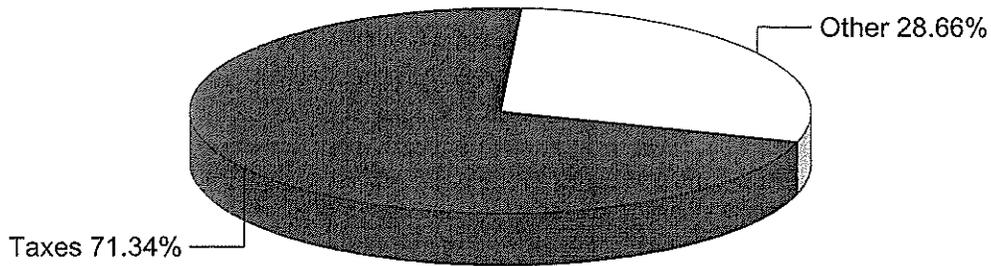


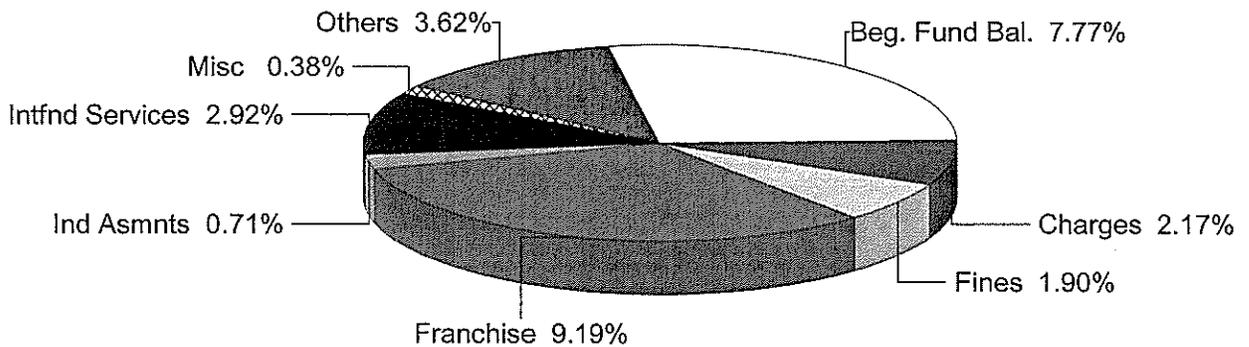
GENERAL FUND RESOURCES SUMMARY

The General Fund is the City of Houston's largest operating fund. With total resources of \$2.1 billion budgeted in FY2013, this fund relies heavily on various forms of revenue to finance its operations. As illustrated below, approximately 71% percent of the total resources in the General Fund are from property and sales taxes.

GENERAL FUND RESOURCES FY2013 BUDGET



COMPOSITION OF OTHER (ABOVE)



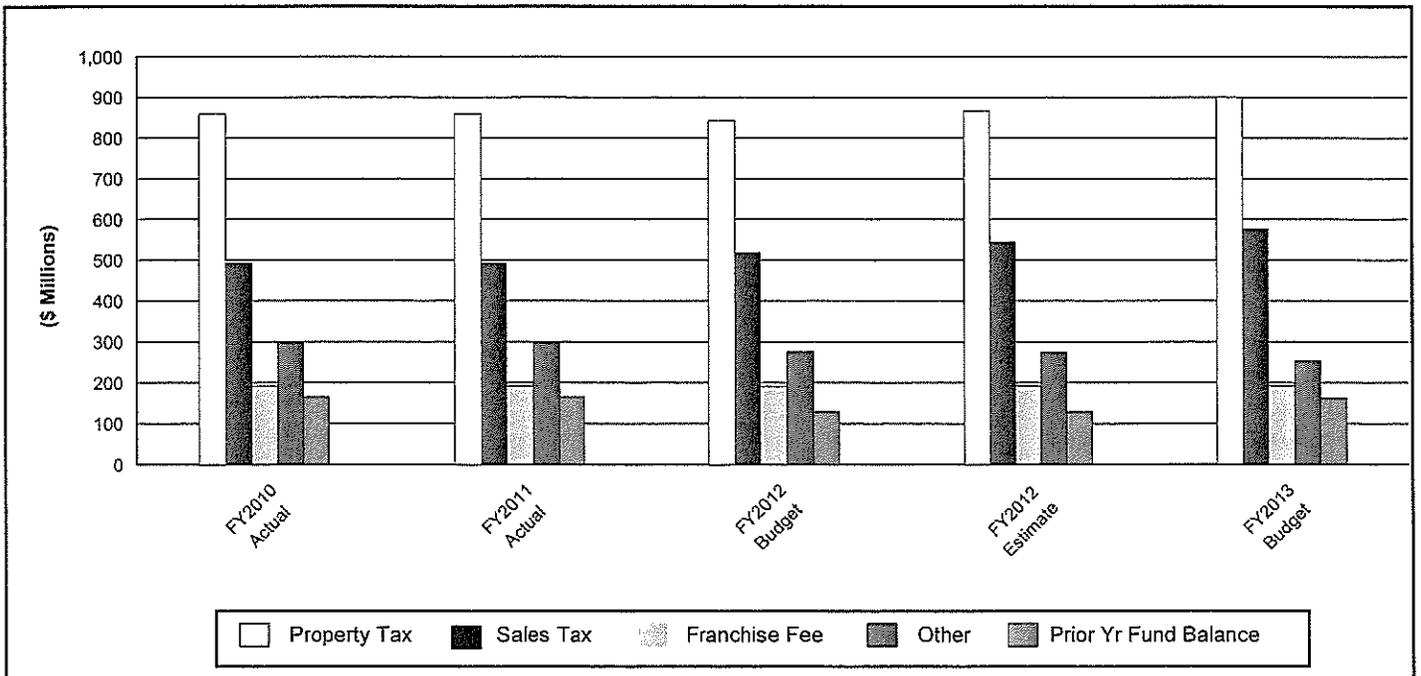
The composition of the FY2013 General Fund resources is listed below:

RESOURCE CATEGORIES	RESOURCE FY2013 BUDGET*	% OF TOTAL BUDGET
Taxes:		
Property Taxes	\$ 900,197	43.18%
Sales Taxes	577,373	27.69%
Other Tax	9,685	0.46%
Franchise Fees	191,672	9.19%
Industrial District	14,800	0.71%
Licenses and Permits	29,502	1.42%
Intergovernmental	10,332	0.50%
Charges for Services	45,321	2.17%
Interfund Services	60,809	2.92%
Fines and Forfeits	39,537	1.90%
Interest	4,000	0.18%
Miscellaneous/Other	8,064	0.38%
Total Revenue	1,891,292	90.72%
Sale of Capital Assets	4,500	0.22%
Transfers In	27,078	1.30%
Beginning FY2013 Fund Balance	161,904	7.77%
TOTAL RESOURCES	\$ 2,084,774	100.00%

* 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
FY2010 THROUGH FY2013**



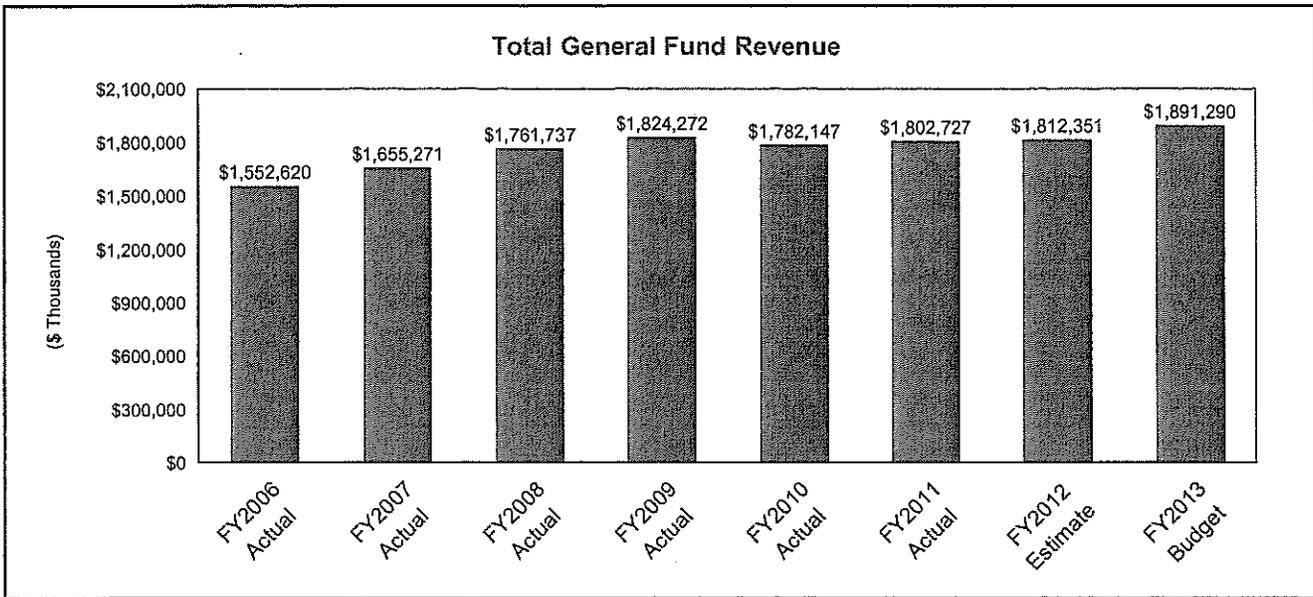


Table I below provides the FY2013 General Fund revenue estimate by categories. As shown, the total revenue is expected to be \$1.89 billion or \$78.9 million higher than the projected FY2012 revenue.

Table I
FY2013 Revenue Budget
Compared with FY2012 Estimate

Category	Projected Revenue (\$ Thousands)		
	FY2012 Estimate	FY2013 Budget	Increase / (Decrease)
General Property Taxes	866,267	900,197	33,930
Industrial Assessment	14,800	14,800	0
Sales Taxes	545,000	577,373	32,373
Other Tax	9,685	9,685	0
Electric Franchise	99,694	103,697	4,003
Telephone Franchise	45,438	44,606	(832)
Gas Franchise	22,009	19,194	(2,815)
Other Franchise	24,490	24,175	(315)
Licenses and Permits	22,052	29,502	7,450
Intergovernmental	12,306	10,332	(1,974)
Charges for Services	40,497	45,321	4,824
Direct Interfund Services	44,018	43,959	(59)
Indirect Interfund Services	18,506	16,850	(1,656)
Municipal Courts Fines and Forfeits	33,893	34,486	593
Other Fines and Forfeits	2,642	5,051	2,409
Interest	4,000	4,000	0
Miscellaneous/Other	7,053	8,064	1,011
Total	1,812,351	1,891,290	78,942

Table II provides the revenue estimate for each distinct revenue source that is expected to produce at least \$3 million in FY2013. 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)		
	FY2012 Estimate	FY2013 Budget	Increase/ (Decrease)
Property Tax	866,267	900,197	33,930
Sales Tax	545,000	577,373	32,373
Industrial Assessments	14,800	14,800	0
Mixed Beverage Tax	9,500	9,500	0
Electric Franchise	98,194	102,197	4,003
Telephone Franchise	45,402	44,606	(796)
Gas Franchise Fees	22,009	19,194	(2,815)
Cable TV Franchise Fees	18,575	18,439	(136)
Solid Waste Hauler Franchise Fee	5,495	5,674	179
Licenses and Permits	22,052	29,502	7,450
TIRZ Funding	10,013	9,562	(451)
Ambulance Fees	28,117	32,417	4,300
Platting Fees	3,584	3,778	194
Other Charges for Services	8,796	9,126	330
Interfund Police Protection	22,018	22,098	80
Interfund Fire Protection	16,863	16,517	(346)
Other Direct Interfund	5,136	5,344	208
Indirect Cost Recovery	18,506	16,850	(1,656)
Moving Violations	18,616	18,934	318
Other Municipal Courts Fines and Forfeitures	15,277	15,552	275
Interest	4,000	4,000	0
Miscellaneous/Other	7,053	8,064	1,012
All Other Revenues	7,078	7,566	488
Total	1,812,351	1,891,290	78,942

Taxes

Property Taxes

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

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

Based upon the adopted tax rate set by Council and taxable value as assessed by CAD, tax bills are generated and sent to taxpayers by Harris County Tax Office around mid-November. Payment is due by 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.

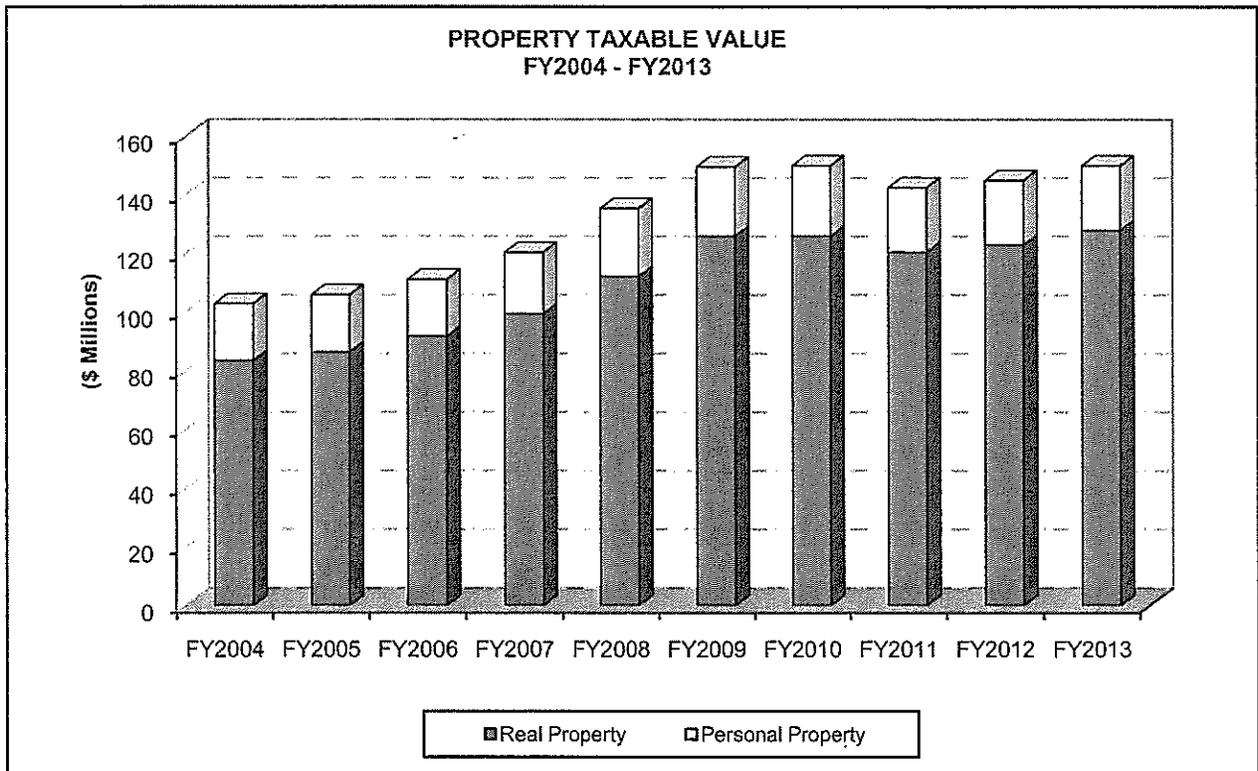
Occasionally, taxes are overpaid as a result of errors in appraisal or an overpayment by a taxpayer. Harris County Tax Office refunds such payments based upon the Texas Property Tax Code and documentation supplied by the taxpayers. Fluctuations in collections reflect changes in assessed property values,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

The FY2013 property tax value estimate is derived from CAD projections provided to the City in May 2012. The taxable value used was \$151.3 billion. This amount is a net of the senior/disabled exemption, which was \$70,862, the same as FY2012. This is projected to exempt as much as \$6.38 billion in taxable value from the tax rolls, reducing revenue by an estimated \$40.8 million in FY2013.

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 \$140.3 billion.

The Finance Department applied an assumed 63.875 cent per \$100 taxable value to this tax base, along with a 97.5% collection ratio and assumptions for prior year taxes collection of \$25.6 million, to arrive at a net revenue estimate of \$900.2 million. This revenue is approximately 3.92% higher than the estimated FY2012 revenue of \$866.3 million.

Below is a graph showing the ten-year history of property taxable values in Houston, with the \$151.3 billion estimate shown for FY2013.



FISCAL YEAR 2013 BUDGET

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

<u>Fiscal Year</u>	<u>Tax Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total Value</u>
2003	2002	79,249	19,846	99,096
2004	2003	83,776	19,399	103,175
2005	2004	86,433	19,467	105,900
2006	2005	91,827	19,293	111,120
2007	2006	99,483	20,858	120,341
2008	2007	112,241	23,214	135,455
2009	2008	125,982	23,645	149,627
2010	2009	125,999	24,094	150,093
2011	2010	120,546	22,360	142,906
2012	2011	123,292	22,381	145,579
2013	2012	128,862	22,438	151,300*

*County Appraisal District Estimates, as of May 2012.

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

The proposed budget includes the property tax estimate revenues of \$900.2 million, which is under the capped level of \$925.04 million, with the following assumptions.

<u>Population</u>	<u>CPI (3)</u>
July 1, 2003 (1) 2,009,669	2003 163.7
July 1, 2004 (1) 2,012,626 + 0.1471%	2004 169.5 + 3.5431%
July 1, 2005 (1) 2,076,189 + 3.1582%	2005 175.6 + 3.5988%
July 1, 2006 (1) 2,144,491 + 3.2898%	2006 180.6 + 2.8474%
July 1, 2007 (1) 2,208,180 + 2.9699%	2007 183.8 + 1.7929%
July 1, 2008 (1) 2,244,615 + 1.6500%	2008 189.967 + 3.3339%
July 1, 2009 (1) 2,257,926 + 0.5930%	2009 190.495 + 0.2779%
July 1, 2010 (1) 2,099,451 + 0.0000%	2010 194.172 + 1.9302%
July 1, 2011 (2) 2,119,831 + 0.9707%	2011 200.495 + 3.2564%

	<u>(\$ In Thousand)</u>
FY2005 Actual	\$671,294
Population Increase 2004	0.1471%
CPI Increase 2004	3.5431%
FY2006 CAP	\$696,066
Population Increase 2005	3.1582%
CPI Increase 2005	3.5988%
FY2007 CAP	\$743,100
Population Increase 2006	3.2898%
CPI Increase 2006	2.8474%
FY2008 CAP	\$788,705
Population Increase 2007	2.9699%
CPI Increase 2007	1.7929%
FY2009 CAP	\$826,269
Population Increase 2008	1.6500%
CPI Increase 2008	3.3339%
FY2010 CAP	\$867,450
Population Increase 2009	0.5930%
CPI Increase 2009	0.2779%
FY2011 CAP	\$875,005
Population Increase 2010	0.0000%

FISCAL YEAR 2013 BUDGET

CPI Increase 2010	1.9302%
FY2012 CAP	\$891,895
Population Increase 2011	0.9707%
CPI Increase 2011	3.2564%
FY2013 CAP	\$929,596
FY2012 Estimates	\$866,267
FY2013 CAP (Based on 4.5% Increase from FY2012 Estimate)	\$905,249
Final FY2013 CAP (the Lower FY13 CAP Plus \$19.79 million) (4)	\$925,039

- (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, 2011 population is the City's estimate. The U.S. Census Bureau figures will be available in late June 2012.
- (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 FY2013 is \$19.79 million.

Sales Tax

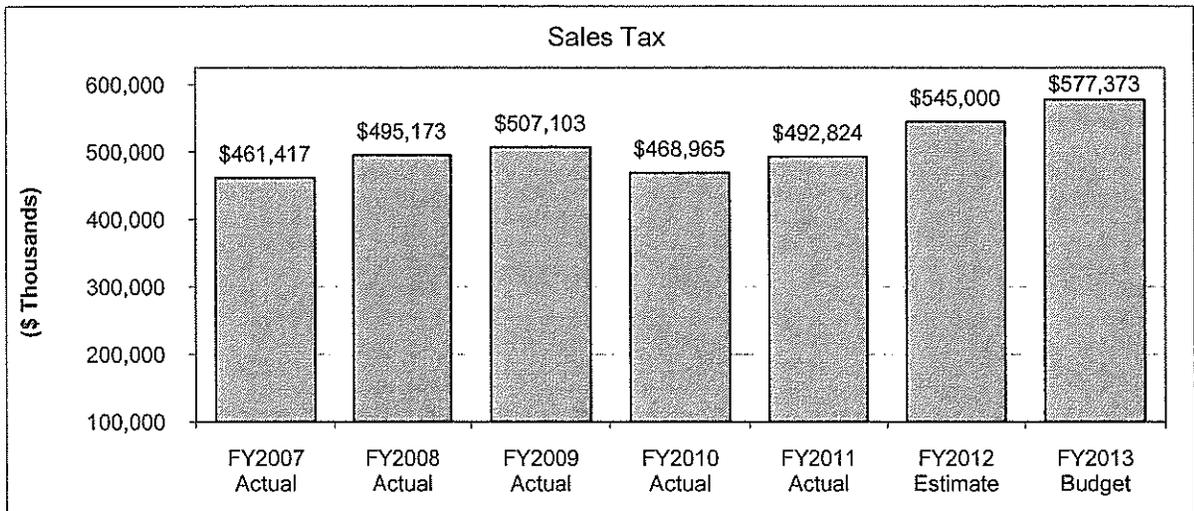
General sales and use taxes are imposed upon the sale or consumption of certain goods and services at the point of sale. In the City of Houston, a \$0.0825 sales and use tax is applied for every dollar of sales. The Metropolitan Transit Authority (METRO) receives \$0.01, and the State of Texas receives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

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

Sales Tax revenue for FY2012 grew much more rapidly than expected a year ago, the strength will continue through the very early portion of FY2013, but year-over-year sales growth will gradually stabilize. The FY2013 budget amount of \$577.4 million is approximately \$32 million, or 5.94%, higher than FY2012 estimate amount of \$545 million.

The nation's manufacturing sector has been showing strength, due to an extraordinary demand for American goods from abroad which has been greatly aided by a weak dollar relative to its levels of a decade ago. National job growth has increased over the past few months and because of the recent improvement in the nation's labor market and increasing hiring, household incomes and consumer confidence have picked up which will add further momentum to a recovery that has struggled to gain traction. The Houston economy is expected to follow the national pattern, aided by the boom in the energy industry.

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



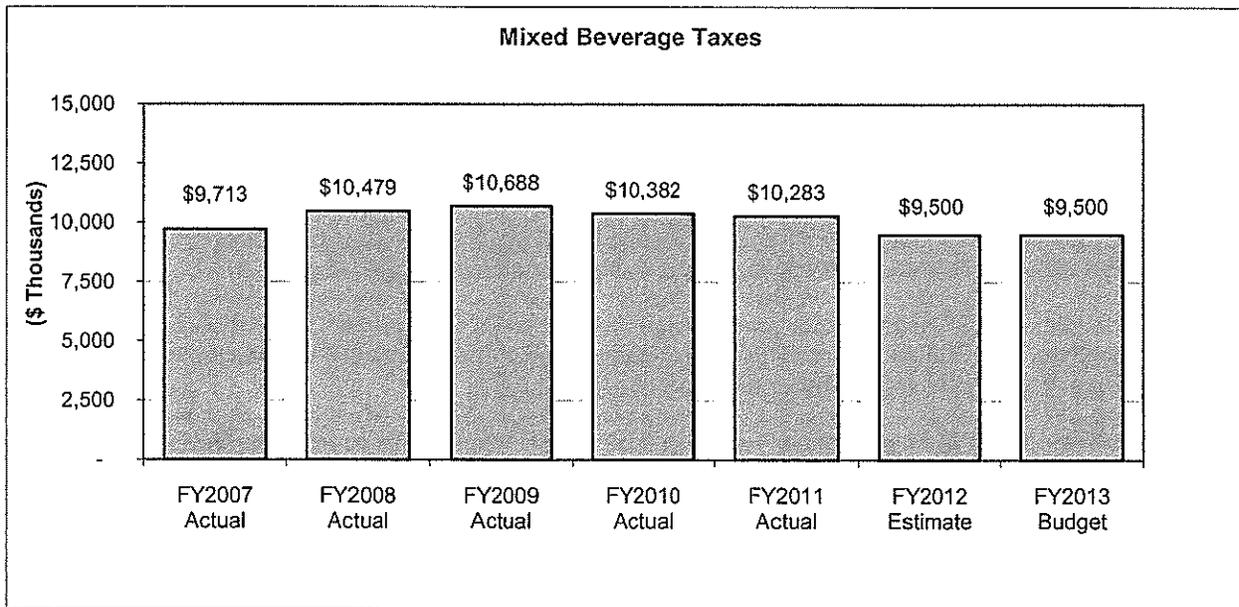
Industrial District Assessments

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. These contract agreements will need to be renewed in the Industrial District. The FY2013 revenue is currently estimated at \$14.8 million.

Mixed Beverage Tax

By law, all mixed beverage and private club permit holders remit to the State Comptroller a 14% gross receipts tax on their mixed beverage sales each month. Following the end of each calendar quarter, 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 FY2013 projection, we are anticipating the revenue estimate of \$9.5 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 \$102.1 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 FY2012 electric franchise fee estimate is \$98.2 million. The FY2013 electric franchise fee estimate of \$102.2 million is approximately 4.1% higher than the FY2012 estimate. Kilowatt-hour consumption for calendar year 2011 was up 3.4% from 2010.

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

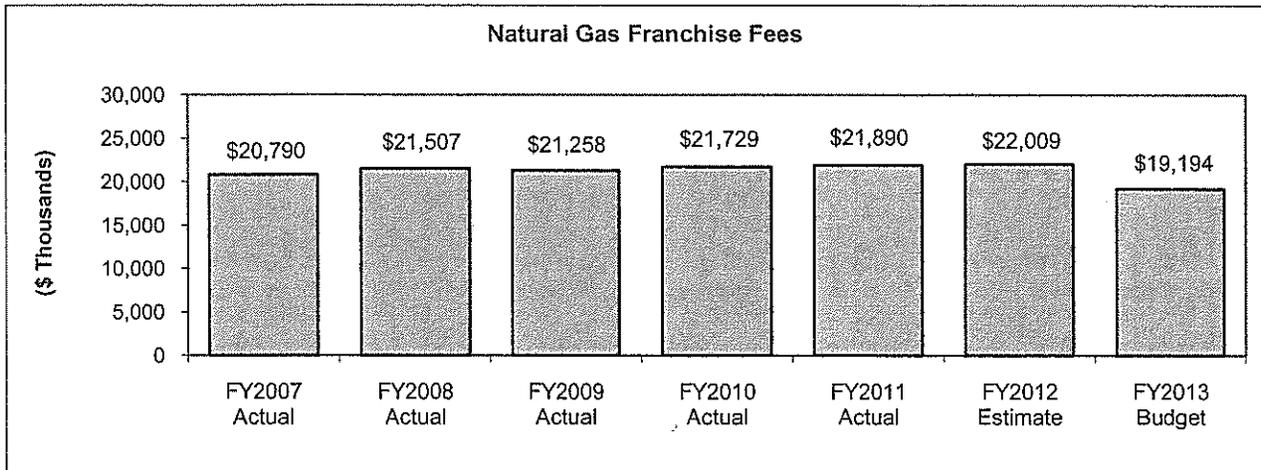
Natural Gas Franchise

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 FY2012 natural gas franchise fees from CenterPoint is approximately \$22.0 million. The FY2013 natural gas franchise fee estimate is \$19.2 million, a decrease of 12.8% from FY2012.

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



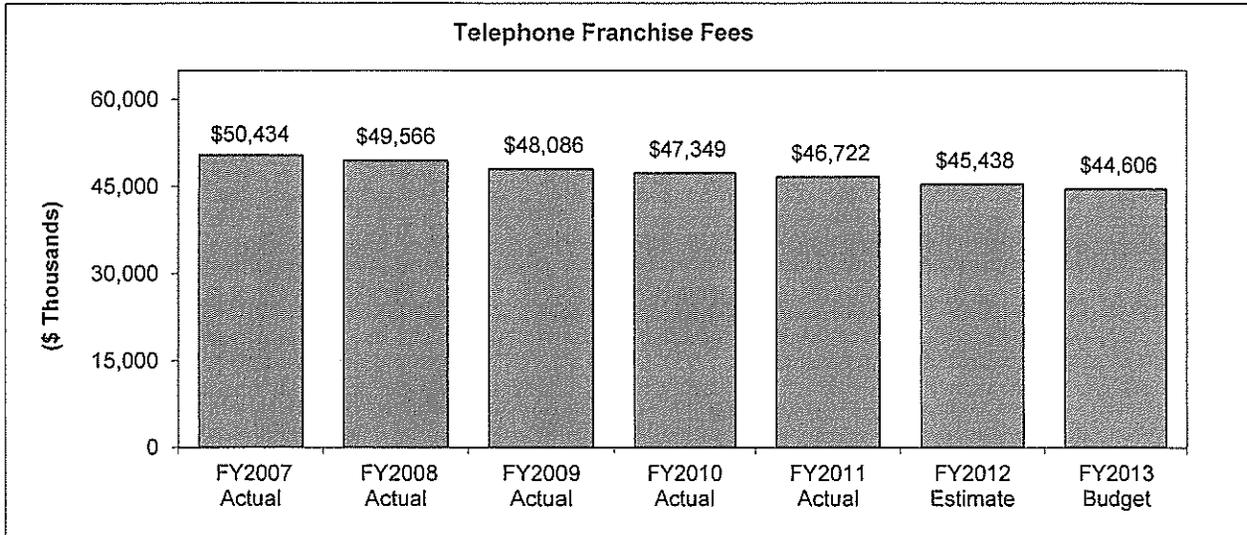
The City of Houston exercises original jurisdiction over the rates, operations and services of these natural gas utilities for the Houston area.

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 - \$1.75; non-residential - \$5.92; and point-to-point - \$16.80.

The FY2012 estimate for telephone franchise fee is \$45.4 million, exclusive of audit recoveries. The FY2013 projection of \$44.6 million is a 1.8% decrease from FY2012’s estimate, and is reflective of the continued decrease in the number of access lines being reported by CTPs.

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



Cable TV Franchise Fees

The City of Houston currently has four active cable franchises with the following cable companies: TVMAX of Houston, SuddenLink Communications, Phonoscope, and Northland. 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 58.1% of the total cable franchise revenue projection for FY2012. The four remaining City of Houston cable franchises do not expire until after year 2015. The FY2013 projection of \$18.4 million is slightly lower than the FY2012 estimate of \$18.6 million.

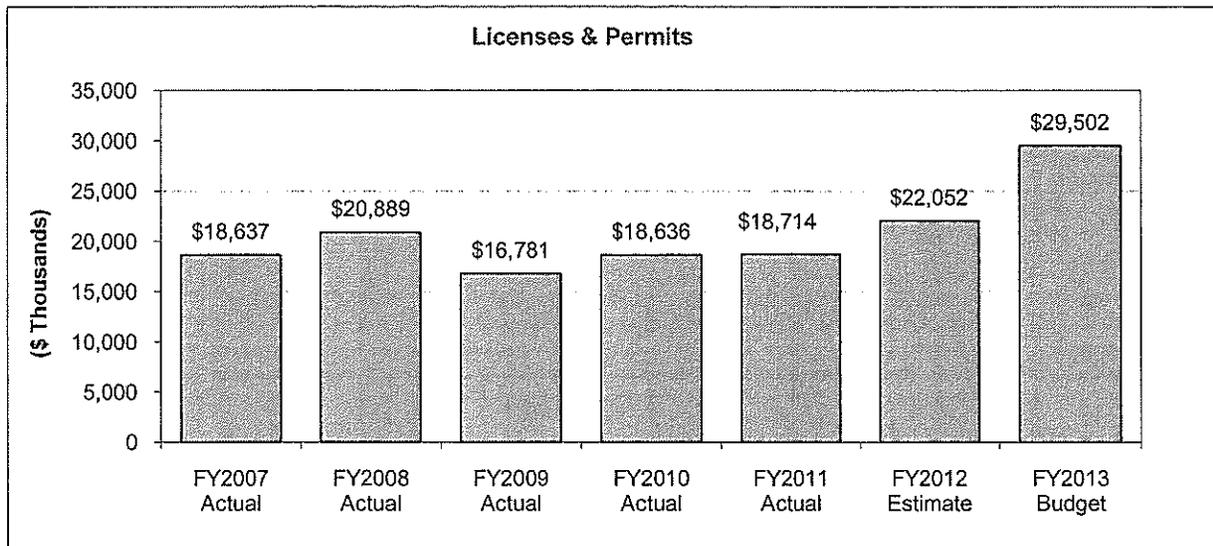
Solid Waste Hauler Franchise Fees

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 FY2012 estimate for solid waste hauler franchise fees is \$5.5 million, exclusive of audit recoveries. The FY2013 estimate of \$5.7 million assumes that the waste hauling industry continues to recover from the effects of the recession, as well as improved compliance efforts.

Other Revenues

Licenses and Permits

The Licenses and Permits category includes such items as special fire, food dealer, burglar alarm, dumpster permits, and many other permits. The FY2013 revenue is estimated at \$29.5 million, which is approximately \$7.5 million higher than FY2012 estimate of \$22.05 million.



Ambulance Fees

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

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

With the current trend in the transport volume, projection for the FY2013 is \$32.42 million (net of collection fees) which is \$4.3 million higher than our FY2012 estimates of \$28.12 million.

Platting Fees

City of Houston Code of Ordinance Chapter 42 permits the City to collect processing fees that shall be paid by an applicant for a subdivision plat, development plat, general plan and street dedication plat. The FY2013 revenues are estimated at \$3.78 million, approximately \$194,000 or 5.41% higher than the FY2012 estimates of \$3.58 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 FY2013, revenues of \$9.13 million are projected, an increase of \$330,000 from the FY2012 estimate of \$8.8 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 FY2013 projection of \$22.1 million is relatively unchanged from the FY2012 estimates of \$22.02 million.

The Aviation Enterprise Fund also pays for fire protection provided by the Fire Department to the Houston Airport System. The FY2013 projection of \$16.52 million reflects a decrease of \$346,000 over the FY2012 estimate of \$16.86 million.

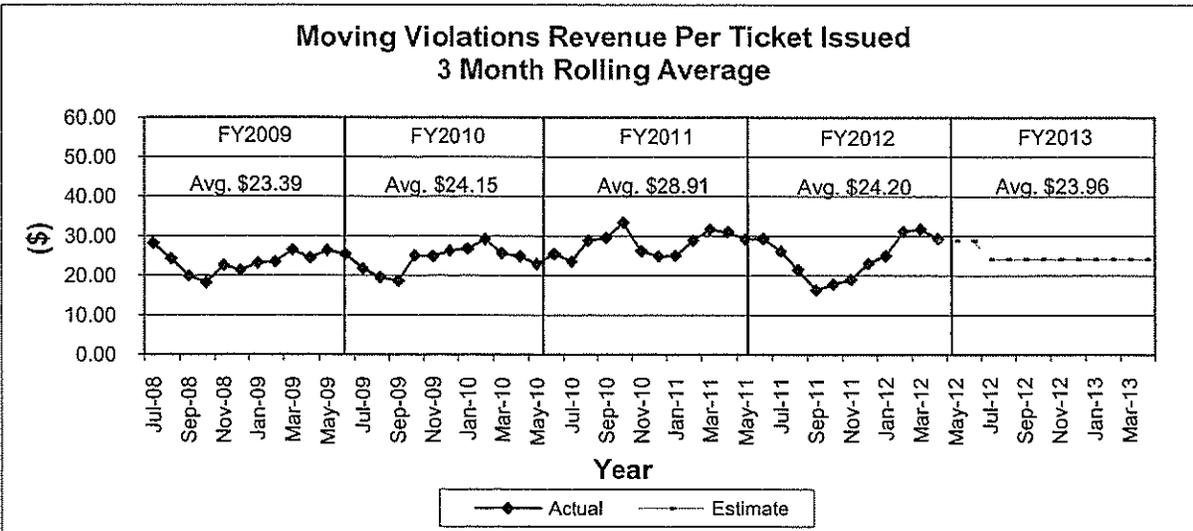
Payments received for other direct services performed by the General Fund are recovered throughout the year. The FY2013 projection of \$5.34 million is \$208,000 higher than the FY2012 estimate of \$5.14 million.

Indirect Cost Recovery

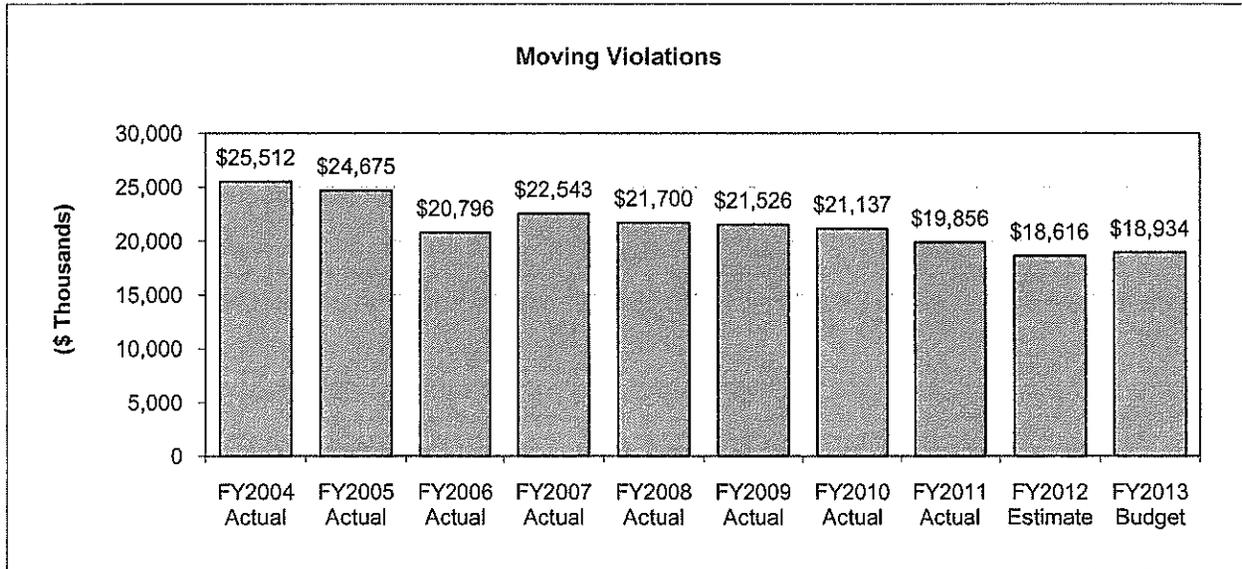
The General Fund provides citywide central support services and recovers the cost of these services through allocation of indirect costs. These amounts are determined through the preparation of an annual cost allocation plan, which distributes administrative overhead costs to General Fund operating departments and to other funds. For FY2013, the proposed plan calls for cost recoveries totaling \$16.85 million, a decrease of \$1.66 million in indirect interfund revenue from the FY2012 estimate of \$18.51 million.

Moving Violations

In FY2013, we expect 790,106 tickets to be issued and 204,213 tickets paid at an average of \$92.71 per ticket. Moving violations revenue in FY2013 is projected at \$18.93 million, which is \$318,000 higher than our FY2012 projection of \$18.62 million.



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



Other Municipal Courts Fines and Forfeitures

Delinquent collection of Municipal Court Fines and Forfeitures is largely privatized and currently projected at \$15.55 million.

Interest

The City aggressively invests surplus balances and retains the interest earnings in the General Fund. The amount of such earnings depends on the balance available, the general level of interest rates, and the investment policies (e.g. tolerance for risk, need for liquidity) chosen. The FY2013 interest revenue is currently projected at \$4 million.

Miscellaneous/Other

The FY2013 revenue is estimated at \$8.06 million, which is \$1.01 million higher than FY2012 estimate of \$7.05 million.

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 increased from \$7.08 million in FY2012 to \$7.57 million in FY2013.

A detailed listing of General Fund revenues by category are presented on the following pages showing the FY2011 Actual, FY2012 Current Budget and Estimate, and the FY2013 Budget amounts.

