

Office of the City Controller



Houston, Texas

Trends for Fiscal Year 2022

May 2021

**Chris B. Brown
City Controller**

Trends

Fiscal Year 2022

The Controller's Office compiled the information on the following pages to assist City Council in putting the Administration's Fiscal Year 2022 Proposed Budget into a historical perspective. The trends presented here give Council members a broader picture and, hopefully, help in the budget decision-making process.

For the remainder of Fiscal Year 2021, we expect a decrease of 1.52% from the Fiscal Year 2020 revenues. The reduction is a direct result of the impact of COVID-19 on the City's resources. However, in Fiscal Year 2022 we anticipate revenues to increase by 8.17% (not including transfers, sale of assets or the budget stabilization reserve) from our Fiscal Year 2021 March projections. Fiscal Year 2022's projected revenues reflect increases in Industrial Assessments, Sales Tax, Other Taxes, Intergovernmental, Municipal Courts and Other Fines with decreases in Property Tax, Electric Franchise, Telephone Franchise, Gas Franchise, Other Franchise, Licenses and Permits, Charges for Services, Direct Interfund Services, Indirect Interfund Services, Interest, and Miscellaneous/Other. The biggest driver of FY22 revenue increases are the use of American Rescue Plan Act (ARPA) funds.

Our Fiscal Year 2022 projection for General Fund resources is \$24.7 million lower than the Administration's Fiscal Year 2022 Proposed Resources. To calculate Property Tax revenue, the Controller's Office used an estimated taxable value of \$267.9 billion, calculated by taking the estimated taxable values from Harris County, Fort Bend County, and Montgomery County Appraisal Districts in April 2021 and a 96.75% collection rate. This calculation is moot, as the Estimated Proposition 1 limit is \$1.231 billion and is lower than our calculated amount. Both the Administration and the Controller's Office are using zero growth for the CPI and population estimates and have elected to wait for the 10-year Census results to be released in September 2021. These actual results will allow for a final and more accurate Prop 1 cap calculation at that time. The City is still subject to the provisions of Senate Bill 2.

For our Sales Tax projection, we assumed growth of 9% due to increased vaccination rates, the continued reopening of our economy, and the \$5 trillion in economic stimulus pumped into the economy. The forecast utilizes the three-year prior monthly actual averages, which weighs pre-COVID sales tax actuals, COVID-19 direct impact actuals, and a partial recovery portion of actuals as seen in FY21. Thus, there is room for optimism about the FY22 recovery. However, what remains uncertain is to what extent and how quickly consumer and business behaviors return to pre-pandemic levels.

Our projected Ending Fund Balance for the General Fund for Fiscal Year 2022 is \$142 million, or 6.5% of the expenditures other than debt service and PAYGO, which is below the required amount of 7.5%, or \$162 million.

In the Enterprise Fund, Aviation revenues are increasing due to an expected rise in passenger traffic resulting in increased revenues in Concessions, Parking, Terminal Space Rentals, and Interest Income. Convention & Entertainment revenues are expected to be up due to increased HOT tax and Parking fees. The Combined Utility System's (CUS) revenues are expected to increase, primarily due to an increase in Water and Sewer Sales.

Summary of Graphs

The numbers on each page are from the following sources:

1. **FY20 and prior years are actual results as reported in previous Comprehensive Annual Financial Reports.**
2. **FY21 numbers are the Controller's Office March Monthly Financial Report (MFR) estimates.**
3. **The FY22 General Fund revenues are the most current projections of the Controller's Office.**
4. **Unless otherwise noted, all other FY22 numbers are from the Administration's FY22 Proposed Budget.**

General Fund Revenues

(amounts expressed in thousands)

Revenues	FY17	FY18	FY19	FY20	FY21	FY22	Admin.'s Proposed Budget	Difference [a]	
	Actual	Actual	Actual	Actual	Controllor's March Proj.	Controllor's Projection % Change [a]			
Property Tax	\$ 1,153,991	\$ 1,172,543	\$ 1,190,243	\$ 1,222,154	\$ 1,245,356	\$ 1,230,985	-1.15% [b]	\$ 1,230,985	-
Industrial Assessments	19,291	18,278	19,755	24,797	18,050	19,902	10.26%	21,813	(1,911)
Sales Tax	631,993	674,279	692,271	684,425	630,000	686,713	9.00% [c]	703,000	(16,287)
Other Taxes	16,896	17,370	18,026	15,379	12,000	15,000	25.00% [d]	15,983	(983)
Electric Franchise	102,654	102,260	100,590	100,774	97,465	94,919	-2.61%	95,878	(959)
Telephone Franchise	41,928	39,704	37,501	30,309	21,834	20,400	-6.57%	20,816	(416)
Gas Franchise	15,016	13,791	12,324	12,386	12,774	12,821	0.37%	13,083	(262)
Other Franchise	30,988	30,019	29,225	24,666	19,567	19,151	-2.13%	19,542	(391)
Licenses & Permits	38,020	33,412	35,301	32,507	31,464	30,446	-3.24%	31,067	(621)
Intergovernmental	71,040	76,390	60,205	44,523	68,629	229,740	234.76% [e]	229,740	-
Charges for Services	60,046	58,034	63,839	65,841	76,832	67,634	-11.97% [f]	69,014	(1,380)
Direct Interfund Services	53,523	54,449	62,214	59,174	63,016	61,766	-1.98%	61,766	-
Indirect Interfund Services	27,399	28,910	26,603	27,789	24,364	23,118	-5.11%	23,118	-
Muni Courts Fines	22,122	20,980	21,702	16,988	12,890	14,788	14.73%	15,090	(302)
Other Fines	4,778	4,021	3,933	3,424	3,072	3,282	6.84%	3,349	(67)
Interest	5,051	7,531	11,802	10,485	5,000	4,600	-8.00%	5,511	(911)
Misc/Other	25,876	53,564	24,066	14,692	11,722	11,044	-5.79%	11,269	(225)
Total	\$ 2,320,612	\$ 2,405,535	\$ 2,409,600	\$ 2,390,313	\$ 2,354,035	\$ 2,546,308	8.17%	\$ 2,571,024	\$ (24,716)
Transfers from Other Funds	20,901	20,617	20,660	12,954	3,149	6,771	115.02% [g]	6,771	-
Sale of Capital Assets	10,302	4,090	26,022	21,487	2,500	3,305	32.20%	3,305	-
Pension Bond Proceeds	-	909,990	-	-	-	-	0.00%	-	-
Budget Stabilization Fund Reserve	-	-	-	-	-	-	0.00%	-	-
Total Revenues and Resources	\$ 2,351,815	\$ 3,340,232	\$ 2,456,282	\$ 2,424,754	\$ 2,359,684	\$ 2,556,384	8.34%	\$ 2,581,100	\$ (24,716)

[a] The “Percentage Change” column compares our FY22 projection to our FY21 estimate, while the “Difference” column compares our FY22 projection to the Administration’s proposed budget.

[b] Property Tax revenue is net of refunds and Tax Increment Reinvestment Zone (TIRZ) payments. The Controllor’s FY22 calculation for Property Tax revenues is based on the taxable values provided by the three appraisal districts in April 2021. The projection assumes an estimated \$8 million in delinquent collections and an estimated \$176 million in TIRZ payments. The calculated amount is \$1.245 billion but being projected at the Estimated Prop 1 cap amount of \$1.231 billion.

[c] FY22 Sales Tax revenue projection begins with our FY21 Sales Tax revenue estimate. Sales tax will continue to be monitored for the remainder of FY21. Prior to the FY21 May receipts, Sales Tax revenues had declined by an average of 6.17% due to the impact of COVID-19 and low oil prices. Now that the economy is on a positive trajectory from the effects of COVID-19, we expect to see significant increase in year-over-year numbers for the remainder of FY21.

[d] Other Taxes, primarily mixed beverage tax, increased \$3 million, or 25%, due to COVID-19 recovery as bars and restaurants open to full capacity.

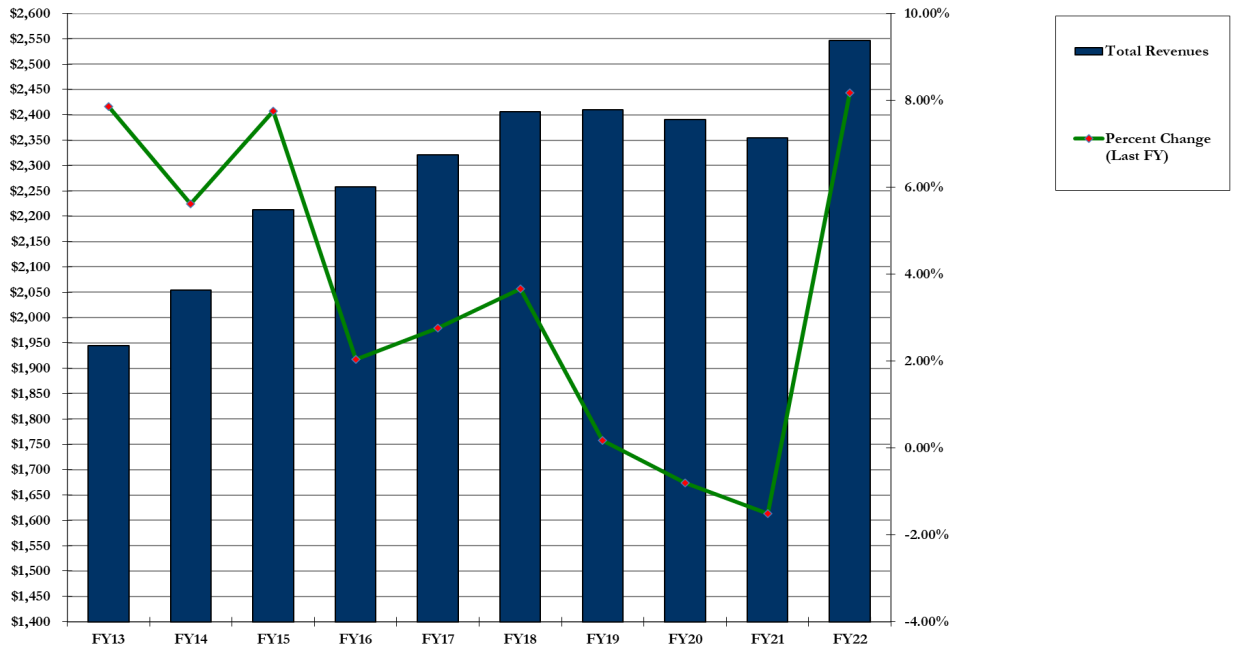
[e] Intergovernmental revenue increased \$161 million, or 234.76% due to funding through the ARPA for public health emergencies due to COVID-19.

[f] Charges for Services decreased \$9 million, or 11.97%, using a conservative estimate due to historical volatility in revenue stream.

[g] Transfers from Other Funds increased \$3.6 million or 115.02% primarily due to more projected claw backs.

General Fund Revenues

(amounts expressed in millions)



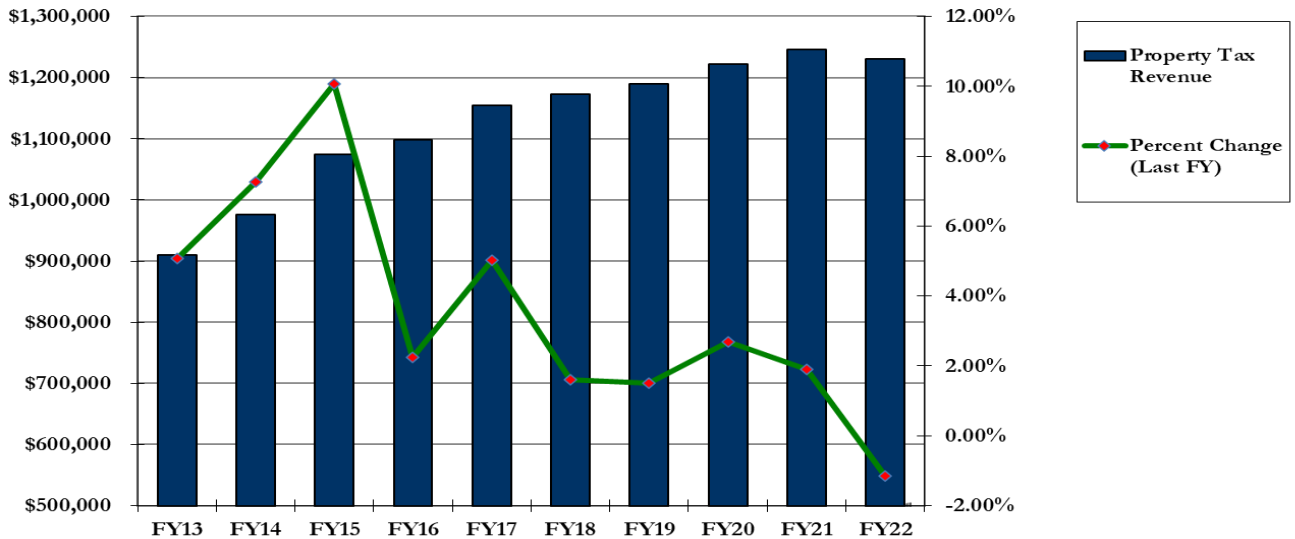
FY22 General Fund revenue is projected to increase by \$192.3 million, or 8.17% above our current FY21 estimate.

The projected increase consists primarily of increases in Intergovernmental of \$161.1 million, Sales Tax of \$56.7 million, Other Taxes of \$3.0 million, and Municipal Courts & Other Fines of \$2.1 million. The Intergovernmental projection includes the planned use of the American Rescue Plan Act (ARPA) funds.

The increase in revenue was partially offset by decreases in Property Tax of \$14.4 million, Electric Franchise of \$2.5 million, Telephone Franchise of \$1.4 million, Licenses & Permits of \$1 million, Charges for Services of \$9.2 million, Direct Interfund of \$1.3 million, Indirect Interfund of \$1.2 million, and Interest/Misc. Other of \$1 million.

Property Tax Revenue

(amounts expressed in thousands)

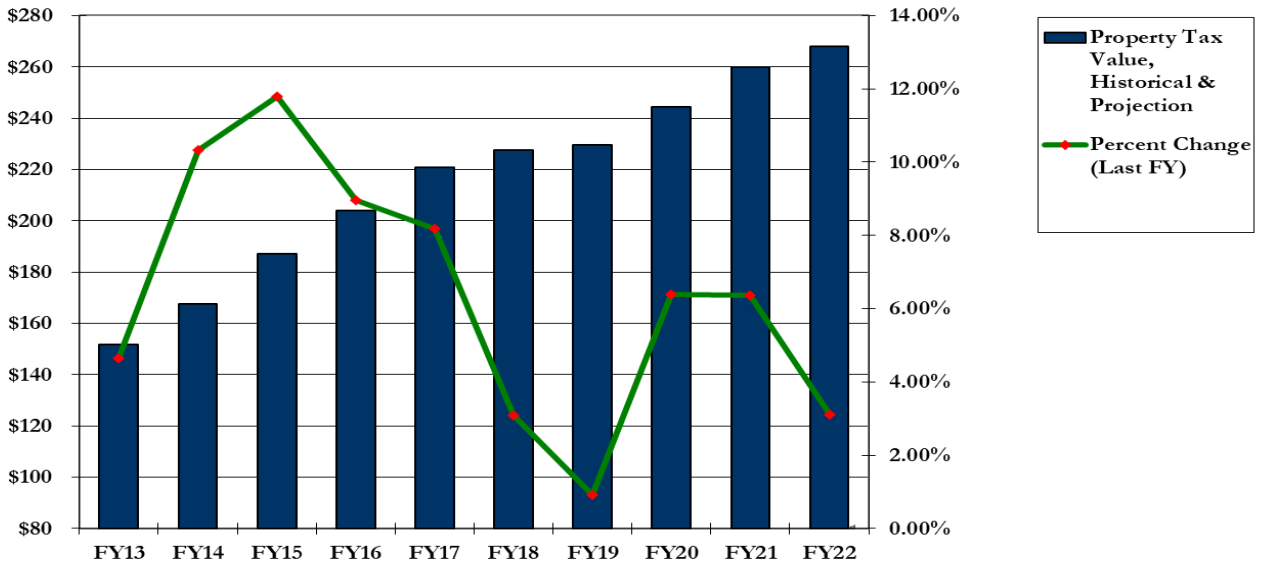


Property Tax revenue is projected to be lower than the FY21 estimate by 1.15%. Controllers Office’s Property Tax revenue projection is based on a preliminary Prop 1 cap amount of \$1.231 billion. The Prop 1 revenue cap amount will be updated once Census data is released, and CPI growth is calculated. The tax rate will not be known until the Certified Roll is received around the end of August. The City’s property tax rate is also subject to compliance with SB2. TIRZ payments are projected at \$176 million, and delinquent tax collections are projected at \$8 million.

Note: The U.S. Census Bureau’s estimated City of Houston 2020 population will be reported on May 27, 2021, and a 10-year Census in September 2021. The Controller’s Office will update our Prop 1 calculation upon receipt of the official estimate and the Census.

Taxable Values Historical & Forecast

(amounts expressed in billions)

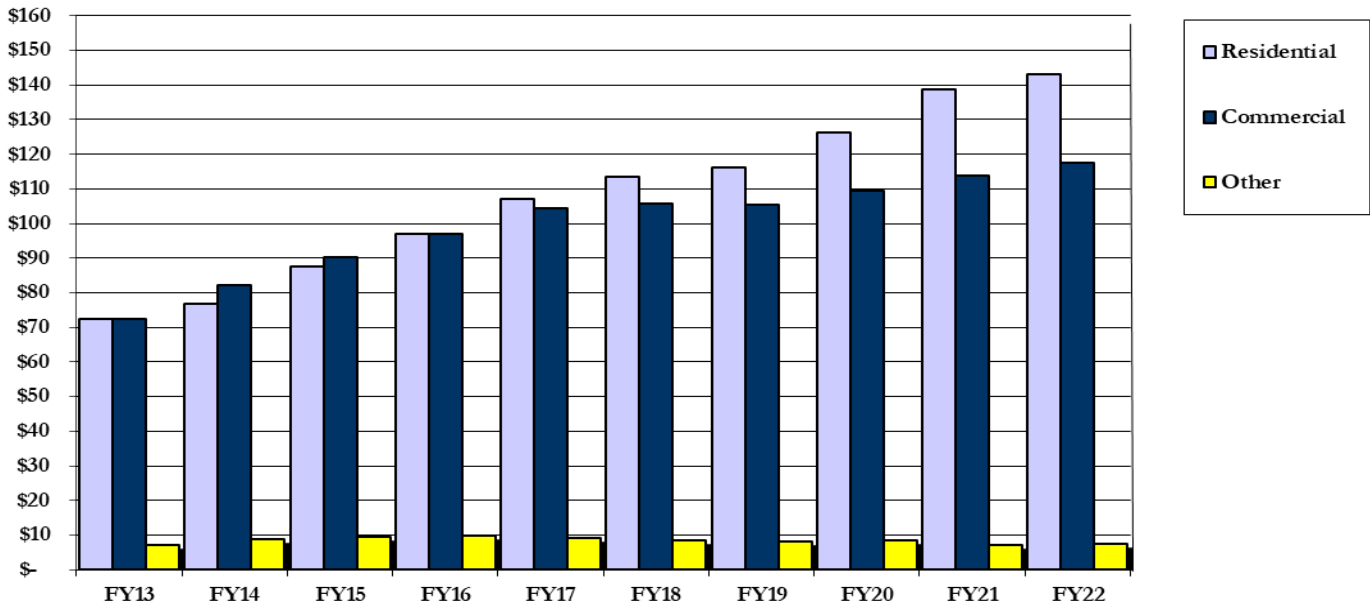


The Harris County, Fort Bend County, and Montgomery County Appraisal Districts (the Districts) provide expected taxable values. The actual taxable values for FY21 are below the preliminary expected taxable value provided at the same time last year. However, based on the Districts' projection for FY22, an increase in valuation of about 3.11% is anticipated.

These values are based on the Districts' preliminary projected values, dated April 30, 2021. Harris County taxable values comprise over 99% of the City's total taxable value.

Taxable Values By Property Type Historical & Forecast

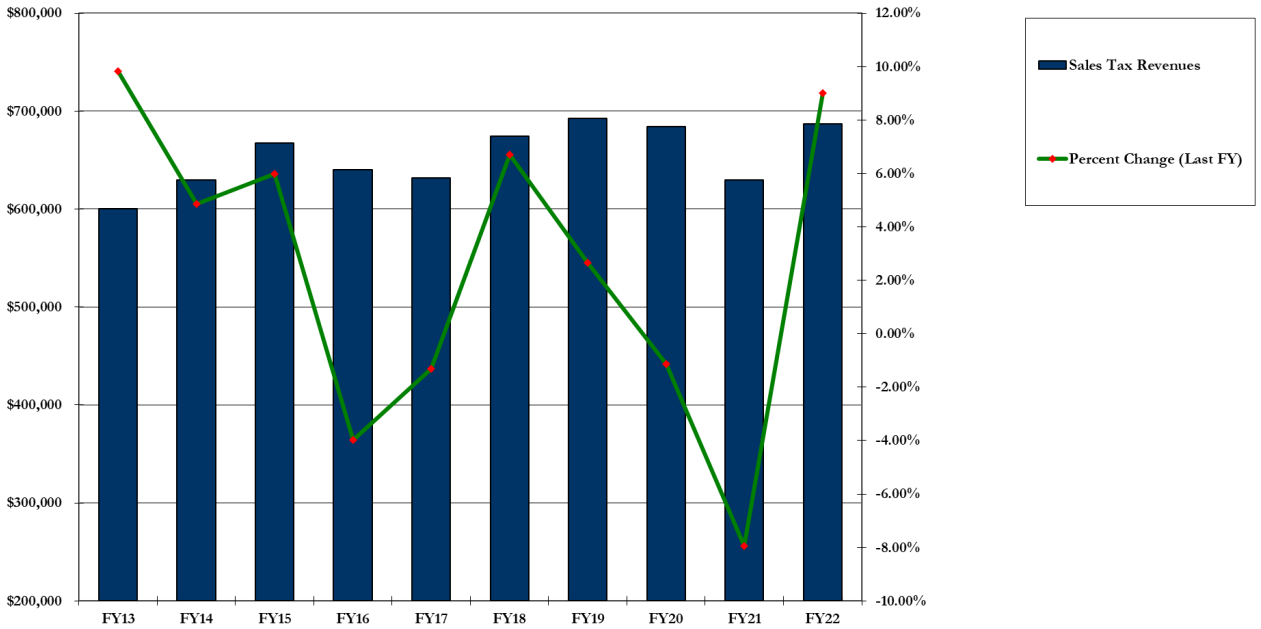
(amounts expressed in billions)



In the City of Houston, residential properties make up 53.4% of taxable values and commercial properties make up 43.8% of the taxable values. Collectively, the two property types make up 97.2% of taxable values.

Sales Taxes Revenue

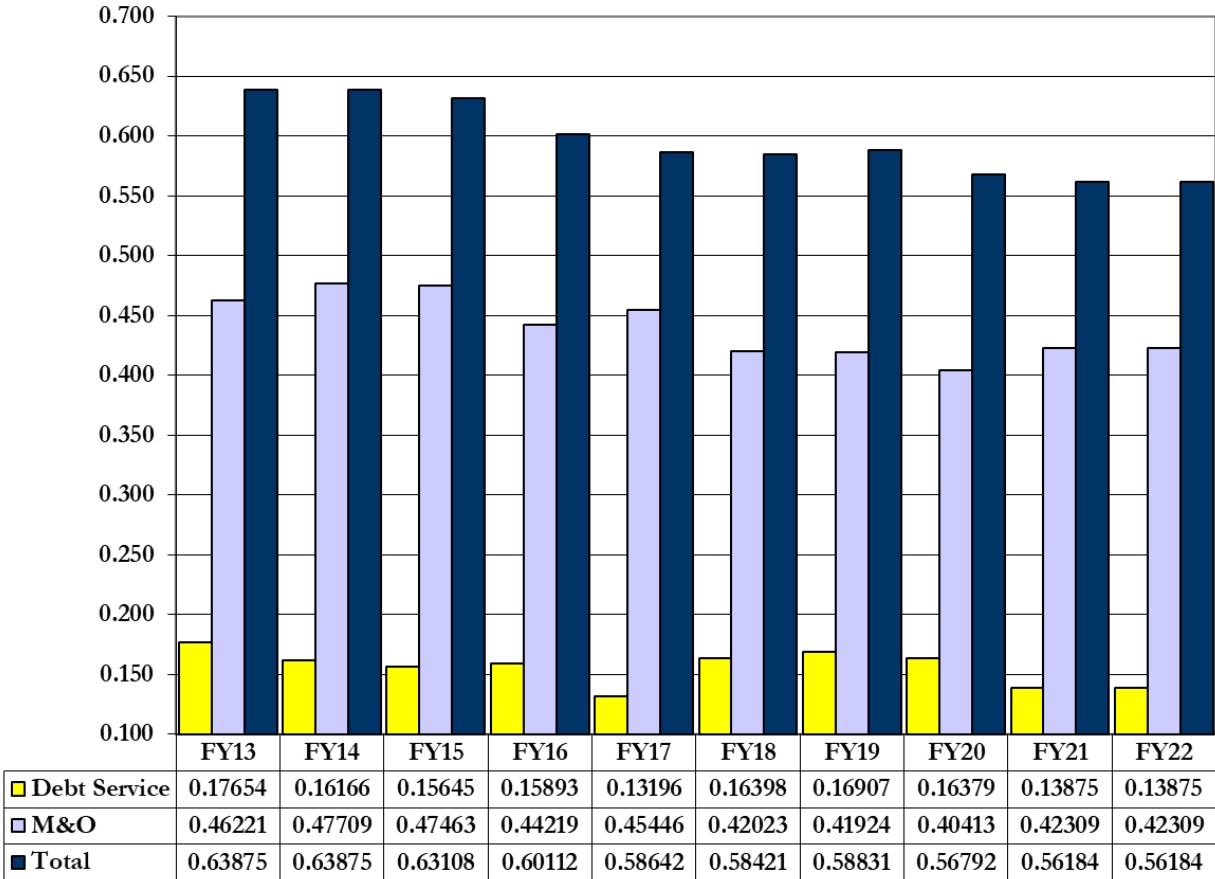
(amounts expressed in thousands)



FY22 Sales tax revenue is projected to be 9.0% higher than the forecasted FY21 Sales Tax receipts. This increase is due to a rebound expected following the COVID-19 pandemic. The projection assumes continued effective vaccine administration and a corresponding increase in economic activity as consumer activity returns closer to normal.

Property Tax Rate

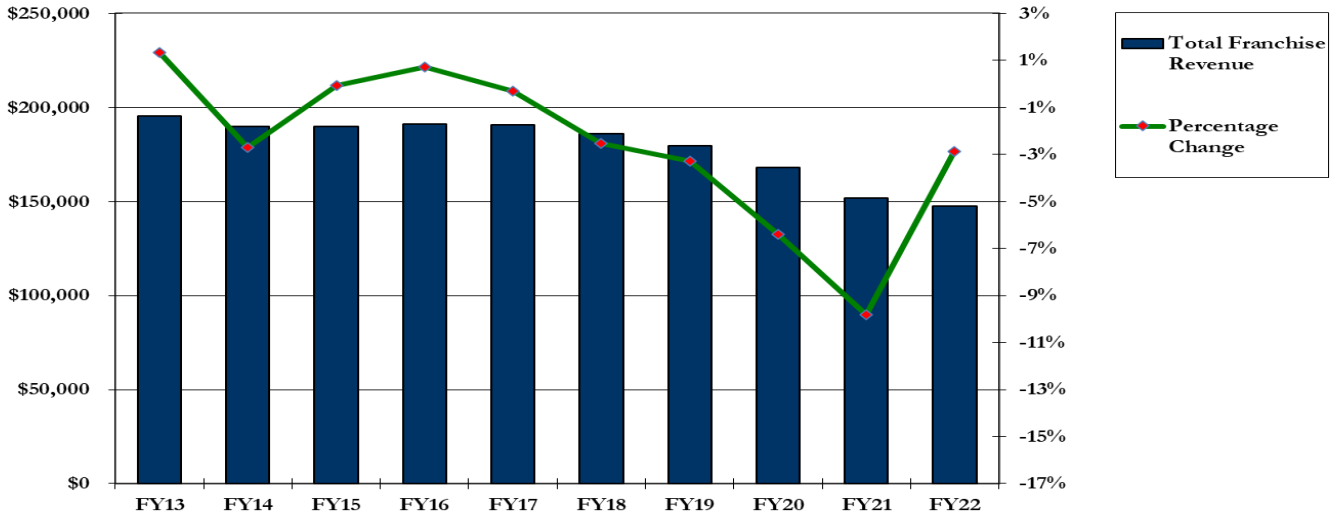
(Tax Rate per \$100 Valuation)



The FY22 tax rate projection is based off the FY21 tax rate. The final tax rate will be established by a vote of Council in the first quarter of FY22 when the Certified Roll is available.

Total Franchise Revenues

(amounts expressed in thousands)

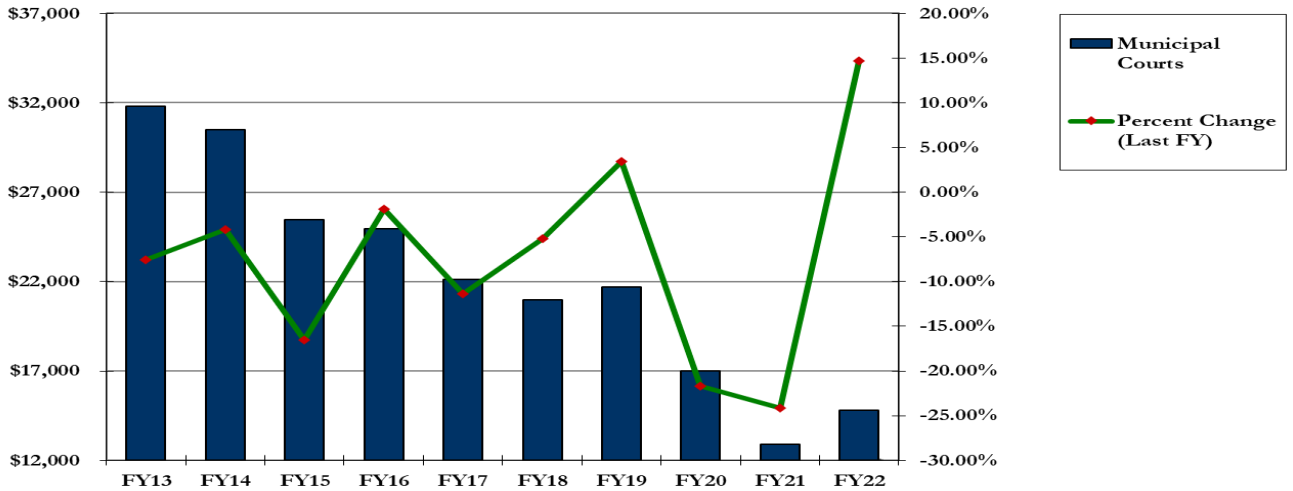


Total Franchise Fee revenues are projected to decrease \$4.3 million, or 2.87%, for FY22. Total Franchise Fees is comprised of Electric Franchise, Telephone Franchise, Gas Franchise, and Other Franchise.

Decreases are expected in Electric Franchise of \$2.5 million, Telephone Franchise of \$1.4 million, and Other Franchise of \$416 thousand. Cable Franchise and Waste Hauler Franchise are expected to remain flat.

Municipal Courts Revenues

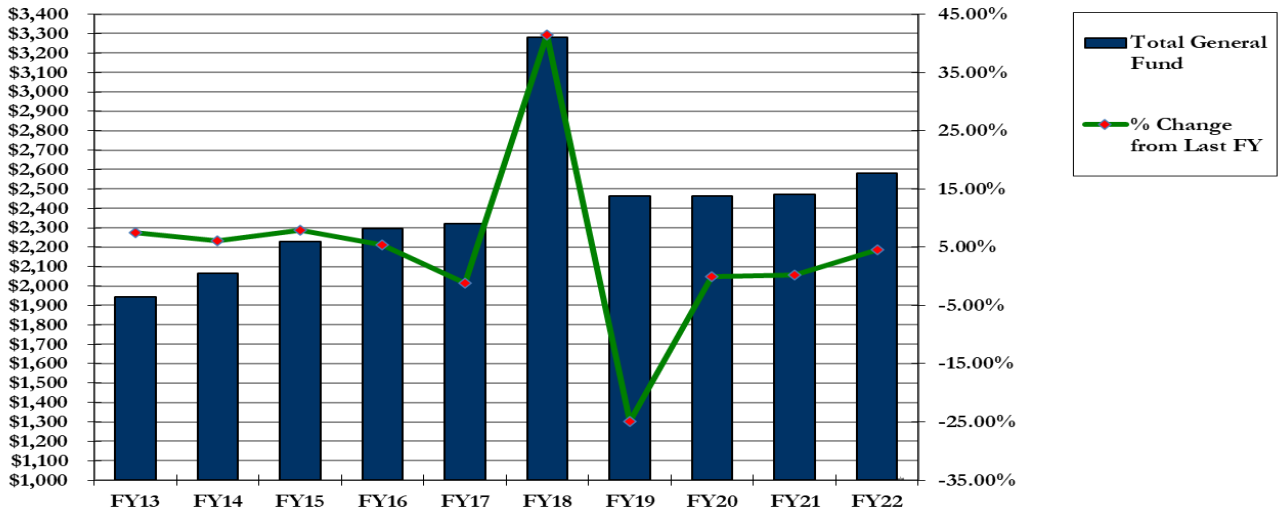
(amounts expressed in thousands)



Municipal Courts Fines and Forfeits are expected to increase by 14% for FY22 based on an expected increase in collections, moving violations, fees, and court operation's revenue. Municipal Courts remained closed for a significant portion of FY21 which drastically impacted Municipal Court Revenue.

General Fund Expenditures Budget

(amounts expressed in millions)

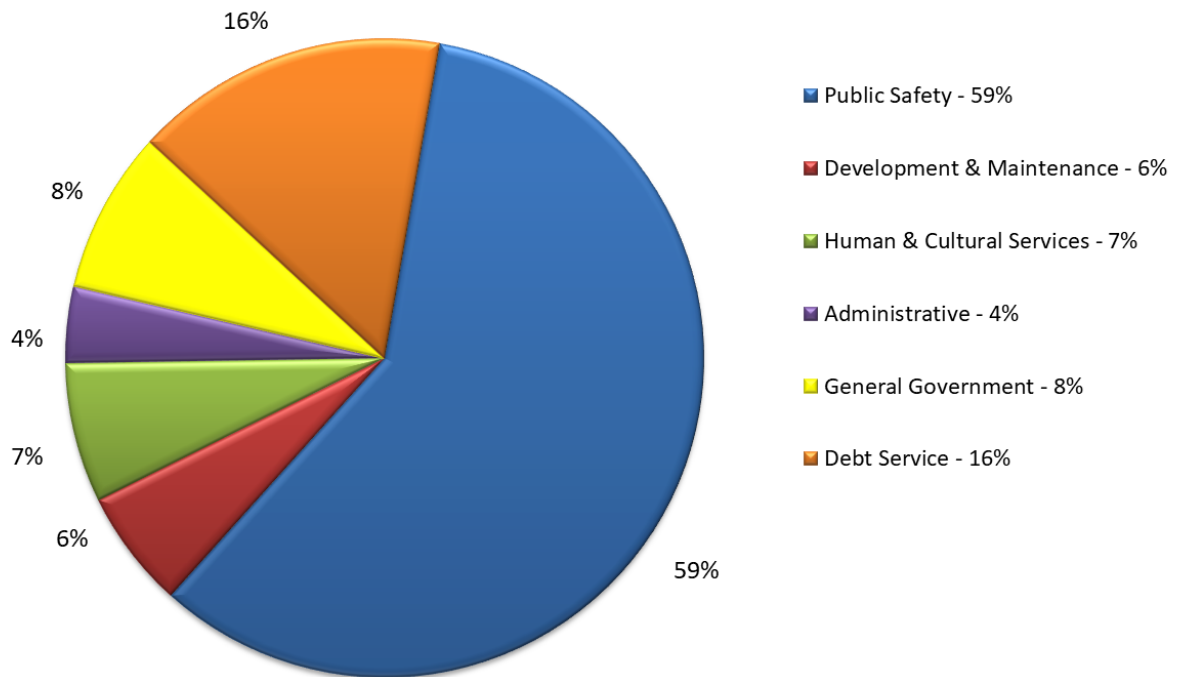


The FY22 General Fund total expenditure budget is expected to be up by 4.5% over FY21 projected expenditures, an increase of \$111.1 million from our FY21 estimated expenditures.

The gap between Controller's projected revenues/resources and budgeted expenditures requires the use of a significant portion of ARPA funds. Short of the use of ARPA funds, the City would have been required to make significant cuts in personnel and service delivery levels.

The use of ARPA funds is the equivalent to the use of a non-recurring revenue source which adds pressure to the City's structurally imbalanced budget.

General Fund Expenditures Percent by Function



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

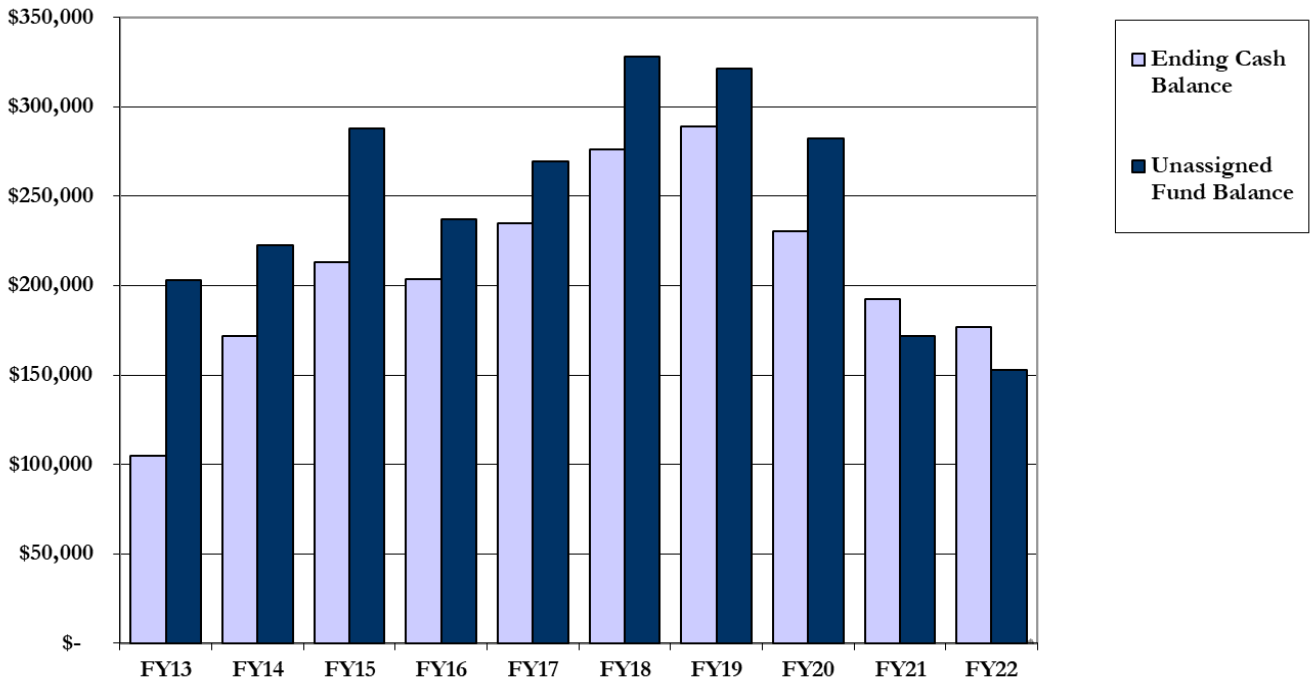
Administrative – Administration & Regulatory Affairs, Controllers, Council, City Secretary, Finance, IT, HR, Legal, Mayor, Office of Business Opportunity

Debt Service – Debt Service Payments, General Obligation

Cash vs. Fund Balance

General Fund

(amounts expressed in thousands)



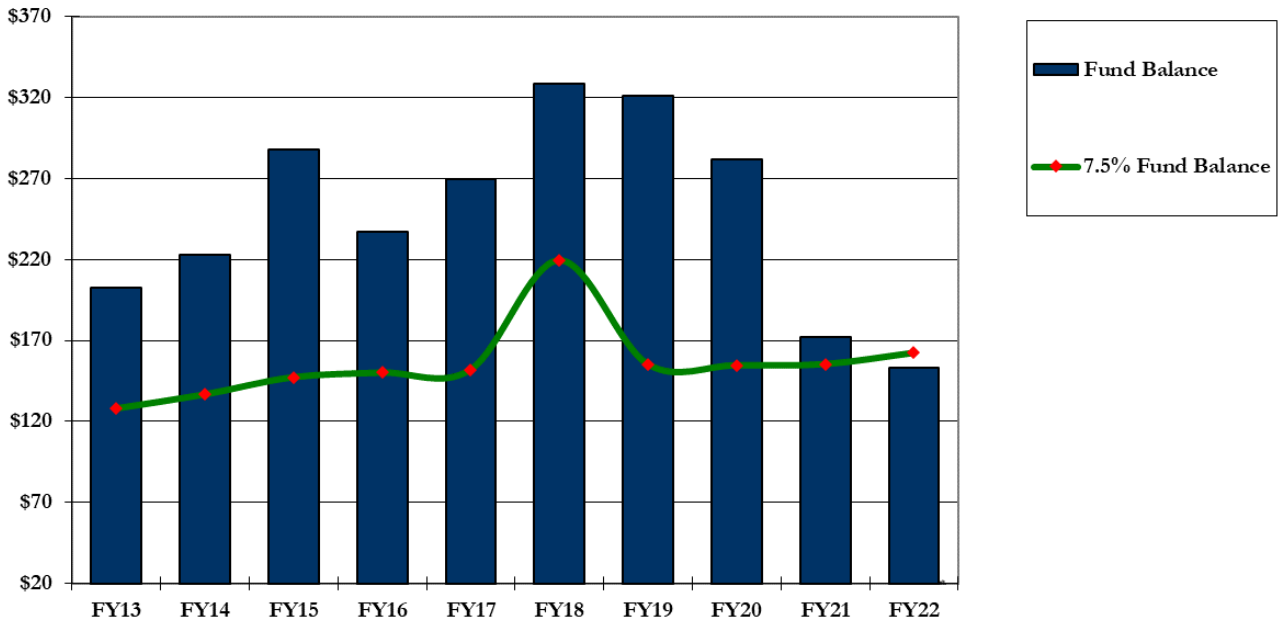
The Unassigned Fund Balance consists of both cash and non-cash items and includes receivables for Sales Tax and Franchise Fees. The Unassigned Fund Balance is expected to decrease by \$110.0 million in FY21 and decrease by \$30.2 million in FY22. The projected Unassigned Fund Balance for Fiscal Year 2021 and Fiscal Year 2022, respectively, is \$171.9 million and \$141.7 million.

The projected Unassigned Fund Balance for FY2022 would represent a 10-year low.

City Ordinance 7.5% Fund Balance Requirement

General Fund

(amounts shown in Millions)

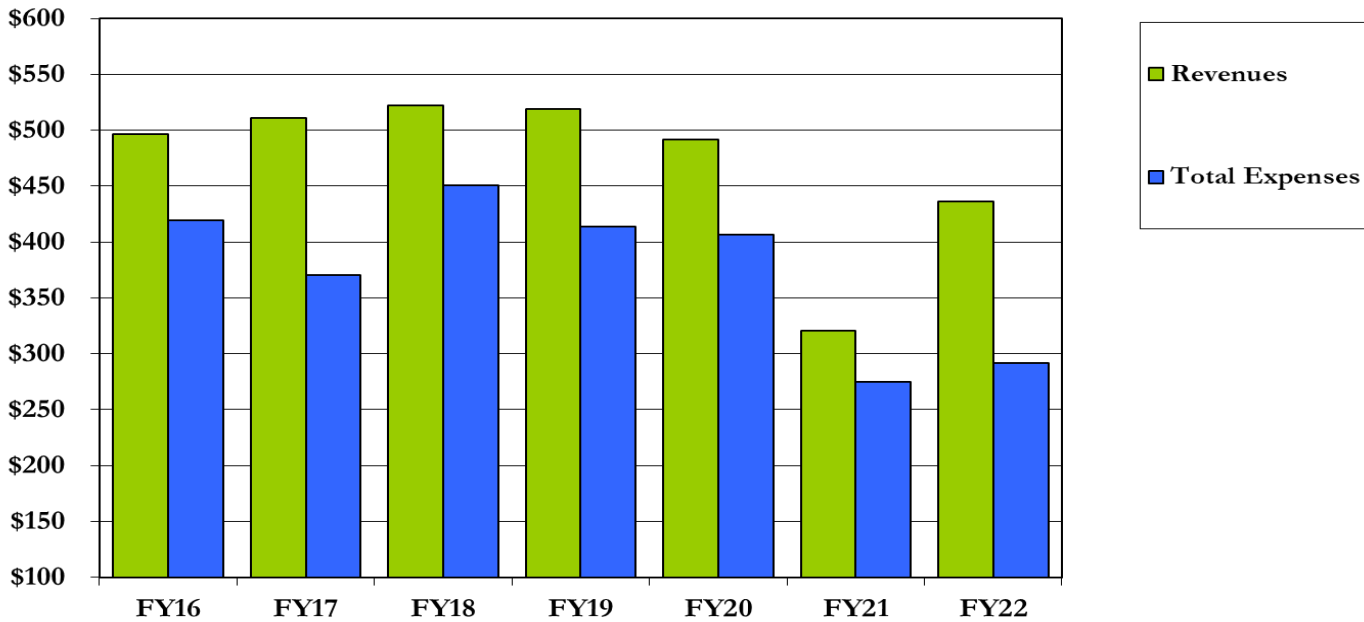


City Ordinance 2014-1078, adopted December 2014, requires an Undesignated Reserve of 7.5% of the General Fund Expenditures, less Debt Service Payments and PAYGO.

For FY22, we are projecting an ending fund balance of \$20.7 million below the 7.5% reserve requirement. The projected ending fund balance for FY22 would represent 6.5% of budgeted expenditures excluding debt-service and PAYGO.

Aviation Revenues & Expenses

(amounts expressed in millions)

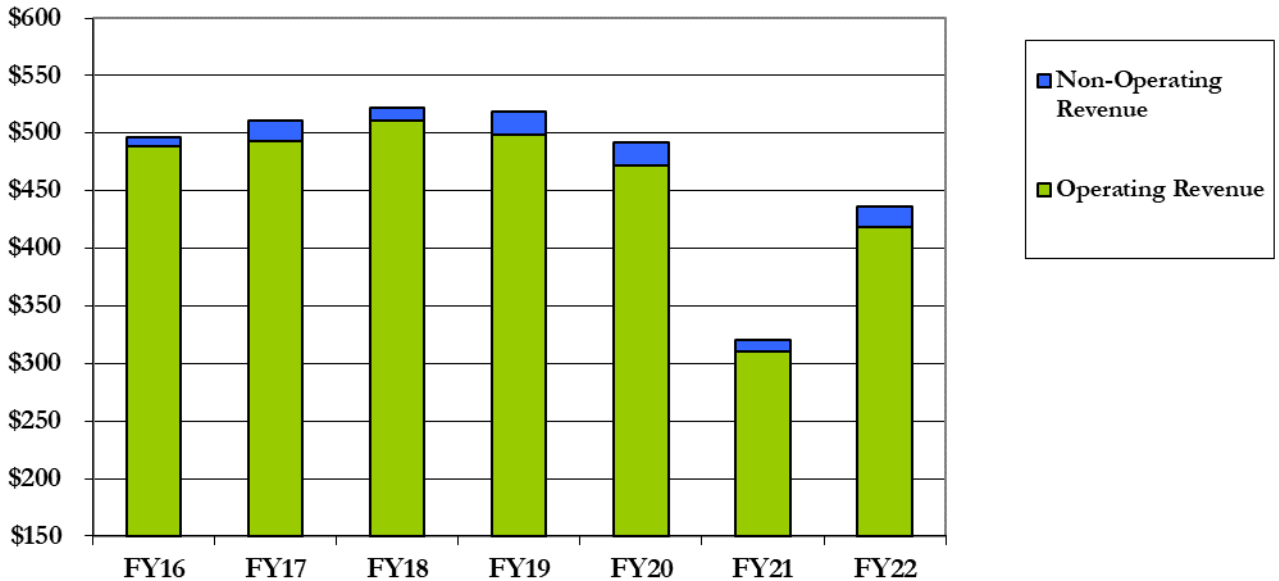


Aviation is projecting revenues to increase by 36.0% to \$436.2 million in FY22 predominately due to an increase in Operating revenues. Expenses are expected to increase by \$17.0 million, or 6.2%, to \$292.0 million in FY22 due to increased costs in Maintenance and Operations.

Aviation is eligible to receive funds for reimbursement of costs, including operating, maintenance, and debt-service expenses through various federal grant programs. It is expected that a significant amount of CARES Act, CRRSA Act, and ARPA dollars will be requested in FY 2022.

Aviation Revenues

(amounts expressed in millions)

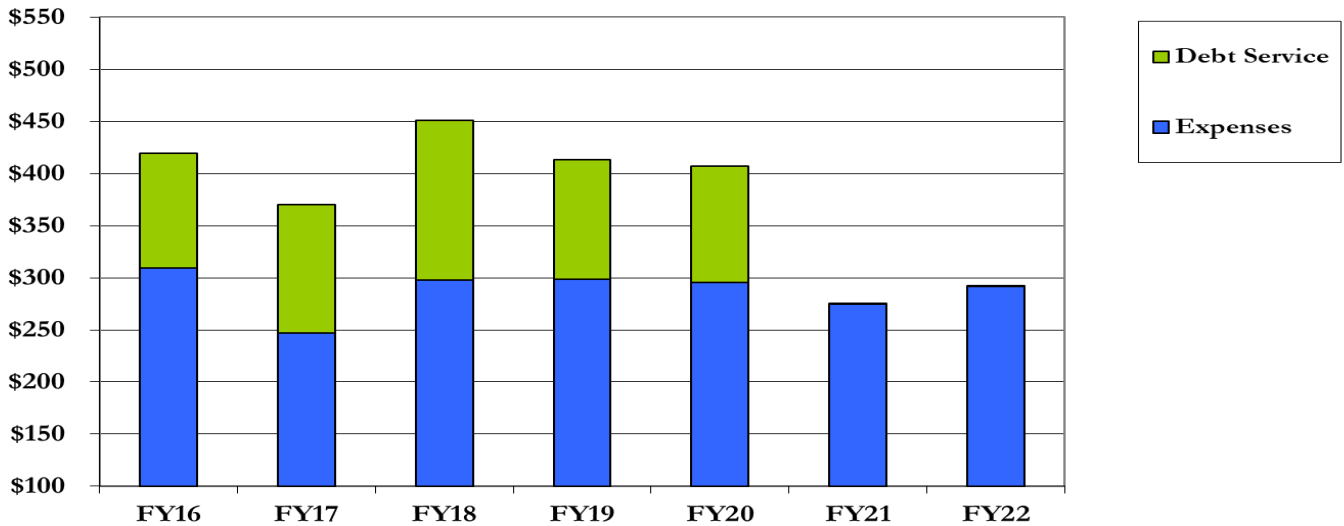


Projected revenues for Aviation for FY22 are \$436.2 million. This is an increase of 36.0% or \$115.5 million from the FY21 estimate of \$320.7 million. Operating revenues are expected to increase by \$108.2 million to \$418.2 million, while Non-Operating revenues are expected to increase by \$7.3 million to \$18.1 million.

The use of CARES Act, CRRSA Act, and ARPA funds are treated as grant dollars and are not included in revenue projections.

Aviation Expenses

(amounts expressed in millions)

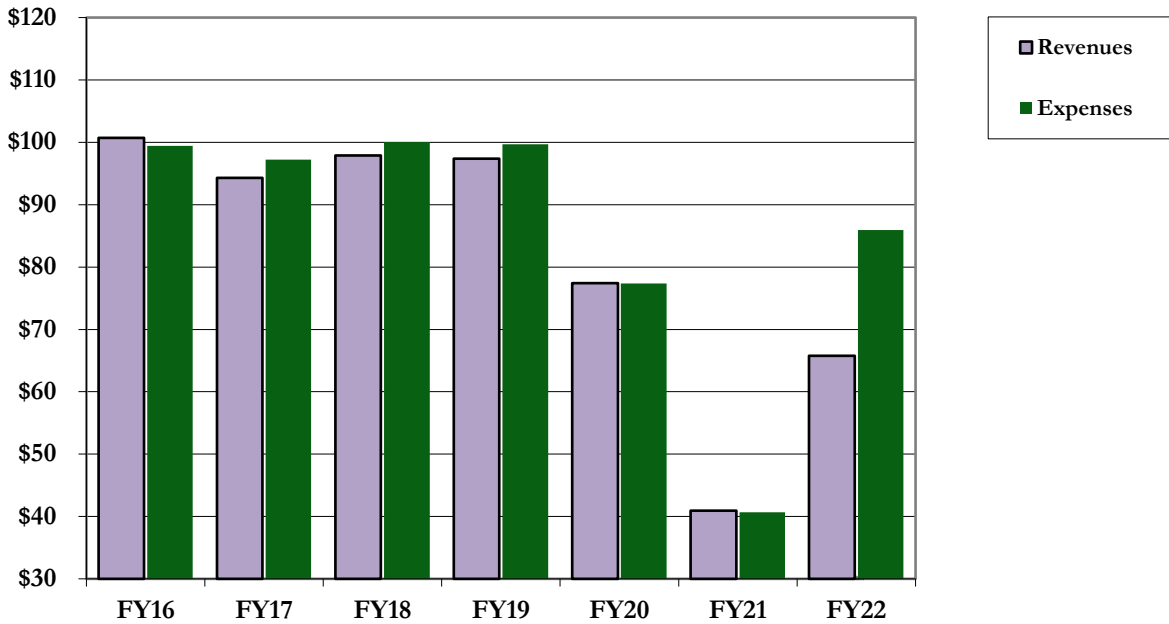


Projected expenses for Aviation for FY 22 are \$292.0 million. This is an increase of 6.2% or \$17.0 million from the FY21 estimate of \$275.0 million, excluding debt service. This is due primarily to a \$7.9 million increase in Personnel costs and an \$8.2 million increase in Other Services and Charges.

For FY22, almost all Debt Service expenses will be paid from the Houston Airport System (HAS) entitlement grant funds including CARES Act, CRRSA Act, and ARPA funding.

Convention & Entertainment Revenues & Expenses

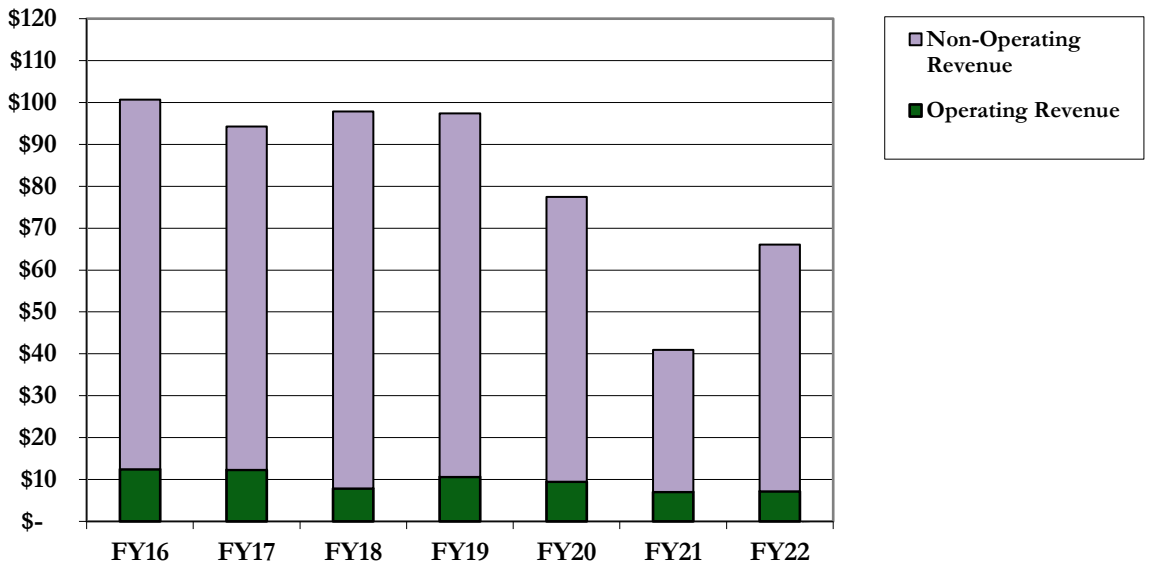
(amounts expressed in millions)



Convention & Entertainment is projecting an overall expense increase of \$45.2 million from FY21 levels, up 111.1%. FY22 revenues are projected to increase by 61.4% or \$25.2 million. Convention & Entertainment revenues are projected to be \$20 million below expenditures in FY22. Fund balance will be used to off set the projected deficit.

Convention & Entertainment Revenues

(amounts expressed in millions)

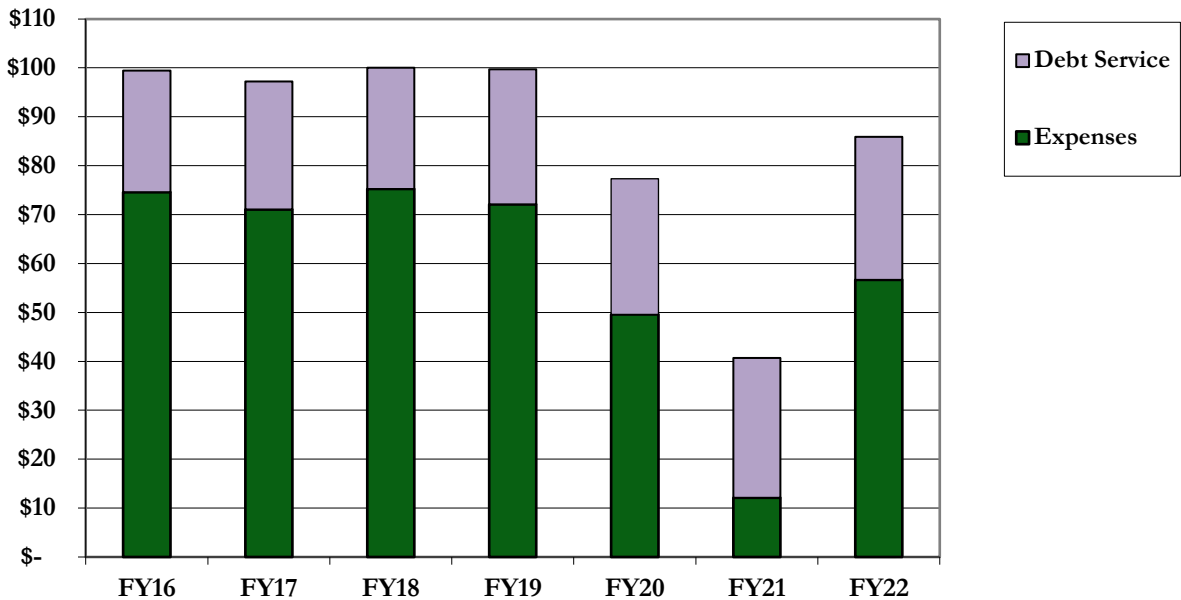


Convention & Entertainment total revenues are primarily generated from HOT taxes reported as Non-Operating revenues, followed by pledged parking fees reported as Operating revenues. HOT tax revenues are projected to increase in FY22 by \$25.0 million.

Overall, FY22 revenues are projected to increase by 61.4% or \$25.2 million.

Convention & Entertainment Expenses

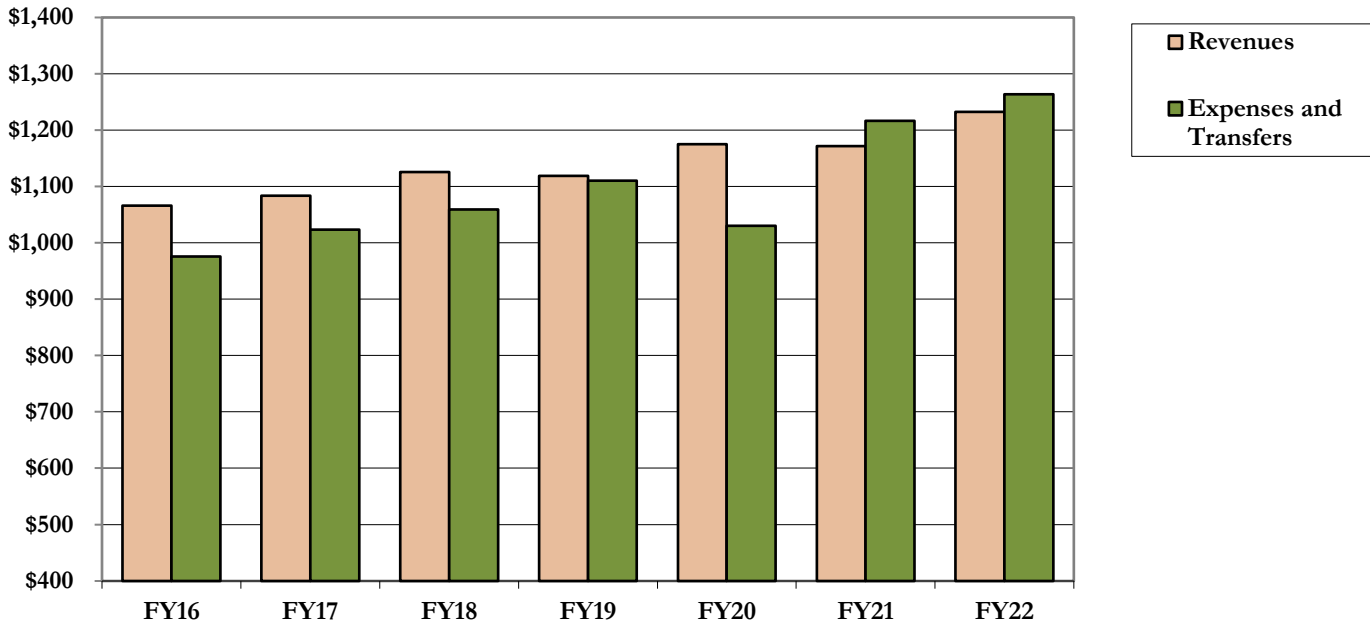
(amounts expressed in millions)



Convention & Entertainment is projecting an overall expense increase of \$45.2 million from FY21 levels, up 111.1%. The primary increases are \$44.5 million in Transfers to Component Units and \$677,000 in Debt Service payments.

Combined Utility System Revenues and Expenses

(amounts expressed in millions)

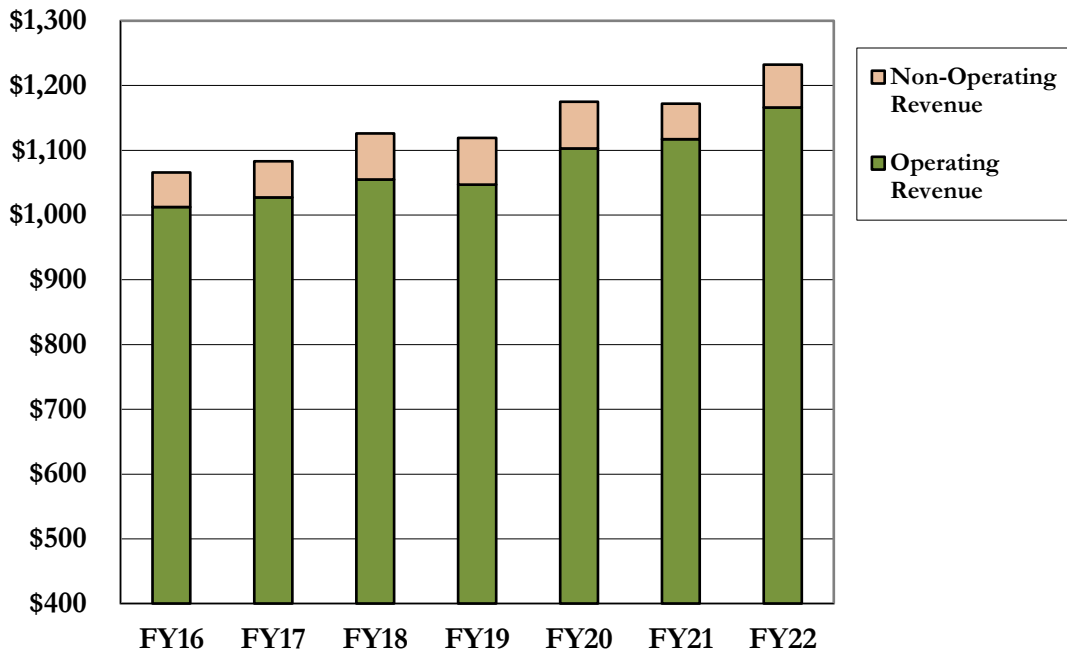


The Combined Utility System's expenditures are expected to exceed revenues by \$31.5 million for FY22. Revenues are expected to increase by \$60.4 million. The increase in expenditures of \$47.5 million is primarily due to increased debt service, maintenance costs, and refuse disposal.

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)

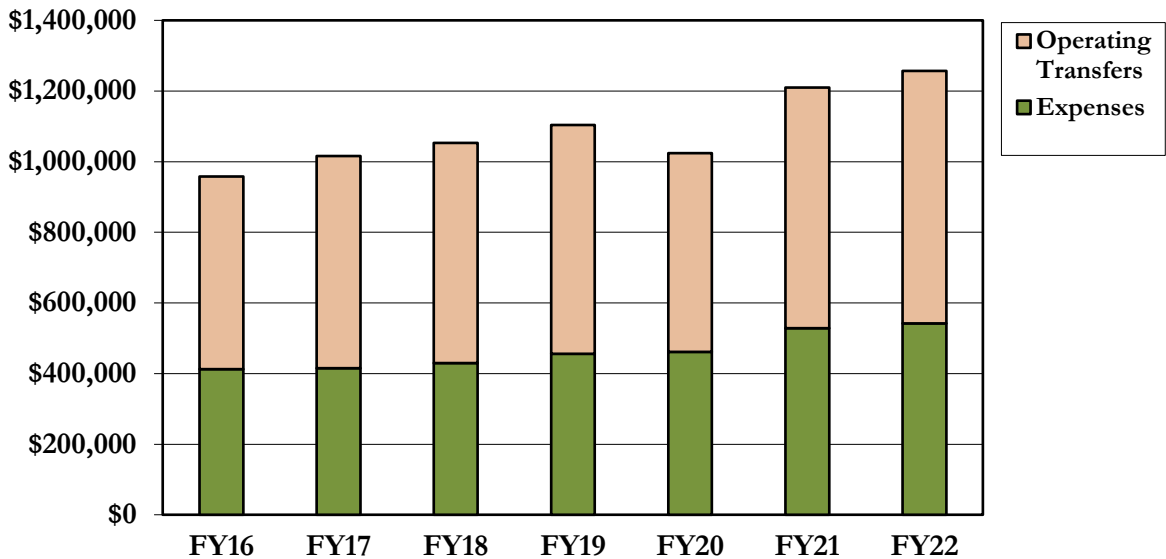


Total Revenues are expected to increase by \$60.4 million, or 5.2%. The increase is primarily due to increased Water & Sewer Sales totaling \$47.1 million and Other Revenues of \$13.1 million. The Water and Sewer Sales are due to an annual rate adjustment equal to the previous calendar year's Producer Price Index (PPI) or Consumer Price Index (CPI) and population for the area including Houston, Galveston and Brazoria Counties.

Note: The rate adjustments for Fiscal Years 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020 and 2021 are 5.1%, 0.3%, 1.9%, 3.3%, 3.6%, 1.2%, 4.4%, 1.4%, 3.4%, 2.8%, 2.8%, 3.5% and 1.5%, respectively.

Combined Utility System Operating Expenses by Category

(amounts expressed in millions)



CUS expenditures are expected to increase by \$47.5 million primarily due to increased debt service, maintenance costs, and refuse disposal.

Maintenance and Operating 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. The Controller's Office agrees with the numbers in the proposed budget for CUS by the Administration.