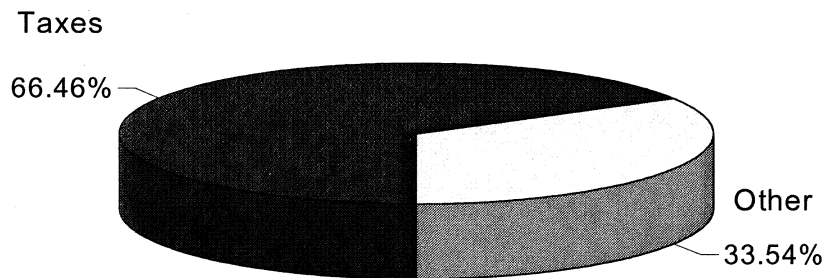


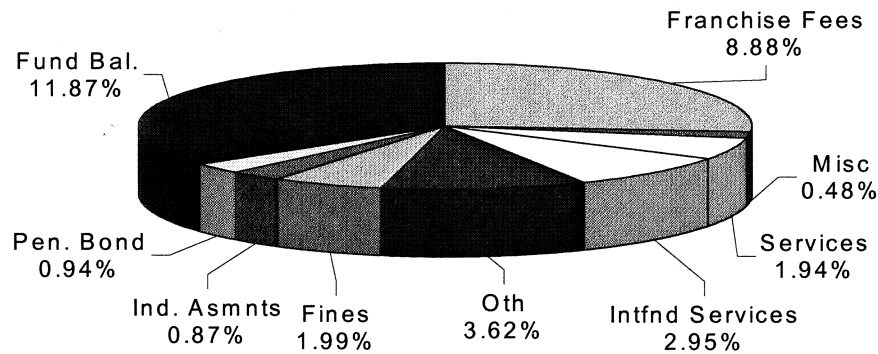
GENERAL FUND RESOURCES SUMMARY

The General Fund is the City of Houston's largest operating fund. With total resources of \$2.1 billion budgeted in FY2009, 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 FY2009 BUDGET



COMPOSITION OF OTHER (ABOVE)



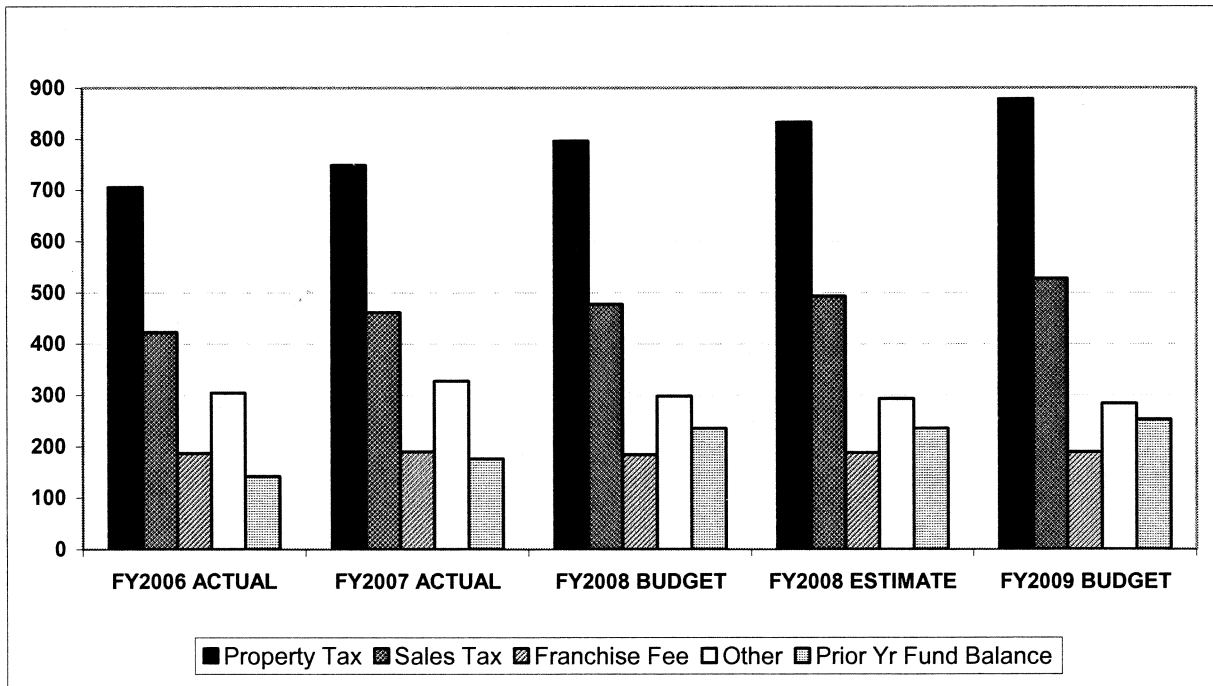
FISCAL YEAR 2009 BUDGET

The composition of the FY2009 General Fund resources is listed below:

<u>RESOURCE CATEGORIES</u>	<u>RESOURCES FY2009 BUDGET*</u>	<u>% OF TOTAL BUDGET</u>
Taxes:		
Property Taxes	\$ 878,486	41.2%
Sales Taxes	526,723	24.7%
Other Taxes	11,157	0.5%
Franchise Fees	189,299	8.9%
Industrial Districts	18,500	0.9%
Intergovernmental	32,520	1.5%
Charges for Services	41,311	1.9%
Interfund Services	62,984	3.0%
Licenses and Permits	17,722	0.8%
Fines and Forfeits	42,329	2.0%
Interest on Investments	13,000	0.6%
Miscellaneous	10,344	0.5%
Total Revenues	1,844,375	86.5%
Pension Bond Proceeds	20,000	0.9%
Sale of Capital Assets	6,240	0.3%
Transfers In	7,595	0.4%
Beginning FY2009 Fund Balance	252,910	11.9%
TOTAL RESOURCES	\$ 2,131,120	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
FY2006 THROUGH FY2009**



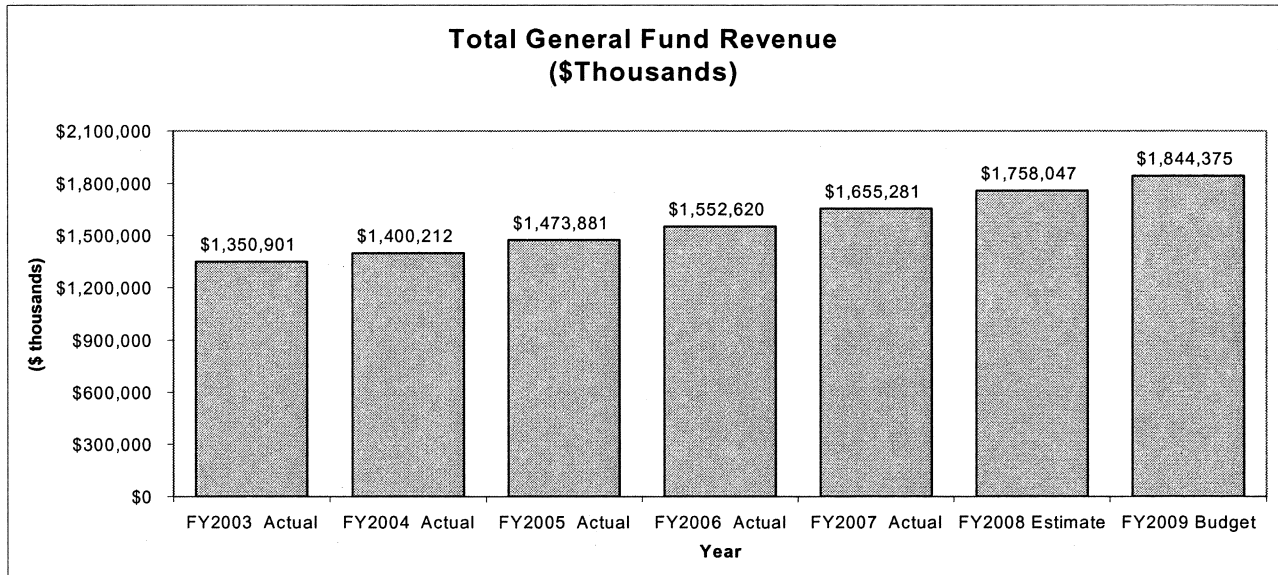


Table I below provides the FY2009 General Fund revenue estimate in the categories that have become traditional. As shown, the total revenue is expected to be \$1.84 billion, or \$86.3 million (4.91%) greater than the projected FY2008 revenue.

Table I

**FY2009 Revenue Estimates
Compared with FY2008 Projections**

Projected Revenue (\$Thousands)

<u>Item</u>	<u>FY2008</u>	<u>FY2009</u>	<u>Increase</u>
General Property Taxes	832,743	878,486	45,743
Industrial Assessments	17,500	18,500	1,000
Sales Tax	492,840	526,723	33,883
Other Tax	10,626	11,157	531
Electric Franchise	98,094	99,298	1,204
Telephone Franchise	49,150	48,700	(450)
Gas Franchise	21,526	21,276	(250)
Other Franchise	19,665	20,025	360
Licenses and Permits	20,703	17,722	(2,981)
Intergovernmental	34,495	32,520	(1,975)
Charges for Services	40,305	41,311	1,006
Direct Interfund Services	44,597	48,340	3,743
Indirect Interfund Services	10,326	14,644	4,318
Municipal Courts Fines and Forfeitures	36,500	38,519	2,019
Other Fines and Forfeits	4,517	3,810	(707)
Interest	14,130	13,000	(1,130)
Miscellaneous/Other	10,330	10,344	14
Total	1,758,047	1,844,375	86,328

Table II provides the revenue estimate for each distinct revenue source that is expected to produce at least \$3 million in FY2009. 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**

<u>Item</u>	<u>Projected Revenue (\$Thousands)</u>		
	<u>FY2008</u>	<u>FY2009</u>	<u>Increase</u>
Property Tax	832,743	878,486	45,743
Sales Tax	492,840	526,723	33,883
Industrial Assessments	17,500	18,500	1,000
Mixed Beverage Tax	10,361	10,900	539
Electric Franchise	98,094	99,298	1,204
Gas Franchise Fees	21,526	21,276	(250)
Telephone Franchise	49,150	48,700	(450)
Cable TV Franchise Fees	13,813	14,160	347
Solid Waste Hauler Franchise Fee	5,428	5,520	92
Licenses and Permits	20,703	17,722	(2,981)
METRO Funding	27,600	25,000	(2,600)
TIRZ Funding	3,072	4,050	978
Ambulance Fees	25,000	25,500	500
Platting Fees	4,500	4,950	450
Other Charges for Services	10,594	10,617	23
Interfund Police Protection	19,713	20,554	841
Interfund Fire Protection	14,370	15,169	799
Other Direct Interfund	10,514	12,617	2,103
Indirect Cost Recovery	10,326	14,644	4,318
Moving Violations	21,700	23,231	1,531
Other Municipal Courts Fines and Forfeitures	14,800	15,288	488
Interest	14,130	13,000	(1,130)
Miscellaneous/Other	10,330	10,344	14
All Other Revenues	9,240	8,126	(1,114)
Total	1,758,047	1,844,375	86,328

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 1. City Council approves exemptions such as homestead, 65 and over, disabled as well as Freeport exemptions and then sets a tax rate within the limitations set by the State law. The current tax rate for the City of Houston is 64.375 cents per \$100 of assessed valuation.

CAD notifies taxpayers and taxing jurisdictions of these values during April to May of each year. Taxpayers may protest these values or the exemption status of their properties. Hearings of appeals are conducted, and the Chief Appraiser of CAD 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 late fees. Taxpayers who wish to appeal values set by CAD in the State court may do so if they pay taxes on the uncontested value.

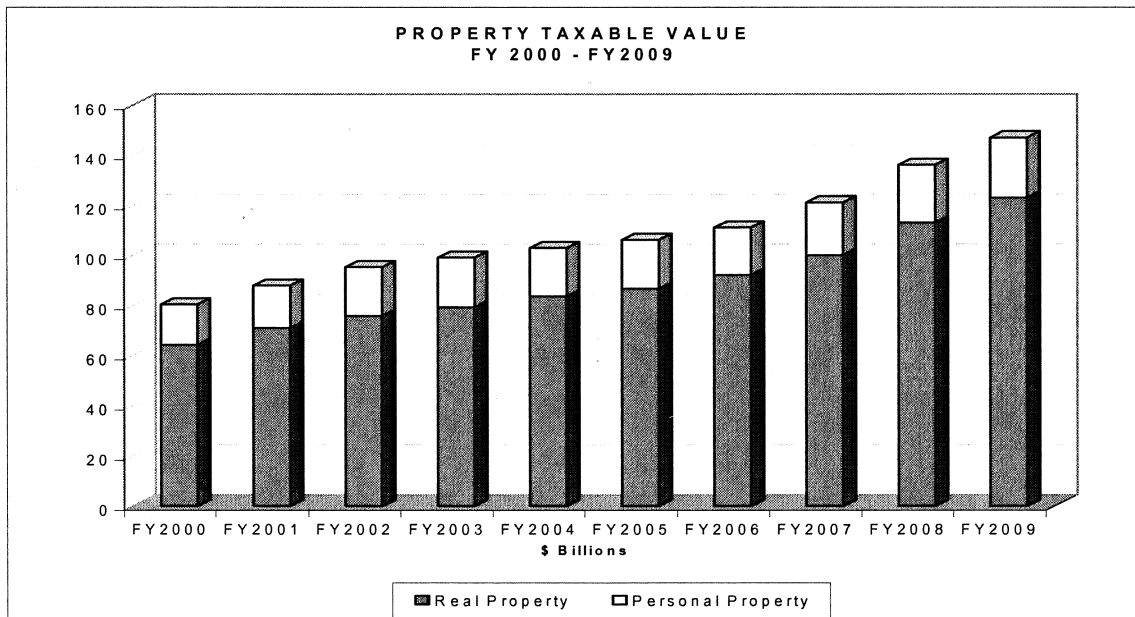
Occasionally, taxes are overpaid as the result of errors in appraisal or an overpayment by a taxpayer. The County Tax Office refunds such payments based upon the Texas Property Tax Code and documentation supplied by the taxpayers. Fluctuations in collections reflect changes in assessed property values,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

The FY2009 property tax value estimate is derived from an internally developed statistical Property Value Model (PVM) by studying trends in the City's overall and TIRZ market values as well as appraisal value cap and exemptions. This value estimate generated from PVM was \$146.3 billion, which is comparable to the CAD mid-range projection provided on April 30. The budget is based on \$147 billion in market value, and is well within the CAD mid-range projection. The taxable portion (assessed value) of this amount is estimated at \$136.68 billion.

To arrive at the assessed value, first the estimated incremental growth of the City's Tax Increment Reinvestment Zones measured against each TIRZ's base year is deducted from the City's market value. Exemptions are then reduced from the remaining market value amount to arrive at taxable value. Exempt value includes the senior/disabled exemption, which is increasing in FY2009 from \$64,420 to \$70,862. This is projected to exempt as much as \$559 million in additional taxable value from the tax rolls, reducing revenue by an estimated \$3.3 million in FY2009.

The Finance Department applied an assumed 63.875 cents per \$100 value to this tax base, along with a 96.5% collection ratio and assumptions for prior year taxes collection of \$36 million, to arrive at a net revenue estimate of \$878.5 million, approximately 5.5% higher than the estimated FY2008 revenue of \$832.74 million.

On the following page is a graph showing the ten-year history of property taxable values in Houston, with the \$147 billion estimate shown for FY2009.



FISCAL YEAR 2009 BUDGET

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

<u>Fiscal Year</u>	<u>Tax Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total Value</u>
2000	1999	64,149	16,200	80,349
2001	2000	70,859	16,956	87,815
2002	2001	75,691	19,556	95,247
2003	2002	79,249	19,846	99,096
2004	2003	83,790	19,402	103,192
2005	2004	86,433	19,467	105,900
2006	2005	91,954	19,320	111,274
2007	2006	96,588	20,179	116,767
2008	2007	112,866	23,209	136,075
2009	2008	123,218	23,773	146,991*

*Property Value Model, as of 2/15/2008

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 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.

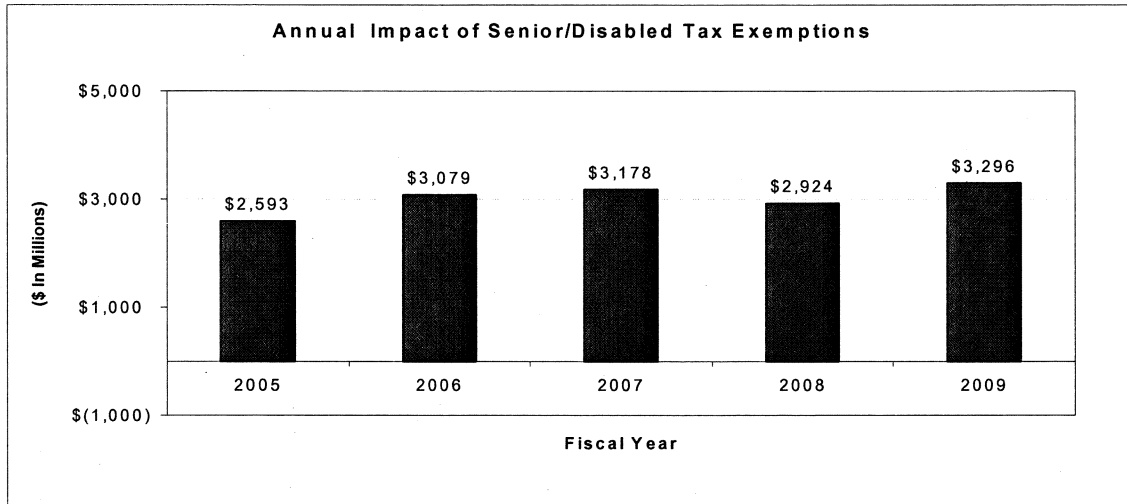
The proposed budget includes Property Tax estimate revenues for \$878.5 million under the capped level of \$915.73 million, with the following assumptions.

<u>Population</u>	<u>CPI (3)</u>
July 1, 2003 (1) 2,009,669	2003 163.7
July 1, 2004 (1) 2,012,626 + 0.15%	2004 169.5 + 3.54%
July 1, 2005 (1) 2,076,189 + 3.16%	2005 175.6 + 3.60%
July 1, 2006 (1) 2,169,248 + 4.48%	2006 180.6 + 2.85%
July 1, 2007 (2) 2,206,943 + 1.74%	2007 183.8 + 1.79%

	<u>(\$ In Thousand)</u>
FY2005 Actual	\$671,294
Population Increase 2004	0.15%
CPI Increase 2004	3.54%
FY2006 CAP	\$696,066
Population Increase 2005	3.16%
CPI Increase 2005	3.60%
FY2007 CAP	\$743,100
Population Increase 2006	4.48%
CPI Increase 2006	2.85%
FY2008 CAP	\$797,566
Population Increase 2007	1.74%
CPI Increase 2007	1.79%
FY2009 CAP	\$825,725
FY2008 Estimates	\$832,743
FY2009 CAP (Based on 4.5% Increase from FY2008 Estimate)	\$870,216
Final FY2009 CAP (the Lower FY09 CAP Plus \$90 million)	\$915,725

- (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, 2007 population is the City's estimate. The U.S. Census Bureau figures will be available in late June 2008.
- (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.

In addition to the Proposition 1 limitation, the City is also required to provide a minimum annual increase of 10% in the senior and disabled homestead property tax exemptions through the 2008 tax year. Therefore, FY2009 (Tax Year 2008) will be the fourth and final year for this mandatory exemption increases. The graph below provides the estimated total benefit to seniors annually and in total for FY2005 to FY2009.



Fiscal Year	Tax Year	(Dollars)	(Thousand)
		Senior Exemption Property Value	Cumulative Annual Benefit to Seniors
2005	2004	\$48,400	\$2,593
2006	2005	\$53,240	\$5,672
2007	2006	\$58,564	\$8,850
2008	2007	\$64,420	\$11,774
2009	2008	\$70,862	\$15,070
Five Year Total Benefit to Seniors			\$43,959

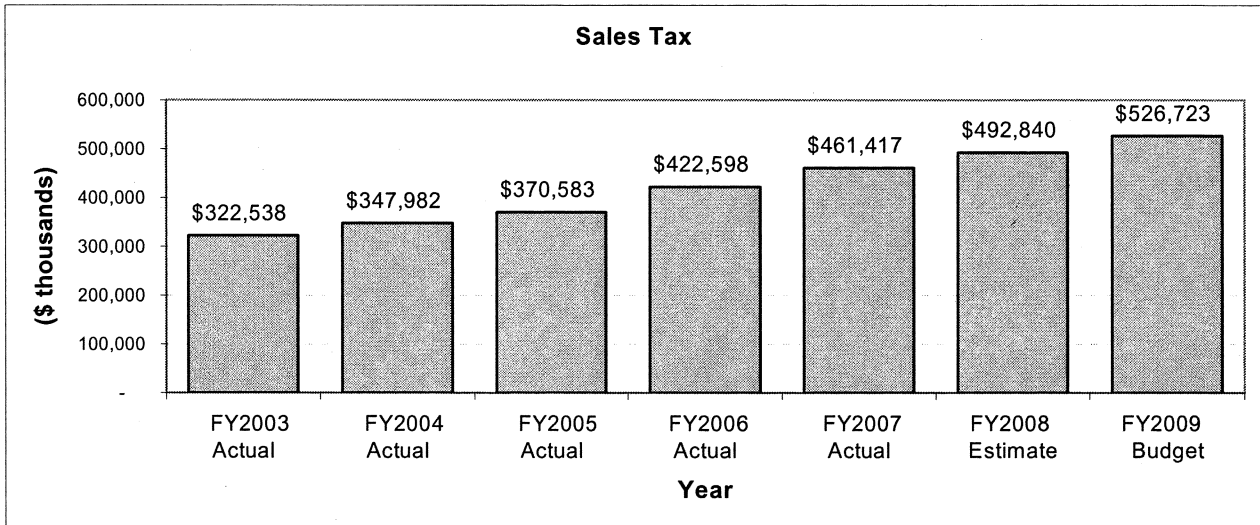
Sales Tax

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 revenue reacts quickly with changes in the economy, causing the City Council to retain an outside economist to make sales tax projection. In the last few years, the local economy has been strong, largely because of the energy sector, according to Dr. Smith. Sales tax revenue in FY2008 is estimated to be \$492.8 million, including \$2.3 million from 19 new Limited Purpose Annexations (LPAs) approved in December 2007. These new LPAs are expected to produce \$9.2 million in FY2009.

In calculating the FY2009 budget, historical data was analyzed, factoring in economic conditions that may impact actual revenues received. In addition, the effect of current laws that exempt certain goods and services from taxation are also incorporated into this analysis and are used to modify projections accordingly. Dr. Smith's FY 2009 analysis indicates that the sales tax base will grow 5.96%, exclusive of LPA revenue.

The FY2009 Budget uses a slightly lower estimate of sales tax base growth, 5.5%. The total sales tax revenue estimate for FY2009 is \$526.7 million, the tax base and the \$9.2 million from new LPAs. The graph on the next page provides a seven-year comparison of the City's Sales Tax revenue.



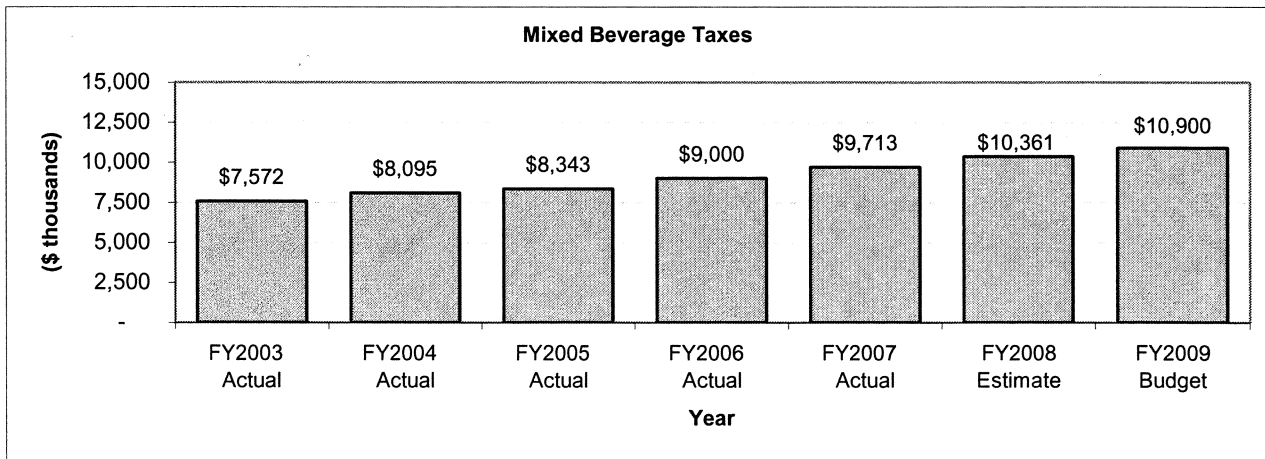
Industrial Assessments

The City of Houston has Industrial District Contract Agreements with a term of fifteen years with in excess of 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. The twelfth tax year contract fees scheduled for billing and collection in FY2008 will approximate \$17.5 million. Industrial District Assessments are based on current year property values provided by HCAD and may change after receipt of the property value information from HCAD. These are contractual revenues, with the current agreements expiring on May 31, 2012. The FY2009 Budget includes an \$18.5 million revenue estimate.

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.

For the FY2009 projection, we are expecting a growth rate of 5% over the estimated FY2008 amount. 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, or 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 fiscal year 2006, 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 FY2008 electric franchise fee's estimate is \$98.09 million. The FY2009 electric franchise fee's estimate of \$99.30 million is approximately 1.23% more than the FY2008 estimate. The increase is due to a 3% increase in kilowatt-hour consumption in calendar year 2007 within the City limits as compared to the base calendar year of 2004.

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

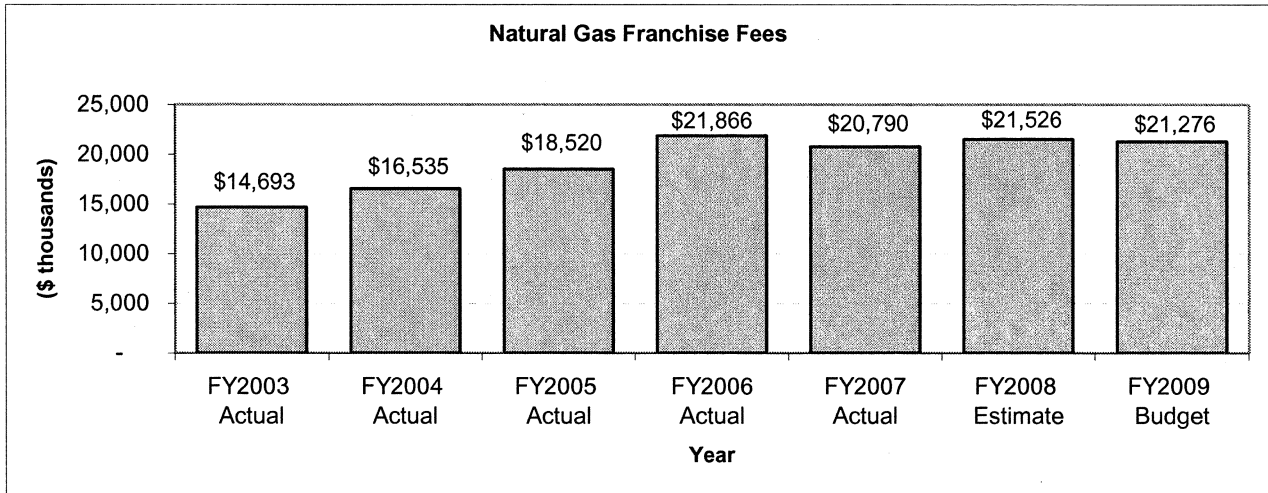
Natural Gas Franchise

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 FY2008 natural gas franchise fees from CenterPoint is approximately \$21.53 million. The FY2009 natural gas franchise fee estimate is \$21.28 million, a decrease of 1.16% from FY2008.

The graph on the next page 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.

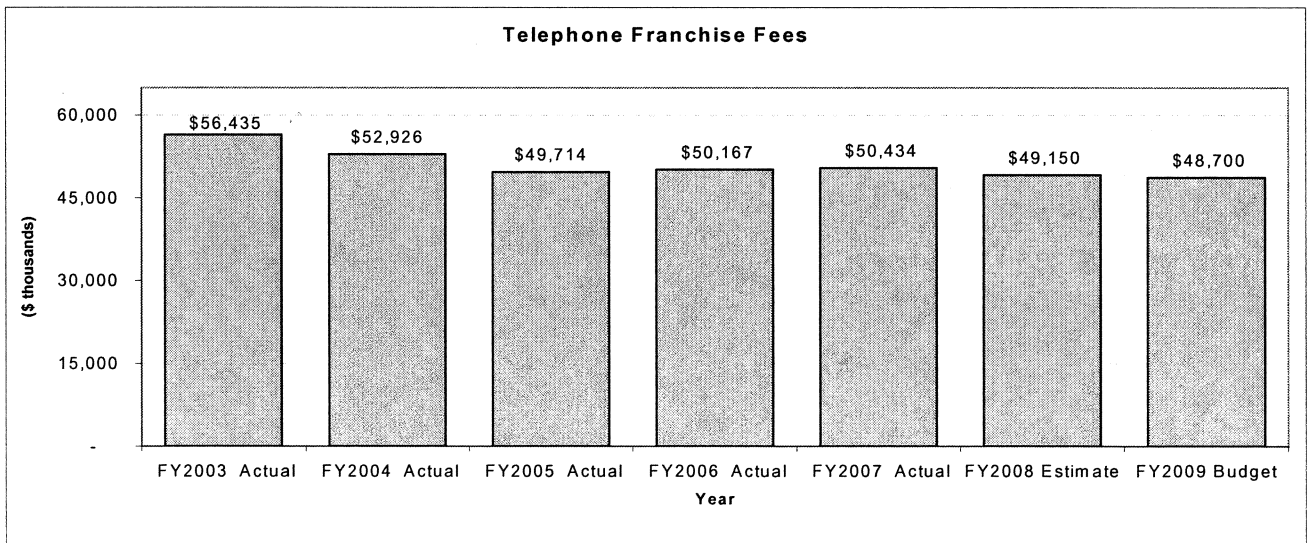
Telephone Franchise

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 FY2009, the projected average number of access lines per quarter is 3.16 million, a decrease of 3.07% from FY2008 projected levels. The access line rates that will be in effect during the fiscal year are as follows: residential - \$1.67; non-residential - \$5.66; and point-to-point - \$16.07.

The FY2009 estimate of \$48.7 million is a 0.92% decrease from FY2008's projection, and is reflective of the projected combined effect of the continued decrease in the number of access lines and the higher rates approved by the PUCT.

The following graph 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 accounted for approximately 87% of the total cable franchise revenue received by the City in FY2007. The four remaining City of Houston cable franchises do not expire until after 2015.

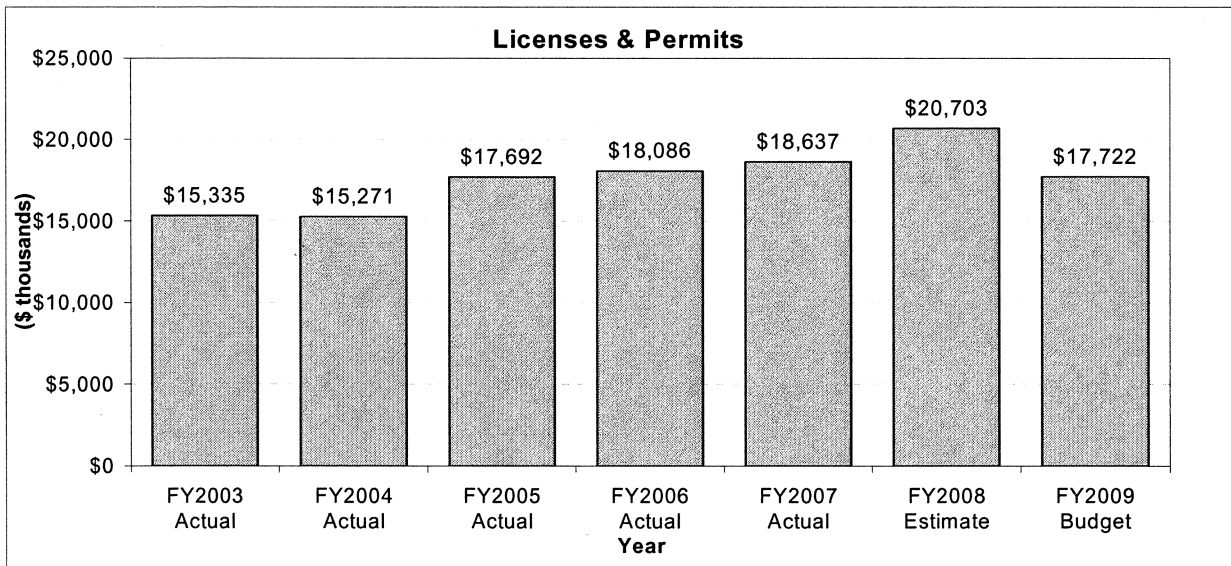
The cable franchise fee has grown at a healthy rate in recent years, with FY2008 growing 4.47% over FY2007 excluding audit revenues. The projection for FY2008 is \$13.81 million which includes a \$734,000 settlement agreement with Comcast Cable for past franchise fee underpayments discovered during an audit. The FY2009 projection of \$14.16 million is approximately 8.26% higher than the FY2008 projection excluding audit revenues and is reflective of projected continued overall subscriber growth due to increased competition 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 100 solid waste hauler franchises pay 4% of gross revenues from transporting commercial solid and industrial wastes that originate within the City limits. The FY2008 estimate for solid waste hauler franchise fees is \$5.43 million, which includes \$480,000 for remittances owed from prior fiscal years. The FY2009 estimate of \$5.52 million is approximately 1.69% higher than the FY2008's estimate.

Licenses and Permits

The Licenses and Permits category includes such items as burglar alarms, fire alarm, special fire, and many other permits. The FY2008 estimate is \$20.7 million, while the projection for FY2009 is \$17.72 million, a decrease of 14.4%. This decrease is in accordance with Ordinance No. 2008-387, which recognizes burglar alarm fees and associated penalties are to be placed in the Police Special Services Fund.



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 first year of a five-year contract renewal with Affiliated Computer Services (ACS) State and Local Solutions, Inc. (ACS) 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 electronic HIPAA compliant database connectivity between area hospitals and ACS to share patient data including insurance information for billing and required record keeping purposes. These improvements, along with other enhancements in the collections processes have resulted in an approximate 18% increase in collections performance over the life of the contract to date.

Assuming consistent transport volume from FY2008 to FY2009, revenue of \$25.5 million (net of collection fees) is projected, a \$500,000 increase over FY2008.

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 FY2009, revenues of \$10.62 million are projected, an increase of \$23 thousand over the FY2008 estimate of \$10.59 million.

Interfund Direct Charges

The General Fund charges for airport police service, which is the responsibility of HPD. The FY2009 projection of \$20.55 million is 4.26% higher than the FY2008 estimate of \$19.71 million, reflecting increases in police compensation and other costs.

The Aviation Enterprise Fund also pays for fire protection the Fire Department provides to the Houston Airport System. The FY2009 projection of \$15.17 million reflects an increase of approximately \$800 thousand over the FY2008 estimate; mainly due to compensation increase provided for in the 2005 meet and confer agreement.

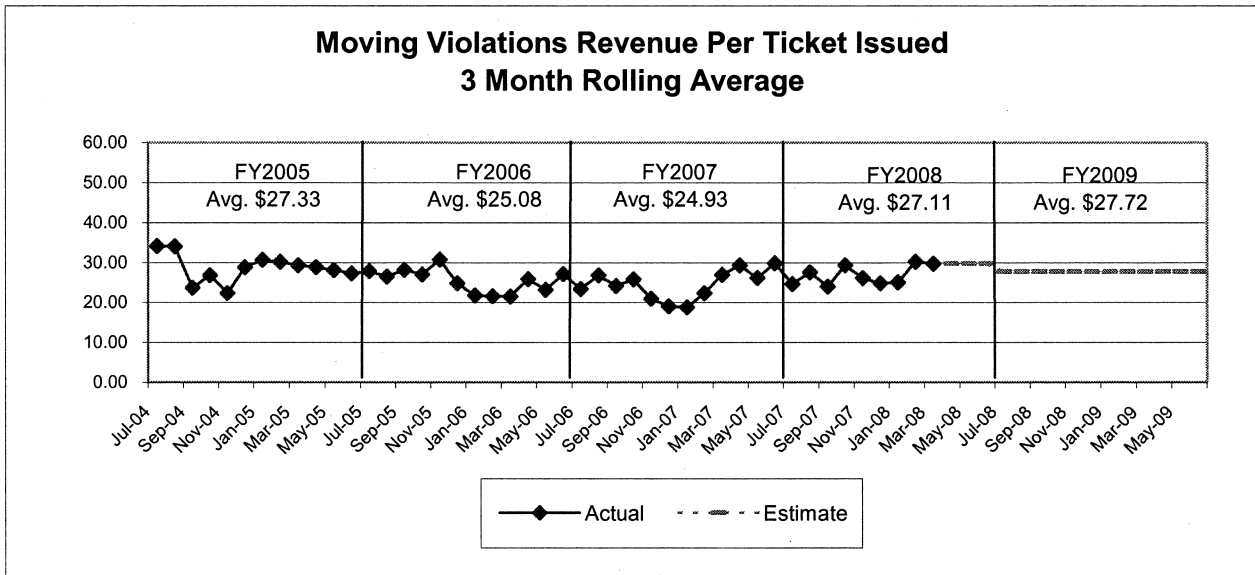
Payments received for direct services performed by the General Fund are recovered through the year. The FY2009 projection of \$12.62 million is higher than the FY2008 estimate of \$10.51 million, which is mainly for concrete repair services (\$8.14 million).

Indirect Cost Recovery

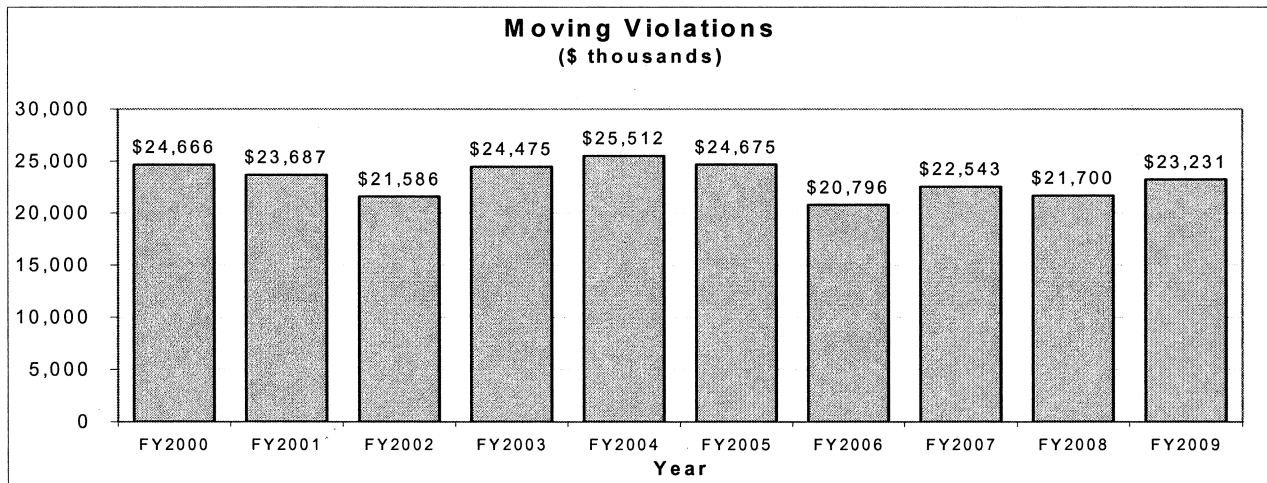
The General Fund provides citywide central support services to the funds, and recovers the cost of these services through indirect cost calculations. These amounts are determined through the preparation of an annual cost allocation plan, which distributes administrative overhead costs to General Fund operating departments and to other funds. For the FY2009, the proposed plan calls for cost recoveries totaling \$14.64 million, an increase of \$4.31 million in indirect interfund revenue from the FY2008 estimate of \$10.33 million.

Moving Violations

In FY2009, we expect 838,000 tickets to be issued and 237,000 tickets paid at an average of \$98 per ticket. Moving violations revenue in FY2009 is projected at \$23.23 million, 7.05% higher than the FY2008 projection of \$21.70 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 approximately 3.31%, from \$14.8 million to \$15.29 million for FY2009. The new collection process is expected to increase collections in the future, which could lead to increases in this revenue source.

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 (e.g. tolerance for risk, need for liquidity) chosen. The FY2009 projection of \$13 million assumes lower cash balance and lower interest rates than in FY2008.

Miscellaneous/Other

This revenue is being projected at \$10.33 million for FY2008 and \$10.34 million for FY2009.

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 are estimated at \$8.13 million in FY2009.

A detailed listing of General Fund revenues by category are presented on the following pages, showing the FY2007 Actual, FY2008 Current Budget and Estimate, and the FY2009 Budget amounts.