BRIEF DESCRIPTION OF THE FUNDS USED IN BUDGET PROCESS

The City of Houston's financial management and accounting structure encompasses the ongoing operations and capital programs of twenty-three General Fund departments plus General Government and General Fund Debt Service, approximately thirty-six separate funds, and numerous independent entities or operations for which the City acts as trustee.

Governmental Funds

General revenues (i.e. property taxes, sales taxes, franchise fees, Municipal Courts fines, etc.) are budgeted and received in the General Fund for the support of most basic city services. Operations and services for public safety, financial services, libraries, solid waste management, health, most parks and recreation services, street traffic control, esplanade mowing and citywide administration are included in the General Fund.

Enterprise Funds

Several of the City's operating departments operate similar to private enterprises. Their operations and long-term debt are covered entirely by user fees or dedicated revenue sources.

The Public Utilities - Water and Sewer Fund is managed by the Combined Utility System. All maintenance, operation, reserve, and debt service requirements for Public Utilities are accounted for as an Enterprise Fund in the Public Works and Engineering Department. Capital equipment expenses for water and sewer services are recorded in the Public Utilities - Capital Outlay Fund. All capital outlay expense for the Aviation Department is budgeted in the Airport System Capital Outlay Fund 8012 in full compliance with bond ordinances. Budgets covering maintenance and operations, reserves, and debt service for each of these funds are presented in the budget.

- Aviation Department
- Airport System Capital Outlay
- Combined Utility System
- Convention & Entertainment Facilities
- Parking Management

Special Revenue Funds

The proceeds of dedicated general purpose revenue sources are budgeted and received in several Special Revenue Funds. The following describes the City's Special Revenue Funds:

- Digital Houston. EarthLink has been chosen by the City of Houston to build a citywide wireless broadband network, pending contract negotiations. The Wi-Fi mesh network will provide affordable high-speed Internet access for residents of and visitors to Houston. It will also enable municipal employees to work in the field without having to return to the office to use traditional landlines to complete their task. The fund will be necessary to receive payments from EarthLink and to allow the City to fund inclusion programs for low income and other individuals.

- The Houston Emergency Center Fund consolidates the City's four separate emergency services into one "state of the art" facility.

- Under certain cable television franchise agreements, the City receives contributions on a subscriber basis. These funds are budgeted for public access cable television programming and related costs in the Cable Television Special Fund. The Mayor's Office is responsible for administering this fund.

- The Municipal Courts Building Security Fund was established in FY1997 to provide for the safety of civilians and civil service employees conducting business at buildings housing Municipal Courts. Revenues generated ($3 from every defendant convicted of any offense) are used to contract security officers and purchase security equipment such as video arraignment equipment, court room cameras and the installation of a card-key security system. This fund is administered by the Municipal Courts Administration Department.

- The Municipal Courts Technology Fee Fund generates a $4.00 fee charged for convictions on all traffic and non-traffic misdemeanor offenses occurring on or after June 25, 2000. The purpose of the fund is to solely finance technological enhancements for the Municipal Courts, including computer systems, networks, hardware, software, imaging systems, electronic ticket writers and docket management systems. The FY2008 Budget includes debt repayment on bonds issued to purchase the new case management system, and other equipment and services necessary for the operation of the new system.

- The Parks Special Revenue Fund is used to account for revenues and certain expenditures related to operations of the City's municipal golf courses and youth programs. This fund is administered by the Parks and Recreation Department.

- The Asset Forfeiture Fund is administered by the Houston Police Department (HPD). The City receives forfeited funds resulting from HPD's role in drug-related seizures. This fund provides resources beyond HPD's General Fund budget for crime enforcement. Specifically, these funds are used to address the drug problem in a manner consistent with the department's Comprehensive Narcotics Plan.

- License fees paid by tow truck drivers and various automotive sales, repair, storage and salvage dealers are budgeted in the Auto Dealers' Special Revenue Fund to finance a portion of the Police Department's enforcement efforts regarding privately owned storage lots. This fund is administered by the Police Department.

- The Police Special Service Fund is used to account for activities that are not covered under the General Fund Budget. The activities include joint police operations, security and traffic control, undercover support services and use of HPD facilities. The Police Department administers this fund.

- The Child Safety Fund is used to account for monies received for public, parochial and private school crossing guard programs. Revenues to the fund come from an assessment of a Municipal Court fee of $5.00 on non-criminal municipal violations and an additional $1.50 fee for each vehicle registration authorized by Harris County. The Police Department administers this fund.

- The Building Inspection Special Fund includes all construction and building permit revenues and expenditures for inspections and permitting activities. This fund is administered by the Public Works and Engineering Department.

- Outdoor sign permit and license fees received by the Public Works and Engineering Department's Code Enforcement Group are budgeted in the Sign Administration Special Fund to support enforcement of the City's sign ordinance.

- Houston TranStar Center Fund was established for the planning, design, operation and maintenance of transportation and emergency management operations within the greater Houston area. Funding is derived from revenue received from member agencies and is prorated based on occupancy and use of center facilities. This fund is administered by the Public Works and Engineering Department.

- Supplemental Environmental Protection Fund is for the advancement of the goals of clean air and water and to enhance the community environment impacted by criminal environmental violators.

- The mission of the Mobility Response Team is to respond and mitigate significant traffic congestion resulting from malfunctioning traffic signals, accidents and other mobility issues throughout the City. The team is a partnership between the Police and Public Works and Engineering (PWE) Departments. Dedicated resources will be deployed 5:00 AM and 9:00 PM. They will specifically 1) respond to and mitigate acute traffic congestion throughout the City, 2) be dispatched via personnel at TranStar to identified areas, 3) Traffic Engineering staff will diagnose and provide solutions to operational and design problems, and 4) work together with PWE engineers to develop long term traffic management solutions.

- The Waste Reduction Fund will be created in FY2008 and will be used to move the City of Houston in a more environmentally sound direction by 1) developing a broader system of recycling and composting yard waste for preservation of landfill air space, 2) substantially increase education and enforcement in abused/abusing neighborhoods, and 3) to refine solid waste practices through increased change to ensure consistent application of eligibility standards. The establishment of dedicated user fees will provide a sustainable revenue stream to fund solid waste services and reduce dependency on general revenues.

Internal Service Funds

Internal Service Funds were established for the purpose of providing services to City departments on a cost-reimbursement basis. These funds are shown in the Internal Service Fund section of the budget document. Included are the following:

- The Health Benefits Fund was created to account for the financial activity of the City's medical or health-related plans. Employee, retiree, and City premium contributions are budgeted as revenues. Medical and dental premiums, some self-insured medical claims, life insurance premiums, payments to employees for dependent care reimbursement, and health benefits program administrative costs are budgeted as expenditures. This fund is administered by the Human Resources Department.

- The Long-Term Disability (LTD) Fund was established in FY1985 and is used to account for the long-term sick leave benefits for eligible city employees. The LTD Fund is funded solely by the City through premiums charged to the departments based on the number of employees covered by the plan. Such premiums cover the cost of all benefits (claims) to the employees and third party administrative fees. This fund is administered by the Human Resources Department.

- The Fleet/Equipment Acquisition Fund will be created in FY2008 and will be used to account for the purchase of the City's fleet and other capital equipment. Over the next few years, the acquisition of equipment will be gradually shifted to the operating budgets in the general fund. Departments will make payments to the Fleet/Equipment Acquisition Fund for the use of specific capital equipment, which will then pay the debt service associated with the equipment. This fund will be administered by the Finance and Administration Department and the Building Services Department.

Revolving Funds

Revolving funds are established to provide services to other City departments on a cost-reimbursement basis and are shown in the Revolving Funds Section. Included are the following:

- The Central Services Revolving Fund provides goods and services to operating departments. The receiving department's budget is charged for the actual cost incurred by the Central Services Revolving Fund, with the revolving fund revenue account credited by the same amount. As an example, citywide temporary personnel costs are budgeted in this fund.

- The In-House Reconstruction Fund, established in FY1993 is used to capture the costs associated with the renovation and reconstruction of fire stations. All costs are charged to the revolving fund in anticipation of billing a bond fund, General Fund or CDBG grant fund for reimbursement. In FY2002, this fund was transferred to the Building Services Department.

- The Fleet Management Fund, administered by the Public Works and Engineering Department, is used to account for fleet maintenance for seventeen City departments.

- The Property and Casualty Fund records the transactions of the City's self-insurance program for lost and personal action claims. The Finance and Administration Department oversees the insurance functions while the Legal Department administers the claims portion. Revenue is generated from premiums assessed to other funds; premiums are based on projected expenditures.

- The Workers Compensation Fund was established to collect and report all costs of compliance to statutes related to Workers Compensation. The revenues are derived through charging the departments an administrative premium of $9.85 semi-monthly per employee plus all direct costs related to claim expenditures, which includes indemnity, medical and disability payments.

- The Enterprise Geographic Information System (EGIS) is a centralized function for the allocation to costs to cover Enterprise License Agreement Software Maintenance, ESRI Enterprise Advantage Program training, consulting and core GIS staff. Until now, departments have individually purchased GIS software, training, consulting services and related hardware.

- CIP Cost Recovery Fund is used to pay the costs of department employees who directly and indirectly work on CIP-related projects. These costs are then recovered from the appropriate CIP project fund.

Equipment Acquisition Consolidated Fund

The Equipment Acquisition Consolidated Fund supports the acquisition of durable capital assets for all General Fund departments and selected Special Revenue Funds. Historically, funding has come from issuing Commercial Paper for the purchase of such capital assets. Beginning in FY2008, a transition will begin where the cost for capital assets will be transferred to the respective departments who will be responsible for the respective debt service. Funding will still come from the issuance of Commercial Paper and other sources such as capital lease financing. This fund is administered by the Finance and Administration Department.

Debt Service Funds

The City of Houston General Debt Service Fund (the "Fund") accumulates resources for the principal and interest payments on tax supported debt consisting of: general obligation bonds/refunding bonds, claims and judgment bonds, annexed districts' bonds, pension obligation bonds, certificates of obligation, and general obligation commercial paper notes (the "Obligations"). Payments for arbitrage rebate and administrative fees to administer the debt program are also accounted for in this fund.

The largest revenue source for the Fund is the General Fund, which transfers a portion of ad valorem taxes (property tax receipts) required for debt service on the Obligations. The city's tax rate for Fiscal Year 2007 (Tax Year 2006) was $0.6450 (per $100 assessed valuation), which consists of $0.45927 for general purposes and $0.18573 for debt service. The proposed Fiscal Year 2008 requirements are also funded by Combined Utility System Fund which is charged each year to compensate the Debt Service Fund for the cost of paying debt service on certain tax bonds issued for water and sewer purposes and reimbursements by departments for special financings.

Trust and Agency Funds

Trust and Agency Funds are used to account for assets held by a government unit as trustee, or agent for the individuals, private organizations, other governmental units, and/or other funds. The City has created twenty-two trust and agency funds for Tax Increment Reinvestment Zones (TIRZ) since FY1991. As development occurs in each zone, taxes generated by the increase in value attributable to those improvements, or "tax increment", are captured in separate funds set up for each TIRZ. TIRZ funds are then used to pay for approved project costs. Examples of typical costs include infrastructure improvements in water, sanitary sewer, and storm water systems, lighting, paving on public right-of-way, streetscaping, impact fees, and debt service on bonds sold for the same purpose. Contributions from other taxing jurisdictions participating in the TIRZ are collected by each respective jurisdiction and sent to the City for deposit in the TIRZ funds. The Finance and Administration Department administers the funds.

Capital Project Funds

Funding for major capital improvement projects, regardless of funding source, is presented in the six year Capital Improvement Plan (CIP) and is budgeted in the first year of that plan. Debt service requirements are budgeted in the General Debt Service Fund or Enterprise Funds where applicable. Funding for each capital project, including site acquisition, engineering and design, construction and initial equipment purchases (including environmental and civic art) required to make a facility operational, are included in the CIP. Primary funding sources for the CIP are as follows:

- Commercial paper notes and Public Improvement Bond proceeds,
- Revenue Bond proceeds (e.g., bonds supported by Combined Utility System fees, Airport System revenues, Convention & Entertainment Facilities revenue/hotel occupancy tax),
- Operating funds or capital reserve funds (e.g., operating budget funds), and
- Contributions from private or other public sources (e.g. local private developers, other local governments and authorities, and state or federal agencies) participating in City-sponsored projects.
- Grants such as Community Development Block Grant (CDBG), and
- TIRZ.

Other Financial Funds

Comprehensive budgets for certain entities are not included in the City's budget nor the CIP due to City Council's limited authority to program expenditures. They are included in the City's Comprehensive Annual Financial Report.

- Federal and state grants are accepted by the City and accounted for based upon each grant's respective fiscal period, which usually differs from that of the City (July 1 - June 30). If a grant requires a local match or funds payroll costs in whole or in part, the budget includes expenditures and revenues that pertain to these aspects of the grant in the receiving department or fund. These grants and contracts are approved by Council action at the time of the grant award.

- The City's three pension funds are governed by independent boards and are maintained separately from the operating, debt service, and capital funds. Contributions from both the employees and employer (City) are also maintained separately in the case of Deferred Compensation and Long-Term Disability programs.

- Other funds established by City Council or the City Controller to account for contributions from private individuals (i.e. Library Gift Endowment Fund; Houston Parks Board Trust Fund; W.A.T.E.R. Fund; Houston Economic Development; and the Battaglia Trust Fund) are dedicated to a specific unbudgeted but public purpose.