

Office of the City Controller



Houston, Texas

Trends for Fiscal Year 2015

May 2014

Ronald C. Green
City Controller

Trends

Fiscal Year 2015

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 FY15 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 2014 are expected to increase 5.0% from Fiscal Year 2013 revenues. However, Fiscal Year 2015 revenues are anticipated to increase approximately 4.6% (not including transfers and sale of assets). Fiscal Year 2015's projected revenues primarily reflect increases in Property Tax and Sales Tax.

Of concern, our FY15 projection for General Fund resources is \$42.3 million less than the Administration's FY15 Proposed Budget. To calculate Property Tax revenue, the Controller's Office used an estimated taxable value of \$179.9 billion, calculated by taking the estimated taxable values from Harris County, Fort Bend County, and Montgomery County Appraisal Districts in April 2014 and reducing that value 1% to recognize expected higher protests of taxable values, and a 98.0% collection rate. The Administration's projection used a taxable value of \$183.5 billion, and a 97.8% collection rate. For our Sales Tax projection, we assumed growth of 3.3%, which is Dr. Gilmer's March Low Forecast projection. Dr. Gilmer's Base projection is 4.2%. The Administration is using 5.4%, from their Houston Economic Multi-Sector Model.

We need to point out that the General Fund Beginning Fund Balance shown in the Proposed Budget is \$7.4 million higher than our draft FY14 April MFOR projection. Combined with the fact that the 2015 Proposed Budget for the General Fund reduces fund balance \$45.0 million, our projected Ending Fund Balance for FY15 is \$105.1 million, or 5.3% of the expenditures other than debt service, which is below the preferred amount of 7.5%.

We also need to note that the U.S. Census Bureau just released the annual population estimate that is used for the Prop 1 calculation. It is lower than the estimate used by the Administration in the Proposed Budget. This will cause the Prop 1 cap to be \$2.2 million lower than the Proposed Budget for Property Tax revenues.

In the Enterprise Funds, Aviation revenues are increasing slightly due to higher Terminal, Parking and Landings 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. **FY13 and prior years are actual results as reported in previous Comprehensive Annual Financial Reports (CAFR).**
2. **FY14 numbers are the Controller's Office April Monthly Financial Operations Report (MFOR) draft estimates.**
3. **The FY15 General Fund revenues are the most current projections of the Controller's Office.**
4. **Unless otherwise noted, all other FY15 numbers are from the Administration's FY15 Proposed Budget.**

General Fund Revenues

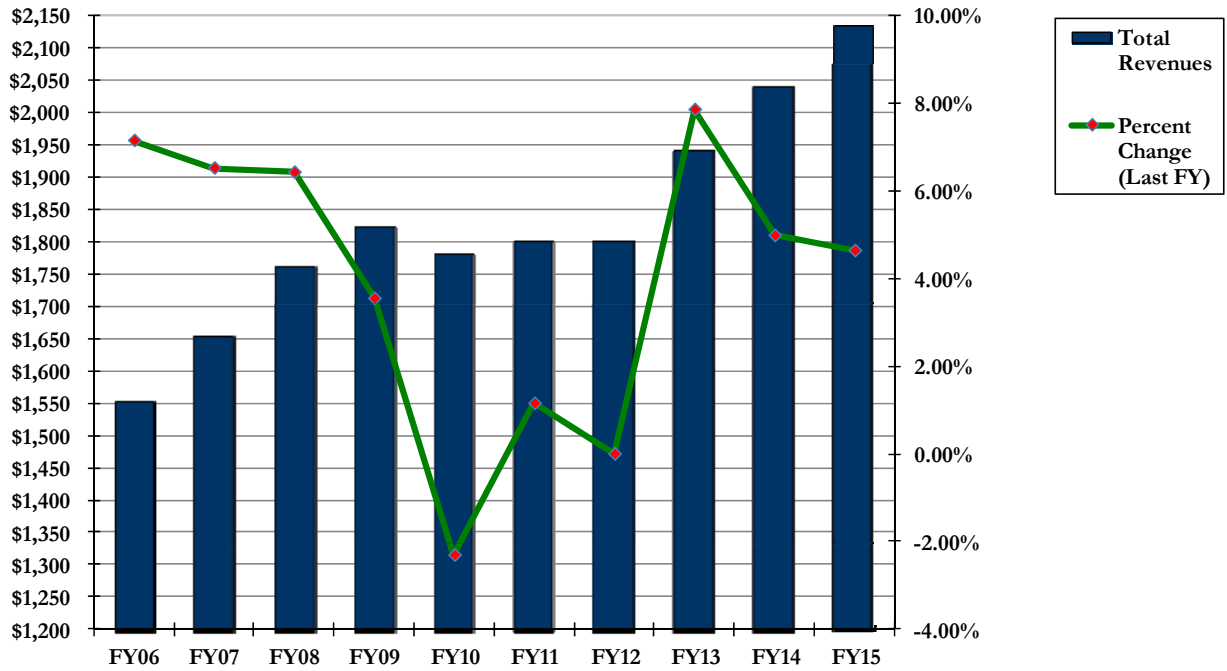
(amounts expressed in thousands)

| Revenues | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | Admin.'s Proposed Budget | Difference [a] |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|-----------------------------|----------------------------|--------------------------------|--------------------|
| | Actual | Actual | Actual | Actual | Controller's April Proj. | Controller's Projection | | |
| Property Tax | \$ 892,865 | \$ 859,413 | \$ 866,141 | \$ 910,034 | \$ 979,503 | \$ 1,050,754 | \$ 1,069,545 | (18,791) |
| Industrial Assessments | 15,817 | 14,458 | 37 | 29,845 | 14,000 | 13,500 | 15,000 | (1,500) |
| Sales Tax | 468,965 | 492,824 | 546,543 | 600,256 | 631,709 | 652,555 | 666,968 | (14,413) |
| Other Taxes | 10,577 | 10,450 | 9,717 | 10,083 | 13,000 | 13,250 | 14,168 | (918) |
| Electric Franchise | 97,248 | 98,108 | 99,765 | 103,941 | 100,526 | 100,670 | 100,670 | - |
| Telephone Franchise | 48,263 | 46,722 | 45,466 | 45,143 | 43,525 | 41,625 | 42,225 | (600) |
| Gas Franchise | 21,729 | 21,890 | 22,009 | 19,194 | 16,492 | 14,538 | 14,538 | - |
| Other Franchise | 23,628 | 23,844 | 25,520 | 27,026 | 27,177 | 27,325 | 27,666 | (341) |
| Licenses & Permits | 18,636 | 18,714 | 24,586 | 34,220 | 33,905 | 34,250 | 34,507 | (257) |
| Intergovernmental | 32,148 | 58,895 | 12,124 | 12,354 | 19,487 | 21,619 | 21,619 | - |
| Charges for Services | 34,156 | 38,166 | 45,370 | 42,232 | 46,543 | 49,500 | 53,070 | (3,570) |
| Direct Interfund Services | 46,906 | 46,034 | 41,469 | 43,520 | 46,140 | 48,453 | 48,453 | - |
| Indirect Interfund Services | 16,012 | 16,328 | 18,255 | 16,908 | 19,222 | 23,725 | 23,725 | - |
| Muni Courts Fines | 38,096 | 36,319 | 34,416 | 31,814 | 29,643 | 30,000 | 31,308 | (1,308) |
| Other Fines | 2,029 | 2,903 | 2,774 | 4,666 | 4,484 | 4,300 | 4,412 | (112) |
| Interest | 6,858 | 5,788 | 4,433 | 3,081 | 2,250 | 2,125 | 2,401 | (276) |
| Misc/Other | 8,215 | 11,872 | 4,070 | 10,129 | 13,804 | 8,000 | 8,170 | (170) |
| Total | \$ 1,782,148 | \$ 1,802,728 | \$ 1,802,695 | \$ 1,944,446 | \$ 2,041,410 | \$ 2,136,189 | \$ 2,178,445 | \$ (42,256) |
| Transfers from Other Funds | 38,658 | 23,561 | 53,144 | 30,742 | 29,208 | 30,402 | 30,402 | - |
| Sale of Capital Assets | 6,548 | 13,766 | 1,504 | 4,602 | 2,500 | 2,500 | 2,500 | - |
| Proceeds from Promissory Note | - | - | - | 10,666 | - | - | - | - |
| Pension Bond Proceeds | 20,000 | - | - | - | - | - | - | - |
| Total Revenues and Transfers | \$ 1,847,354 | \$ 1,840,055 | \$ 1,857,343 | \$ 1,990,456 | \$ 2,073,118 | \$ 2,169,091 | \$ 2,211,347 | \$ (42,256) |

- [a] The “Percentage Change” column compares our FY15 projection to our FY14 estimate, while the “Difference” column compares our FY15 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 FY15 projection for Property Tax revenues is based on the taxable values provided by Harris County on April 30, 2014. This amount was reduced an additional 1% to reflect the expected higher protests in taxable values. The projection assumes an estimated \$25 million in delinquent collections and an estimated \$100 million in TIRZ payments.
- [c] Sales Tax revenue uses our FY14 Sales Tax revenue estimate plus Dr. Robert Gilmer’s March 2014 estimated Low Forecast growth rate of 3.3% for FY15. His Base Forecast growth rate was 4.2%.
- [d] Gas Franchise decrease of 12% is due to continued lower Natural Gas prices.
- [e] Intergovernmental increase of 11% is from higher Medicaid 1115 Waiver revenues, which are offset by additional expenditures for the same amount in the Health Department budget.
- [f] Indirect Interfund increase of 23% is due to higher General Fund administrative overhead costs, which are allocated operating departments and other funds.
- [g] Miscellaneous/Other decrease of 42% is from one-time Judgments & Claims received in FY2014.

General Fund Revenues

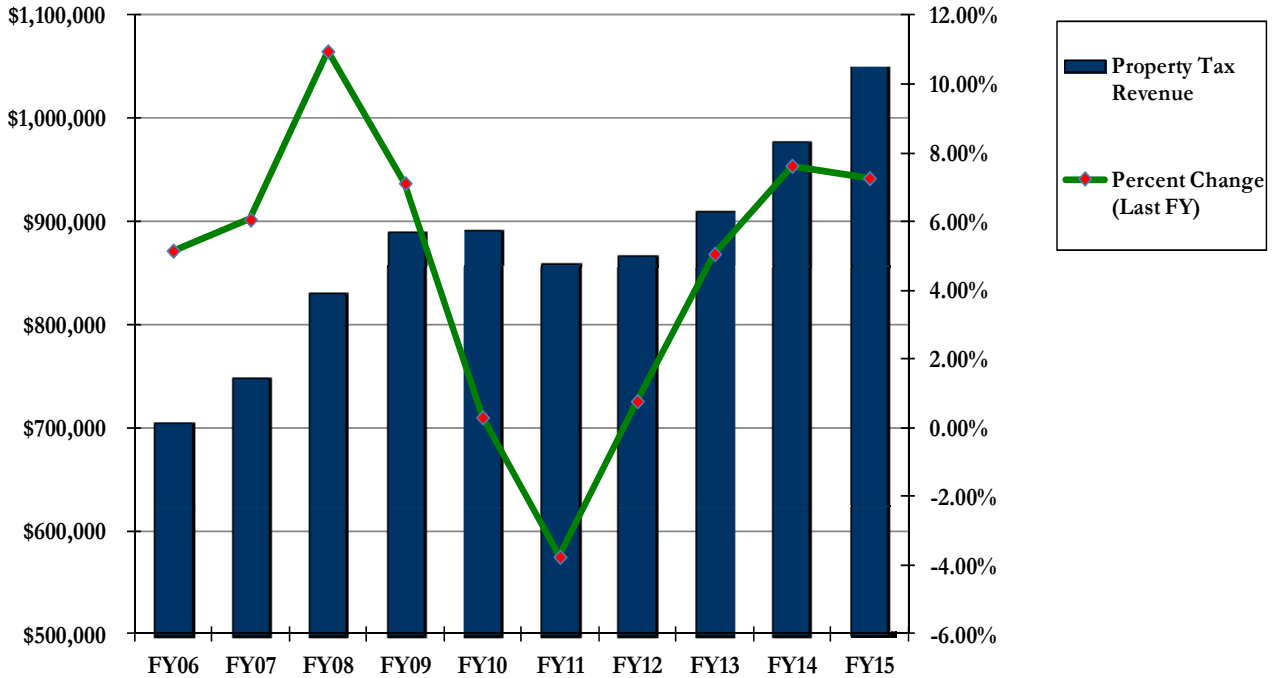
(amounts expressed in millions)



FY15 General Fund revenue is projected to increase by \$94.8 million, or 4.6% over our current FY14 estimate. The projected increase consists mostly of increased property tax of \$71.3 million and sales tax of \$20.8 million.

Property Tax Revenue

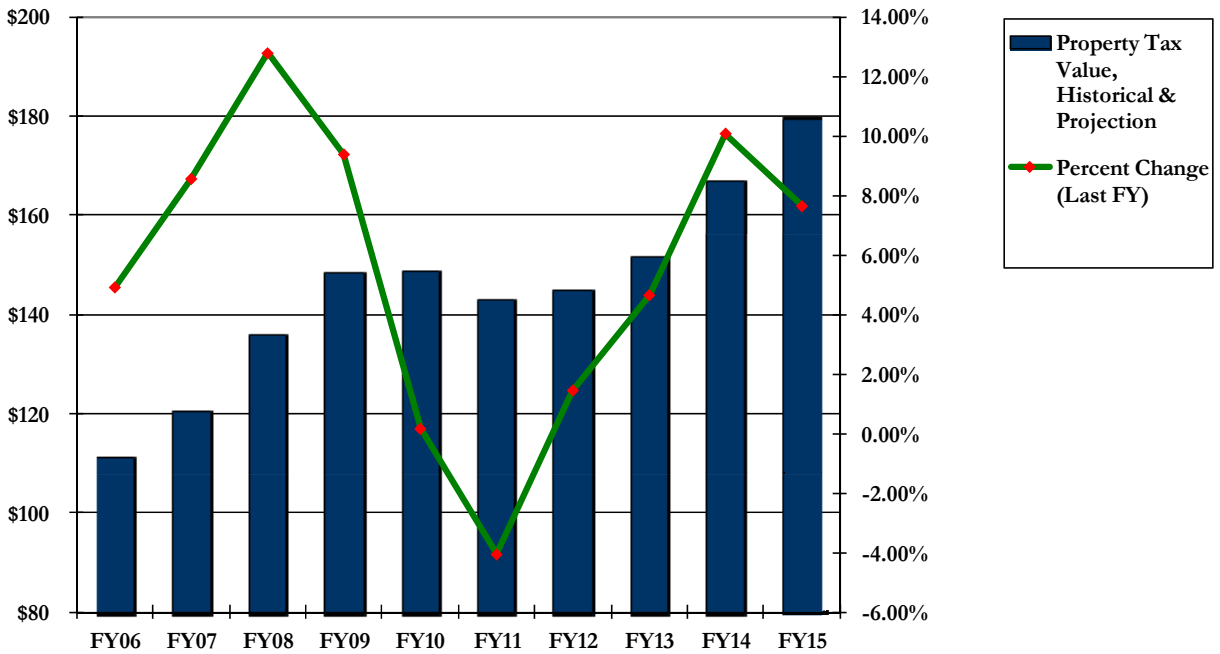
(amounts expressed in thousands)



Property Tax revenue is projected to be higher than the FY14 estimate by 7.3%. TIRZ payments are increasing to \$100 million, and delinquent tax collections of \$25 million. Controller's Property Tax revenue projection is based on a tax rate of 63.875 cents per \$100 valuation and a collection rate of 98%.

Taxable Values Historical & Forecast

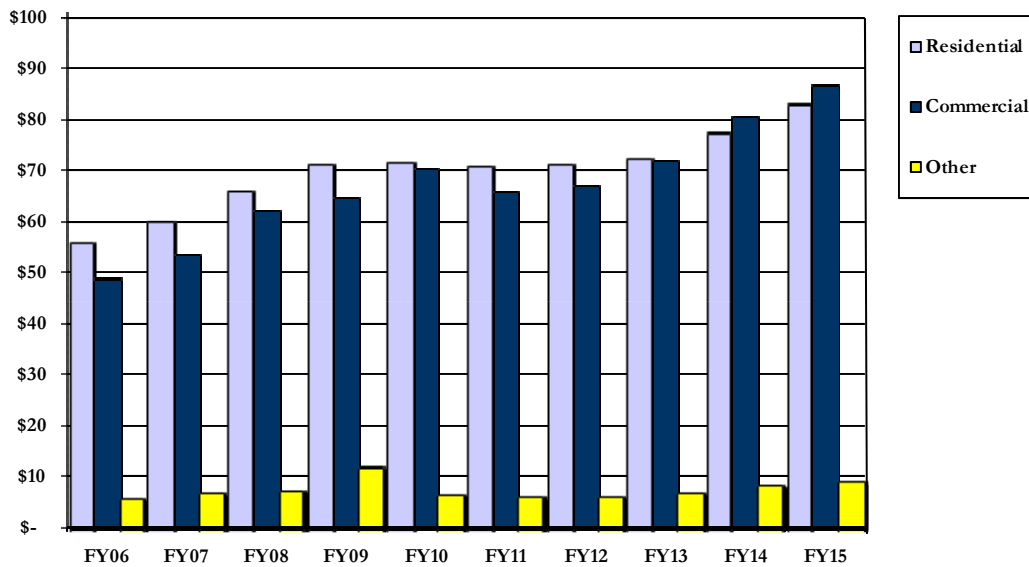
(amounts expressed in billions)



The Harris County, Fort Bend County, and Montgomery County Appraisal Districts (the Districts) provide expected taxable values. The actual taxable values for FY14 are above the preliminary value estimates provided at this time last year. However, based on the Districts' projection for FY15, an increase in valuation of about 7.64% is anticipated. These values are based on the Districts' preliminary projected values, dated April 30, 2014, and reduced 1% to reflect expected higher protests of taxable values.

Taxable Values By Property Type Historical & Forecast

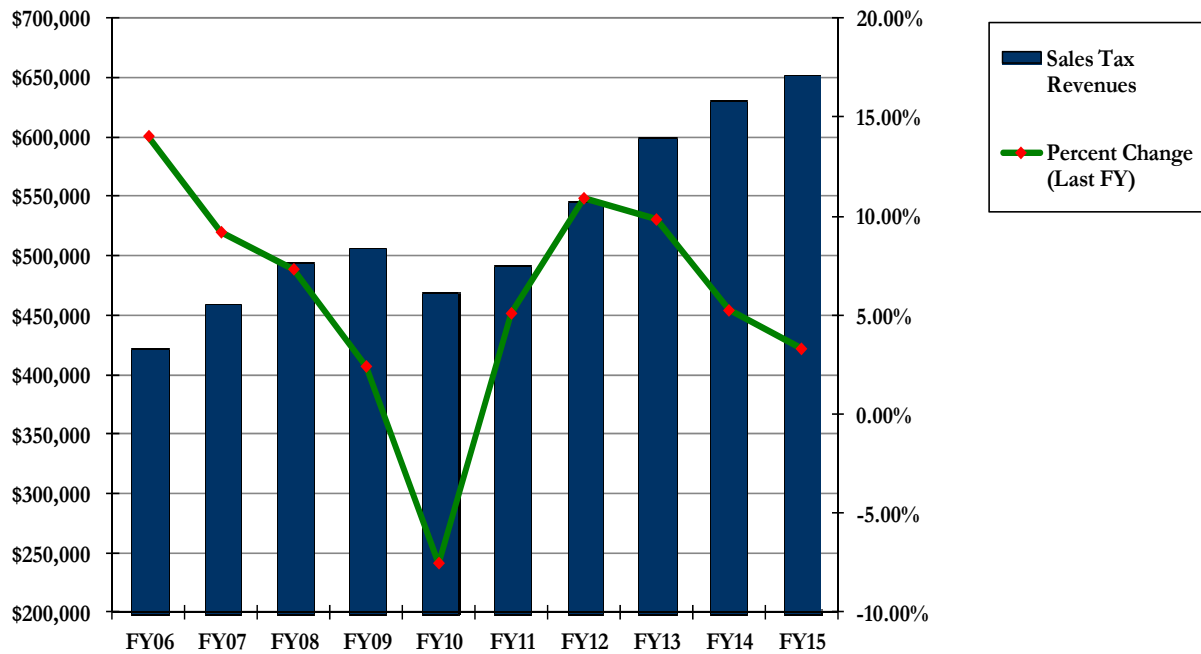
(amounts expressed in billions)



Residential and commercial properties in the City of Houston make up 95% of the taxable values.

Sales Taxes Revenue

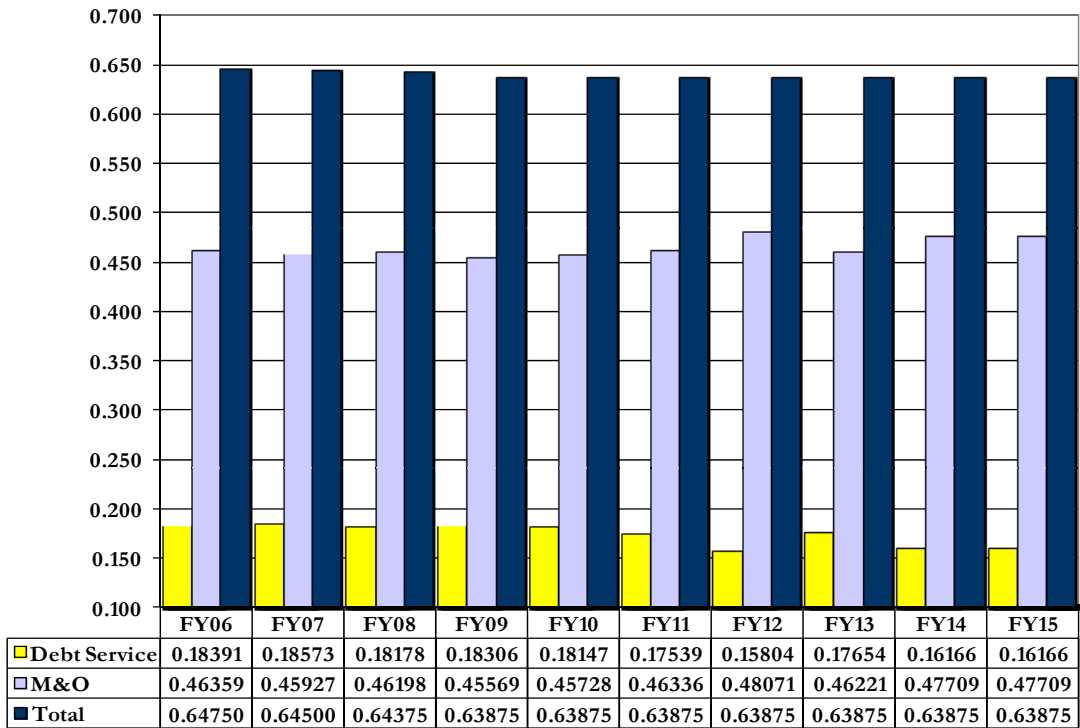
(amounts expressed in thousands)



FY15 Sales tax revenue is projected to be 3.3% higher than FY14 Sales Tax receipts. This increase is based on the Low Forecast estimated growth of Dr. Robert Gilmer's March report.

Property Tax Rate

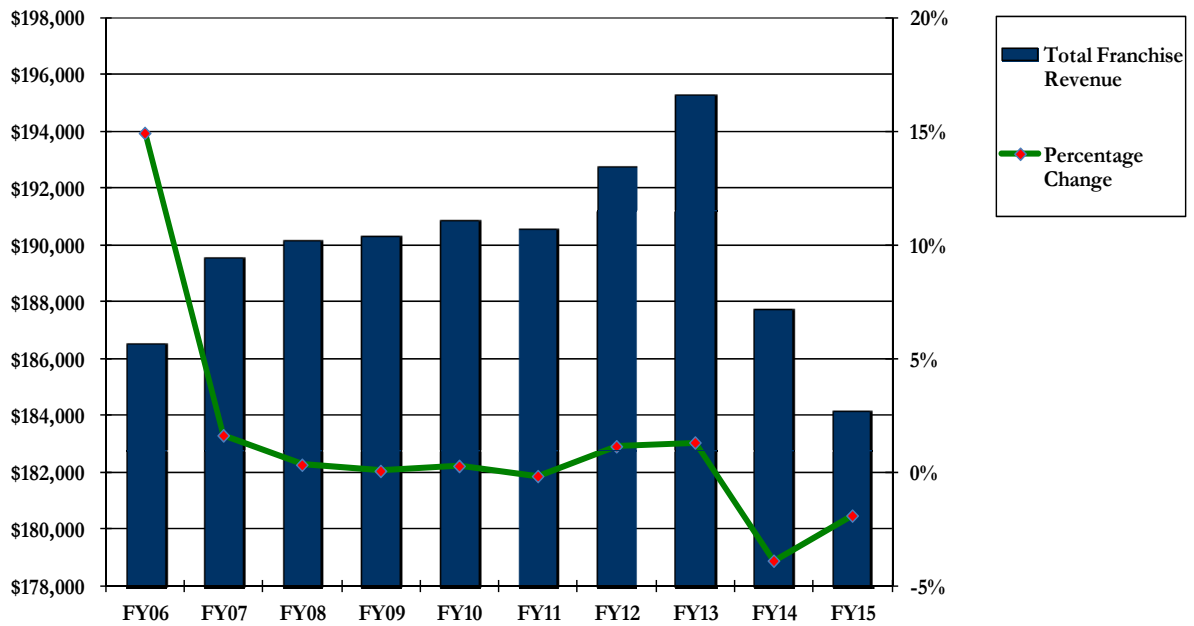
(Tax Rate per \$100 Valuation)



The FY15 number is a projection. The final rate will be established by a vote of Council in the first or second quarter of FY15 when the Certified Roll is available.

Total Franchise Revenues

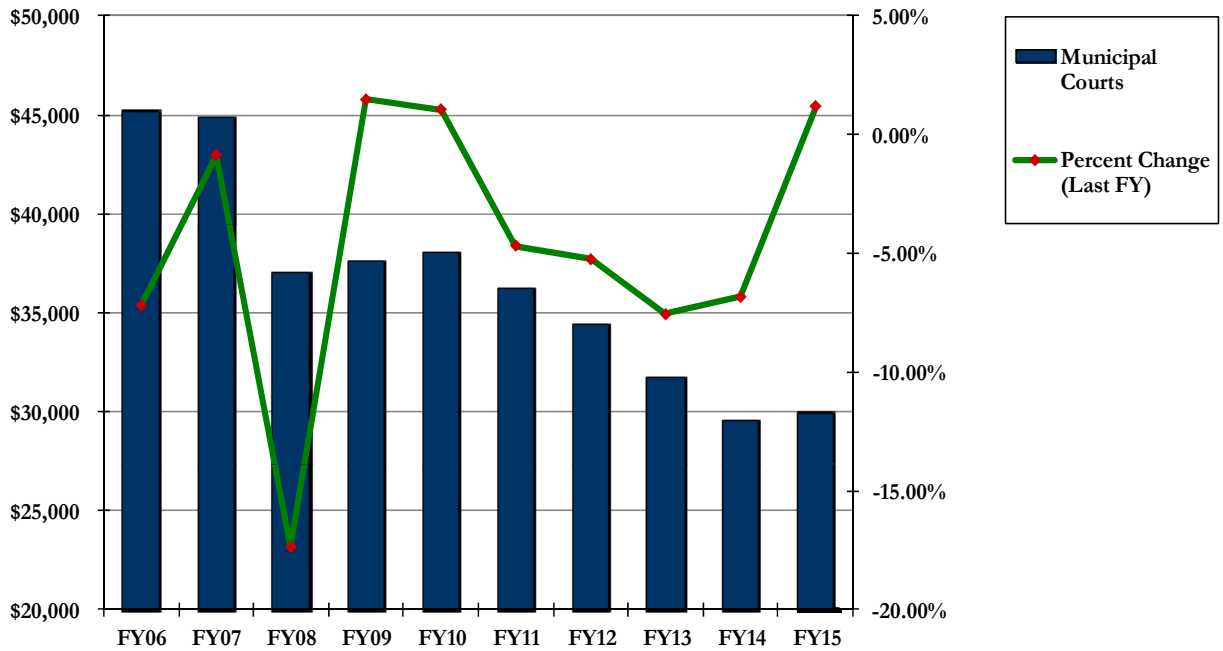
(amounts expressed in thousands)



Total Franchise revenues are projected to decrease 1.9% for FY15. Although decreases are expected in Telephone Franchise and Gas Franchise, a small increase in Electricity and Other Franchise is expected.

Municipal Courts Revenues

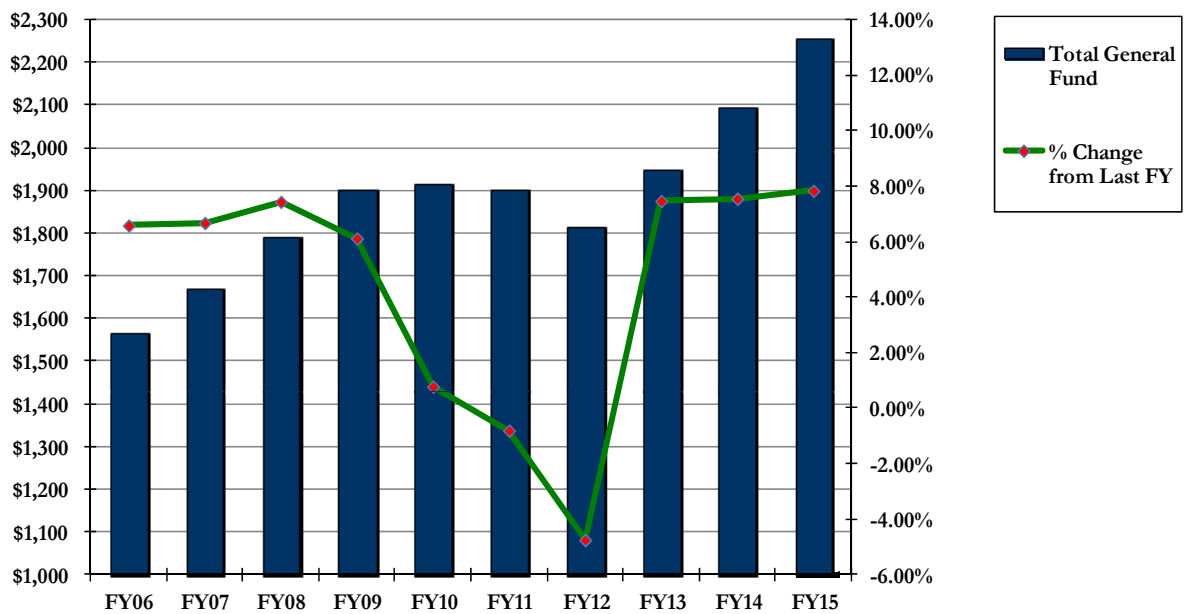
(amounts expressed in thousands)



Municipal Courts Fines and Forfeits are expected to remain approximately flat in FY15.

General Fund Expenditures Budget

(amounts expressed in millions)

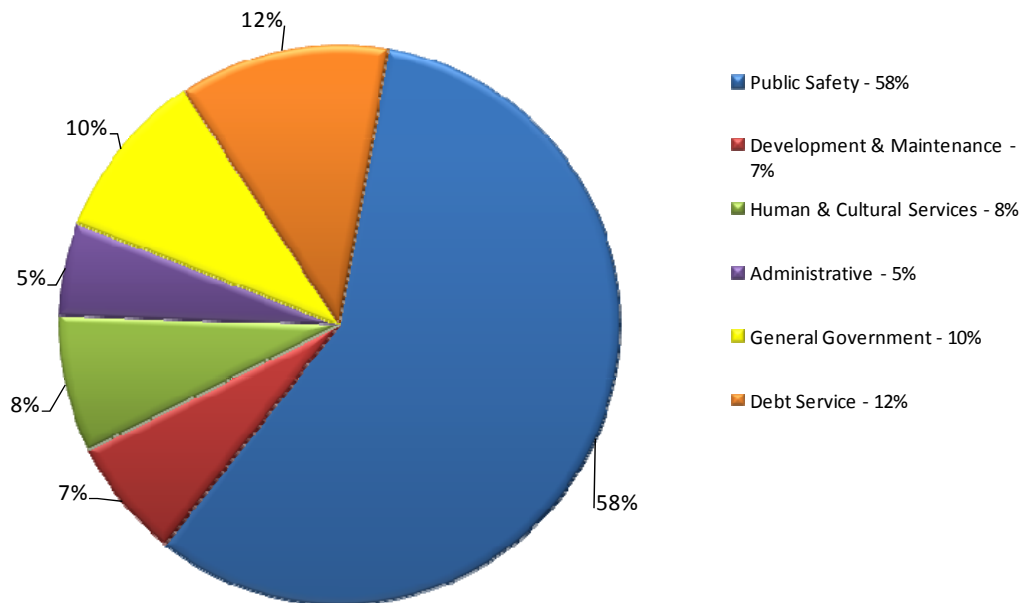


The General Fund expenditure budget is up by 8.2%, an increase of \$171 million from our FY14 estimated expenditures. The gap between Controller's projected revenues/resources and budgeted expenditures will require using \$87 million from the Fund Balance to cover the operating deficit for FY15.

General Fund

Expenditures Percent by

Function for 2015



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

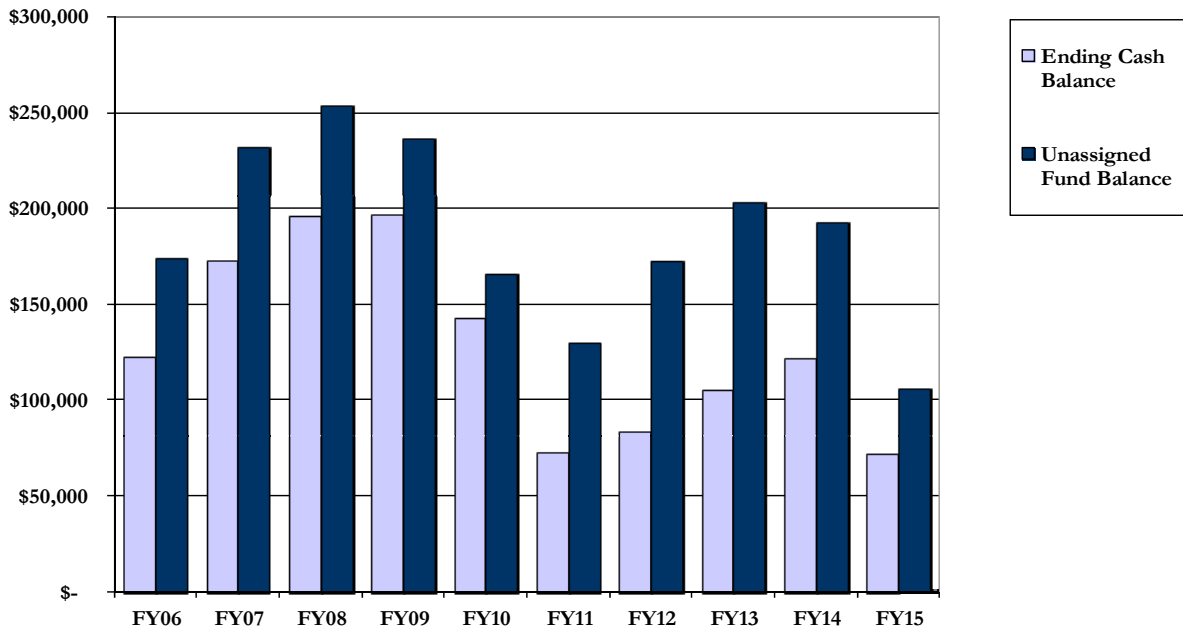
Development & Maintenance – General Services, Planning, Public Works, Solid Waste

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)

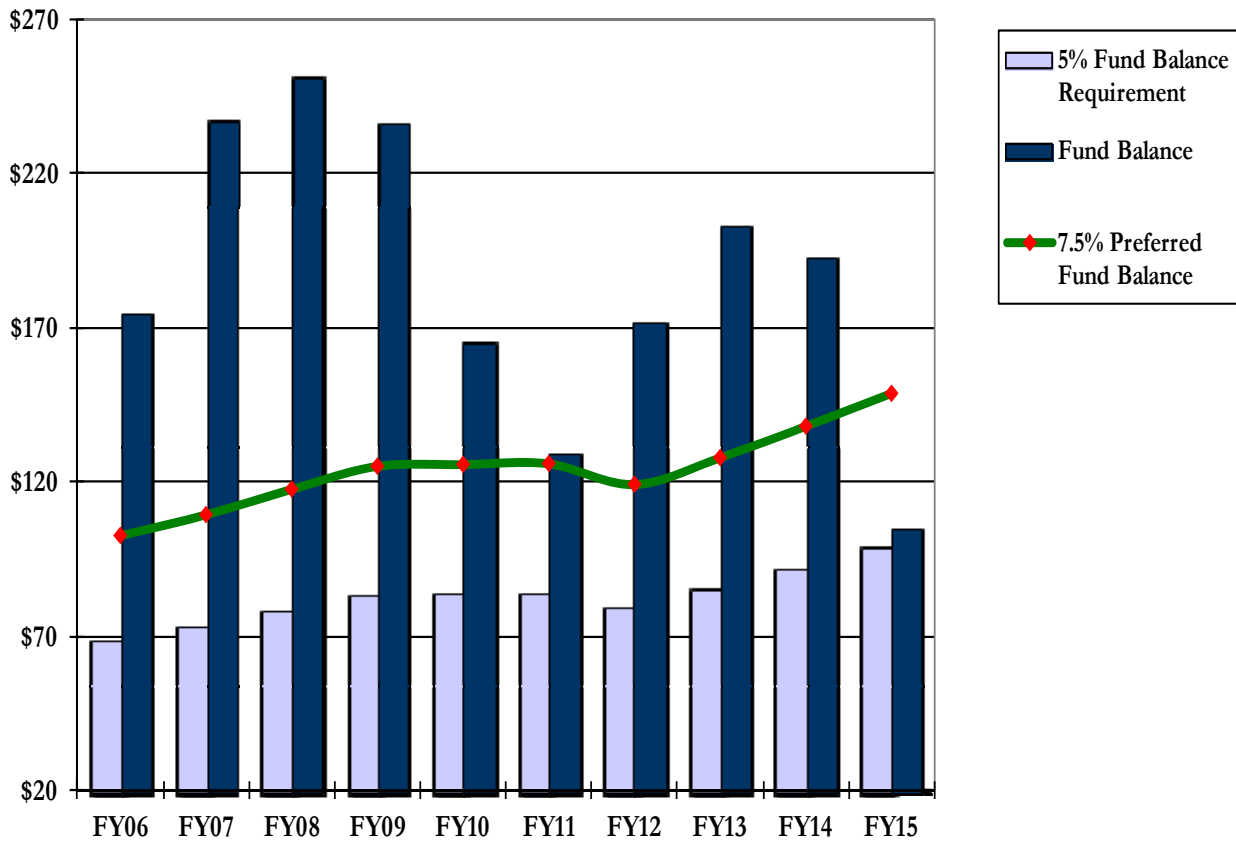


The Unassigned Fund Balance consists of both cash and non-cash items and includes receivables for Sales Tax and Franchise Fees. The Unassigned Fund Balance is expected to decrease by \$10 million in FY14 and decrease by \$87 million in FY15.

City Ordinance 5% Fund Balance Requirement

General Fund

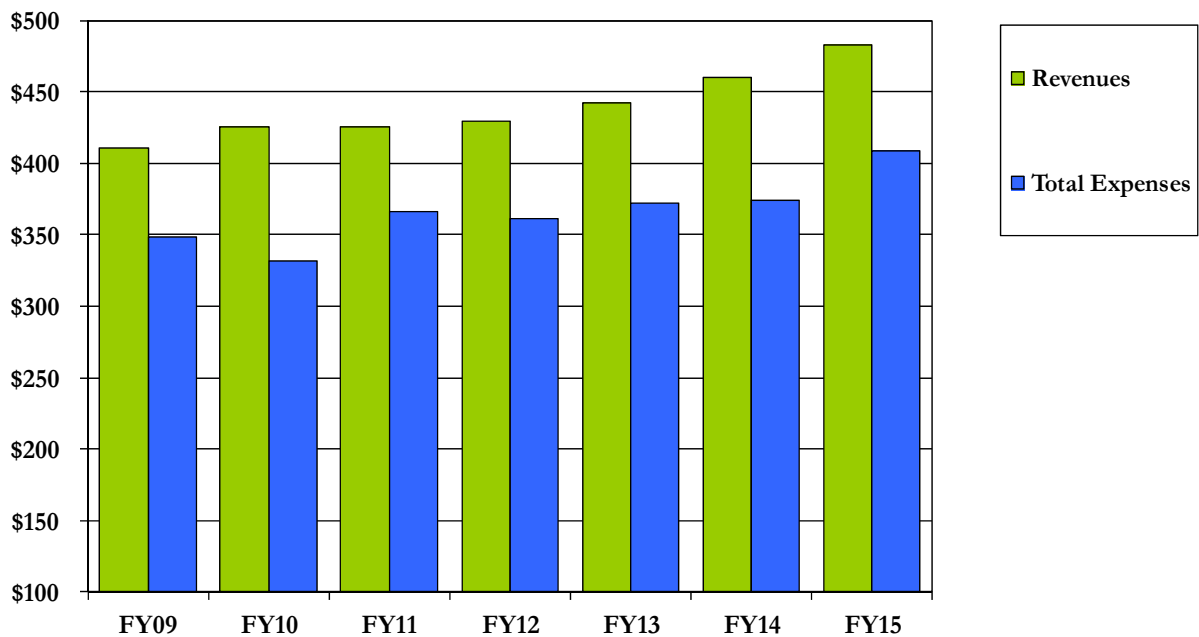
(amounts shown in Millions)



City ordinance requires an Undesignated Reserve of 5% of the Adopted Budget less Debt Service. An Undesignated Reserve of 7.5% is preferred. For FY15, we are projecting an ending fund balance \$5.9 million above the 5% required, but also a \$43.6 million deficit under the 7.5% Preferred Fund Balance.

Aviation Revenues & Expenses

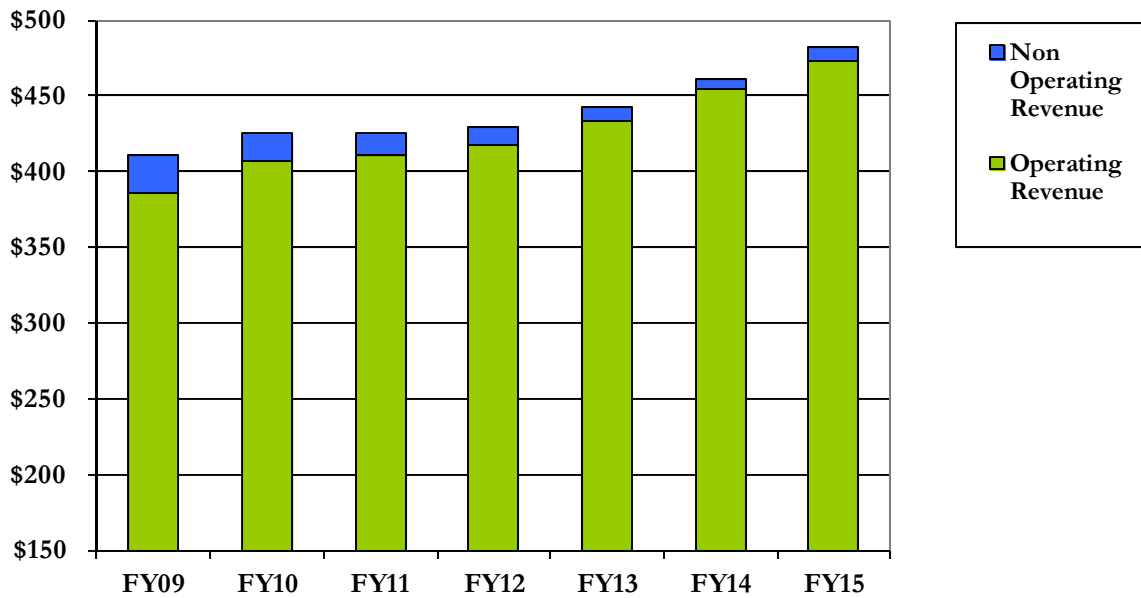
(amounts expressed in millions)



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 (Pay Increases, Health Benefits and Pension).

Aviation Revenues

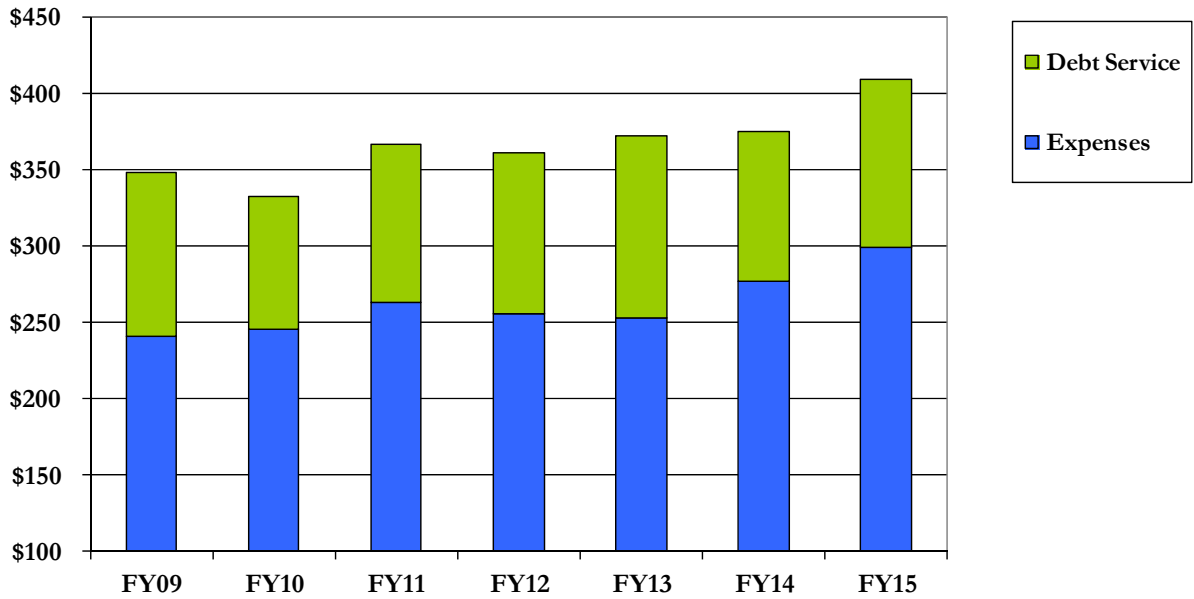
(amounts expressed in millions)



FY15 revenues are expected to increase 4.80%, or \$22.1 million from the FY14 estimate, primarily related to a budgeted increase in Terminal Space Rentals, Parking and Landings.

Aviation Expenses

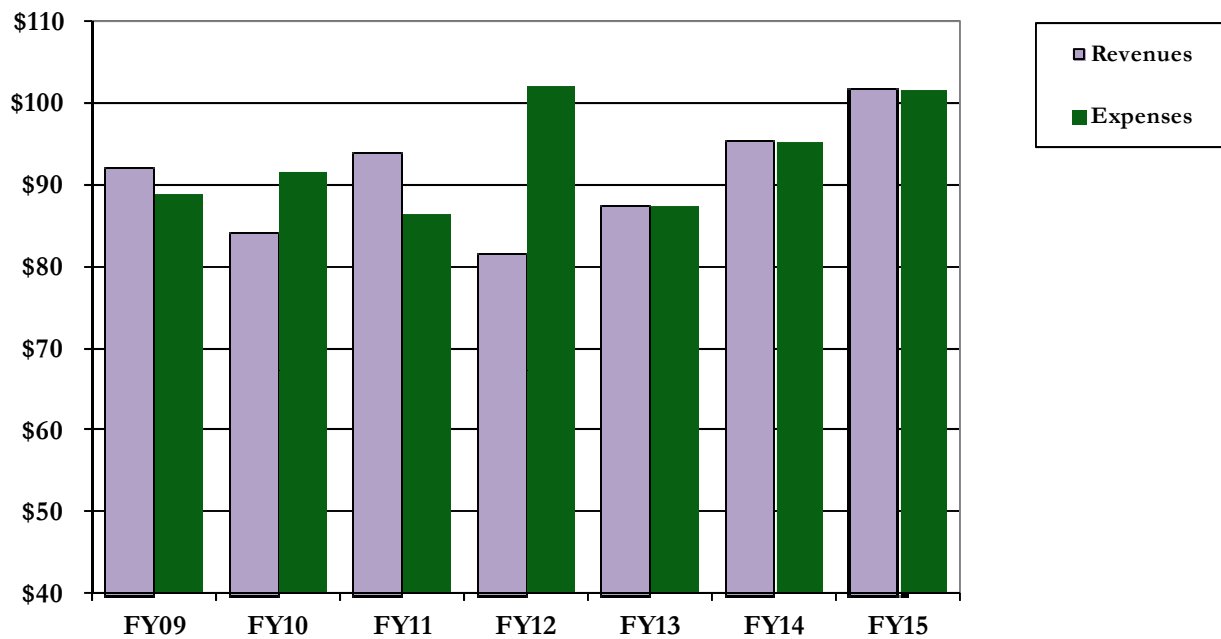
(amounts expressed in millions)



Aviation expects an FY15 expense increase of approximately 9.1%, or \$34 million over the FY14 estimate.

Convention & Entertainment Revenues & Expenses

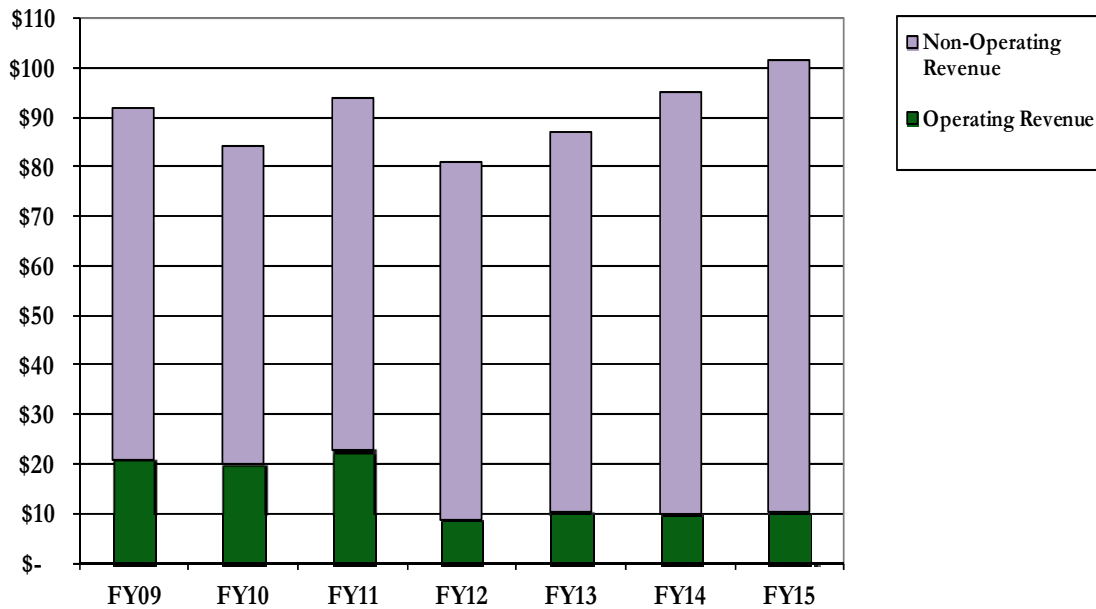
(amounts expressed in millions)



Convention & Entertainment projects the expenses to be basically level with the revenues in FY15.

Convention & Entertainment Revenues

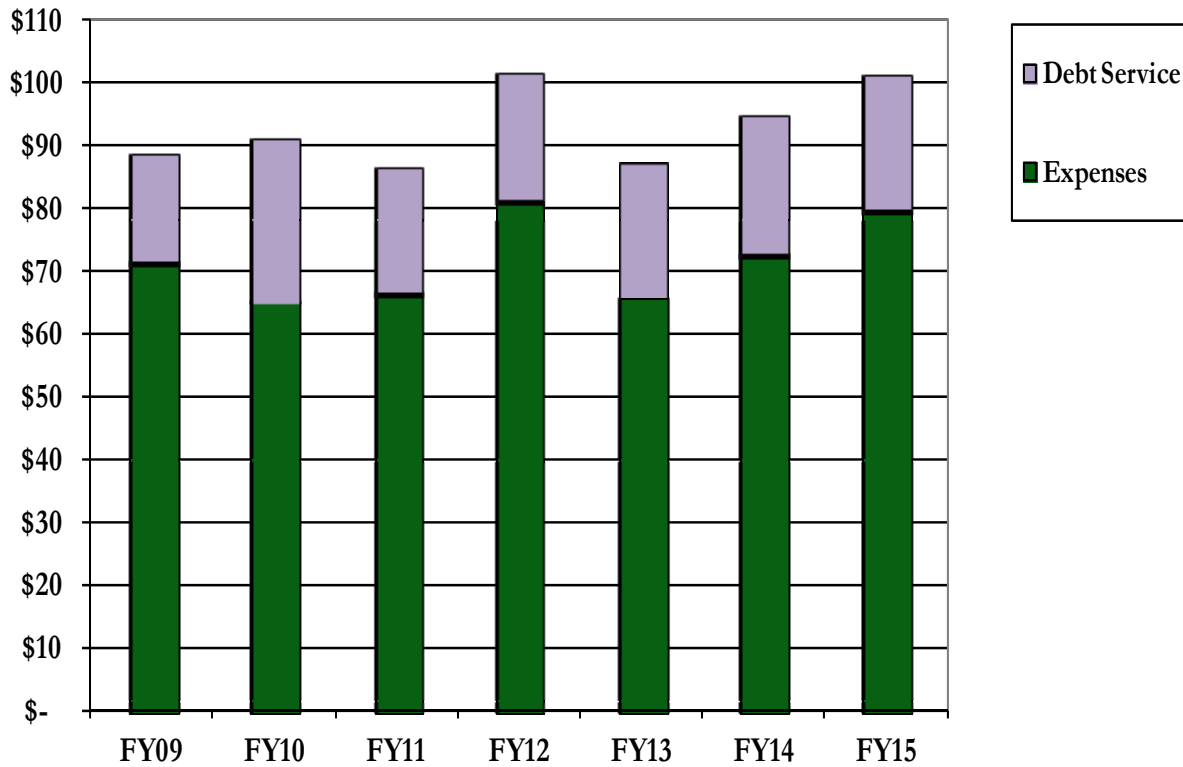
(amounts expressed in millions)



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 7.27% in FY15 to \$91.9 million when compared to estimated FY14 revenues of \$84.9 million.

Convention & Entertainment Expenses

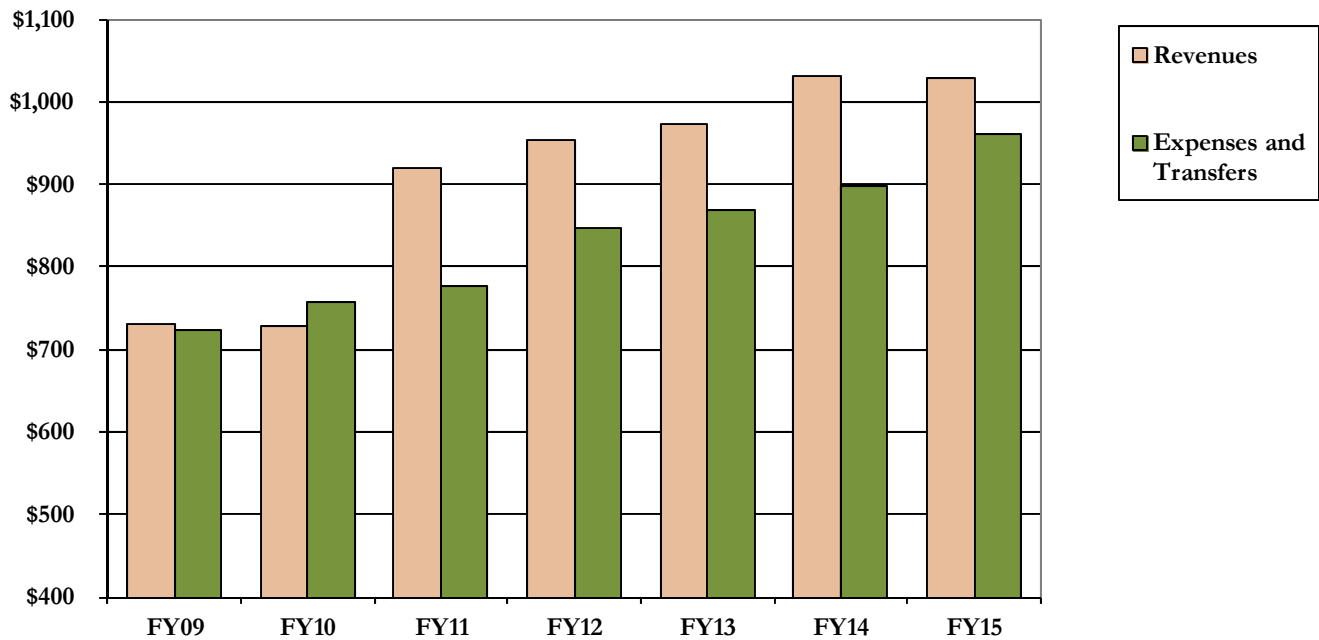
(amounts expressed in millions)



Convention & Entertainment is projecting an overall expense increase of \$6.4 million from FY14 levels, up 6.73% in FY15.

Combined Utility System Revenues and Expenses

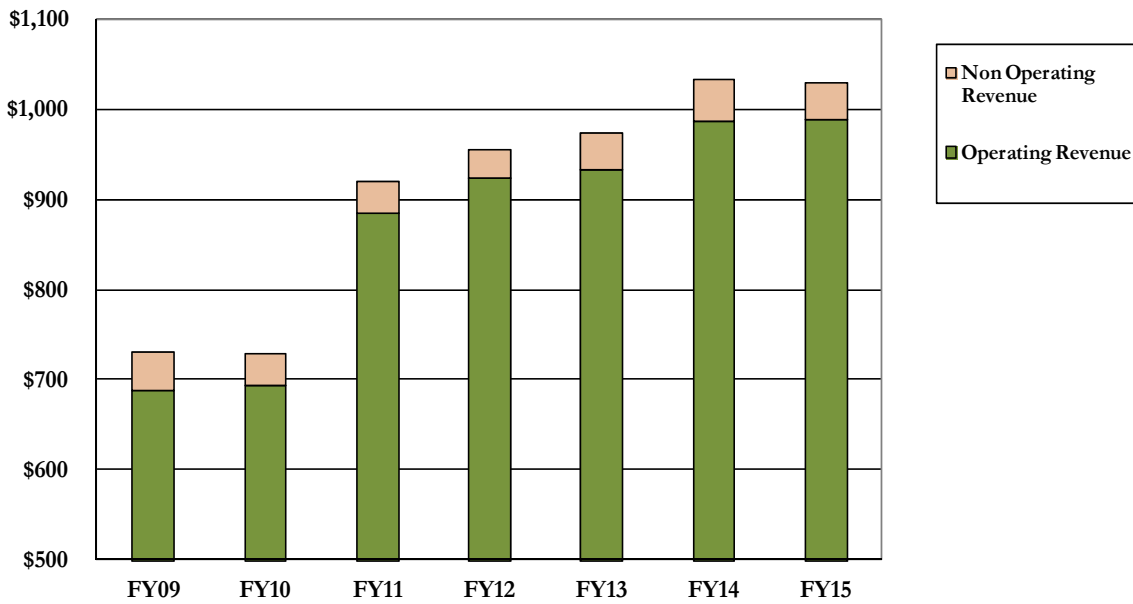
(amounts expressed in millions)



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

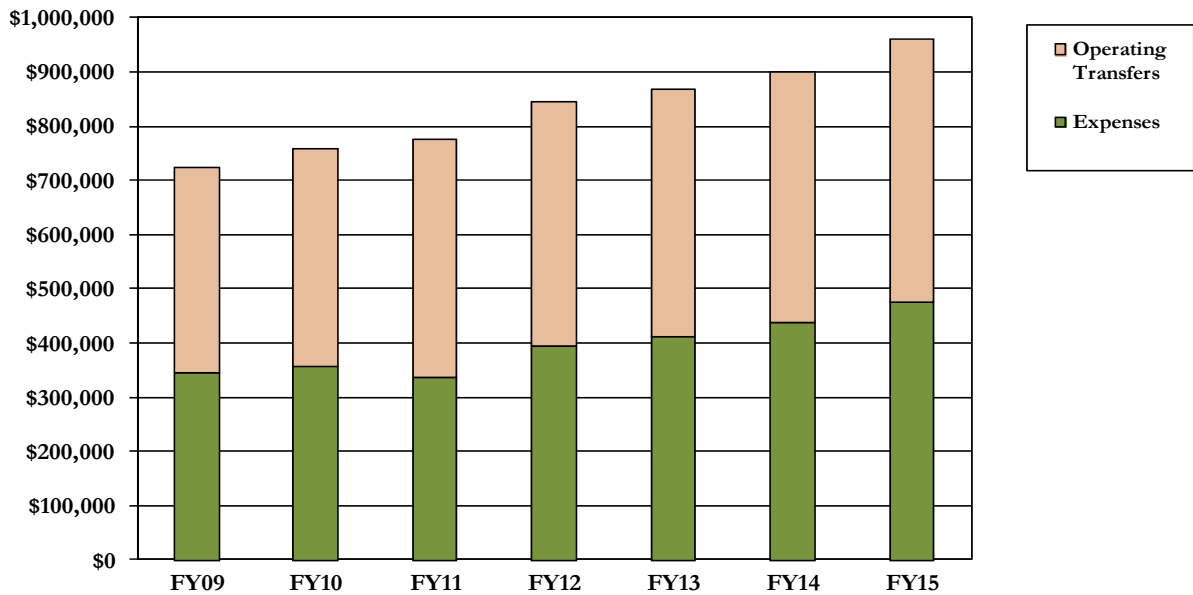
(amounts expressed in millions)



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 2009, 2010, 2011, 2012, 2013, and 2014 are 5.1%, 0.3%, 1.9%, 3.3%, 3.6%, and 1.2% 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.