

Office of the City Controller



Houston, Texas

Trends for Fiscal Year 2019

May 2018

Chris B. Brown
City Controller

Trends

Fiscal Year 2019

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 FY2019 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 2018 are expected to increase 2.4% from Fiscal Year 2017 revenues. However, Fiscal Year 2019 revenues are anticipated to decrease approximately 0.96% (not including transfers and sale of assets). Fiscal Year 2019's projected revenues primarily reflect increases in Property Tax, Sales Tax, and Direct Interfund, with decreases in Franchise Fees, Intergovernmental, and Miscellaneous/Other.

Of concern, our FY19 projection for General Fund resources is \$10.7 million lower than the Administration's FY19 Proposed Budget. To calculate Property Tax revenue, the Controller's Office used an estimated taxable value of \$234.1 billion, calculated by taking the estimated taxable values from Harris County, Fort Bend County, and Montgomery County Appraisal Districts in April 2018 and a 98.4% collection rate. This is moot, as the Estimated Proposition 1 limit is \$1.194 billion, and \$11 million lower than our calculated amount. The Administration is using a higher population estimate (Planning) than the Controller's office (Census Bureau historical ratio), which returns a higher Prop 1 cap estimate. The U.S. Census Bureau is scheduled to release the population number on May 24th, which will allow for a final Prop 1 cap calculation at that time.

For our Sales Tax projection, we assumed growth of 0.6%, which is in agreement with Dr. Gilmer's March 2018 Low projection. This was applied to our FY2018 estimate. The Administration is using 0.5% growth, applied to their FY18 estimate.

We need to point out that the General Fund Beginning Fund Balance shown in the Proposed Budget is \$2.5 million higher than our FY18 March MFOR projection. Our projected Ending Fund Balance for FY19 is \$178.5 million, or 8.55% of the expenditures other than debt service and PAYGO, which is above the required amount of 7.5%, or \$156.5 million.

In the Enterprise Funds, Aviation revenues are increasing slightly due to higher Terminal, Landing Fees, and Parking revenues. 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. **FY17 and prior years are actual results as reported in previous Comprehensive Annual Financial Reports (CAFR).**
2. **FY18 numbers are the Controller's Office March Monthly Financial Operations Report (MFOR) estimates.**
3. **The FY19 General Fund revenues are the most current projections of the Controller's Office.**
4. **Unless otherwise noted, all other FY19 numbers are from the Administration's FY19 Proposed Budget.**

General Fund Revenues

(amounts expressed in thousands)

Revenues	FY14	FY15	FY16	FY17	FY18	FY19	% Change [a]	Admin.'s	Difference [a]
	Actual	Actual	Actual	Actual	Controller's March Proj.	Controller's Projection		Proposed Budget	
Property Tax	\$ 976,240	\$ 1,074,435	\$ 1,098,664	\$1,153,991	\$ 1,172,237	\$ 1,193,839	1.84% [b]	\$1,200,813	(6,974)
Industrial Assessments	16,534	16,736	19,239	19,291	19,000	19,000	0.00% [c]	19,463	(463)
Sales Tax	629,441	667,061	640,476	631,993	653,938	657,862	0.60% [c]	657,700	162
Other Taxes	14,056	15,992	16,271	16,896	17,000	17,750	4.41% [d]	18,011	(261)
Electric Franchise	101,054	100,565	101,212	102,654	102,000	100,500	-1.47% [d]	100,841	(341)
Telephone Franchise	43,913	43,451	43,061	41,928	38,216	36,500	-4.49% [d]	36,687	(187)
Gas Franchise	16,493	14,538	14,840	15,016	13,500	12,000	-11.11% [d]	12,324	(324)
Other Franchise	28,529	31,283	32,056	30,988	28,320	26,750	-5.54% [d]	26,994	(244)
Licenses & Permits	35,757	37,999	39,608	38,020	33,099	32,500	-1.81%	32,859	(359)
Intergovernmental	20,897	24,185	53,663	71,040	77,494	66,424	-14.28%	66,424	-
Charges for Services	56,059	63,272	62,553	60,046	56,152	54,500	-2.94%	54,880	(380)
Direct Interfund Services	43,257	47,851	54,024	53,523	54,112	58,505	8.12%	58,505	-
Indirect Interfund Services	18,558	25,328	26,611	27,399	29,001	29,246	0.84%	29,246	-
Muni Courts Fines	30,493	25,447	24,960	22,122	20,893	21,000	0.51%	21,591	(591)
Other Fines	4,683	4,732	4,952	4,778	3,268	3,500	7.10%	3,989	(489)
Interest	2,407	3,040	3,700	5,051	6,000	6,000	0.00%	6,000	-
Misc/Other	15,432	17,217	22,367	25,876	53,002	18,500	-65.10% [e]	18,747	(247)
Total	<u>\$ 2,053,803</u>	<u>\$ 2,213,132</u>	<u>\$ 2,258,257</u>	<u>\$2,320,612</u>	<u>\$ 2,377,232</u>	<u>\$ 2,354,376</u>	-0.96%	<u>\$ 2,365,074</u>	<u>\$ (10,698)</u>
Transfers from Other Funds	26,639	31,363	34,656	20,901	18,314	27,873	52.20% [f]	27,873	-
Sale of Capital Assets	1,017	46,652	7,934	10,302	4,014	2,123	-47.11% [g]	2,123	-
Pension Bond Proceeds	-	-	-	-	909,990	-	-	-	-
Total Revenues and Resources	<u>\$ 2,081,459</u>	<u>\$ 2,291,147</u>	<u>\$ 2,300,847</u>	<u>\$2,351,815</u>	<u>\$ 3,309,550</u>	<u>\$ 2,384,372</u>	-27.95%	<u>\$ 2,395,070</u>	<u>\$ (10,698)</u>

[a] The "Percentage Change" column compares our FY19 projection to our FY18 estimate, while the "Difference" column compares our FY19 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 FY19 calculation for Property Tax revenues is based on the taxable values provided by the 3 appraisal districts in April 2018. The projection assumes an estimated \$5 million in delinquent collections and an estimated \$145 million in TIRZ payments. The calculated amount is \$1.205 billion, but being projected at the **Estimated Prop 1 cap amount of \$1.194 billion**.

[c] Sales Tax revenue uses our FY18 Sales Tax revenue estimate with sales tax revenue model estimates of a FY19 growth of 0.6%.

[d] Electric, Telephone, Gas, and Other Franchise fees decreased a total of \$6.3 million from decreases in phone lines, lower natural gas prices, fewer cable subscribers.

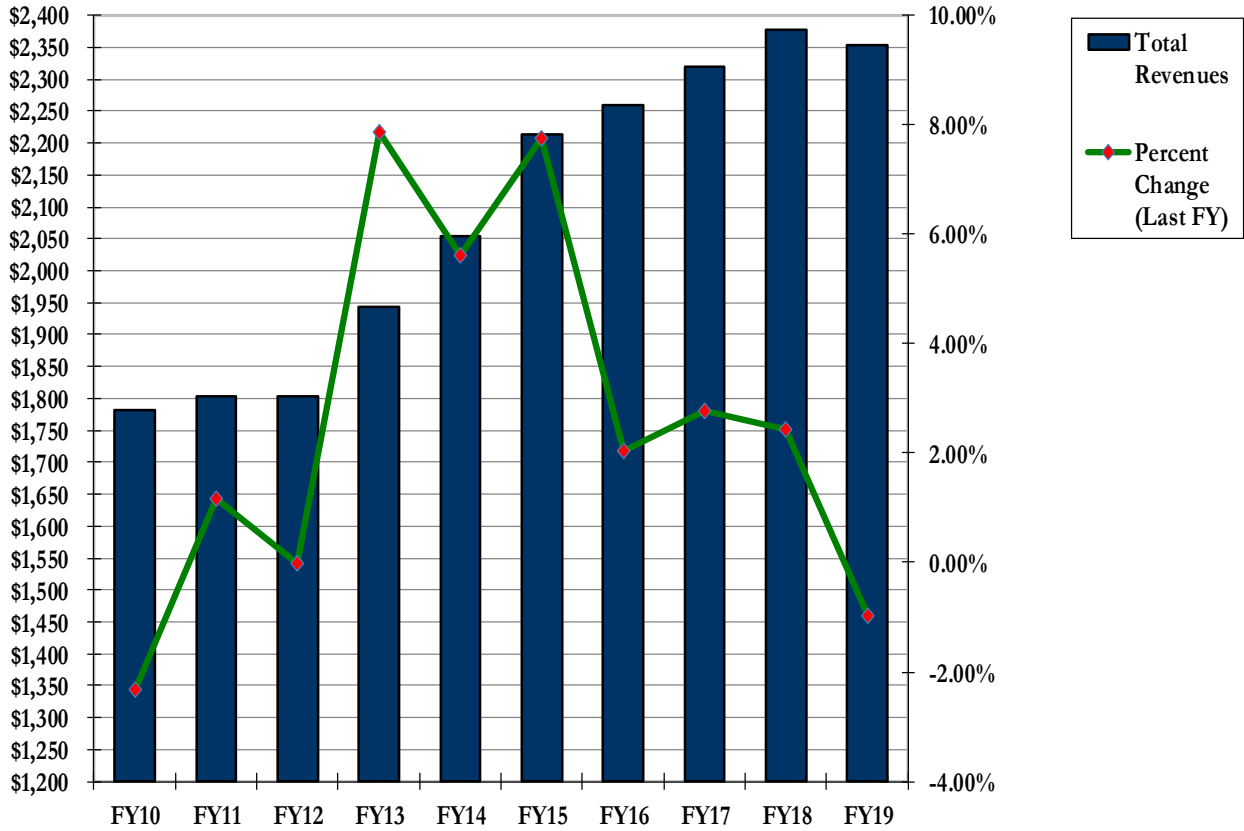
[e] Miscellaneous/Other decrease of 65.1% is from lower Recoveries & Refunds expected in FY2019.

[f] Transfers from Other Funds increase of 52.2% is from one-time transfers from Special Revenue funds in FY2019.

[g] Sale of Capital Assets decrease of 47.11% is from one-time sale of property in FY2018.

General Fund Revenues

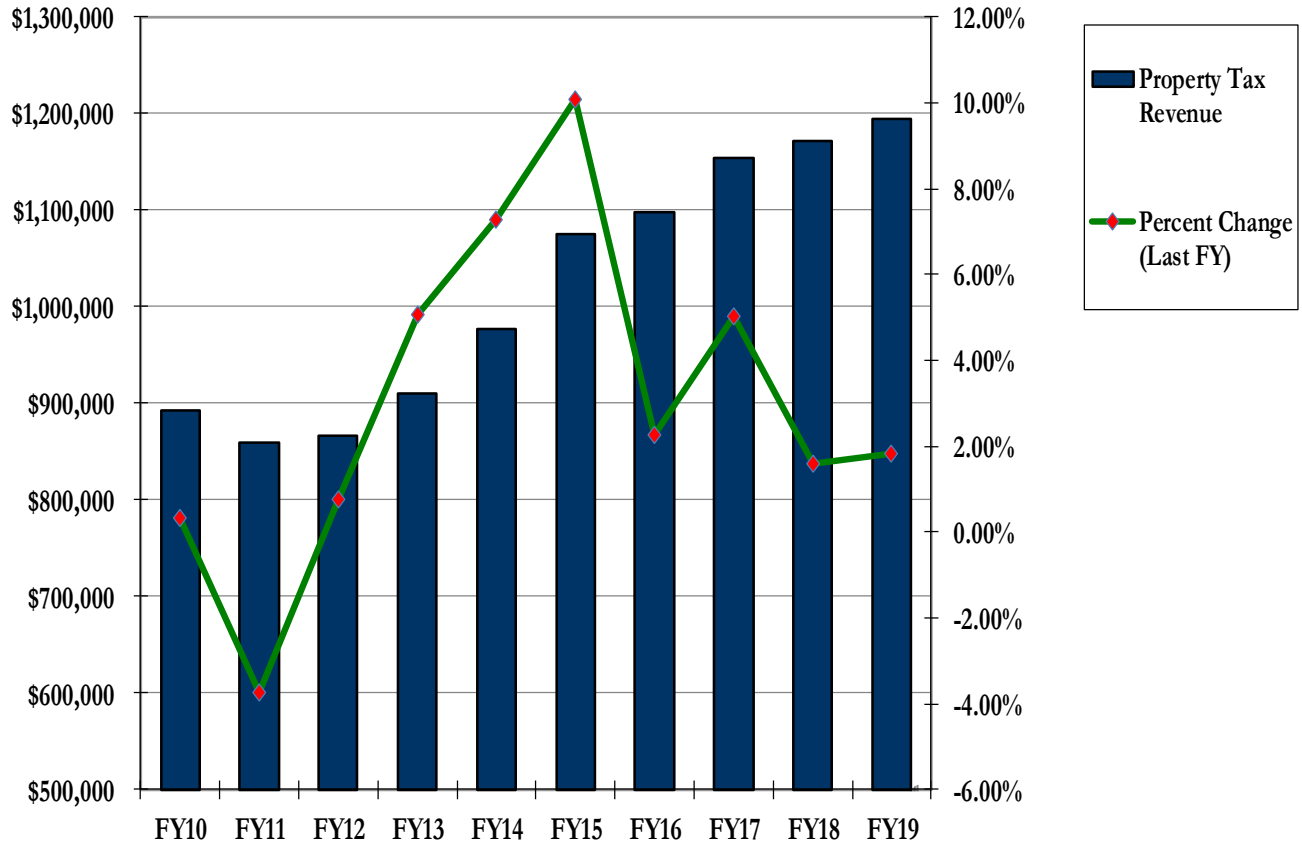
(amounts expressed in millions)



FY19 General Fund revenue is projected to decrease by \$22.8 million, or 9.6% under our current FY18 estimate. The projected decrease consists mostly of increased property tax of \$22 million, sales tax of \$4 million, and Direct Interfund of \$4 million, netted against decreases in franchise fees of \$6 million, Intergovernmental of \$11 million, and Miscellaneous/Other of \$34 million.

Property Tax Revenue

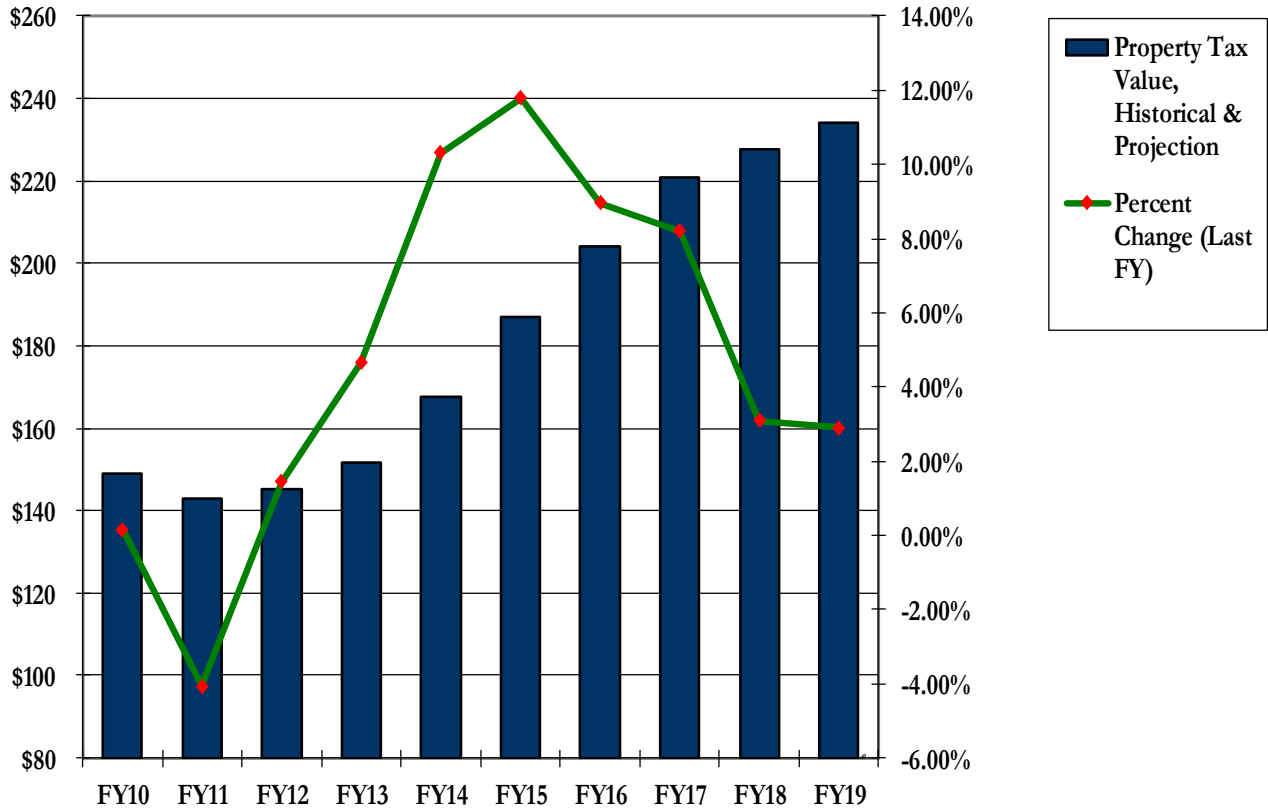
(amounts expressed in thousands)



Property Tax revenue is projected to be higher than the FY18 estimate by 1.8%. Controller's Property Tax revenue projection is based on the Estimated Prop 1 cap amount of \$1.194 billion. This amount is \$11 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 \$5 million.

Taxable Values Historical & Forecast

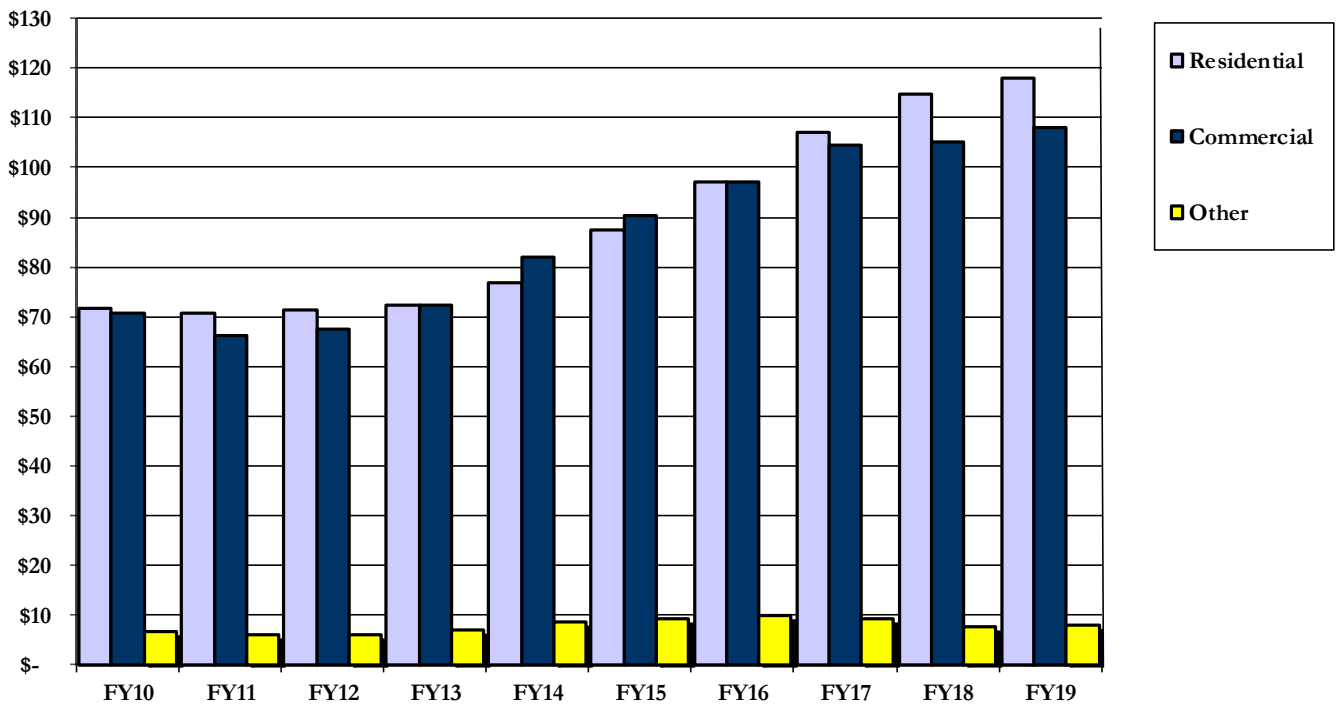
(amounts expressed in billions)



The Harris County, Fort Bend County, and Montgomery County Appraisal Districts (the Districts) provide expected taxable values. The actual taxable values for FY18 are above the preliminary value estimates provided at this time last year. However, based on the Districts' projection for FY19, an increase in valuation of about 2.89% is anticipated. These values are based on the Districts' preliminary projected values, dated April 30, 2018. Harris County taxable values comprise over 99% of the total.

Taxable Values By Property Type Historical & Forecast

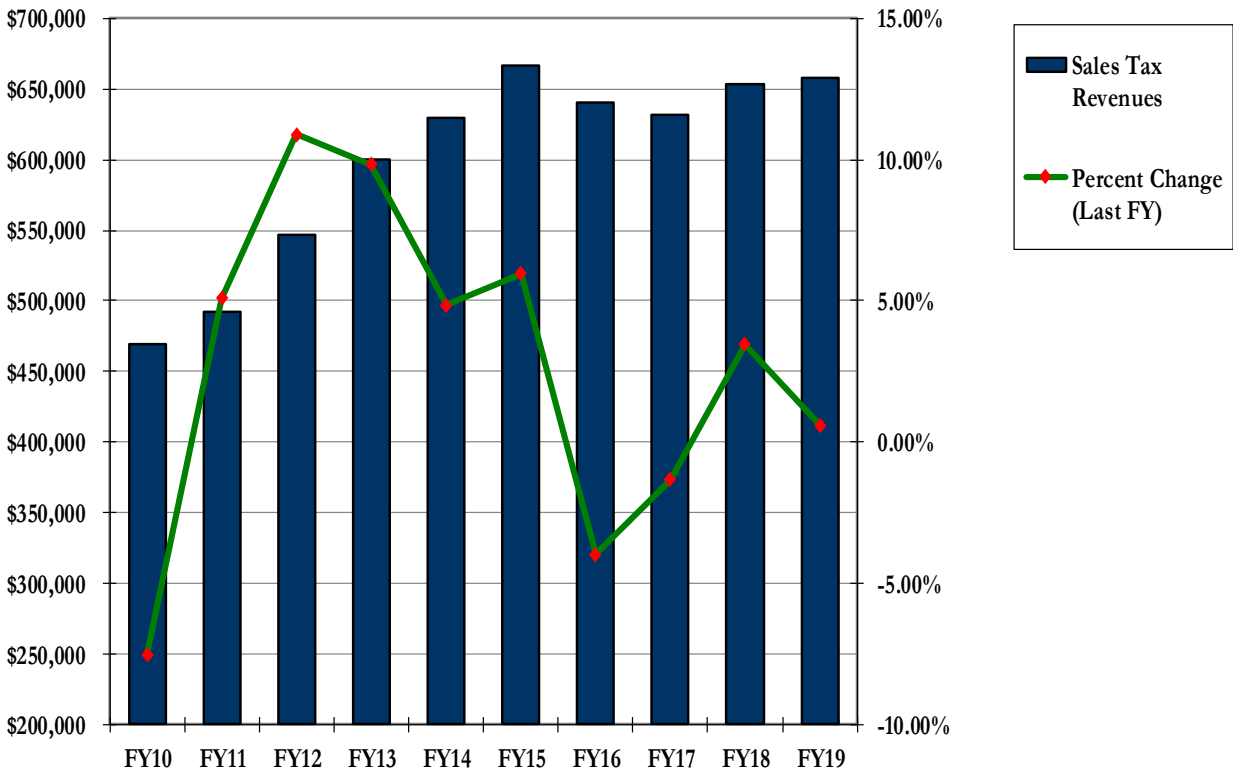
(amounts expressed in billions)



Residential and commercial properties in the City of Houston make up 96.5% of the taxable values.

Sales Taxes Revenue

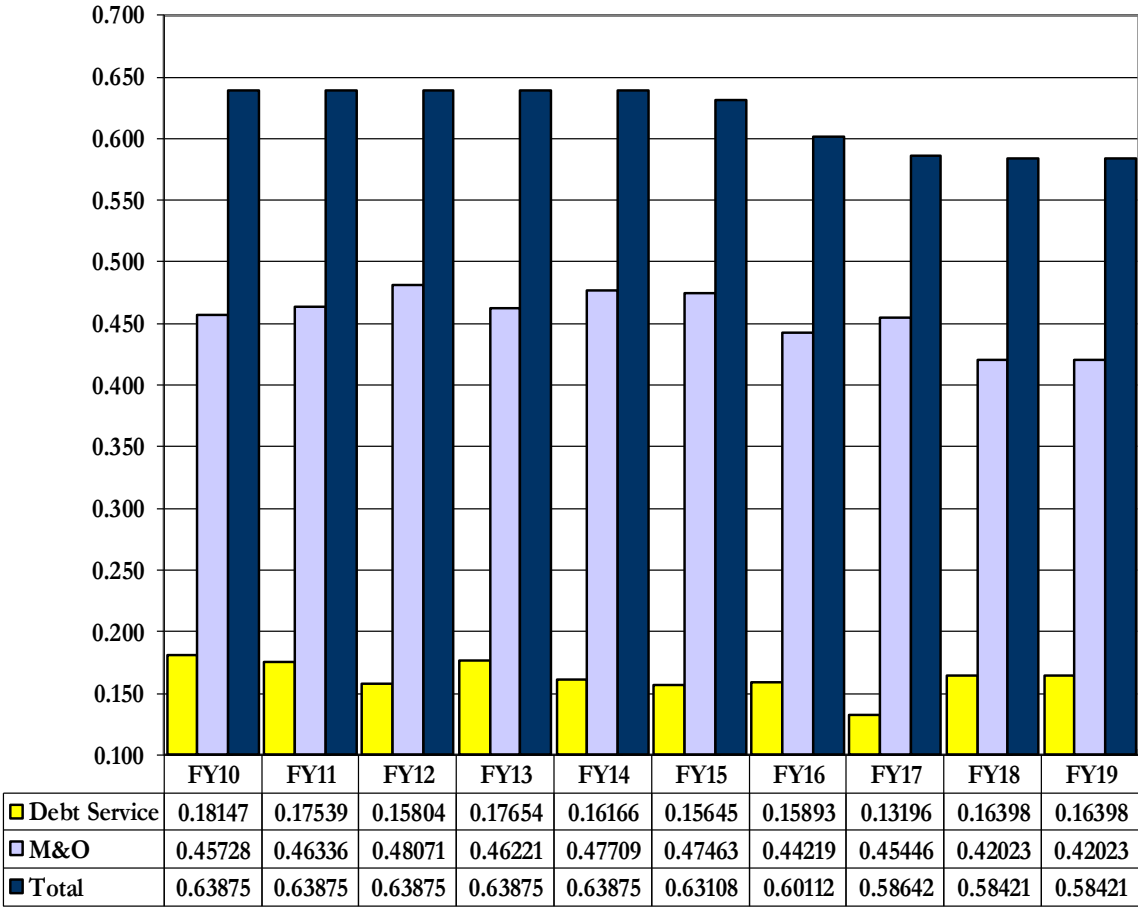
(amounts expressed in thousands)



FY19 Sales tax revenue is projected to be 0.6% higher than FY18 Sales Tax receipts. This increase is based on Dr. Gilmer's latest estimate for FY19.

Property Tax Rate

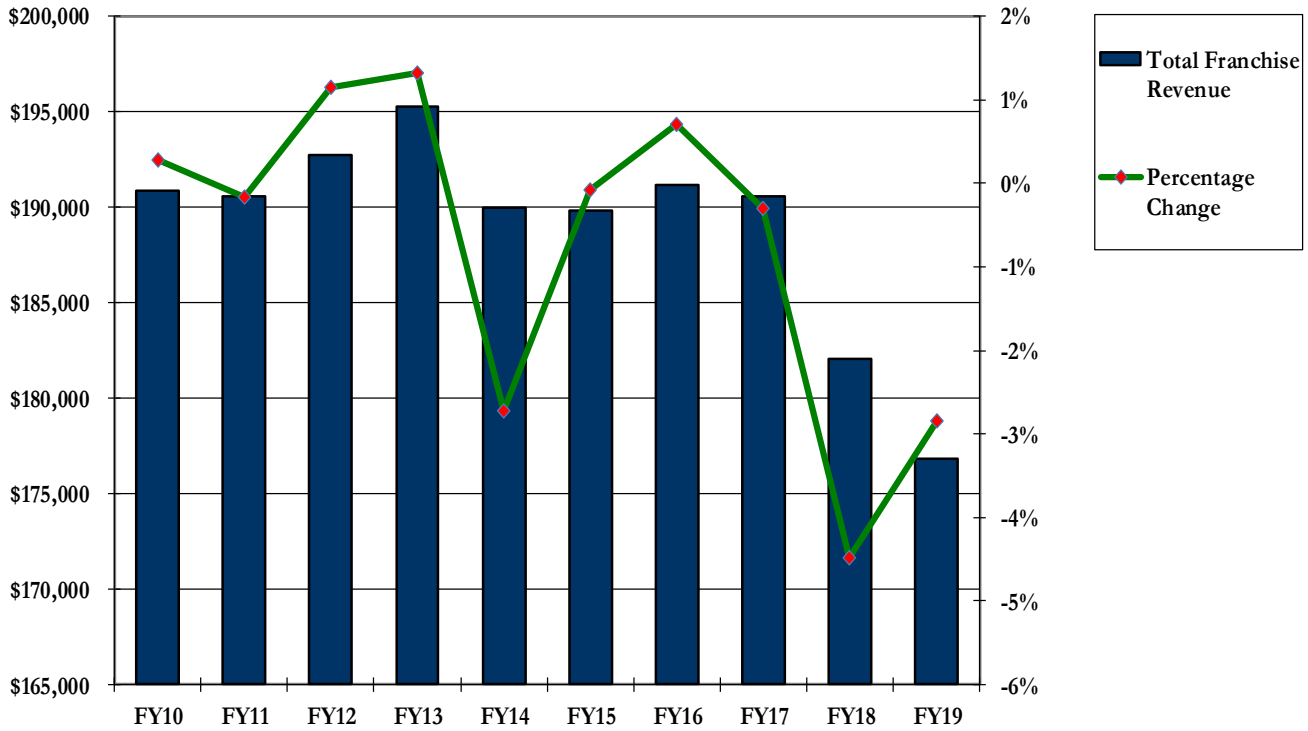
(Tax Rate per \$100 Valuation)



The FY19 number is a projection. The final rate will be established by a vote of Council in the first quarter of FY19 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

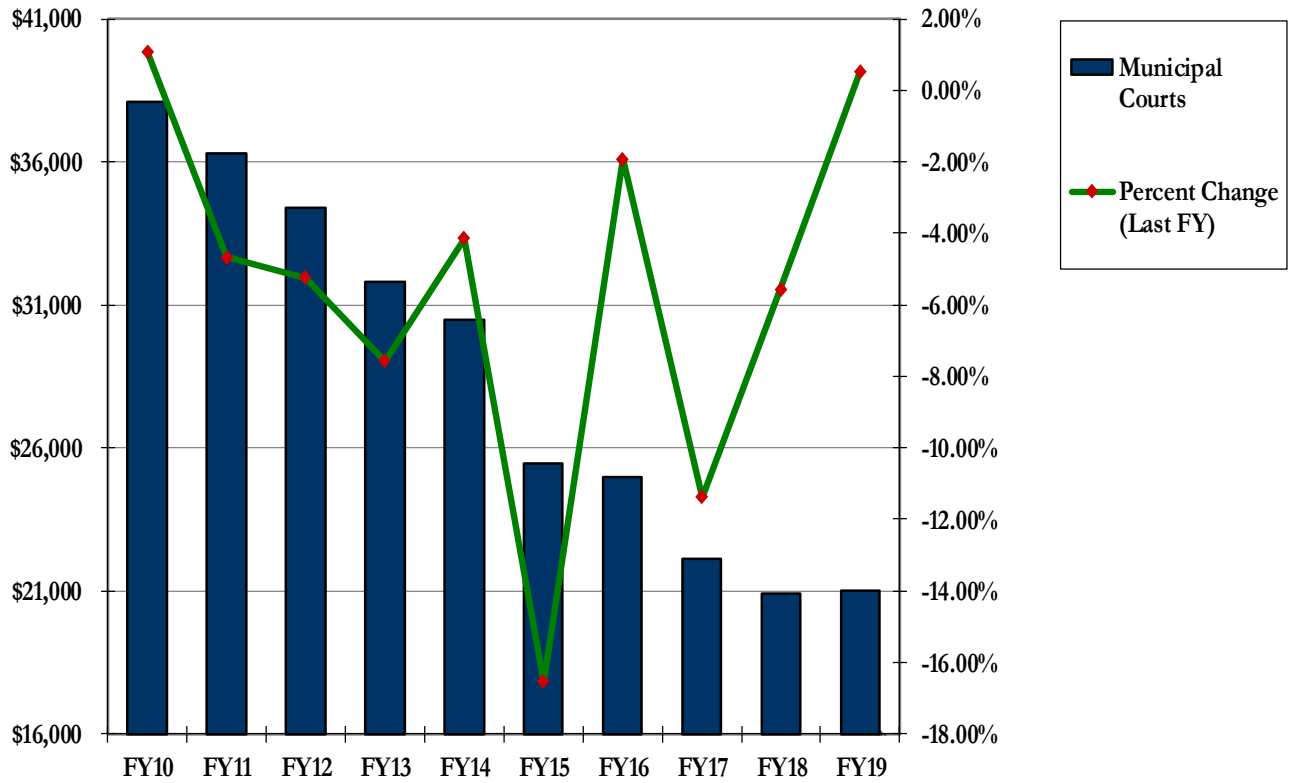
(amounts expressed in thousands)



Total Franchise revenues are projected to decrease \$6.3 million for FY19. Decreases are expected in Electric Franchise, Telephone Franchise, Gas Franchise, and Other Franchise.

Municipal Courts Revenues

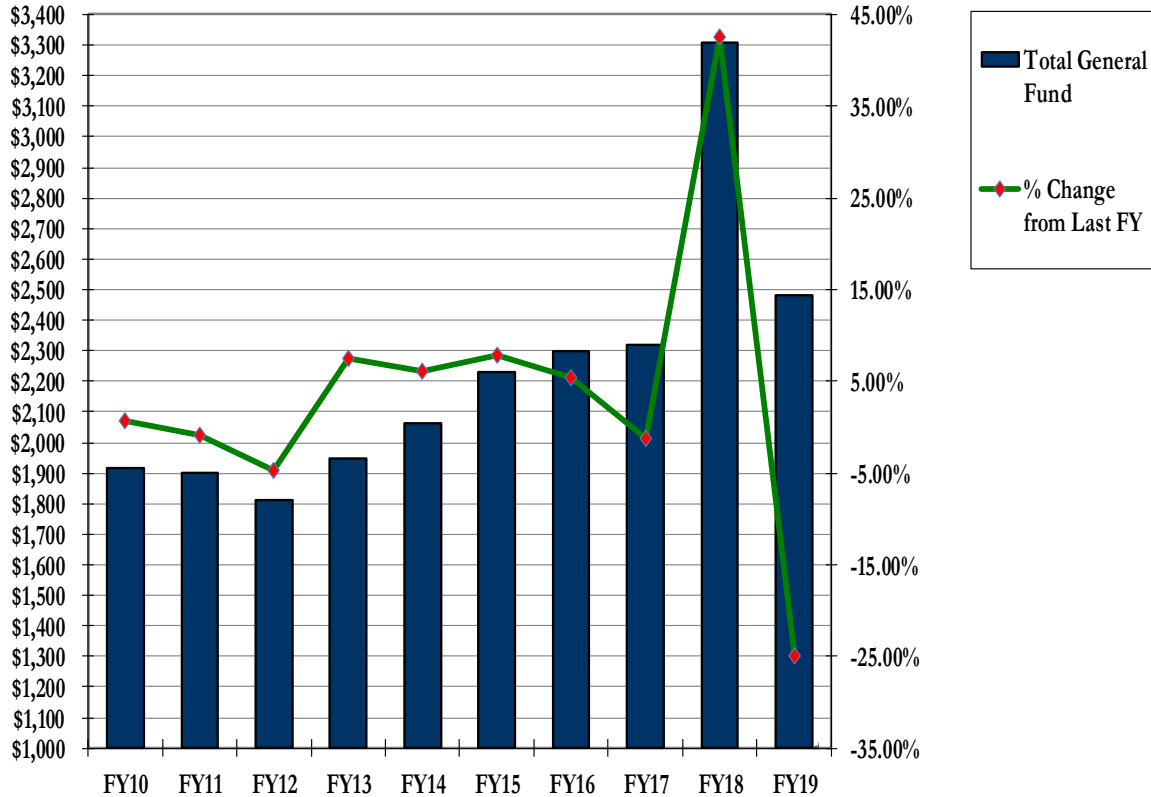
(amounts expressed in thousands)



Municipal Courts Fines and Forfeits are expected to remain flat in FY19.

General Fund Expenditures Budget

(amounts expressed in millions)

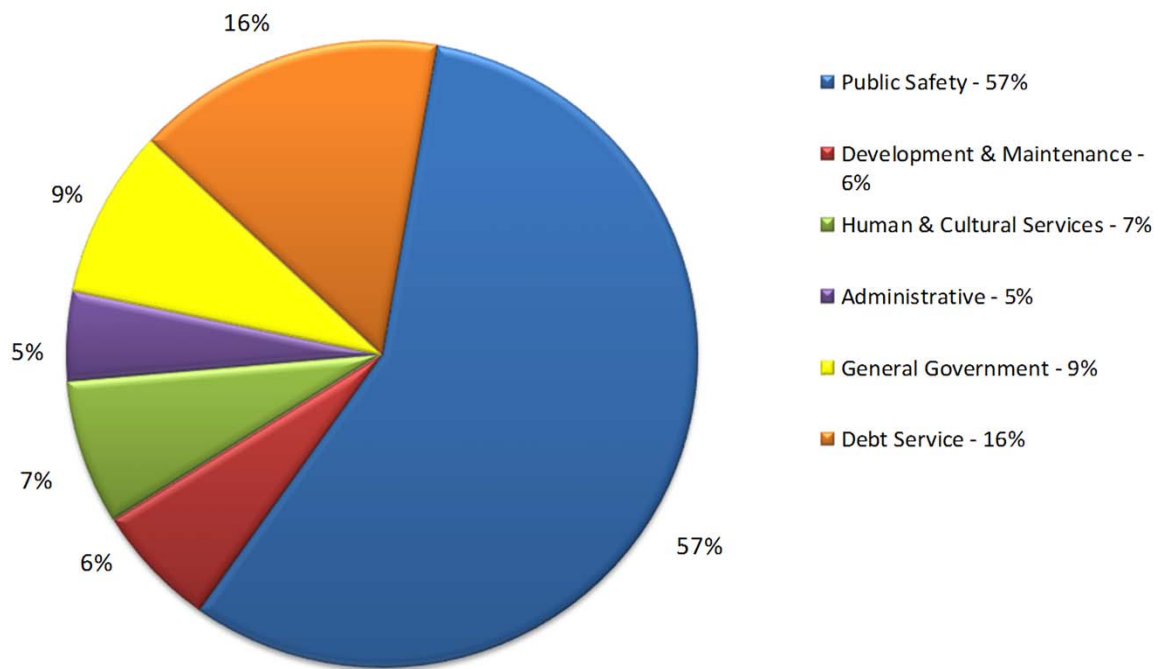


The General Fund expenditure budget is down by 25%, a decrease of \$826.8 million from our FY18 estimated expenditures, due to the additional Pension expense in FY18 for the Pension Bonds. The gap between Controller’s projected revenues/resources and budgeted expenditures will require using \$95 million from the Fund Balance to cover the operating deficit for FY19.

General Fund

Expenditures Percent by

Function for 2019



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

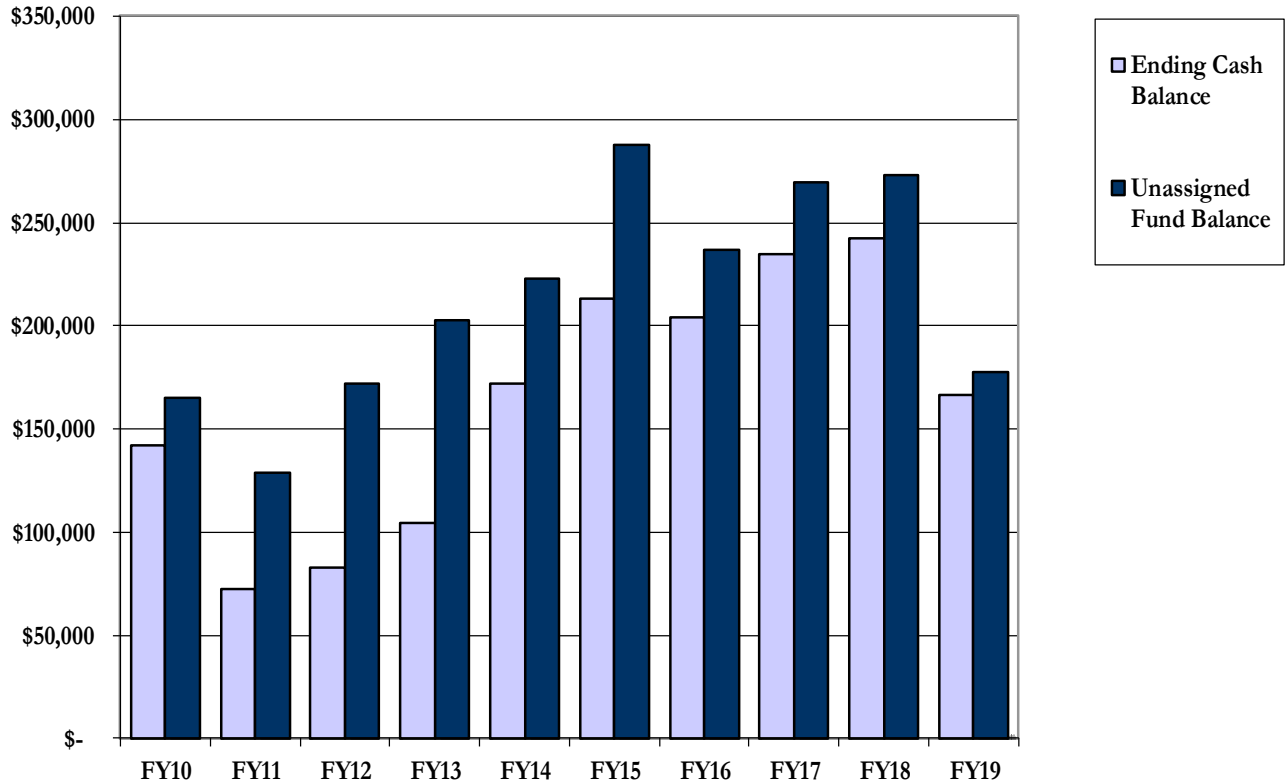
Development & Maintenance – General Services, Planning, Public Works, Solid Waste

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

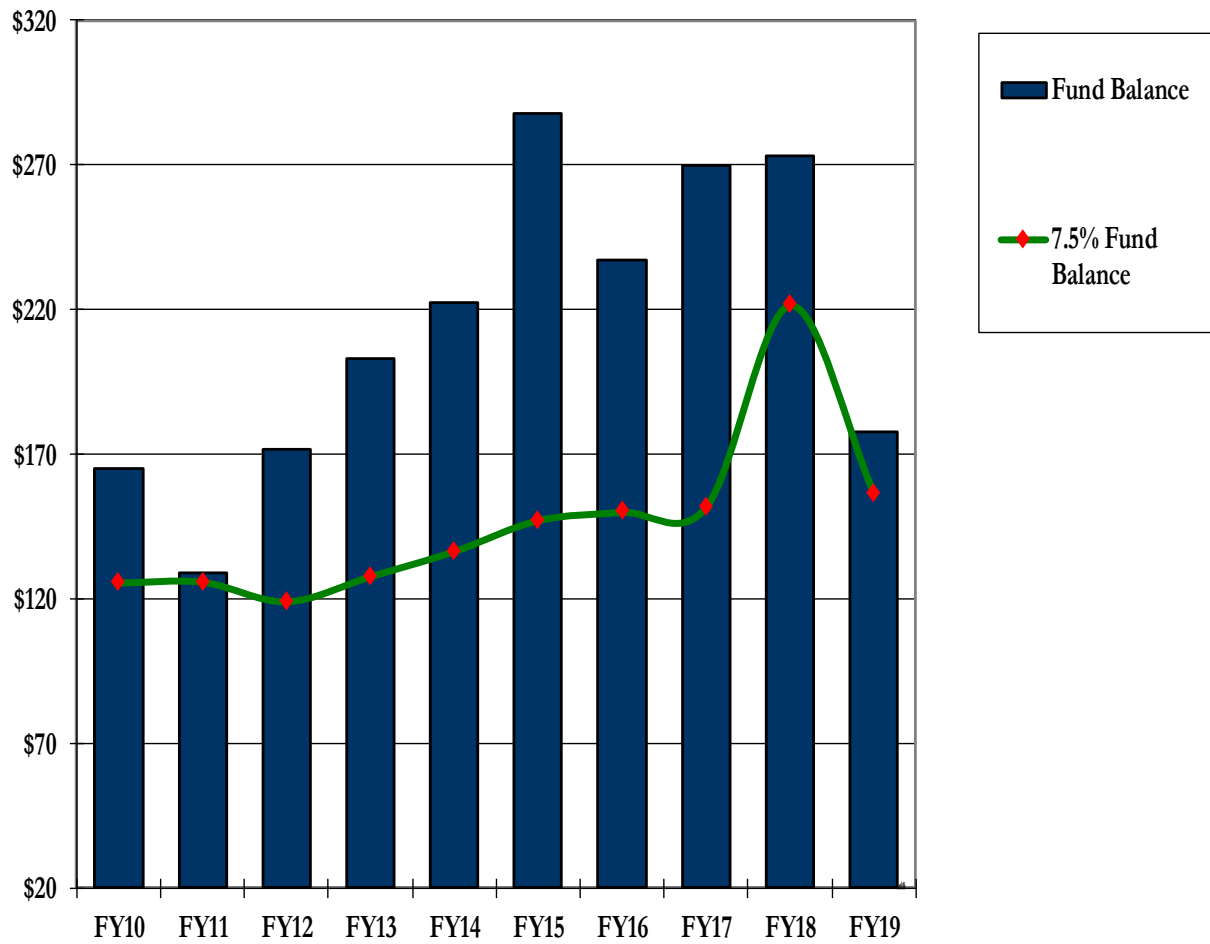
(amounts expressed in thousands)



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 increase by \$3.7 million in FY18 and decrease by \$95.6 million in FY19.

City Ordinance 7.5% Fund Balance Requirement

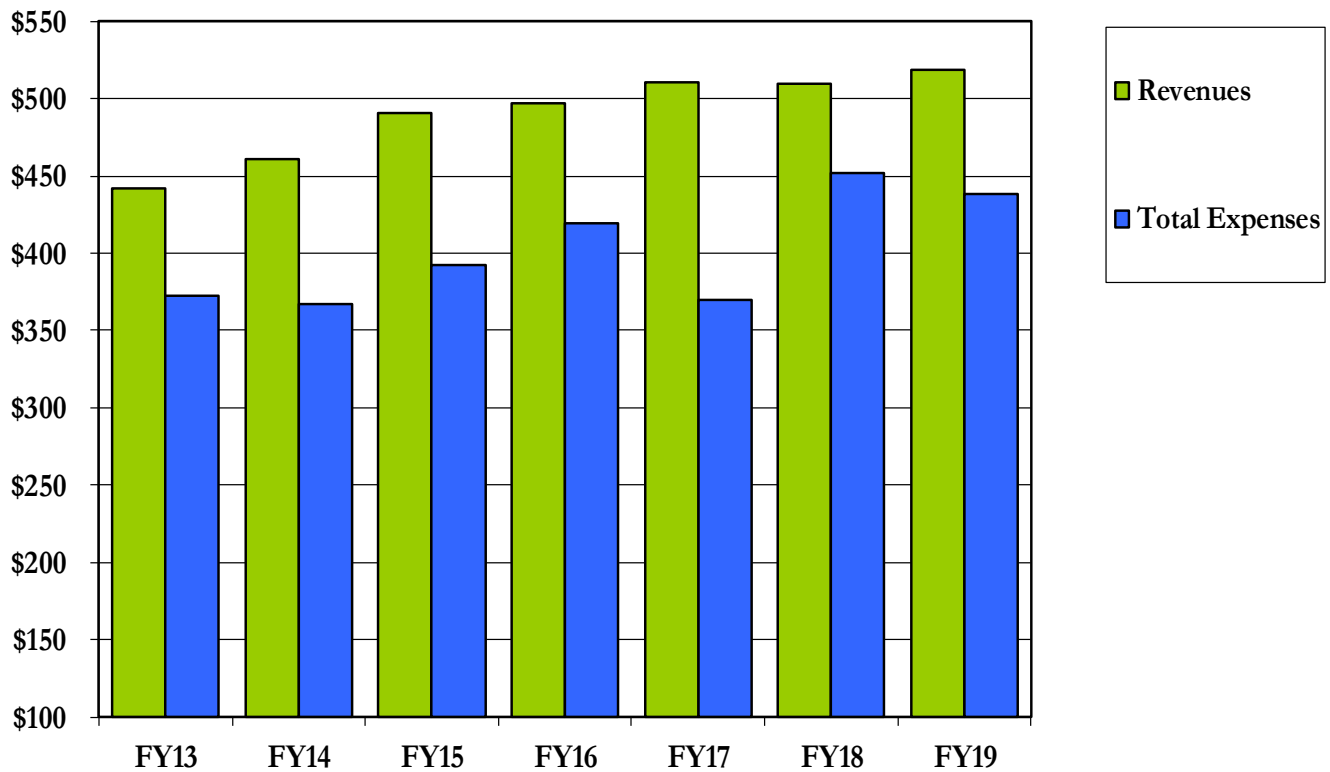
General Fund



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 FY19, we are projecting an ending fund balance \$22 million above the 7.5% required.

Aviation Revenues & Expenses

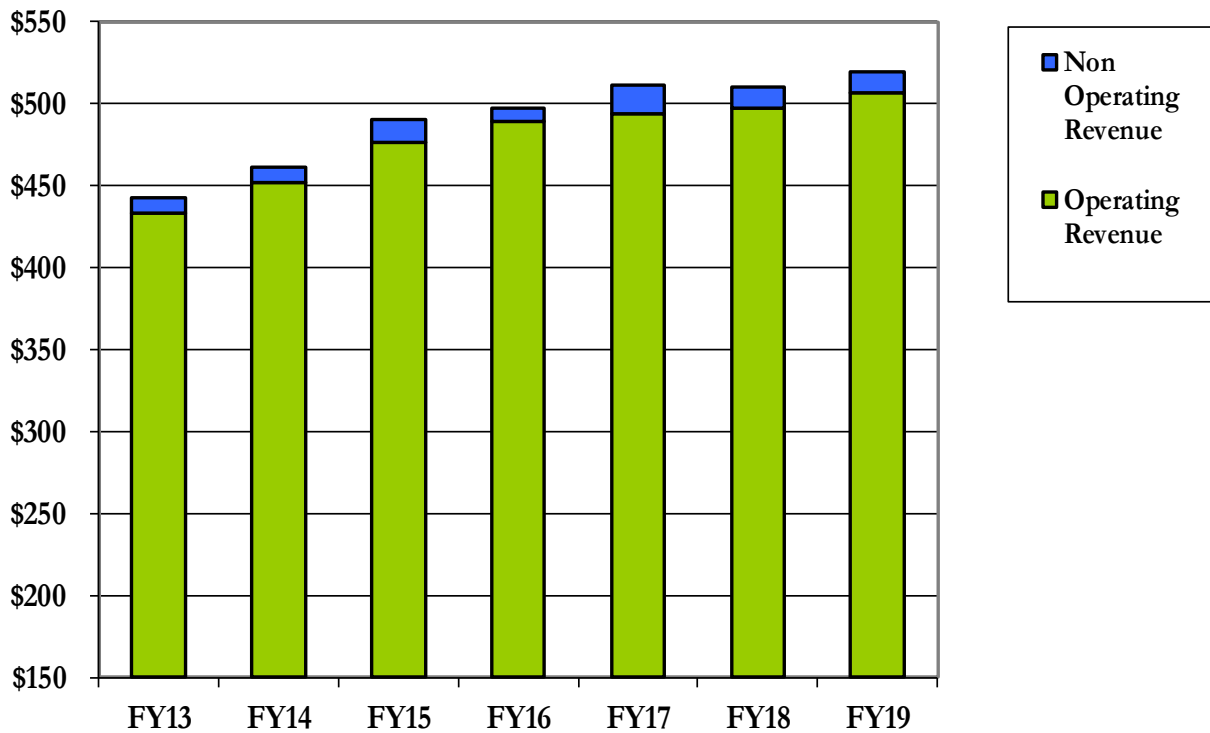
(amounts expressed in millions)



Aviation is projecting revenues to increase predominantly due to additional operating revenues. Expenses are projected to decrease due to a reduction in Debt Service which is partially offset by an increase in maintenance and operating costs.

Aviation Revenues

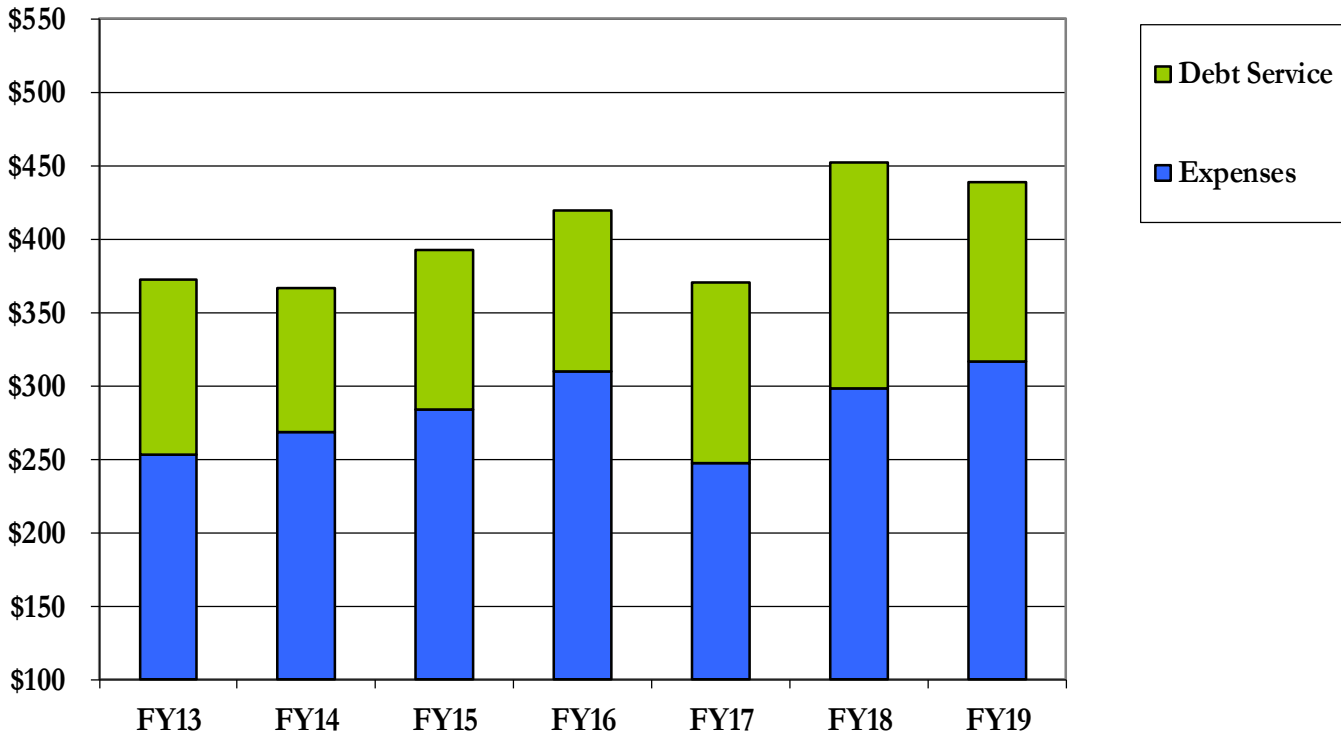
(amounts expressed in millions)



FY19 revenues are expected to increase only 1.9%, or \$9.7 million from the FY18 estimate, primarily related to a budgeted increase in Terminal Space Rentals, Landing Fees, Garage Parking, Ground Transportation and Interest Income.

Aviation Expenses

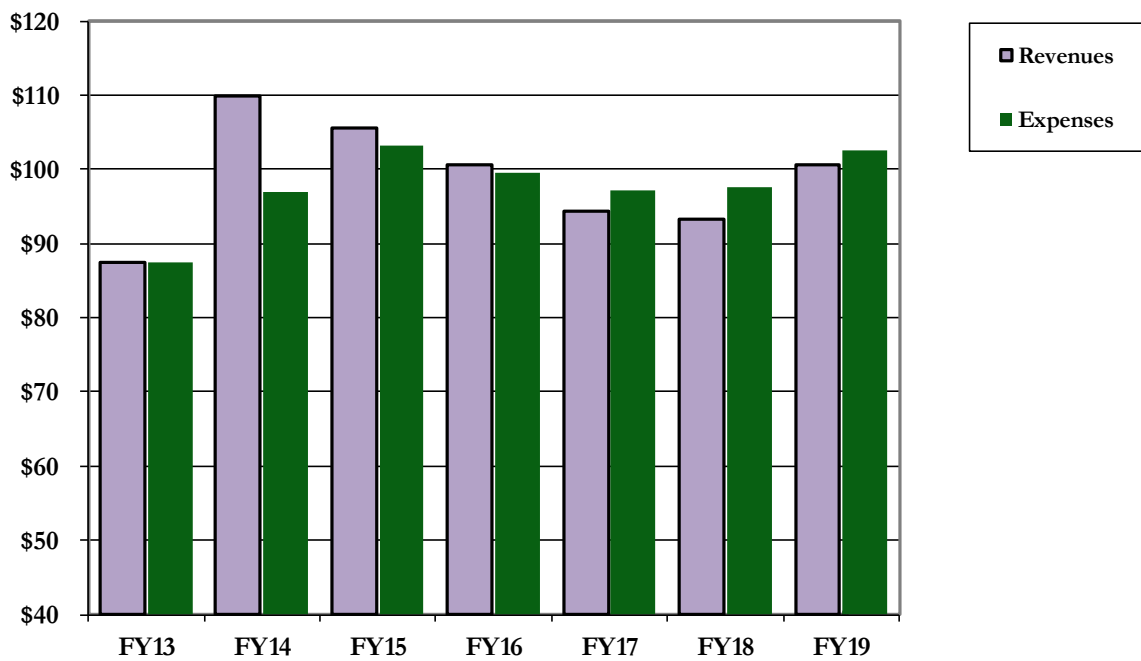
(amounts expressed in millions)



Aviation expects an FY19 expense decrease of approximately 3.0%, or \$13.6 million under the FY18 estimate. FY19 Debt Service costs are anticipated to be lower due to the Pension Bond Prepayment made in FY18, and increased capacity to utilize Passenger Facility Charges for Debt Service requirements in FY19. This is partially offset by an increase in Personnel and Service Contract costs.

Convention & Entertainment Revenues & Expenses

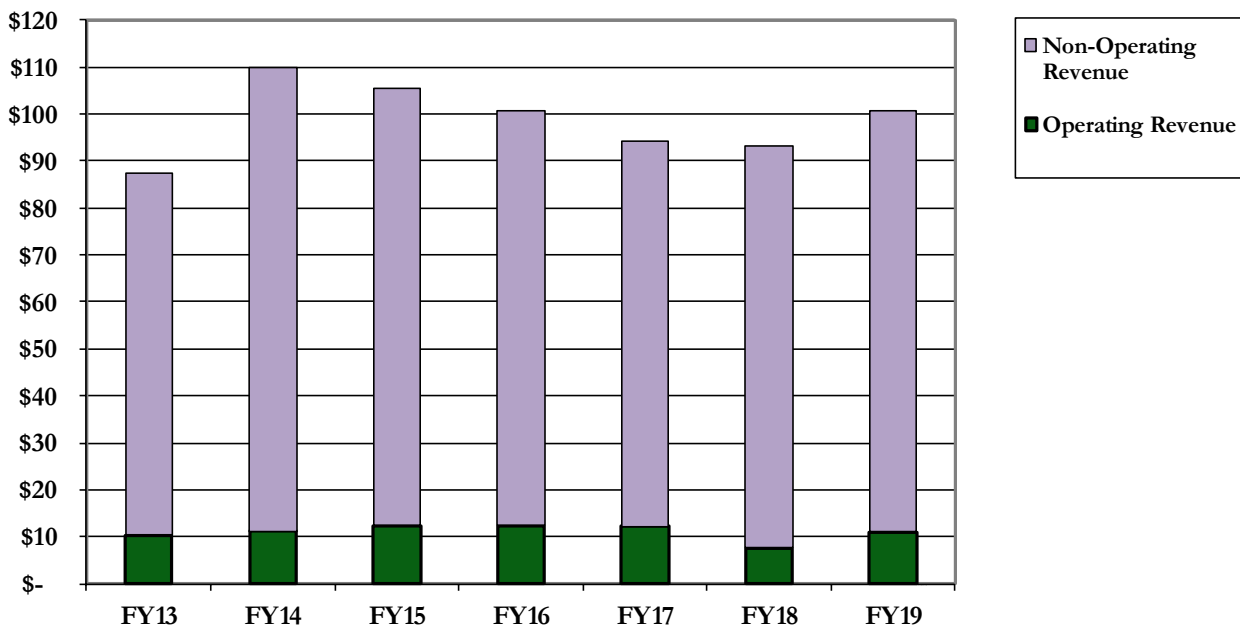
(amounts expressed in millions)



Convention & Entertainment projects the expenses to be basically level with the revenues in FY19.

Convention & Entertainment Revenues

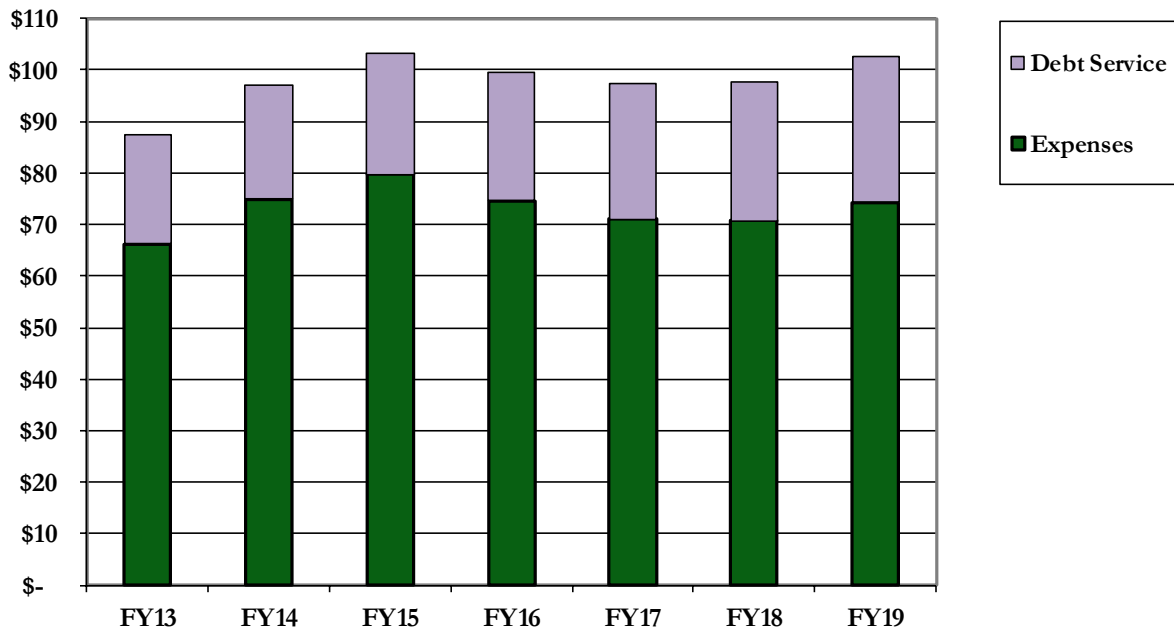
(amounts expressed in millions)



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 FY19 by \$4 million. Pledged Parking fees are anticipated to increase by \$3.3 million. FY19 revenues are projected to increase 7.8% or \$7.3 million.

Convention & Entertainment Expenses

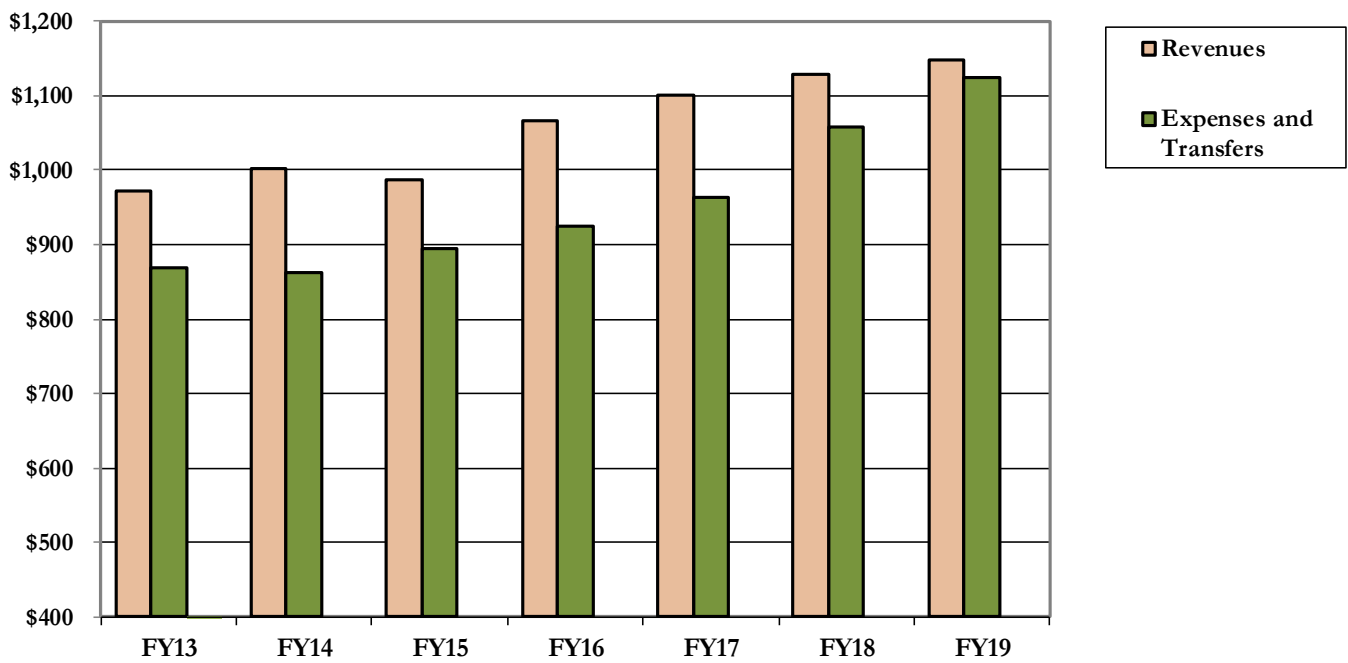
(amounts expressed in millions)



Convention & Entertainment is projecting an overall expense increase of \$4.9 million from FY18 levels, up 5% in FY19 due to increases in payments to Houston First Corporation related to the increased revenue projections.

Combined Utility System Revenues and Expenses

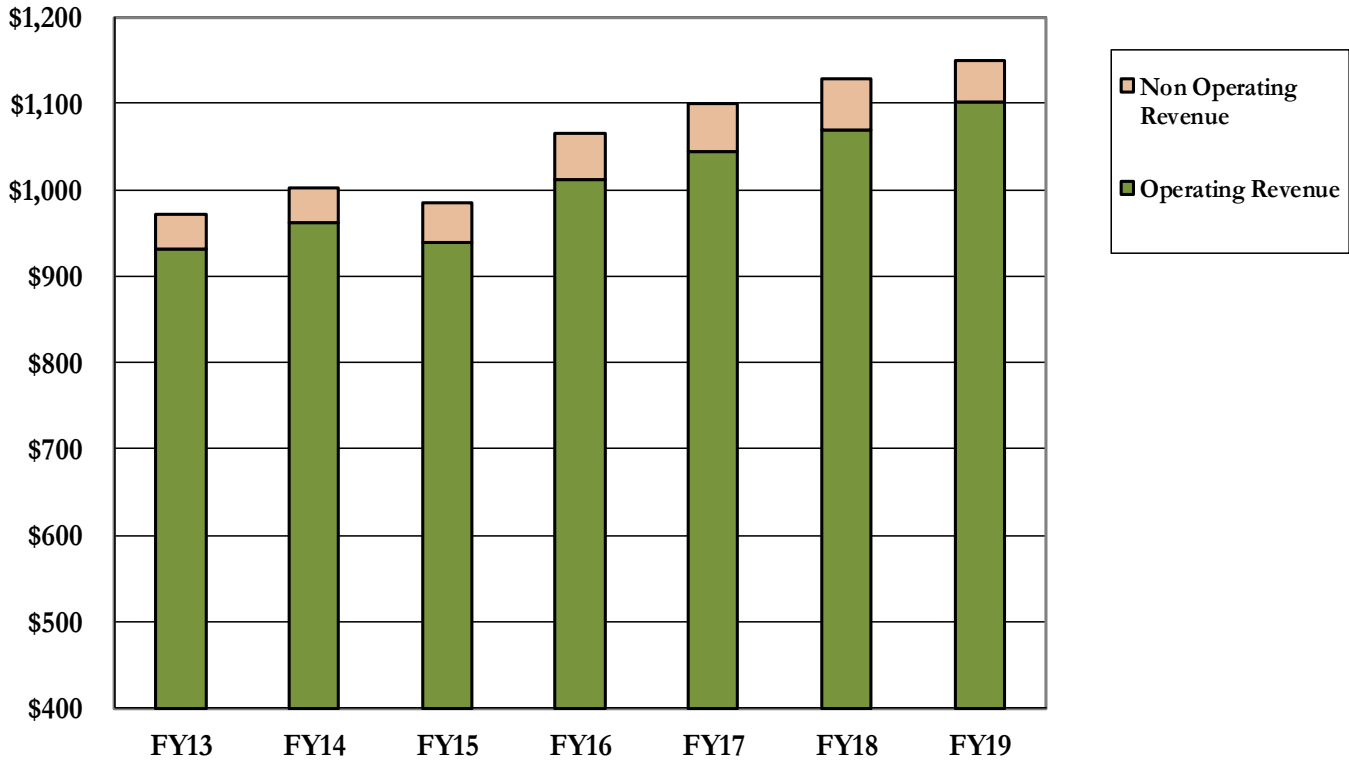
(amounts expressed in millions)



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

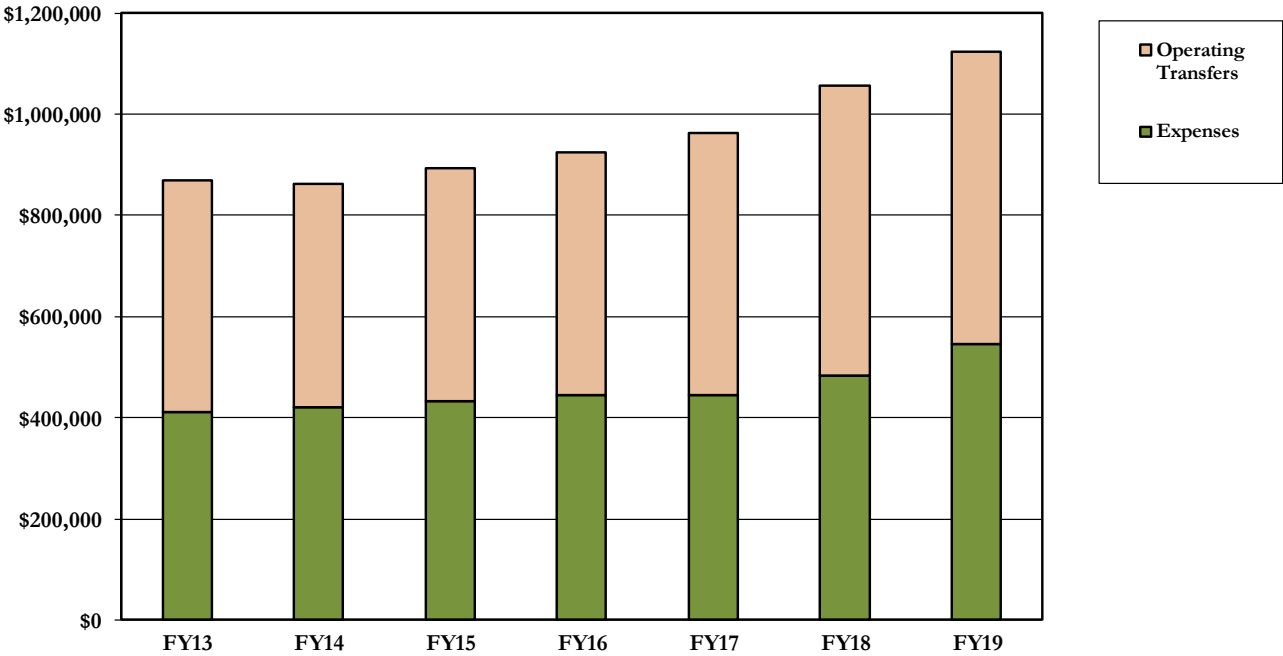
(amounts expressed in millions)



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, and 2018 are 5.1%, 0.3%, 1.9%, 3.3%, 3.6%, 1.2%, 4.4%, 1.4%, 3.4%, 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.