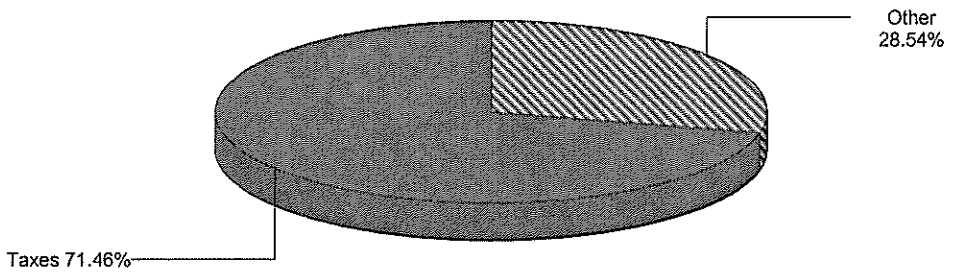
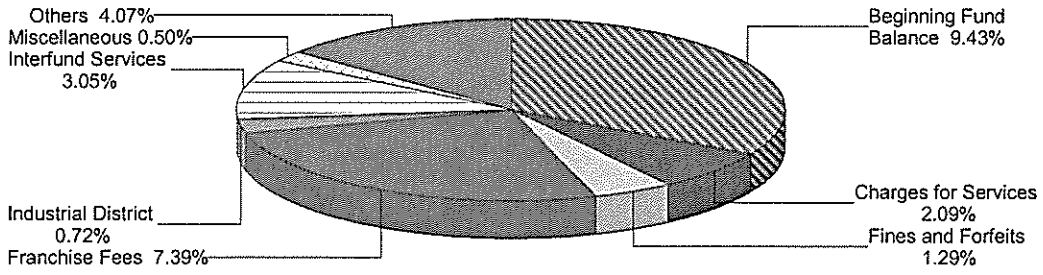
GENERAL FUND RESOURCES SUMMARY

The General Fund is the City of Houston's largest operating fund. With total resources of $2.5 billion budgeted in FY2016, this fund relies heavily on various forms of revenue to finance its operations. As illustrated below, approximately 71.5% percent of the total resources in the General Fund are from taxes, mainly property and sales taxes.

GENERAL FUND RESOURCES FY2016 BUDGET



COMPOSITION OF OTHER (ABOVE)



The composition of the FY2016 General Fund resources is listed below:

RESOURCE CATEGORIES	RESOURCE FY2016 BUDGET*	% OF TOTAL BUDGET
Taxes:		
Property Taxes	1,111,248	43.71%
Sales Taxes	688,837	27.09%
Other Tax	16,679	0.66%
Franchise Fees	187,791	7.39%
Industrial District	18,200	0.72%
Licenses and Permits	37,870	1.49%
Intergovernmental	26,470	1.04%
Charges for Services	53,207	2.09%
Interfund Services	77,456	3.05%
Fines and Forfeits	32,854	1.29%
Interest	3,000	0.12%
Miscellaneous/Other	12,757	0.50%
Total Revenue	2,266,369	89.15%
Sale of Capital Assets	5,500	0.22%
Transfers In	30,725	1.21%
Beginning FY2016 Fund Balance	239,723	9.43%
TOTAL RESOURCES	2,542,317	100.00%

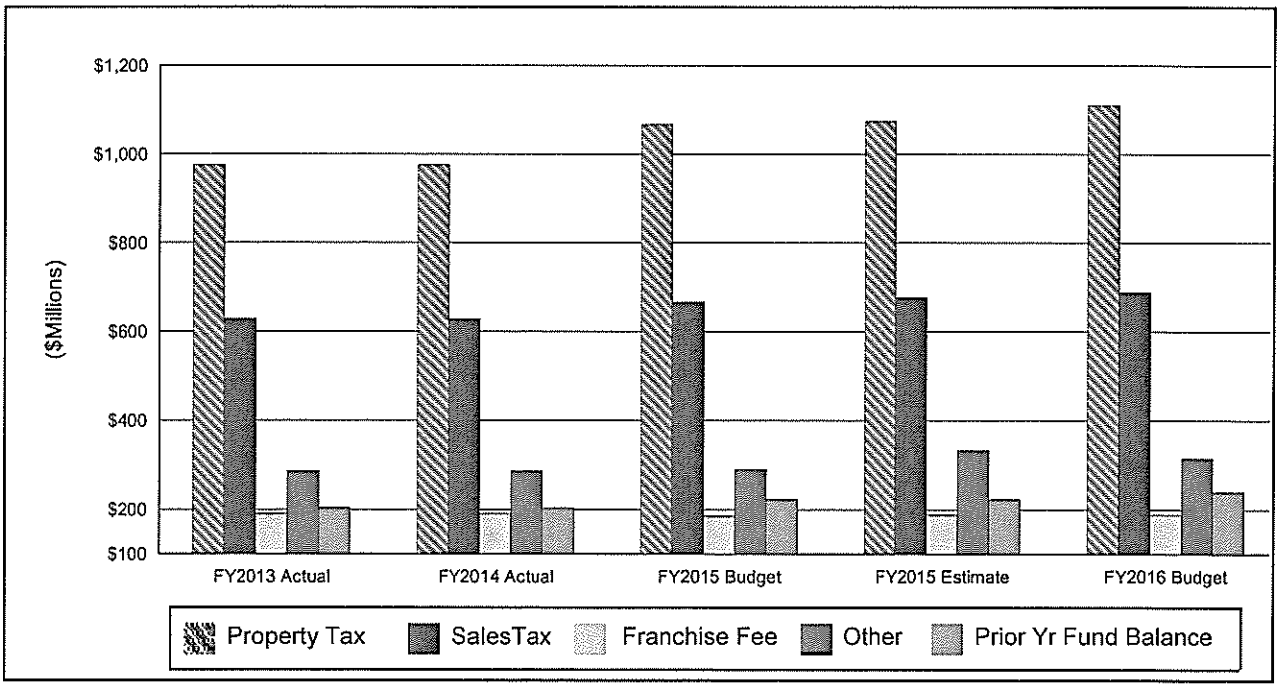
* Dollars in Thousands

Total may reflect slight variances due to rounding

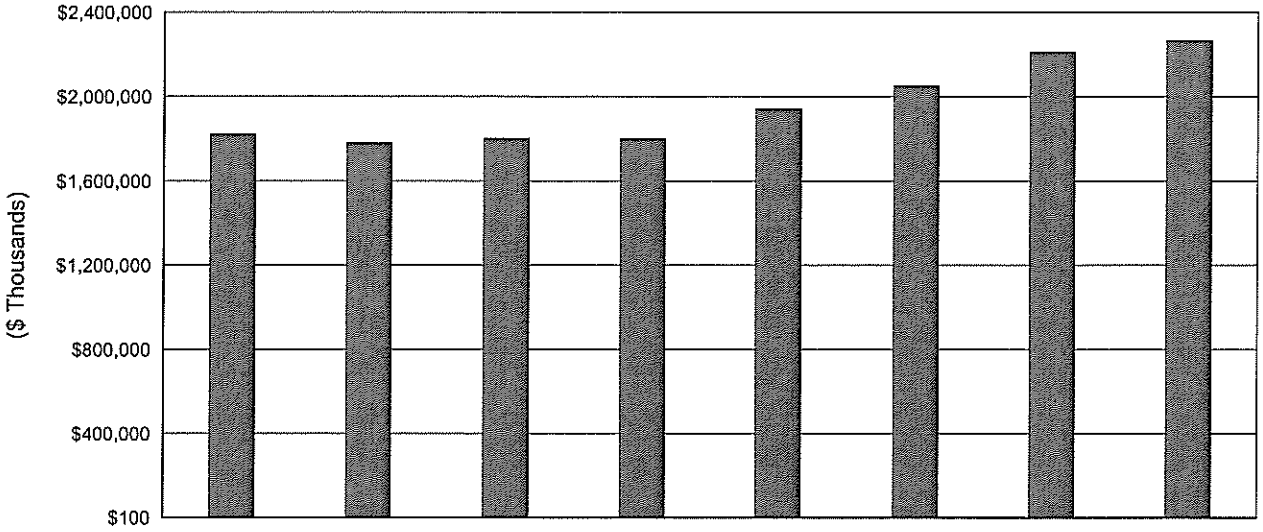
The graph below provides a four-year comparsion of the City's resources in millions of dollars.

RELATIONSHIP OF GENERAL FUND RESOURCES

FY2013 THROUGH FY2016



Total General Fund Revenue



FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Estimate	FY2016 Budget
$1,824,272	$1,782,147	$1,802,727	$1,802,694	$1,944,446	$2,053,802	$2,212,775	$2,266,370

Table I below provides the FY2016 General Fund revenue budget by categories. As shown, the total revenue is expected to be $2.3 billion or $53.6 million higher than the projected FY2015 revenue.

Table I

FY2016 Revenue Budget
Compared with FY2015 Estimate

Category	Projected Revenue ($ Thousands) FY2015 Estimate	FY2016 Budget	Increase / (Decrease)
General Property Taxes	1,073,551	1,111,248	37,697
Industrial Assessment	16,000	18,200	2,200
Sales Taxes	676,666	688,837	12,171
Other Tax	15,815	16,680	865
Electric Franchise	100,572	101,142	570
Telephone Franchise	42,708	40,865	(1,843)
Gas Franchise	14,538	14,840	302
Other Franchise	30,317	30,945	628
Licenses and Permits	37,140	37,870	730
Intergovernmental	24,924	26,470	1,546
Charges for Services	58,771	53,207	(5,564)
Direct Interfund Services	49,004	50,705	1,701
Indirect Interfund Services	23,420	26,750	3,330
Municipal Courts Fines and Forfeits	27,143	28,698	1,555
Other Fines and Forfeits	4,461	4,156	(305)
Interest	3,000	3,000	0
Miscellaneous/Other	14,745	12,757	(1,988)
Total	**2,212,775**	**2,266,370**	**53,595**

Table II provides the revenue estimate for each distinct revenue source that is expected to produce at least $3 million in FY2016. 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

	Projected Revenue ($ Thousands)		
Item	FY2015 Estimate	FY2016 Budget	Increase/ (Decrease)
Property Tax	1,073,551	1,111,248	37,697
Sales Tax	676,666	688,837	12,171
Industrial Assessments	16,000	18,200	2,200
Mixed Beverage Tax	15,601	16,397	796
Electric Frachise	99,172	99,752	580
Telephone Franchise	42,700	41,165	(1,535)
Gas Franchise Fees	14,538	14,840	302
Cable TV Franchise Fees	23,400	23,900	500
Solid Waste Hauler Franchise Fee	6,750	6,980	230
Licenses and Permits	37,140	37,870	730
TIRZ Funding	11,443	12,224	781
Intergovernmental Revenue - 1115 Waiver	13,281	14,050	769
Ambulance Fees	41,400	37,175	(4,225)
Platting Fees	6,850	5,058	(1,792)
Other Charges for Services	10,521	10,975	454
Interfund Police Protection	25,186	26,039	853
Interfund Fire Protection	18,083	18,814	731
Other Direct Interfund	5,735	5,852	117
Indirect Cost Recovery	23,420	26,750	3,330
Moving Violations	14,600	15,810	1,210
Other Municipal Courts Fines and Forfeitures	12,543	12,888	345
Interest	3,000	3,000	0
Miscellaneous/Other	14,745	12,757	(1,988)
All Other Revenues	6,450	5,789	(661)
Total	**2,212,775**	**2,266,370**	**53,595**

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 63.108 cents per $100 of taxable value.

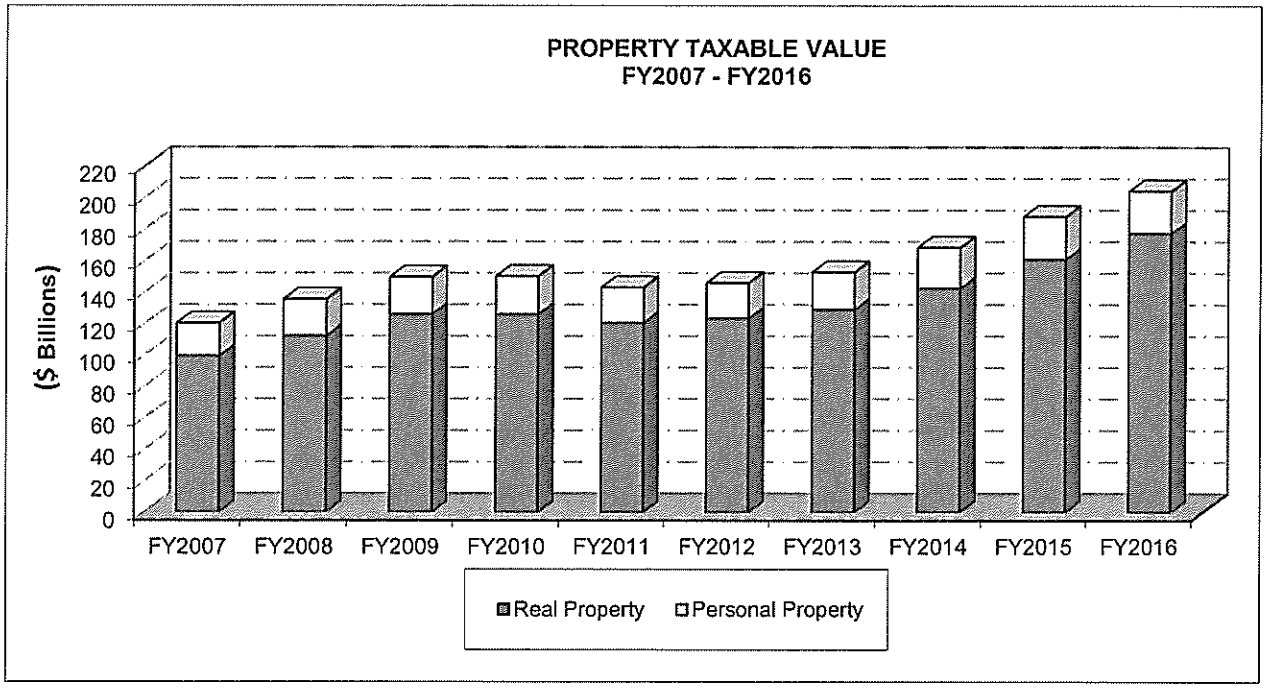
CAD notifies taxpayers of appraised values by May 15th of each year or as soon thereafter as practicable. Taxpayers may protest appraised values or the exemption status of their properties. Hearings of protests are conducted by the Appraisal Review Board of CAD. Chief Appraiser of CAD certifies appraisal 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 FY2016 property tax value certified estimate provided by CAD to the City in April 2015 is $204.3 billion, which is net of the current senior/disabled exemption of $80,000. The FY2016 Budget includes an increase in the senior/disabled exemption to $160,000. This is projected to exempt $4.4 billion in additional taxable value from the tax rolls. 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 $178.3 billion.

Below is a graph showing the ten-year history of property taxable values in Houston, with the $204.3 billion estimate shown for FY2016.



CITY OF HOUSTON APPRAISED VALUE
($ Millions)

Fiscal Year	Tax Year	Real Property	Personal Property	Total Value
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	145,673
2013	2012	129,096	23,692	152,788
2014	2013	142,599	25,810	168,409
2015	2014	160,919	27,031	187,950
2016	2015	177,485	26,819	204,304*

*County Appraisal District Certified Estimates, as of April 2015.

Property Tax Collections

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 FY2016 property tax revenue estimate is derived according to Proposition 1 and Proposition H. The Finance Department applied the 2014 inflation rate of 2.79% and an assumed population estimate (provided by the City of Houston Planning Department) as of 7/1/2014 of 1.7% to arrive at a net revenue estimate of $1.11 billion. This revenue is approximately 3.5% higher than the estimated FY2015 revenue of $1.07 billion. The property tax rate will be adjusted accordingly to levy revenues no higher than the Proposition 1 and Proposition H limitation.

The Proposition 1 and Proposition H revenue limitation is calculated with the following assumptions.

Population	
July 1, 2003 (1)	2,009,669
July 1, 2004 (1)	2,012,626 + 0.1471%
July 1, 2005 (1)	2,076,189 + 3.1582%
July 1, 2006 (1)	2,144,491 + 3.2898%
July 1, 2007 (1)	2,208,180 + 2.9699%
July 1, 2008 (1)	2,244,615 + 1.6500%
July 1, 2009 (1)	2,257,926 + 0.5930%
July 1, 2010 (1)	2,099,451 + 0.0000%
July 1, 2011 (1)	2,145,146 + 2.1765%
July 1, 2012 (1)	2,160,821 + 0.7307%
July 1, 2013 (1)	2,195,914 + 1.6241%
July 1, 2014 (1)	2,233,310 + 1.7030%

CPI (2)	
2003	163.7
2004	169.5 + 3.5431%
2005	175.6 + 3.5988%
2006	180.6 + 2.8474%
2007	183.8 + 1.7929%
2008	189.967 + 3.3339%
2009	190.495 + 0.2779%
2010	194.172 + 1.9302%
2011	200.495 + 3.2564%
2012	204.213 + 1.8544%
2013	207.574 + 1.6458%
2014	213.365 + 2.7898%

	($ In Thousand)
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	0.2779%
FY2011 CAP	$875,005
Population Increase 2010	-7.0186%
CPI Increase 2010	1.9302%
FY2012 CAP	$875,005
Population Increase 2011	2.1765%
CPI Increase 2011	3.2564%
FY2013 CAP	$922,543
Population Increase 2012	0.7307%
CPI Increase 2012	1.8544%
FY2014 CAP	$946,392
Population increase 2013	1.6241%
CPI Increase 2013	1.6458%
FY215 CAP	$977,338
Population Increase 2014	1.7030%
CPI Increase 2014	2.7898%
	$1,021,248
Proposition H	$90,000
FY2016 CAP	**$1,111,248**

FY2015 Estimate	$1,073,551
FY2016 CAP (Based on 4.5% Increase from FY2014 Estimate)	$1,128,965
Final FY2016 CAP (the Lower FY2016 CAP)	**$1,111,248**

(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) 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.
(3) In accordance with Proposition H, to increase the applicable revenue limitation by $90 million.

Sales Tax

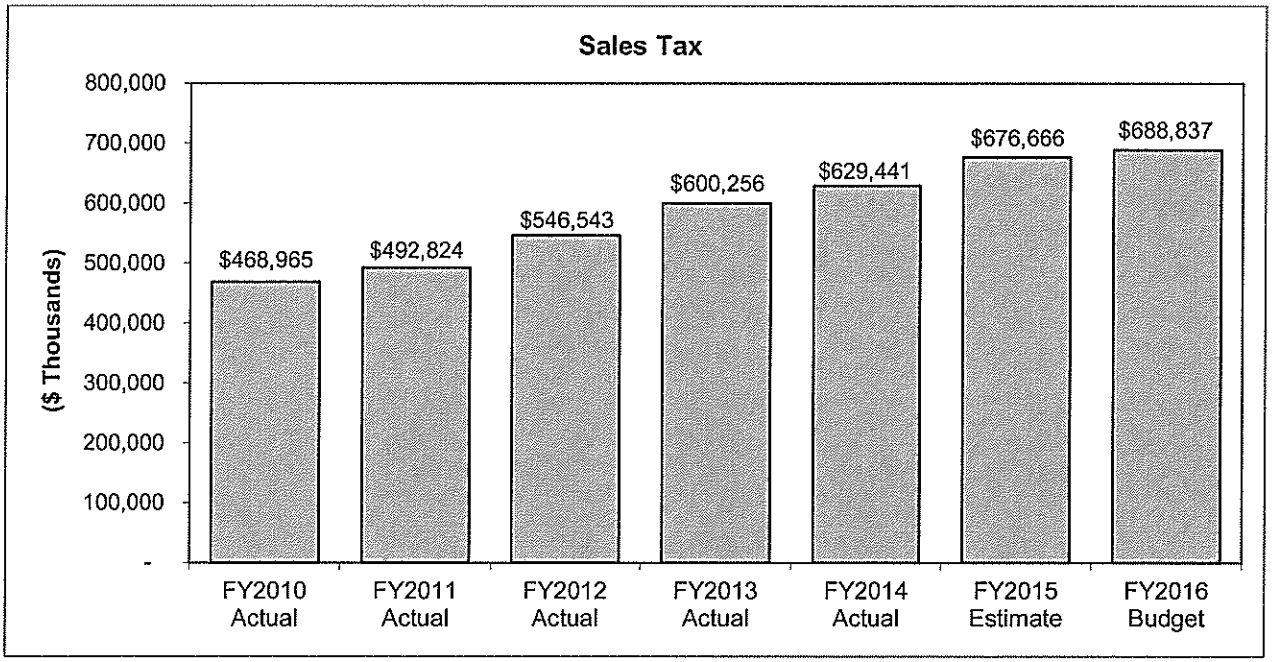
General sales and use taxes are imposed upon the sale or consumption of certain goods and services at the point of sale. In the City of Houston, a $0.0825 sales and use tax is applied for every dollar of sales. The Metropolitan Transit Authority (METRO) receives $0.01, and the State of Texas receives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

The sales tax projections are derived from econometric models which take into account the sectors of the Houston economy and estimates of income, prices, population, and Primary Metropolitan Statistical Area (PMSA) retail sales.

The FY2016 budget amount of $688.8 million is approximately $12.2 million or 1.8%, higher than FY2015 estimate amount of $676.7 million. This estimate is supported by the uncertainty regarding the path of oil prices, the ongoing decline in exploration and drilling, and the fracking industry. Employment is the key driver of sales tax revenue, including consumer sales and business to business sales. Historically, the sales tax has responded in an immediate manner to changes in our employment growth and/or decline. The year over year growth rate has slowed from its torrid pace of 2010-2013 to a sustainable more historical employment growth rate of 2%-3%. The national economy is continuing to recover with housing prices returning to prior levels and employment now in its fifth year of steady growth which should provide some stability. The energy exploration and drilling boom has slowed significantly though, and while Houston's economy has diversified, it is still

strongly tied to energy. With worldwide demand for energy softening, the City will monitor oil and gas prices to see if low prices further impact the local economy.

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 company 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 City expects to collect $18.2 million in FY2016.

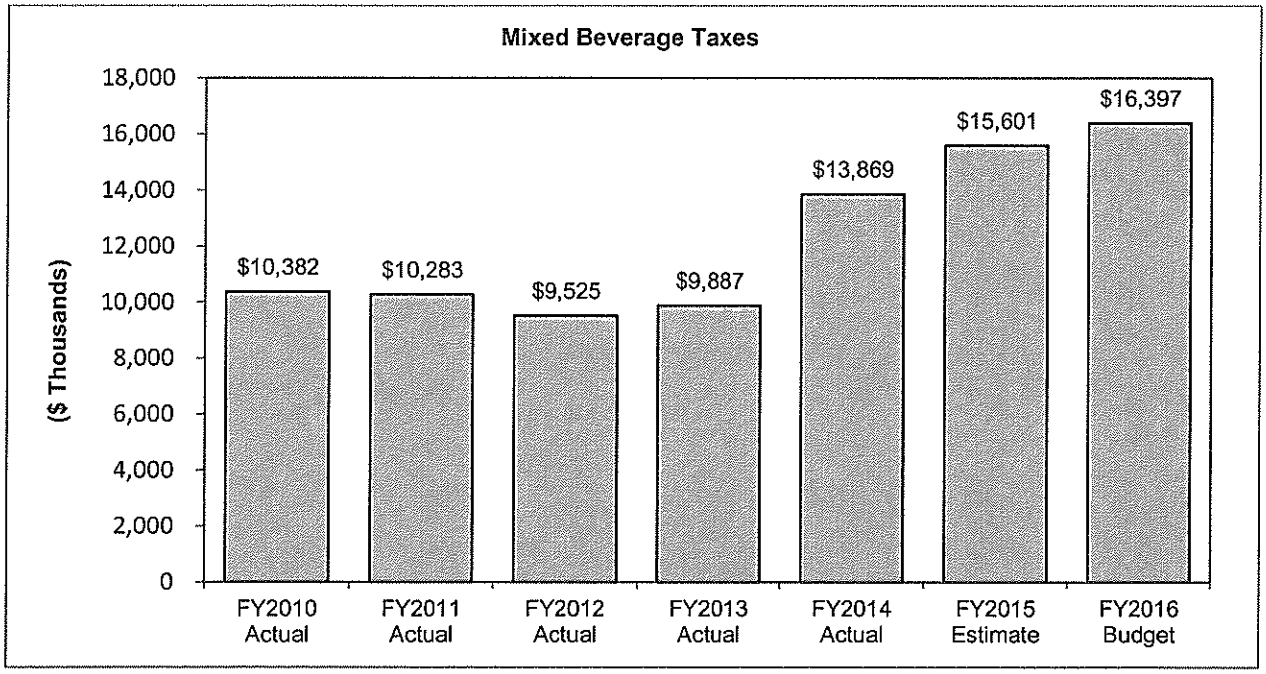
Mixed Beverage Tax

Prior to January 1, 2014, all mixed beverage and private club permit holders were required to remit to the State Comptroller a 14% gross receipts tax on their mixed beverage sales each month. Effective January 1, 2014 the gross receipts tax was lowered to 6.7% and 8.25% mixed beverage sales tax was added to the price of each mixed beverage sold. Following the end of each calendar quarter, the State Comptroller allocates a portion of the tax paid to the county where each business is located.

Prior to the October 2011 allocation, the State Comptroller allocated 10.7143% of the mixed beverage gross receipts to the counties and cities. From October 2011 through July 2013 the allocation rate was reduced to 8.3065%. Beginning October 2013, the allocation has been increased to the previous 10.7143% rate.

For any business located within an incorporated city, another 10.7143% 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 FY2016 projection, we are anticipating the revenue estimate of $16.4 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's 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 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 FY2015 electric franchise fee estimate is $99.2 million. The FY2016 electric franchise fee estimate of $99.8 million is approximately 0.6% higher than the FY2015 estimate. Kilowatt hour consumption for calendar year 2014 was up 0.58% from 2013.

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

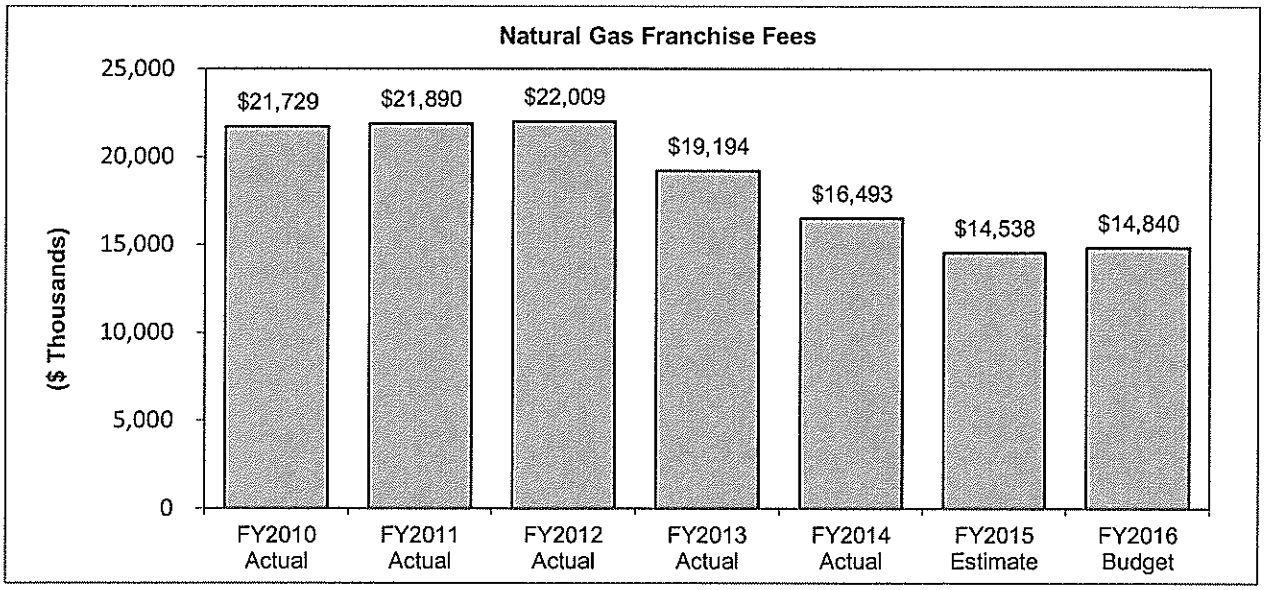
Natural Gas Franchise

Like electric franchise fees, natural gas franchise fees are paid by utilities that use the City's 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. For FY2016, franchise fees are based on CenterPoint's 2012, 2013 and 2014 gross revenues.

The estimate for FY2015 natural gas franchise fees from CenterPoint is approximately $14.5 million. The FY2016 natural gas franchise fee estimate is $14.8 million, an increase of 2.1% from FY2015. CenterPoint's calendar year 2014 revenues were $323.8 million compared to calendar year 2011's revenues of $305.8 million, an increase of 5.9%. While 2011's winter weather was average for the Houston area, 2014's winter weather was colder than average, leading to an increase in natural gas consumption and increased revenues for CenterPoint.

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.

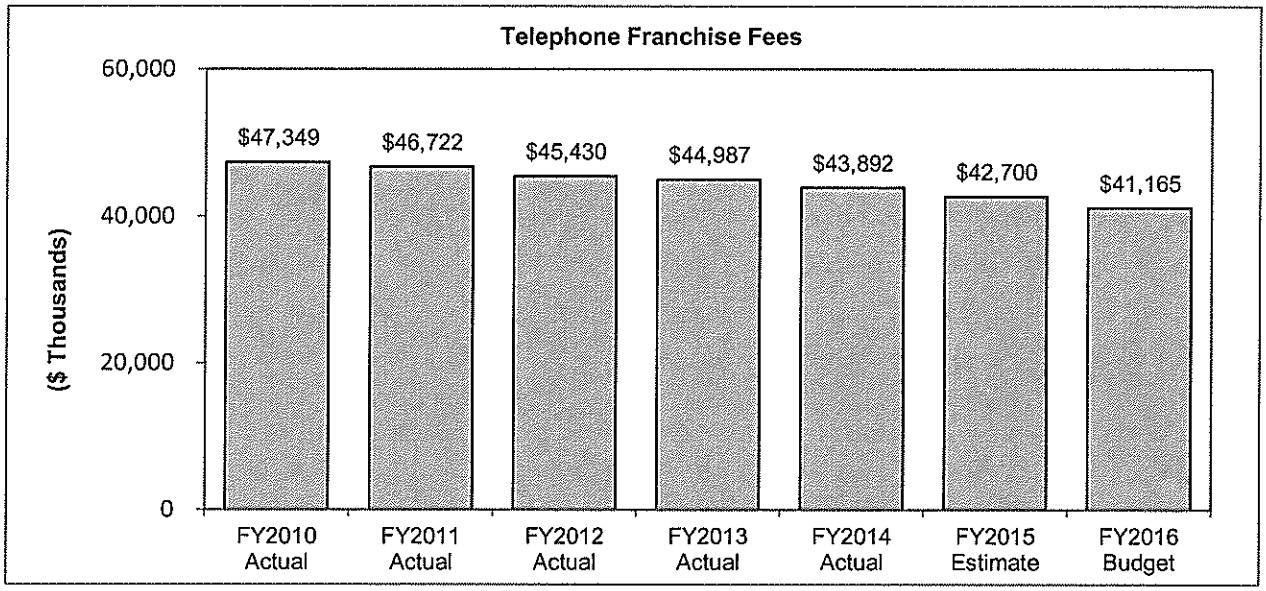
Telephone Franchise

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 - $1.81; non-residential - $6.10; and point-to-point - $17.27.

The FY2015 estimate for telephone franchise fee is $42.7 million, exclusive of audit recoveries. The FY2016 projection of $41.2 million is a 3.6% decrease from FY2015'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 two active cable franchises with the following cable companies: SuddenLink Communications and Phonoscope. The cable franchises expire in 2017 and 2018, respectively. 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 51.6% of the total cable franchise revenue projection for FY2016. The projection for FY2016 is $23.9 million, which is 2.1% higher than the FY2015 estimate of $23.4 million.

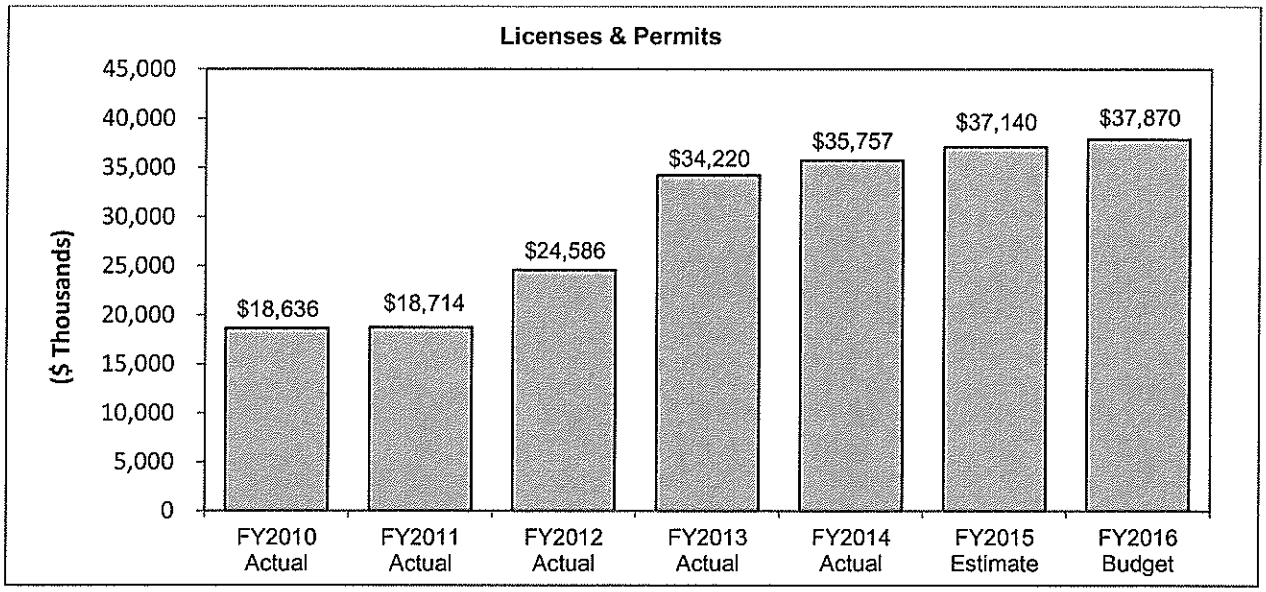
Solid Waste Hauler Franchise Fees

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 FY2015 estimate for solid waste hauler franchise fees is $6.8 million, exclusive of audit recoveries. The FY2016 estimate of $7 million assumes slight industry growth, as well as continuing 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 FY2016 revenue is estimated at $37.9 million, which is approximately $730,000 higher than FY2015 estimate of $37.1 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 third-party vendor for the billing and collection of Emergency Medical Services. The present contract is with Digitech Computers, Inc. At the end of the four-year contract term (August 2017), the City can opt to renew the contract for up to four successive one-year terms.

The revenue projection for Emergency Medical Services provided by the City of Houston for FY2016 is $37.2 million, a decrease of $4.2 million or 10.2% lower than the FY2015 estimate of $41.4 million. This is mainly due to the adjustment in FY2016 to reflect gross revenue collection.

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 play. The FY2016 revenues are estimated at $5.1 million, approximately $1.8 million or 26.2% lower than the FY2015 estimates of $6.9 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 FY2016, revenues of $11 million are projected, an increase of $453,000 or 4.3% higher than the FY2015 estimate of $10.5 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 FY2016 projection of $26 million is $853,000 or approximately 3.4% higher than the FY2015 estimates of $25.2 million.

The Aviation Enterprise Fund also pays for fire protection provided by the Fire Department to the Houston Airport System. The FY2016 projection of $18.8 million reflects an increase of $731,000 over the FY2015 estimate of $18.1 million.

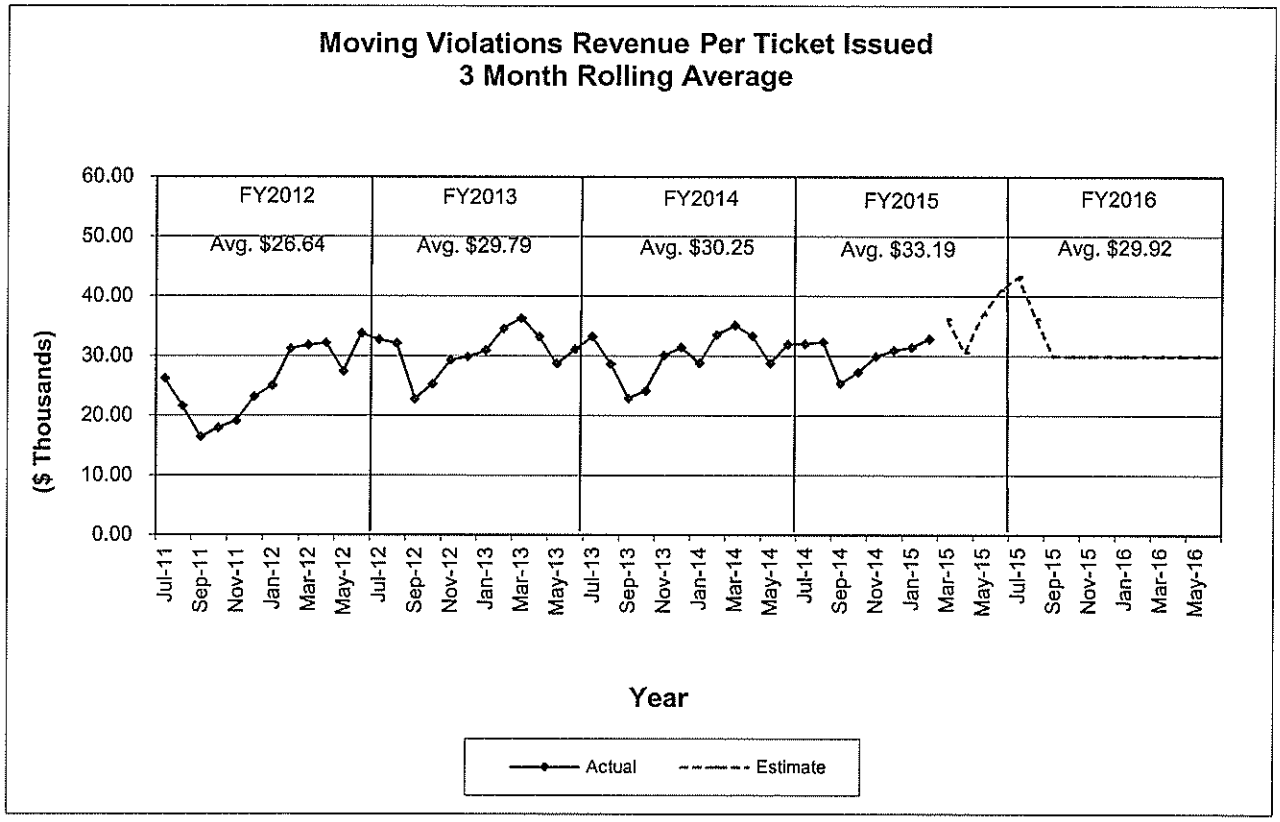
Payments received for other direct services performed by the General Fund are recovered throughout the year. The FY2016 projection of $5.9 million is approximately $117,000 higher than the FY2015 estimate of $5.7 million.

Indirect Cost Recovery

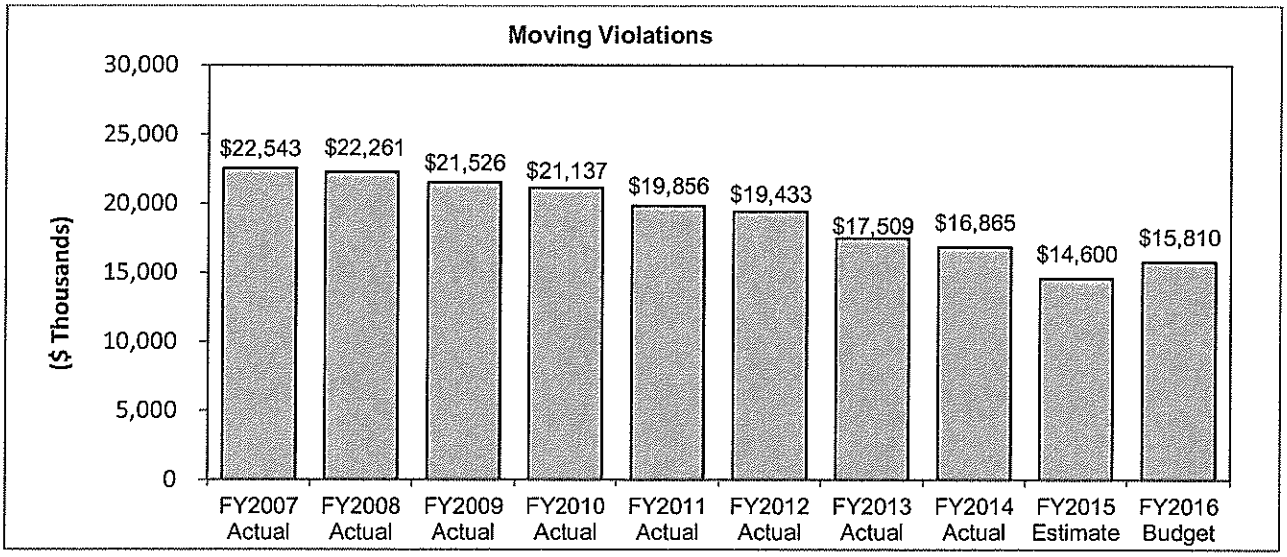
The General Fund provides citywide central support services and recovers the cost of these services through allocation of indirect costs. These amounts are determined through the preparation of an annual cost allocation plan, which distributes administrative overhead costs to General Fund operating departments and to other funds. For FY2016, the proposed plan calls for cost recoveries totaling $26.7 million, an increase of $3.3 million in indirect interfund revenue from the FY2015 estimate of $23.4 million.

Moving Violations

In FY2016, we expect 528,464 tickets to be issued and 150,141 tickets paid at an average of $105.23 per ticket. Moving violations revenue in FY2016 is projected at $15.8 million.



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



Other Municipal Courts Fines and Forfeitures

The FY2016 Municipal Court Fines and Forfeitures are projected at $12.9 million.

Miscellaneous/Other

The FY2016 revenue is estimated at $12.8 million, which is approximately $1.9 million lower than FY2015 estimate of $14.7 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 $5.8 million in FY2016.

A detailed listing of General Fund revenues by category are presented on the following pages showing the FY2014 Actual, FY2015 Current Budget and Estimate, and the FY2016 Budget amounts.