

Office of the City Controller



Houston, Texas

Trends for Fiscal Year 2013

May 2012

Ronald C. Green
City Controller

Trends

Fiscal Year 2013

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 FY13 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 2012 are expected to decrease slightly from Fiscal Year 2011 revenues. However, Fiscal Year 2013 revenues are anticipated to increase approximately 2.37% (not including transfers and sale of assets). Fiscal Year 2013's projected revenues reflect primarily increases in Property Tax and Sales Tax.

Of concern, our FY13 projection for General Fund resources is \$46.6 million less than the Administration's FY13 Proposed Budget. To calculate Property Tax revenue, the Controller's office used an estimated taxable value of \$148.9 billion, calculated by taking the estimated taxable values from Harris County, Fort Bend County, and Montgomery County Appraisal Districts in April 2012 and reducing that value 1% to recognize the continued stagnant growth of Residential taxable values, and a 97.5% collection rate. The Administration's projection returned a value of \$151.3 billion using a 97.5% collection rate. For our Sales Tax projection, we assumed growth of 3.19%.

We need to point out that the General Fund Beginning Fund Balance shown in the Proposed Budget is \$21.6 million higher than our FY12 April MFOR projection. Combined with the fact that the 2013 Proposed Budget for the General Fund reduces fund balance \$29.8 million, as well as not being compliant with Ordinance 2003-474 in replenishing the Rainy Day Fund, our projected Ending Fund Balance for FY13 is \$52.7 million, or only 3.1% of the expenditures other than debt service, which is also not in compliance with Ord. 2003-474.

In the Enterprise Funds, Aviation revenues are increasing slightly due to higher Parking and Concession revenues. Convention & Entertainment revenues are increasing from higher 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. **FY11 and prior years are actual results as reported in previous Comprehensive Annual Financial Reports (CAFR).**
2. **FY12 numbers are the Controller's Office April Monthly Financial Operations Report (MFOR) estimates.**
3. **The FY13 General Fund revenues are the most current projections of the Controller's Office.**
4. **Unless otherwise noted, all other FY13 numbers are from the Administration's FY13 Proposed Budget.**

General Fund Revenues

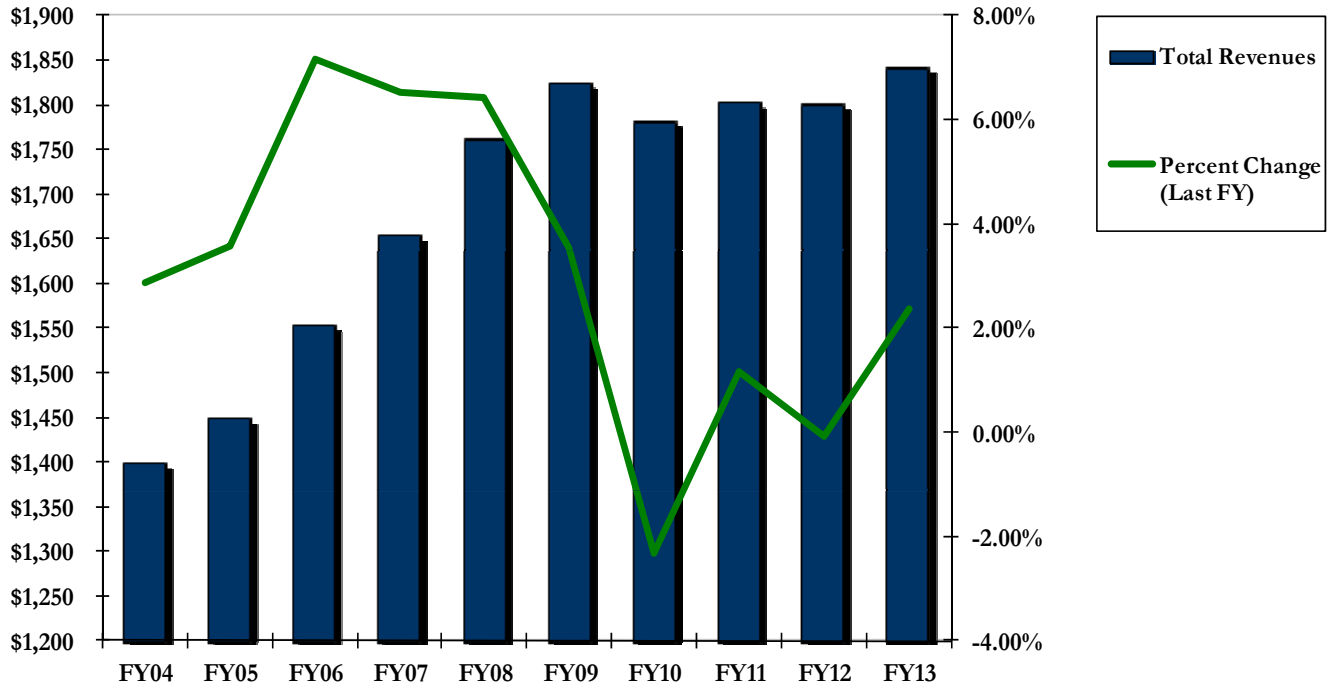
(amounts expressed in thousands)

Revenues	FY08	FY09	FY10	FY11	FY12	FY13	% Change [a]	Admin.'s	Difference [a]
	Actual	Actual	Actual	Actual	Controller's April Proj.	Controller's Projection		Proposed Budget	
Property Tax	\$ 830,889	\$ 890,088	\$ 892,865	\$ 859,413	\$ 864,402	\$ 884,769	2.36% [b]	\$ 900,197	(15,428)
Industrial Assessments	17,787	19,133	15,817	14,458	13,850	13,850	0.00%	14,800	-
Sales Tax	495,173	507,103	468,965	492,824	538,133	555,299	3.19% [c]	577,373	(22,074)
Other Taxes	10,735	10,813	10,577	10,450	9,685	9,685	0.00%	9,685	-
Electric Franchise	98,141	99,612	97,248	98,108	99,694	103,697	4.02%	103,697	-
Telephone Franchise	49,566	48,229	48,263	46,722	45,600	44,606	-2.18%	44,606	-
Gas Franchise	21,507	21,258	21,729	21,890	22,009	19,194	-12.79%	19,194	-
Other Franchise	20,981	21,223	23,628	23,844	24,457	23,932	-2.15%	23,932	-
Licenses & Permits	20,889	17,511	18,636	18,714	22,856	28,856	26.25% [d]	29,501	(645)
Intergovernmental	32,950	33,027	32,148	58,895	12,284	9,907	-19.35%	9,907	-
Charges for Services	39,836	35,743	34,156	38,166	41,396	43,396	4.83%	45,321	(1,925)
Direct Interfund Services	41,395	47,890	46,906	46,034	44,018	43,959	-0.13%	43,959	-
Indirect Interfund Services	10,950	13,190	16,012	16,328	18,506	16,850	-8.95%	16,850	-
Muni Courts Fines	37,140	37,692	38,096	36,319	31,482	31,482	0.00%	34,485	(3,003)
Other Fines	4,491	2,692	2,029	2,903	2,483	5,051	103.42% [e]	5,051	-
Interest	16,992	8,826	6,858	5,788	4,000	3,000	-25.00%	4,000	(1,000)
Misc/Other	12,315	10,276	8,215	11,872	6,245	6,245	0.00%	8,064	(1,819)
Total	\$ 1,761,737	\$ 1,824,306	\$ 1,782,148	\$ 1,802,728	\$ 1,801,100	\$ 1,843,778	2.37%	\$ 1,890,622	\$ (45,894)
Transfers from Other Funds	11,219	35,810	38,658	23,561	53,179	26,327	-50.49% [f]	27,078	(751)
Sale of Capital Assets	4,003	4,798	6,548	13,766	1,600	4,500	181.25% [g]	4,500	-
Proceeds from Promissory Note	-	-	-	-	-	-	-	-	-
Disaster Recovery Fund Transfer	-	-	-	-	-	-	-	-	-
Pension Bond Proceeds	35,000	20,000	20,000	-	-	-	-	-	-
Total Revenues and Transfers	\$ 1,811,959	\$ 1,884,914	\$ 1,847,354	\$ 1,840,055	\$ 1,855,879	\$ 1,874,605	1.48%	\$ 1,922,200	\$ (46,645)

- [a] The "Percentage Change" column compares our FY13 projection to our FY12 estimate, while the "Difference" column compares our FY13 projection to the proposed budget.
- [b] Property Tax revenue is net of refunds and Tax Increment Reinvestment Zone (TIRZ) payments. The Controller's FY13 projection for Property Tax revenues is based on the taxable values provided by Harris County on April 26, 2012. This amount was reduced an additional 1% to reflect the continued negative/flat growth in Residential taxable values. The projection assumes an estimated \$25 million in delinquent collections and an estimated \$67 million in TIRZ payments.
- [c] Sales Tax revenue uses our FY12 Sales Tax revenue estimate plus Dr. Barton Smith's April 2012 estimated growth rate of 5.19% for FY13. This is then reduced by Dr. Barton Smith's margin of error of 2%.
- [d] Licenses and permits are increased due to burglar alarm permits previously accounted for in the Police Special Fund are now being reported in the General Fund.
- [e] Other fines and forfeits is expected to increase due to false alarm fees which were previously reported in the Police Special Fund.
- [f] One-time transfers from C&E and CUS in FY12 will not be made in FY13.
- [g] The Controller's office anticipates that all of the Administration's budgeted amount of these capital assets will be received.

General Fund Revenues

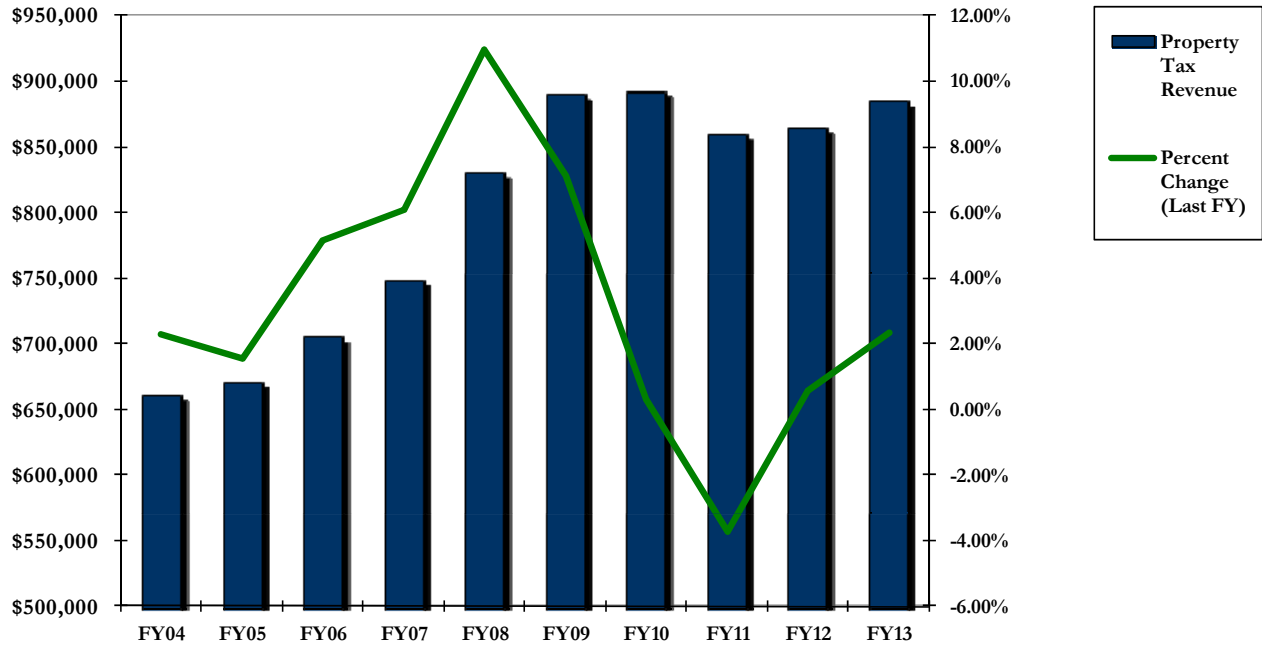
(amounts expressed in millions)



FY13 General Fund revenue is projected to increase by \$42.7 million, or 2.37% over our current FY12 estimate. The projected increase consists mostly of increased property tax of \$20.4 million, sales tax of \$17.2 million and electric franchise revenue of \$4 million. Licenses and permits are expected to increase by \$6 million, but will be offset by reductions in gas franchise, intergovernmental revenues and interest income.

Property Tax Revenue

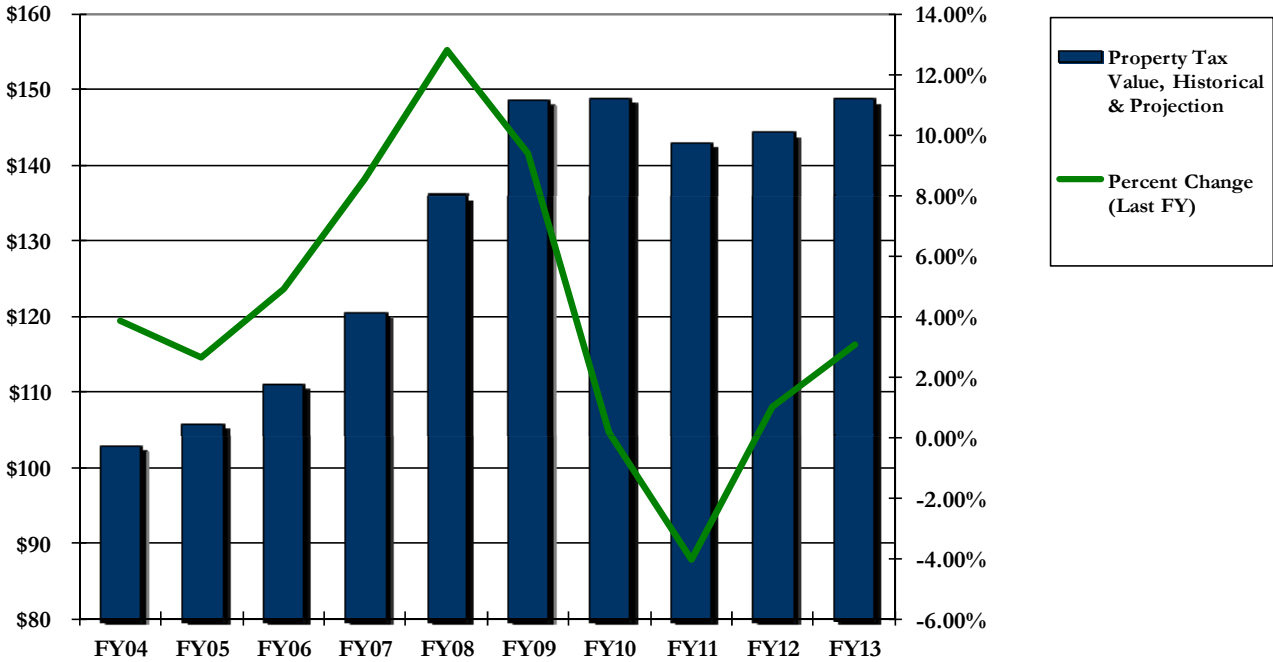
(amounts expressed in thousands)



Property Tax revenue is projected to be higher than the FY12 estimate by 2.36%. TIRZ payments, delinquent tax collections and rebates are expected to decline by \$1 million as compared to FY12. Our Property Tax revenue projection is based on a tax rate of 63.875 cents per \$100 valuation and a collection rate of 97.5%.

Taxable Values Historical & Forecast

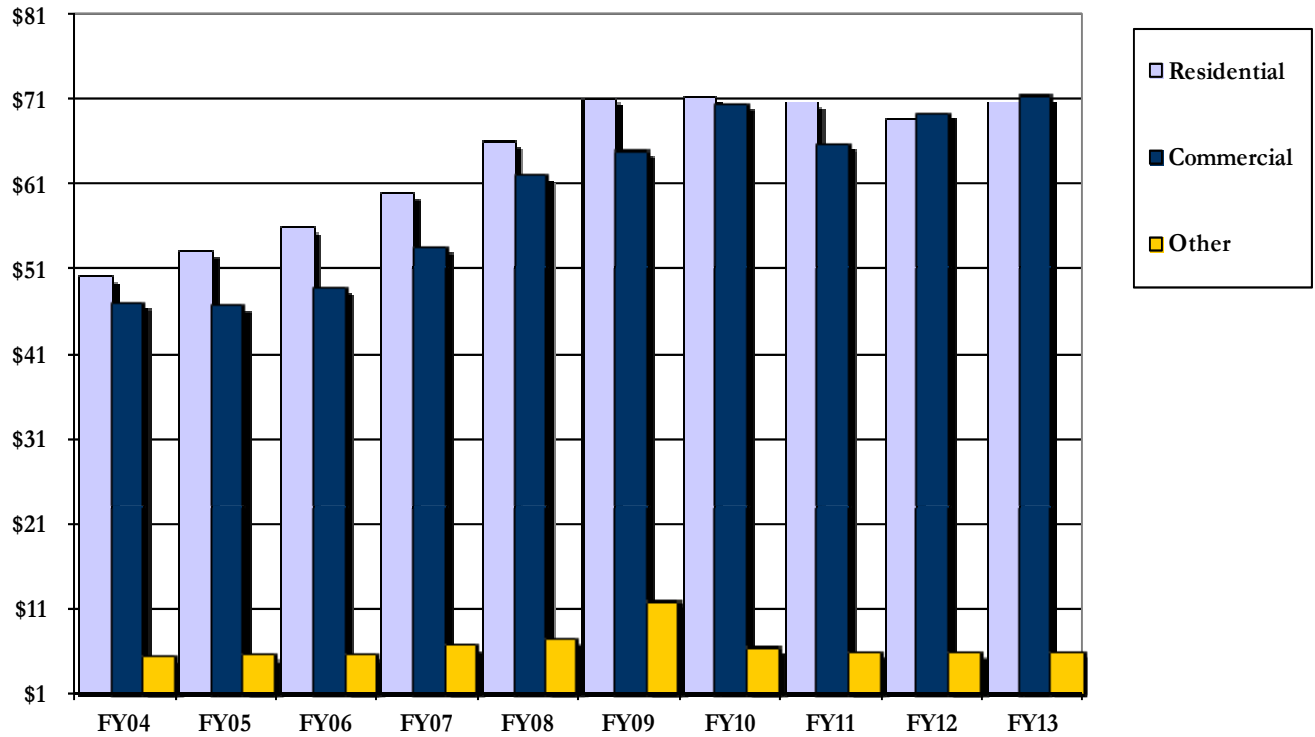
(amounts expressed in billions)



The Harris County, Fort Bend County, and Montgomery County Appraisal Districts (the Districts) provide expected taxable values. The actual taxable values for FY12 are above the preliminary value estimates provided at this time last year. However, based on the Districts' projection for FY13, an increase in valuation of about 3.19% is anticipated. These values are based on the Districts' preliminary projected values, dated April 28, 2012, and reduced 1% to reflect continued stagnant residential taxable values.

Taxable Values By Property Type Historical & Forecast

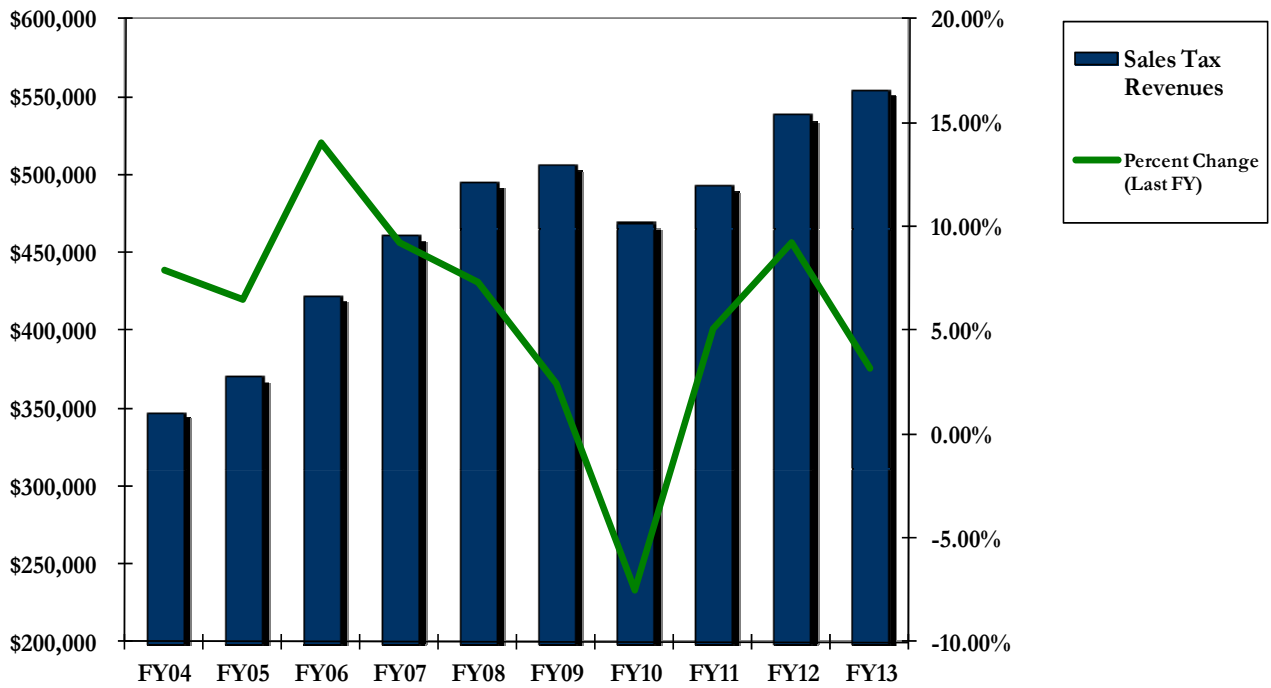
(amounts expressed in billions)



Residential and commercial properties in the City of Houston make up 96% of the taxable values reported by the Districts.

Sales Taxes Revenue

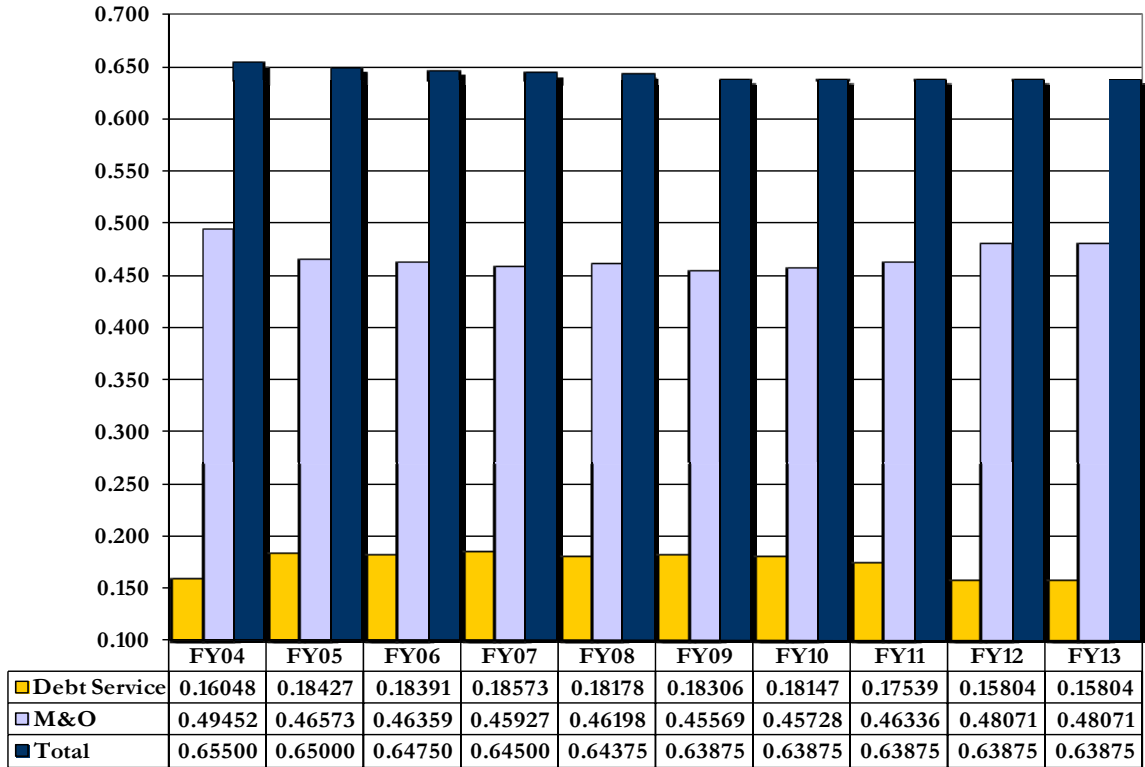
(amounts expressed in thousands)



Sales tax revenue is projected to be 3.19% higher than FY12 Sales Tax receipts. This increase is based on the 5.19% estimated growth of Dr. Barton Smith's April report less an error rate reduction of 2%.

Property Tax Rate

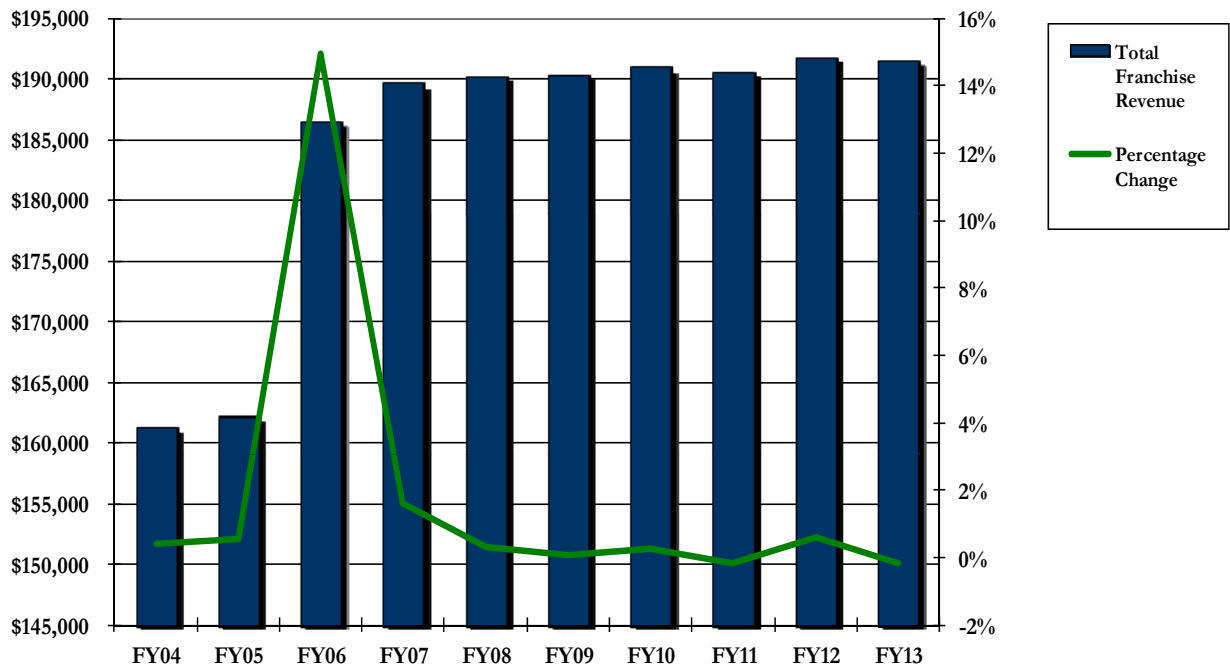
(Tax Rate per \$100 Valuation)



The FY13 number is a projection. The final rate will be established by a vote of council in the first or second quarter of FY13, when the Certified Roll is available.

Total Franchise Revenues

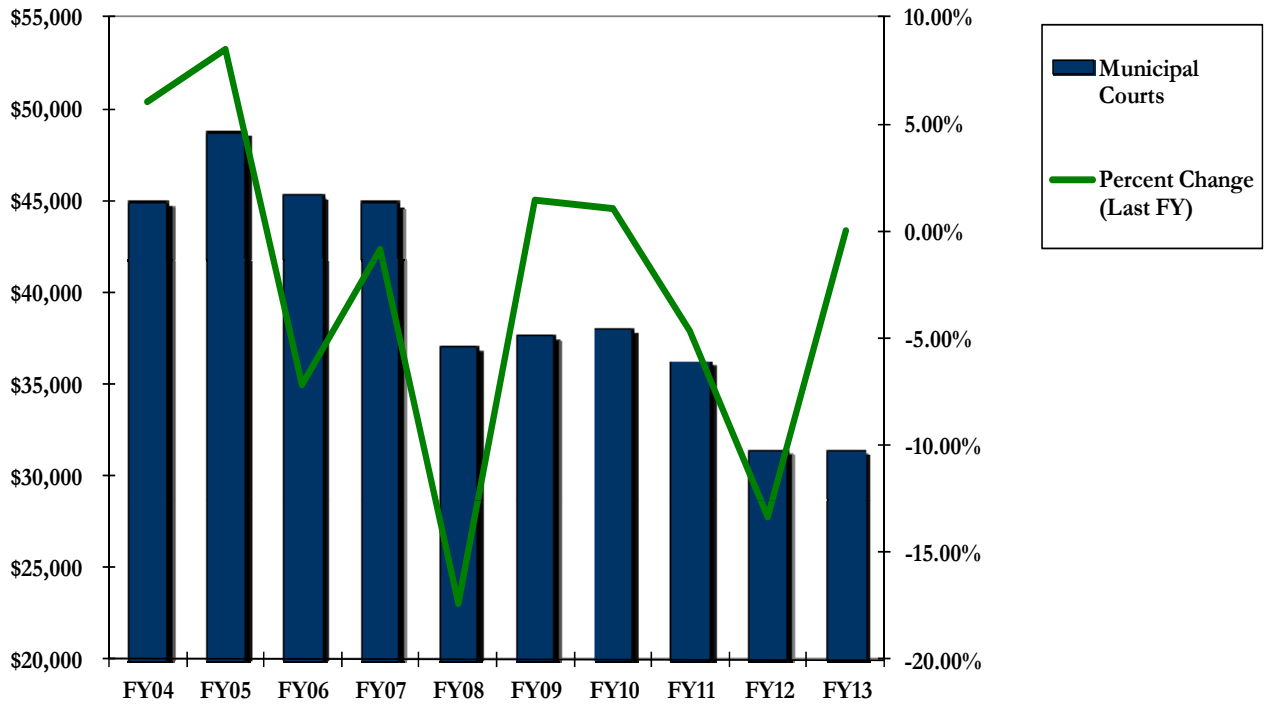
(amounts expressed in thousands)



Franchise revenues are projected to remain relatively stable for FY13. Although decreases are expected in Telephone Franchise Revenues, Gas Franchise Revenues and Other Franchise Revenues, increases in Electricity Franchise Revenues are expected to offset those reductions. This makes the eighth year in a row that Telephone Franchise Revenues are expected to decrease.

Municipal Courts Revenues

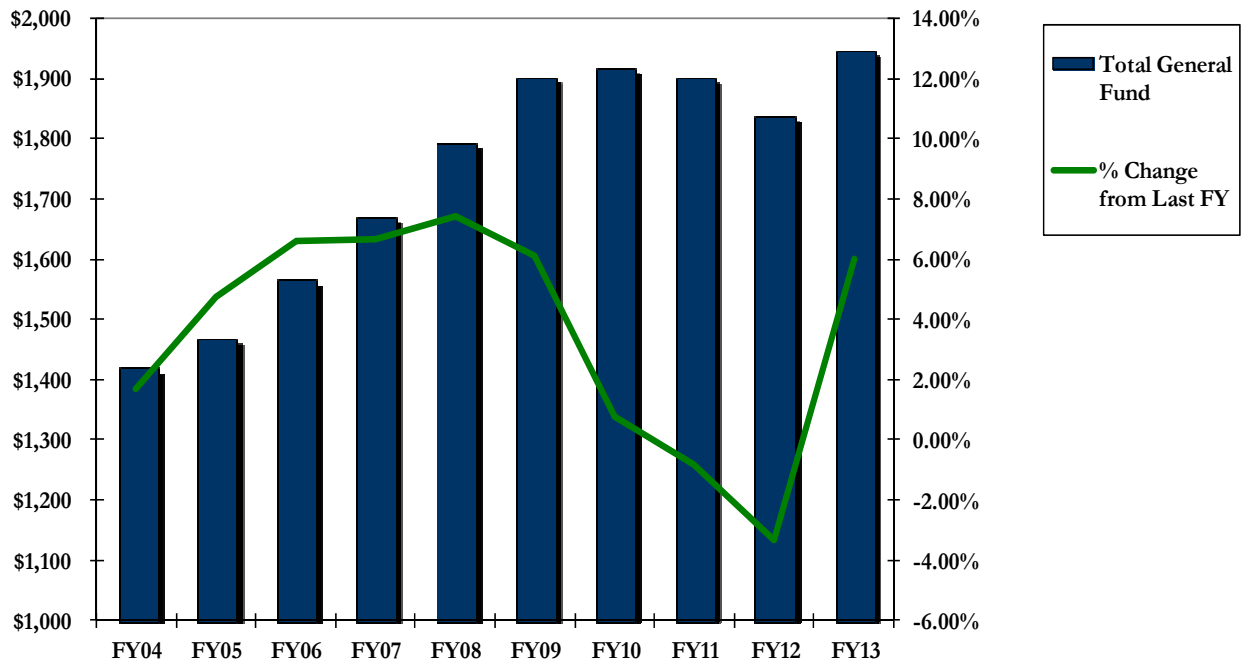
(amounts expressed in thousands)



Municipal Courts Fines and Forfeits are expected to remain flat in FY13. The effectiveness of the new collection processes have not yet been determined.

General Fund Expenditures Budget

(amounts expressed in millions)

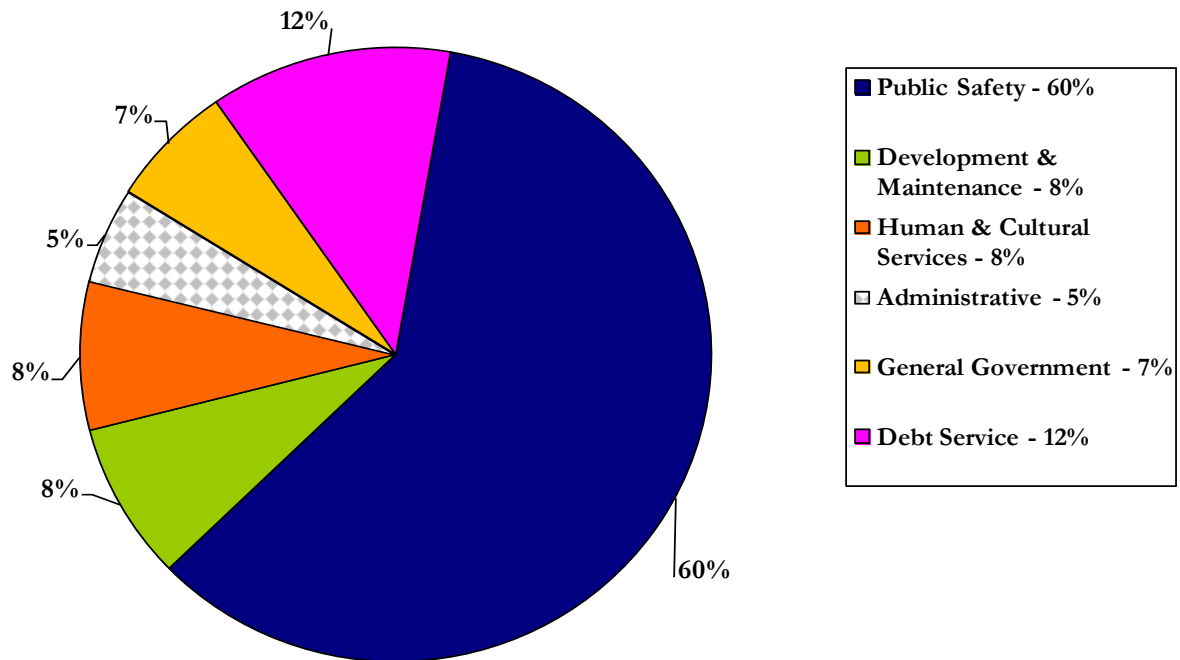


The General Fund expenditure budget is up by 6%, an increase of \$110 million from our FY12 estimated expenditures. The gap between Controller's projected revenues and budgeted expenditures will require using \$72 million from the Fund Balance to cover the operating deficit for FY13.

General Fund

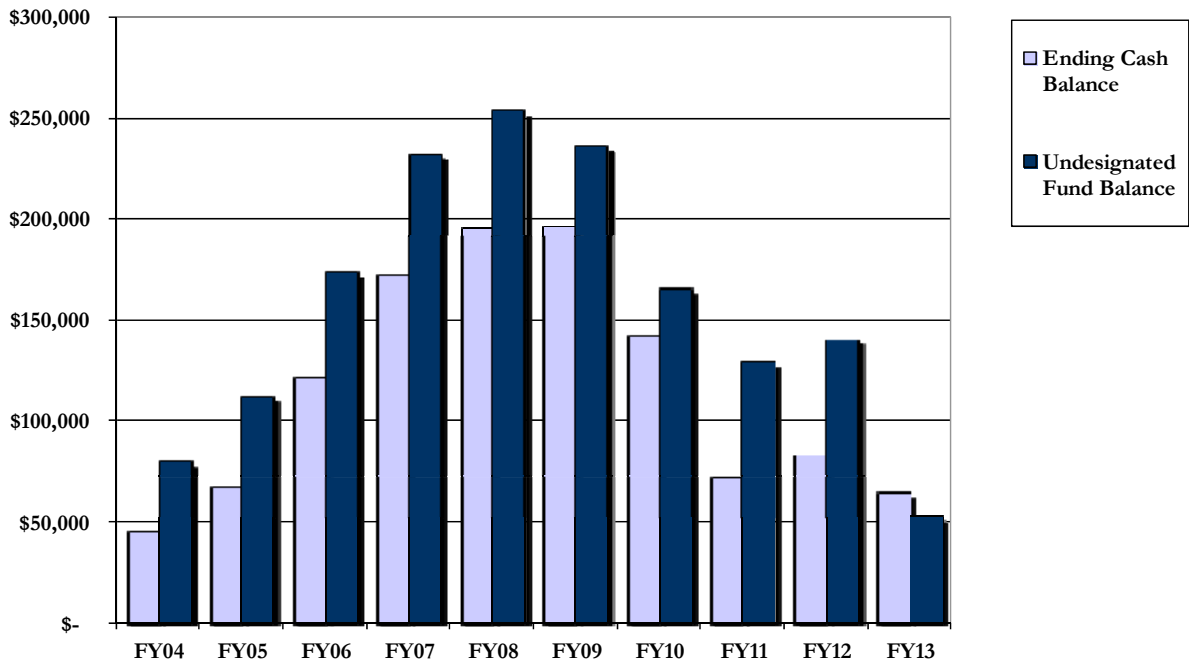
Expenditures Percent by

Function for 2013



Cash vs. Fund Balance General Fund

(amounts expressed in thousands)

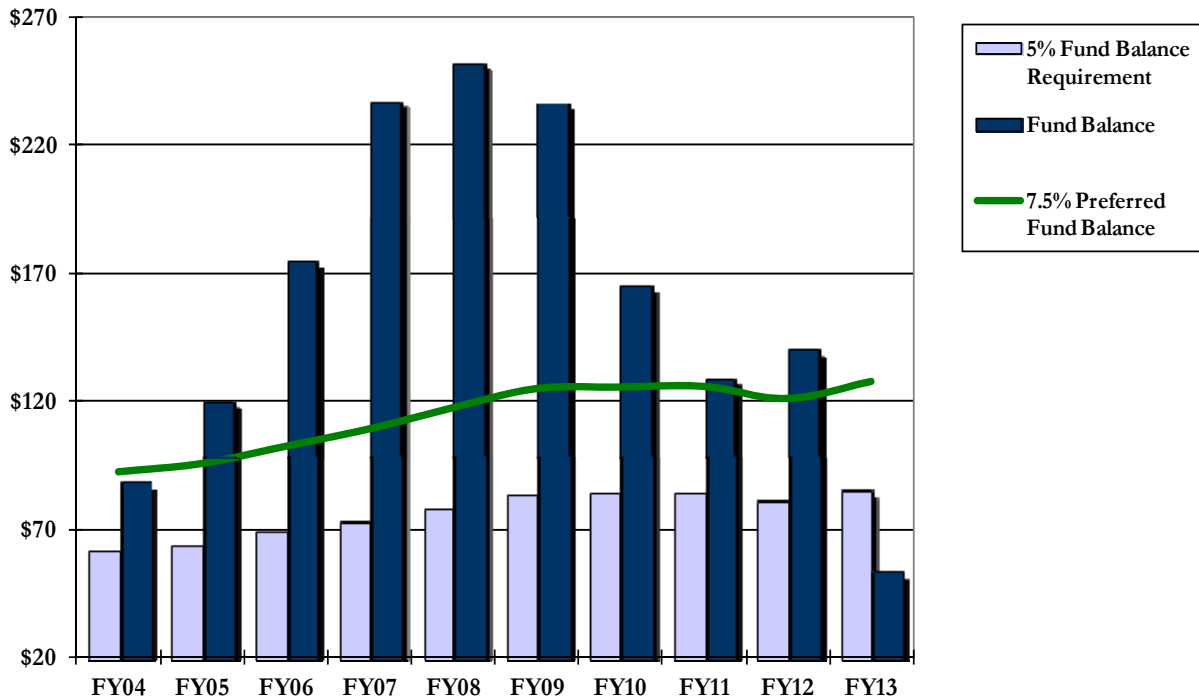


The Undesignated Fund Balance consists of both cash and non-cash items and includes receivables for Sales Tax and Franchise Fees. It also includes the re-designation of \$20 million to the Rainy Day Fund and \$2.72 million in the event that DARLEP collections are not sufficient. The Undesignated Fund Balance is expected to increase by \$11 million in FY12 and decrease by \$87 million in FY13.

City Ordinance 5% Fund Balance Requirement

General Fund

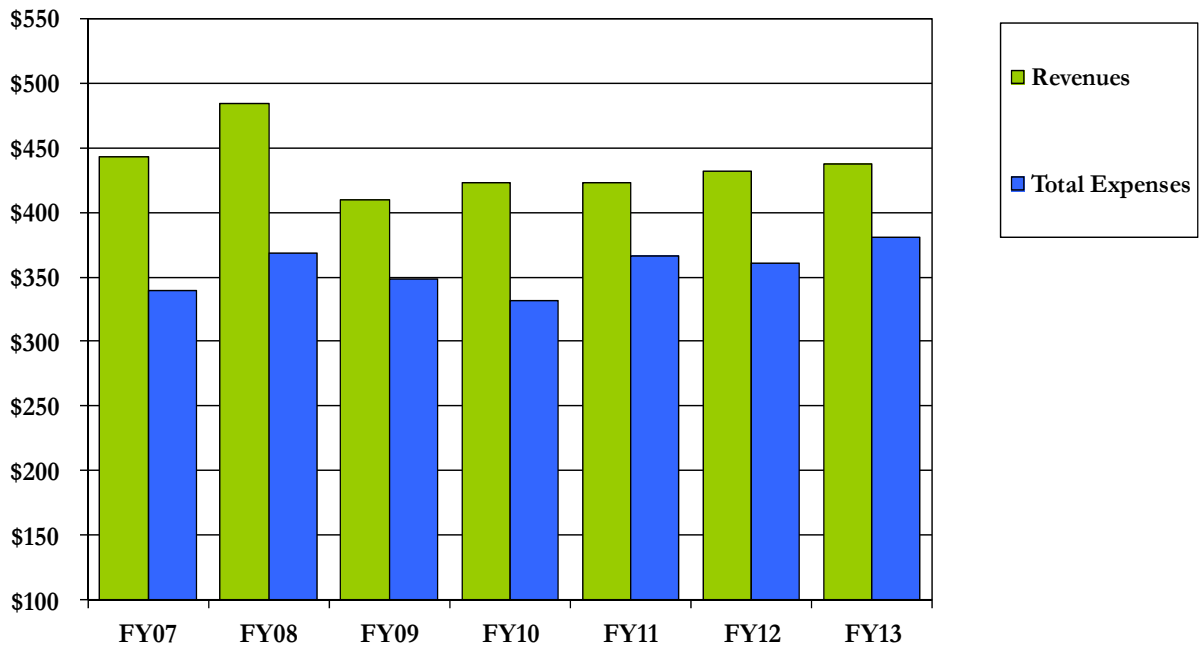
(amounts shown in Millions)



City ordinance requires an Undesignated Reserve of 5% of the Adopted Budget less Debt Service. An Undesignated Reserve of 7.5% is preferred. For FY13, we project a \$75 million deficit under the 7.5% Fund Balance. This is due to a difference in FY13 revenue of \$46 million, FY12 Ending Fund Balance difference of \$22 million, and full funding of the Rainy Day Fund an additional \$10 million .

Aviation Revenues & Expenses

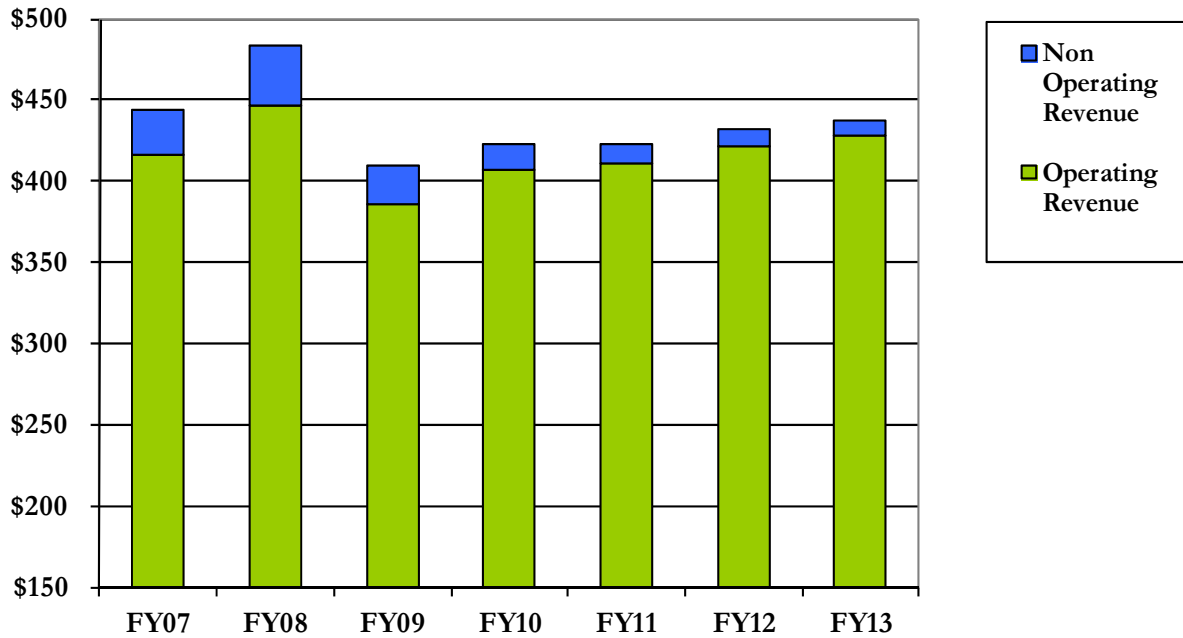
(amounts expressed in millions)



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).

Aviation Revenues

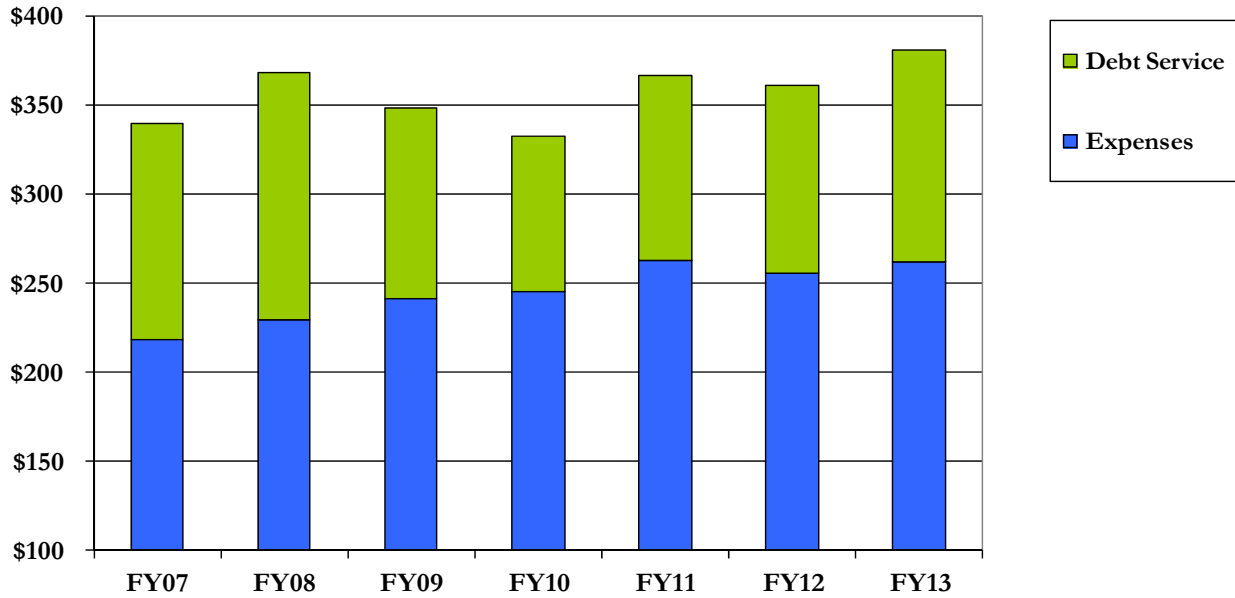
(amounts expressed in millions)



FY13 revenues are expected to increase 1.55%, or \$6.7 million from the FY12 estimate, primarily related to a budgeted increase in Parking and Retail Concessions.

Aviation Expenses

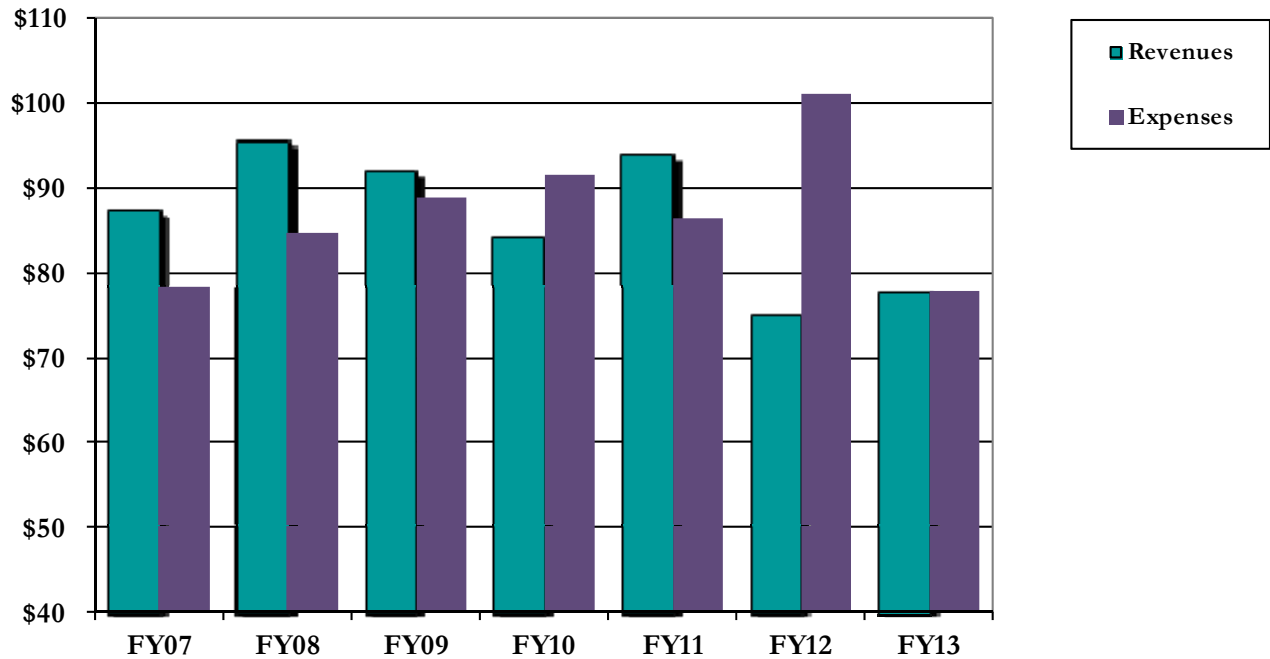
(amounts expressed in millions)



Aviation expects an FY13 expense increase of approximately 5.4%, or \$19.6 million over the FY12 estimate. The FY13 Debt Service budget is increasing due to other funding sources used in FY12 that are not available for FY13.

Convention & Entertainment Revenues & Expenses

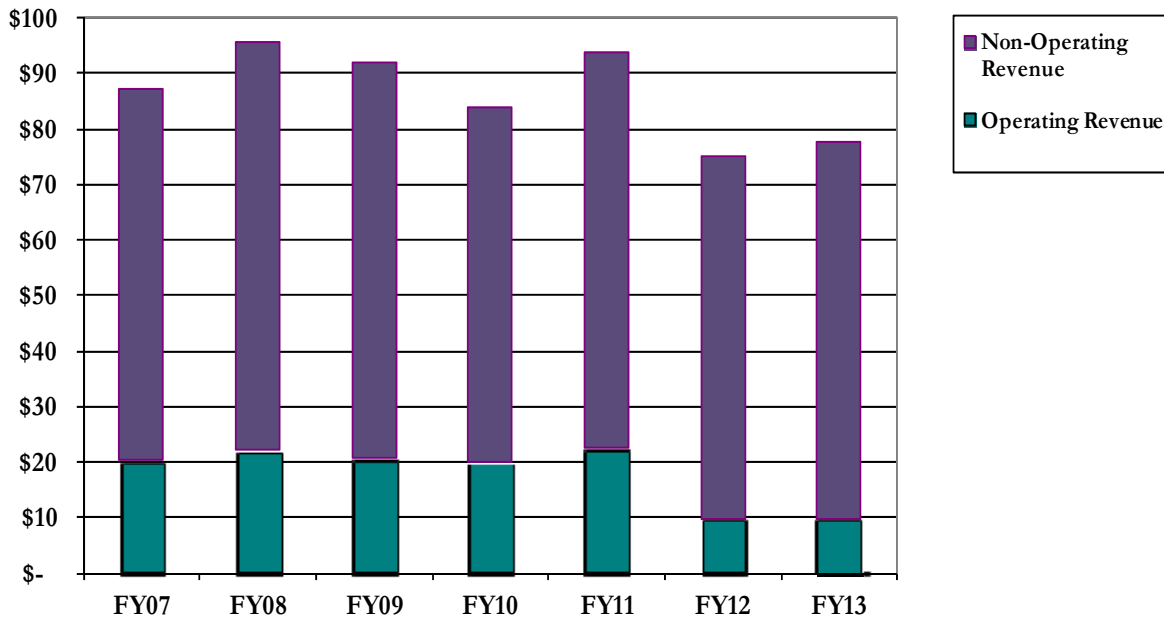
(amounts expressed in millions)



Convention & Entertainment projects the expenses to be basically level with the revenues in FY13.

Convention & Entertainment Revenues

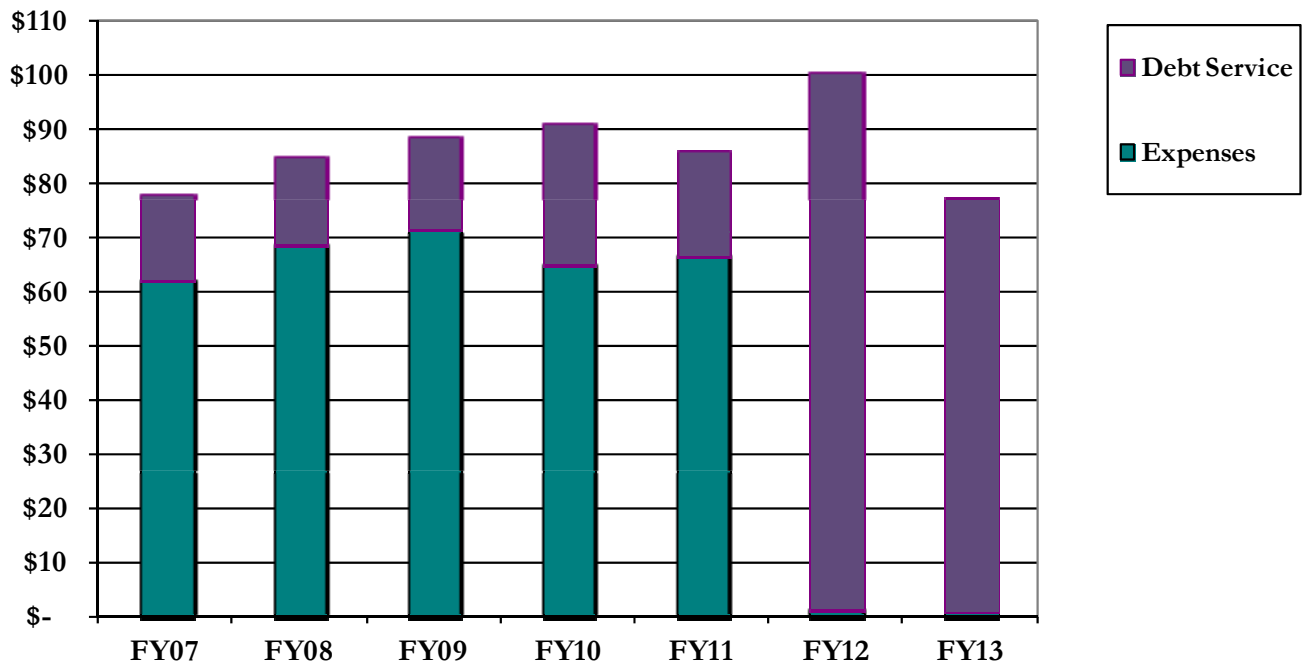
(amounts expressed in millions)



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 4.47% in FY13 to \$66.275 million when compared to estimated FY12 revenues of \$63.30 million.

Convention & Entertainment Expenses

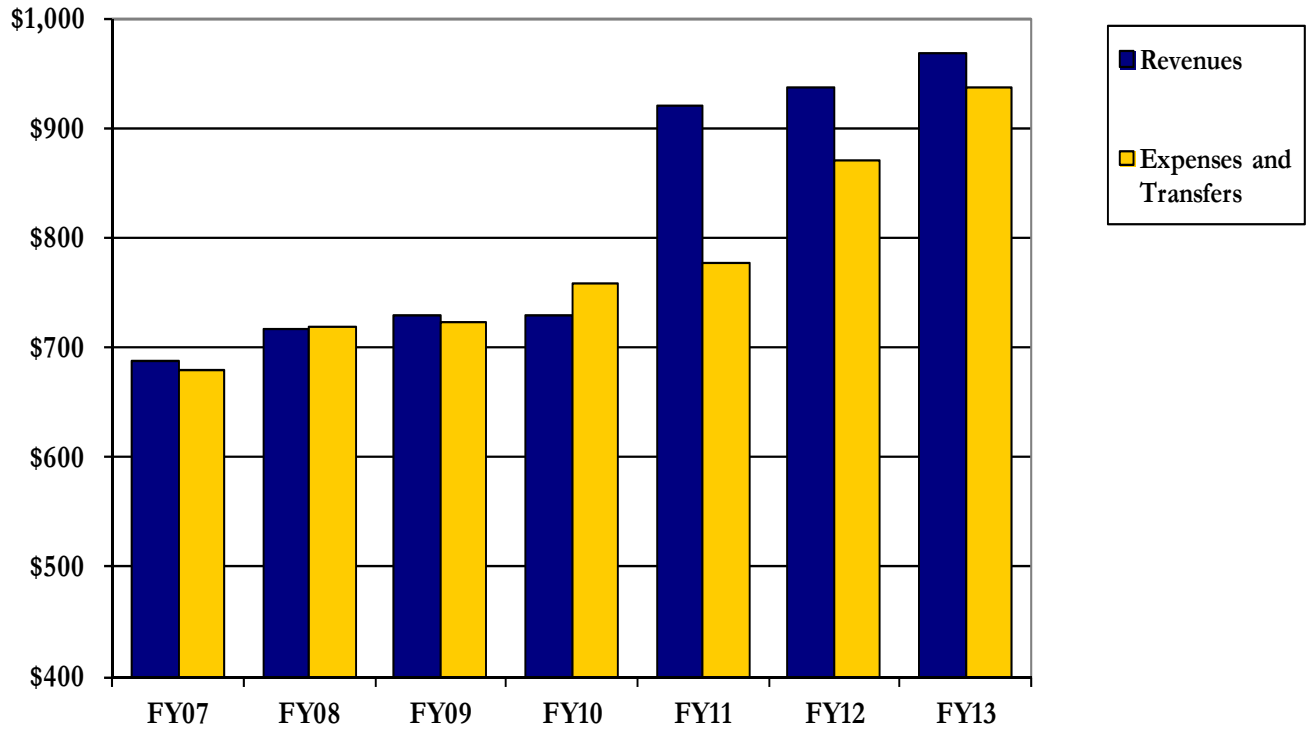
(amounts expressed in millions)



Convention & Entertainment is projecting an overall decrease of \$23.3 million from FY12 levels primarily due to the one-time Initial Working Capital transfer of \$16.1 million and the \$10 million one time payment to the General Fund in accordance with the Lease Agreement . This is offset by an increase in the transfers for debt service of \$2.3 million over FY12 due to the refunding of our bonds.

Combined Utility System Revenues and Expenses

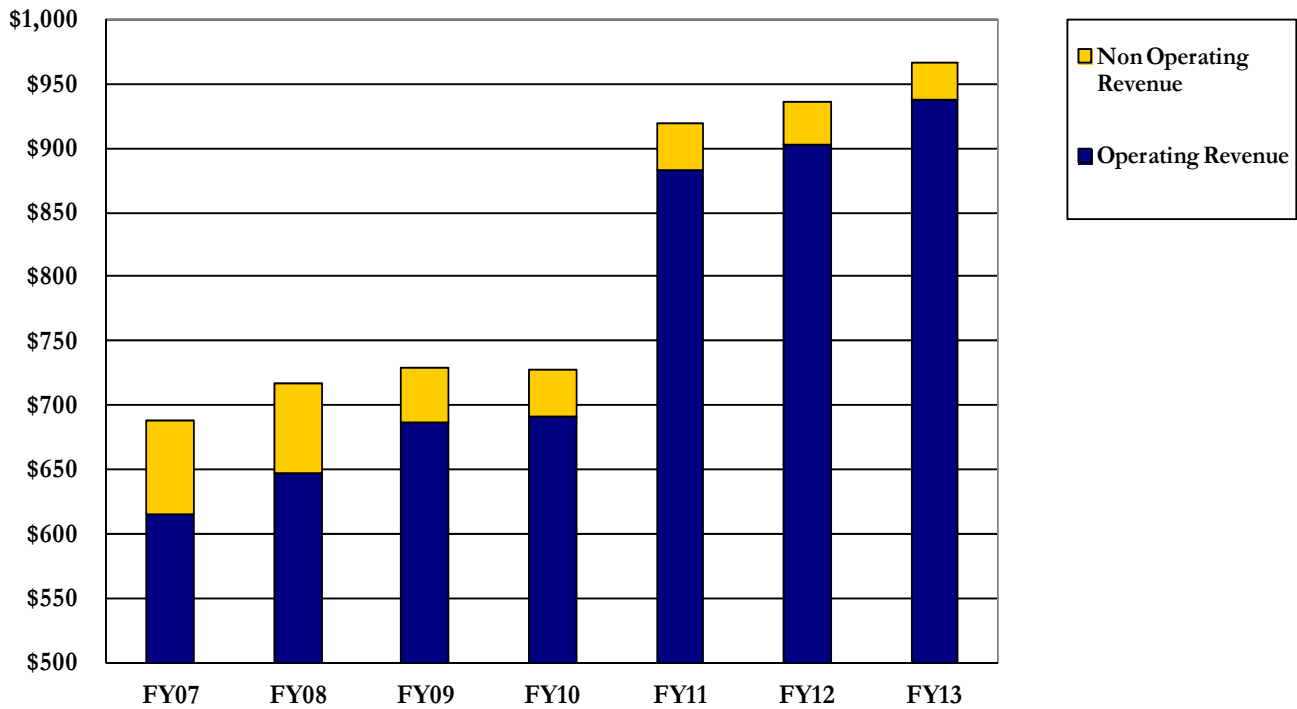
(amounts expressed in millions)



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

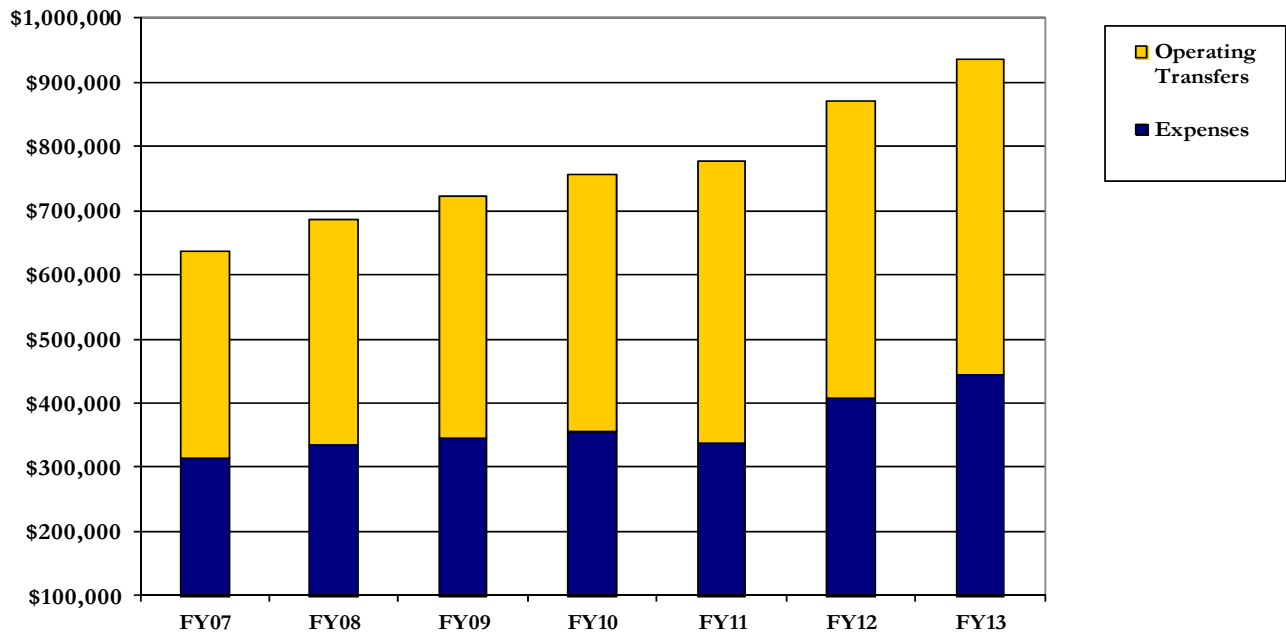
(amounts expressed in millions)



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 Consumer Price Index for the area including Houston, Galveston and Brazoria Counties. The rate adjustments for Fiscal Years 2008, 2009, 2010, 2011, and 2012 are 2.8%, 5.1%, 0.3%, 1.9%, and 3.3% 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.