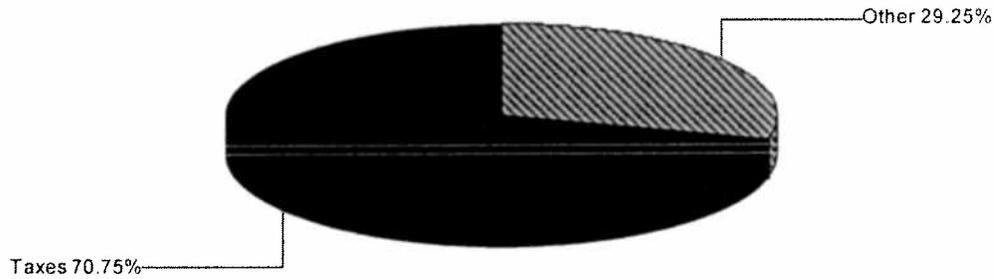


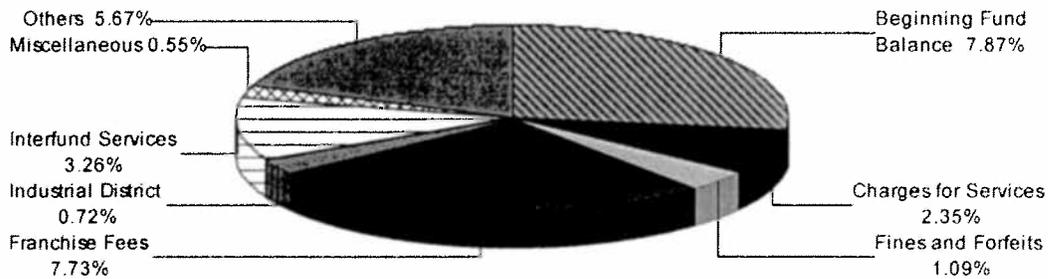
## GENERAL FUND RESOURCES SUMMARY

The General Fund is the City of Houston's largest operating fund. With total resources of \$2.5 billion budgeted in FY2017, this fund relies heavily on various forms of revenue to finance its operations. As illustrated below, approximately 70.8% percent of the total resources in the General Fund are from taxes, mainly property and sales taxes.

### GENERAL FUND RESOURCES FY2017 BUDGET



### COMPOSITION OF OTHER (ABOVE)

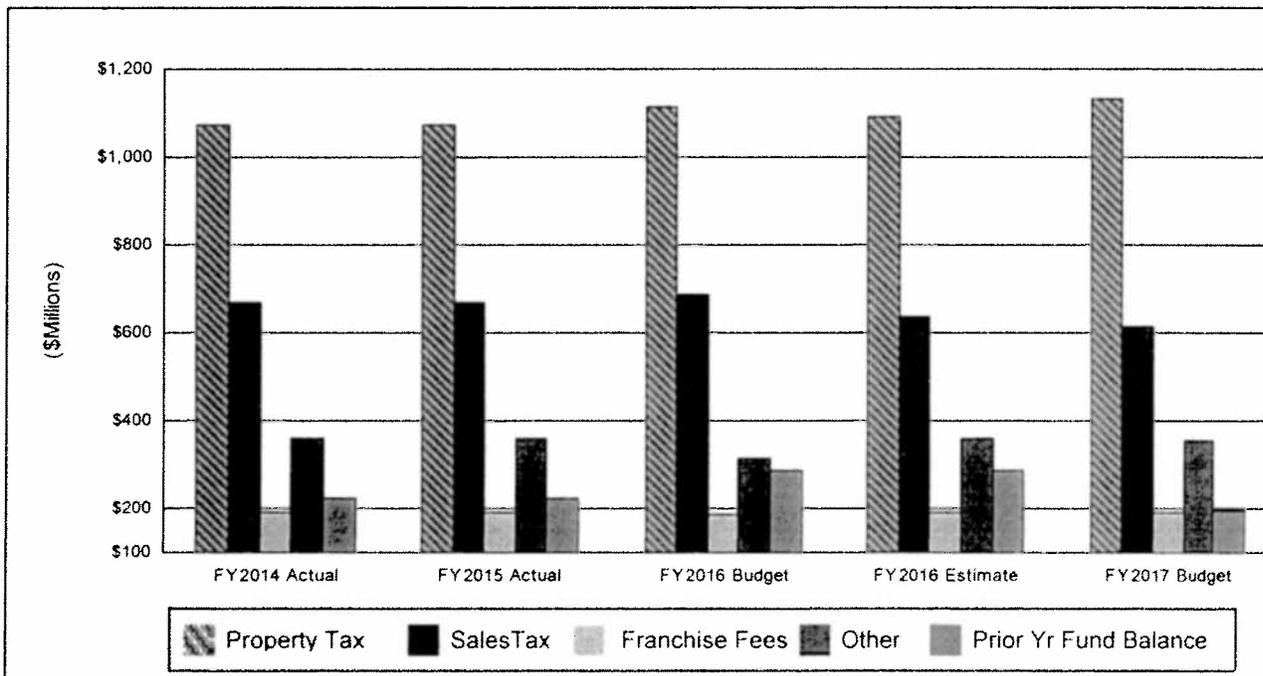


The composition of the FY2017 General Fund resources is listed below:

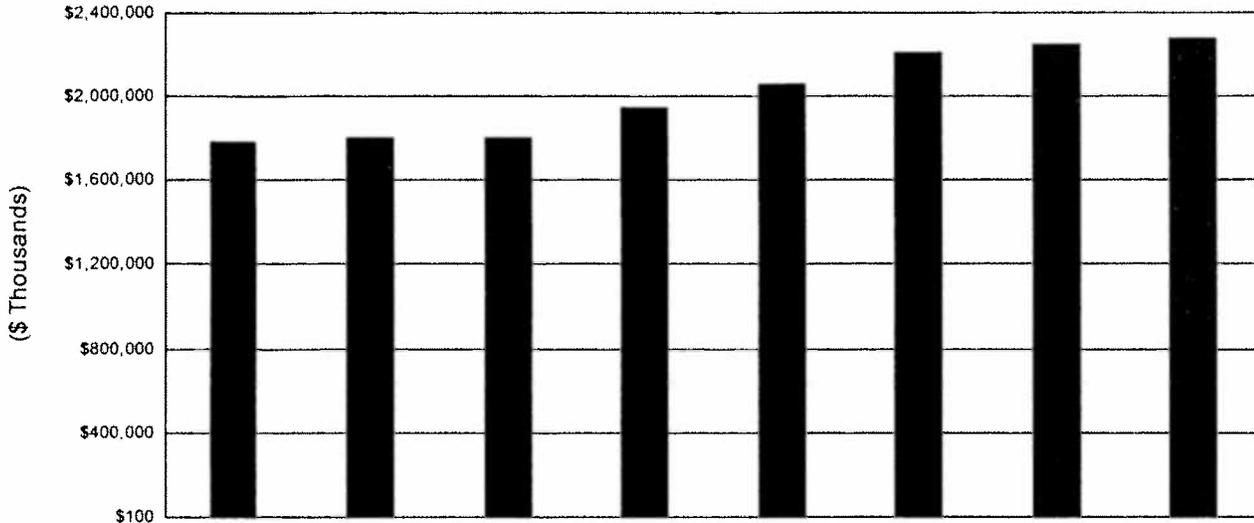
<u>RESOURCE CATEGORIES</u>	<u>RESOURCE FY2017 BUDGET*</u>	<u>% OF TOTAL BUDGET</u>
Taxes:		
Property Taxes	1,133,191	45.42%
Sales Taxes	615,000	24.65%
Other Tax	16,909	0.68%
Franchise Fees	192,784	7.73%
Industrial District	18,043	0.72%
Licenses and Permits	41,811	1.69%
Intergovernmental	70,151	2.82%
Charges for Services	58,698	2.35%
Interfund Services	81,333	3.26%
Fines and Forfeits	27,118	1.09%
Interest	3,000	0.12%
Miscellaneous/Other	13,825	0.55%
Total Revenue	2,271,863	91.08%
Sale of Capital Assets	14,500	0.58%
Transfers In	12,049	0.48%
Beginning FY2017 Fund Balance	196,394	7.87%
<b>TOTAL RESOURCES</b>	<b>2,494,806</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  
FY2014 THROUGH FY2017**



Total General Fund Revenue



FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Estimate	FY2017 Budget
\$1,782,147	\$1,802,727	\$1,802,694	\$1,944,446	\$2,053,802	\$2,213,132	\$2,246,211	\$2,271,862

Table I below provides the FY2017 General Fund revenue budget by categories. As shown, the total revenue is expected to be \$2.3 billion or \$25.6 million higher than the projected FY2016 revenue.

Table I  
FY2017 Revenue Budget  
Compared with FY2016 Estimate

Category	Projected Revenue (\$ Thousands)		
	FY2016 Estimate	FY2017 Budget	Increase / (Decrease)
General Property Taxes	1,092,731	1,133,191	40,460
Industrial Assessment	18,993	18,043	(950)
Sales Taxes	636,300	615,000	(21,300)
Other Tax	16,616	16,909	293
Electric Franchise	101,146	102,030	884
Telephone Franchise	43,220	42,000	(1,220)
Gas Franchise	14,840	15,016	176
Other Franchise	33,156	33,739	583
Licenses and Permits	39,555	41,811	2,256
Intergovernmental	53,485	70,151	16,666
Charges for Services	58,587	58,698	111
Direct Interfund Services	51,614	53,896	2,282
Indirect Interfund Services	28,820	27,436	(1,384)
Municipal Courts Fines and Forfeits	22,812	22,812	0
Other Fines and Forfeits	4,309	4,306	(3)
Interest	3,600	3,000	(600)
Miscellaneous/Other	26,427	13,825	(12,602)
<b>Total</b>	<b>2,246,211</b>	<b>2,271,863</b>	<b>25,652</b>

Table II provides the revenue estimate for each distinct revenue source that is expected to produce at least \$3 million in FY2017. 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)		
	FY2016 Estimate	FY2017 Budget	Increase / (Decrease)
General Property Taxes	1,092,731	1,133,191	40,460
Sales Taxes	636,300	615,000	(21,300)
Industrial Assessment	18,993	18,043	(950)
Mixed Beverage Tax	16,397	16,687	290
Electric Franchise	99,756	101,018	1,262
Telephone Franchise	43,467	42,000	(1,467)
Gas Franchise	14,840	15,016	176
Cable TV Franchise Fees	25,408	26,133	725
Solid Waste Hauler Franchise Fee	7,564	7,541	(23)
Licenses and Permits	39,556	41,811	2,255
TIRZ Funding	12,230	30,764	18,534
Intergovernmental Revenue - 1115 Waiver	13,314	18,054	4,740
Ambulance Fees	44,500	46,500	2,000
Ambulance Fee Supplemental Reimbursement	27,786	21,177	(6,609)
Other Charges for Services	14,087	12,198	(1,889)
Interfund Police Protection	25,134	25,061	(73)
Interfund Fire Protection	20,202	20,360	158
Other Direct Interfund	6,278	8,476	2,198
Indirect Cost Recovery	28,820	27,436	(1,384)
Moving Violations	12,500	12,500	0
Other Municipal Courts Fines and Forfeitures	10,312	10,312	0
Miscellaneous/Other	26,427	13,825	(12,602)
All Other Revenues	9,609	8,759	(850)
<b>Total</b>	<b>2,246,211</b>	<b>2,271,862</b>	<b>25,651</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 60.112 cents per \$100 of taxable value.

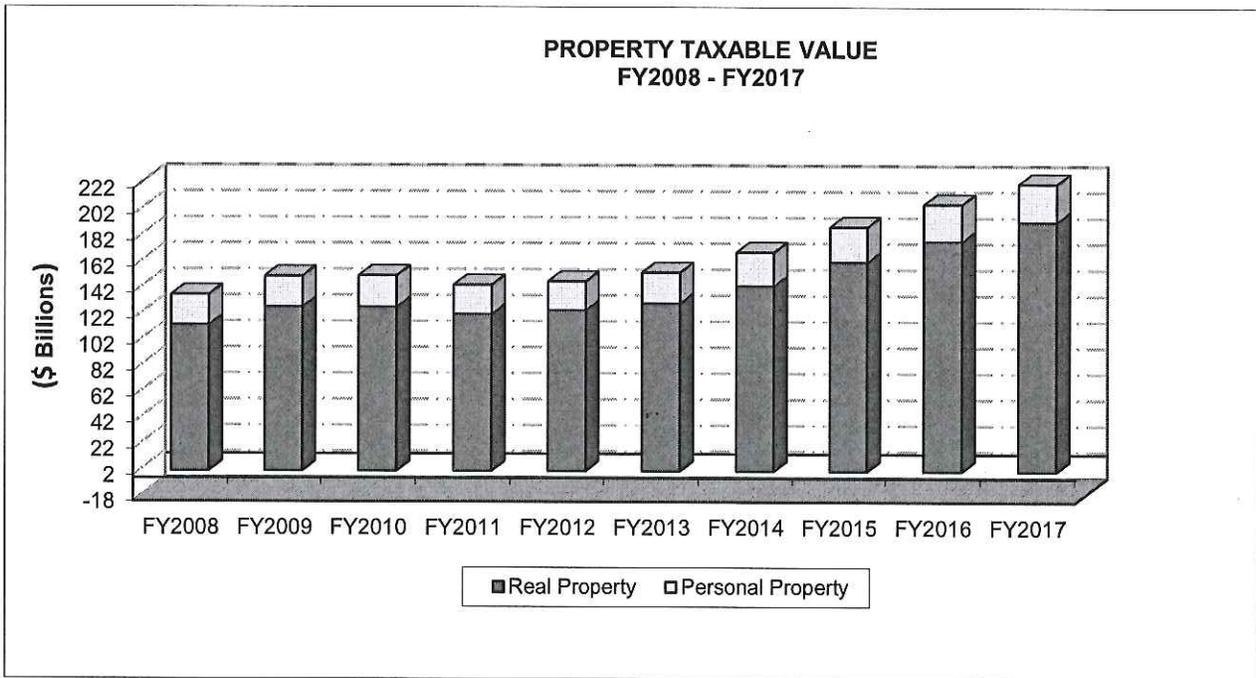
CAD notifies taxpayers of appraised values by May 15th of each year or as soon thereafter as practicable. Taxpayers may protest appraised values or the exemption status of their properties. Hearings of protests are conducted by the Appraisal Review Board of CAD. Chief Appraiser of CAD certifies appraisal 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 FY2017 property tax value certified estimate provided by CAD to the City in April 2016 is \$221.3 billion, which is net of the current senior/disabled exemption of \$160,000. 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 \$141.5 billion.

Below is a graph showing the ten-year history of property taxable values in Houston, with the \$221.3 billion estimate shown for FY2017.



**FISCAL YEAR 2017 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>
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	177,083	28,462	205,545
2017	2016	192,043	29,265	221,308*

\*County Appraisal District Certified Estimates, as of April 2016.

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 FY2017 property tax revenue estimate is derived according to Proposition 1 and Proposition H. The Finance Department applied the 2015 inflation rate of -0.15% and population estimate as of 7/1/2015 of 2.0% to arrive at a net revenue estimate of \$1.13 billion. This revenue is approximately 3.7% higher than the estimated FY2016 revenue of \$1.09 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.

<u>Population (1)</u>		<u>CPI (2)</u>	
July 1, 2003	2,009,669	2003	163.7
July 1, 2004	2,012,626 + 0.1471%	2004	169.5 + 3.5431%
July 1, 2005	2,076,189 + 3.1582%	2005	175.6 + 3.5988%
July 1, 2006	2,144,491 + 3.2898%	2006	180.6 + 2.8474%
July 1, 2007	2,208,180 + 2.9699%	2007	183.8 + 1.7929%
July 1, 2008	2,244,615 + 1.6500%	2008	189.967 + 3.3339%
July 1, 2009	2,257,926 + 0.5930%	2009	190.495 + 0.2779%
July 1, 2010	2,099,451 + 0.0000%	2010	194.172 + 1.9302%
July 1, 2011	2,145,146 + 2.1765%	2011	200.495 + 3.2564%
July 1, 2012	2,160,821 + 0.7307%	2012	204.213 + 1.8544%
July 1, 2013	2,195,914 + 1.6241%	2013	207.574 + 1.6458%
July 1, 2014	2,239,558 + 1.9875%	2014	213.365 + 2.7898%
July 1, 2015 (4)	2,284,887 + 2.0240%	2015	213.039 - 0.1528%

	<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

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**FISCAL YEAR 2017 BUDGET**

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Population Increase 2006	3.2898%
CPI Increase 2006	<u>2.8474%</u>
FY2008 CAP	\$788,705
Population Increase 2007	2.9699%
CPI Increase 2007	<u>1.7929%</u>
FY2009 CAP	\$826,269
Population Increase 2008	1.6500%
CPI Increase 2008	<u>3.3339%</u>
FY2010 CAP	\$867,450
Population Increase 2009	0.5930%
CPI Increase 2009	<u>0.2779%</u>
FY2011 CAP	\$875,005
Population Increase 2010	-7.0186%
CPI Increase 2010	<u>1.9302%</u>
FY2012 CAP	\$875,005
Population Increase 2011	2.1765%
CPI Increase 2011	<u>3.2564%</u>
FY2013 CAP	\$922,543
Population Increase 2012	0.7307%
CPI Increase 2012	<u>1.8544%</u>
FY2014 CAP	\$946,392
Population increase 2013	1.6241%
CPI Increase 2013	<u>1.6458%</u>
FY215 CAP	\$977,338
Population Increase 2014	1.9875%
CPI Increase 2014	<u>2.7898%</u>
	\$1,024,029
Population Increase 2015	2.0240%
CPI Decrease 2015	<u>-0.1528%</u>
	\$1,043,191
 Proposition H (3)	 <u>\$90,000</u>
<b>FY2017 CAP</b>	<b>\$1,133,191</b>
 FY2016 Estimate	 \$1,092,731
FY2017 CAP (Based on 4.5% Increase from FY2016 Estimate)	\$1,161,444
<b>Final FY2017 CAP (the Lower FY2017 CAP)</b>	<b>\$1,133,191</b>

- (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.
- (4) Population numbers based upon Planning Department estimate.

Sales Tax

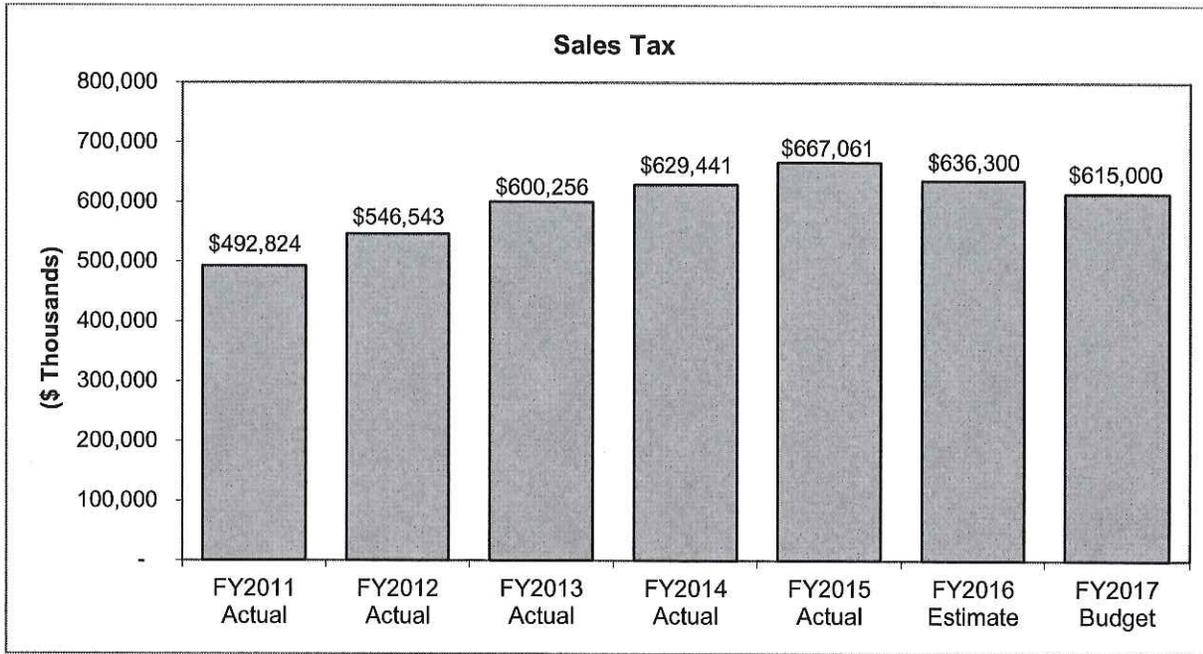
General sales and use taxes are imposed upon the sale or consumption of certain goods and services at the point of sale. In the City of Houston, a \$0.0825 sales and use tax is applied for every dollar of sales. The Metropolitan Transit Authority (METRO) receives \$0.01, and the State of Texas receives \$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 FY2017 budget amount of \$615.0 million is approximately \$21.3 million, or 3.3% lower than FY2016 estimated amount of \$636.3 million. This estimate is supported by the uncertainty regarding the path of oil prices. 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 energy exploration and drilling boom has slowed significantly, and while Houston's economy has diversified, it is still strongly tied to energy. 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**

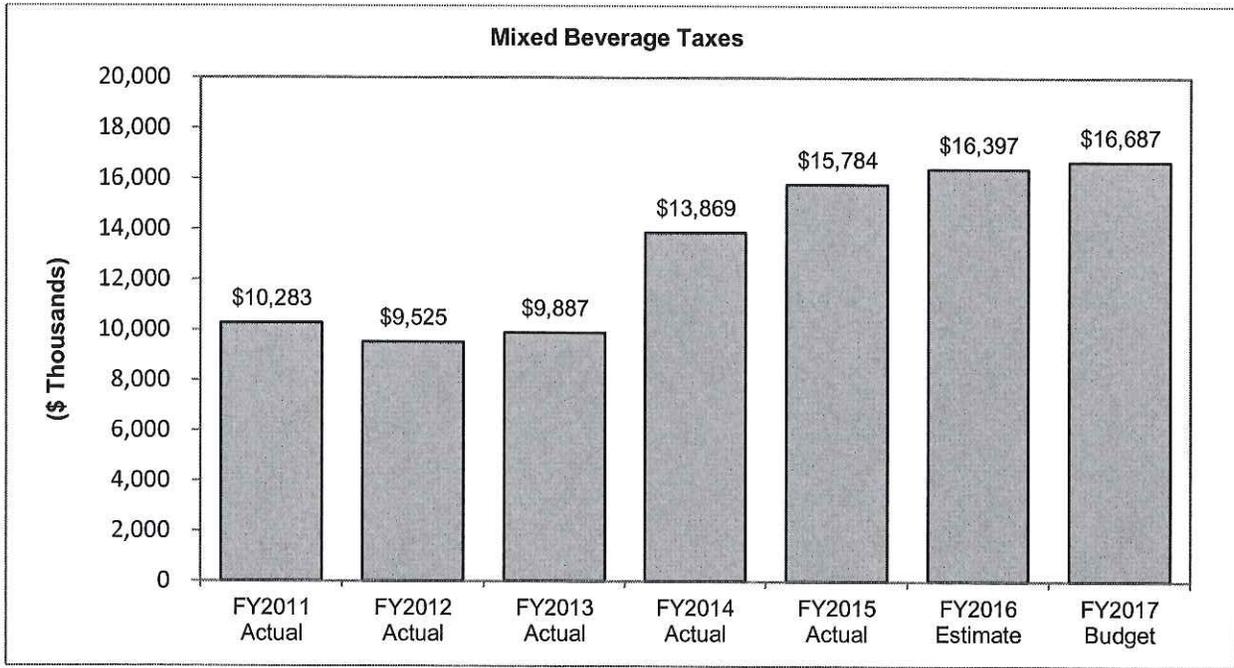
The City of Houston has Industrial District Contract Agreements having a term of fifteen years with more than 100 companies that are located within the Houston Extra-Territorial Jurisdiction (ETJ). A contractually reduced ad valorem assessed valuation fee is calculated and billed annually to each company 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 \$18.0 million in FY2017.

**Mixed Beverage Tax**

Following the end of each calendar quarter, the State Comptroller allocates 10.7143% of the mixed beverage tax received to the counties and cities.

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 FY2017 projection, we are anticipating the revenue estimate of \$16.7 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 99.9% of the electric franchise fees paid to the City, which represents approximately \$100 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 FY2016 electric franchise fee estimate is \$99.8 million. The FY2017 electric franchise fee estimate of \$101.0 million is approximately 1.3% higher than the FY2016 estimate. Kilowatt hour consumption for calendar year 2015 was up 1.31% from 2014.

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

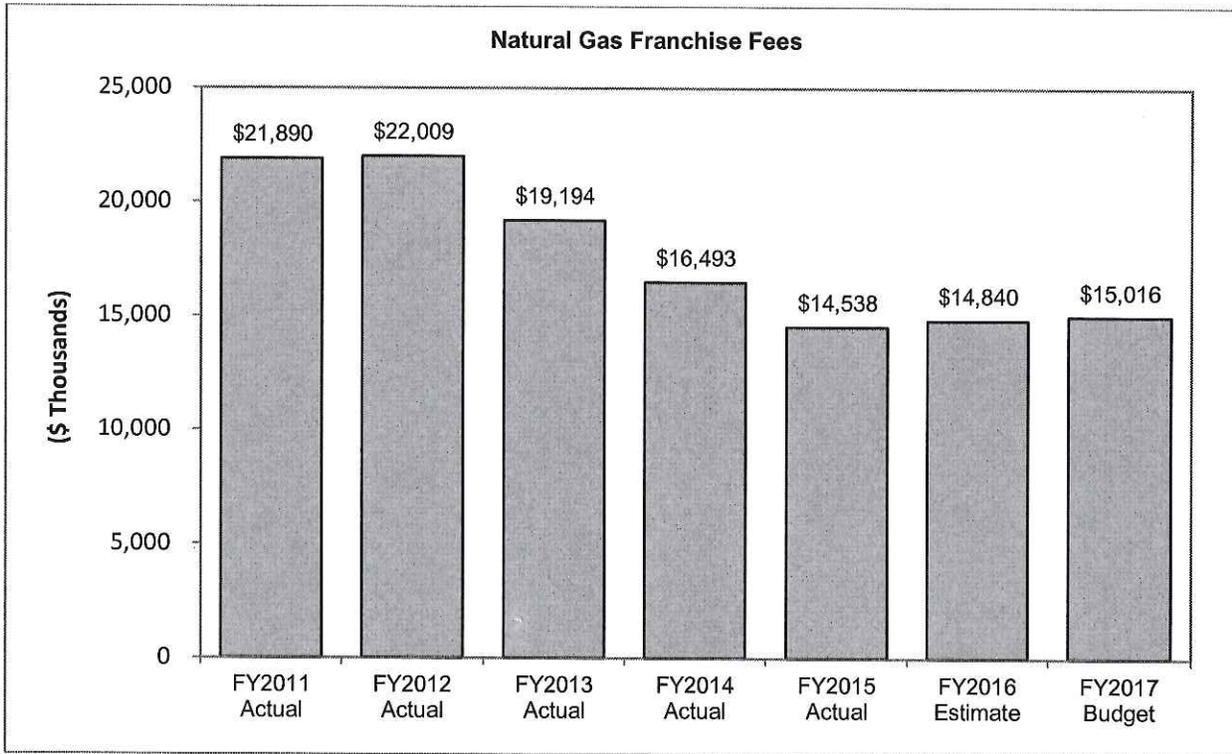
Natural Gas Franchise

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 FY2017, franchise fees are based on CenterPoint's 2013, 2014 and 2015 gross revenues.

The estimate for FY2016 natural gas franchise fees from CenterPoint is approximately \$14.8 million. The FY2017 natural gas franchise fee estimate is \$15.0 million, an increase of 1.2% from FY2016. CenterPoint's calendar year 2015 revenues were \$271.2 million compared to calendar year 2012's revenues of \$260.6 million, an increase of 4.0%. Residential account revenues in 2015 were up 19.4% compared to 2012's account revenue, which more than made up for the loss in industrial and commercial revenues.

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.

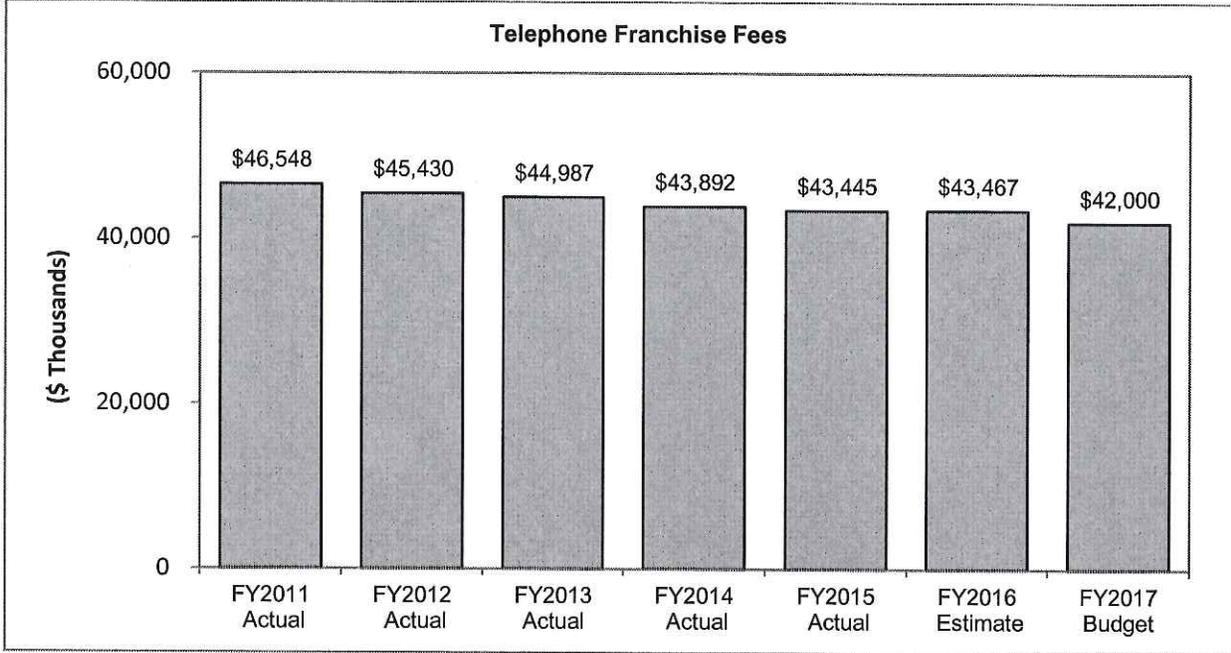
Telephone Franchise

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 - \$1.80; non-residential - \$6.09; and point-to-point - \$17.25.

The FY2016 estimate for telephone franchise fee is \$43.5 million, exclusive of audit recoveries. The FY2017 projection of \$42.0 million is a 3.37% decrease from FY2016 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 51.4% of the total cable franchise revenue projection for FY2017. The projection for FY2017 is \$26.1 million, which is 2.9% higher than the FY2016 estimate of \$25.4 million.

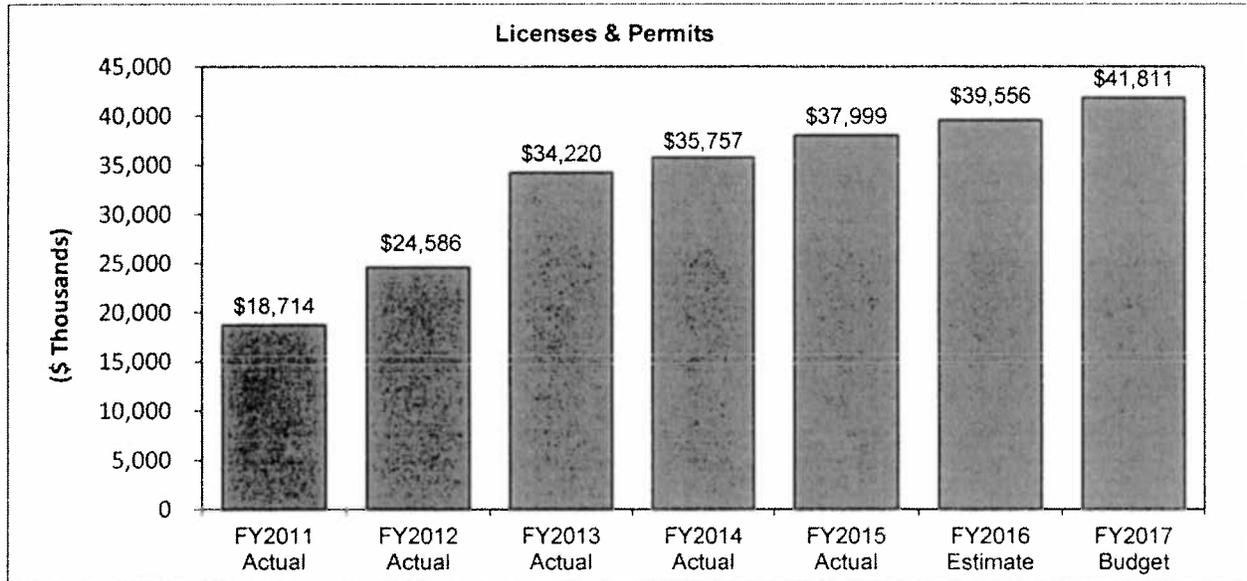
Solid Waste Hauler Franchise Fees

Solid waste haulers pay fees to compensate the City for the use of City streets. Approximately 112 active solid waste hauler franchises pay 4% of gross revenues from transporting commercial solid and industrial wastes that originate within the City limits. The FY2016 estimate for solid waste hauler franchise fees is \$7.6 million, exclusive of audit recoveries. The FY2017 estimate of \$7.5 million assumes a contraction as a result of the slow-down in the oil and gas industry and resulting contraction in office space usage.

**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 FY2017 revenue is estimated at \$41.8 million, which is approximately \$2.3 million higher than FY2016 estimate of \$39.6 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 FY2017 is \$46.5 million, an increase of \$2.0 million or 4.5% higher than the FY2016 estimate of \$44.5 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 FY2017, revenues of \$12.2 million are projected, a decrease of \$1.9 million or 13.4% lower than the FY2016 estimate of \$14.1 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 FY2017 projection of \$25.06 million is \$73,000 or approximately 0.3% lower than the FY2016 estimates of \$25.13 million.

The Aviation Enterprise Fund also pays for fire protection provided by the Fire Department to the Houston Airport System. The FY2017 projection of \$20.4 million reflects an increase of \$158,000 over the FY2016 estimate of \$20.2 million.

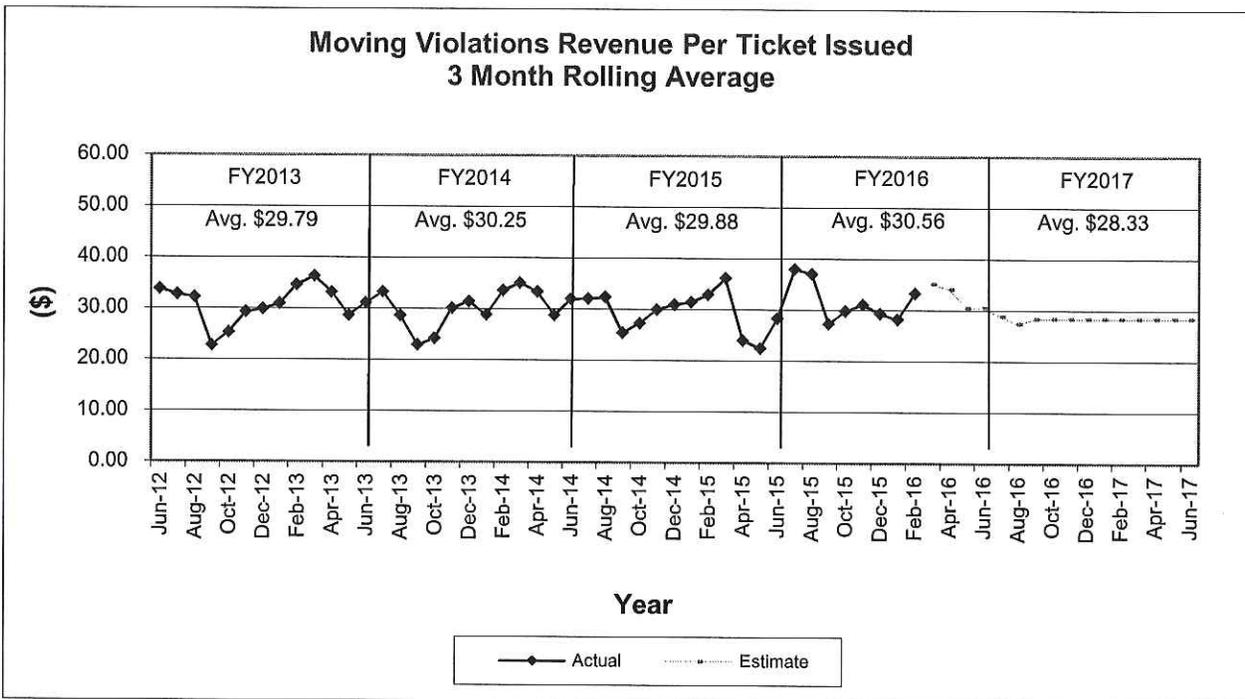
Payments received for other direct services performed by the General Fund are recovered throughout the year. The FY2017 projection of \$8.5 million is approximately \$2.2 million higher than the FY2016 estimate of \$6.3 million.

Indirect Cost Recovery

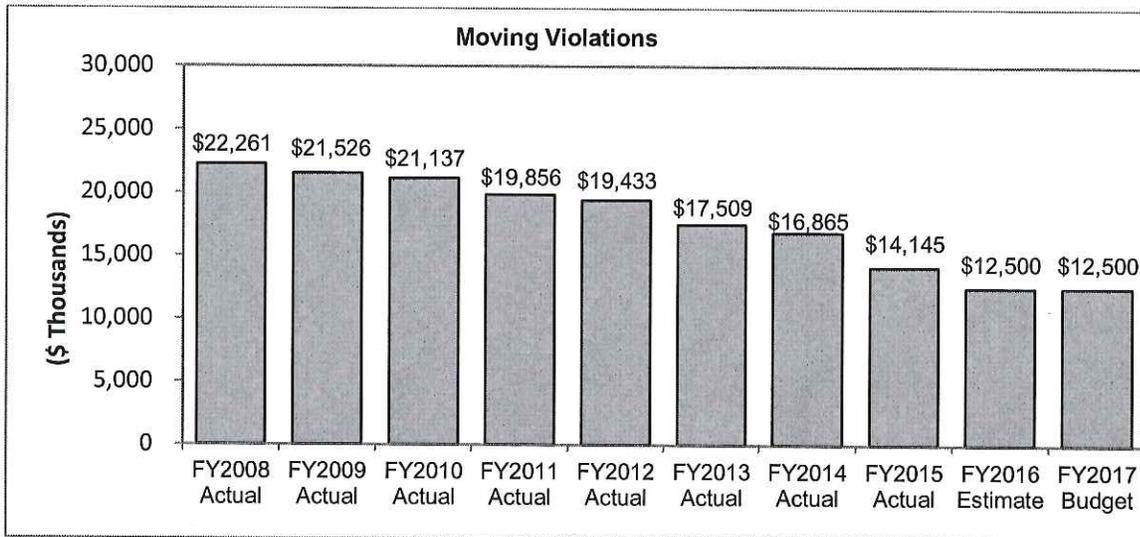
The General Fund provides citywide central support services and recovers the cost of these services through allocation of indirect costs. These amounts are determined through the preparation of an annual cost allocation plan, which distributes administrative overhead costs to General Fund operating departments and to other funds. For FY2017, the proposed plan calls for cost recoveries totaling \$27.4 million, a decrease of \$1.4 million in indirect interfund revenue from the FY2016 estimate of \$28.8 million.

Moving Violations

In FY2017, we expect 441,242 tickets to be issued and 128,169 tickets paid at an average of \$97.53 per ticket. Moving violations revenue in FY2017 is projected at \$12.5 million.



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



Other Municipal Courts Fines and Forfeitures

The FY2017 Municipal Court Fines and Forfeitures are projected at \$10.3 million.

Miscellaneous/Other

The FY2017 revenue is estimated at \$13.8 million, which is approximately \$12.6 million lower than FY2016 estimate of \$26.4 million. This is mainly due to large legal settlement received in FY2016.

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 \$8.8 million in FY2017

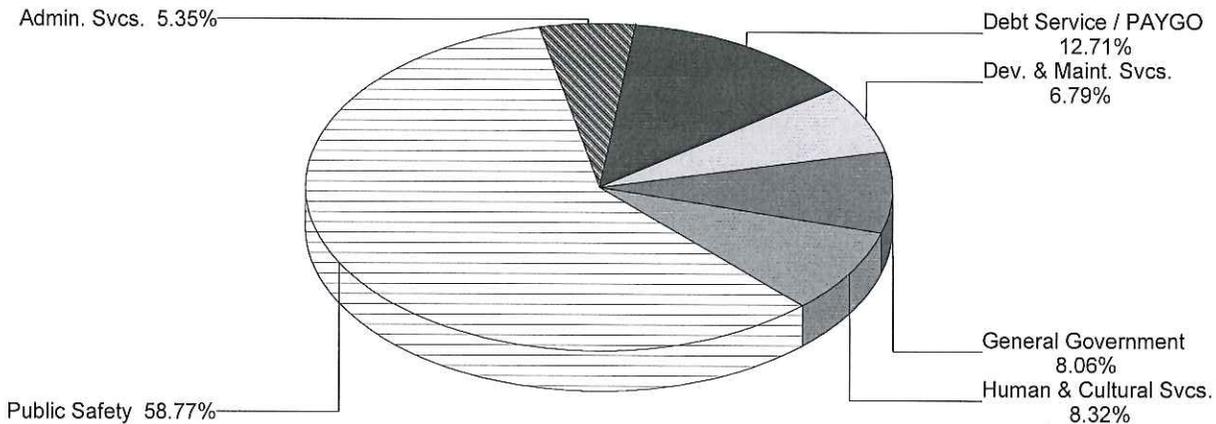
A detailed listing of General Fund revenues by category are presented in the appendices.

## GENERAL FUND EXPENDITURES/OTHER USER SUMMARY

General Fund Expenditures and other uses make up the largest portion of the City's FY2017 Budget. These expenditures and other uses are funded by revenues from property and sales taxes, franchise fees, licenses and permits, charges for services, miscellaneous categories and other sources. (For a detailed explanation, see the General Fund Resources Summary).

FY2017 General Fund expenditures and other uses are allocated among twenty-four (24) departments and five (5) functional areas, the functional areas include: Public Safety, Development and Maintenance Services, Human and Cultural Services, Administrative Services, and General Government. The following graph illustrates the allocation of these expenditures and other uses. Please note that the Public Safety and Human and Cultural Services categories are supported by expenditures in all other categories.

### GENERAL FUND EXPENDITURES/OTHER USES FY2017 BUDGET



**Total=\$2,306,620,627**

#### OVERVIEW

The largest single category of expenditures and other uses in FY2017 is Public Safety with (58.77%) of the total, followed by Debt Service/ PAYGO (12.71%), Human and Cultural Services (8.32%), General Government (8.06%), Development and Maintenance Services (6.79%), and Administrative Services (5.35%).