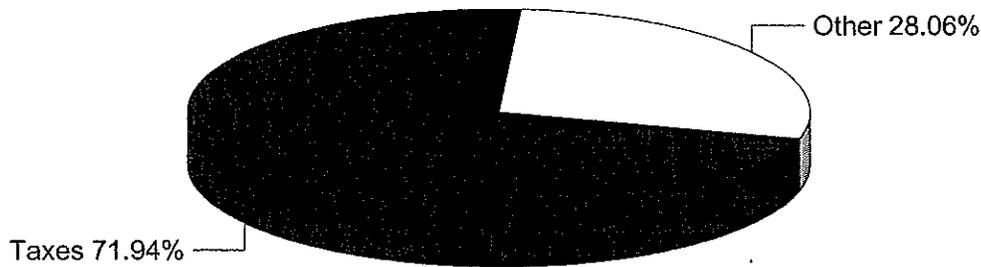


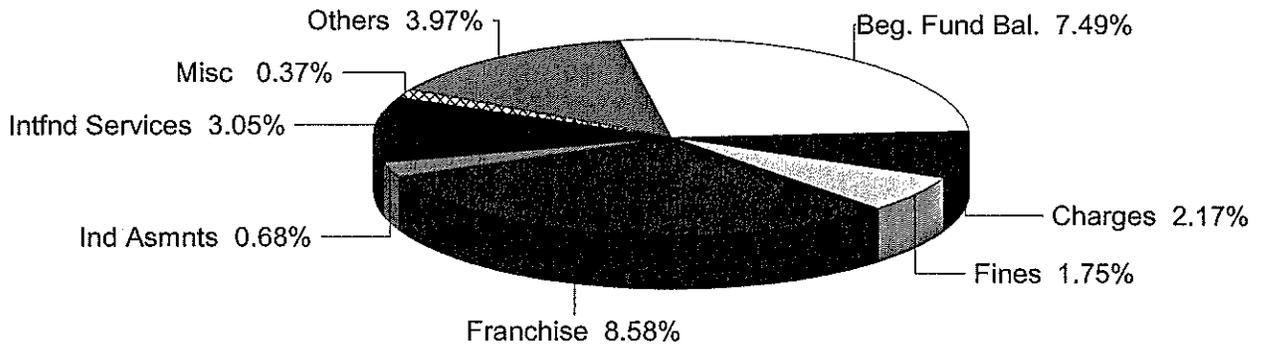
## GENERAL FUND RESOURCES SUMMARY

The General Fund is the City of Houston's largest operating fund. With total resources of \$2.2 billion budgeted in FY2014, this fund relies heavily on various forms of revenue to finance its operations. As illustrated below, approximately 72% percent of the total resources in the General Fund are from property and sales taxes.

### GENERAL FUND RESOURCES FY2014 BUDGET



### COMPOSITION OF OTHER (ABOVE)



**FISCAL YEAR 2014 BUDGET**

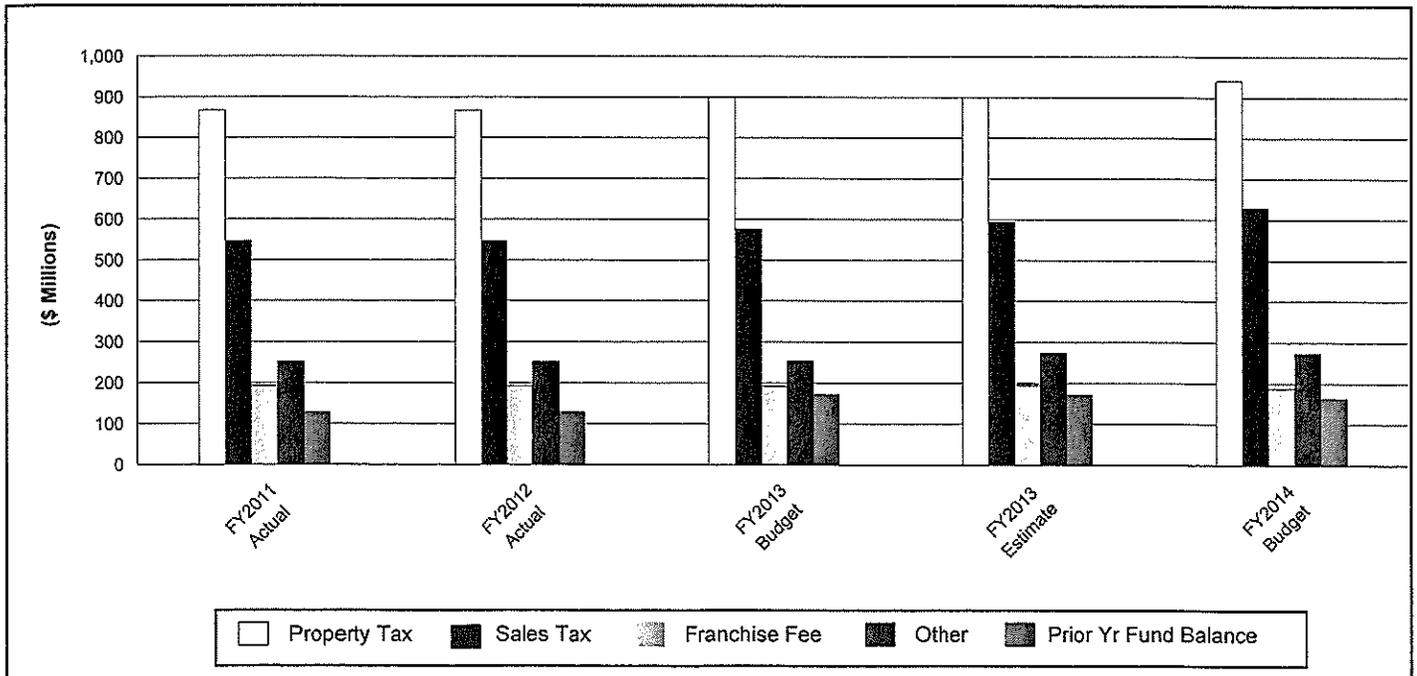
The composition of the FY2014 General Fund resources is listed below:

<b>RESOURCE CATEGORIES</b>	<b>RESOURCE FY2014 BUDGET*</b>	<b>% OF TOTAL BUDGET</b>
Taxes:		
Property Taxes	\$ 940,611	42.82%
Sales Taxes	629,602	28.66%
Other Tax	9,995	0.46%
Franchise Fees	188,453	8.58%
Industrial District	15,000	0.68%
Licenses and Permits	32,819	1.49%
Intergovernmental	21,063	0.96%
Charges for Services	47,759	2.17%
Interfund Services	67,013	3.05%
Fines and Forfeits	38,448	1.75%
Interest	3,000	0.13%
Miscellaneous/Other	8,058	0.36%
Total Revenue	2,001,821	91.13%
Sale of Capital Assets	2,500	0.11%
Transfers In	27,770	1.26%
Beginning FY2014 Fund Balance	164,488	7.49%
<b>TOTAL RESOURCES</b>	<b>\$ 2,196,579</b>	<b>100.00%</b>

\* Dollars in Thousands  
Total may reflect slight variances due to rounding.

The graph below provides a four-year comparison of the City's resources in millions of dollars.

**RELATIONSHIP OF GENERAL FUND RESOURCES  
FY2011 THROUGH FY2014**



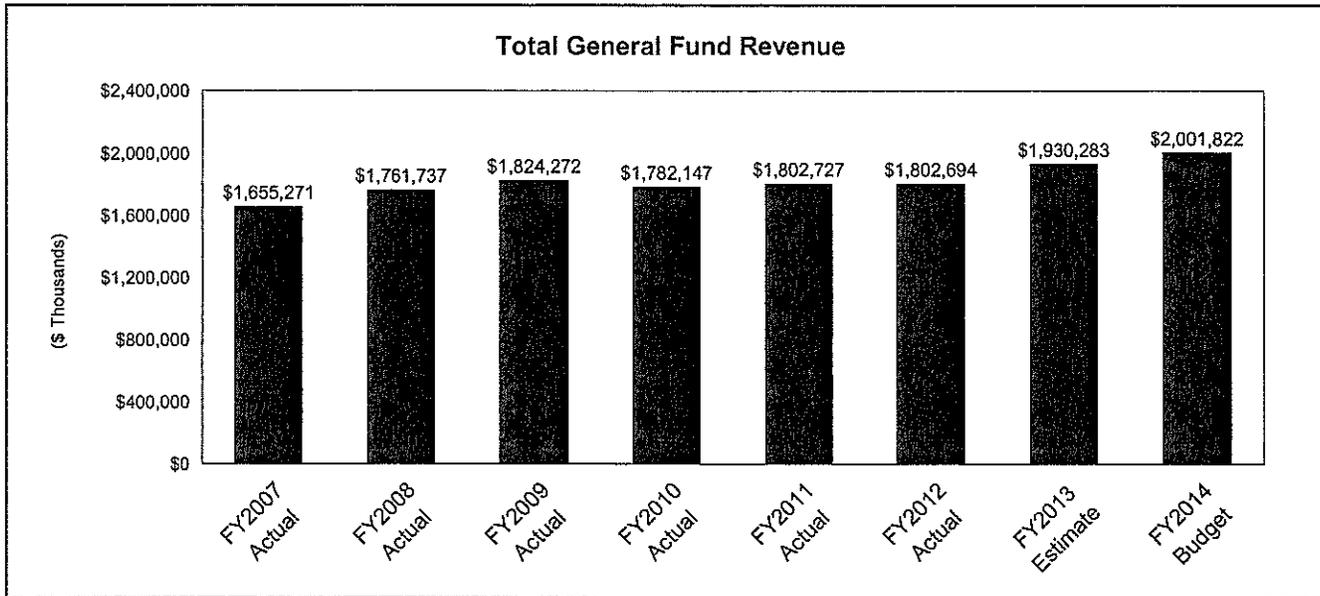


Table I below provides the FY2014 General Fund revenue budget by categories. As shown, the total revenue is expected to be \$2 billion or \$71.5 million higher than the projected FY2013 revenue.

**Table I**  
**FY2014 Revenue Budget**  
**Compared with FY2013 Estimate**

Category	Projected Revenue (\$ Thousands)		
	FY2013 Estimate	FY2014 Budget	Increase / (Decrease)
General Property Taxes	900,197	940,611	40,414
Industrial Assessment	29,563	15,000	(14,563)
Sales Taxes	595,256	629,602	34,346
Other Tax	9,994	9,994	0
Electric Franchise	103,697	100,526	(3,171)
Telephone Franchise	45,213	44,623	(590)
Gas Franchise	19,194	16,492	(2,702)
Other Franchise	25,794	26,812	1,018
Licenses and Permits	32,283	32,819	536
Intergovernmental	12,446	21,064	8,618
Charges for Services	46,308	47,759	1,451
Direct Interfund Services	44,646	46,455	1,809
Indirect Interfund Services	16,850	20,558	3,708
Municipal Courts Fines and Forfeits	33,574	33,799	225
Other Fines and Forfeits	4,655	4,648	(7)
Interest	3,000	3,000	0
Miscellaneous/Other	7,614	8,058	444
<b>Total</b>	<b>1,930,283</b>	<b>2,001,822</b>	<b>71,539</b>

Table II provides the revenue estimate for each distinct revenue source that is expected to produce at least \$3 million in FY2014. The remainder of this document describes the projection logic that has been used for each of these items.

**Table II**

**Revenue Estimates for  
Revenue Sources over \$3 Million**

Item	Projected Revenue (\$ Thousands)		
	FY2013 Estimate	FY2014 Budget	Increase/ (Decrease)
Property Tax	900,197	940,611	40,414
Sales Tax	595,256	629,602	34,346
Industrial Assessments	29,563	15,000	(14,563)
Mixed Beverage Tax	9,800	9,800	0
Electric Franchise	102,197	99,026	(3,171)
Telephone Franchise	45,075	44,623	(452)
Gas Franchise Fees	19,194	16,492	(2,702)
Cable TV Franchise Fees	19,718	20,500	782
Solid Waste Hauler Franchise Fee	6,000	6,250	250
Licenses and Permits	32,283	32,819	536
TIRZ Funding	9,562	10,054	492
Intergovernmental Revenue - 1115 Waiver	1,814	10,340	8,526
Ambulance Fees	33,245	32,335	(910)
Platting Fees	4,552	5,791	1,239
Other Charges for Services	8,511	9,633	1,122
Interfund Police Protection	22,098	23,232	1,134
Interfund Fire Protection	16,517	17,276	759
Other Direct Interfund	6,031	5,947	(84)
Indirect Cost Recovery	16,850	20,558	3,708
Moving Violations	18,469	18,600	131
Other Municipal Courts Fines and Forfeitures	15,105	15,199	94
Interest	3,000	3,000	0
Miscellaneous/Other	7,614	8,058	444
All Other Revenues	7,632	7,076	(556)
<b>Total</b>	<b>1,930,283</b>	<b>2,001,822</b>	<b>71,539</b>

**Taxes**

Property Taxes

General property taxes are ad valorem taxes levied on the assessed valuation of real and personal property. Taxable values for all real and personal property within the City, depending on their locations, are established by the Harris County Appraisal District (HCAD), Montgomery County Appraisal District (MCAD) or Fort Bend County Appraisal District (FBCAD), collectively County Appraisal Districts (CAD), based upon market values as of January 1st. City Council approves exemptions such as homestead, 65 and over, disabled as well as Freeport exemptions and then sets a tax rate according to the state law. The current tax rate for the City of Houston is 63.875 cents per \$100 of taxable value.

CAD notifies taxpayers of appraised values by May 15th of each year or as soon thereafter as practicable. Taxpayers may protest appraised values or the exemption status of their properties. Hearings of protests are conducted by the Appraisal Review Board of CAD. Chief Appraiser of CAD certifies appraisal rolls to the Tax Assessor of the City. The Harris County Tax Office acts as Tax Assessor on behalf of the City.

Based upon the adopted tax rate set by Council and taxable value as assessed by CAD, tax bills are generated and sent to taxpayers by Harris County Tax Office around mid-November. Payment is due by January 31st of the following year. Taxes not paid by the due date are delinquent and subject to penalties and interest charges. Taxpayers who wish to appeal values set by CAD may do so if taxes on the uncontested value are paid timely.

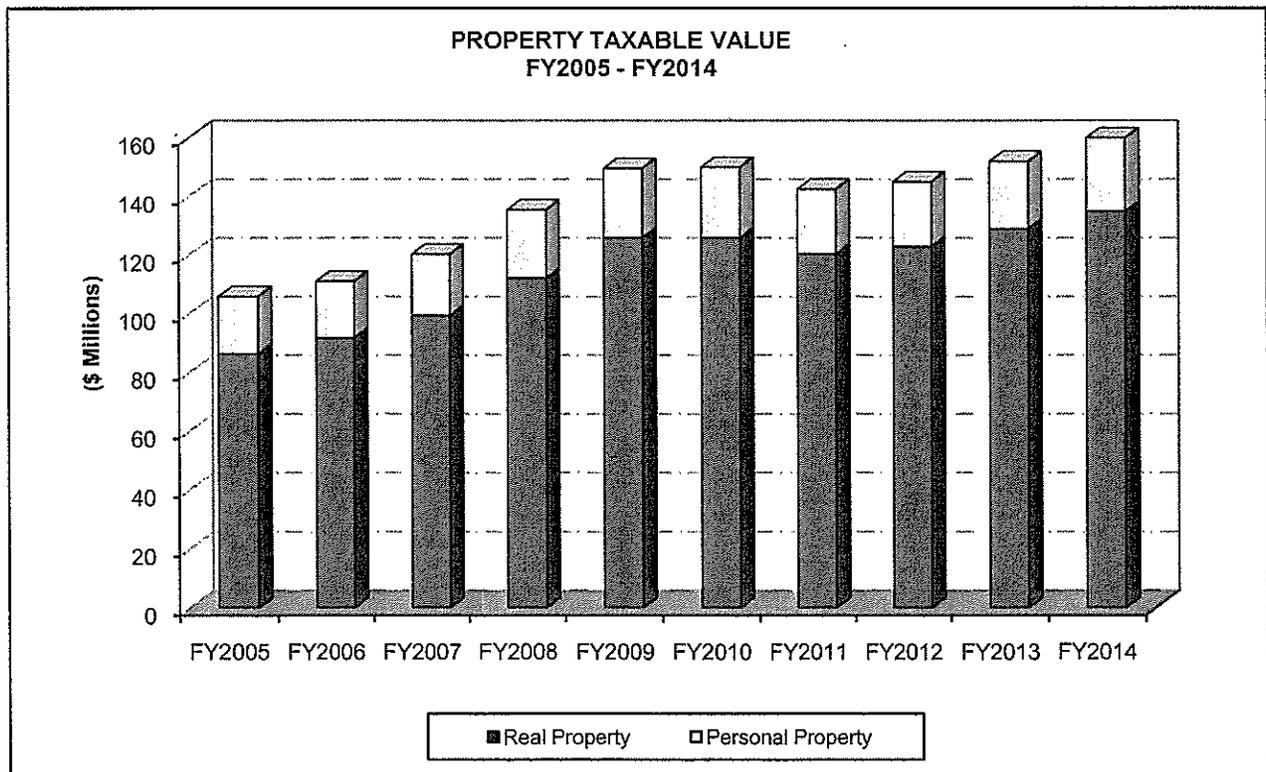
Occasionally, taxes are overpaid as a result of errors in appraisal or an overpayment by a taxpayer. Harris County Tax Office refunds such payments based upon the Texas Property Tax Code and documentation supplied by the taxpayers. Fluctuations in collections reflect changes in assessed property values, collection efforts, and tax rate.

The FY2014 property tax value estimate is derived from CAD certified projections provided to the City in May 2013. The taxable value used was \$159.5 billion. This amount is a net of the senior/disabled exemption, which was \$70,862, the same as FY2013. This is projected to exempt as much as \$6.38 billion in taxable value from the tax rolls, reducing revenue by an estimated \$40.7 million in FY2014.

The estimated taxable value is then reduced by the estimated incremental value of properties within the Tax Increment Reinvestment Zones (TIRZ). The net of TIRZ taxable value is estimated at \$146.8 billion.

The Finance Department applied an assumed 63.875 cent per \$100 taxable value to this tax base, along with a 97.5% collection ratio and assumptions for prior year taxes collection of \$25.2 million, to arrive at a net revenue estimate of \$940.6 million. This revenue is approximately 4.49% higher than the estimated FY2013 revenue of \$900.2 million.

Below is a graph showing the ten-year history of property taxable values in Houston, with the \$159.5 billion estimate shown for FY2014.



**FISCAL YEAR 2014 BUDGET**

**CITY OF HOUSTON APPRAISED VALUE  
(\$ Millions)**

<u>Fiscal Year</u>	<u>Tax Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total Value</u>
2003	2002	79,249	19,846	99,096
2004	2003	83,776	19,399	103,175
2005	2004	86,433	19,467	105,900
2006	2005	91,827	19,293	111,120
2007	2006	99,483	20,858	120,341
2008	2007	112,241	23,214	135,455
2009	2008	125,982	23,645	149,627
2010	2009	125,999	24,094	150,093
2011	2010	120,546	22,360	142,906
2012	2011	123,292	22,381	145,579
2013	2012	129,096	23,692	152,788
2014	2013	134,791	24,737	159,528*

\*County Appraisal District Certified Estimates, as of May 2013.

In November 2004, Proposition No. 1 was passed, amending the City Charter, to limit the annual increase in total ad valorem tax revenues. The increase is capped at the lower of the increase in Consumer Price Indexes (CPI) plus the growth in population, or 4.5% over the prior fiscal year. In addition, in November 2006, Proposition H was passed to further increase the applicable revenue limitations by \$90 million.

The proposed budget includes the property tax estimate revenues of \$940.6 million, which is below the capped level of \$960.5 million, with the following assumptions.

<u>Population</u>	<u>CPI (3)</u>
July 1, 2003 (1) 2,009,669	2003 163.7
July 1, 2004 (1) 2,012,626 + 0.1471%	2004 169.5 + 3.5431%
July 1, 2005 (1) 2,076,189 + 3.1582%	2005 175.6 + 3.5988%
July 1, 2006 (1) 2,144,491 + 3.2898%	2006 180.6 + 2.8474%
July 1, 2007 (1) 2,208,180 + 2.9699%	2007 183.8 + 1.7929%
July 1, 2008 (1) 2,244,615 + 1.6500%	2008 189.967 + 3.3339%
July 1, 2009 (1) 2,257,926 + 0.5930%	2009 190.495 + 0.2779%
July 1, 2010 (1) 2,099,451 + 0.0000%	2010 194.172 + 1.9302%
July 1, 2011 (1) 2,145,146 + 2.1765%	2011 200.495 + 3.2564%
July 1, 2012 (2) 2,151,475 + 0.2950%	2012 204.213 + 1.8544%

	<u>(\$ In Thousand)</u>
FY2005 Actual	\$671,294
Population Increase 2004	0.1471%
CPI Increase 2004	3.5431%
FY2006 CAP	\$696,066
Population Increase 2005	3.1582%
CPI Increase 2005	3.5988%
FY2007 CAP	\$743,100
Population Increase 2006	3.2898%
CPI Increase 2006	2.8474%
FY2008 CAP	\$788,705
Population Increase 2007	2.9699%
CPI Increase 2007	1.7929%
FY2009 CAP	\$826,269
Population Increase 2008	1.6500%
CPI Increase 2008	3.3339%
FY2010 CAP	\$867,450

Population Increase 2009	0.5930%
CPI Increase 2009	<u>0.2779%</u>
FY2011 CAP	\$875,005
Population Increase 2010	0.0000%
CPI Increase 2010	<u>1.9302%</u>
FY2012 CAP	\$891,895
Population Increase 2011	2.1765%
CPI Increase 2011	<u>3.2564%</u>
FY2013 CAP	\$940,350
Population Increase 2012	0.2950%
CPI Increase 2012	<u>1.8544%</u>
FY2014 CAP	\$960,563

FY2013 Estimates	\$900,197
FY2014 CAP (Based on 4.5% Increase from FY2013 Estimate)	\$940,706
Final FY2014 CAP (the Lower FY2014 CAP Plus \$19.79 million) (4)	\$960,496

- (1) Population numbers based upon the US Census Bureau estimate most recently published when deciding limits of each respective year's property tax revenue budget increase.
- (2) July 1, 2012 population is the City's estimate. The US Census Bureau figures will be available in late June 2013.
- (3) CPI increase based on the change in the CPI-U for Houston-Galveston-Brazoria, Texas as published by the Bureau of Labor Statistics, for the preceding calendar year.
- (4) In accordance to Proposition H, to increase the applicable revenue limitation by \$90 million. The remaining applicable revenue to be added for FY2014 is \$19.79 million.

Sales Tax

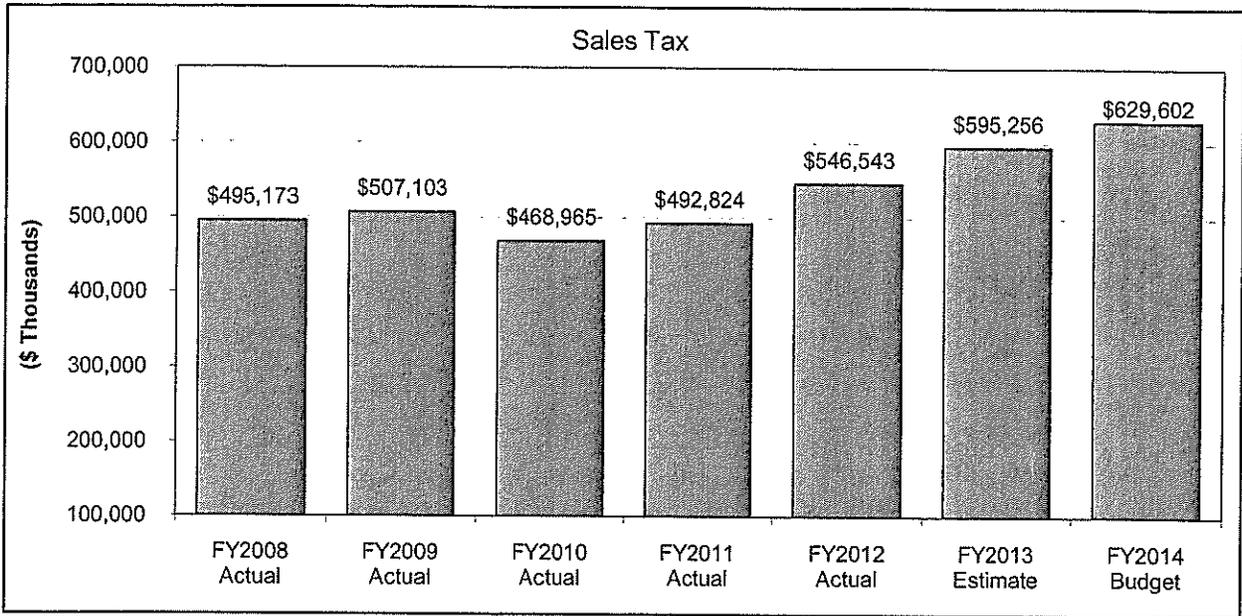
General sales and use taxes are imposed upon the sale or consumption of certain goods and services at the point of sale. In the City of Houston, a \$0.0825 sales and use tax is applied for every dollar of sales. The Metropolitan Transit Authority (METRO) receives \$0.01, and the State of Texas receives \$0.0625. The State Comptroller remits a \$0.01 share to the City, after withholding a 2% service charge.

The sales tax projections are based on the "Houston Economic Multi-Sector (HEMS) Model" which takes into account the sectors of the Houston economy and estimates of income, prices, population, and Primary Metropolitan Statistical Area (PMSA) retail sales.

Sales tax revenue for FY2013 grew much more rapidly than expected a year ago, the same growth patterns will continue through FY2014, but year-over-year sales growth will gradually stabilize. The FY2014 budget amount of \$629.6 million is approximately \$34.3 million, or 5.76%, higher than FY2013 estimate amount of \$595.3 million.

National job growth has increased over the past few months and because of the recent improvement in the nation's labor market and increasing hiring, household incomes and consumer confidence have picked up which will add further momentum to a recovery that has struggled to gain traction. The US economy picks up in the first half of FY2014, and continues at a strong pace. The Houston economy is expected to lead the national pattern, aided by the boom in the energy industry. Domestic drilling, which has been declining since late 2011, stabilizes in early 2013 and is expanding by late in the year. The result is an increase in new jobs in Houston. The acceleration of the economy and tax revenues is expected in FY2014 reflecting a resumption of the strong economic growth that Houston has enjoyed for most of the last decade.

The following graph provides a seven-year comparison of the City's Sales Tax revenue.



Industrial District Assessments

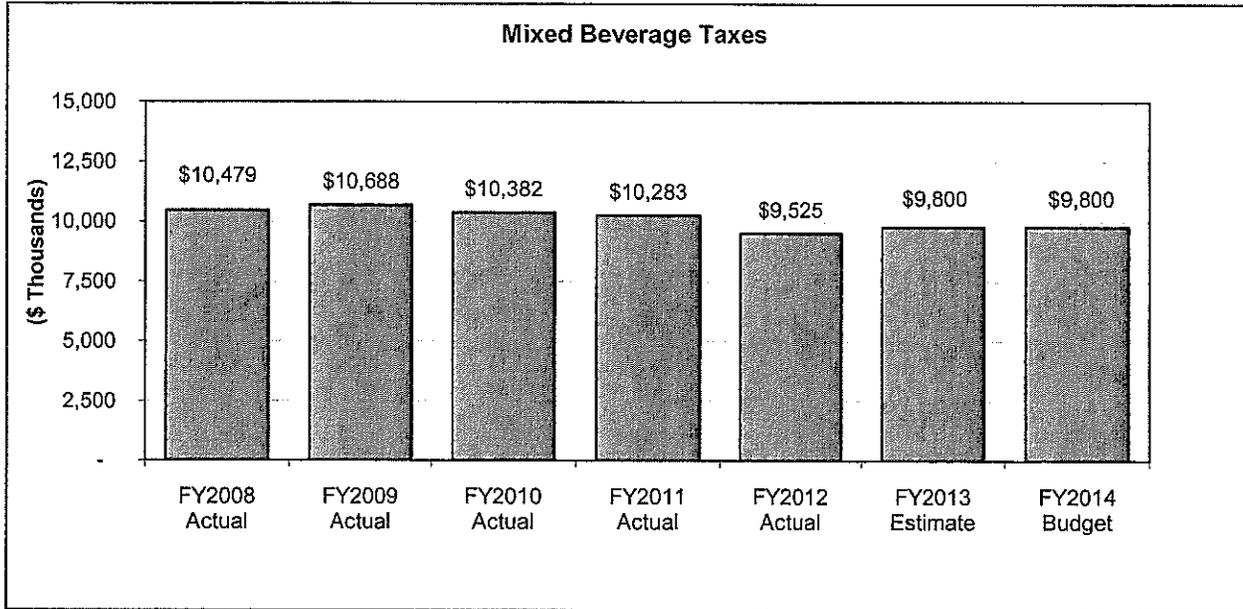
The City of Houston has Industrial District Contract Agreements having a term of fifteen years with more than 100 companies that are located within the Houston Extra-Territorial Jurisdiction (ETJ). A contractually reduced ad valorem assessed valuation fee is calculated and billed annually to each of those companies in lieu of the property being annexed and subject to City of Houston property taxes. Industrial District Assessments are based on current year property values provided by HCAD. The industrial district revenue contracts expired in 2011 and they were renegotiated through fiscal years FY2012 and FY2013. These contract agreements will need to be renewed in the Industrial District.

The FY2013 Estimates for Industrial District Assessments of \$29.6 million includes prior year collection as a result of the contract renegotiations. The FY2014 revenue is currently estimated at \$15 million.

Mixed Beverage Tax

By law, all mixed beverage and private club permit holders remit to the State Comptroller a 14% gross receipts tax on their mixed beverage sales each month. Following the end of each calendar quarter, 8.3065% of the tax paid is allocated to the county where each business is located. For any business located within an incorporated city, another 8.3065% of the tax paid is allocated to the city where it is located. The remaining tax is distributed to the State's General Revenue Fund. Mixed Beverage Tax allocation amounts are dependent upon the timing and accuracy of taxpayer's returns and payments, but generally represent taxes remitted to the Comptroller's Office during the calendar quarter immediately preceding the month the allocation is distributed.

For the FY2014 projection, we are anticipating the revenue estimate of \$9.8 million reflecting the trend in recent years. The following graph shows the seven-year comparison of the City's mixed beverage tax revenue.



**Franchise Fees**

Franchise fees are paid by companies, entities, or persons for the privilege of using public property for private purposes. Franchise agreements have been granted to numerous utilities and other enterprises, either directly by the City of Houston or by the State of Texas, including CenterPoint Energy, AT&T, several cable television firms, and others.

Changes in franchise revenue depend on many factors including economic fluctuations, rate charges, customer usage, franchise agreement changes and legislative actions.

Electric Franchise

Electric franchise fees are paid to the City for the right to conduct an electric light and power business and to use the City rights-of-way for that business.

There are two companies in Houston that pay electric franchise fees: CenterPoint Energy Houston Electric ("CenterPoint") and Entergy. CenterPoint pays approximately 99% of the electric franchise fees paid to the City, which represents approximately \$99.0 million per year.

Prior to electric deregulation, which became effective on January 1, 2002, electricity franchise payments were calculated as a percentage of the electric company's gross revenues from sales to customers located within the City limits. Under this payment formula, electric franchise fees to the City fluctuated, from \$80 million to as much as \$90 million per year.

From January 2002 through June 2005, franchise payments were no longer calculated based on a percentage of gross revenues, but instead were based on kilowatt hour consumption by customers within the City limits. During this period, electric franchise revenues dropped significantly, averaging \$75 million each year.

In July 2005 the City and CenterPoint entered into a new franchise agreement for a term of 30 years. The new agreement establishes a base franchise fee to the City of approximately \$96 million per fiscal year, payable monthly, which is adjusted annually based on kilowatt-hours delivered in the City.

The FY2013 electric franchise fee estimate is \$102.2 million. The FY2014 electric franchise fee estimate of \$99.0 million is approximately 3.1% lower than the FY2013 estimate. Kilowatt-hour consumption for calendar year 2012 was down 2.85% from 2011.

The City of Houston exercises original jurisdiction over the rates, operations and services of these electric utilities for the Houston area.

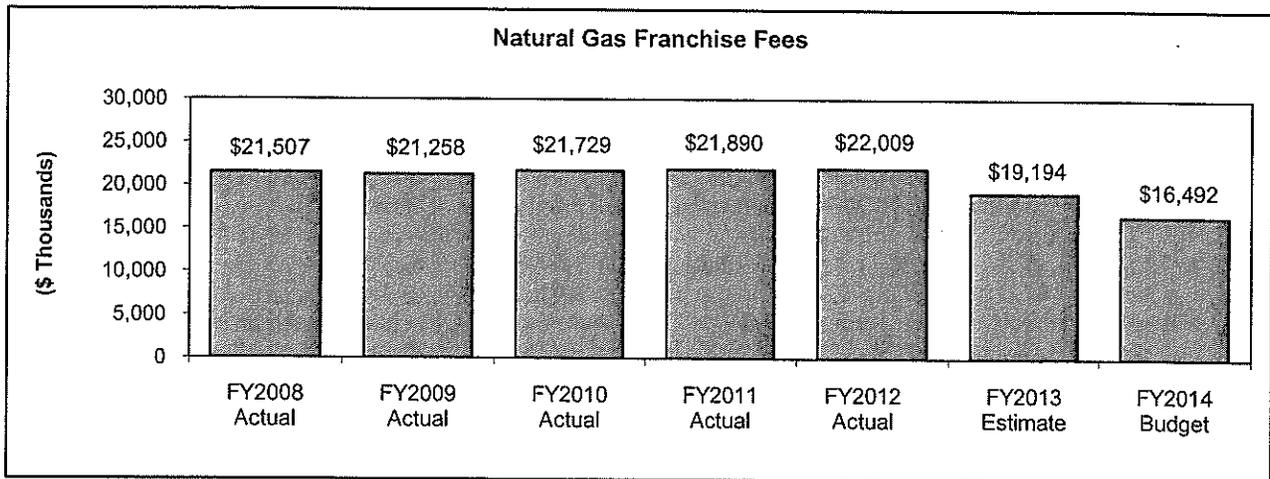
Natural Gas Franchise

Like electric franchise fees, natural gas franchise fees are paid by utilities that use the City rights-of-way for the transportation, delivery, sale and distribution of natural gas to customers in the City.

There is one company in Houston that pays natural gas franchise fees to the City of Houston: CenterPoint Energy Resources Corporation ("CenterPoint" – formerly Entex). These fees are paid monthly and are based on 5% of gross receipts on a rolling 3-year average.

The estimate for FY2013 natural gas franchise fees from CenterPoint is approximately \$19.2 million. The FY2014 natural gas franchise fee estimate is \$16.5 million, a decrease of 14.1% from FY2013. The price of natural gas has continued to drop over the last several years, resulting in decreased gross revenues for CenterPoint, which in turn results in decreased franchise fees.

The graph below provides a seven-year comparison of the City's natural gas franchise fee revenue.



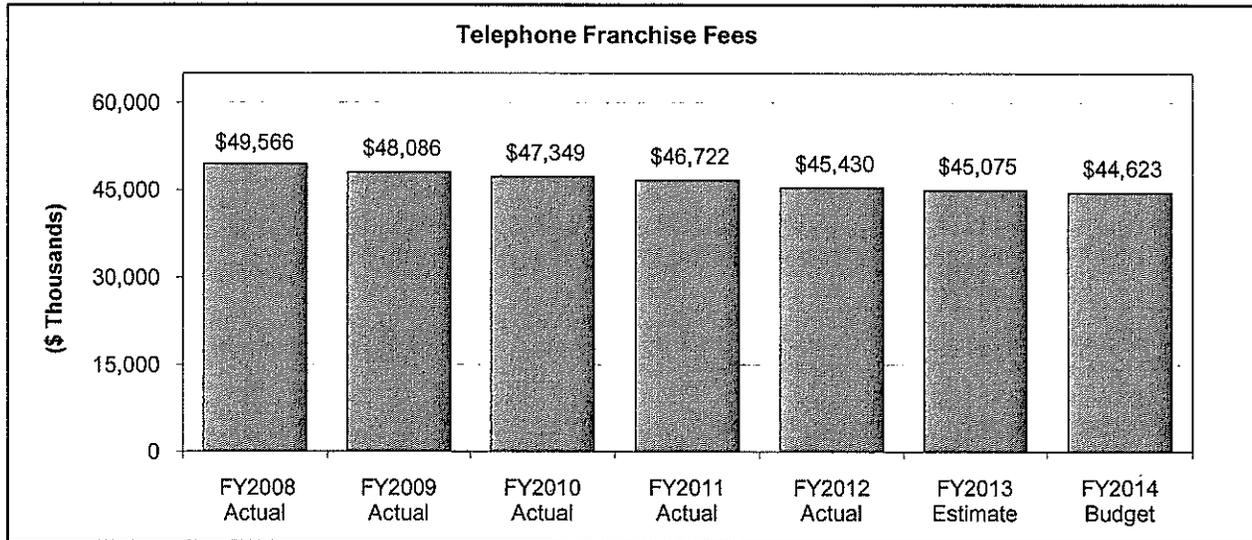
The City of Houston exercises original jurisdiction over the rates, operations and services of these natural gas utilities for the Houston area.

Telephone Franchise

Since deregulation of this industry in 2000, the telephone franchise fee paid to municipalities in Texas has been determined by applying an "access line rate," assigned by the Public Utilities Commission of Texas (PUCT) and adjusted annually for inflation, to the number of access lines in the municipality reported quarterly by each Certificated Telecommunications Provider ("CTP") doing business in that municipality. The access line rates that will be in effect during the fiscal year are as follows: residential - \$1.77; non-residential - \$5.99; and point-to-point - \$16.98.

The FY2013 estimate for telephone franchise fee is \$45.1 million, exclusive of audit recoveries. The FY2014 projection of \$44.6 million is a 1.1% decrease from FY2013's estimate, and is reflective of the continued decrease in the number of access lines being reported by CTPs.

The following graph below provides a seven-year comparison of the City's telephone franchise fee revenue.



Cable TV Franchise Fees

The City of Houston currently has four active cable franchises with the following cable companies: TVMAX of Houston, SuddenLink Communications, Phonoscope, and Northland. The cable franchises expire after 2015. Pursuant to the terms of their franchise agreements, these companies pay franchise fees in the amount of 5% of their gross revenues from sales to Houston customers. In addition, there are two cable television/video service-providers operating in Houston under state-issued certificates of franchise authority: Comcast Cable and AT&T UVerse. Under the terms of the state franchise, these operators also pay the City of Houston 5% of their gross revenues from sales to Houston customers. The largest of either type of franchise is Comcast, which accounts for approximately 57.3% of the total cable franchise revenue projection for FY2014. The projection for FY2014 is \$20.5 million, which is 4% higher than the FY2013 estimate of \$19.7 million.

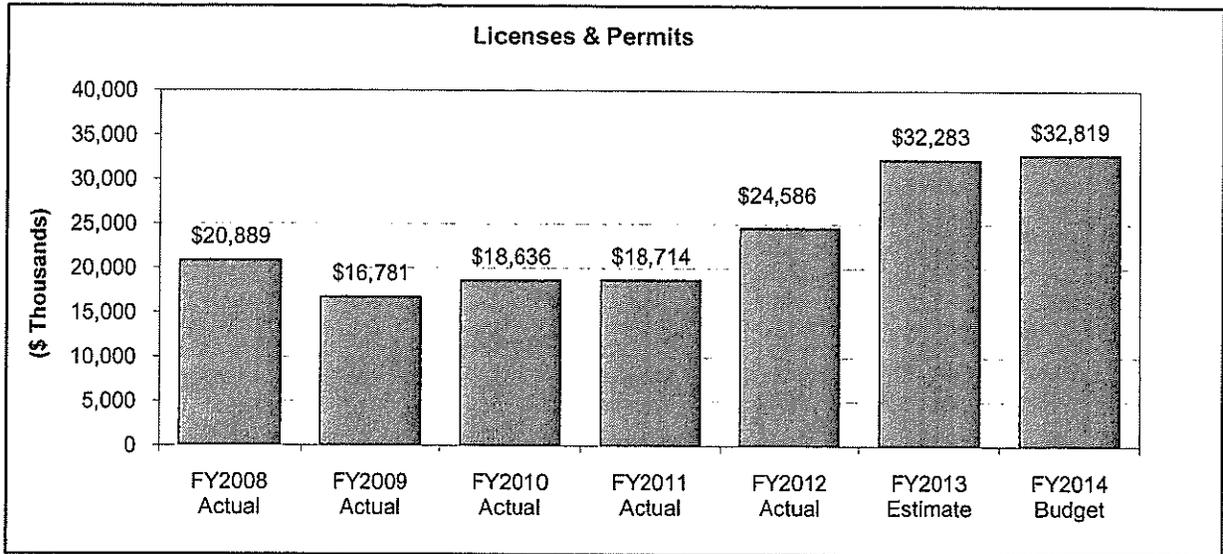
Solid Waste Hauler Franchise Fees

Solid waste haulers pay fees to compensate the City for the use of City streets. Approximately 100 active solid waste hauler franchises pay 4% of gross revenues from transporting commercial solid and industrial wastes that originate within the City limits. The FY2013 estimate for solid waste hauler franchise fees is \$6.0 million, exclusive of audit recoveries. The FY2014 estimate of \$6.25 million assumes that the waste hauling industry continues to recover from the effects of the recession, as well as improved compliance efforts.

**Other Revenues**

Licenses and Permits

The Licenses and Permits category includes such items as special fire, food dealer, burglar alarm, dumpster permits, and many other permits. The FY2014 revenue is estimated at \$32.8 million, which is approximately \$537,000 higher than FY2013 estimate of \$32.3 million.



Ambulance Fees

City of Houston Code of Ordinance Chapter 4 permits the City to provide emergency medical services including ambulance transport to the public and permits the City to partially recover the cost of providing those services. The base and variable fee structure is addressed under Section 4.13.

The City contracts with a private vendor for the billing and collection of these services. The present contract is with Xerox Corporation. Xerox hosts all medical and billing data and provides the hardware and software for the Electronic Patient Care Records (EPCR). The City is currently in the second year of a five-year contract renewal. At the end of the five-year term (August 2016), the City can opt to renew the contract.

The revenue projection for emergency medical services provided by the City of Houston for FY2014 is \$32.3 million.

Platting Fees

City of Houston Code of Ordinance Chapter 42 permits the City to collect processing fees that shall be paid by an applicant for a subdivision plat, development plat, general plan and street dedication plat. The FY2014 revenues are estimated at \$5.8 million, approximately \$1.2 million, or 27.2% higher than the FY2013 estimates of \$4.6 million.

Other Charges for Services

Other charges for services include miscellaneous copy fees, public safety report fees, vending machine concessions, vehicle storage, hazardous material response, and others. For FY2014, revenues of \$9.6 million are projected, an increase of \$1.1 million, or 13.2% higher than the FY2013 estimate of \$8.5 million.

Interfund Direct Charges

The General Fund charges the Houston Airport System for airport police service, which is the responsibility of Houston Police Department (HPD). The FY2014 projection of \$23.2 million is \$1.1 million or approximately 5.1% higher than the FY2013 estimates of \$22.1 million.

The Aviation Enterprise Fund also pays for fire protection provided by the Fire Department to the Houston Airport System. The FY2014 projection of \$17.3 million reflects an increase of \$759,000 over the FY2013 estimate of \$16.5 million.

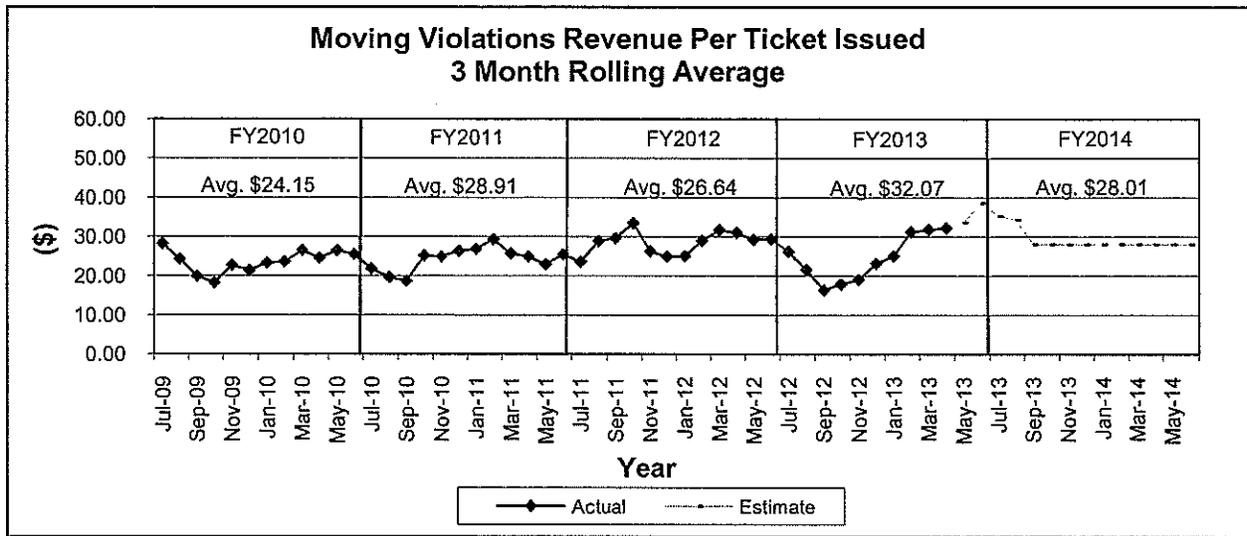
Payments received for other direct services performed by the General Fund are recovered throughout the year. The FY2014 projection of \$5.9 million is approximately \$84,000 lower than the FY2013 estimate of \$6 million.

Indirect Cost Recovery

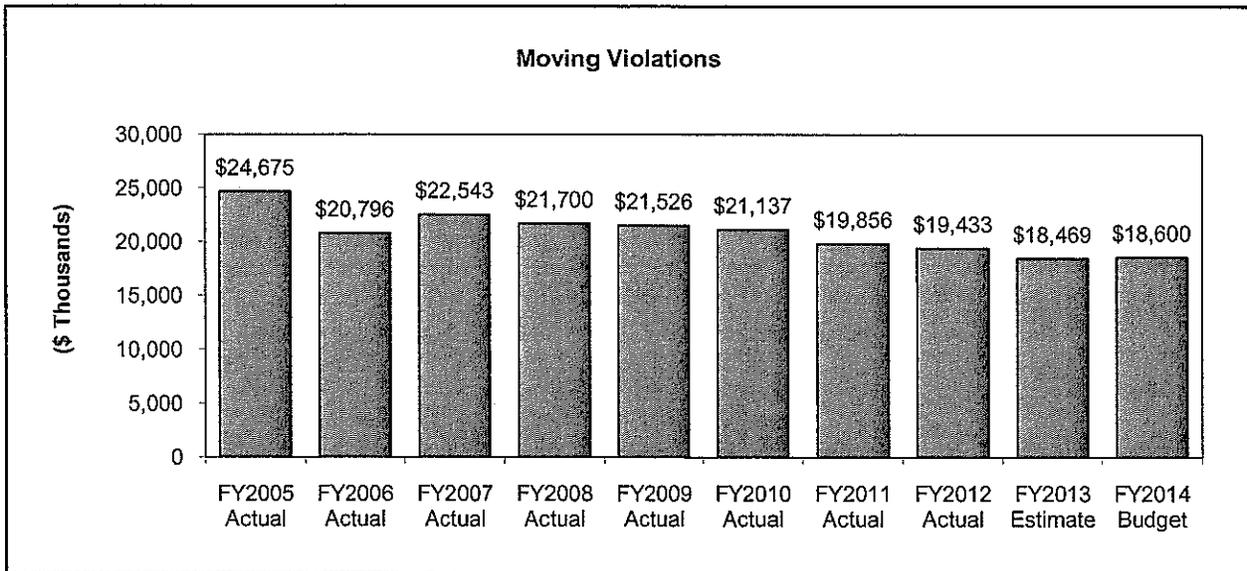
The General Fund provides citywide central support services and recovers the cost of these services through allocation of indirect costs. These amounts are determined through the preparation of an annual cost allocation plan, which distributes administrative overhead costs to General Fund operating departments and to other funds. For FY2014, the proposed plan calls for cost recoveries totaling \$20.6 million, an increase of \$3.8 million in indirect interfund revenue from the FY2013 estimate of \$16.9 million.

Moving Violations

In FY2014, we expect 664,057 tickets to be issued and 175,762 tickets paid at an average of \$105.82 per ticket. Moving violations revenue in FY2014 is projected at \$18.6 million.



The graph below provides a ten-year comparison of the City's moving violations revenue.



Other Municipal Courts Fines and Forfeitures

The Municipal Court Fines and Forfeitures are currently projected at \$15.2 million.

Interest

The City aggressively invests surplus balances and retains the interest earnings in the General Fund. The amount of such earnings depends on the balance available, the general level of interest rates, and the investment policies (e.g. tolerance for risk, need for liquidity) chosen. The FY2014 projection for interest revenue is currently at \$3 million, which is essentially constant from FY2013 Estimates.

Miscellaneous/Other

The FY2014 revenue is estimated at \$8 million, which is approximately, \$400,000 higher than FY2013 estimate of \$7.6 million.

All Other Revenues

Estimated revenues in remaining categories have been calculated using simple trend analysis, as well as operational and collections information from the collecting department. These revenues are estimated at \$7.1 million in FY2014.

A detailed listing of General Fund revenues by category are presented on the following pages showing the FY2012 Actual, FY2013 Current Budget and Estimate, and the FY2014 Budget amounts.