

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-one General Fund departments plus General Government, approximately twenty-seven 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 Public Works and Engineering Department. All maintenance, operation, reserve, and debt service requirements for Public Utilities are accounted for as an Enterprise Fund in the Public Works and 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 562 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.

- o Aviation Department
- o Airport System Capital Outlay
- o Convention & Entertainment Facilities
- o Public Utilities - Water and Sewer
- o Public Utilities - Capital Outlay

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:

- o The Houston Emergency Center Fund consolidates the City's four separate emergency services into one "state of the art" facility.
- o Under certain cable television franchise agreements, 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.
- o The Municipal Courts Building Security Fund was established in FY1997 to provide for the safety of civilians and civil service employees conducting business at buildings housing Municipal Courts. Revenues generated (\$3 from every defendant convicted of a misdemeanor) are used to contract security officers and purchase security equipment such as video arraignment equipment, courtroom cameras and the installation of a card-key security system. This fund is administered by the Municipal Courts Administration Department.

- o The Parks Special Revenue 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.
- o The Asset Forfeiture 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.
- o License fees paid by tow truck drivers and various automotive sales, repair, storage and salvage dealers are budgeted in the Auto Dealers' Special Revenue Fund to finance a portion of the Police Department's enforcement efforts regarding privately owned storage lots. This fund is administered by the Police Department.
- o The Police Special Service 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.
- o The Child Safety 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 \$5.00 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.
- o The Building Inspection Special Fund includes all construction and building permit revenues and expenditures for inspections and permitting activities. This fund is administered by the Planning and Development Department.
- o Outdoor sign permit and license fees received by the Planning and Development Department's Code Enforcement Group are budgeted in the Sign Administration Special Fund to support enforcement of the City's sign ordinance.
- o Houston TranStar Center 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 and Engineering Department.
- o TxDOT Signal Maintenance Fund was established in FY1999 to operate and maintain Texas Department of Transportation (TxDOT) traffic signals on selected state owned roadways within the city limits. Funding is provided by TxDOT as reimbursement for the City's costs of maintenance and operation, including electrical power costs and emergency replacement costs of traffic signals covered under the agreement. This fund is administered by the Maintenance and Right-of-Way Group of the Public Works and Engineering Department.
- o The Technology Fee Fund generates a \$4.00 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 FY2005 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.

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:

- o 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.
- o 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.

Revolving Funds

Revolving funds are established to provide services to other City departments on a cost-reimbursement basis and are shown in the Revolving Funds Section. Included are the following:

- o The Central Services Revolving 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.
- o The Fire Department Reconstruction Fund, established in FY1993 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. In FY2002, this fund was transferred to the Building Services Department.
- o The Fleet Management Fund, administered by the Public Works and Engineering Department, is used to account for fleet maintenance for seventeen City departments.
- o The Property and Casualty Fund records the transactions of the City's self-insurance program for lost and personal action claims. The Finance and Administration 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.
- o The Workers Compensation 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 \$9.10 semimonthly per employee. All costs related to claim expenditures or indemnity, medical and disability payments are still processed directly to departments.

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. Funding comes from issuing Commercial Paper for the purchase of such capital assets. This fund is administered by the Finance and Administration Department.

Debt Service Funds

The General Debt Service Fund accounts for the interest and principal payments on tax-supported debt, which includes: public improvement bonds/refunding bonds, general obligation bonds/refunding bonds, claims and judgment bonds, annexed districts' bonds, certificates of obligation, and general obligation commercial paper notes. Payments for arbitrage rebate are also accounted for in this fund.

The major source of funding for tax-supported debt is a transfer from the General Fund and is based on the amount of ad valorem taxes necessary to fund debt service requirements for the fiscal year. The adopted FY2004 (Tax Year 2003) tax rate for ad valorem taxes was \$0.655 per \$100 assessed valuation. Of this amount, \$0.18041 was levied for debt service requirements. The debt service requirements are also funded by a transfer from the Water and Sewer Revenue Fund to compensate the General Debt Service Fund for the cost of paying certain tax bonds and assumed bonds from annexations and also tax bonds issued for sewer purposes.

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 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. Harris County and Houston Independent School District participate in sixteen of the twenty TIRZ. The Planning and Development 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 required to make a facility operational, are included in the CIP. Primary funding sources for the CIP are as follows:

- o Commercial paper notes and Public Improvement Bond proceeds,
- o Revenue Bond proceeds (e.g., bonds supported by Water and Sewer System fees, Airport System revenues, Convention & Entertainment Facilities revenue/hotel occupancy tax),
- o Operating funds or capital reserve funds (e.g., operating budget funds and Renewal and Replacement Reserve funds), and
- o 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.

Other Financial Funds

Comprehensive budgets for certain entities are not included in the City's budget nor the CIP due to City Council's limited authority to program expenditures. They are included as Fiduciary Funds in the City's Comprehensive Annual Financial Report.

- o 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 funds 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.

- o 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.

- o 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; W.A.T.E.R. Fund; Houston Economic Development; and the Battaglia Trust Fund) are dedicated to a specific unbudgeted but public purpose.

All of the funds described are appropriated and approved by City Council during the adoption of each fiscal year budget.