Office of the City Controller

Houston, Texas

Trends for Fiscal Year 2018

May 2017

Chris B. Brown
City Controller

Trends
Fiscal Year 2018

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 FY2018 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 2017 are expected to increase 1.9% from Fiscal Year 2016 revenues. However, Fiscal Year 2018 revenues are anticipated to decrease approximately 0.07% (not including transfers and sale of assets). Fiscal Year 2018's projected revenues primarily reflect increases in Property Tax and Sales Tax, with decreases in Franchise Fees and Miscellaneous/Other.

Of concern, our FY18 projection for General Fund resources is $4.8 million lower than the Administration's FY18 Proposed Budget. To calculate Property Tax revenue, the Controller's Office used an estimated taxable value of $231.1 billion, calculated by taking the estimated taxable values from Harris County, Fort Bend County, and Montgomery County Appraisal Districts in April 2017 and a 98.2% collection rate. This is moot, as the Estimated Proposition 1 limit is $1.166 billion, and $26 million lower than our calculated amount. Both the Administration and Controller's office population estimate is in agreement. The U.S. Census Bureau is scheduled to release the population number on May 25th, which will allow for a final Prop 1 cap calculation at that time.

For our Sales Tax projection, we assumed growth of 1.0%, which is in line with current sales tax revenue models. This was applied to our FY2017 estimate. The Administration is using 1.0% growth, applied to their FY17 estimate.

We need to point out that the General Fund Beginning Fund Balance shown in the Proposed Budget is $2.8 million higher than our FY17 March MFOR projection. Our projected Ending Fund Balance for FY18 is $178.8 million, or 8.9% of the expenditures other than debt service and PAYGO, which is above the required amount of 7.5%, or $150.5 million.

In the Enterprise Funds, Aviation revenues are increasing slightly due to higher Terminal and Parking revenues. Convention & Entertainment revenues are flat. The Combined Utility System's (CUS) revenues are increasing as well, primarily due to the annual water and sewer rate increase of 3.4%.

Summary of Graphs

The numbers on each page are from the following sources:

1. **FY16 and prior years are actual results as reported in previous Comprehensive Annual Financial Reports (CAFR).**

2. **FY17 numbers are the Controller's Office March Monthly Financial Operations Report (MFOR) estimates.**

3. **The FY18 General Fund revenues are the most current projections of the Controller's Office.**

4. **Unless otherwise noted, all other FY18 numbers are from the Administration's FY18 Proposed Budget.**

General Fund Revenues

(amounts expressed in thousands)

Revenues	FY13 Actual	FY14 Actual	FY15 Actual	FY16 Actual	FY17 Controller's March Proj.	FY18 Controller's Projection	% Change [a]	Admin.'s Proposed Budget	Difference [a]
Property Tax	$ 910,034	$ 976,240	$ 1,074,435	$ 1,098,664	$1,157,757	$ 1,165,657	0.68% [b]	$ 1,165,657	-
Industrial Assessments	29,845	16,534	16,736	19,239	17,500	17,500	0.00%	17,917	(417)
Sales Tax	600,256	629,441	667,061	640,476	618,766	625,000	1.01% [c]	627,000	(2,000)
Other Taxes	10,083	14,056	15,992	16,271	16,722	17,000	1.66%	17,413	(413)
Electric Franchise	103,941	101,054	100,565	101,212	102,000	102,000	0.00%	102,270	(270)
Telephone Franchise	45,143	43,913	43,451	43,061	42,000	37,000	-11.90% [d]	37,215	(215)
Gas Franchise	19,194	16,493	14,538	14,840	15,000	13,500	-10.00% [d]	13,791	(291)
Other Franchise	27,026	28,529	31,283	32,056	30,519	26,500	-13.17% [d]	26,806	(306)
Licenses & Permits	34,220	35,757	37,999	39,608	38,512	39,500	2.57%	39,587	(87)
Intergovernmental	12,354	20,897	24,185	53,663	71,413	71,062	-0.49%	71,062	-
Charges for Services	42,232	56,059	63,272	62,553	59,056	59,000	-0.09%	59,238	(238)
Direct Interfund Services	43,520	43,257	47,851	54,024	55,581	54,859	-1.30%	54,859	-
Indirect Interfund Services	16,908	18,558	25,328	26,611	27,172	29,001	6.73%	29,001	-
Muni Courts Fines	31,814	30,493	25,447	24,960	20,910	21,000	0.43%	21,371	(371)
Other Fines	4,666	4,683	4,732	4,952	4,359	4,000	-8.24%	4,094	(94)
Interest	3,081	2,407	3,040	3,700	4,000	3,000	-25.00% [e]	3,000	-
Misc/Other	10,129	15,432	17,217	22,367	18,915	13,000	-31.27% [f]	13,138	(138)
Total	$ 1,944,446	$ 2,053,803	$ 2,213,132	$ 2,258,257	$2,300,182	$ 2,298,579	-0.07%	$ 2,303,419	$ (4,840)
Transfers from Other Funds	30,742	26,639	31,363	34,656	12,209	18,265	49.60% [g]	18,265	-
Sale of Capital Assets	4,602	1,017	46,652	7,934	9,569	14,540	51.95% [h]	14,540	-
Proceeds from Promissory Note	10,666	-	-	-	-		-	-	-
Total Revenues and Resources	$ 1,990,456	$ 2,081,459	$ 2,291,147	$ 2,300,847	$2,321,960	$ 2,331,384	0.41%	$ 2,336,224	$ (4,840)

[a] The "Percentage Change" column compares our FY18 projection to our FY17 estimate, while the "Difference" column compares our FY18 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 FY18 calculation for Property Tax revenues is based on the taxable values provided by Harris County on April 30, 2017. The projection assumes an estimated $12.7 million in delinquent collections and an estimated $151 million in TIRZ payments. The calculated amount is $1.192 billion, but being projected at the **Estimated Prop 1 cap amount of $1.166 billion.**

[c] Sales Tax revenue uses our FY17 Sales Tax revenue estimate with sales tax revenue model estimates of a FY18 growth of 1.0%.

[d] Telephone, Gas, and Other Franchise fees decreased a total of $10.5 million from decrease in phone lines, lower natural gas prices, fewer cable subscribers.

[e] Interest decrease of 25% is from lower fund balance, and continued low interest rates.

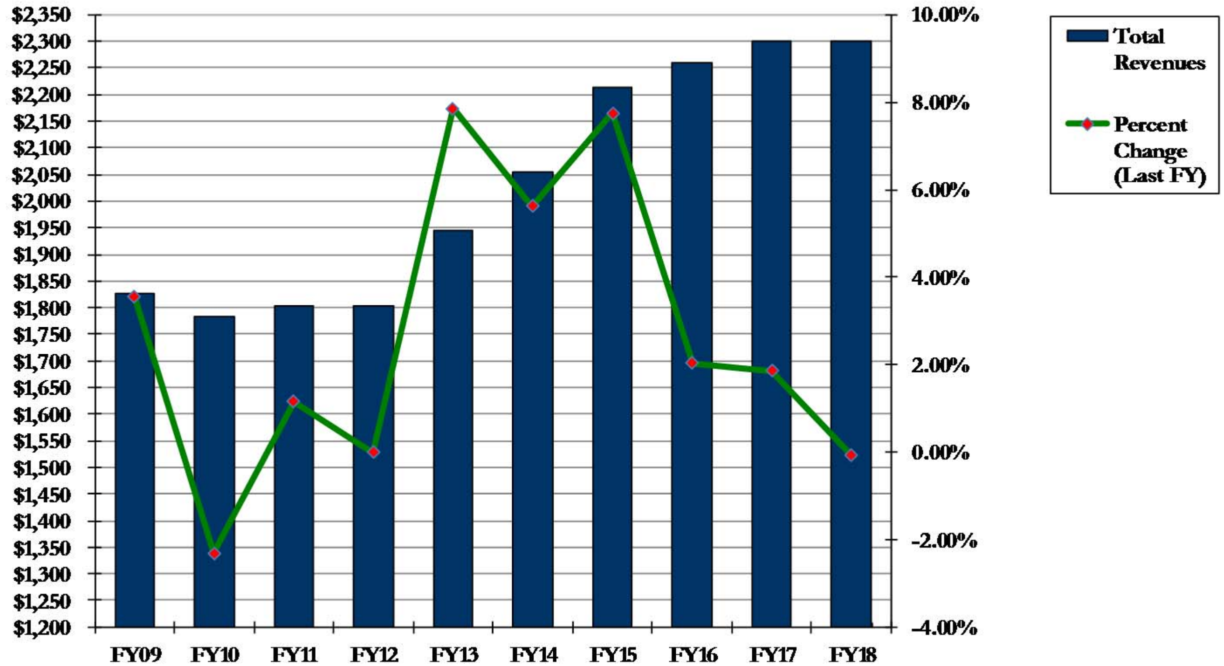
[f] Miscellaneous/Other decrease of 31.27% is from lower Recoveries & Refunds expected in FY2018.

[g] Transfers from Other Funds increase of 49.6% is from one-time transfers from Special Revenue funds in FY2018.

[h] Sale of Capital Assets increase of 51.95% is from one-time sale of property in FY2018.

General Fund Revenues

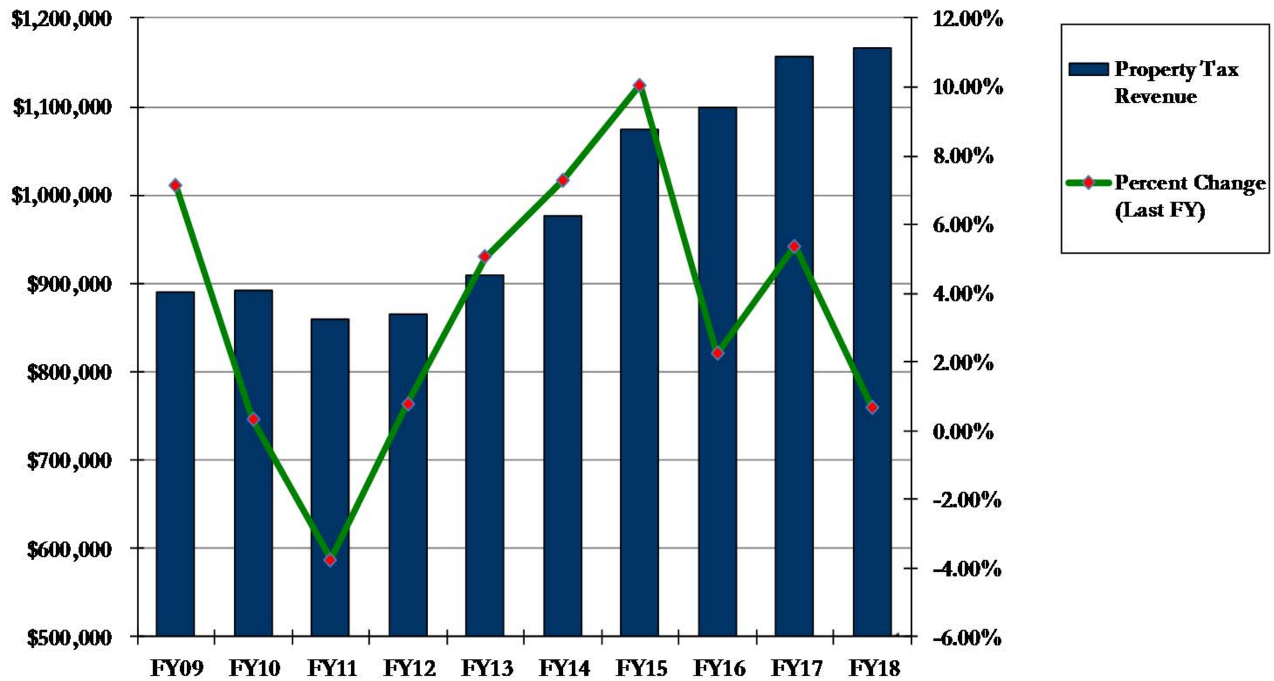
(amounts expressed in millions)



FY18 General Fund revenue is projected to decrease by $1.6 million, or 0.07% under our current FY17 estimate. The projected decrease consists mostly of increased property tax of $8 million and sales tax of $6 million, netted against decreases in franchise fees of $10 million, and Miscellaneous/Other of $6 million.

Property Tax Revenue

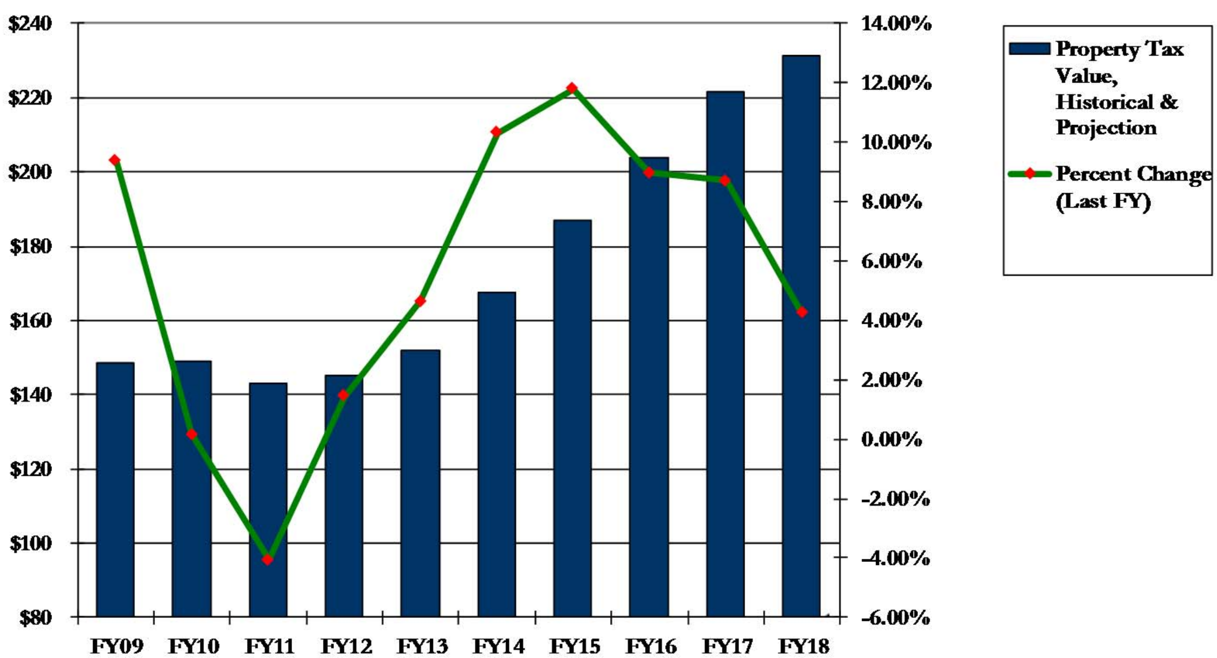
(amounts expressed in thousands)



Property Tax revenue is projected to be higher than the FY17 estimate by 0.68%. Controller's Property Tax revenue projection is based on the Estimated Prop 1 cap amount of $1.166 billion. This amount is $26 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 increasing to $151 million, and delinquent tax collections are increasing to $13 million.

Taxable Values Historical & Forecast

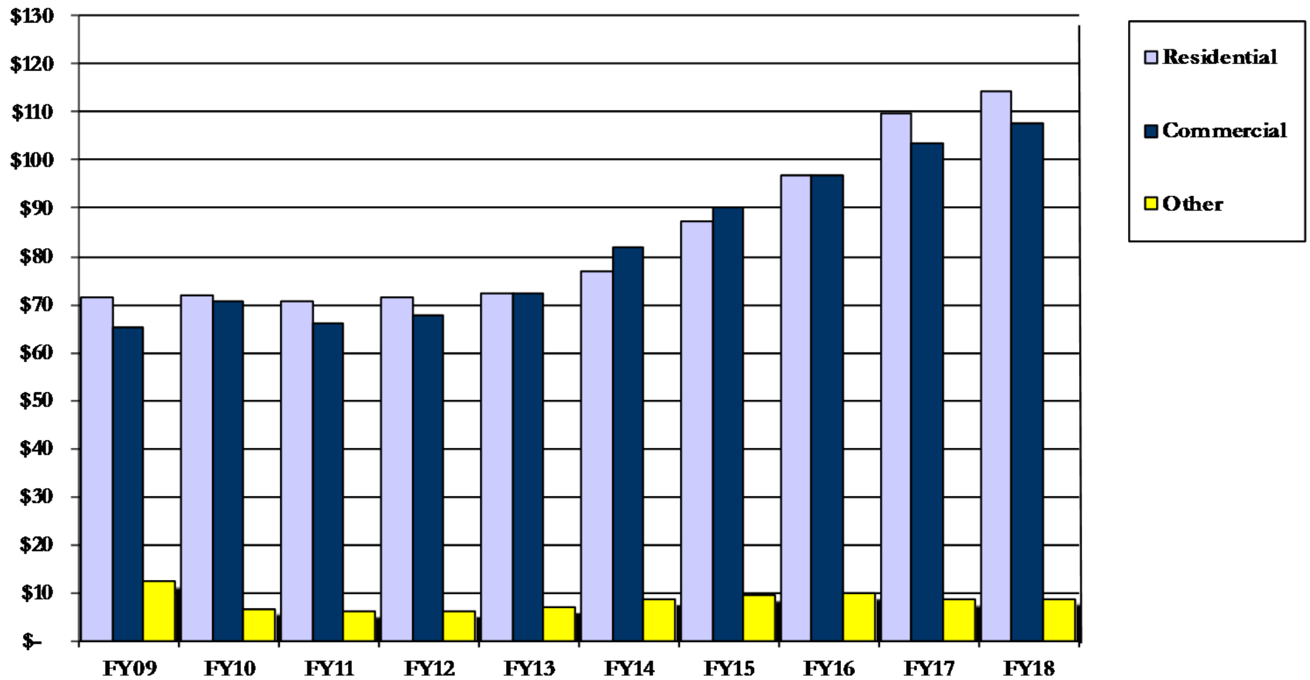
(amounts expressed in billions)



The Harris County, Fort Bend County, and Montgomery County Appraisal Districts (the Districts) provide expected taxable values. The actual taxable values for FY17 are above the preliminary value estimates provided at this time last year. However, based on the Districts' projection for FY18, an increase in valuation of about 4.2% is anticipated. These values are based on the Districts' preliminary projected values, dated April 30, 2017. Harris County taxable values comprise over 99% of the total.

Taxable Values By Property Type
Historical & Forecast

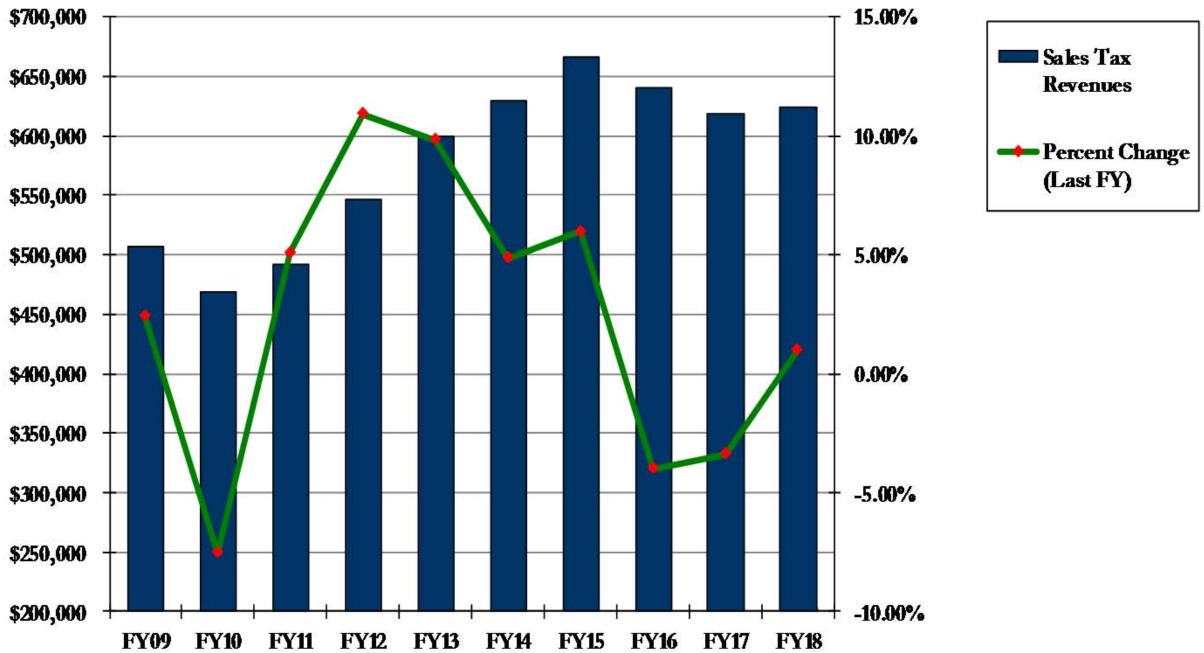
(amounts expressed in billions)



Residential and commercial properties in the City of Houston make up 96.2% of the taxable values.

Sales Taxes Revenue

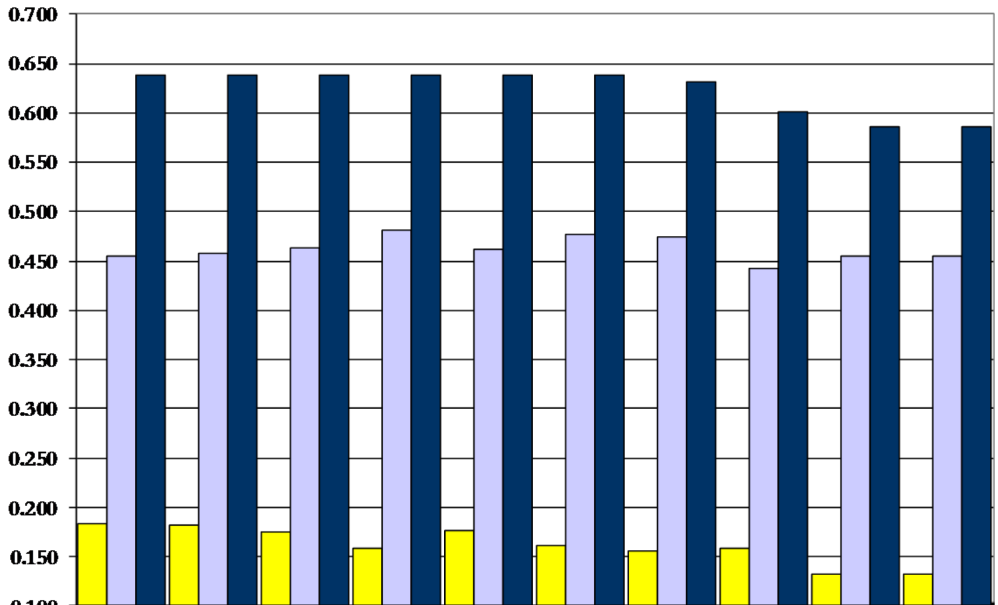
(amounts expressed in thousands)



FY18 Sales tax revenue is projected to be 1% higher than FY17 Sales Tax receipts. This increase is based on sales tax model estimates for FY18.

Property Tax Rate

(Tax Rate per $100 Valuation)

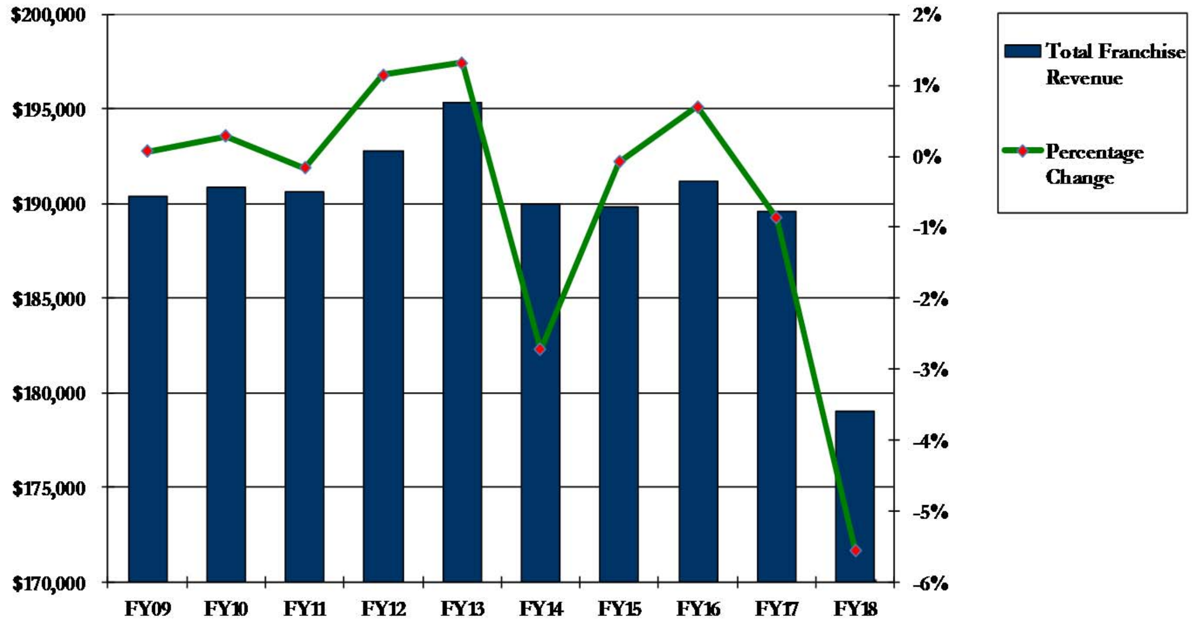


	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Debt Service	0.18306	0.18147	0.17539	0.15804	0.17654	0.16166	0.15645	0.15893	0.13196	0.13196
M&O	0.45569	0.45728	0.46336	0.48071	0.46221	0.47709	0.47463	0.44219	0.45446	0.45446
Total	0.63875	0.63875	0.63875	0.63875	0.63875	0.63875	0.63108	0.60112	0.58642	0.58642

The FY18 number is a projection. The final rate will be established by a vote of Council in the first quarter of FY18 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

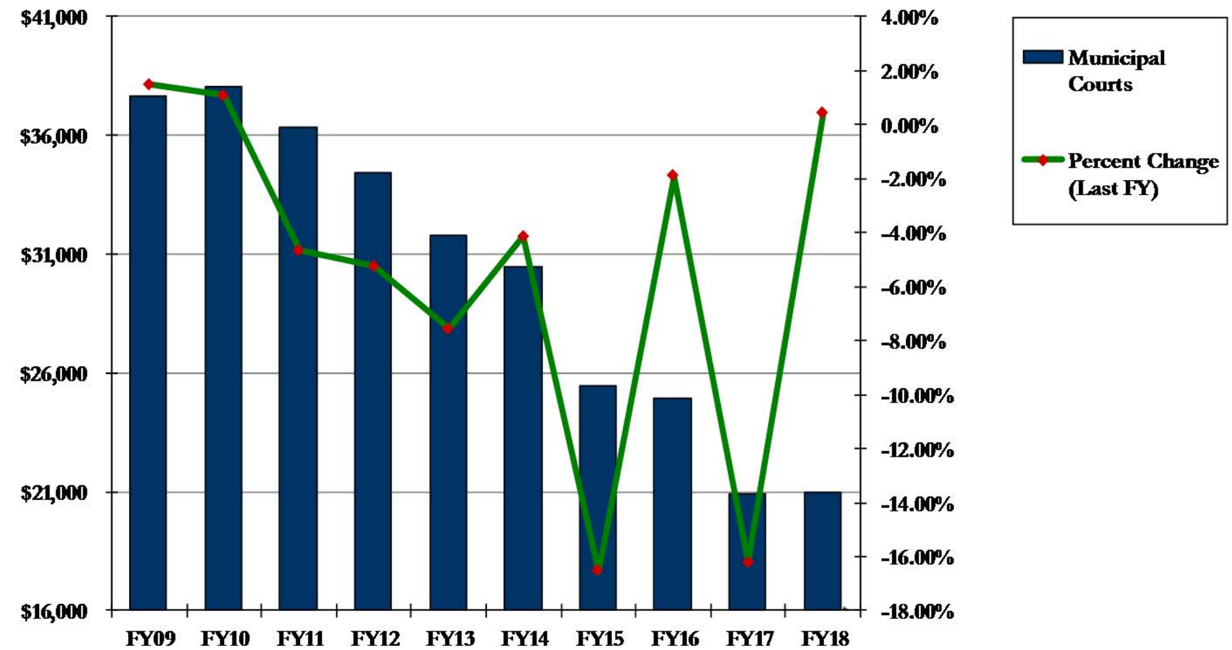
(amounts expressed in thousands)



Total Franchise revenues are projected to decrease $10.5 million for FY18. Electric Franchise is flat, but decreases are expected in Telephone Franchise, Gas Franchise, and Other Franchise.

Municipal Courts Revenues

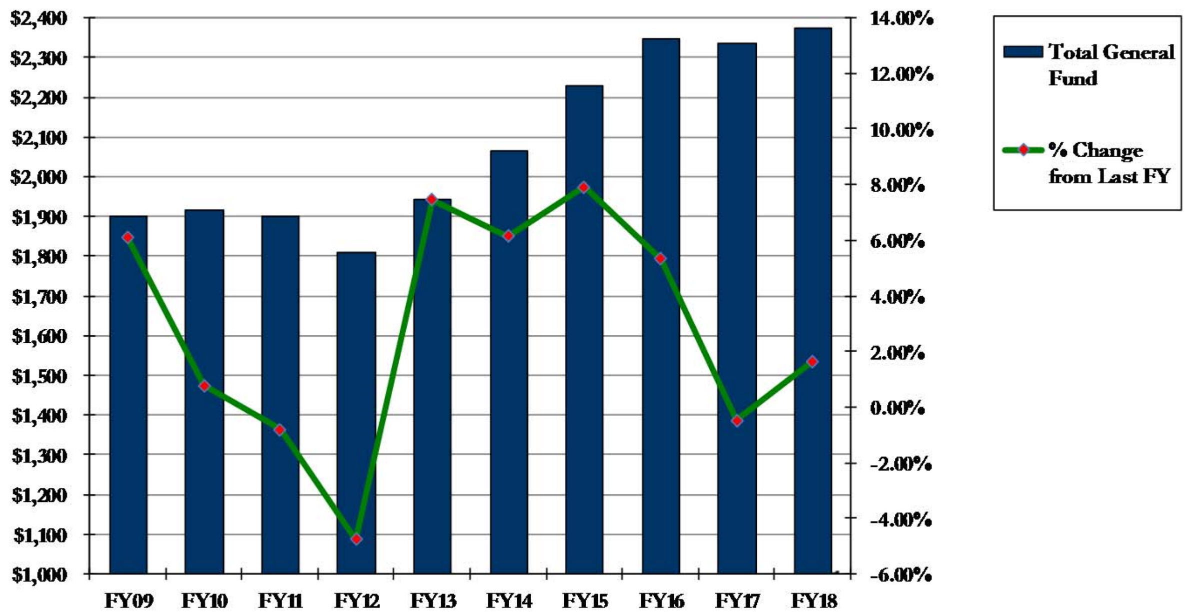
(amounts expressed in thousands)



Municipal Courts Fines and Forfeits are expected to remain flat in FY18.

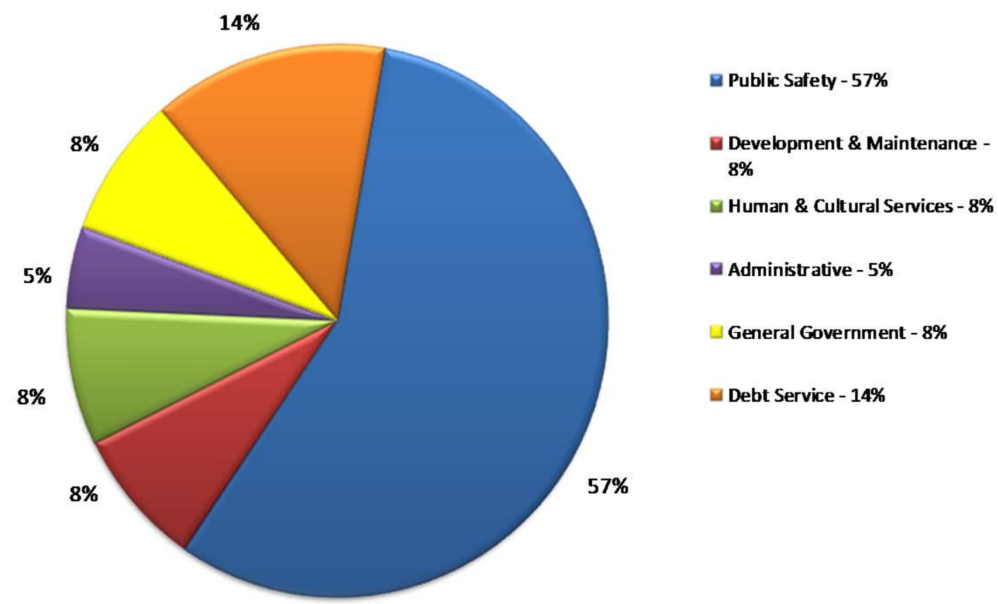
General Fund
Expenditures Budget

(amounts expressed in millions)



The General Fund expenditure budget is up by 1.6%, an increase of $38 million from our FY17 estimated expenditures. The gap between Controller's projected revenues/resources and budgeted expenditures will require using $44 million from the Fund Balance to cover the operating deficit for FY18.

General Fund
Expenditures Percent by
Function for 2018



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

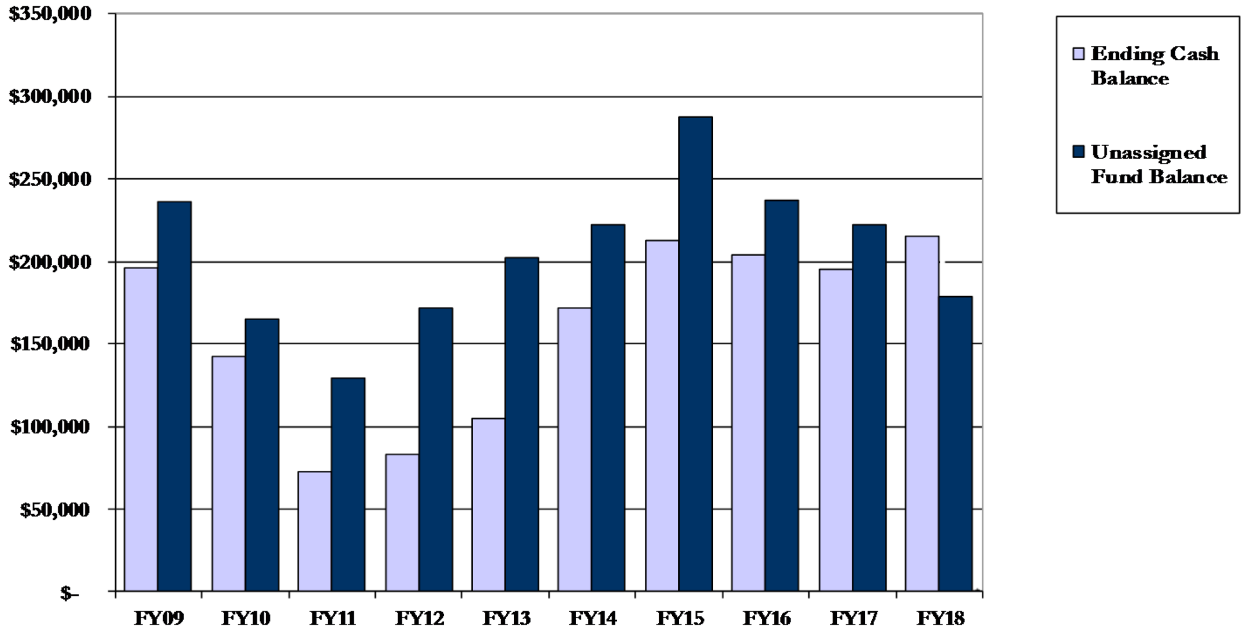
Development & Maintenance – General Services, Planning, Public Works, Solid Waste

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)

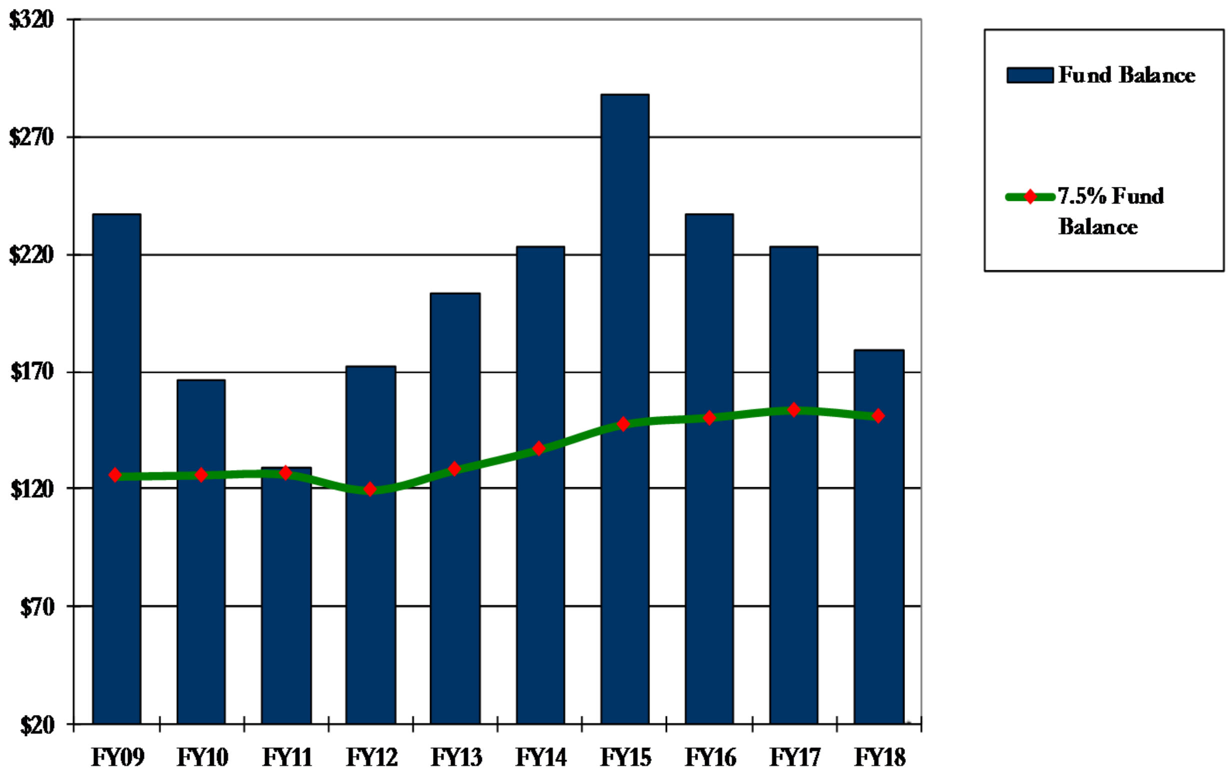


The Unassigned Fund Balance consists of both cash and non-cash items and includes receivables for Sales Tax and Franchise Fees. The Unassigned Fund Balance is expected to decrease by $14.5 million in FY17 and decrease by $43.7 million in FY18.

City Ordinance 7.5% Fund Balance Requirement

General Fund

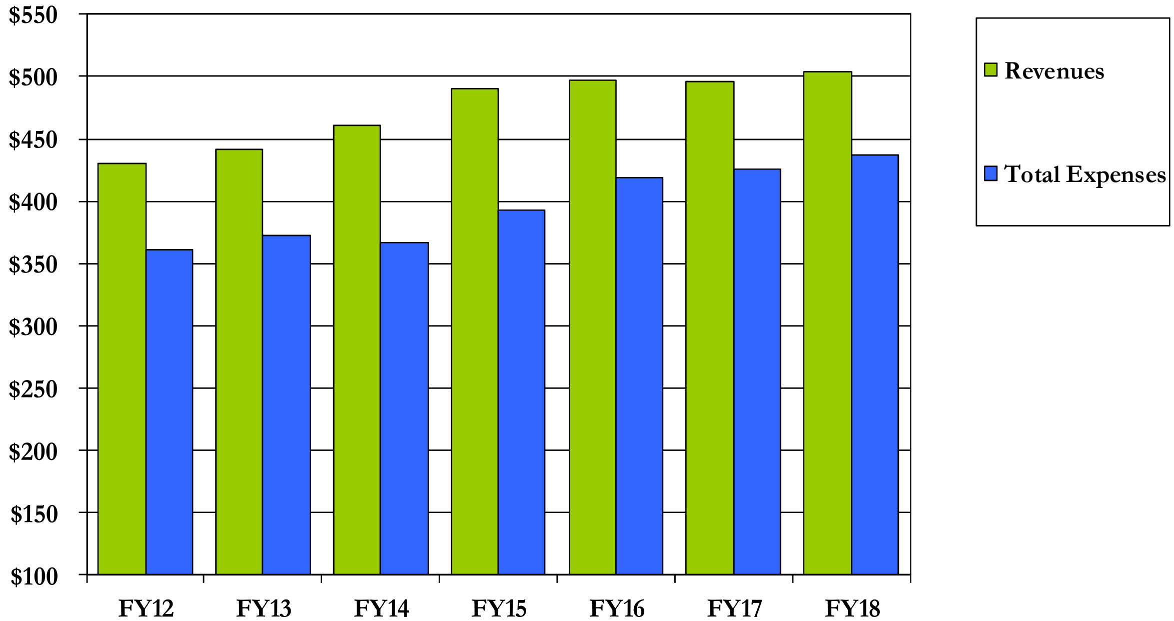
(amounts shown in Millions)



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 FY18, we are projecting an ending fund balance $28 million above the 7.5% required.

Aviation Revenues
& Expenses

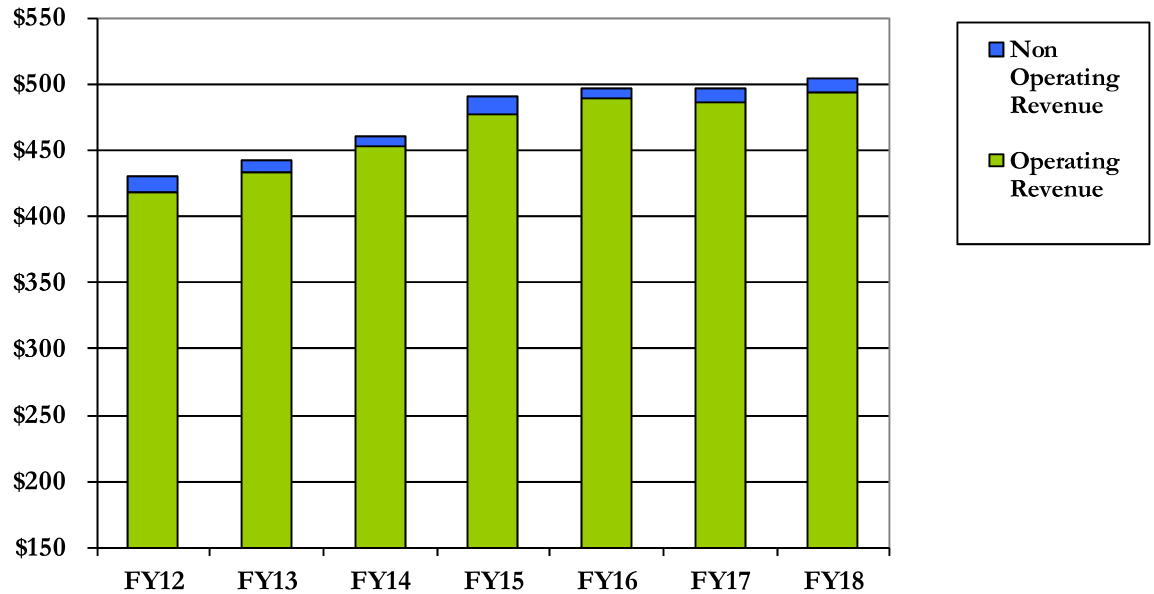
(amounts expressed in millions)



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.

Aviation Revenues

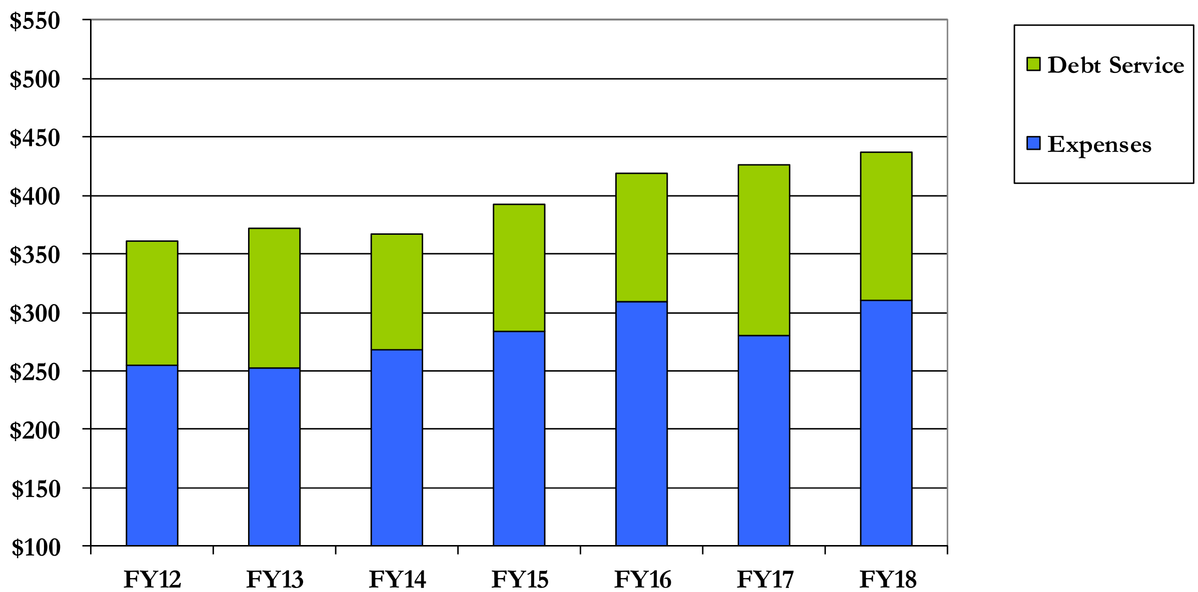
(amounts expressed in millions)



FY18 revenues are expected to increase only 1.61%, or $7.9 million from the FY17 estimate, primarily related to a budgeted increase in Terminal Space Rentals and Garage Parking.

Aviation Expenses

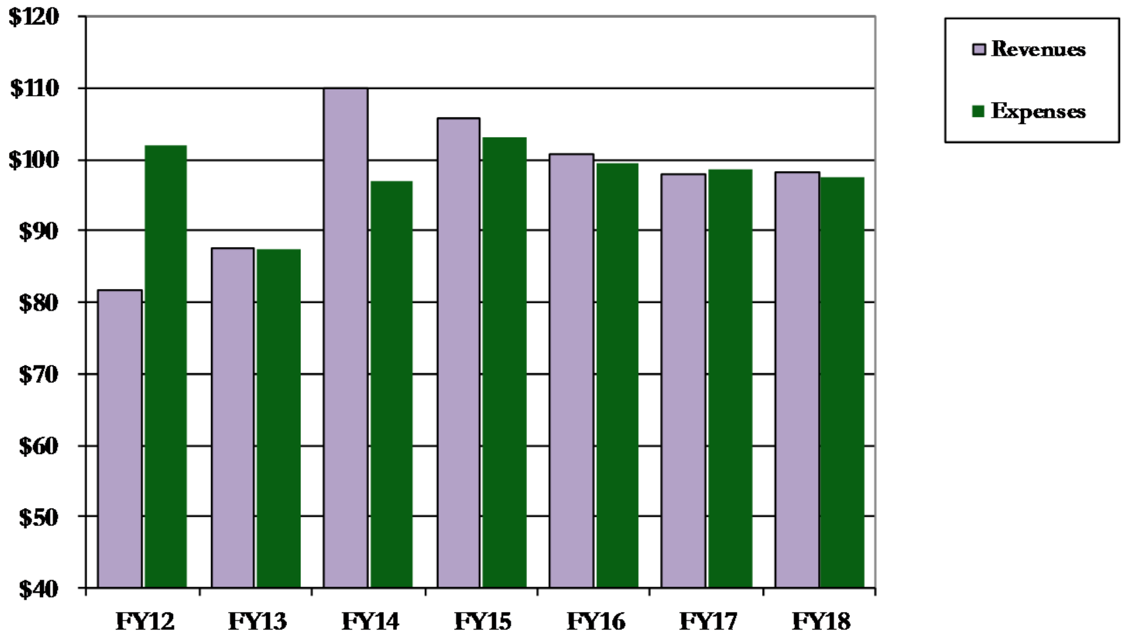
(amounts expressed in millions)



Aviation expects an FY18 expense increase of approximately 2.6%, or $11 million over the FY17 estimate.

Convention & Entertainment
Revenues & Expenses

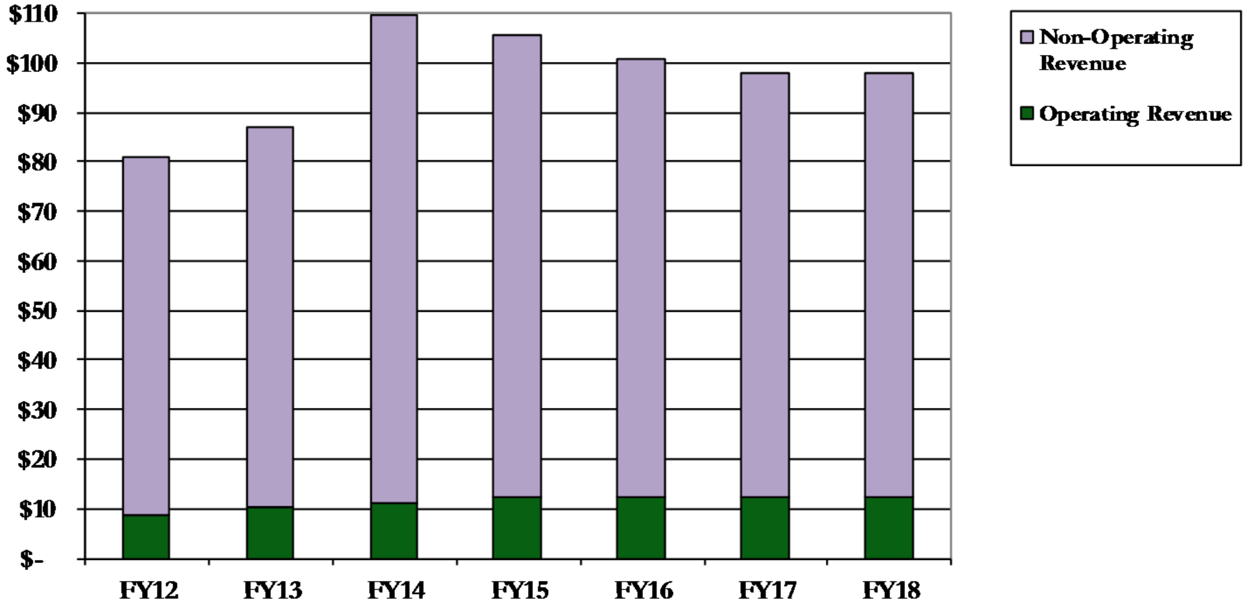
(amounts expressed in millions)



Convention & Entertainment projects the expenses to be basically level with the revenues in FY18.

Convention & Entertainment Revenues

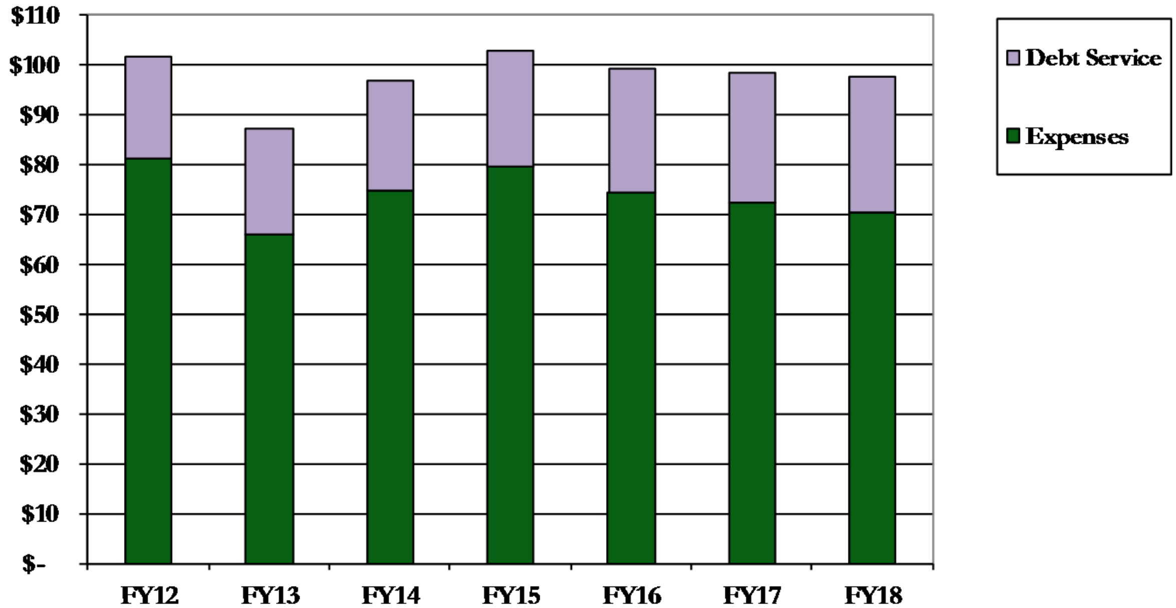
(amounts expressed in millions)



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 remain flat in FY18 at $85.0 million when compared to estimated FY17 revenues of $85.0 million.

Convention & Entertainment Expenses

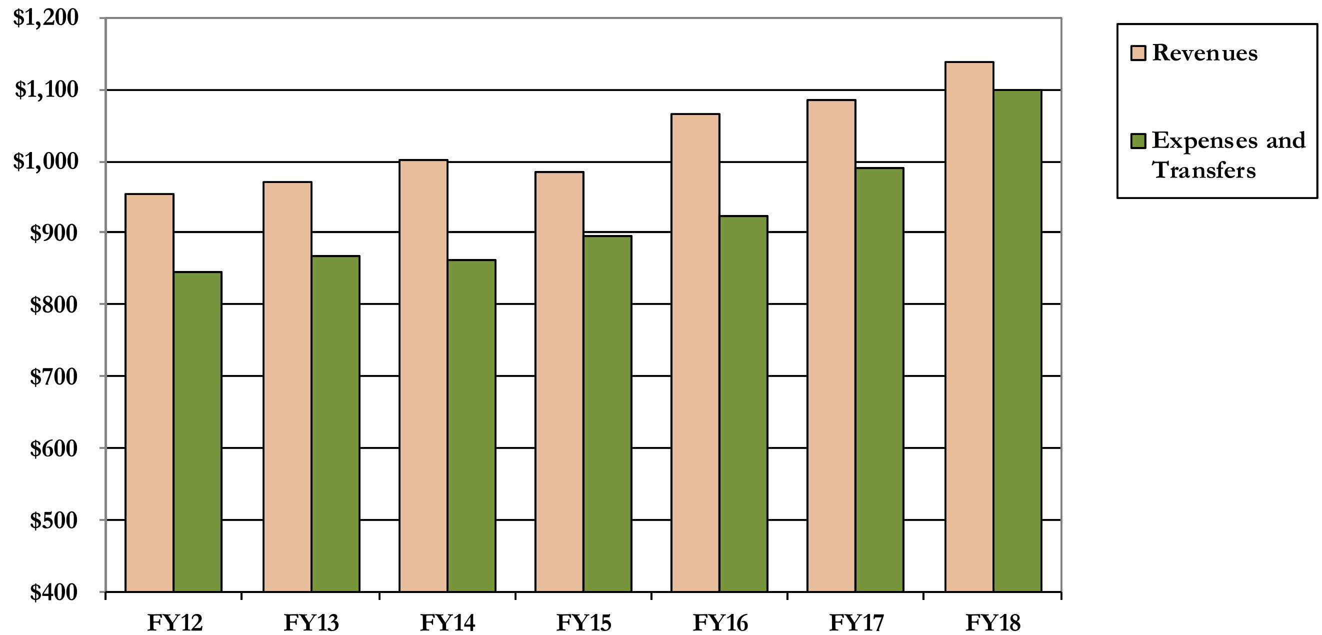
(amounts expressed in millions)



Convention & Entertainment is projecting an overall expense decrease of $1 million from FY17 levels, down 1.1% in FY18.

Combined Utility System
Revenues and Expenses

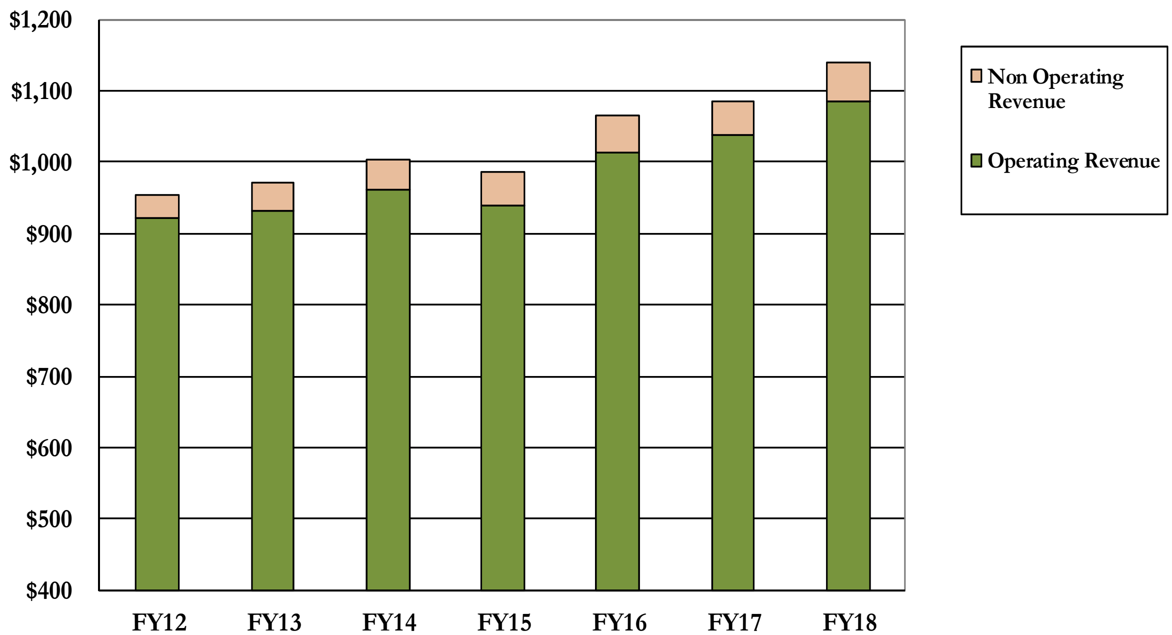
(amounts expressed in millions)



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

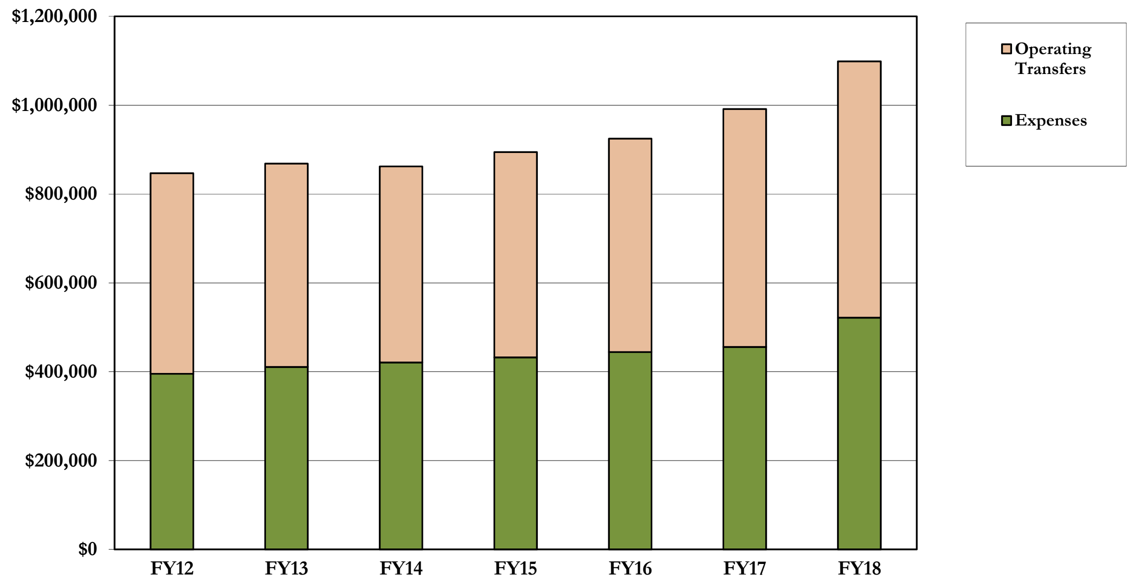
(amounts expressed in millions)



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, and 2017 are 5.1%, 0.3%, 1.9%, 3.3%, 3.6%, 1.2%, 4.4%, 1.4%, and 3.4% 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.