

# Office of the City Controller



**Houston, Texas**

## **Trends for Fiscal Year 2020**

**May 2019**

**Chris B. Brown  
City Controller**

# Trends

## Fiscal Year 2020

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 Fiscal Year 2020 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 2019 are expected to decrease by 0.69% from Fiscal Year 2018 revenues. In addition, Fiscal Year 2020 revenues are expected to decrease by 0.23% (not including transfers, sale of assets or the budget stabilization reserve) from our Fiscal Year 2019 March projections. Fiscal Year 2020's projected revenues primarily reflect increases in Property Tax, Sales Tax and Interfund Services with decreases in Telephone Franchise Fees, Other Franchise Fees, Intergovernmental, and Miscellaneous/Other.

Our Fiscal Year 2020 projection for General Fund resources is \$38.3 million lower than the Administration's Fiscal Year 2020 Proposed Budget. To calculate Property Tax revenue, the Controller's Office used an estimated taxable value of \$244.2 billion, calculated by taking the estimated taxable values from Harris County, Fort Bend County, and Montgomery County Appraisal Districts in April 2019 and a 98.4% collection rate. This is moot, as the Estimated Proposition 1 limit is \$1.218 billion, and \$60 million lower than our calculated amount. The Administration is using a lower population estimate (Planning) than the Controller's Office (Census Bureau historical ratio), which returns a lower Prop 1 cap estimate. The U.S. Census Bureau is scheduled to release the population number on May 23, 2019 which will allow for a final Prop 1 cap calculation at that time.

For our Sales Tax projection, we assumed growth of 0.17%, which is in agreement with Mr. Mike Lofton's May 2019 *City of Houston Sales Tax Status Report*. This was applied to our Fiscal Year 2019 estimate. The Administration is using 1.44% growth, applied to their Fiscal Year 2019 estimate.

Our projected Ending Fund Balance for the General Fund for Fiscal Year 2020 is \$186 million, or 8.8% of the expenditures other than debt service and PAYGO, which is above the required amount of 7.5%, or \$159 million. The fund balance includes the effect of the Prop B judgement of May 15, 2019 by a reduction in Fire expense in Fiscal Year 2019 of \$10 million, a reduction of Fiscal Year 2020 Fire expense of \$38 million and an increase in Municipal payroll expense of \$2.7 million.

In the Enterprise Fund, Aviation revenues are increasing due to higher Terminal Space Rentals, Garage Parking, Ground Transportation, Car Rental concessions and Interest Income. Convention & Entertainment revenues are up from higher HOT tax and Parking fees. The Combined Utility System's (CUS) revenues are increasing as well, primarily due to the annual water and sewer rate increase of 2.8%.

# Summary of Graphs

The numbers on each page are from the following sources:

1. **FY18 and prior years are actual results as reported in previous Comprehensive Annual Financial Reports (CAFR).**
2. **FY19 numbers are the Controller's Office March Monthly Financial Operations Report (MFOR) estimates.**
3. **The FY20 General Fund revenues are the most current projections of the Controller's Office.**
4. **Unless otherwise noted, all other FY20 numbers are from the Administration's FY20 Proposed Budget.**

# General Fund Revenues

(amounts expressed in thousands)

Revenues	FY15	FY16	FY17	FY18	FY19	FY20	% Change [a]	Admin.'s	Difference [a]
	Actual	Actual	Actual	Actual	Controller's March Proj.	Controller's Projection		Proposed Budget	
Property Tax	\$ 1,074,435	\$ 1,098,664	\$ 1,153,991	\$ 1,172,543	\$ 1,192,174	\$ 1,217,967	2.16% [b]	\$ 1,217,066	901
Industrial Assessments	16,736	19,239	19,291	18,278	19,000	19,000	0.00%	19,550	(550)
Sales Tax	667,061	640,476	631,993	674,279	678,946	680,100	0.17% [c]	694,567	(14,467)
Other Taxes	15,992	16,271	16,896	17,370	18,250	18,750	2.74%	19,024	(274)
Electric Franchise	100,565	101,212	102,654	102,260	100,500	100,450	-0.05% [d]	100,774	(324)
Telephone Franchise	43,451	43,061	41,928	39,704	36,500	23,050	-36.85% [d]	34,700	(11,650)
Gas Franchise	14,538	14,840	15,016	13,791	12,000	12,000	0.00% [d]	12,385	(385)
Other Franchise	31,283	32,056	30,988	30,019	28,287	18,424	-34.87% [d]	27,901	(9,477)
Licenses & Permits	37,999	39,608	38,020	33,412	33,310	33,969	1.98%	33,969	-
Intergovernmental	24,185	53,663	71,040	76,390	65,273	61,051	-6.47%	61,051	-
Charges for Services	63,272	62,553	60,046	58,034	56,000	57,300	2.32%	57,594	(294)
Direct Interfund Services	47,851	54,024	53,523	54,449	64,166	66,826	4.15% [e]	66,826	-
Indirect Interfund Services	25,328	26,611	27,399	28,910	26,618	27,690	4.03% [e]	27,690	-
Muni Courts Fines	25,447	24,960	22,122	20,980	21,000	21,500	2.38%	22,572	(1,072)
Other Fines	4,732	4,952	4,778	4,021	3,489	3,500	0.32%	3,965	(465)
Interest	3,040	3,700	5,051	7,531	9,011	9,011	0.00%	9,011	-
Misc/Other	17,217	22,367	25,876	53,564	24,384	12,750	-47.71% [f]	12,998	(248)
Total	<u>\$ 2,213,132</u>	<u>\$ 2,258,257</u>	<u>\$ 2,320,612</u>	<u>\$ 2,405,535</u>	<u>\$ 2,388,908</u>	<u>\$ 2,383,338</u>	-0.23%	<u>\$ 2,421,643</u>	<u>\$ (38,305)</u>
Transfers from Other Funds	31,363	34,656	20,901	20,617	27,873	15,707	-43.65% [g]	15,707	-
Sale of Capital Assets	46,652	7,934	10,302	4,090	23,711	2,176	-90.82% [h]	2,176	-
Pension Bond Proceeds	-	-	-	909,990	-	-	-	-	-
Budget Stabilization Fund Reserve	-	-	-	-	-	21,563	-	21,563	-
Total Revenues and Resources	<u>\$ 2,291,147</u>	<u>\$ 2,300,847</u>	<u>\$ 2,351,815</u>	<u>\$ 3,340,232</u>	<u>\$ 2,440,492</u>	<u>\$ 2,422,784</u>	-26.94%	<u>\$ 2,461,089</u>	<u>\$ (38,305)</u>

[a] The “Percentage Change” column compares our FY20 projection to our FY19 estimate, while the “Difference” column compares our FY20 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 FY20 calculation for Property Tax revenues is based on the taxable values provided by the 3 appraisal districts in April 2019. The projection assumes an estimated \$10 million in delinquent collections and an estimated \$145 million in TIRZ payments. The calculated amount is \$1.278 billion, but being projected at the **Estimated Prop 1 cap amount of \$1.218 billion**.

[c] Sales Tax revenue uses our FY19 Sales Tax revenue estimate with sales tax revenue model estimates of a FY20 growth of 0.17%.

[d] Electric, Telephone, and Other Franchise fees decreased a total of \$23 million, primarily from decreases in phone lines and cable subscribers and the impact of House Bill 3535/Senate Bill 1152.

[e] Interfund revenue increased \$3.7 million mainly from airport police and fire protection services.

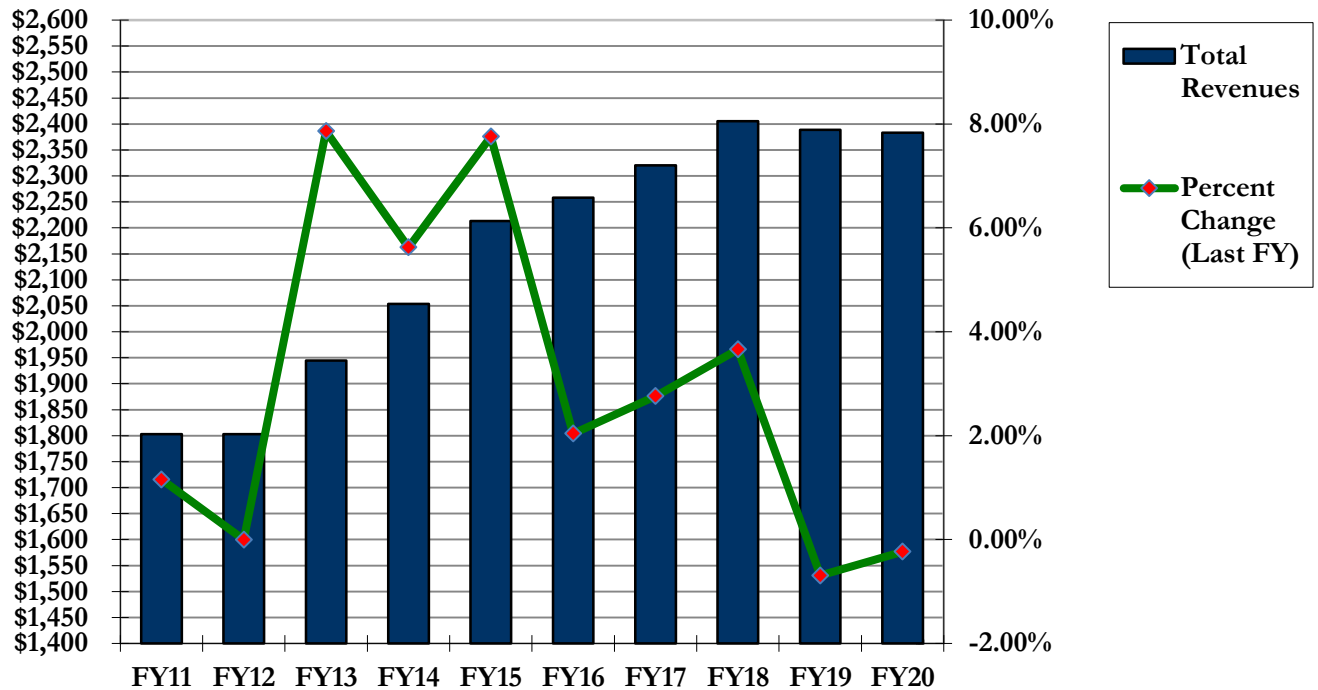
[f] Miscellaneous/Other decrease of 47.71% is from fewer legal settlements and fewer prior year revenue adjustments expected in FY2020.

[g] Transfers from Other Funds decreased 43.65% primarily due to the clawback policy.

[h] Sale of Capital Assets decreased 90.82% mainly from a one time land sale of the Juvenile Detention Center.

# General Fund Revenues

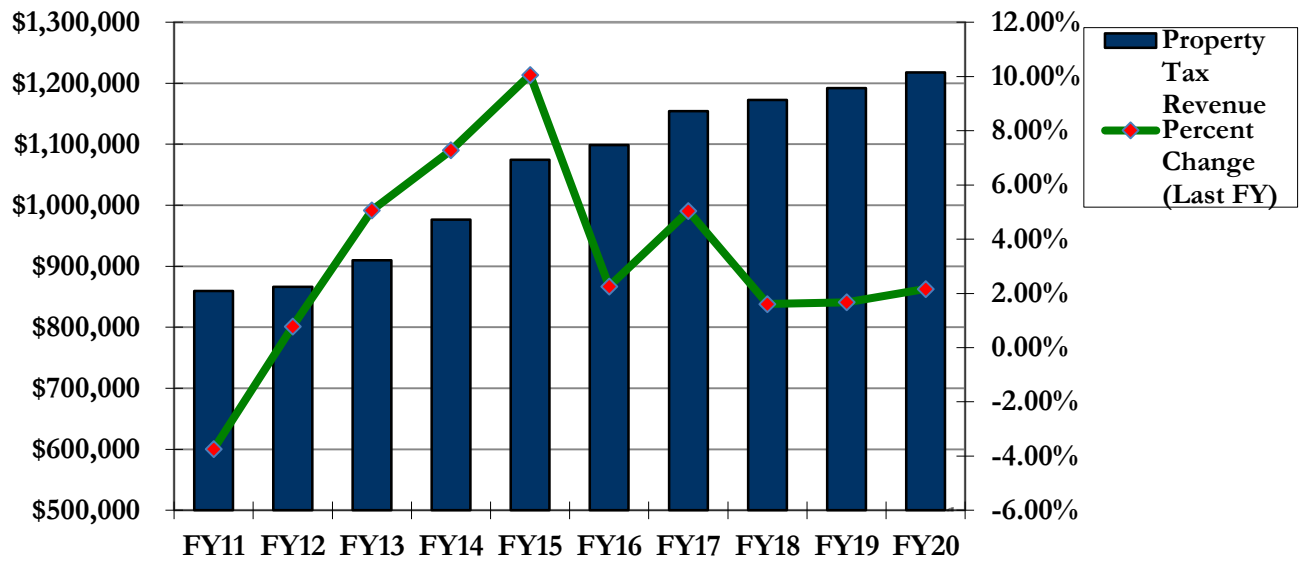
*(amounts expressed in millions)*



FY20 General Fund revenue is projected to decrease by \$6 million, or 0.23% below our current FY19 estimate. The projected decrease consists primarily of increased Property Tax of \$26 million, Sales Tax of \$1 million, Charges for Services of \$1 million and Interfund Services of \$4 million, netted against decreases in franchise fees of \$23 million, Intergovernmental of \$4 million, and Miscellaneous/Other of \$12 million.

# Property Tax Revenue

*(amounts expressed in thousands)*

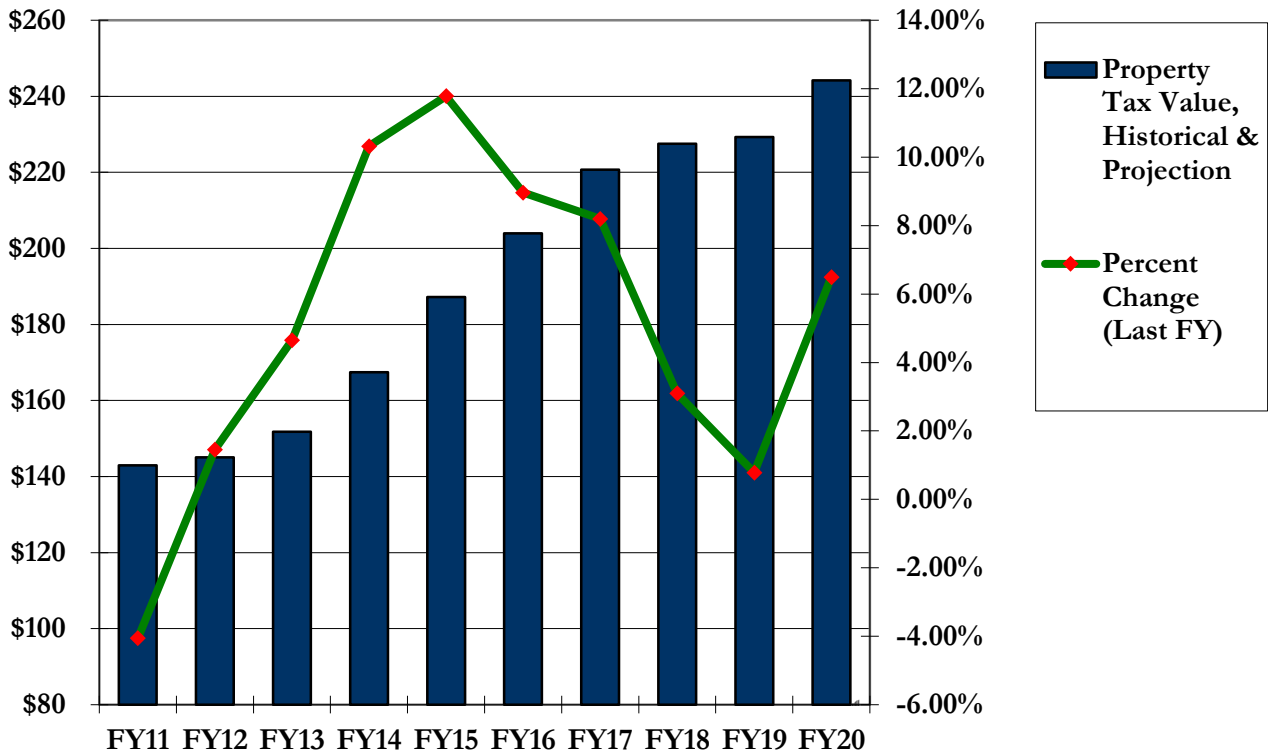


Property Tax revenue is projected to be higher than the FY19 estimate by 2.2%. Controller’s Property Tax revenue projection is based on the Estimated Prop 1 cap amount of \$1.218 billion. This amount is \$60 million below our calculated amount. The tax rate will not be known until the Certified Roll is received around the end of August. TIRZ payments are projected at \$145 million, and delinquent tax collections are projected at \$10 million.

Note: The U.S. Census Bureau estimated City of Houston 2018 population will be reported on May 23, 2019. The Controller’s Office will update our Prop 1 calculation upon receipt of the official estimate.

# Taxable Values Historical & Forecast

*(amounts expressed in billions)*

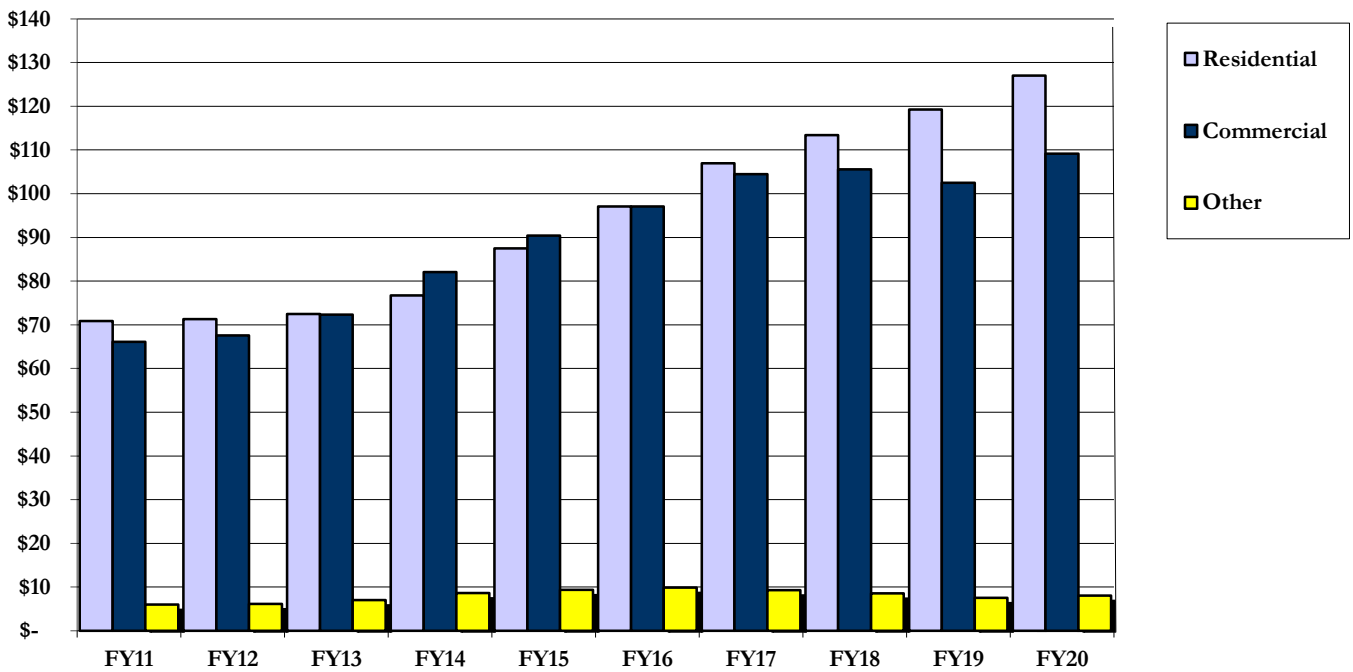


The Harris County, Fort Bend County, and Montgomery County Appraisal Districts (the Districts) provide expected taxable values. The actual taxable values for FY19 are above the preliminary value estimates provided at this time last year. However, based on the Districts' projection for FY20, an increase in valuation of about 6.5% is anticipated. These values are based on the Districts' preliminary projected values, dated April 30, 2019. Harris County taxable values comprise over 99% of the total.

# Taxable Values By Property Type

## Historical & Forecast

*(amounts expressed in billions)*

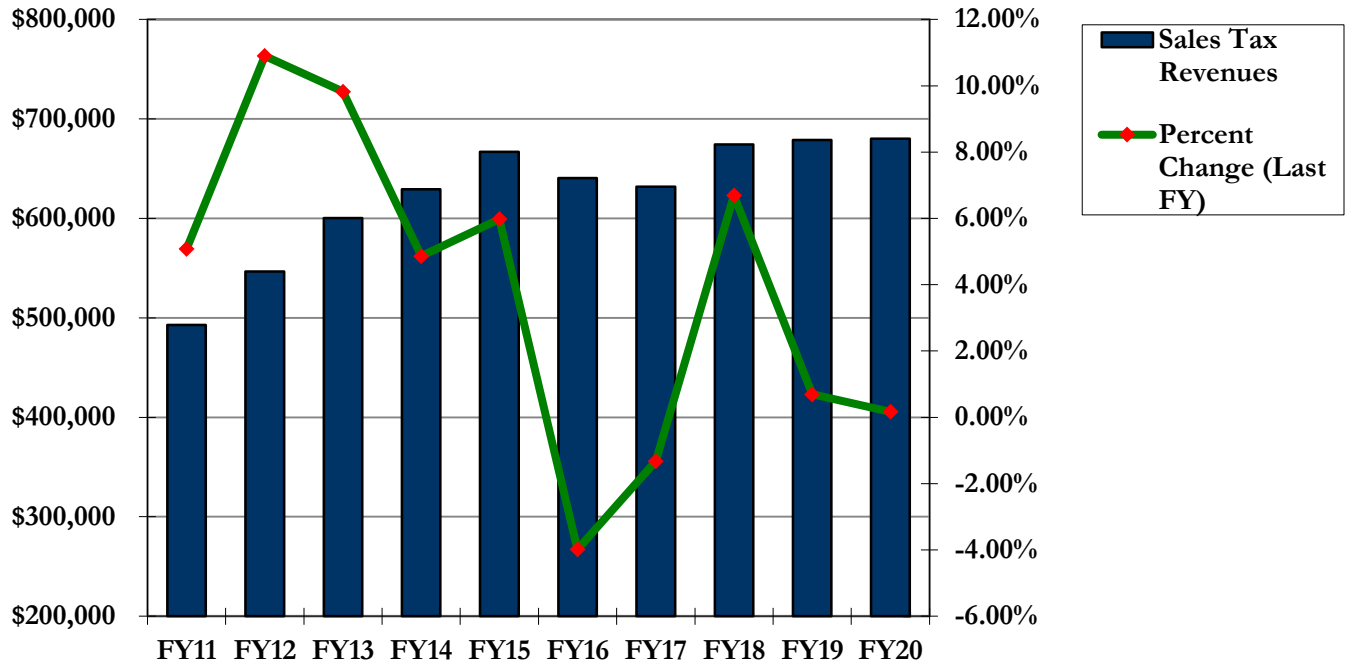


Residential and commercial properties in the City of Houston make up 95.81% of the taxable values.



# Sales Taxes Revenue

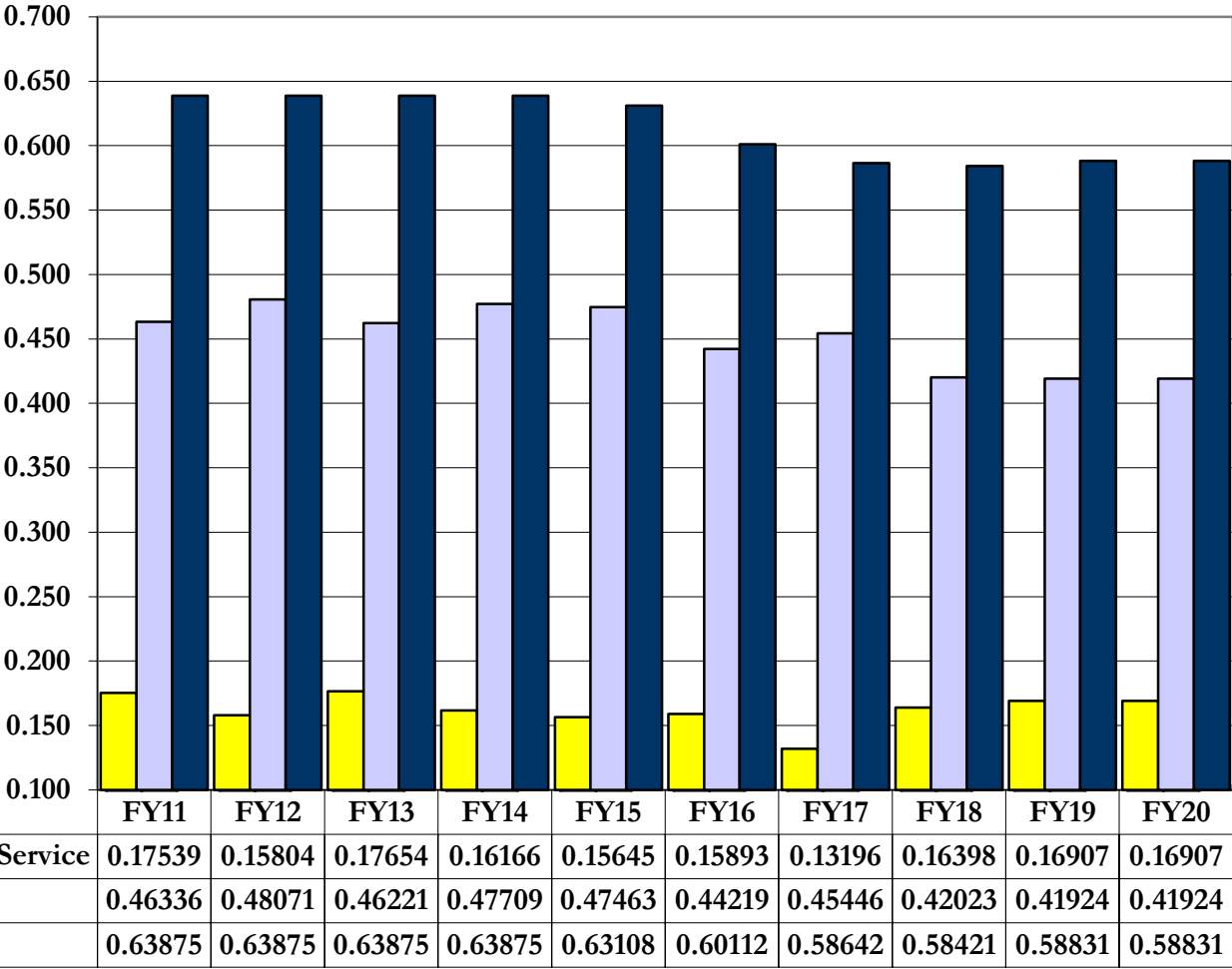
(amounts expressed in thousands)



FY20 Sales tax revenue is projected to be 0.17% higher than FY19 Sales Tax receipts. This increase is based on Mr. Mike Lofton's May 2019 *City of Houston Sales Tax Status Report*.

# Property Tax Rate

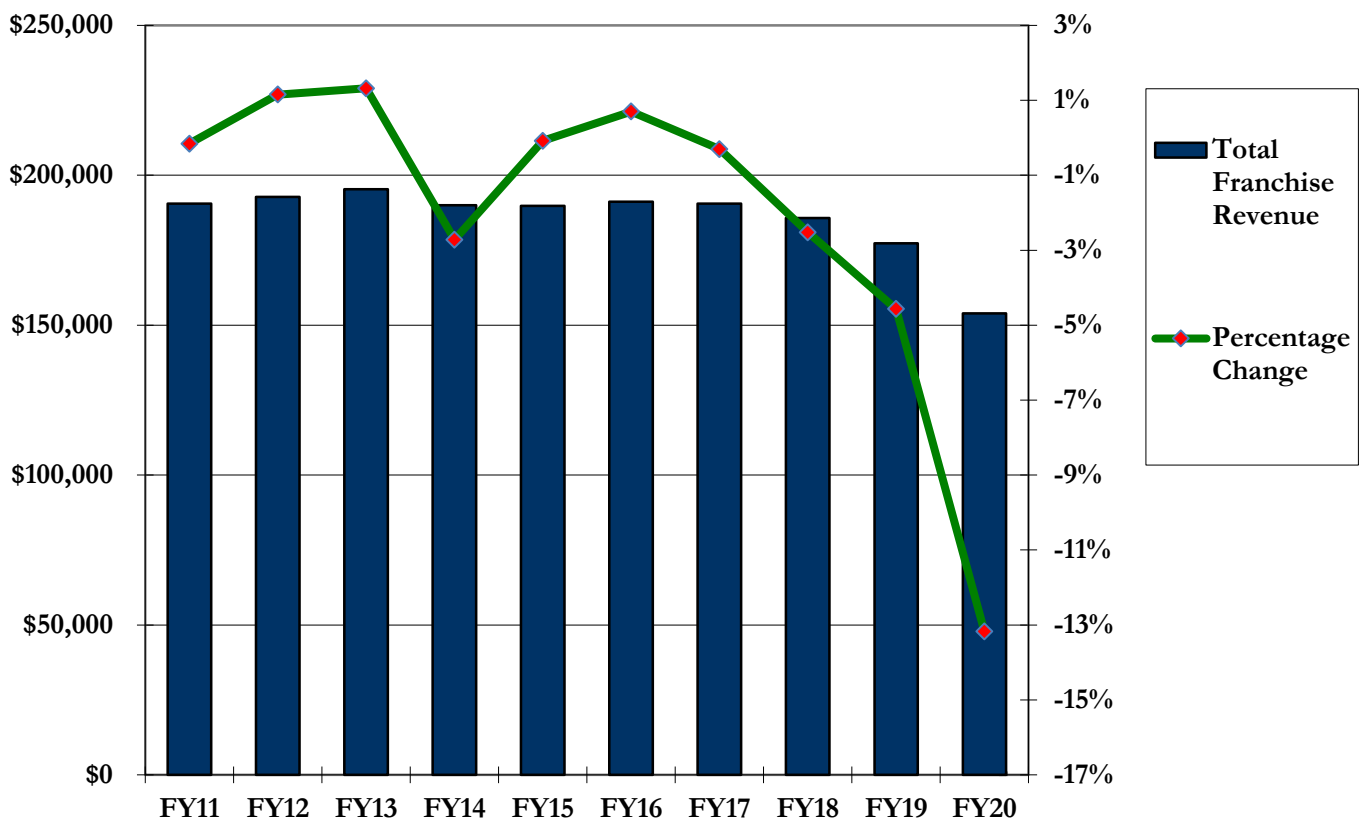
*(Tax Rate per \$100 Valuation)*



The FY20 number is a projection. The final rate will be established by a vote of Council in the first quarter of FY20 when the Certified Roll is available.

# Total Franchise Revenues

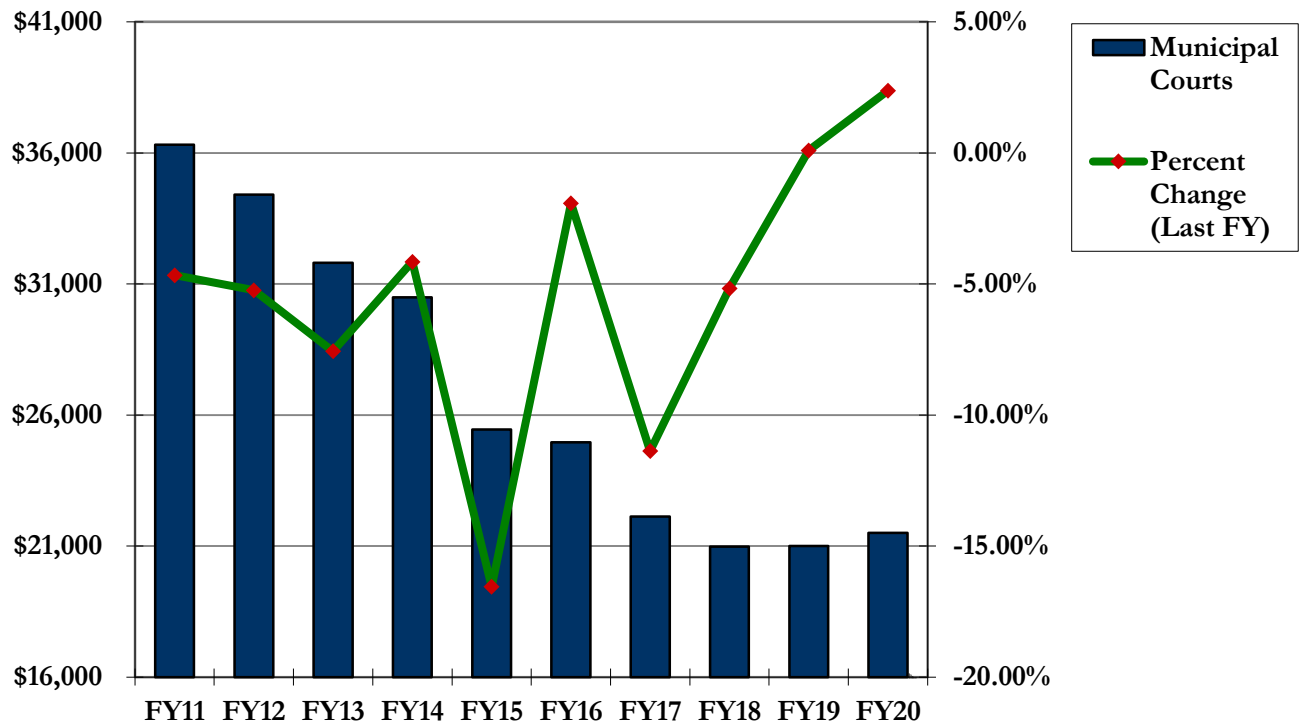
*(amounts expressed in thousands)*



Total Franchise revenues are projected to decrease \$23 million for FY20. Decreases are expected in Electric Franchise, Telephone Franchise, and Other Franchise. Telephone Franchise and Cable Franchise are reduced by \$11 million and \$9 million, respectively, due to Senate Bill 1152.

# Municipal Courts Revenues

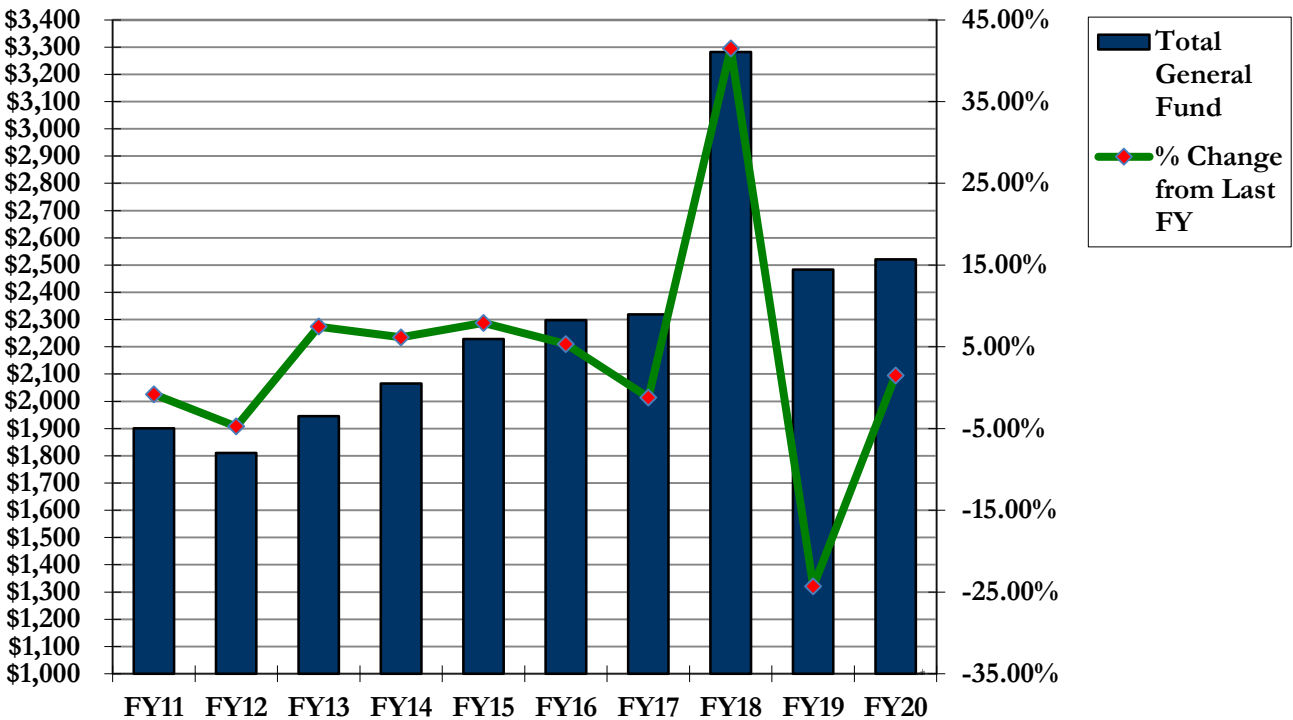
*(amounts expressed in thousands)*



Municipal Courts Fines and Forfeits are expected to increase by 2% in FY20 based on increased efforts in both in-house and external collections.

# General Fund Expenditures Budget

*(amounts expressed in millions)*

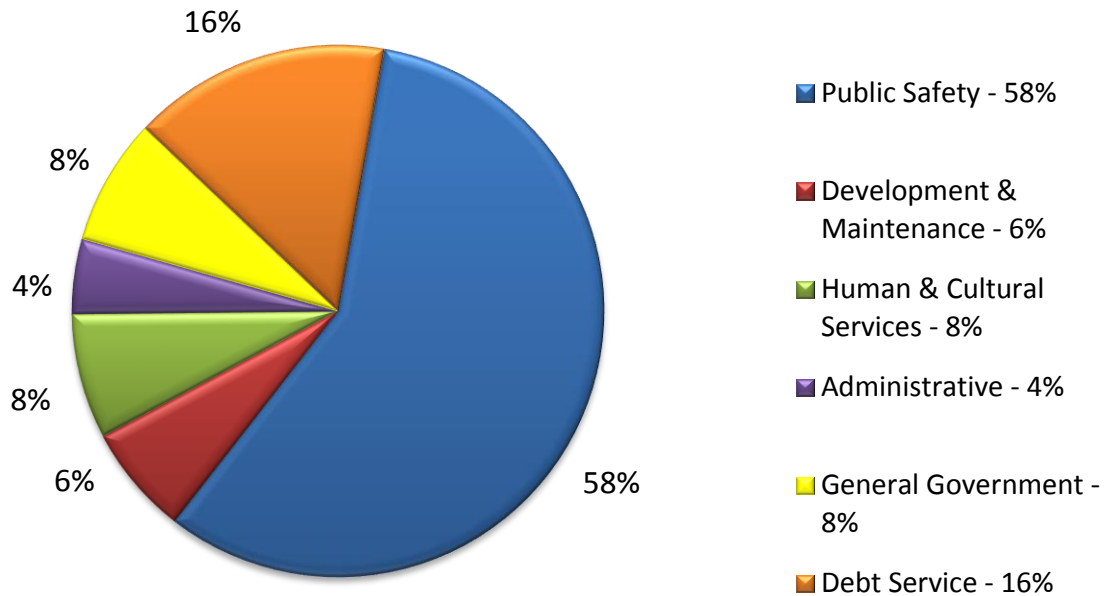


The General Fund expenditure budget is up by 1.5%, an increase of \$37 million from our FY19 estimated expenditures. The gap between Controller’s projected revenues/resources and budgeted expenditures will require using \$98 million from the Fund Balance to cover the operating deficit for FY20.

Note: Pending final resolution to the Prop B pay parity litigation, there still exists a potential financial liability to the City of Houston.

# General Fund

## Expenditures Percent by Function for 2020



**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

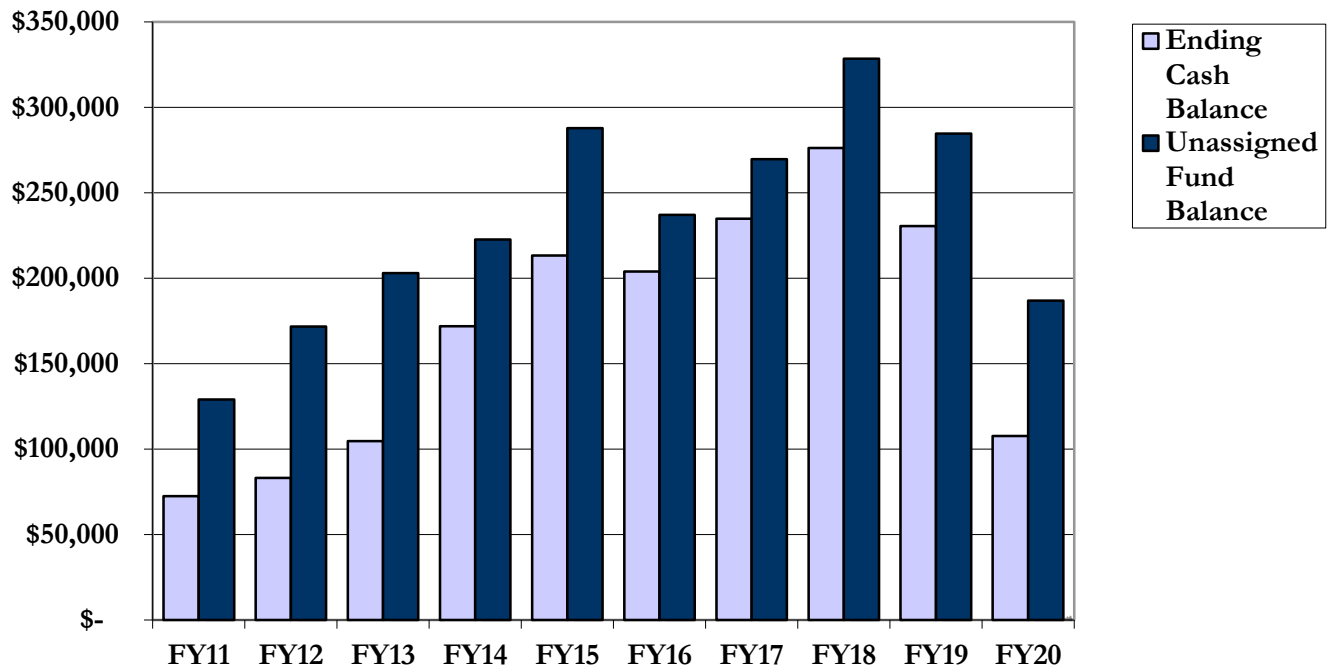
**Administrative** – Administration & Regulatory Affairs, Controllers, Council, City Secretary, Finance, IT, HR, Legal, Mayor, Office of Business Opportunity

**Debt Service** – Debt Service Payments, General Obligation

# Cash vs. Fund Balance

## General Fund

*(amounts expressed in thousands)*

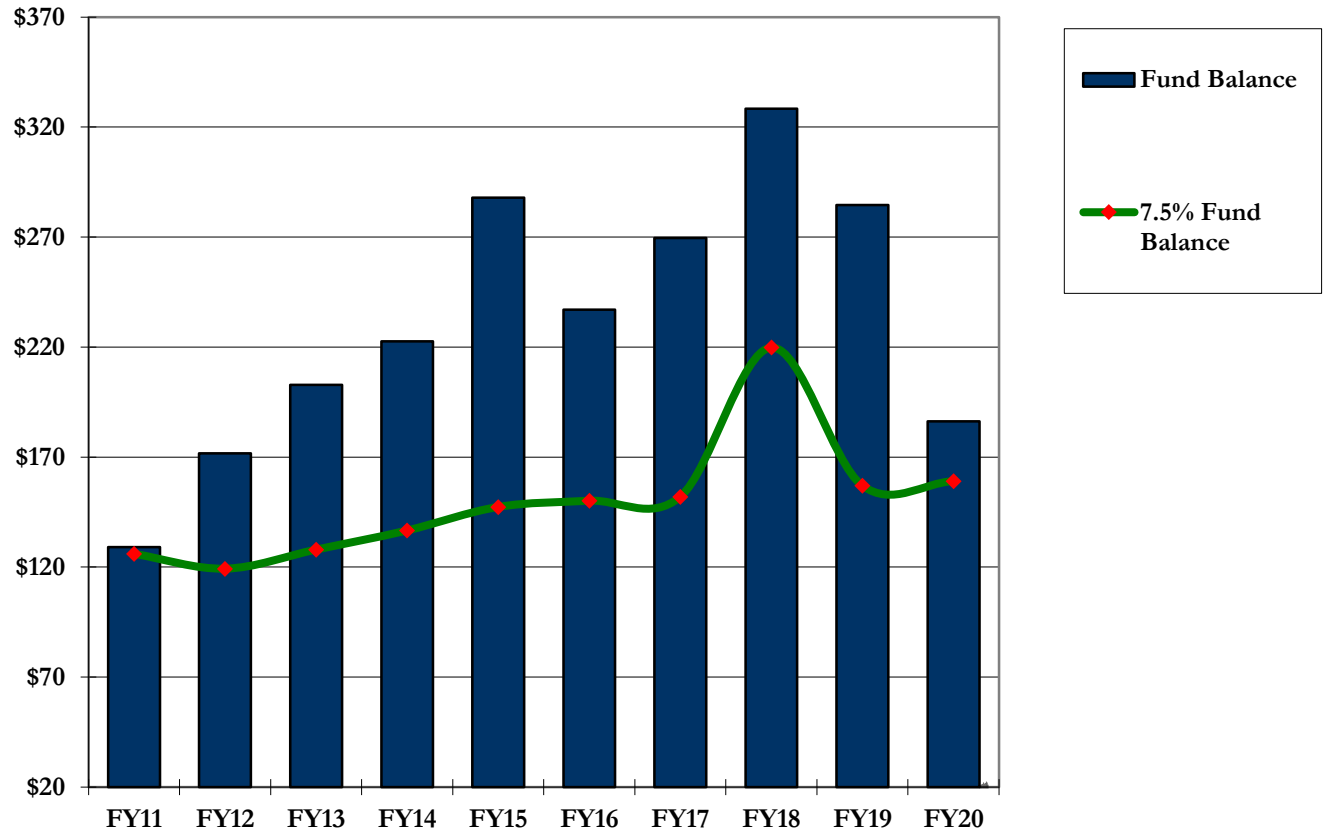


The Unassigned Fund Balance consists of both cash and non-cash items and includes receivables for Sales Tax and Franchise Fees. The Unassigned Fund Balance is expected to decrease by \$43 million in FY19 and decrease by \$98 million in FY20. The Unassigned Fund Balance for Fiscal Year 2019 and Fiscal Year 2020, respectively, is \$285 million and \$186 million.

# City Ordinance 7.5% Fund Balance Requirement

## General Fund

*(amounts shown in Millions)*

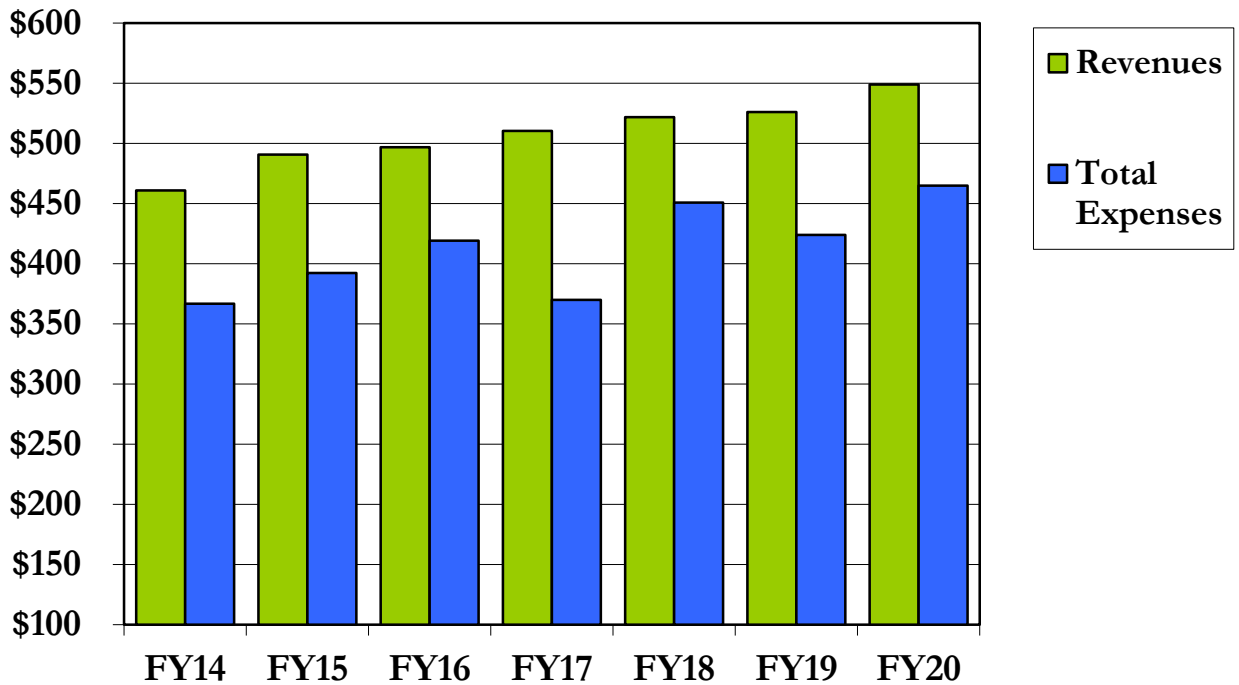


City ordinance 2014-1078, adopted December 2014, requires an Undesignated Reserve of 7.5% of the General Fund Expenditures, less Debt Service Payments. This was amended to exclude PAYGO capital funding also. For FY20, we are projecting an ending fund balance of \$27 million above the 7.5% required.



# Aviation Revenues & Expenses

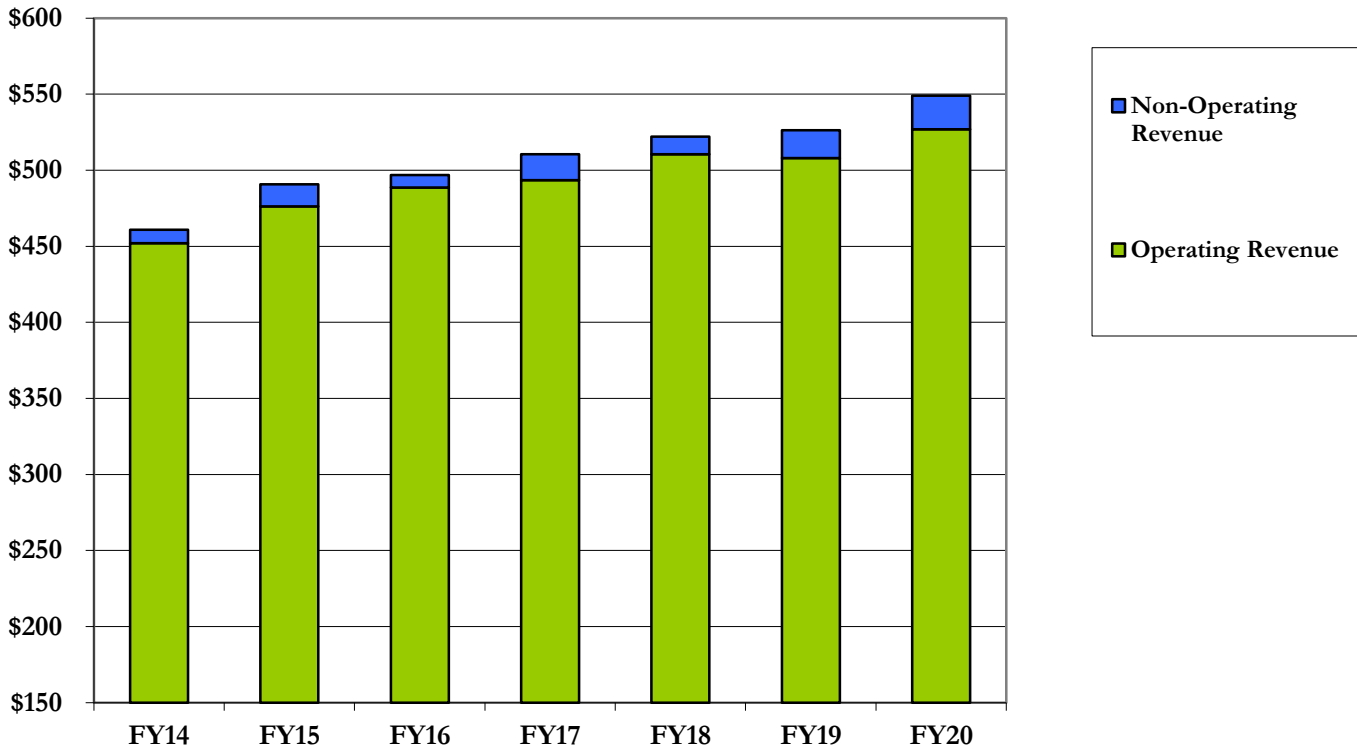
*(amounts expressed in millions)*



Aviation is projecting revenues to increase predominantly due to additional operating revenues. Expenses are projected to increase due to increased costs in Debt Service Maintenance and Operations.

# Aviation Revenues

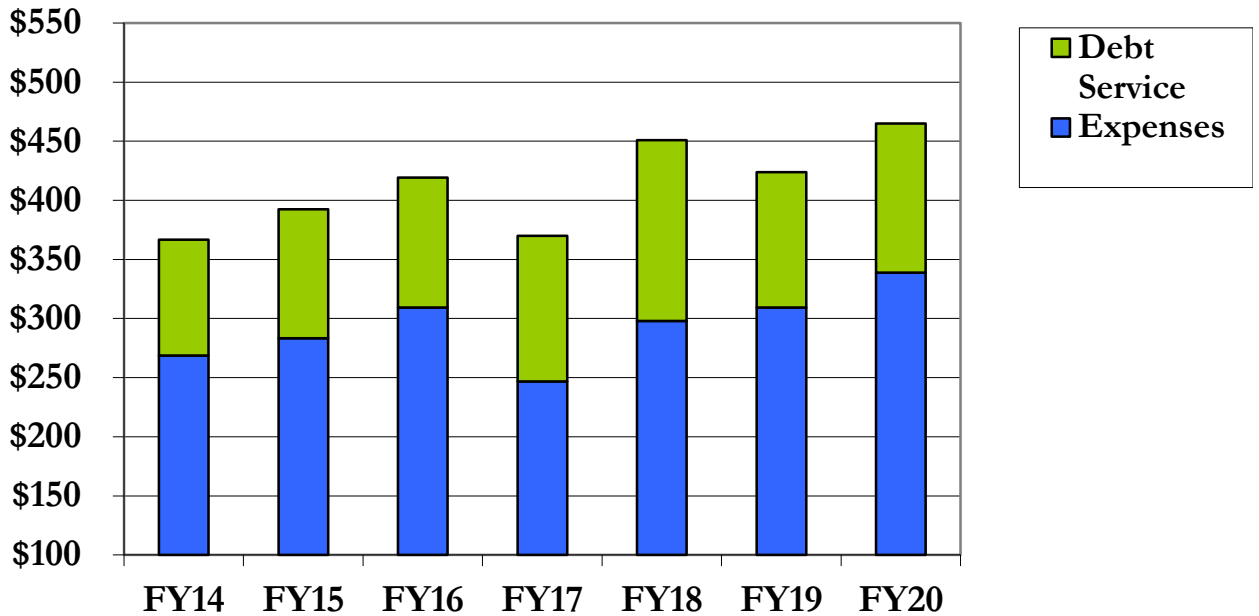
*(amounts expressed in millions)*



FY20 revenues are expected to increase 4.3%, or \$23 million from the FY19 estimate, primarily related to a budgeted increase in Terminal Space Rentals, Garage Parking, Ground Transportation, Car Rental Concessions and Interest Income.

# Aviation Expenses

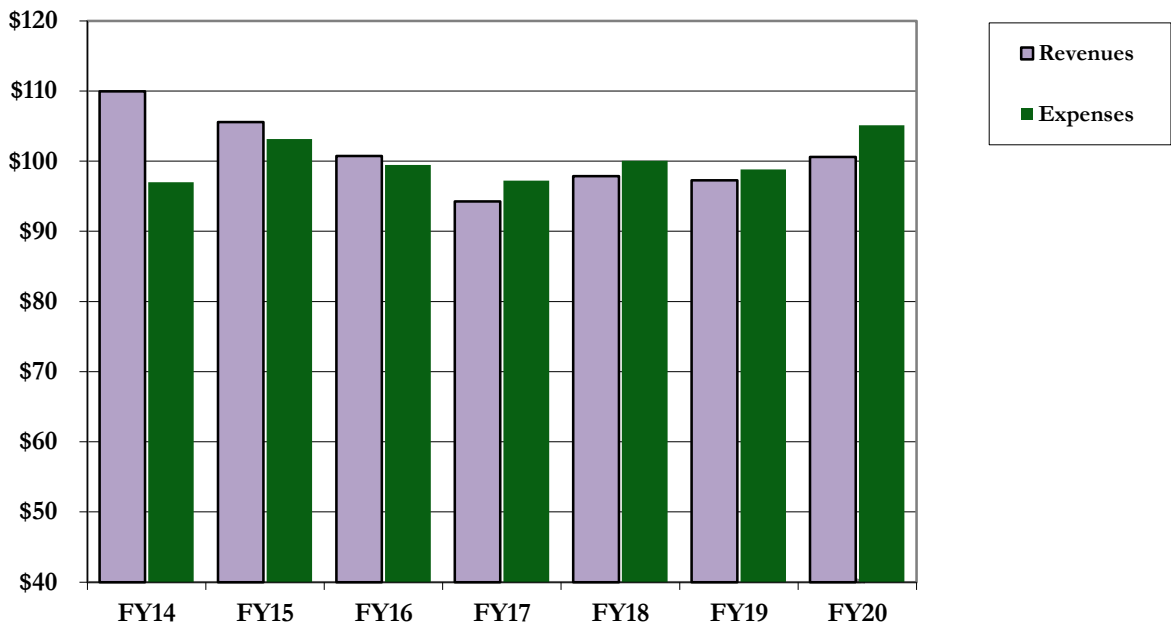
*(amounts expressed in millions)*



Aviation expects an overall FY20 expense (including Debt Service) increase of 10%, or \$43 million under the FY19 estimate. This is due to an approximately \$5.2 million increase in personnel costs; Other Services and Charges is projected to increase by \$23.2M driven primarily by increased environmental assessment and abatement costs, an energy management program, various contractual increases for such things as facility maintenance, IT and parking, the Prop B Firefighter impact (\$3.5M), utilities, property insurance and various initiatives aimed at achieving a 5 Star Skytrax rating at the airports; \$2.4 million increase in supplies and a \$12 million increase in debt service.

# Convention & Entertainment Revenues & Expenses

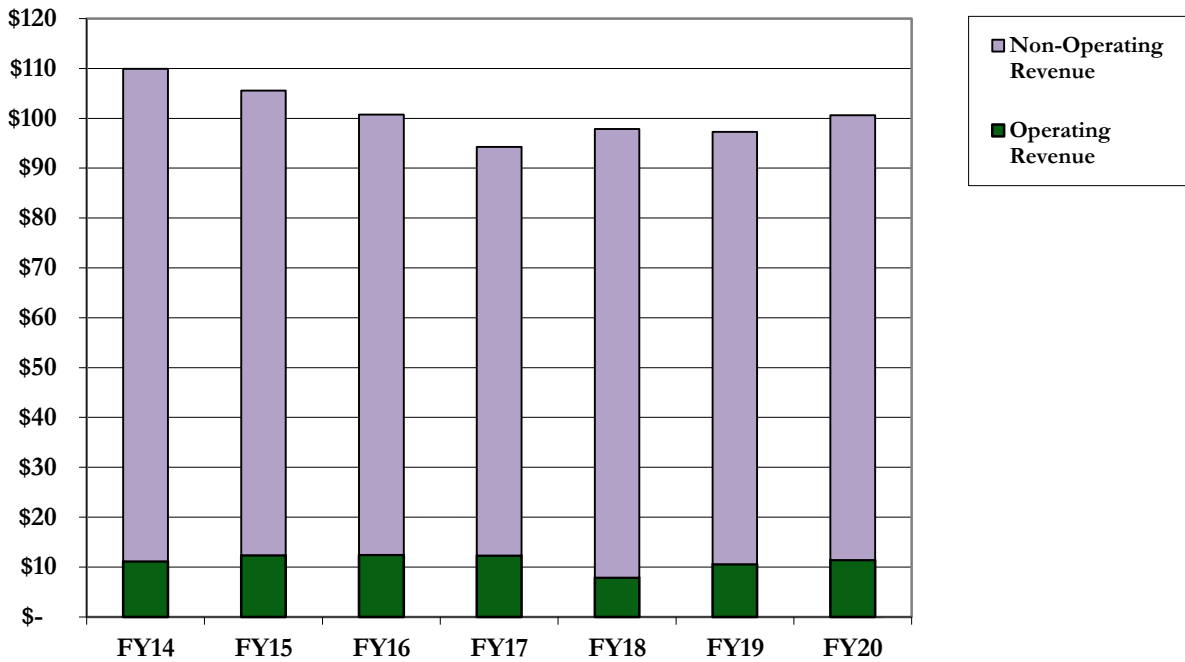
*(amounts expressed in millions)*



Convention & Entertainment projects the expenses to be slightly above revenues in FY20.

# Convention & Entertainment Revenues

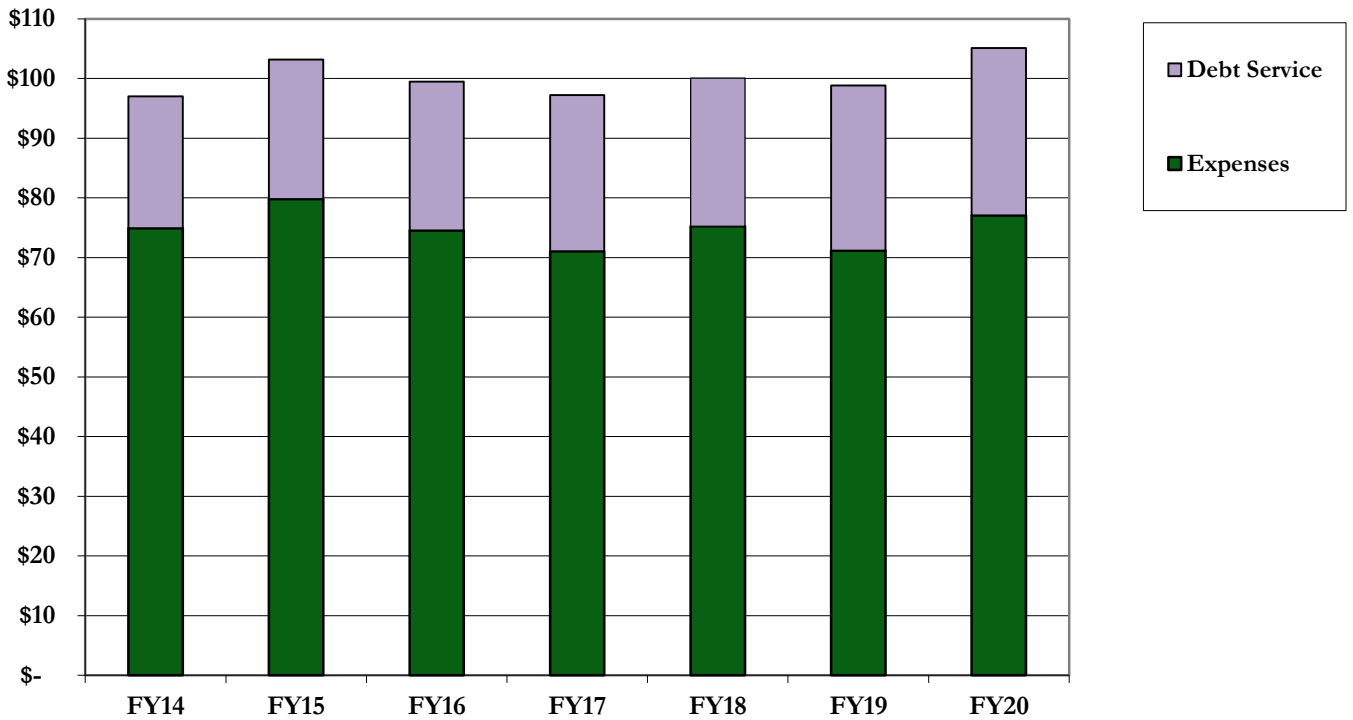
*(amounts expressed in millions)*



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 increase in FY20 by \$2.5 million. FY20 revenues are projected to increase 3.4% or \$3.3 million.

# Convention & Entertainment Expenses

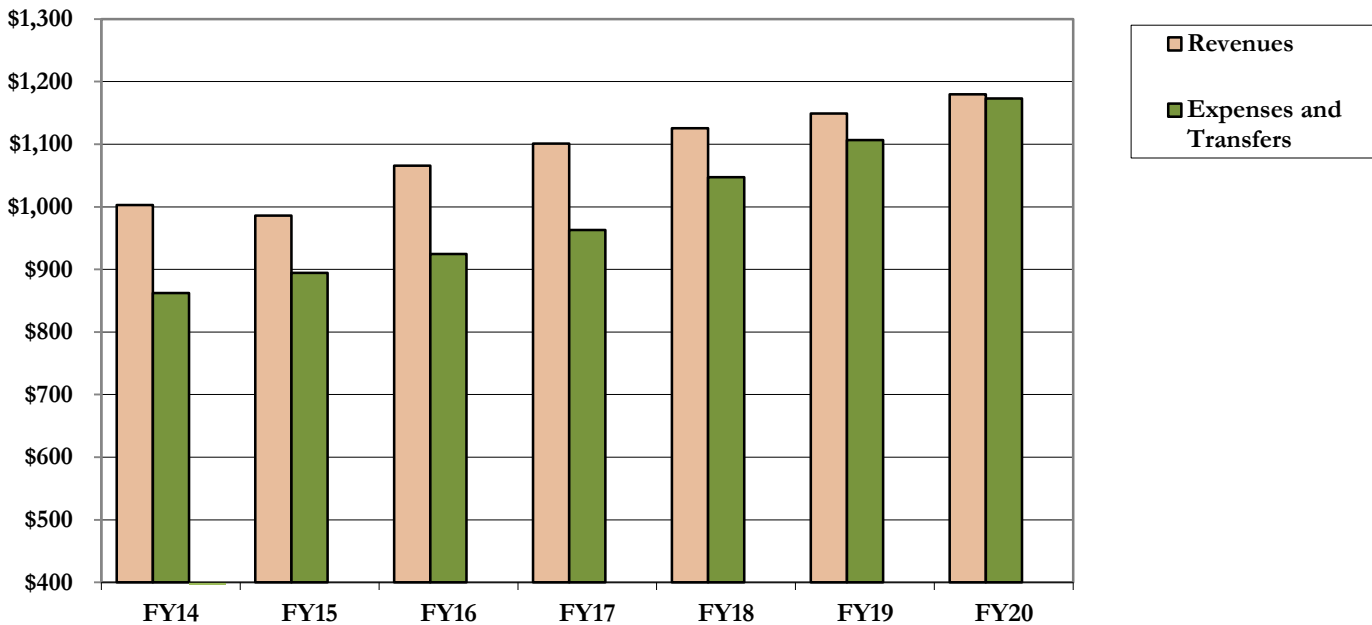
*(amounts expressed in millions)*



Convention & Entertainment is projecting an overall expense increase of \$6.29 million from FY19 levels, up 6.4% in FY20.

# Combined Utility System Revenues and Expenses

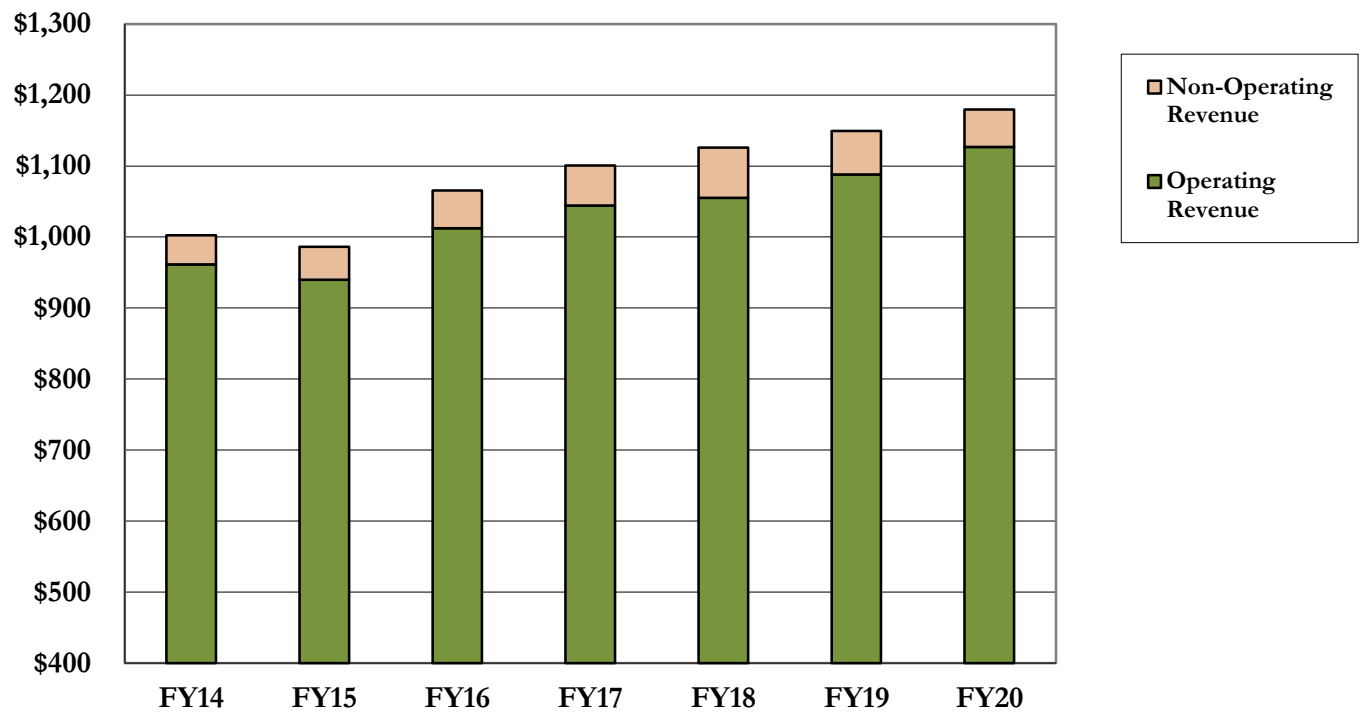
*(amounts expressed in millions)*



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)*

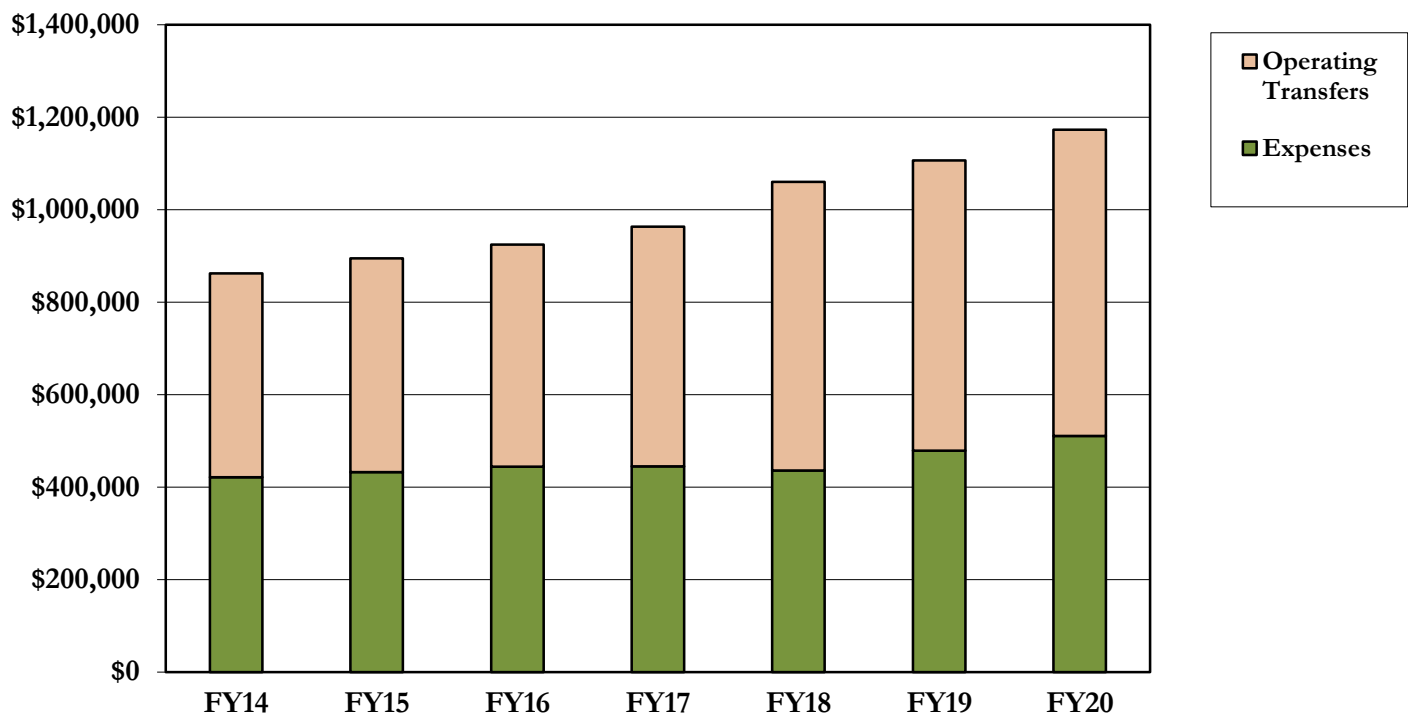


Operating Revenues for the Combined Utility System are projected to increase year-over-year due in part to an annual rate adjustment equal to the previous calendar year's Producers Price Index (PPI) or Consumer Price Index (CPI) and population for the area including Houston, Galveston and Brazoria Counties. The rate adjustments for Fiscal Years 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018 and 2019 are 5.1%, 0.3%, 1.9%, 3.3%, 3.6%, 1.2%, 4.4%, 1.4%, 3.4%, 2.8% and 2.8% 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.