

Office of the City Controller



Houston, Texas

Trends for Fiscal Year 2017

May 2016

**Chris B. Brown
City Controller**

Trends

Fiscal Year 2017

The information on the following pages was compiled by the Controller's Office with the goal of assisting City Council in putting the Administration's FY2017 Proposed Budget into historical perspective. The trends presented here give Council members a broader picture and, hopefully, will help in the budget decision-making process.

Our estimates for General Fund revenues for Fiscal Year 2016 are expected to increase 1.4% from Fiscal Year 2015 revenues. However, Fiscal Year 2017 revenues are anticipated to increase approximately 1.32% (not including transfers and sale of assets). Fiscal Year 2017's projected revenues primarily reflect increases in Property Tax and Intergovernmental, with decreases in Sales Tax and Miscellaneous/Other.

Of concern, our FY17 projection for General Fund resources is \$4 million higher than the Administration's FY17 Proposed Budget. To calculate Property Tax revenue, the Controller's Office used an estimated taxable value of \$221.2 billion, calculated by taking the estimated taxable values from Harris County, Fort Bend County, and Montgomery County Appraisal Districts in April 2016 and a 98% collection rate. This is moot, as the Prop 1 limit is \$1.138 billion, and \$44.6 million lower than our calculated amount. The Administration's Property Tax uses a lower Prop 1 cap, as they had to estimate the Population number, which was just released last week by the U.S. Census Bureau. The Prop 1 limit mentioned above does not include any allowable increases for the recent disaster declaration at this time.

For our Sales Tax projection, we assumed growth of (2.8%), which is Dr. Gilmer's April 2016 Low Forecast projection, less 2% margin of error. This was applied to our FY2016 estimate. The Administration is using (3.3%) growth, applied to their FY16 estimate.

We need to point out that the General Fund Beginning Fund Balance shown in the Proposed Budget is \$1.7 million higher than our draft FY16 April MFOR projection. Our projected Ending Fund Balance for FY17 is \$189 million, or 9.4% of the expenditures other than debt service and PAYGO, which is above the required amount of 7.5%, or \$151.0 million.

In the Enterprise Funds, Aviation revenues are increasing slightly due to higher Terminal, Parking and Landings revenues. Convention & Entertainment revenues are decreasing from lower HOT tax revenues. The Combined Utility System's (CUS) revenues are increasing as well, primarily due to the annual water and sewer rate increase.

Summary of Graphs

The numbers on each page are from the following sources:

1. **FY15 and prior years are actual results as reported in previous Comprehensive Annual Financial Reports (CAFR).**
2. **FY16 numbers are the Controller's Office April Monthly Financial Operations Report (MFOR) draft estimates.**
3. **The FY17 General Fund revenues are the most current projections of the Controller's Office.**
4. **Unless otherwise noted, all other FY17 numbers are from the Administration's FY17 Proposed Budget.**

General Fund Revenues

(amounts expressed in thousands)

Revenues	FY12	FY13	FY14	FY15	FY16	FY17	% Change [a]	Admin.'s	Difference [a]
	Actual	Actual	Actual	Actual	Controller's April Proj.	Controller's Projection		Proposed Budget	
Property Tax	\$ 866,141	\$ 910,034	\$ 976,240	\$ 1,074,435	\$ 1,098,217	\$1,138,374	3.66% [b]	\$ 1,133,191	5,183
Industrial Assessments	37	29,845	16,534	16,736	17,000	17,500	2.94%	18,043	(543)
Sales Tax	546,543	600,256	629,441	667,061	637,391	619,544	-2.80% [c]	615,000	4,544
Other Taxes	9,717	10,083	14,056	15,992	16,193	16,500	1.90%	16,909	(409)
Electric Franchise	99,765	103,941	101,054	100,565	101,142	101,500	0.35%	102,030	(530)
Telephone Franchise	45,466	45,143	43,913	43,451	42,060	41,250	-1.93%	42,000	(750)
Gas Franchise	22,009	19,194	16,493	14,538	14,840	15,000	1.08%	15,016	(16)
Other Franchise	25,520	27,026	28,529	31,283	32,086	32,500	1.29%	33,739	(1,239)
Licenses & Permits	24,586	34,220	35,757	37,999	38,489	39,000	1.33%	40,020	(1,020)
Intergovernmental	12,124	12,354	20,897	24,185	53,485	70,151	31.16% [d]	70,151	-
Charges for Services	45,370	42,232	56,059	63,272	59,290	58,815	-0.80%	58,698	117
Direct Interfund Services	41,469	43,520	43,257	47,851	53,644	53,896	0.47%	53,896	-
Indirect Interfund Services	18,255	16,908	18,558	25,328	26,790	27,436	2.41%	27,436	-
Muni Courts Fines	34,416	31,814	30,493	25,447	22,909	22,500	-1.79%	22,812	(312)
Other Fines	2,774	4,666	4,683	4,732	4,379	4,100	-6.37%	4,306	(206)
Interest	4,433	3,081	2,407	3,040	3,600	3,000	-16.67%	3,000	-
Misc/Other	4,070	10,129	15,432	17,217	23,022	13,000	-43.53% [e]	13,825	(825)
Total	\$ 1,802,695	\$ 1,944,446	\$ 2,053,803	\$ 2,213,132	\$ 2,244,537	\$2,274,066	1.32%	\$ 2,270,072	\$ 3,994
Transfers from Other Funds	53,144	30,742	26,639	31,363	30,042	12,049	-59.89%	12,049	-
Sale of Capital Assets	1,504	4,602	1,017	46,652	5,501	14,500	163.59% [f]	14,500	-
Proceeds from Promissory Note	-	10,666	-	-	-	-	-	-	-
Total Revenues and Resources	\$ 1,857,343	\$ 1,990,456	\$ 2,081,459	\$ 2,291,147	\$ 2,280,080	\$2,300,615	0.90%	\$ 2,296,621	\$ 3,994

[a] The “Percentage Change” column compares our FY17 projection to our FY16 estimate, while the “Difference” column compares our FY17 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 FY17 calculation for Property Tax revenues is based on the taxable values provided by Harris County on April 30, 2016. The projection assumes an estimated \$9 million in delinquent collections and an estimated \$128 million in TIRZ payments. The calculated amount is \$1.183 billion, but being projected at the **Prop 1 cap amount of \$1.138 billion.**

[c] Sales Tax revenue uses our FY16 Sales Tax revenue estimate with Dr. Robert Gilmer’s April 2016 estimated Low Forecast growth rate of (0.8%), less 2% for error, for FY17 growth of (2.8%).

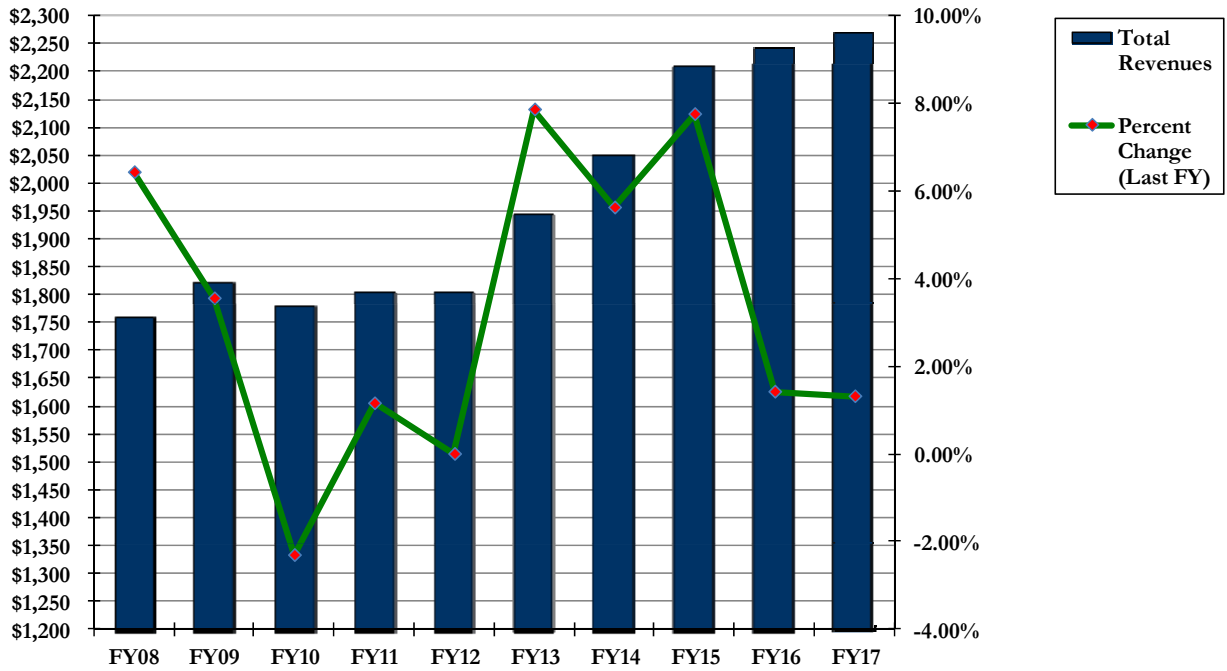
[d] Intergovernmental increase of 31.16% is due mainly to higher TIRZ Municipal Service Fees.

[e] Miscellaneous/Other decrease of 43.53% is from one-time Recoveries & Refunds received in FY2016.

[f] Sale of Capital Assets increase of 163.59% is from one-time sale of property in FY2017.

General Fund Revenues

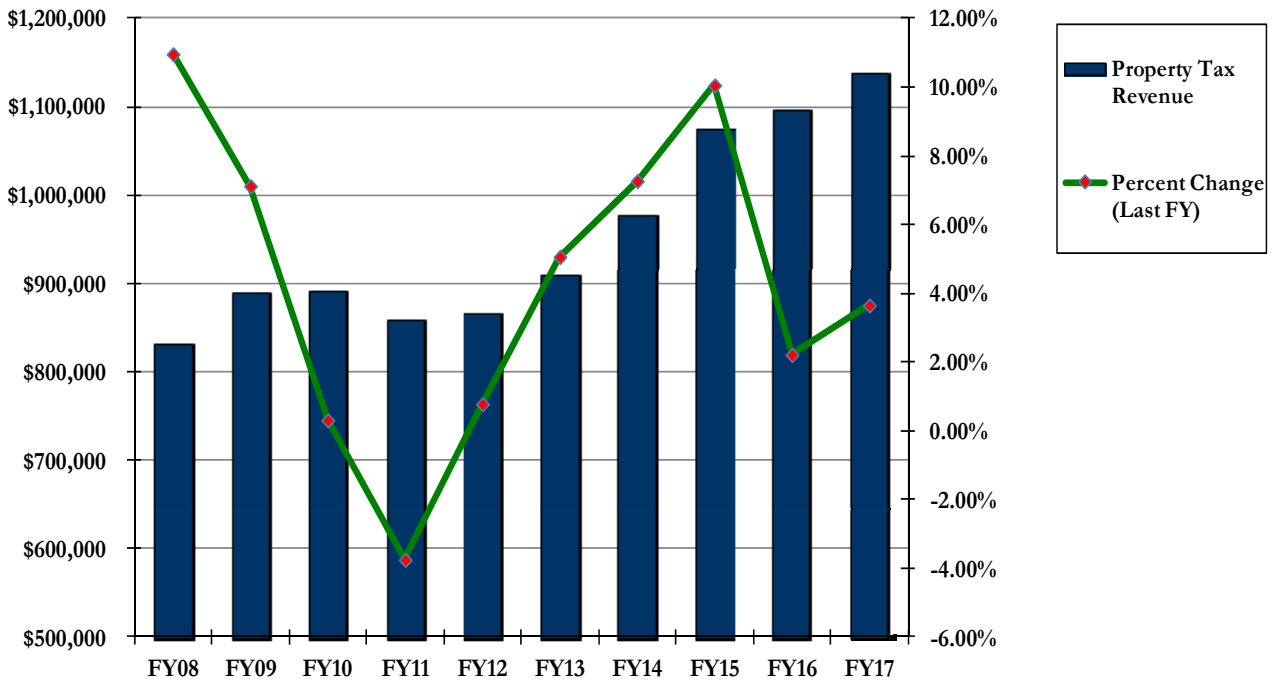
(amounts expressed in millions)



FY17 General Fund revenue is projected to increase by \$29.5 million, or 1.32% over our current FY16 estimate. The projected increase consists mostly of increased property tax of \$40.2 million and intergovernmental of \$16.7 million, netted against decreases in Sales Tax of \$17.8 million, and Miscellaneous/Other of \$10.0 million.

Property Tax Revenue

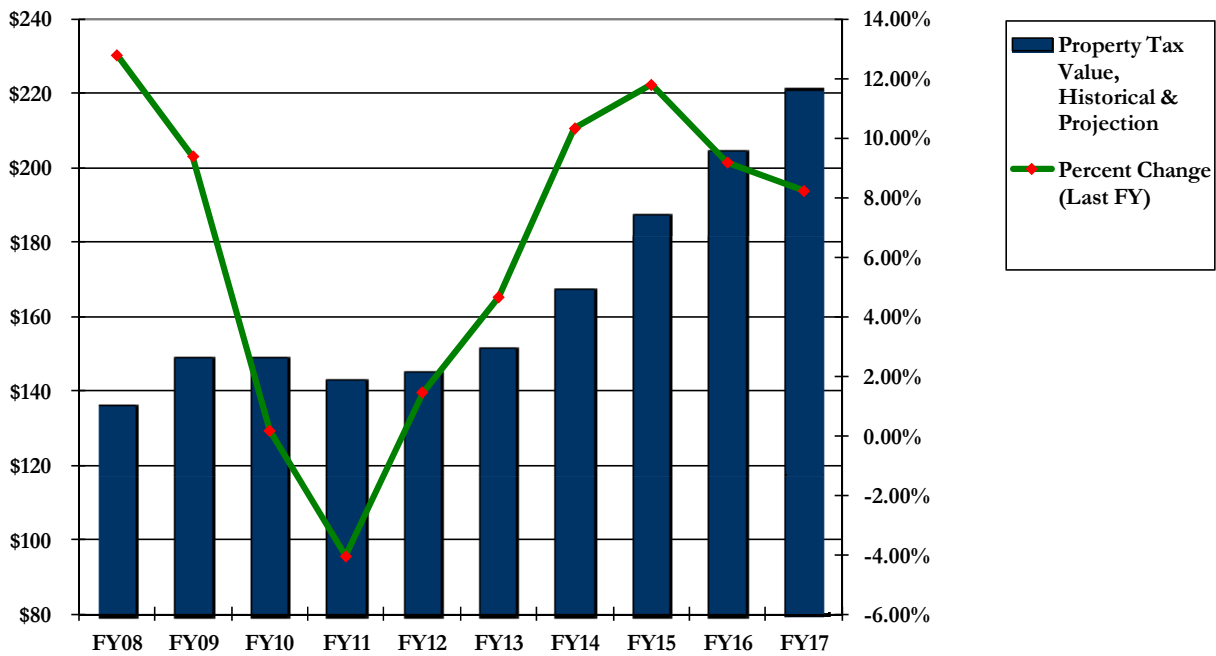
(amounts expressed in thousands)



Property Tax revenue is projected to be higher than the FY16 estimate by 3.66%. Controller's Property Tax revenue projection is based on the Prop 1 cap amount of \$1.138 billion. This amount is \$44.6 million below our calculated amount. The rate will not be known until the Certified Roll is received around the end of August. TIRZ payments are increasing to \$128 million, and delinquent tax collections are decreasing to \$9 million.

Taxable Values Historical & Forecast

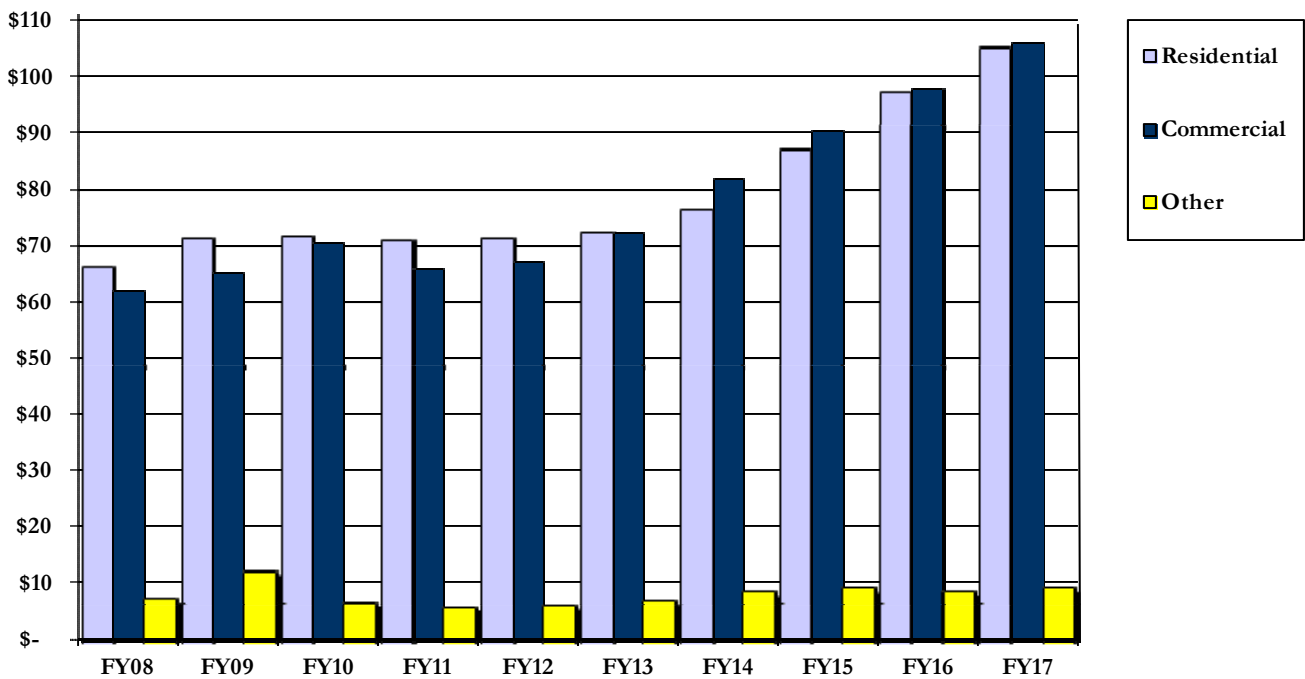
(amounts expressed in billions)



The Harris County, Fort Bend County, and Montgomery County Appraisal Districts (the Districts) provide expected taxable values. The actual taxable values for FY16 are above the preliminary value estimates provided at this time last year. However, based on the Districts' projection for FY17, an increase in valuation of about 8.2% is anticipated. These values are based on the Districts' preliminary projected values, dated April 30, 2016. Harris County taxable values comprise over 99% of the total.

Taxable Values By Property Type Historical & Forecast

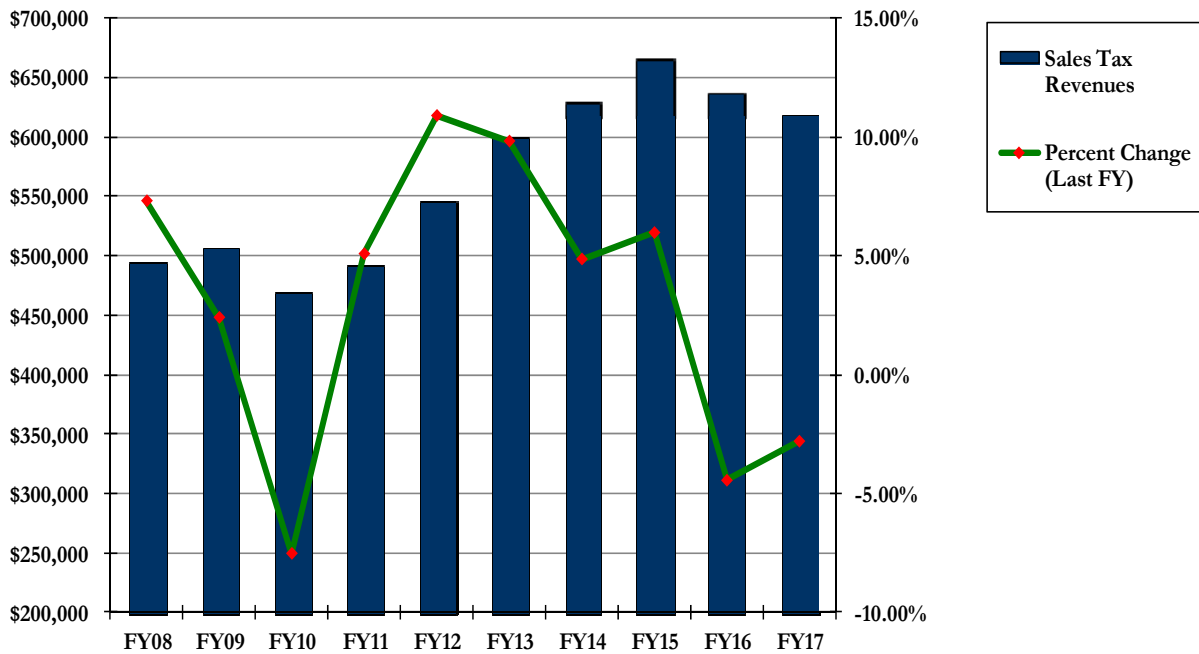
(amounts expressed in billions)



Residential and commercial properties in the City of Houston make up 95.7% of the taxable values.

Sales Taxes Revenue

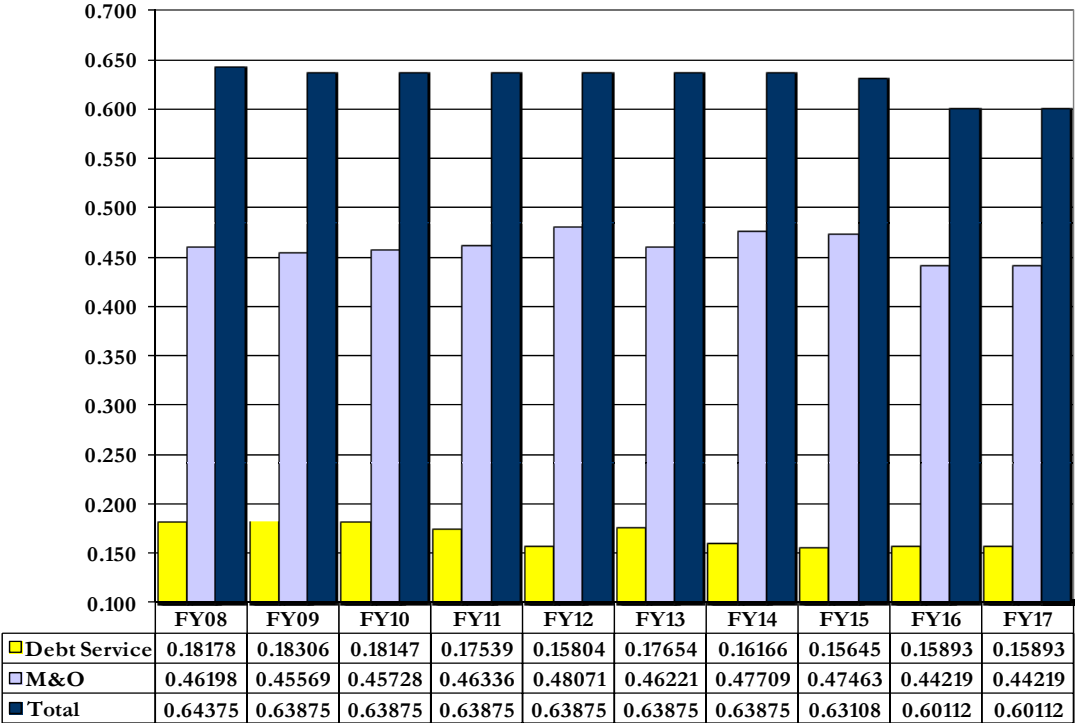
(amounts expressed in thousands)



FY17 Sales tax revenue is projected to be 2.8% lower than FY16 Sales Tax receipts. This decrease is based on the Low Forecast estimated growth of Dr. Robert Gilmer's April report, less 2% margin of error.

Property Tax Rate

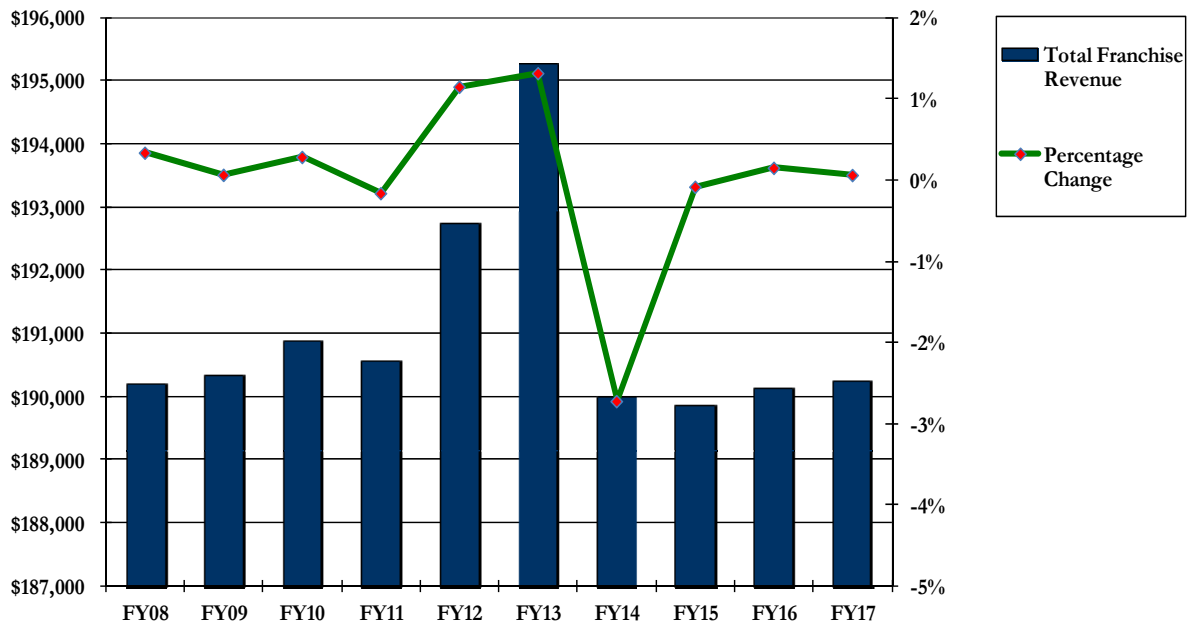
(Tax Rate per \$100 Valuation)



The FY17 number is a projection. The final rate will be established by a vote of Council in the first quarter of FY17 when the Certified Roll is available. It will be lower than last year's rate due to the effect of the Prop 1 cap.

Total Franchise Revenues

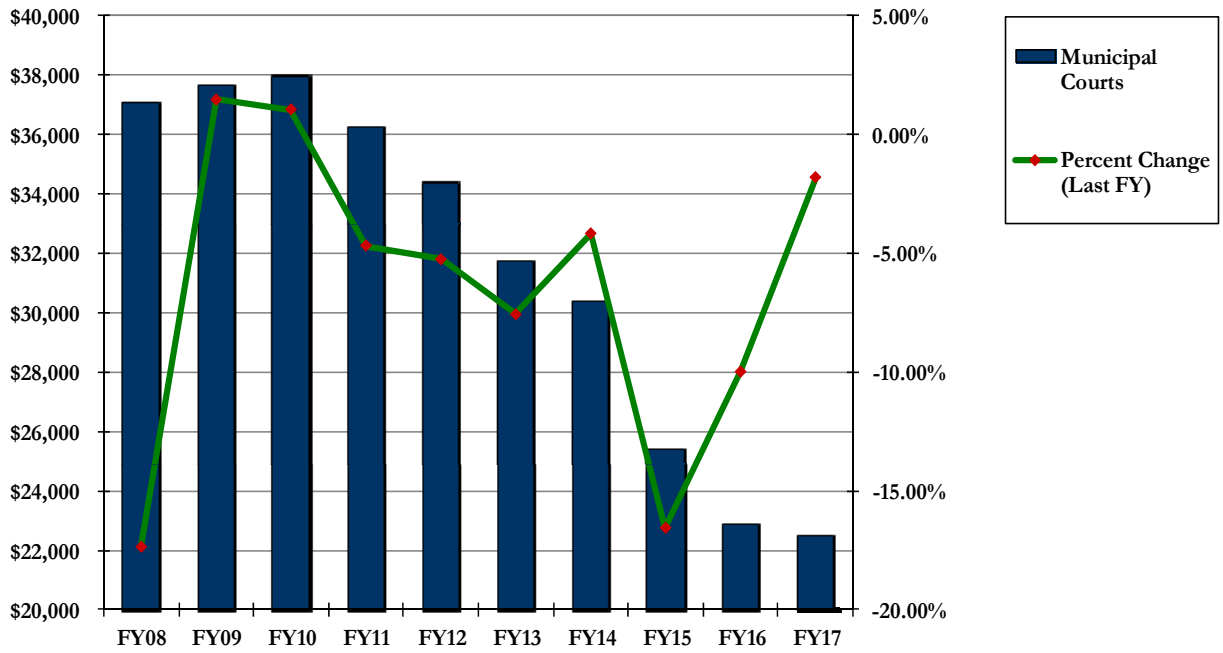
(amounts expressed in thousands)



Total Franchise revenues are projected to increase only slightly for FY17. Although a decrease is expected in Telephone Franchise, small increases in Electricity, Gas, and Other Franchise are expected.

Municipal Courts Revenues

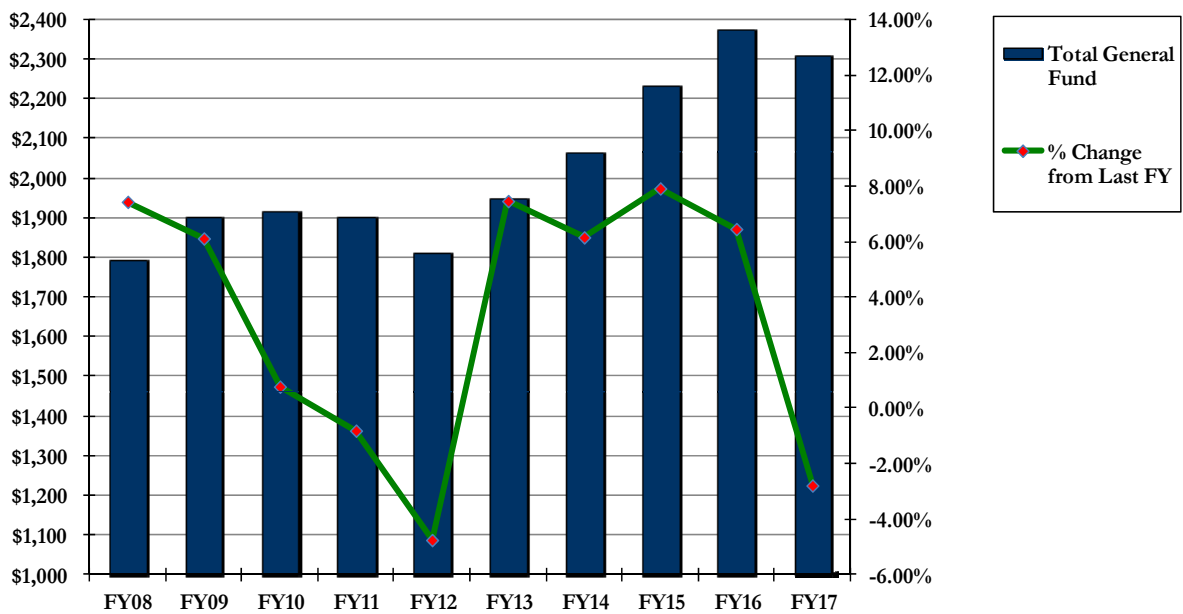
(amounts expressed in thousands)



Municipal Courts Fines and Forfeits are expected to decrease 1.8% in FY17.

General Fund Expenditures Budget

(amounts expressed in millions)

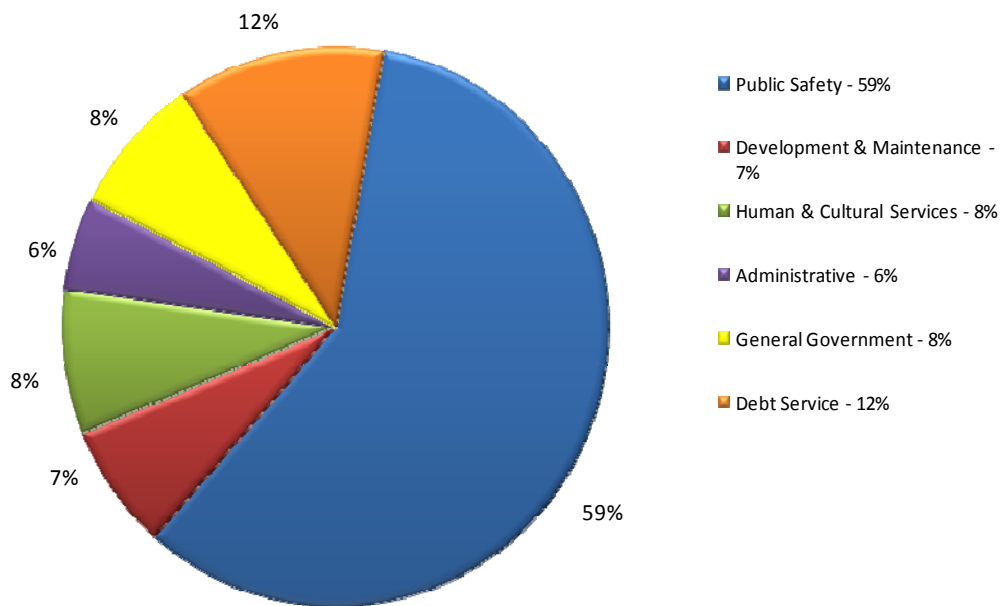


The General Fund expenditure budget is down by 2.8%, an decrease of \$66 million from our FY16 estimated expenditures. The gap between Controller's projected revenues/resources and budgeted expenditures will require using \$6 million from the Fund Balance to cover the operating deficit for FY17.

General Fund

Expenditures Percent by

Function for 2017



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

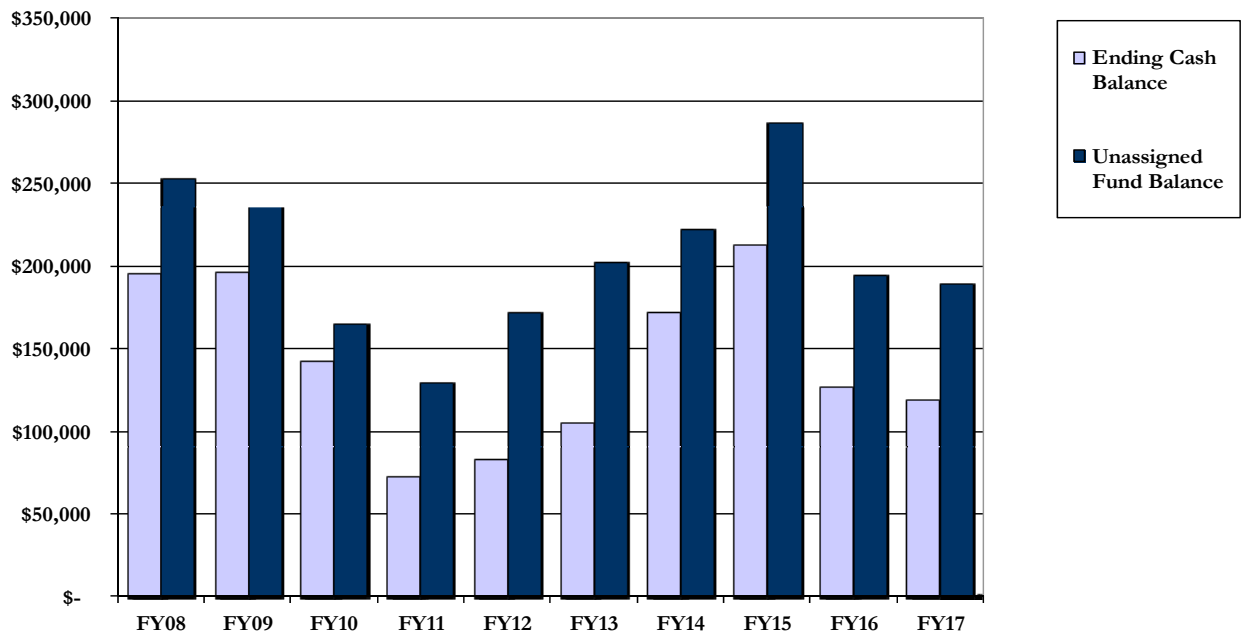
Development & Maintenance – General Services, Planning, Public Works, Solid Waste

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

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

Cash vs. Fund Balance General Fund

(amounts expressed in thousands)

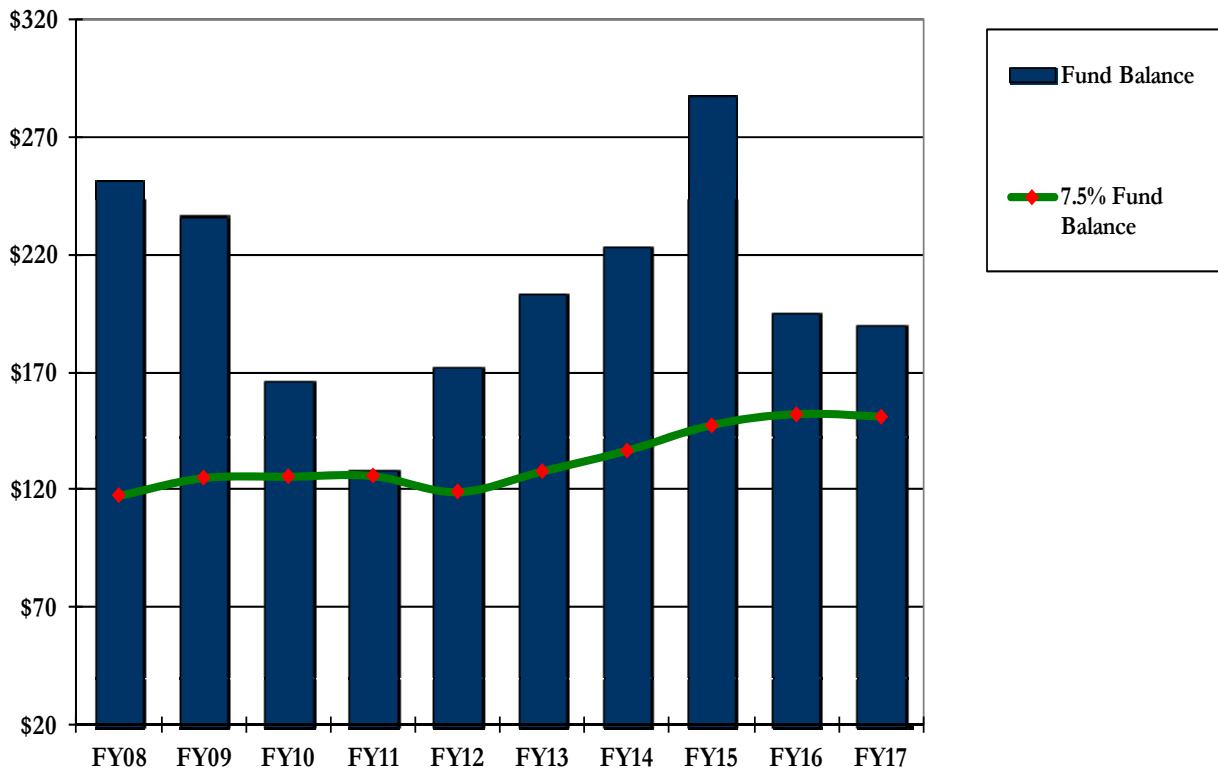


The Unassigned Fund Balance consists of both cash and non-cash items and includes receivables for Sales Tax and Franchise Fees. The Unassigned Fund Balance is expected to decrease by \$93.1 million in FY16 and decrease by \$5.7 million in FY17.

City Ordinance 7.5% Fund Balance Requirement

General Fund

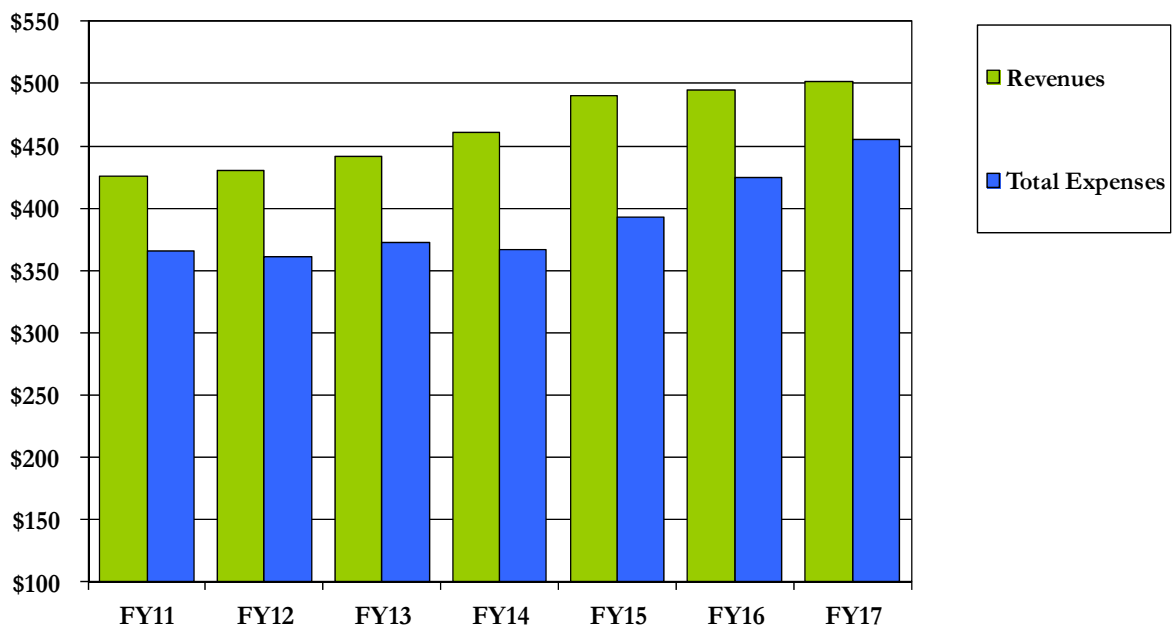
(amounts shown in Millions)



City ordinance 2014-1078, adopted December 2014, requires an Undesignated Reserve of 7.5% of the General Fund Expenditures, less Debt Service Payments. This was amended to exclude PAYGO capital funding also. For FY17, we are projecting an ending fund balance \$38 million above the 7.5% required.

Aviation Revenues & Expenses

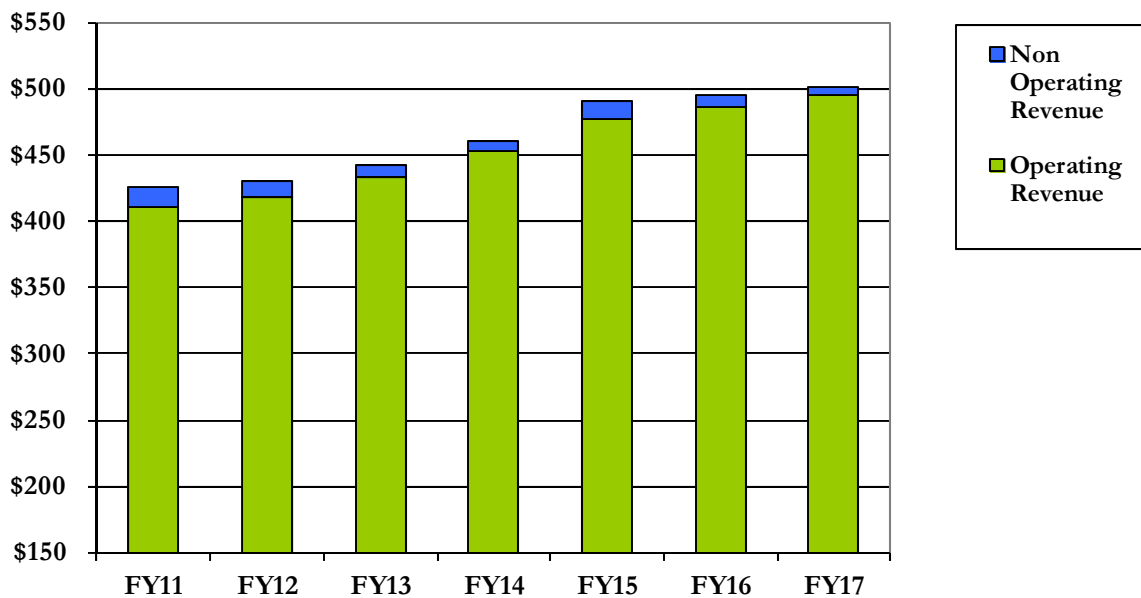
(amounts expressed in millions)



Aviation is projecting revenues to increase slightly due to additional operating revenues. Projected increases in expenses are based on anticipated increased spending for Personnel costs (Health Benefits and Pension) and Other Services and Charges (international concourse at Hobby, and new parking at Intercontinental).

Aviation Revenues

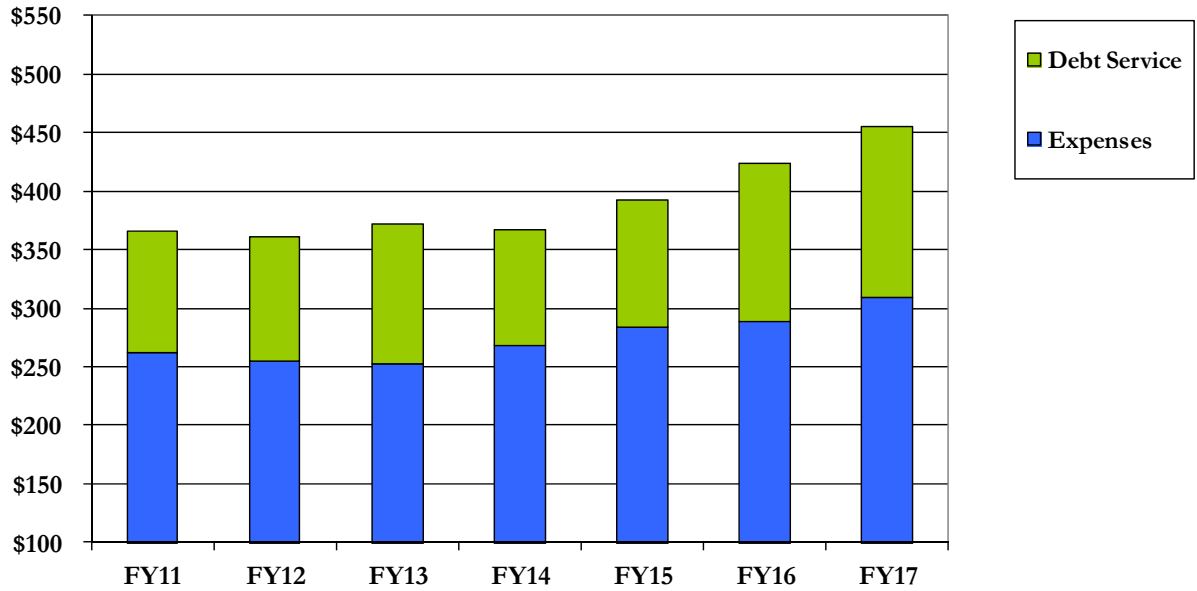
(amounts expressed in millions)



FY17 revenues are expected to increase only 1.28%, or \$6.4 million from the FY16 estimate, primarily related to a budgeted increase in Terminal Space Rentals and Garage Parking.

Aviation Expenses

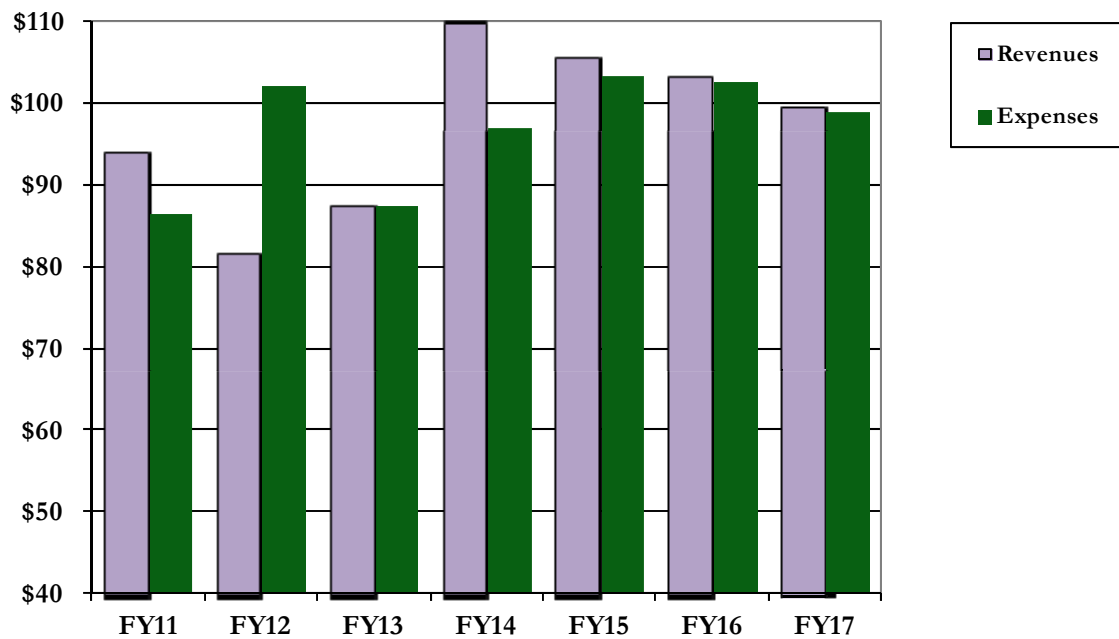
(amounts expressed in millions)



Aviation expects an FY17 expense increase of approximately 7.3%, or \$31 million over the FY16 estimate.

Convention & Entertainment Revenues & Expenses

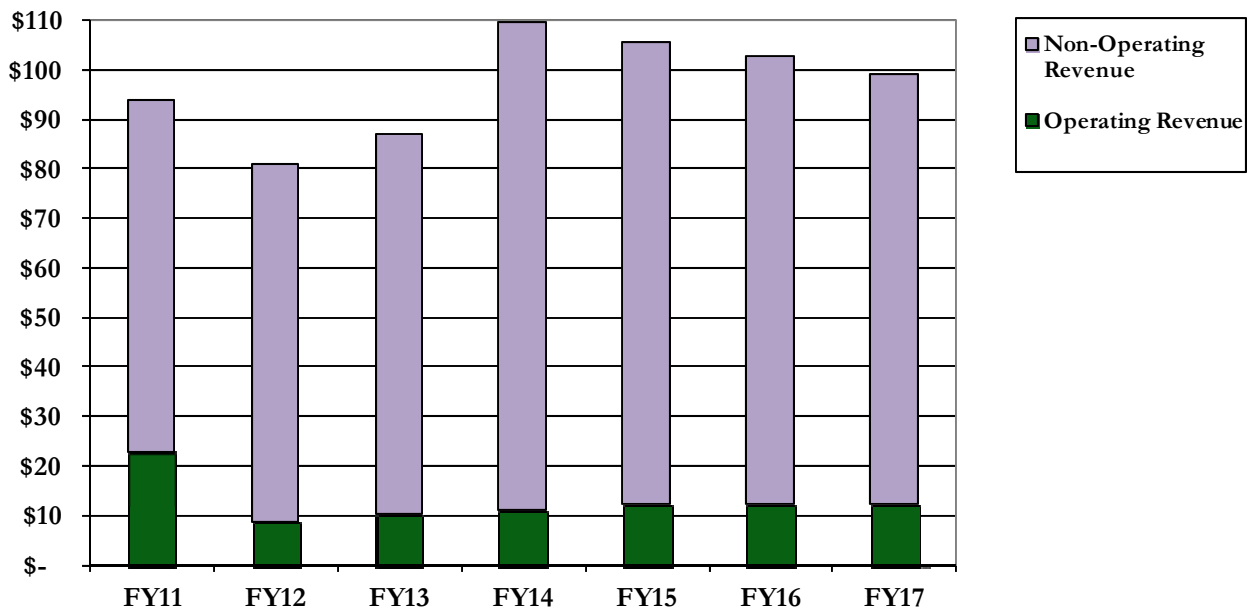
(amounts expressed in millions)



Convention & Entertainment projects the expenses to be basically level with the revenues in FY17.

Convention & Entertainment Revenues

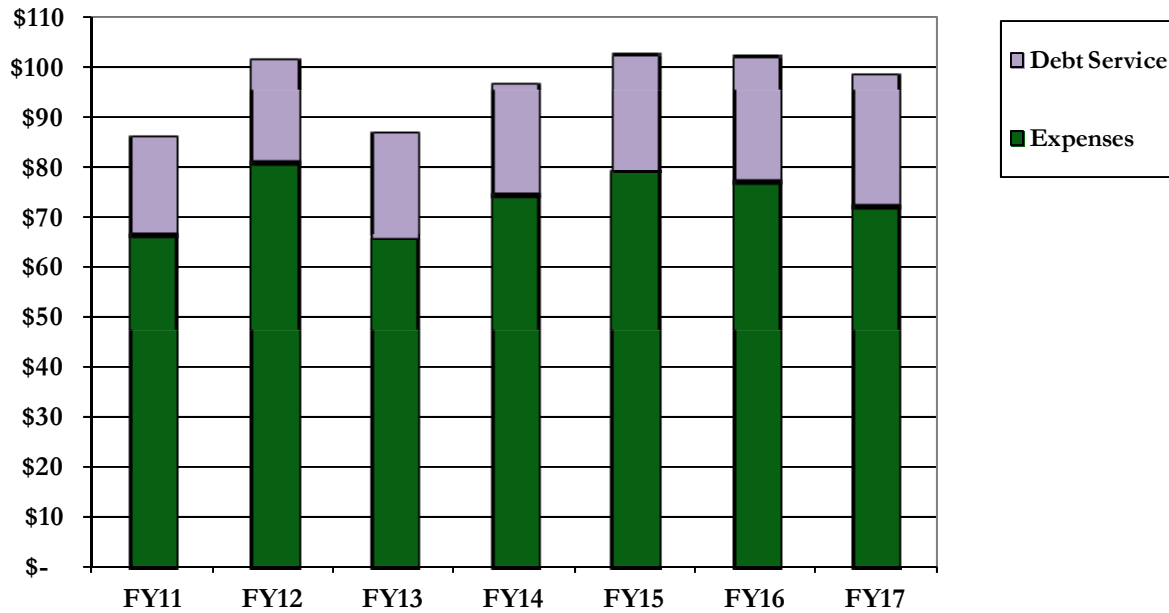
(amounts expressed in millions)



Convention & Entertainment total revenues are primarily generated from HOT taxes reported as Non-Operating revenues, followed by pledged parking fees reported as Operating revenues. HOT tax revenues are projected to decrease 4.1% in FY17 to \$86.3 million when compared to estimated FY16 revenues of \$89.9 million.

Convention & Entertainment Expenses

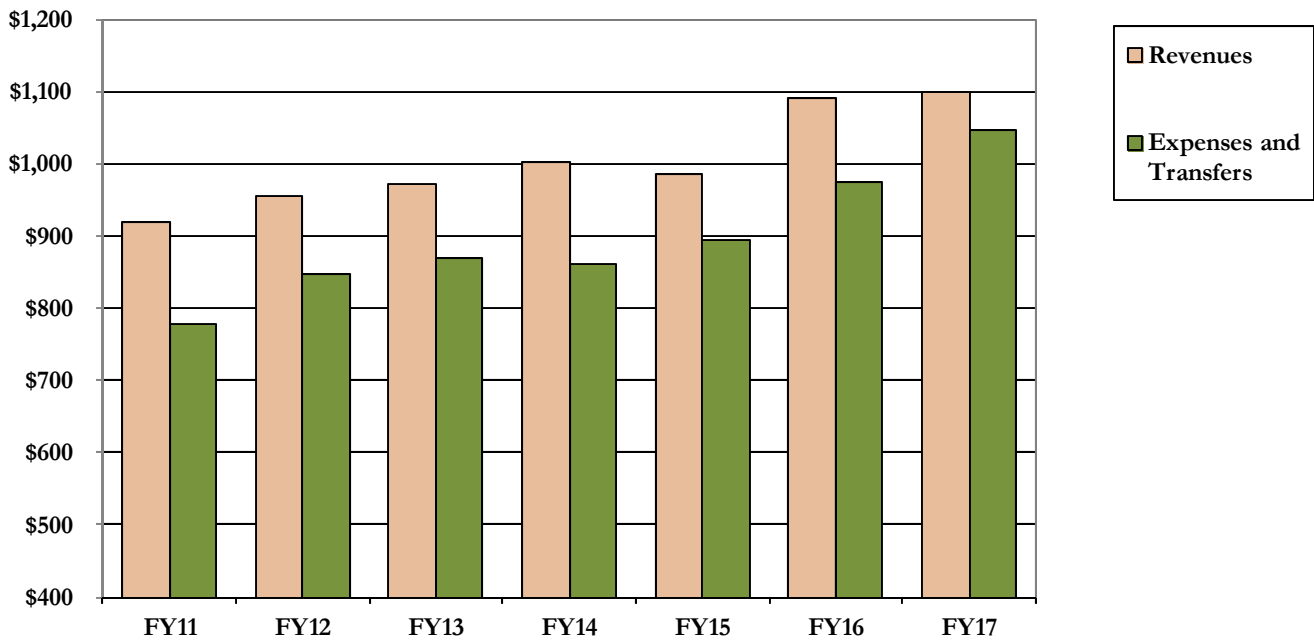
(amounts expressed in millions)



Convention & Entertainment is projecting an overall expense decrease of \$3.6 million from FY16 levels, down 3.5% in FY17.

Combined Utility System Revenues and Expenses

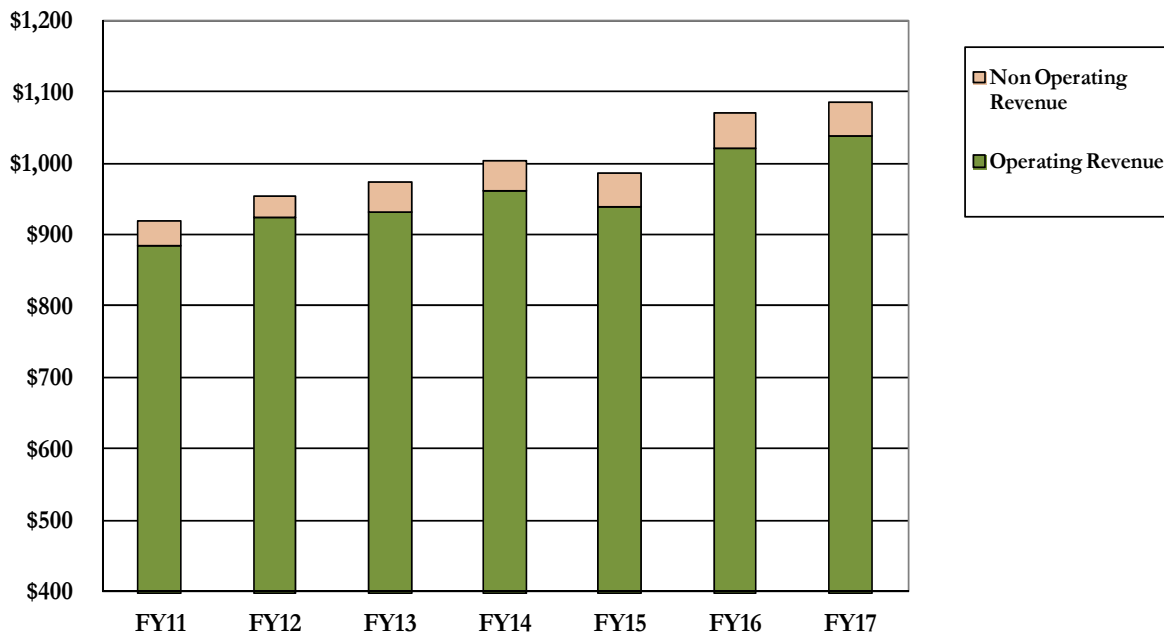
(amounts expressed in millions)



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

Combined Utility System Revenue

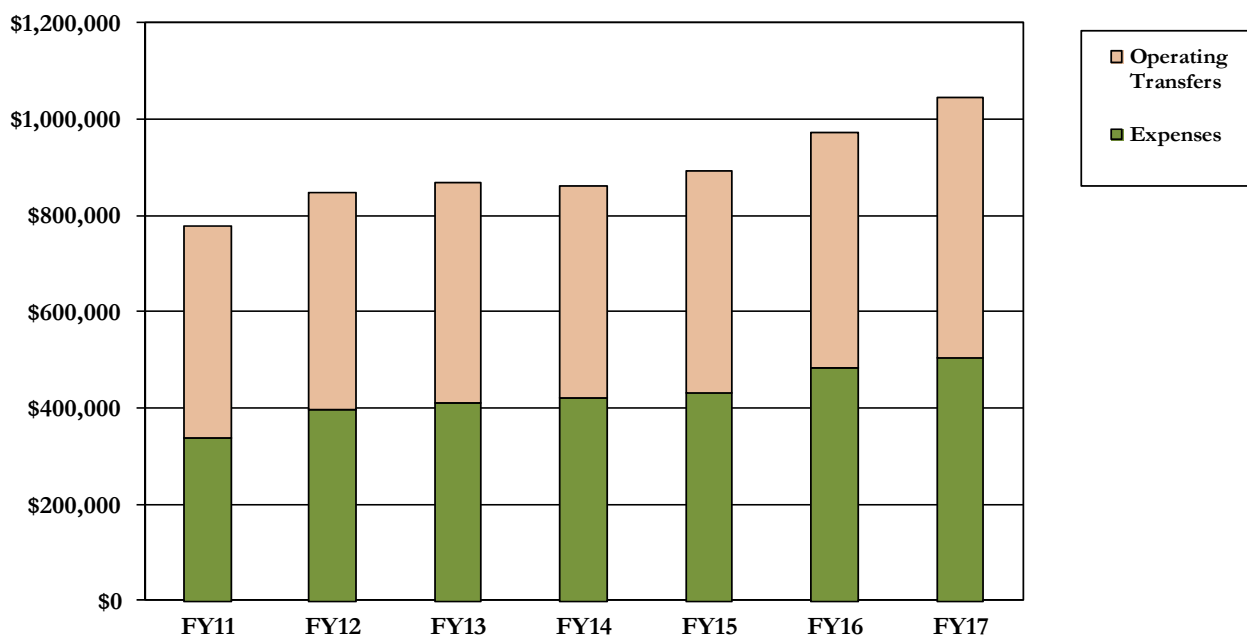
(amounts expressed in millions)



Operating Revenues for the Combined Utility System are projected to increase year-over-year due in part to an annual rate adjustment equal to the previous calendar year's Producers Price Index (PPI) or Consumer Price Index (CPI) and population for the area including Houston, Galveston and Brazoria Counties. The rate adjustments for Fiscal Years 2009, 2010, 2011, 2012, 2013, 2014, 2015, and 2016 are 5.1%, 0.3%, 1.9%, 3.3%, 3.6%, 1.2%, 4.4%, and 1.4% respectively.

Combined Utility System Operating Expenses by Category

(amounts expressed in millions)



The CUS Operating and Maintenance expenses reflect changes to energy expense components, employment expenses, additional resources to accommodate new customers or additional regulatory compliance. Operating Transfers include the System's debt service payment obligations as well as the drainage expense and debt service funding obligations. These numbers are the Administration's projections, not numbers generated by the Controller's Office.