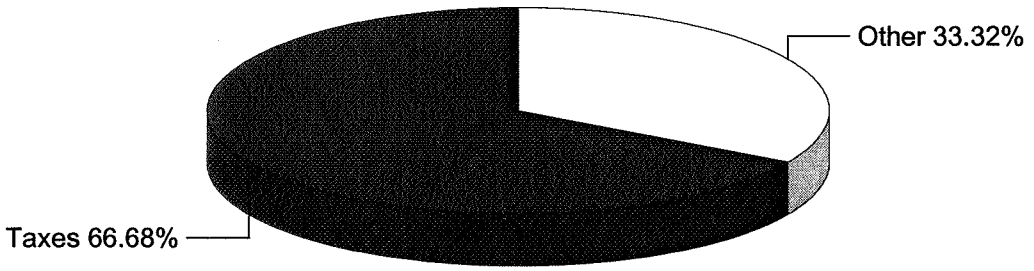
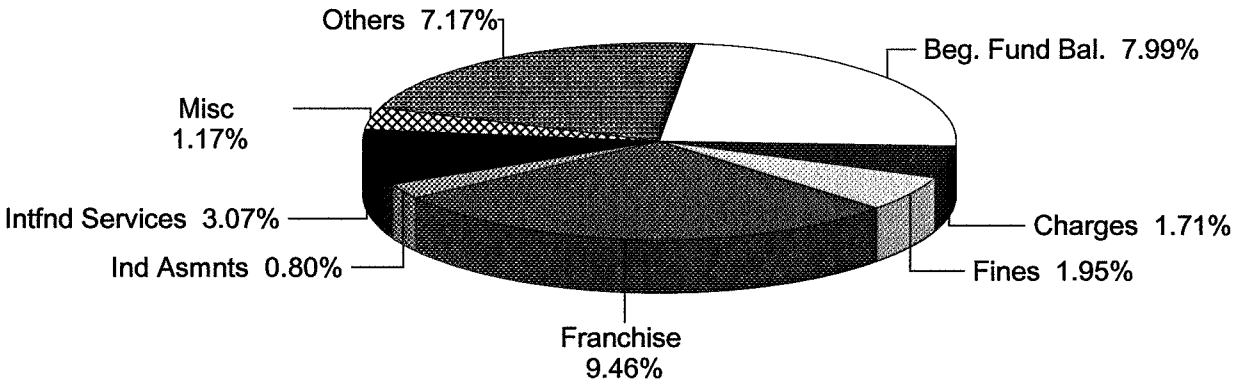
GENERAL FUND RESOURCES SUMMARY

The General Fund is the City of Houston's largest operating fund. With total resources of $2 billion budgeted in FY2011, this fund relies heavily on various forms of revenue to finance its operations. As illustrated below, approximately 67% percent of the total resources in the General Fund are from property and sales taxes.

GENERAL FUND RESOURCES FY2011 BUDGET



COMPOSITION OF OTHER (ABOVE)



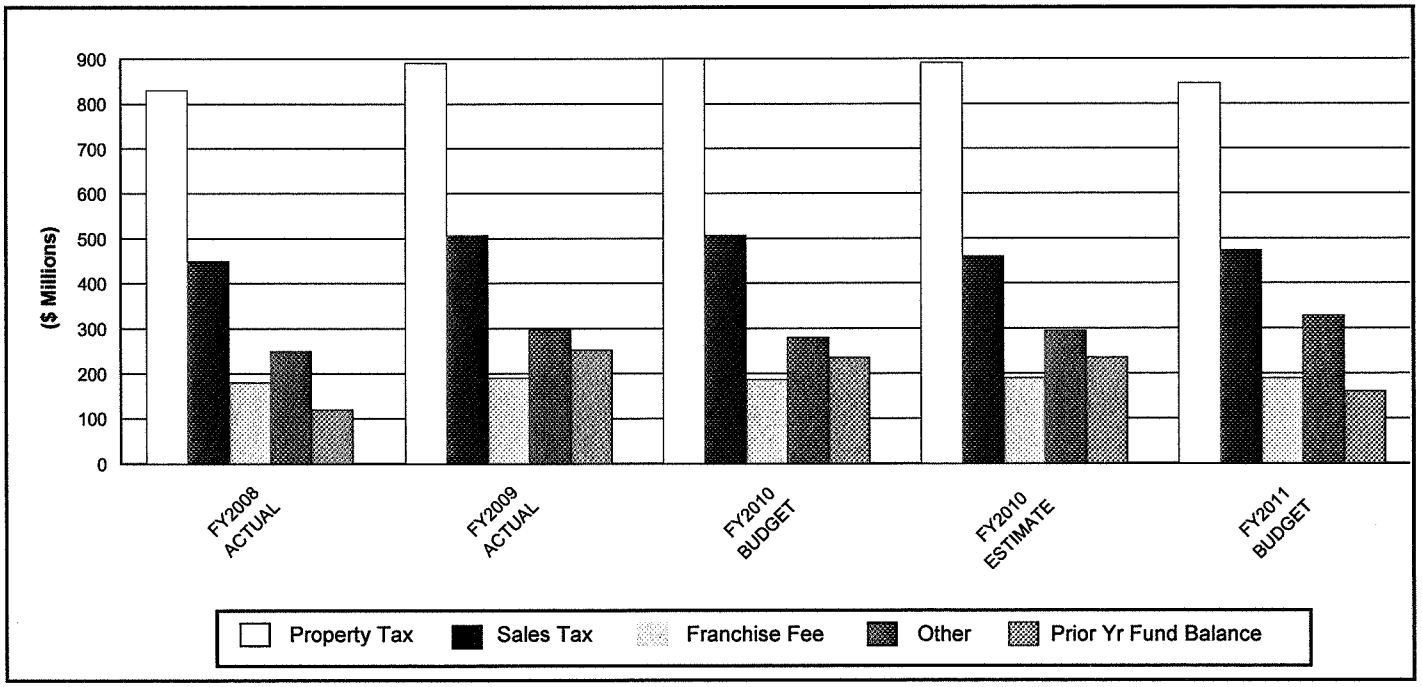
The composition of the FY2011 General Fund resources is listed below:

RESOURCE CATEGORIES	RESOURCE FY2011 BUDGET*	% OF TOTAL BUDGET
Taxes:		
Property Taxes	$ 846,136	42.40%
Sales Taxes	473,754	23.74%
Other Tax	10,796	0.54%
Franchise Fees	188,736	9.46%
Industrial District	16,000	0.80%
Licenses and Permits	17,206	0.86%
Intergovernmental	54,199	2.72%
Charges for Services	34,224	1.71%
Interfund Services	61,238	3.07%
Fines and Forfeits	38,923	1.95%
Interest	6,750	0.34%
Miscellaneous/Other	23,403	1.17%
Total Revenue	1,771,365	88.76%
Sale of Capital Assets	36,050	1.81%
Transfers In	28,736	1.44%
Beginning FY2011 Fund Balance	159,532	7.99%
TOTAL RESOURCES	$ 1,995,683	100.00%

* Dollars in Thousands

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

RELATIONSHIP OF GENERAL FUND RESOURCES
FY2008 THROUGH FY2011



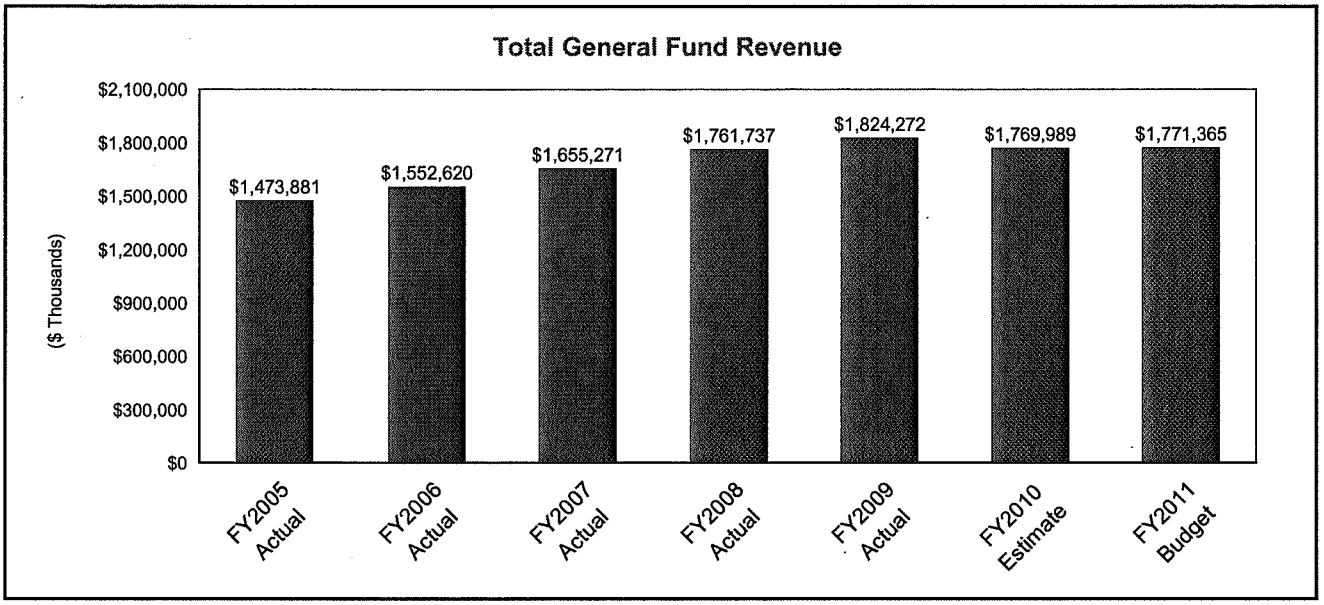


Table I below provides the FY2011 General Fund revenue estimate by categories. As shown, the total revenue is expected to be $1.77 billion or $1.38 million (0.08%) greater than the projected FY2010 revenue.

Table I

FY2011 Revenue Estimate
Compared with FY2010 Projection

	Projected Revenue ($ Thousands)		
Item	**FY2010 Estimate**	**FY2011 Budget**	**Increase**
General Property Taxes	891,216	846,136	(45,080)
Industrial Assessment	16,664	16,000	(664)
Sales Taxes	460,000	473,754	13,754
Other Tax	10,483	10,796	313
Electric Franchise	96,985	98,151	1,166
Telephone Franchise	47,982	46,000	(1,982)
Gas Franchise	21,727	21,890	163
Other Franchise	22,993	22,695	(298)
Licenses and Permits	17,217	17,206	(11)
Intergovernmental	31,875	54,199	22,324
Charges for Services	33,267	34,224	957
Direct Interfund Services	49,329	44,783	(4,546)
Indirect Interfund Services	16,503	16,455	(48)
Municipal Courts Fines and Forfeits	36,464	36,602	138
Other Fines and Forfeits	1,902	2,321	419
Interest	6,750	6,750	0
Miscellaneous/Other	8,632	23,403	14,771
Total	**1,769,989**	**1,771,365**	**1,376**

Table II provides the revenue estimate for each distinct revenue source that is expected to produce at least $3 million in FY2011. 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	**FY2010 Estimate**	**FY2011 Budget**	**Increase**
Property Tax	891,216	846,136	(45,080)
Sales Tax	460,000	473,754	13,754
Industrial Assessments	16,664	16,000	(664)
Mixed Beverage Tax	10,283	10,590	307
Electric Franchise	95,584	96,586	1,002
Telephone Franchise	47,067	46,000	(1,067)
Gas Franchise Fees	21,727	21,890	163
Cable TV Franchise Fees	16,862	17,077	215
Solid Waste Hauler Franchise Fee	5,290	5,325	35
Licenses and Permits	17,217	17,206	(11)
METRO Funding	25,000	47,620	22,620
TIRZ Funding	4,365	4,082	(283)
Ambulance Fees	21,250	21,753	503
Other Charges for Services	12,017	12,471	454
Interfund Police Protection	21,072	21,217	145
Interfund Fire Protection	14,909	16,642	1,733
Other Direct Interfund	13,347	6,924	(6,423)
Indirect Cost Recovery	16,503	16,454	(49)
Moving Violations	19,727	19,744	17
Other Municipal Courts Fines and Forfeitures	16,737	16,857	120
Interest	6,750	6,750	0
Miscellaneous/Other	8,632	23,403	14,771
All Other Revenues	7,770	6,884	(886)
Total	**1,769,989**	**1,771,365**	**1,376**

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 District (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 roll to the Tax Assessor of the City, Harris County Tax Office act as Tax Assessor on behalf of the City.

Based upon the adopted tax rate set by the 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 February 1st 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.

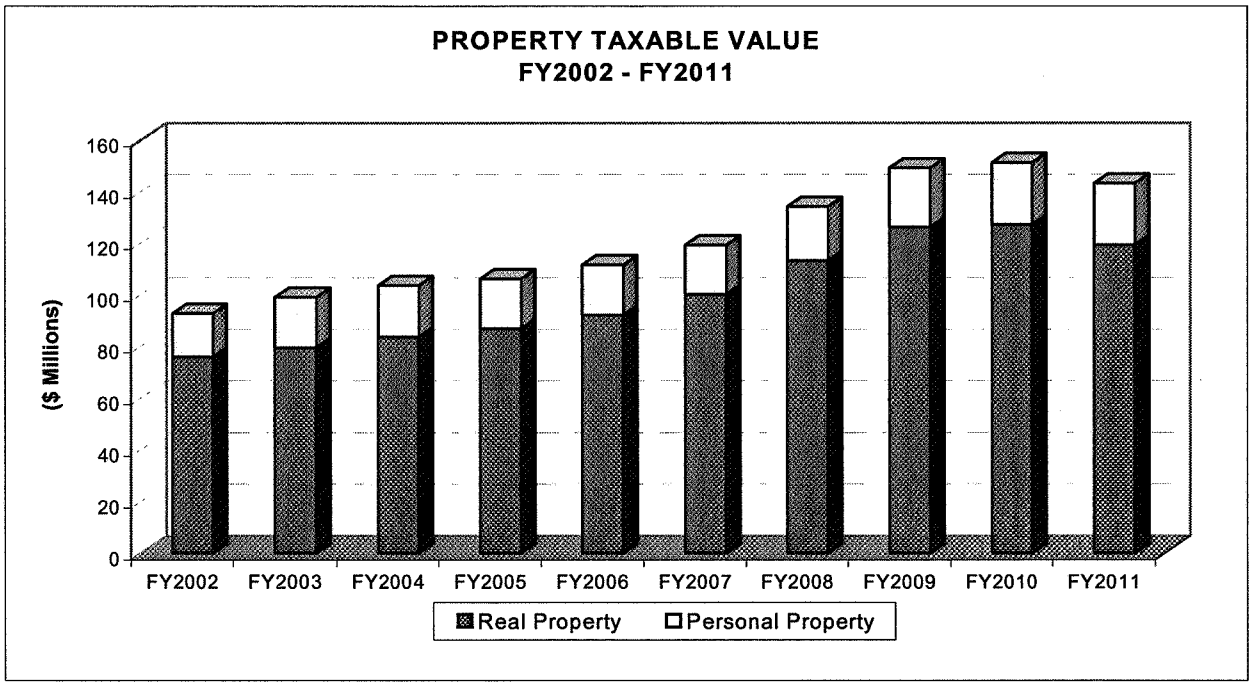
Occasionally, taxes are overpaid as the result of errors in appraisal or an overpayment by a taxpayer. Harris County Tax Office refunds such payments based upon the Texas Property Tax Code and documentation supplied by the taxpayers. Fluctuations in collections reflect changes in assessed property values,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

The FY2011 property tax value estimate is derived from CAD projection provided to the City in April 2010. The taxable value used was $143.3 billion. This amount is a net of the senior/disabled exemption, which was $70,862, the same as FY2010. This is projected to exempt as much as $6.3 billion in taxable value from the tax rolls, reducing revenue by an estimated $40.4 million in FY2011.

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 $133.5 billion.

The Finance Department applied an assumed 63.875 cent per $100 taxable value to this tax base, along with a 96.6% collection ratio and assumptions for prior year taxes collection of $23.20 million, to arrive at a net revenue estimate of $846.14 million. This revenue is approximately 5.06% lower than the estimated FY2010 revenue of $891.22 million.

On the following page is a graph showing the ten-year history of property taxable values in Houston, with the $143.3 billion estimate shown for FY2011.



CITY OF HOUSTON APPRAISED VALUE
($ Millions)

Fiscal Year	Tax Year	Real Property	Personal Property	Total Value
2002	2001	75,691	19,556	95,247
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	126,776	24,172	150,948
2011	2010	118,837	24,469	143,306 *

*Harris County Appraisal District Estimates, as of April 2010

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 property tax estimate revenues for $846.14 million under the capped level of $951.11 million, with the following assumptions.

Population		CPI (3)	
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 (2)	2,257,412 + 0.5701%	2009	190.932 + 0.2779%

	($ 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	0.5701%
CPI Increase 2009	0.2779%
FY2011 CAP	$874,806

FY2010 Estimates	$891,216
FY2011 CAP (Based on 4.5% Increase from FY2010 Estimate)	$931,321
Final FY2011 CAP (the Lower FY11 CAP Plus $19.79 million) (4)	$951,110

(1) Population numbers based upon the U.S. Census Bureau estimate most recently published when deciding limits of each respective year's property tax revenue budget increase.
(2) July 1, 2009 population is the City's estimate. The U.S. Census Bureau figures will be available in late June 2010.
(3) CPI increase based on the change in the CPI-U for the 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 FY2011 is $19.79 million.

Sales Tax

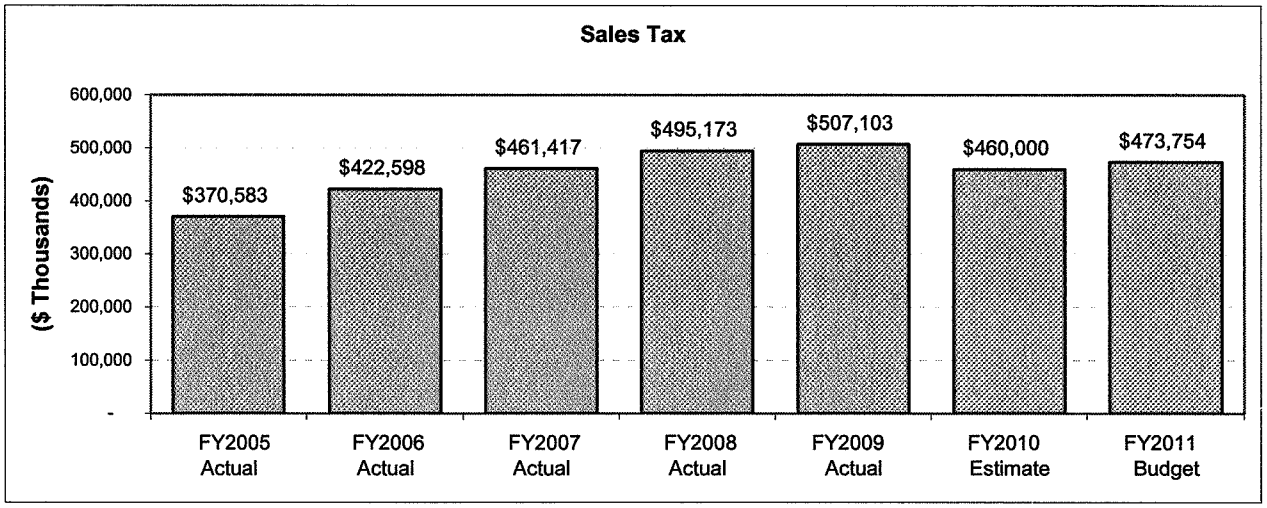
General sales and use taxes are imposed upon the sale or consumption of certain goods and services at the point of sale. In the City of Houston, a $.0825 sales and use tax is applied for every dollar of sales. The Metropolitan Transit Authority (METRO) receives $.01, and the State of Texas receives $.0625. The State Comptroller remits a $.01 share to the City, after withholding a 2% service charge.

The sales tax projections are based on an econometric 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.

FY2011 is predicted to be a year of relatively slow economic growth, and that is reflected in a lower revenue growth rate of 2.99% compared to the FY2005-FY2009 period. The growth is a significant improvement from the nearly 10% drop from FY2009 to FY2010 that occurred due to the global recession, decline in new housing and commercial construction, and the economic effect that Hurricane Ike had on the local economy in FY2009. Sales tax revenues in the business to business space are more volatile than the retail space and were a primary contributor to the drop in FY2010. Business to business sales tax revenues are expected to recover slightly in FY2011, but not as quickly as consumer spending will.

The FY2011 sales tax revenue is estimated at $473.75 million. The Houston economy will continue to face challenges that could impact this estimate. These challenges include slow growth of the national and international economy, high national public and private debt, international currency and credit issues, Federal Reserve sales of Mortgage Backed Securities consuming private investment, and local economic vulnerability to spikes and drops in petroleum and natural gas prices.

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



Industrial District Assessments

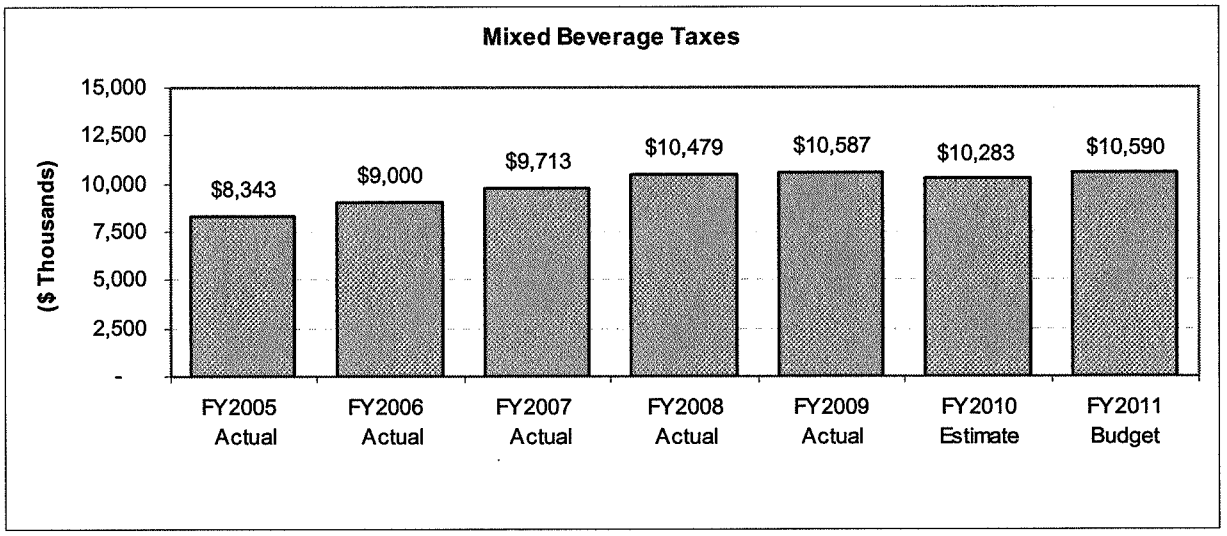
The City of Houston has Industrial District Contract Agreements having a term of fifteen years with more than 100 companies that are located within the Houston Extra-Territorial Jurisdiction (ETJ). A contractually reduced ad valorem assessed valuation fee is calculated and billed annually to each of 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. These are contractual revenues, with the current agreements expiring on May 31, 2012.

The City expects to collect $16.66 million in FY2010 which reflects a 14% drop in taxable value from the previous year. The FY2011 revenues are estimated to be $16 million, approximately 4% lower than FY2010.

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, 10.7143% of the tax paid is allocated to the county where each business is located. 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 proceeding the month the allocation is distributed.

For the FY2011 projection, we are expecting a same percentage increase as the sales tax of 2.99%, estimated at $10.59 million. 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 $96.5 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, or the beginning of FY2006, 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 by a small adjustment factor based on kilowatt-hours delivered in the City.

The FY2010 electric franchise fee estimate is $95.6 million. The FY2011 electric franchise fee estimate of $96.6 million is approximately 1% higher than the FY2010 estimate. Kilowatt-hour consumption for calendar year 2009 was up 1.1% from 2008, as one would expect, since 2008 included extended outages caused by Hurricane Ike.

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

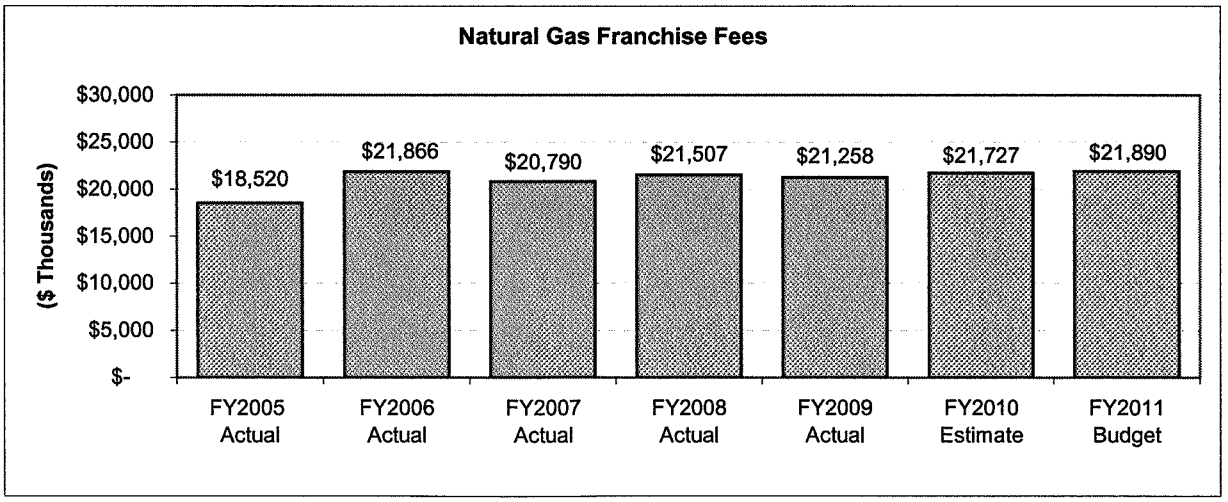
Natural Gas Franchise

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 total estimate for FY2010 natural gas franchise fees from CenterPoint is approximately $21.7 million. The FY2011 natural gas franchise fee estimate is $21.9 million, an increase of 0.75% from FY2010.

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



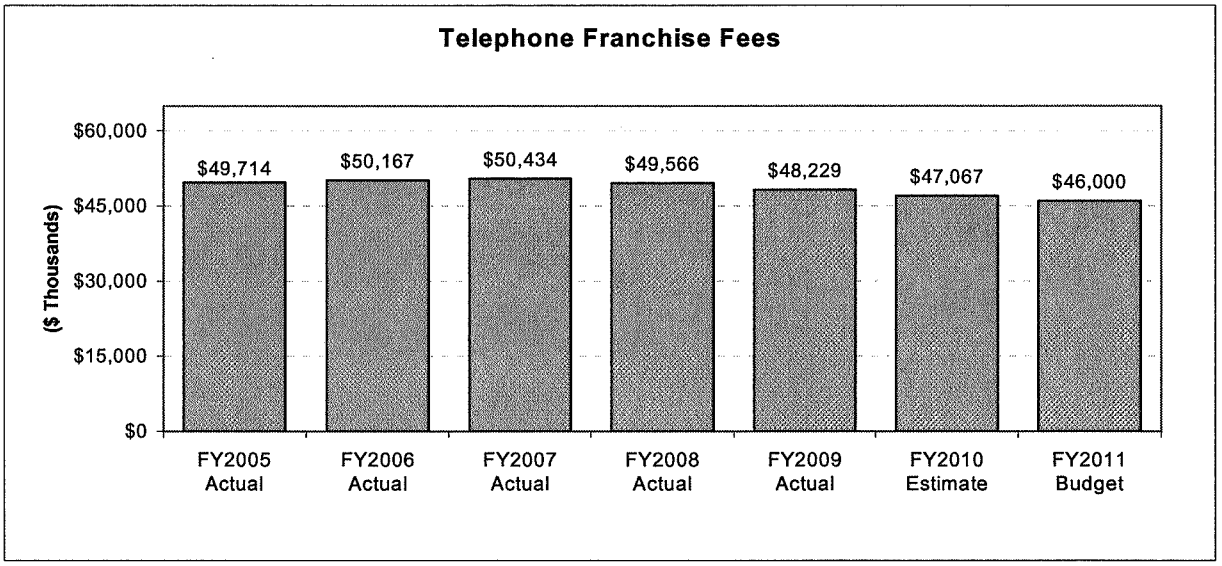
The City of Houston exercises original jurisdiction over the rates, operations and services of these natural gas utilities for the Houston area.

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. In FY2011, the projected average number of access lines per quarter is 2.6 million; a decrease of 6% from FY2010 projected levels. The access line rates that will be in effect during the fiscal year are as follows: residential - $1.70; non-residential - $5.76; and point-to-point - $16.37.

The FY2010 estimate for telephone franchise fee is $47.07 million, exclusive of audit recoveries. The FY2011 estimate of $46 million is a 2.27% decrease from FY2010's projection, and is reflective of the continued decrease in the number of access lines.

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. 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 68.8% of the total cable franchise revenue projection for FY2010. The four remaining City of Houston cable franchises do not expire until after year 2015.

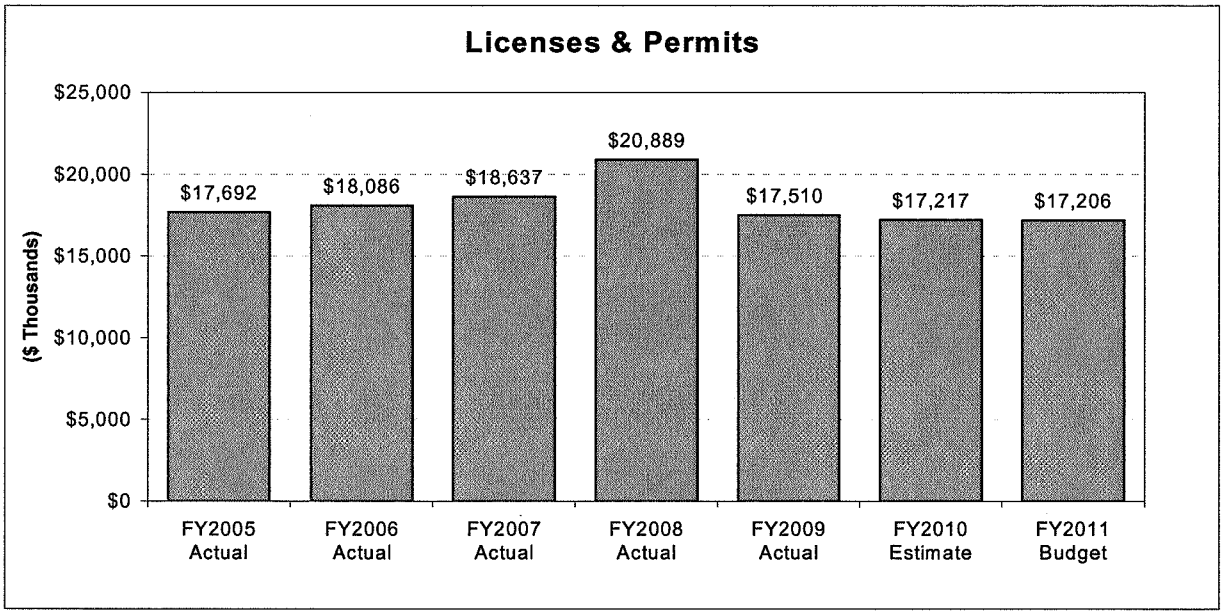
The FY2011 Projection of $17.08 million is approximately 1.28% higher than the FY2010 projection due to continued overall subscriber growth among cable/video service providers.

Solid Waste Hauler Franchise Fees

Solid waste haulers pay fees to compensate the City for the use of City streets. Over 100 solid waste hauler franchises pay 4% of gross revenues from transporting commercial solid and industrial wastes that originate within the City limits. The FY2011 estimate for solid waste hauler franchise fees is $5.3 million, exclusive of audit recoveries.

Licenses and Permits

The Licenses and Permits category includes such items as fire alarm, special fire, and many other permits. The FY2011 revenue is estimated at $17.21 million, relatively a flat from FY2010.



Ambulance Fees

Chapter 4 of the City Code provides for the establishment of, and guidelines for, a citywide ambulance service. The base and variable fee structure, as well as the Fire Department, the Finance Department and Administration and Regulatory Affairs Department (ARA) responsibilities are addressed under Section 4.13. ARA has been charged with the billing and collection services resulting from the transport data provided by the Fire Department. ARA has chosen to contract with a private vendor for these services. The City is currently in the second year of a five-year contract renewal with Affiliated Computer Services (ACS) State and Local Solutions, Inc. for billing and collection services. At the end of the five-year term, the City can again opt to renew the contract.

This contract also required the installation of new technology including laptop computer units with specialized patient software that prompts the medics to record vital data needed for required record keeping as well as proper billing documentation. Additionally, driver's license reader devices were installed to accurately record the patient's name and address. ACS is also required to establish business relationships with area hospitals to improve collaboration of patient data records under Chapter 241 of the Texas Health and Safety Code and applicable Federal Law. This was accomplished by implementing electronic the Health Insurance Portability and Accountability Act (HIPAA) compliant database connectivity between area hospitals and ACS to share patient data including insurance information for billing and required record keeping purposes.

Based on the current trend in the transport volume, FY2011 revenue is projected at $21.75 million (net of collection fees).

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 FY2011, revenues of $12.47 million are projected, an increase of $454 thousand from the FY2010 estimate of $12.02 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 FY2011 projection of $21.22 million is $145 thousand higher than the FY2010 estimate of $21.07 million, reflecting slight increases in police compensation and other costs.

The Aviation Enterprise Fund also pays for fire protection provided by the Fire Department to the Houston Airport System. The FY2011 projection of $16.64 million reflects a increase of approximately 11.62% over the FY2010 estimate; mainly due to increase in base salary (pay increases) and increased request of overtime.

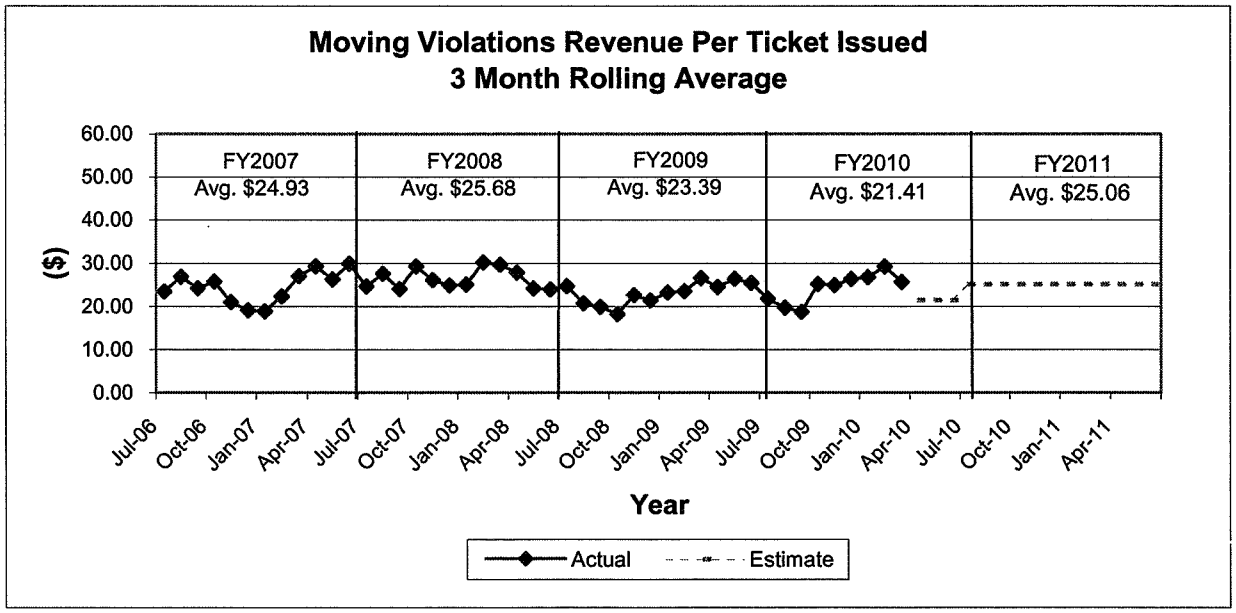
Payments received for direct services performed by the General Fund are recovered through the year. The FY2011 projection of $6.92 million is $6.42 million lower than the FY2010 estimate of $13.35 million, which is mainly due to project reduction in concrete repair and bridge replacement services.

Indirect Cost Recovery

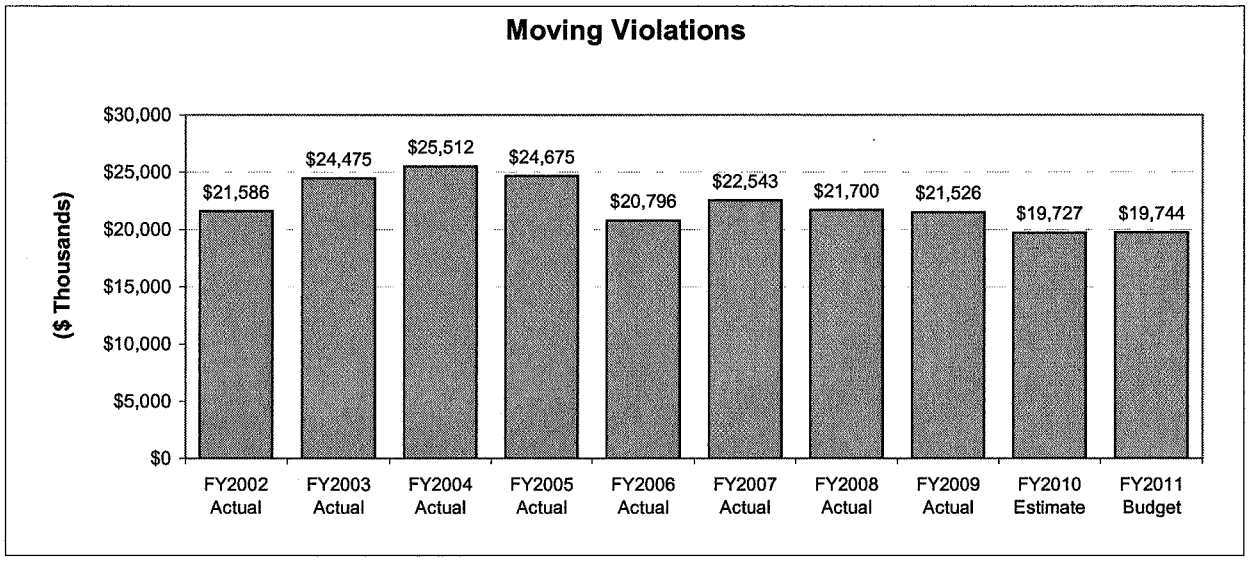
The General Fund provides citywide central support services and recovers the cost of these services through allocation of indirect costs. These amounts are determined through the preparation of an annual cost allocation plan, which distributes administrative overhead costs to General Fund operating departments and to other funds. In FY2011, the proposed plan calls for cost recoveries totaling $16.45 million, a decrease of $49 thousand in indirect interfund revenue from the FY2010 estimate of $16.50 million.

Moving Violations

In FY2011, we expect 788 thousand tickets to be issued and 190 thousand tickets paid at an average of $98.30 per ticket. Moving violations revenue in FY2011 is projected at $19.74 million, which will be 0.1% higher than the FY2010 projection of $19.73 million.



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



Other Municipal Courts Fines and Forfeitures

This includes failure to appear fines, driver safety administration fees and other non-traffic fines. It is projected to increase from $16.74 million to $16.86 million for FY2011.

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. With the current economic condition, the FY2011 projection of $6.75 million will remain essentially constant from FY2010 estimate.

Miscellaneous/Other

This revenue is being projected at $8.63 million for FY2010 and $23.40 million for FY2011. The significant increase is primarily due to the anticipated fee increases in FY2011 to reflect increases in costs of services delivered.

All Other Revenues

Estimated revenues in remaining categories have been calculated using simple trend analysis, as well as operational and collection information from the collecting department. These revenues are estimated at $6.88 million in FY2011.

A detailed listing of General Fund revenues by category are presented on the following pages, showing the FY2009 Actual, FY2010 Current Budget and Estimate, and the FY2011 Budget amounts.