BRIEF DESCRIPTION OF THE FUNDS USED IN BUDGET PROCESS

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

Governmental Funds

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

Enterprise Funds

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

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

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

Special Revenue Funds

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

- Digital Houston. This fund is used by the City of Houston to build a citywide wireless broadband Wi-Fi mesh network that will provide affordable high-speed internet access for residents of and visitors to Houston. It will also enable municipal employees to work in the field without having to return to the office to use traditional landlines to complete their task. The fund will be necessary to receive payments and to allow the City to fund inclusion programs for low income and other individuals. This fund is administered by the Library Department.

- The Houston Emergency Center Fund. This fund consolidates the City's four separate emergency services into one state of the art facility. This fund is administered by the Houston Emergency Center.

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

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

- The Municipal Courts Technology Fee Fund. This fund generates a $4 fee charged for convictions on all traffic and non-traffic misdemeanor offenses occurring on or after June 25, 2000. The purpose of the fund is to solely finance technological enhancements for the Municipal Courts, including computer systems, networks, hardware, software, imaging systems, electronic ticket writers and docket management systems. The FY2012 Budget includes debt repayment on bonds issued to purchase the new case management system and other equipment and services necessary for the operation of the new system. This fund is administered by the Municipal Courts Department.

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

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

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

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

- The Child Safety Fund. This fund is used to account for monies received for public, parochial and private school crossing guard programs. Revenues to the fund come from an assessment of a Municipal Court fee of $5 on non-criminal municipal violations and an additional $1.50 fee for each vehicle registration authorized by Harris County. The Police Department administers this fund.

- Digital Automated Red Light Enforcement Program. This fund tracks the financial and accounting balances from all penalties and fees collected and all costs associated with the operation and enforcement of the photographic traffic monitoring system. This fund is administered by the Police Department.

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

- The Building Inspection Special Fund. This fund includes all construction and building permit revenues and expenditures for inspections and permitting activities. Outdoor sign license fees are received in this fund for enforcement of the City's sign ordinance. This fund is administered by the Public Works & Engineering (PWE) Department.

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

- The mission of the Mobility Response Team is to respond and mitigate significant traffic congestion resulting from malfunctioning traffic signals, accidents and other mobility issues throughout the City. The team is a partnership between the Police and Public Works & Engineering (PWE) Departments.

- Juvenile Case Manager Fund. This fund was established under Article 45.056 of the Texas Code of Criminal procedure to assess a juvenile case manager fee for each defendant convicted of a fine-only misdemeanor offense and may only be used to finance the salary and benefits of juvenile case managers. This fund is administered by the Municipal Courts Department.

- Historic Preservation Fund. This fund is administered by the Planning and Development Department, which was established in FY2010 to utilize funds set aside from the sale of historic fire stations by the City in FY2009 to promote historic preservation programs. It utilizes city funds as seed money to encourage private investment, attract grant funds, and support educational programs that will further preservation efforts in Houston.

- Recycling Expansion Program Fund. This fund was created to allocate dedicated funds to be used for the expansion and implementation of the City's Recycling Programs. Efforts include citywide tree waste recycling, additional neighborhood depository sites, curbside recycling and increased education and outreach. These efforts allow the City to improve its current landfill diversion rate. This fund is administered by the Solid Waste Management Department.

- Fleet and Equipment Acquisition Fund. This fund was reclassified from an internal service fund to a special revenue fund in FY2009. In the past years, General Fund made payments to the Fund for the use of specific capital equipment, which then paid the debt service associated with the equipment. Beginning in FY2012, these payments are consolidated and included in the General Fund transfer to the Debt Service Fund. This fund is administered by the Finance Department.

- Parking Management Fund. This fund is responsible for managing and providing on-street parking alternatives to the citizens in the greater Houston area. This fund is administered by the Administration and Regulatory Affairs Department.

- BARC Special Revenue Fund. BARC (Bureau of Animal Regulation and Care) is authorized to receive funds from any source for the purpose of supporting the maintenance and operation of the City's animal shelter facilities and programs. This fund is administered by the Administration and Regulatory Affairs Department.

- Dedicated Drainage and Street Renewal Fund. This fund's purpose is to provide a dedicated, pay-as-you-go system for enhancement, improvement and ongoing renewal of Houston's drainage and streets, as well as, traffic control operations. This fund is administered by the Public Works & Engineering (PWE) Department.

- Swimming Pool Safety Fund. This fund receives proceeds from enforcing municipal, state and federal pool and spa safety standards. State and federal pool and safety standards apply to all pools and spas serving more than two dwellings; in accordance with these requirements, operators of pool and spas at apartment or condominium projects are required to obtain permits and to comply with the requisite standards. The fees collected in pursuant of swimming pool and spa safety are used for the purposes of activities related to permitting, inspecting, monitoring, abating, controlling, educating and enforcement of municipal, state and federal standards. This fund is administered by the Health and Human Services Department.

Internal Service Funds

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

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

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

Service Chargeback Funds

Service Chargeback Funds, previously known as Revolving Funds, are established to provide services to other City departments on a cost-reimbursement basis and are shown in the Service Chargeback Funds Section. Included are the following:

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

- The In-House Renovation Fund. This fund is used to capture the costs associated with the renovation and reconstruction of fire stations. All costs are charged to the revolving fund in anticipation of billing a bond fund, General Fund or CDBG grant fund for reimbursement. This fund is administered by the General Services Department.

- The Fleet Management Fund. This fund is administered by the Fleet Department, which is used to account for fleet maintenance for twenty-six City departments.

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

- The Workers' Compensation Fund. This fund was established to collect and report all costs of compliance to statutes related to Workers Compensation. The revenues are derived through charging the departments an administrative premium of $8.75 semi-monthly per employee plus all direct costs related to claim expenditures, which includes indemnity, medical and disability payments. This fund is administered by the Human Resources Department.

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

Equipment Acquisition Consolidated Fund

The Equipment Acquisition Consolidated Fund supports the acquisition of durable capital assets for all General Fund departments and selected Special Revenue Funds. Historically, funding has come from issuing Commercial Paper for the purchase of such capital assets. Funding continues to come from the issuance of Commercial Paper and other sources such as capital lease financing. This fund is administered by the Fleet Department.

Debt Service Funds

General Obligation debt is secured by and payable from the receipts of an annual ad valorem tax levied, within legal limits, on taxable property within the City. The City has covenanted to assess, levy and collect an ad valorem tax in each calendar year, within applicable limitations, sufficient to pay the principal of and interest on all outstanding obligations payable in such Tax Year. Such obligations include (i) Public improvement bonds, (ii) Certificates of obligation, (iii) Certain obligations to fund a portion of the City's unfunded actuarially accrued liability to the City's pension programs, and (iv) General obligation commercial paper notes.

The primary source of funds to make such obligated payments is the General Fund, which annually transfers the legally required amount into the Debt Service Fund, which accumulates the resources necessary to pay the principal of and interest on all outstanding obligations payable in that Fiscal Year. The Debt Service Fund makes payments for arbitrage rebate and administrative fees to administer the debt program.

The City's tax rate for Fiscal Year 2011 (Tax Year 2010) was $0.63875 (per $100 assessed valuation), which includes $0.175388 for debt service. This debt service tax rate is what determines the amount of funds that the General Fund is legally required to transfer into the Debt Service Fund.

The City's Financial Policies Ordinance provides that any capital project financed through the issuance of bonds or other obligation shall be financed for a period not to exceed the expected useful life of the project. Average (weighted) general obligation bond (or other obligations) maturities shall be kept at or below 12 years. The Financial Policies Ordinance also provides that annual contributions to the Debt Service Fund shall not exceed 20% of the total General Fund revenues, excluding state and federal grants.

Trust and Agency Funds

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

Capital Project Funds

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

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

The Finance Department administers the funds.

Other Financial Funds

Comprehensive budgets for certain entities are not included in the City's budget or the CIP due to City Council's limited authority to program expenditures. They are included in the City's Comprehensive Annual Financial Report.

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

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

- Other funds established by City Council or the City Controller to account for contributions from private individuals (i.e., Library Gift Endowment Fund; Houston Parks Board Trust Fund; WATER (Water Aid to Elderly Residents) Fund; Houston Economic Development; and the Battaglia Trust Fund) are dedicated to specific unbudgeted but public purposes.