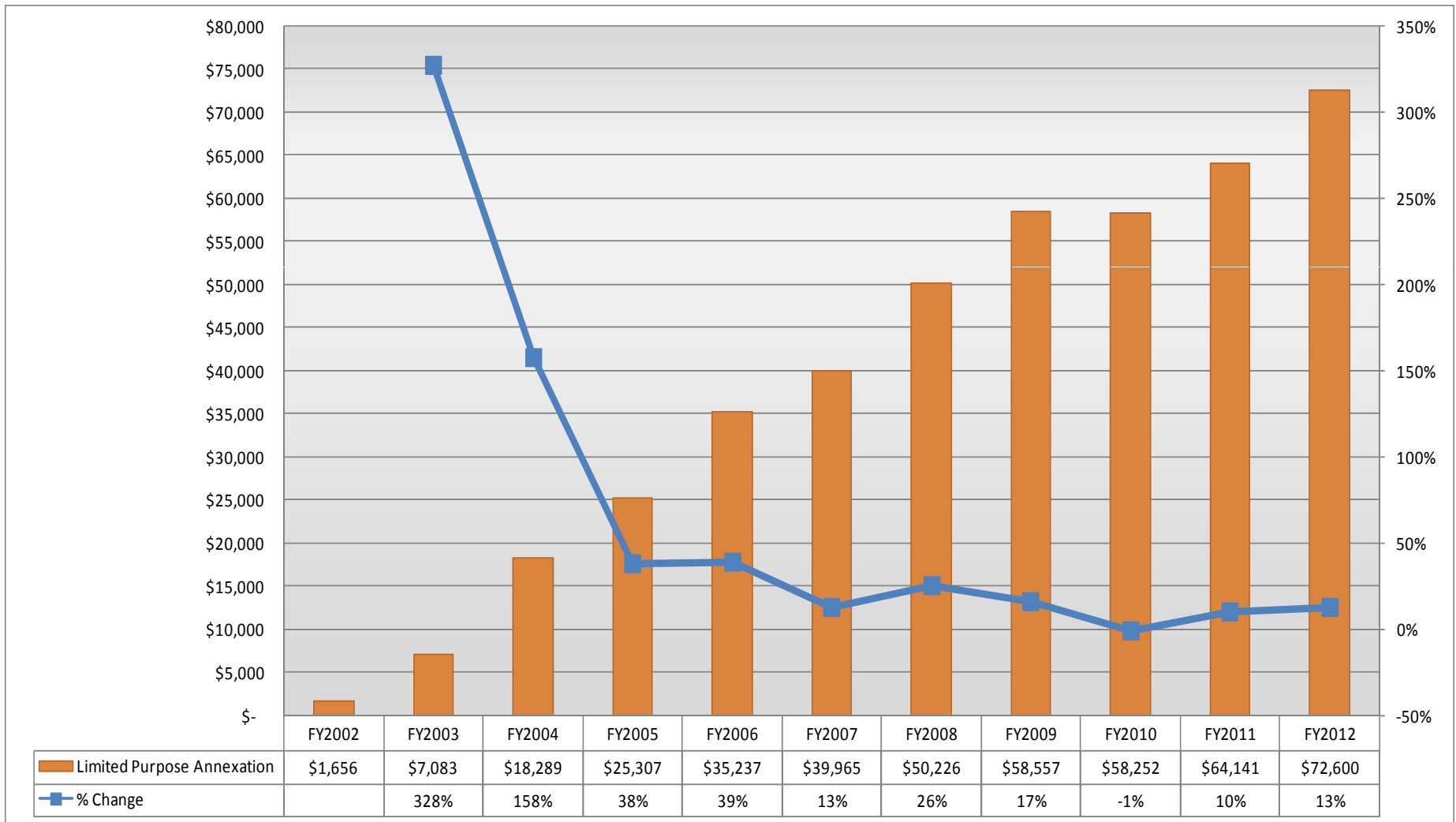
Limited Purpose Annexations (LPAs)

- Authorized in the 1999 Legislature, LPA may be conducted as part of a Strategic Partnership Agreement (SPA) with a utility district. It typically includes commercial property only and the City may levy a sales tax on retail sales conducted in the area. The SPA identifies which regulations and services, if any, are imposed in the area annexed. It also identifies the amount of sales tax to be levied and how much, if any, will be shared with the district. The City's rights are contained within its boundaries and the area immediately surrounding its boundaries called extraterritorial jurisdiction.
- Of the 1% Sales Tax revenue received from the state, 50% goes to the City and 50% goes to Municipal Utility Districts.
- Reimbursement to utility districts occurs through LPA payments.
- Under LPA agreements, the City provides the following:
 - Inspection of the district's water/drainage facilities
 - Fire code banning fireworks
- Subsidizes the districts' use of City services within the City limits.



Sales Tax Revenue from LPAs

(\$in Thousands)



Note: This is the gross sales tax revenues generated from LPAs. City keeps half of the revenues and distributes the other half to the utility districts.



Sales Tax Key Points

- Sales Tax growth peaked in FY2006
- Sales Tax receipts peaked in FY2009 due Hurricane Ike
- Sales Tax represents 28% of the FY2012 total budget
- Average 20 year growth is 4.7%
- Since FY2005 LPA average growth is approximately 20%



City of Houston

Franchise Fees



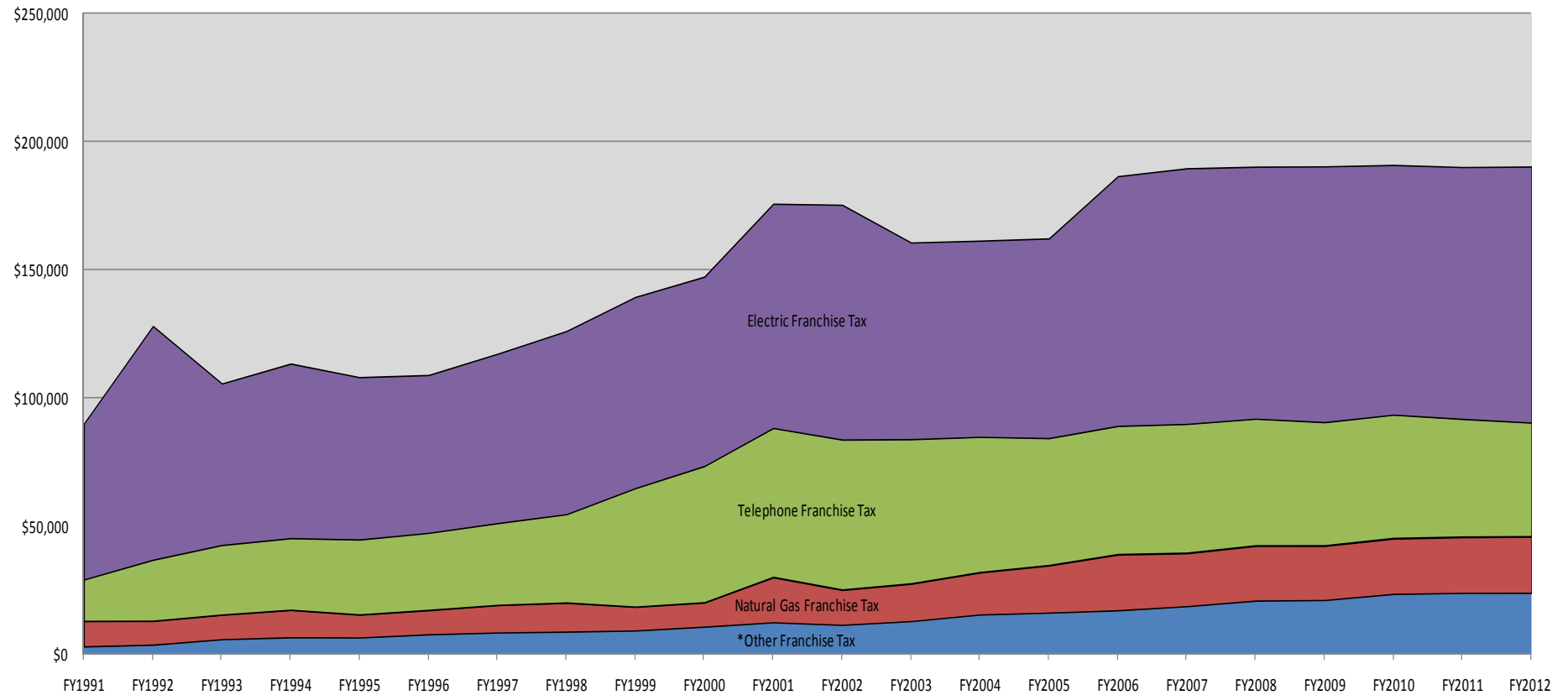
Franchise Fees

- Includes:
 - Electric Franchise Fees
 - Natural Gas Franchise Fees
 - Telephone Franchise Fees
 - Other Franchise Fees
 - Cable TV
 - Solid Waste Hauler
 - Spur Track
 - Fiber Optics
- In FY2012 this represents 10% of total budget



Franchise Fees

(\$in Millions)



% of Total Franchise Budget

Fiscal Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 Budget
Electric Franchise Tax	67.38%	71.06%	59.48%	59.88%	58.42%	56.37%	56.23%	56.53%	53.39%	50.04%	49.68%	52.15%	47.68%	47.34%	47.92%	52.16%	52.51%	51.60%	52.34%	50.95%	51.62%	52.41%
Telephone Franchise Tax	18.23%	18.77%	25.92%	24.87%	27.28%	27.82%	27.40%	27.52%	33.32%	36.24%	33.17%	33.47%	35.12%	32.80%	30.64%	26.90%	26.61%	26.06%	25.34%	25.29%	24.23%	23.38%
Natural Gas Franchise Tax	11.07%	7.30%	9.08%	9.46%	8.29%	8.71%	9.17%	8.98%	6.65%	6.43%	10.05%	7.84%	9.14%	10.25%	11.41%	11.72%	10.97%	11.31%	11.17%	11.38%	11.52%	11.57%
*Other Franchise Tax	3.32%	2.87%	5.51%	5.79%	6.01%	7.09%	7.20%	6.97%	6.63%	7.29%	7.10%	6.54%	8.05%	9.62%	10.03%	9.22%	9.91%	11.03%	11.15%	12.38%	12.63%	12.64%

*Other Franchise Tax: Cable TV, Solid Waste Hauler, Spur Track and Fiber Optics



Electricity Franchise Fees

- Electric franchise fees are paid to the City for the right to conduct an electric light and power business and to use the City rights-of-way for that business.
- Two companies pay franchise fees to the City:
 - Entergy
 - CenterPoint (99% of the share)
- Electric franchise fees are budgeted at \$99.7 million in FY2012.



Electricity Franchise Fees

- Prior to deregulation, January 1, 2002, payments were calculated as a percentage of the electric company's gross revenues from customer sales within the city. Electric franchise fees to the City fluctuated from \$80 - \$90 million per year.
- Between January 2002 – June 2005, franchise payments changed from percentage of gross revenues to kilowatt hour consumption by City customers. Fees dropped to an average of \$75 million per year.
- July 2005 marked a new 30-year term agreement with CenterPoint establishing a base franchise fee of approximately \$96 million based on kilowatt-hours delivered to the City.



Natural Gas Franchise Fees

- Natural Gas franchise fees are paid to the City by one company, CenterPoint, for use of right-of-ways for the transportation, delivery, sale, and distribution of natural gas to customers in the City.
- Franchise fees are paid monthly and are based on 5% of gross receipts on a rolling 3-year average.
- A new 30-year agreement with CenterPoint began June 2, 2007 maintaining the same payment terms through March 31, 2037.



Telephone Franchise Fees

- Upon deregulation in 2000, telephone franchise fees paid to the City is determined by applying an “access line rate,” assigned by the Public Utilities Commission of Texas, adjusted annually for inflation, to the number of access lines within the municipality reported quarterly by each Certificated Telecommunications Provider doing business in that municipality.
- In FY2012, the average number of access lines per quarter is projected to decrease by 6% from FY2011 projected levels.
- As wireless accessibility grows, a continued decrease in access lines is anticipated.



City of Houston

Other Revenue & Sources



Other Revenue

- Includes:
 - Industrial Assessments
 - Licenses and Permits
 - Intergovernmental
 - Charges for Services
 - Interfund Services
 - Fines and Forfeits
 - Interest
 - Miscellaneous/Other
- In FY2012 this represents 12% of total budget



Other Sources

Includes:

- Sale of Capital Assets
 - Recurring vs. One Time
- Transfers
 - Recurring vs. One Time
- In FY2012, this represents 4% of total budget



City of Houston

Revenue Outlook



Forecast Assumptions

Scenario 1

- Property taxable values growth based on:
 - 4% from FY2013 onward
 - Current tax rate of 0.63875/\$100 remain unchanged
 - Assumes TIRZs will grow at the same rate as the City
- Sales tax growth based on:
 - 4% from FY2013 onward
 - Assumes LPA will grow at the same rate as the City
- Franchise Fees growth of 1%
- Other Revenue growth of 1% (revenue growth from collections TBD)

Scenario 2

- Same as above with the exception of:
 - Property taxable values growth at 0% from FY2013 onward



Next Agenda

Deep Dive on Revenue Part II