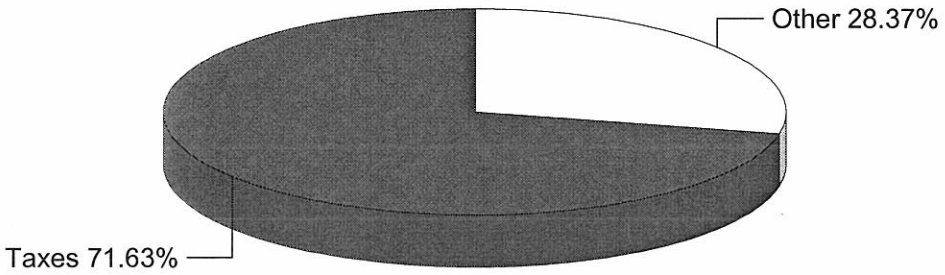
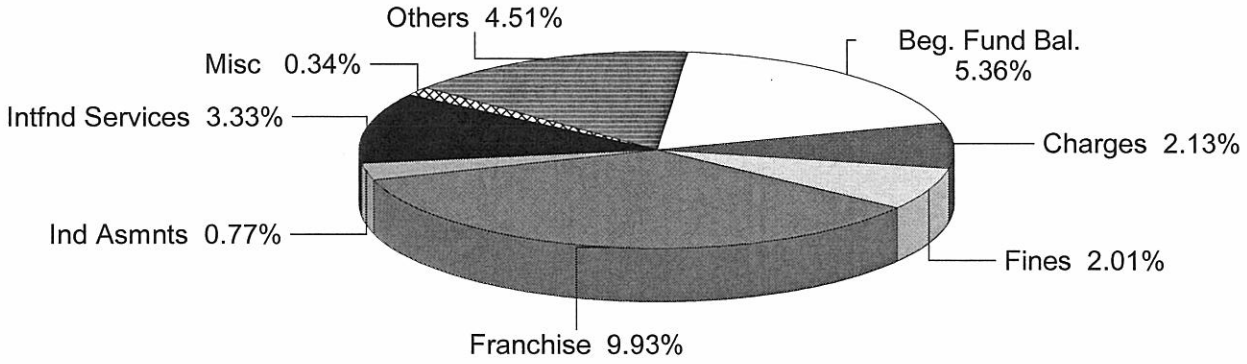
GENERAL FUND RESOURCES SUMMARY

The General Fund is the City of Houston's largest operating fund. With total resources of $2 billion budgeted in FY2012, this fund relies heavily on various forms of revenue to finance its operations. As illustrated below, approximately 72% percent of the total resources in the General Fund are from property and sales taxes.

GENERAL FUND RESOURCES FY2012 BUDGET



COMPOSITION OF OTHER (ABOVE)



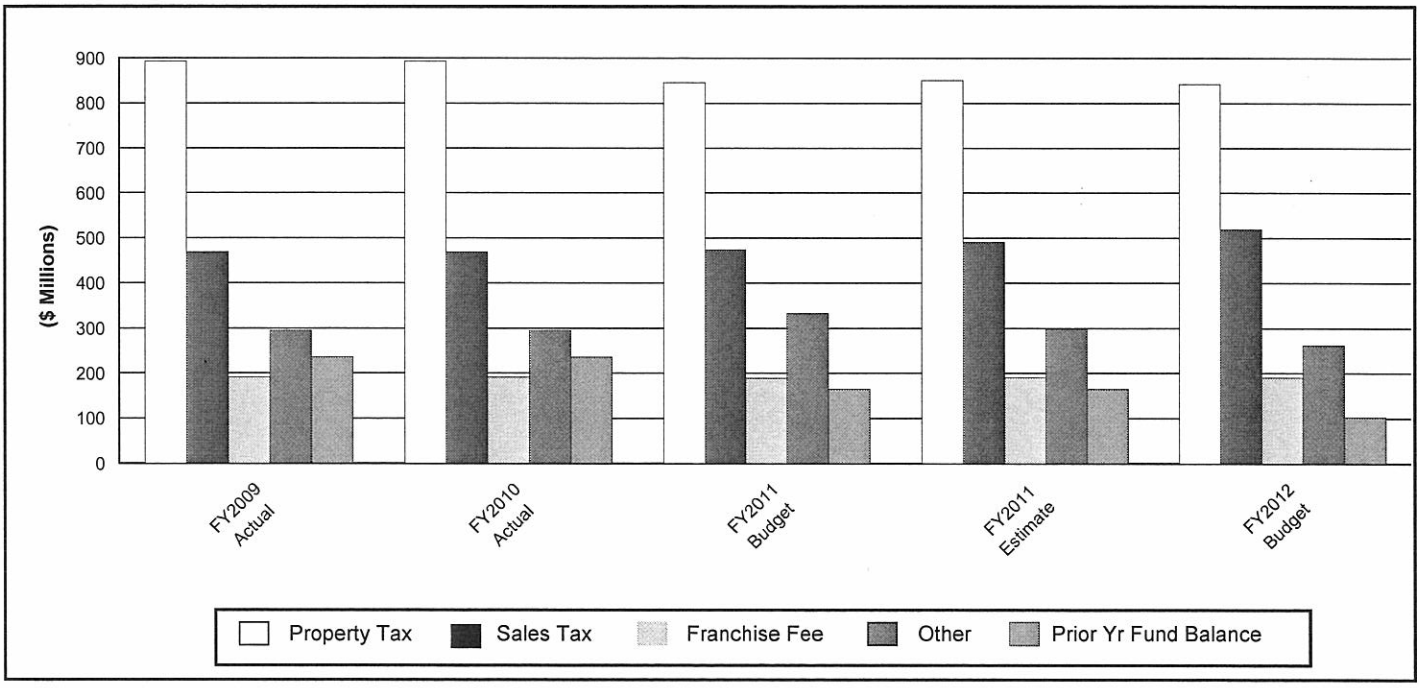
The composition of the FY2012 General Fund resources is listed below:

RESOURCE CATEGORIES	RESOURCE FY2012 BUDGET*	% OF TOTAL BUDGET
Taxes:		
Property Taxes	$ 842,478	43.98%
Sales Taxes	518,912	27.09%
Other Tax	10,806	0.55%
Franchise Fees	190,230	9.93%
Industrial District	14,800	0.77%
Licenses and Permits	19,741	1.03%
Intergovernmental	11,161	0.58%
Charges for Services	40,747	2.13%
Interfund Services	63,777	3.33%
Fines and Forfeits	38,456	2.01%
Interest	3,000	0.16%
Miscellaneous/Other	6,740	0.34%
Total Revenue	1,760,848	91.90%
Sale of Capital Assets	13,550	0.71%
Transfers In	38,758	2.03%
Beginning FY2012 Fund Balance	102,646	5.36%
TOTAL RESOURCES	$ 1,915,802	100.00%

* Dollars in Thousands

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

RELATIONSHIP OF GENERAL FUND RESOURCES
FY2009 THROUGH FY2012



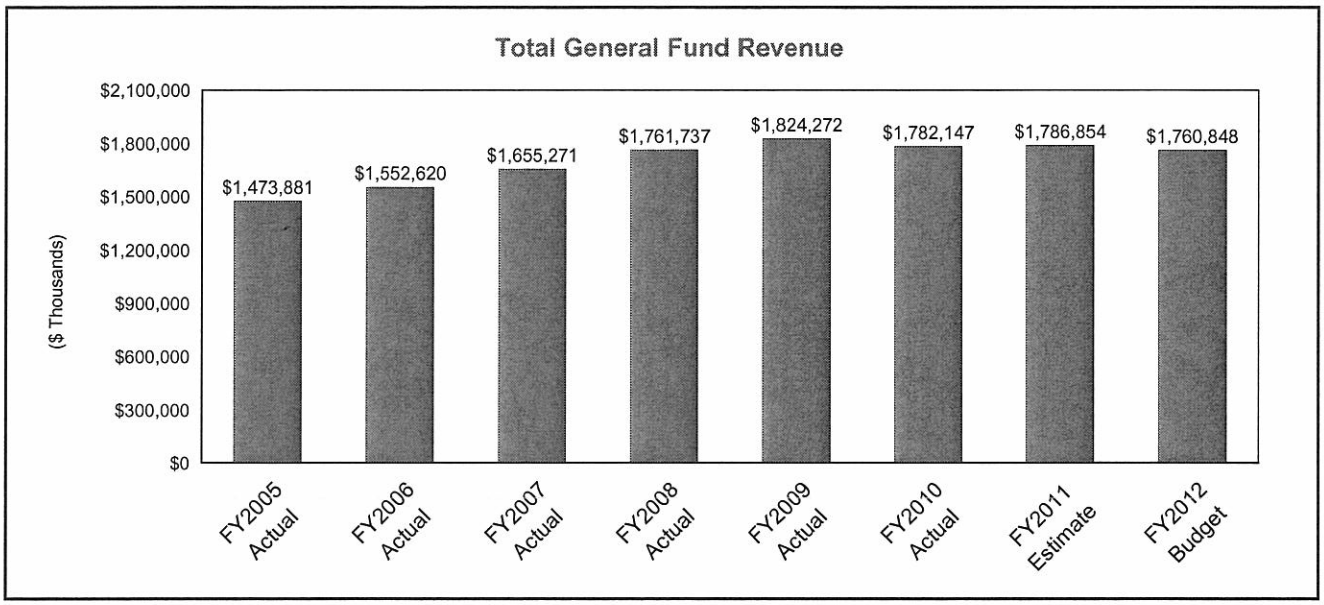


Table I below provides the FY2012 General Fund revenue estimate by categories. As shown, the total revenue is expected to be $1.76 billion or $26.0 million (1.46%) lower than the projected FY2011 revenue.

Table I

FY2012 Revenue Budget
Compared with FY2011 Estimate

	Projected Revenue ($ Thousands)		
Item	**FY2011 Estimate**	**FY2012 Budget**	**Increase / (Decrease)**
General Property Taxes	850,712	842,478	(8,234)
Industrial Assessment	14,800	14,800	0
Sales Taxes	490,883	518,912	28,029
Other Tax	10,796	10,806	10
Electric Franchise	98,151	99,694	1,543
Telephone Franchise	46,150	44,483	(1,667)
Gas Franchise	21,890	22,009	119
Other Franchise	24,112	24,044	(68)
Licenses and Permits	18,524	19,741	1,217
Intergovernmental	59,719	11,161	(48,558)
Charges for Services	37,364	40,747	3,383
Direct Interfund Services	45,271	45,255	(16)
Indirect Interfund Services	16,110	18,522	2,412
Municipal Courts Fines and Forfeits	35,842	35,894	52
Other Fines and Forfeits	2,540	2,562	22
Interest	5,000	3,000	(2,000)
Miscellaneous/Other	8,990	6,740	(2,250)
Total	**1,786,854**	**1,760,848**	**(26,006)**

Table II provides the revenue estimate for each distinct revenue source that is expected to produce at least $3 million in FY2012. 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) FY2011 Estimate	FY2012 Budget	Increase / (Decrease)
General Property Taxes	850,712	842,478	(8,234)
Sales Taxes	490,883	518,912	28,029
Industrial Assessment	14,800	14,800	0
Mixed Beverage Tax	10,621	10,621	0
Electric Franchise	96,591	98,194	1,603
Telephone Franchise	46,000	44,483	(1,517)
Gas Franchise	21,890	22,009	119
Cable TV Franchise Fees	18,188	18,439	251
Solid Waster Hauter Franchase Fee	5,400	5,568	168
Licenses and Permits	18,524	19,741	1,217
TIRZ Funding	9,603	9,661	58
Ambulance Fees	24,840	27,442	2,602
Other Charges for Services	12,524	13,305	781
Interfund Police Protection	21,217	22,018	801
Interfund Fire Protection	16,642	17,146	504
Other Direct Interfund	7,411	6,091	(1,320)
Indirect Cost Recovery	16,110	18,522	2,412
Moving Violations	19,579	19,594	15
Other Municipal Courts Fines and Forfeitures	16,263	16,300	37
Interest	5,000	3,000	(2,000)
Miscellaneous/Other	8,990	6,740	(2,250)
All Other Revenues	55,066	5,784	(49,282)
Total	**1,786,854**	**1,760,848**	**(26,006)**

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 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 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.

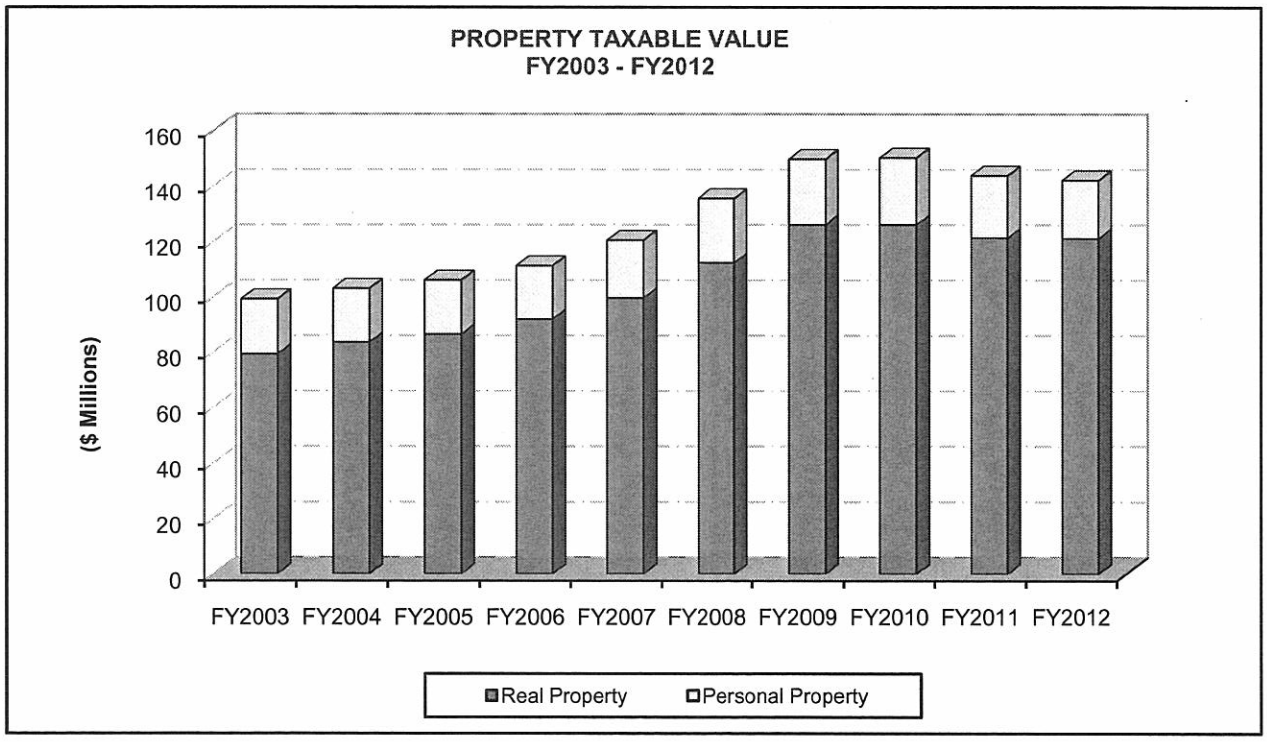
Occasionally, taxes are overpaid as a result of errors in appraisal or an overpayment by a taxpayer. Harris County Tax Office refunds such payments based upon the Texas Property Tax Code and documentation supplied by the taxpayers. Fluctuations in collections reflect changes in assessed property values,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

The FY2012 property tax value estimate is derived from CAD projections provided to the City in April 2011. The taxable value used was $142 billion. This amount is a net of the senior/disabled exemption, which was $70,862, the same as FY2011. This is projected to exempt as much as $6.4 billion in taxable value from the tax rolls, reducing revenue by an estimated $40.6 million in FY2012.

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 $132.2 billion.

The Finance Department applied an assumed 63.875 cent per $100 taxable value to this tax base, along with a 96.8% collection ratio and assumptions for prior year taxes collection of $24.8 million, to arrive at a net revenue estimate of $842.5 million. This revenue is approximately 0.97% lower than the estimated FY2011 revenue of $850.7 million.

Below is a graph showing the ten-year history of property taxable values in Houston, with the $142 billion estimate shown for FY2012.



CITY OF HOUSTON APPRAISED VALUE
($ Millions)

Fiscal Year	Tax Year	Real Property	Personal Property	Total Value
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	121,140	22,403	143,543
2012	2011	121,002	20,975	141,977 *

*Harris County Appraisal District Estimates, as of April 2011

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 $842.5 million, which is under the capped level of $908.78 million, with the following assumptions.

Population	
July 1, 2003 (1)	2,009,669
July 1, 2004 (1)	2,012,626 + 0.1471%
July 1, 2005 (1)	2,076,189 + 3.1582%
July 1, 2006 (1)	2,144,491 + 3.2898%
July 1, 2007 (1)	2,208,180 + 2.9699%
July 1, 2008 (1)	2,244,615 + 1.6500%
July 1, 2009 (1)	2,257,926 + 0.5930%
July 1, 2010 (2)	2,279,622 + 0.9609%

CPI (3)	
2003	163.7
2004	169.5 + 3.5431%
2005	175.6 + 3.5988%
2006	180.6 + 2.8474%
2007	183.8 + 1.7929%
2008	189.967 + 3.3339%
2009	190.495 + 0.2779%
2010	194.172 + 1.9302%

	($ 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	0.5930%
CPI Increase 2009	0.2779%
FY2011 CAP	$875,005
Population Increase 2010	0.9609%
CPI Increase 2010	1.9302%
FY2012 CAP	$900,302

FY2011 Estimates	$850,712
FY2012 CAP (Based on 4.5% Increase from FY2011 Estimate)	$888,994
Final FY2012 CAP (the Lower FY12 CAP Plus $19.79 million) (4)	$908,784

(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, 2010 population is the City's estimate. The U.S. Census Bureau figures will be available in late June 2011.
(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 FY2012 is $19.79 million.

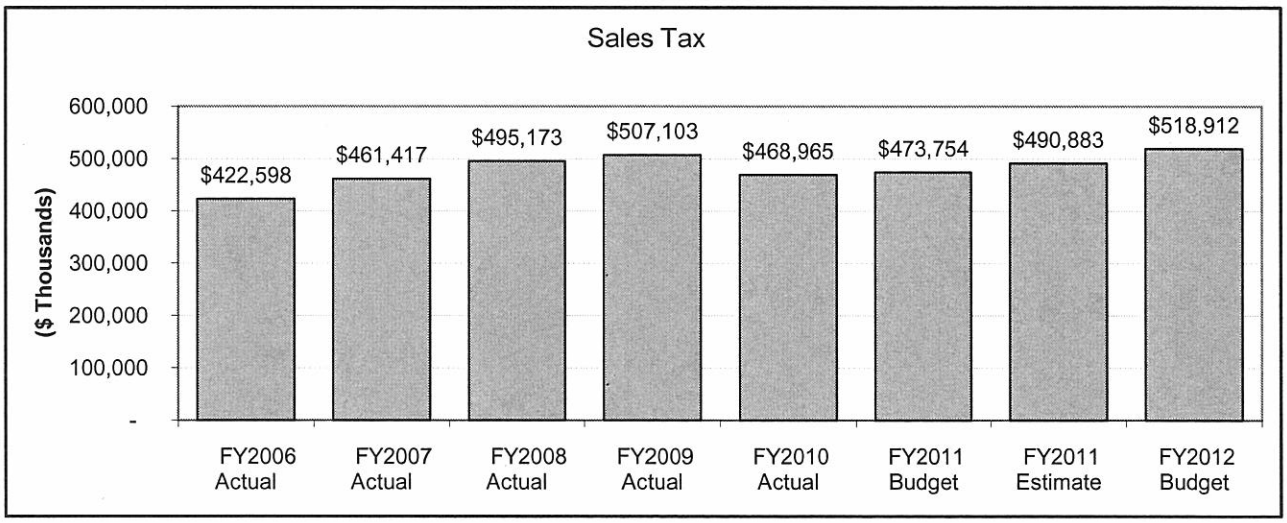
Sales Tax

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.

Currently, FY2012 is predicted to be a year of recovery from the relatively slow economic growth we experienced in FY2010 and early FY2011. From the FY2011 estimate of $491 million, the FY2012 budget amount of $519 million is approximately $28 million higher with 5.7% growth rate. Sales tax revenues in the business to business space are more variable than the retail space and were a primary contributor. The nation's financial institutions, while still weak, are far from the meltdown they were facing last year. The housing market is no longer in a total freefall and Houston's employment growth has been occurring across a much broader spectrum of sectors than previous years.

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



Industrial District Assessments

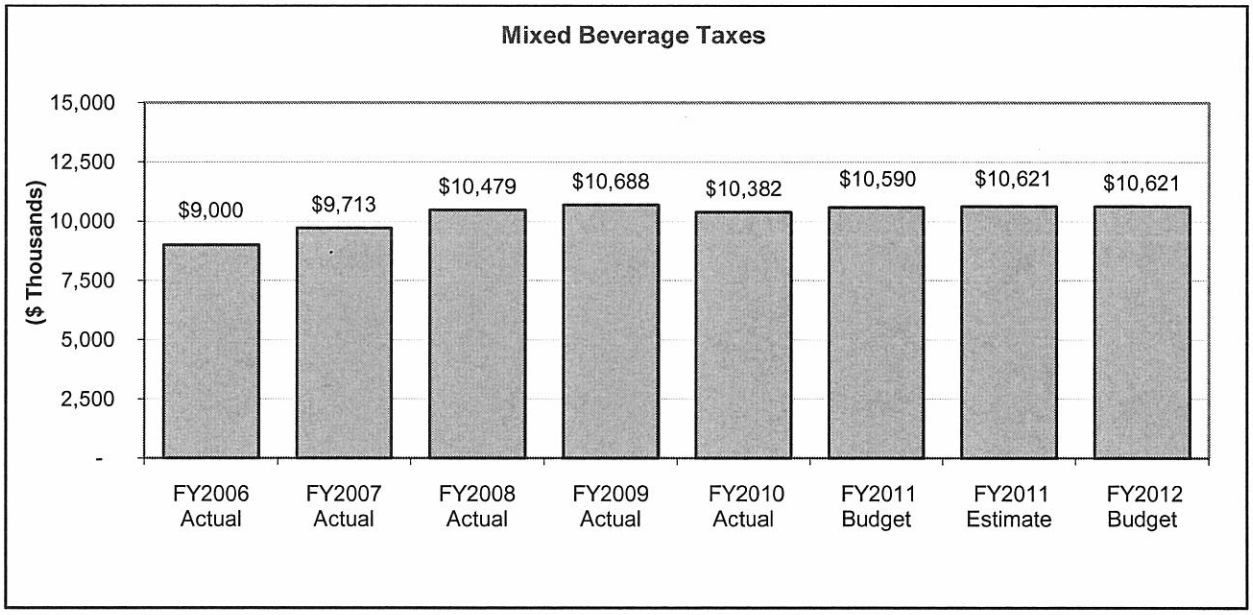
The City of Houston has Industrial District Contract Agreements having a term of fifteen years with more than 100 companies that are located within the Houston Extra-Territorial Jurisdiction (ETJ). A contractually reduced ad valorem assessed valuation fee is calculated and billed annually to each of 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 FY2012 revenue is currently estimated at of $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 FY2012 projection, we are anticipating the revenue estimate of $10.62 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 FY2011 electric franchise fee estimate is $96.6 million. The FY2012 electric franchise fee estimate of $98.2 million is approximately 1.7% higher than the FY2011 estimate. Kilowatt-hour consumption for calendar year 2010 was up 1.54% from 2009, with increases in residential and commercial categories and decreases in small industrial, large industrial, municipal and due to newly annexed properties.

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

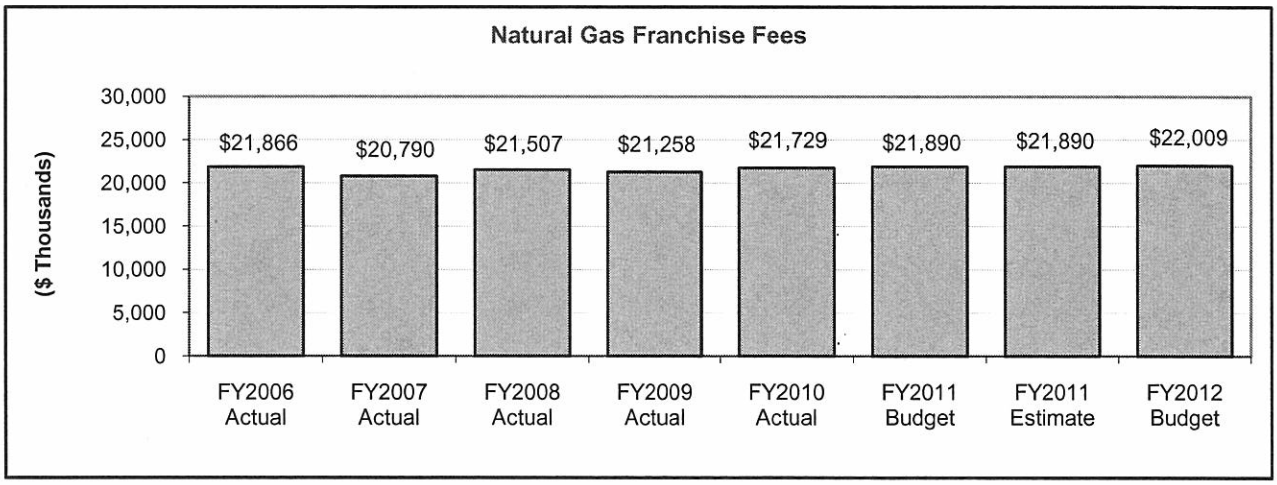
Natural Gas Franchise

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 FY2011 natural gas franchise fees from CenterPoint is approximately $21.9 million. The FY2012 natural gas franchise fee estimate is $22.0 million, an increase of 0.55% from FY2011.

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



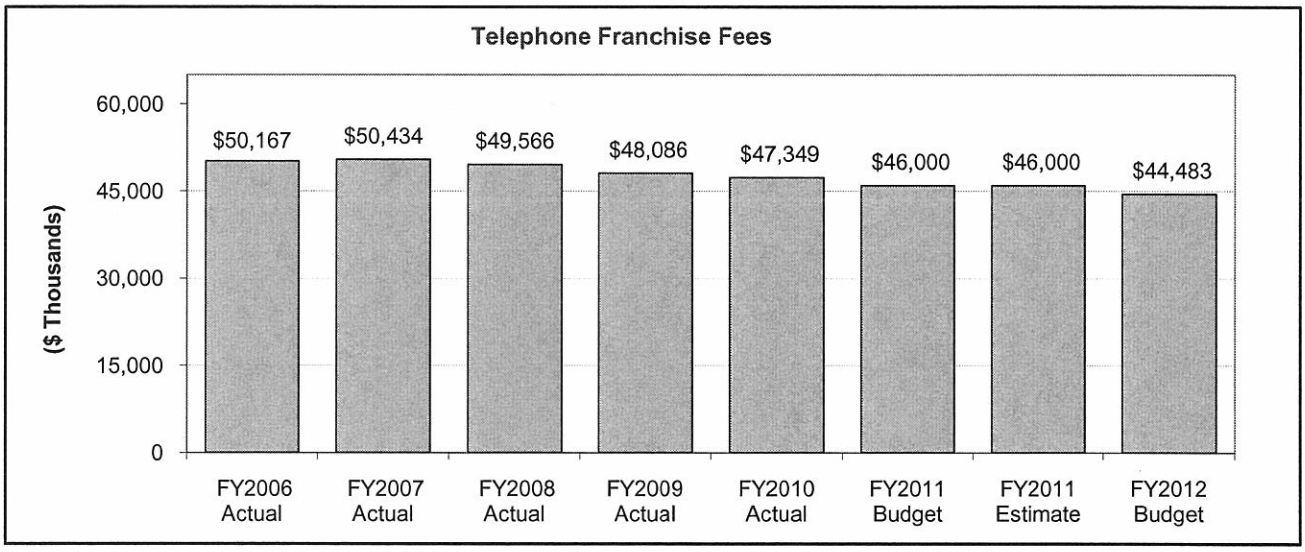
The City of Houston exercises original jurisdiction over the rates, operations and services of these natural gas utilities for the Houston area.

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 FY2012, the projected average number of access lines per quarter is 2.5 million; a decrease of 6% from FY2011 projected levels. The access line rates that will be in effect during the fiscal year are as follows: residential - $1.72; non-residential - $5.81; and point-to-point - $16.51.

The FY2011 estimate for telephone franchise fee is $46 million, exclusive of audit recoveries. The FY2012 estimate of $44.5 million is a 3.3% decrease from FY2011's projection, and is reflective of the continued decrease in the number of access lines. There is not a 1:1 relationship in the variability between access line counts and access line revenues due to the varying rates per access line category.

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 63.4% of the total cable franchise revenue projection for FY2011. The four remaining City of Houston cable franchises do not expire until after year 2015.

The FY2012 projection of $18.44 million is 1.38% higher than the FY2011 projection due to continued overall subscriber growth among cable/video service providers.

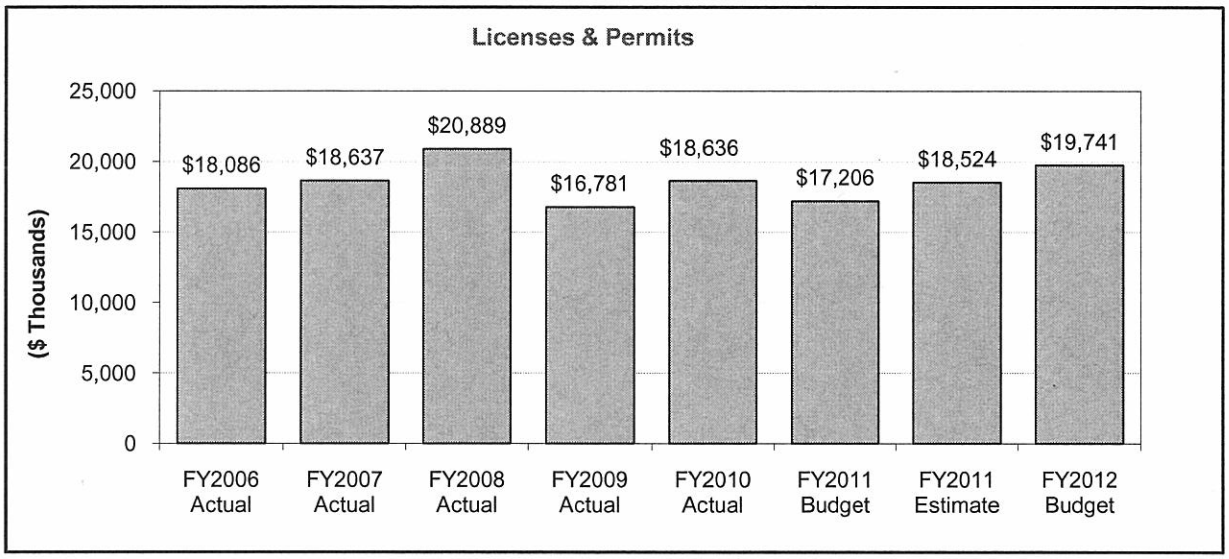
Solid Waste Hauler Franchise Fees

Solid waste haulers pay fees to compensate the City for the use of City streets. Over 180 solid waste hauler franchises pay 3% 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 $5.4 million, exclusive of audit recoveries. The FY2012 estimate of $5.6 million assumes that the waste hauling industry is beginning 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 fire alarm, special fire, and many other permits. The FY2012 revenue is estimated at $19.74 million, which is approximately $1.22 million higher than FY2011 estimate. This is mainly due to the annualized impact of several fee increases effective December 1, 2010.



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 third 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 the Health Insurance Portability and Accountability Act (HIPAA) electronic 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, as well as the annualized impact from the fee increases effective December 1, 2010, the FY2012 revenue is projected at $ 27.44 million (net of collection fees). This is $2.6 million higher than the FY2011 estimate of $24.84 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 FY2012, revenues of $13.31 million are projected, an increase of about $781,000 from the FY2011 estimate of $12.52 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 FY2012 projection of $22.02 million is about $801,000 higher than the FY2011 estimate of $21.22 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 FY2012 projection of $17.15 million reflects an increase of approximately 3.03% over the FY2011 estimate; mainly due to increase in base salary (pay increases) and increased request of overtime.

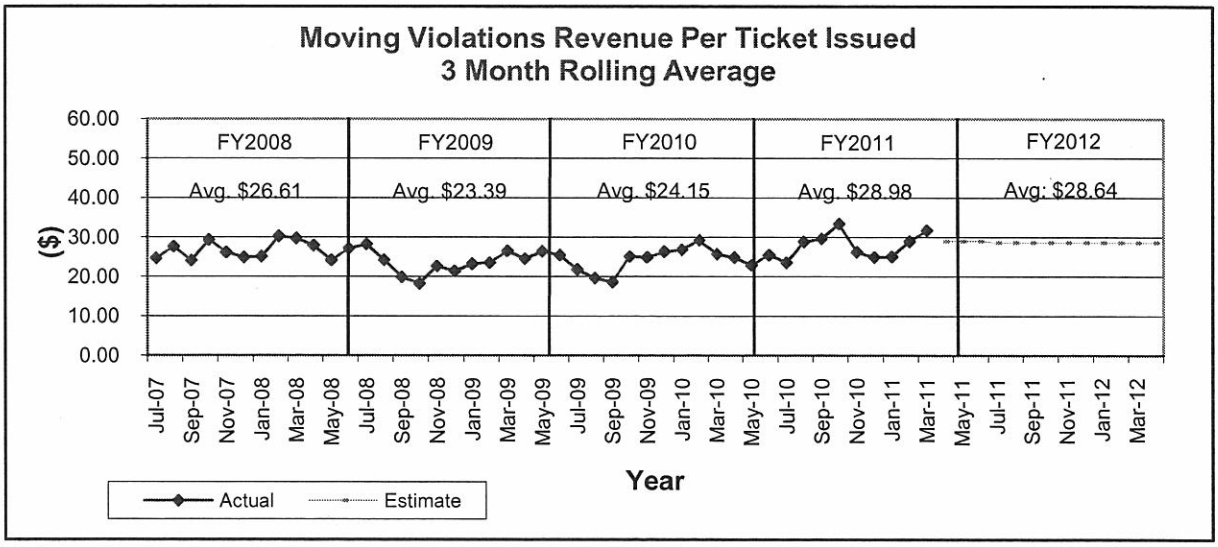
Payments received for other direct services performed by the General Fund are recovered throughout the year. The FY2012 projection of $6.09 million is $1.32 million lower than the FY2011 estimate of $7.41 million, which is mainly due to the transfer of project services to the Dedicated Drainage and Street Renewal Fund in FY2012.

Indirect Cost Recovery

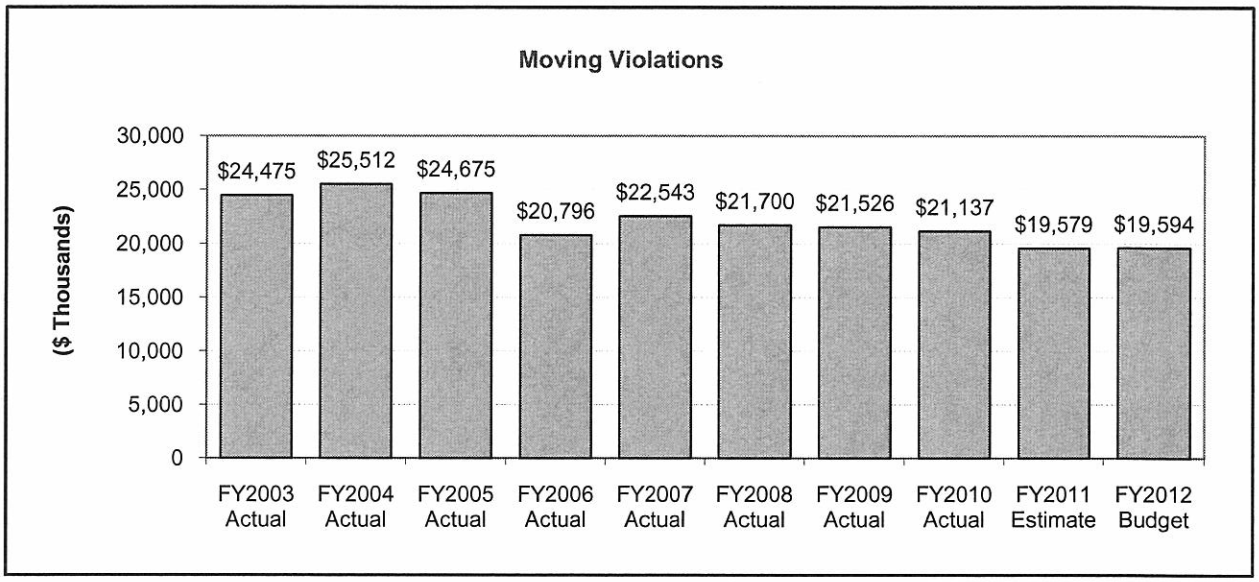
The General Fund provides citywide central support services and recovers the cost of these services through allocation of indirect costs. These amounts are determined through the preparation of an annual cost allocation plan, which distributes administrative overhead costs to General Fund operating departments and to other funds. For FY2012, the proposed plan calls for cost recoveries totaling $18.52 million, an increase of $2.4 million in indirect interfund revenue from the FY2011 estimate of $16.11 million.

Moving Violations

In FY2012, we expect 684,000 tickets to be issued and 178,000 tickets paid at an average of $107.39 per ticket. Moving violations revenue in FY2012 is projected at $19.59 million, which is slightly higher than our FY2011 projection of $19.58 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 now largely privatized. It is projected to increase from $16.26 million to $16.30 million in FY2012.

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 FY2012 interest revenue is projected at $3 million, reflecting a decrease in cash flows as well as lower interest rates compared to FY2011.

Miscellaneous/Other

The FY2012 revenue is estimated at $6.74 million, which is $2.3 million lower than FY2011 estimate of $8.99 million. This is mainly due to prior year revenue adjustment in FY2011.

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 decreased from $55.07 million in FY2011 to $5.78 million in FY2012 mainly due to METRO funding revenues that is now being recognized in the Dedicated Drainage and Street Renewal Fund instead of General Fund.

A detailed listing of General Fund revenues by category are presented on the following pages showing the FY2010 Actual, FY2011 Current Budget and Estimate, and the FY2012 Budget amounts.