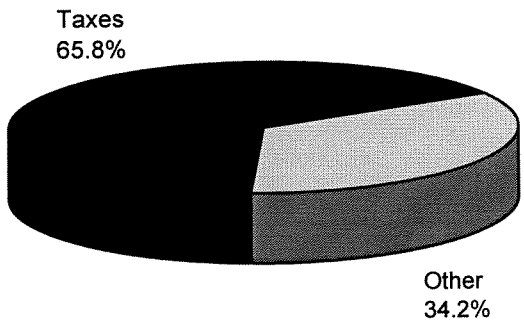
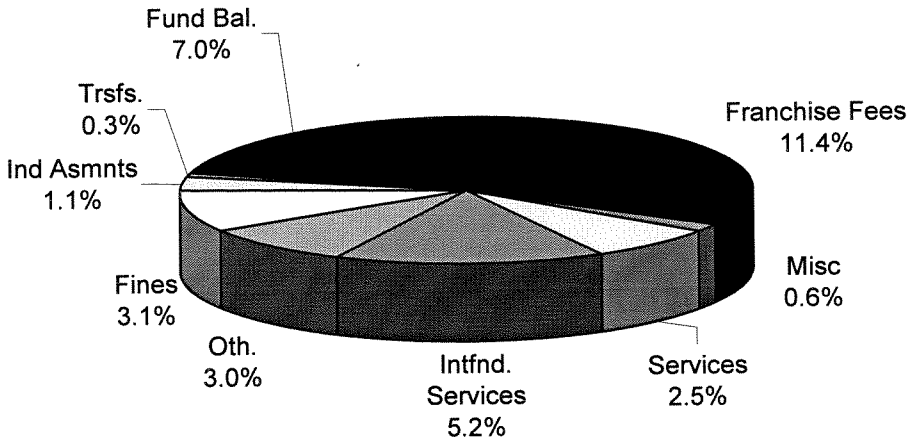
GENERAL FUND RESOURCES SUMMARY

The General Fund is the City of Houston's largest operating fund. With total resources of $1.515 billion budgeted in FY2004, this fund relies heavily on various forms of revenue to finance its operations. As illustrated below, approximately sixty-six percent of the total resources in the General Fund are from property and sales taxes.

GENERAL FUND RESOURCES FY2004 BUDGET



COMPOSITION OF OTHER (ABOVE)



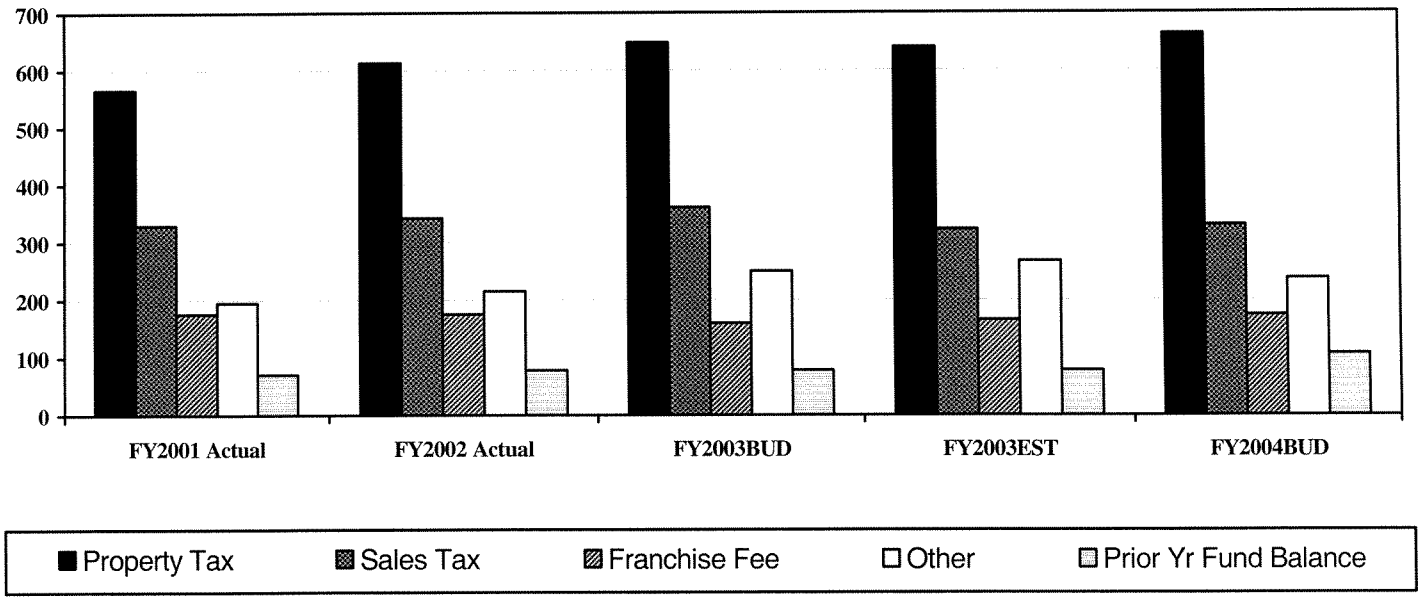
The composition of the FY2004 General Fund resources is listed below:

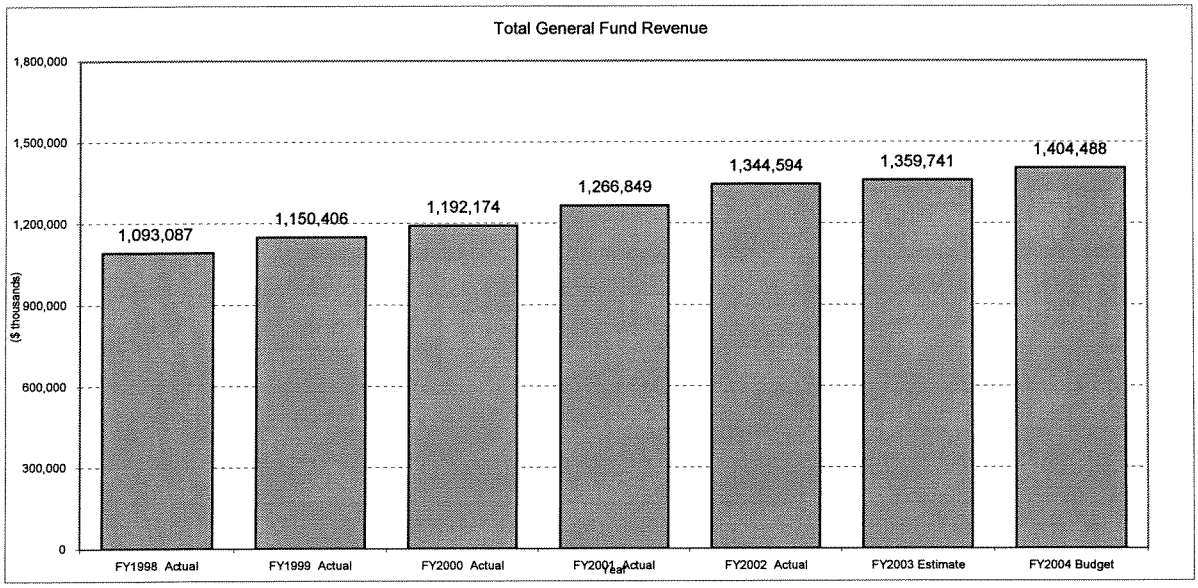
RESOURCE CATEGORIES	RESOURCES FY2004 BUDGET*	% OF TOTAL BUDGET
Taxes:		
Property Taxes	$ 662,741	43.8%
Sales Taxes	329,657	21.8%
Franchise Fees	173,606	11.5%
Industrial Districts	16,350	1.1%
Intergovernmental	21,167	1.4%
Charges for Services	39,864	2.6%
Interfund Services	77,010	5.1%
Licenses and Permits	15,334	1.0%
Fines and Forfeits	49,070	3.2%
Interest on Investments	6,750	0.5%
Miscellaneous	9,009	0.6%
Total Revenues	1,400,558	92.6%
Transfers from Other Funds	4,100	0.3%
Ending FY2003 Fund Balance	104,772	7.1%
TOTAL RESOURCES	$ 1,509,430	100.0%

*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
FY2001 THROUGH FY2004





The FY2004 Budget amount in the chart above includes an increase for one extraordinary factor, the gross revenues of Special Purpose annexations ($10 million). Additionally, these amounts for all years have also been adjusted to reduce Property Tax Revenue by the amounts associated with Property Tax Refunds.

Table I below provides the FY2004 General Fund revenue estimate in the categories that have become traditional. As shown, the total revenue is expected to be $1.404 billion, or $44.747 million (3.29%) greater than the projected FY2003 revenue.

Table I

FY2004 Revenue Estimates
Compared with FY2003 Projections

	Projected Revenue ($Thousands)		
Item	**FY2003**	**FY2004**	**Increase**
General Property Taxes	639,589	664,741	25,152
Industrial Assessments	16,000	16,350	350
Sales Tax	321,657	331,657	10,000
Electric Franchise	78,200	79,764	1,564
Telephone Franchise	59,458	60,944	1,486
Gas Franchise	14,463	16,000	1,537
Other Franchise	13,012	15,897	2,885
Licenses and Permits	18,689	16,934	(1,755)
Intergovernmental	23,473	21,168	(2,305)
Charges for Services	37,396	38,364	968
Direct Interfund Services	60,857	64,571	3,714
Indirect Interfund Services	15,273	14,393	(880)
Municipal Courts Fines and Forfeitures	42,946	44,485	1,539
Other Fines and Forfeits	2,317	2,815	498
Interest	7,000	7,500	500
Miscellaneous/Other	9,411	8,905	(506)
Totals	1,359,741	1,404,488	44,747

Table II provides the revenue estimate for each distinct revenue source that is expected to produce at least $3 million in FY2004. 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	**FY2003**	**FY2004**	**Increase**
Property Tax	639,589	664,741	25,152
Sales Tax	321,657	331,657	10,000
Electric Franchise	78,200	79,764	1,564
Telephone Franchise	59,458	60,944	1,486
Interfund Police Protection	23,549	19,322	(4,227)
Traffic Violations	24,970	26,372	1,402
Interfund Engineering Services	21,914	24,771	2,857
Ambulance Fees	21,160	22,100	940
Industrial Assessments	16,000	16,350	350
Indirect Cost Recovery	15,273	14,393	(880)
Licenses and Permits	18,689	16,934	(1,755)
Gas Franchise Fees	14,463	16,000	1,537
Miscellaneous/Other	9,411	8,905	(506)
Municipal Courts Fines & Forfeitures Other than Moving & Parking Violations	12,385	12,324	(61)
Interfund Fire Protection	10,727	11,105	378
Interfund Concrete Reimbursement	4,347	4,983	636
Direct Interfund Other than Engineering, Fire, Police, Concrete	3,175	4,389	1,214
Cable TV Franchise Fees	9,100	9,282	182
Interest	7,000	7,500	500
Mixed Beverage Tax	7,700	8,000	300
Charges for Services Other than Ambulance, Platting Fees, and Parking Fees	9,241	8,650	(591)
Parking Violations	5,592	5,789	197
Platting Fees	4,174	4,542	368
Solid Waste Hauler Franchise Fee	2,700	5,400	2,700
Parking Fees	2,820	3,073	253
METRO Funding for Concrete	10,000	10,000	0
All Other Revenue	6,447	7,198	751
Totals	1,359,741	1,404,488	44,747

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 are established by the Harris County Appraisal District (HCAD), based upon market values as of January 1. City Council then approves exemptions such as homestead, 65 and over, disabled and Freeport from taxation and sets a tax rate within the limitations set by state law. The current tax rate for the City of Houston is 65.5 cents per $100 of assessed valuation.

HCAD notifies taxpayers and taxing jurisdictions of these values in April and May of each year. Taxpayers may protest these values or the exemption status of their property. Hearings of appeals are largely concluded by October, and the Chief Appraiser of HCAD certifies the City's tax roll once 95 percent of the roll is completed.

City Council then sets a tax rate, and bills are sent to taxpayers, usually by early November. Payment is due by January 31 of the next calendar year. Taxes not paid by that date are delinquent and are subject to a seven percent late fee, which increases 2 percent per month until June 30. If an account is certified by the Chief Appraiser so that taxes are not billed before January 10, the taxpayer has at least 21 days, or until the end of the following month, to pay without incurring late fees. Taxpayers who wish to appeal values set by HCAD in state court may do so if they pay taxes on the uncontested value.

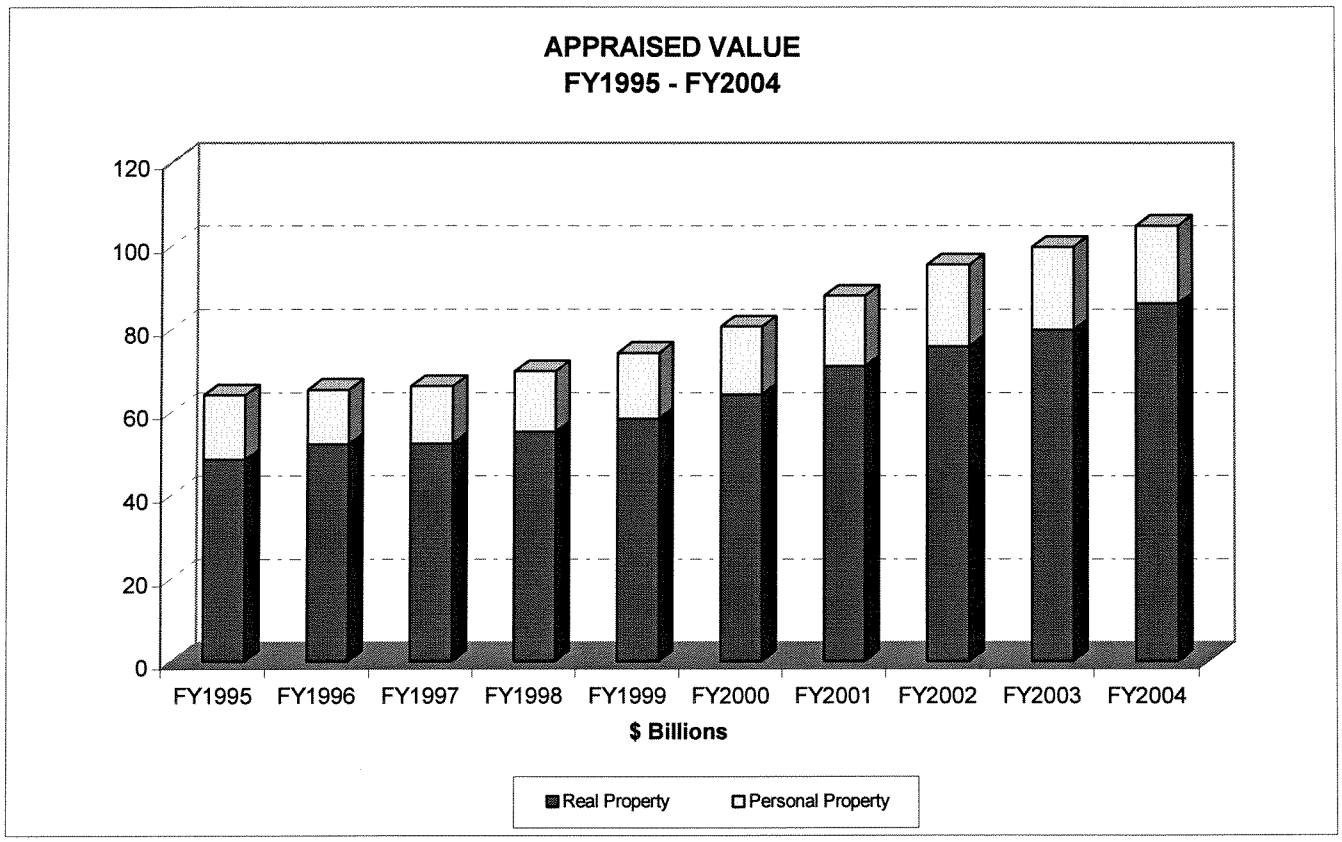
Occasionally, taxes are overpaid as the result of errors in appraisal or an overpayment by a taxpayer. The County Tax Office refunds such payments based upon instructions from HCAD or the state courts and documentation supplied by the taxpayers. Fluctuations in collections reflect changes in assessed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

The gross property tax revenue estimate of $664.5 million is derived from an HCAD projection provided to the City in early June. The tax base to be certified in August was estimated to be $104.5 billion, or approximately 4.85% higher than the FY2003 tax base. This amount is net of the increased senior/disabled exemption, which was increased from $40,000 to $44,000. This is projected to exempt as much as $370.5 million in taxable value from the tax rolls, reducing revenue by approximately $2.4 million. The senior/disabled exemption will increase by 10% in each of the five subsequent fiscal years.

The Finance and Administration Department applied an assumed 65.5 cent tax rate to this tax base, along with a 97.1% collection ratio and assumptions for prior year taxes collected ($32.79 million), Tax Refunds of $11.72 million, and TIRZ payments due ($20.8 million), to arrive at a net revenue estimate of $664.741 million.

This revenue is approximately 3.93% higher than the estimated FY2003 revenue of $639.589 million. This year-to-year revenue growth is significantly less than prior years.

On the following page is a graph showing the ten-year history of appraised property values in Houston, with the $104.5 million estimate shown for FY2004. Again, these amounts have been reduced by the amounts associated with Property Tax Refunds.



CITY OF HOUSTON APPRAISED VALUE
($ Millions)

Fiscal Year	Tax Year	Real Property	Personal Property	Total Value
1995	1994	48,367	15,546	63,913
1996	1995	52,132	13,021	65,153
1997	1996	52,304	13,724	66,028
1998	1997	54,997	14,611	69,608
1999	1998	58,276	15,768	74,044
2000	1999	64,149	16,200	80,349
2001	2000	70,859	16,956	87,815
2002	2001	75,688	19,570	95,258
2003	2002	79,557	19,909	99,446*
2004	2003	85,923	18,643	104,566*

*Harris County Appraisal District 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 $.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.

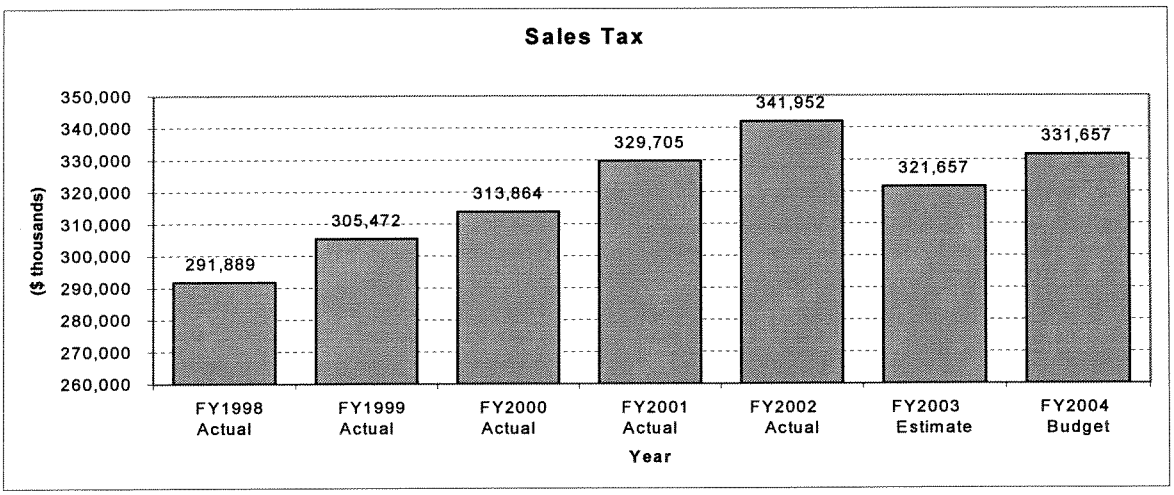
Due to the favorable economic conditions in Houston, sales tax has become an important factor in the City's overall revenue stream. However, due to its economically sensitive nature, sales tax reacts quickly with changes in the economy. This fact has been to the City's benefit in the last few years as the economy has improved, but in FY2003, the revenue has fallen along with the economy. In calculating the FY2004 budget, historical data was analyzed, factoring in economic conditions which may impact actual revenues received. In addition, the effect of current laws which exempt certain goods and services from taxation are incorporated into this analysis and are used to modify projections accordingly.

Large fluctuations in sales tax caused the City Council to retain an outside economist to make predictions, beginning in FY2001. Dr. Barton Smith has provided an extension of his analysis for FY2004, which indicates that sales tax will grow 3.04%, to an estimated $333.587 million.

However, Dr. Smith provided several alternative scenarios with his March 2003 report. These scenarios are shown below:

	Growth	Revenue Projection
Deflationary Recession	-7.01%	295,500
Prolonged War	-0.22%	320,087
Optimistic	4.52%	339,364

For conservatism, and due to the uncertain timing of the recovery to the national economy, the FY2004 Budget includes sales tax revenue of $321.657 million, which is the FY2003 Estimate, plus $10 million for several Limited Purpose annexations, which are not included in the FY2003 Estimate. The average revenue received from the recent annexations is $400,000 per district. In FY2004, 27 new districts are projected. 11 of these were approved in November 2002, and another 16 were approved in March 2003. Of this, half ($5 million) will be budgeted in General Government as an expenditure to the MUD districts involved. The graph below provides a seven-year comparison of the City's Sales Tax revenue.



Industrial Assessments

The City of Houston has fifteen year Industrial District Contract Agreements with 100 plus companies that are located within the Houston Extra-Territorial Jurisdiction. An ad valorem assessed valuation fee, at a reduced percentage of total, 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. The sixth tax year contract fees scheduled for billing and collection in FY2003 will approximate $16.0 million. Industrial District Assessments are based on current year property values provided by HCAD. These projections may change after receipt of the property value information from HCAD. These are contractual revenues, with the current agreements up for renegotiations in 2012. The FY2004 Budget includes an increase to approximately $16.35 million. The current increase is linked increased valuations. This revenue source can be expected to gradually decrease over the remaining years of the agreements.

Franchise Fees

Franchise fees are imposed on the privilege of using public property for private purposes. Franchise agreements have been granted to numerous enterprises including Reliant Energy Houston Lighting and Power Co. (HL&P), Entex, Southwestern Bell, 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. These fees are paid quarterly in November, February, May, and August, of each year, based on an amount over the base year fee (1998) times the ratio of KWH usage to the 1998 usage. That factor is .0026838 $ /KWH sold and will remain in place in the future. For example, if usage in 2002 is 8% higher than it was in 1998, the City's franchise fee will be 8% greater than what we received in 1998.

This is a change from previous years due to de-regulation which occurred January 1, 2002. Prior to de-regulation, franchise fees were based on 4 percent of the gross receipts of the previous quarter. One unique consequence of this change is the "decoupling" of our revenue and expense, which have always moved in the same direction, and therefore produced a more "forgiving prediction" environment. Conceivably, if fuel costs increase, and usage decreases, we could face higher expenditures, while revenues decrease.

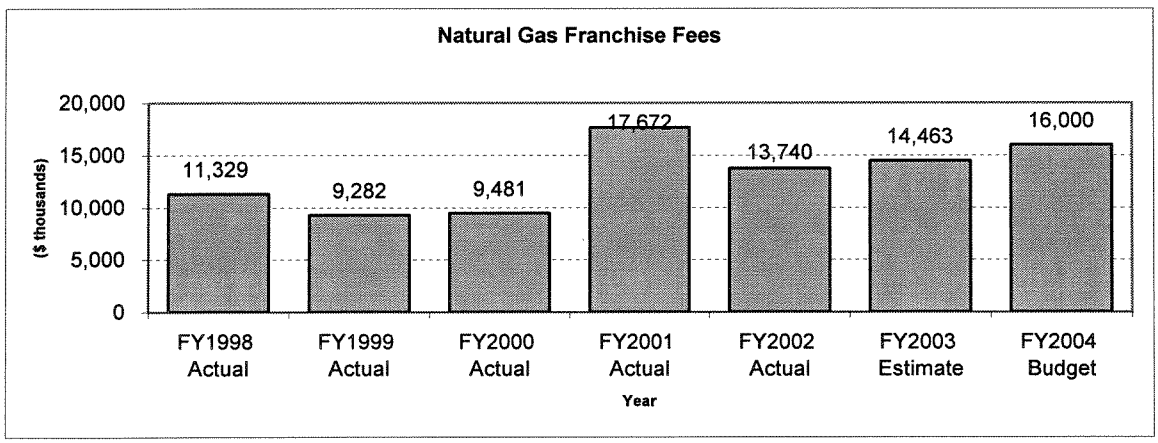
CenterPoint Energy Houston Electric was asked to estimate the Franchise Fee that would be collected during FY2004. They do not forecast KWH usage by municipality, however they did state that they used an overall growth rate of 1.8% in their revenue forecast. For the FY2004 Budget, revenues of $78.3 million are projected. The franchise fee billed the enterprise funds is projected as an additional $1.5 million, for a total Electric Franchise Fee projection of $79.8 million.

Gas Franchise

The Gas Franchise fee is paid in exchange for CenterPoint and Industrial Gas Supply's operation of natural gas distribution business in the public rights-of-way. These fees are paid quarterly in October, January, April, and July and are based on a percentage of gross receipts of 4 percent for small consumers and 3.5 percent for large consumers.

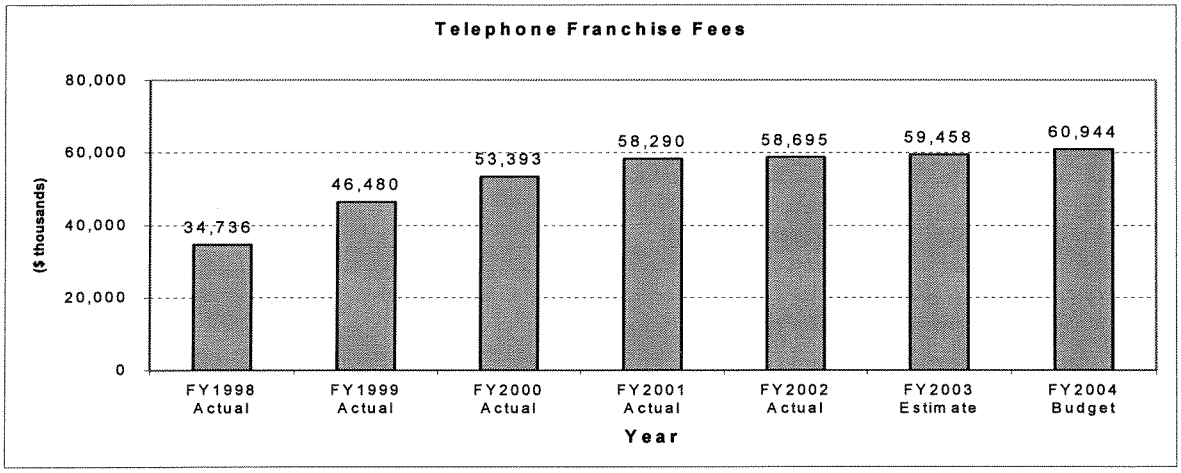
Gas rates are regulated by the Texas Railroad Commission, and rate adjustments occur twice a year. These rate adjustments are for a 6 month period. The adjustment currently in effect is for February 2003 through July 2003, and is 39.364 cents for each 100 cubic feet of gas used. (The factor for the same period in 2002 was 23.556 cents). This adjustment does not reflect the recent price spike in natural gas. The FY2004 Projection of $16 million is $1.25 million less than CenterPoint's projection and estimated Industrial Gas Supply for conservatism.

The graph below provides a seven-year comparison of the City's Natural Gas Franchise Fee revenue.



Telephone Franchise

The telephone franchise fee is determined by applying a fixed rate to the number of access lines. Until June 2000, the only provider was Southwestern Bell. Now, after HB1777 opened the market for local phone service, there are approximately 112 companies paying telephone franchise fees to the City. Southwestern Bell's portion is about 85%. The fixed rates are: residential $1.54; non-residential $5.22; and point-to-point $14.84 per access line. Since deregulation, the historical growth rate has declined significantly. The FY2004 Budget for Telephone Franchise revenues is at $60.9 million, which is in line with the growth rate since de-regulation. The graph below provides a seven-year comparison of the City's Telephone Franchise Fee revenue.



Cable TV Franchise Fees

Cable TV franchise fees are paid by 7 different cable providers. The rate is 5% of gross revenue. The projection for FY2004 of $9.3 million is only slightly higher than the FY2003 estimate of $9.1 million, which included a one-time settlement of $500 thousand. An FCC ruling that cable modem (internet) connections are not cable services, and are not subject to the cable franchise fee, is currently being appealed.

Solid Waste Hauler Franchise Fees

These are fees collected from solid waste haulers to compensate the City for additional wear and tear on the City streets. This is 4% of gross revenues from approximately 50 companies. The FY2003 estimate of $2.7 million is for 6 months, as the agreements were effective January 1, 2003. The FY2004 projection of $5.4 million is an annualization of these revenues.

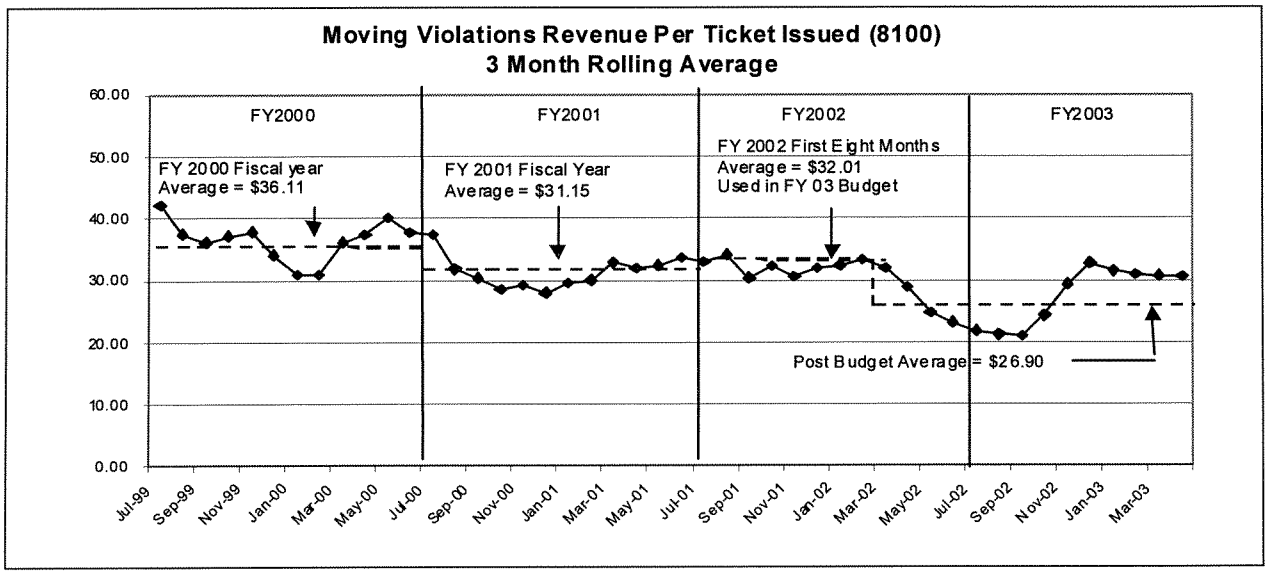
Interfund Police Protection

HPD provides police service for the Airports. Airport Police was reassigned with HPD to initiate this process. Aviation is an Enterprise Fund and therefore pays HPD for this service. The original contract is an agreed upon billing process, negotiated by the prior Chief of Police, the Mayor and Aviation. The original amount plus any increase or decrease would be calculated onto this original contract amount. The FY2004 projection of $19.3 million is 17.87% below the FY2003 estimate of $23.5 million due to more efficient scheduling and reduced levels of coverage necessary after the events of September 11, 2001.

Traffic Violations

In FY2003, the Houston Police Department created the Traffic Enforcement Division, a group of 30 officers, to enhance public safety by enforcing existing traffic laws within the City. It was anticipated that these officers would issue a greater number of tickets, as their primary responsibility would be traffic safety. While the officers did issue more tickets, the revenue per ticket to the City actually decreased from $32.01 to $26.90.

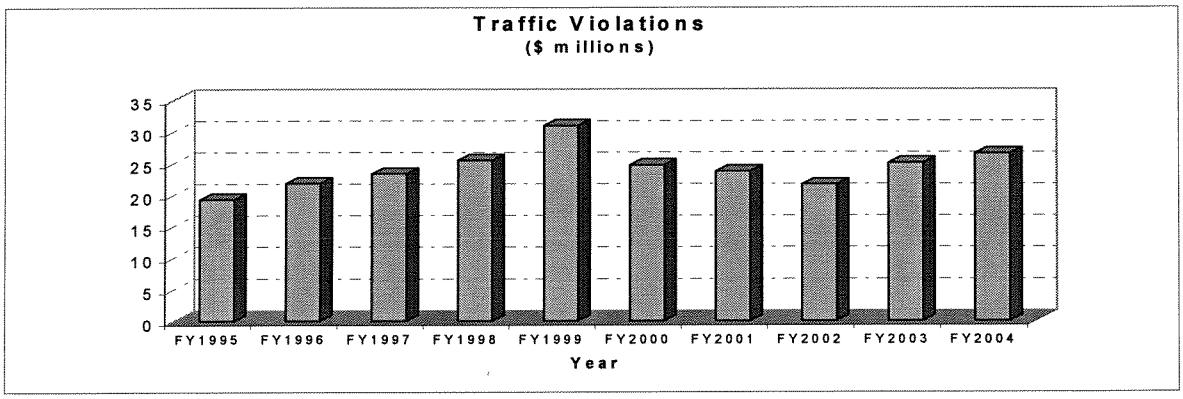
However, it has since leveled back off to approximately $30.00 per ticket as shown in the graph below. For FY2004 the number of tickets issued is not projected to increase, however the dollars per ticket issued is anticipated to remain at approximately $30.00 per ticket.



FY2003 collections for moving violations are estimated to be $25.0 million, an increase of 21% over the FY2002 actual collections of $20.7 million. The FY2004 budget projects revenues of $26.4 million, an increase of $1.4 million over the FY2003 estimate. This increase can be attributed to a full year of collections associated with the Traffic Enforcement Division.

In FY2004, several enhanced collections mechanisms will be in place for the full year. In particular, a contract to identify addresses of cited parking violators, a contract to alert the state of violators so that their drivers license can be denied, and an increased staff devoted to current collections.

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



Interfund Engineering Services

Interfund Engineering Services is the recovery of the costs incurred when the Design and Construction staff of Public Works and Building Services perform services for CIP projects. These salaries are recovered from CIP bond funds. An increase of $2.9 million is projected in FY2004. This revenue source is matched by an expenditure in one of the two departments that provide such services. Accordingly, any prediction error in revenues will be offset by a corresponding change in projected expenditures.

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 and Finance and Administration (F&A) responsibilities, are addressed under Section 4.13. F&A has been charged with the billing and collection services resulting from the transport data provided by the Fire Department. F&A has chosen to contract with a private vendor for these services. Lockheed-Martin IMS previously held the contract until ACS State and Local Solutions (ACS) acquired the IMS division of Lockheed-Martin in late 2001. In November 2002, a new five-year contract was approved by City Council with ACS for billing and collection services. Additionally, the new contract calls for ACS to install mobile computers in all ambulance units for the capture of patient information including a driver's license reader device to automatically record the patient's name and address from the patient's driver's license. It also requires ACS to develop business relationships with all area hospitals to improve collaboration of patient data records under Chapter 241 of the Texas Health and Safety Code and applicable Federal Law. Combined with the new technology in the ambulance units, the quality of patient records should improve, increasing the quality of billings and decreasing the instances of denials due to inadequate documentation.

The gross collection rate dropped from 41% in FY2001 to approximately 33% in FY2002 primarily due to the rate increase adopted at the beginning of FY2002. And, it decreased again in FY2003 due to the rate increase adopted in July 2002. However, net revenues to the City have increased each year since FY2001 and the collection rate should stabilize in FY2004 in the low to mid 30% range. The decrease in collection rate occurred because Medicare and Medicaid represent a large proportion of all billings and they both pay a fixed fee. The maximum gross potential collection rate drops for both Medicare and Medicaid as the base fee increases. This is also tempered by the fact that both Medicare and Medicaid require proof of medical necessity before they will authorize payment and many private insurers are beginning to follow these same guidelines. As such, the gross collection rate is not a reliable performance measurement tool since the City does not control what Medicare, Medicaid and many private insurers will pay per billing. The collection rate dilemma is also complicated by the fact that Medicare issued new requirements effective April 2002 requiring additional documentation to prove medical necessity. These new requirements could continue to be a challenge in FY2004 as well, however, the new technology being implemented in the ambulance units is designed to minimize any negative impact that may be experienced.

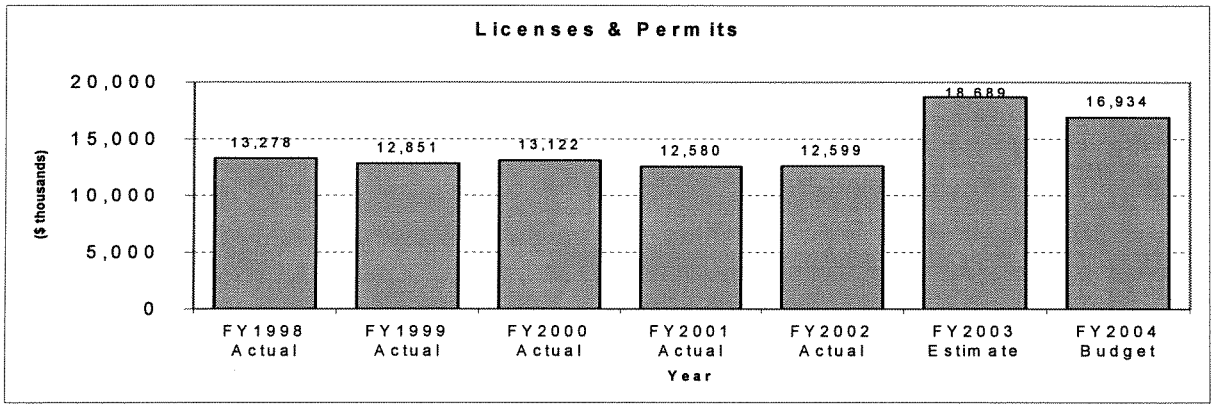
Additionally, the overall gross collection rate is impacted by the fact that less than 10% of uninsured individuals pay. The proportion of uninsured ambulance transport patients is high compared to the general population who do not have some form of insurance, but according to the Fire Department, the uninsured population are more likely to utilize emergency services for medical care than the insured. Regardless of this, the vendor commits considerable resources at their own expense to collecting all accounts, mailing over 300,000 collection notices annually and placing approximately 10,000 telephone calls a month to unpaid accounts. The vendor accepts all major credit cards and will work out any reasonable payment plan arrangement to help citizens pay their bill.

Indirect Cost Recovery

Indirect Interfund revenue is a representation of the recovery of the central service cost provided to other funds by the General Fund. 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 the FY2004, the proposed plan calls for cost recoveries totaling $14.393 million, a decrease of $880 thousand in indirect interfund revenue from the FY2003 estimate of $15.273 million. This decrease is primarily from a plan correction from FY2003 for retiree benefits.

Licenses and Permits

The Licenses and Permits category contains such items at burglar alarms, fire alarm, special fire, and many other permits. With no expected real growth on the horizon, these revenues are expected to be generally flat. The FY2003 estimate is $18.689 million, while the projection for FY2004 is $16.934 million, a decrease of $1.755 million. This decrease is due to FY2003 containing the inception year Fire Alarm Permit revenues, while FY2004 contains the renewal fees only. The graph on the following page provides a seven-year comparison of the City's Licenses & Permits revenues.



Miscellaneous/Other

This revenue is being projected at $9.411 million for FY2003 and $8.905 million for FY2004. This decrease of $506 thousand is mainly due to lower projections for sale of streets and tax abatement defaults.

Municipal Courts Fines and Forfeitures Other than Moving and Parking Violations

Delinquent collection of Municipal Court Fines and Forfeitures is now largely privatized. It is projected to remain approximately flat, from $12.385 million to $12.324 million for FY2004. The new collection process is expected to increase collections in the future, which could lead to increases in this revenue source.

Interfund Fire Protection

This revenue is for fire protection provided by the Fire Department to the Aviation Department. It includes the actual costs for salaries, workers compensation, pension, and other direct expenses. The service provided includes 114 positions for 4 shifts at a 1.21 staffing factor, along with the salary of the Airport Coordinator and the Training Coordinator. The FY2003 estimate of $10.727 million is at budget, while the projection for FY2004 is for $11.105 million, an increase of $378 thousand, mainly to cover the annualization of the cost of the new station.

Interfund Concrete Reimbursement

This revenue is for concrete repair ($4.983 million), which will be billed to various CIP projects.

Direct Interfund Other than Engineering, Fire, Police, Concrete

These revenues are payments received for services performed by the General Fund for other funds. In FY2004 the projection of $4.389 million is higher than the FY2003 estimate of $3.175 million by $1.214 million. This is mainly due to IT personnel being moved from Enterprise and Special Revenue funds to the General Fund as part of the IT Network Consolidation. The cost of these employees will be billed back to the funds, with no increase in cost.

Interest

The City aggressively invests surplus balances and retains the 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

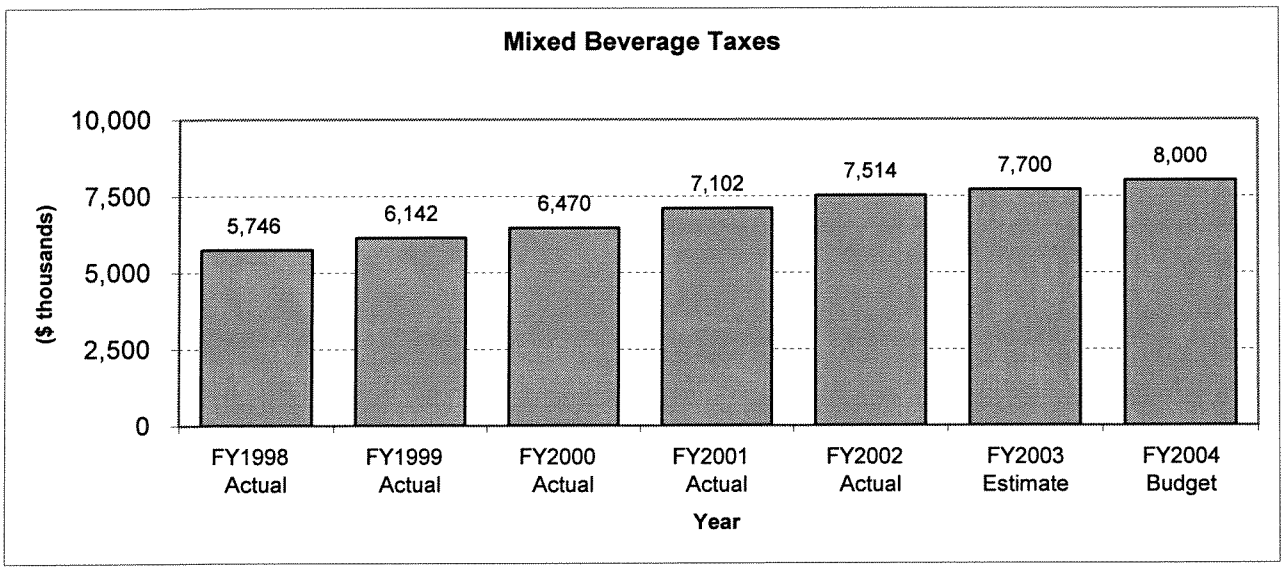
(tolerance for risk, need for liquidity, etc.) chosen. The FY2004 projection of $7.5 million is assumes slightly higher cash balances, and slightly higher interest rates over the course of the year.

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 preceding the month the allocation is distributed.

The Mixed Beverage Tax revenue has grown by an average of 2.72% the last 4 quarters, significantly lower than the prior year same period (6.8%), due to the slowing economy. For the FY2004 projection, 3.9% growth is assumed.

Below is a graph showing the seven-year comparison of the City's Mixed Beverage Tax revenue.



Charges for Services Other than Ambulance, Platting Fees, and Parking Fees

The City performs many services for others. The recipient of these services may be the citizens or various groups that operate in Houston. Examples of the services are: miscellaneous copy fees, public safety report fees, vending machine concessions, vehicle storage, hazardous material response, and many others. The City charges nominal fees for these services. Many of these revenues generally have little or no growth from one year to the next, therefore, the only way in which they would show improvement would be in the event of a fee increase. For FY2004, revenues of $8.65 million are projected, a decrease of $591 thousand over the FY2003 estimate of $9.241 million. This is mainly due to a drop in Clinical Fees due to expenditures (and corresponding revenues) being moved to Grant Funds, and in Demolition and Weed Cutting Fees, which are dropping due to extra revenues received in FY2003 from the start-up collections by Linebarger.

Parking Violations

The Municipal Courts Administration Department is responsible for maintaining parking meters, as well as issuing citations for vehicles illegally parked. In FY2003, Municipal Courts estimates revenues from this source to be $5.6 million. This number is projected to slightly increase to $5.8 million, as more meters become available in areas currently under construction.

Parking Fees

This revenue comes from both parking meters and city parking lot usage, excluding those owned by the Convention & Entertainment Department. Downtown construction has reduced the number of parking meters used, but with the increased presence of parking enforcement officers, which thus far has led to more courtroom cases, and introduction of the new meters in FY2002, use of meters and parking lots should increase.

The FY2004 projection of $3.073 million is $253 thousand higher than the FY2003 estimate of $2.82 million, primarily from meters in construction areas becoming available.

Other Categories

The smaller revenue sources were generally predicted by the appropriate departments or were trended by F&A. These smaller revenues are being projected at $7.198 million for FY2004.

A detailed listing of General Fund revenues by category are presented on the following pages, showing the FY2002 Actual, FY2003 Budget and Estimate, and the FY2004 Budget amounts.