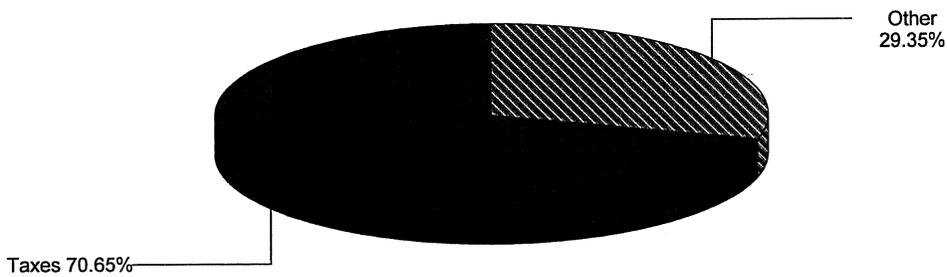


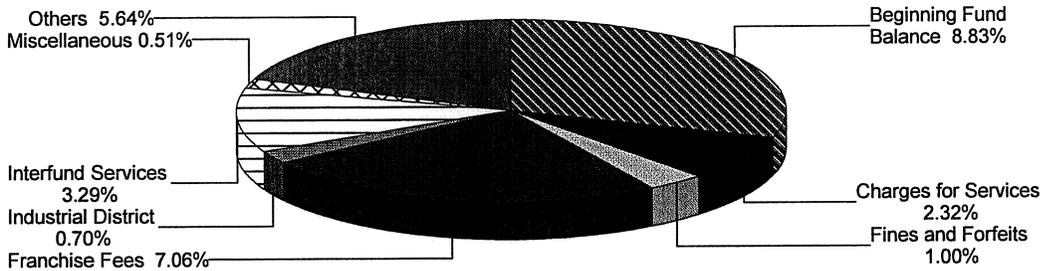
## GENERAL FUND RESOURCES SUMMARY

The General Fund is the City of Houston's largest operating fund. With total resources of \$2.6 billion budgeted in FY2018, this fund relies heavily on various forms of revenue to finance its operations. As illustrated below, approximately 71% percent of the total resources in the General Fund are from taxes, mainly property and sales taxes.

### GENERAL FUND RESOURCES FY2018 BUDGET



### COMPOSITION OF OTHER (ABOVE)



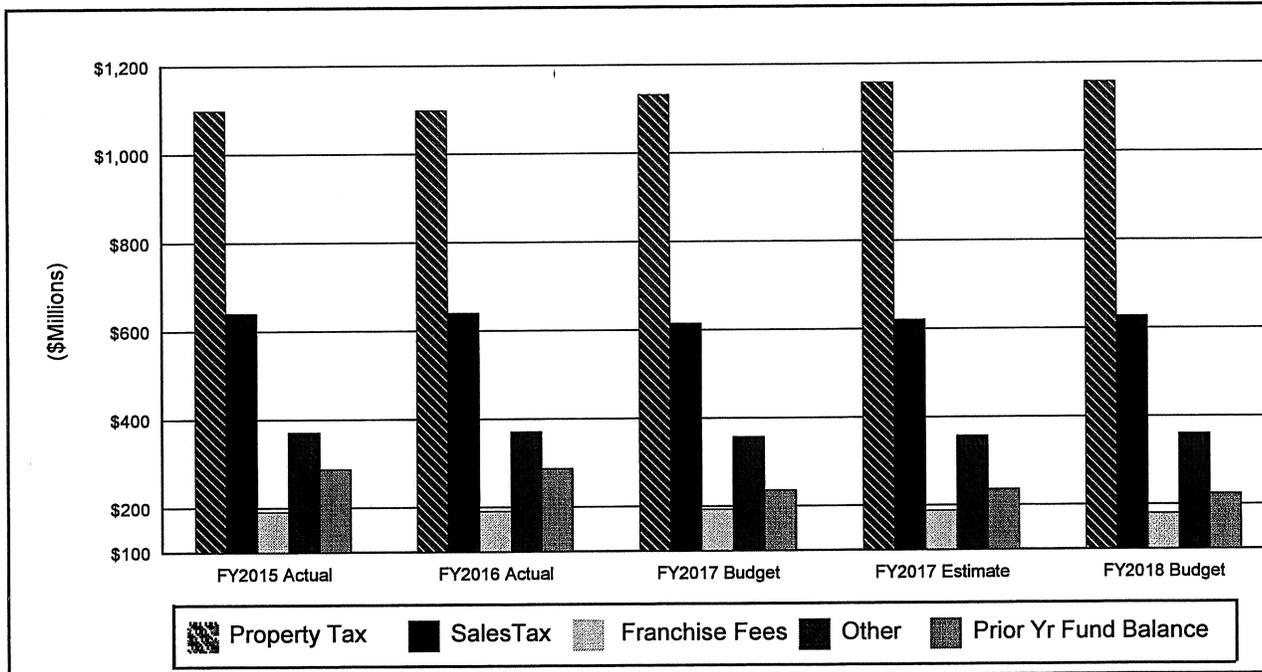
**FISCAL YEAR 2018 BUDGET**

The composition of the FY2018 General Fund resources is listed below:

<b>RESOURCE CATEGORIES</b>	<b>RESOURCE FY2018 BUDGET*</b>	<b>% OF TOTAL BUDGET</b>
<b>Taxes:</b>		
Property Taxes	1,158,297	45.40%
Sales Taxes	627,000	24.57%
Other Tax	17,413	0.68%
Franchise Fees	180,082	7.06%
Industrial District	17,917	0.70%
Licenses and Permits	36,942	1.45%
Intergovernmental	71,062	2.79%
Charges for Services	59,230	2.32%
Interfund Services	83,859	3.29%
Fines and Forfeits	25,466	1.01%
Interest	3,000	0.12%
Miscellaneous/Other	13,138	0.51%
<b>Total Revenue</b>	<b>2,293,406</b>	<b>89.90%</b>
Sale of Capital Assets	14,540	0.57%
Transfers In	18,265	0.72%
Beginning FY2018 Fund Balance	225,277	8.83%
<b>TOTAL RESOURCES</b>	<b>2,551,488</b>	<b>100.00%</b>
* Dollars in Thousands		
Total may reflect slight variances due to rounding		

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

**RELATIONSHIP OF GENERAL FUND RESOURCES  
FY2015 THROUGH FY2018**



Total General Fund Revenue

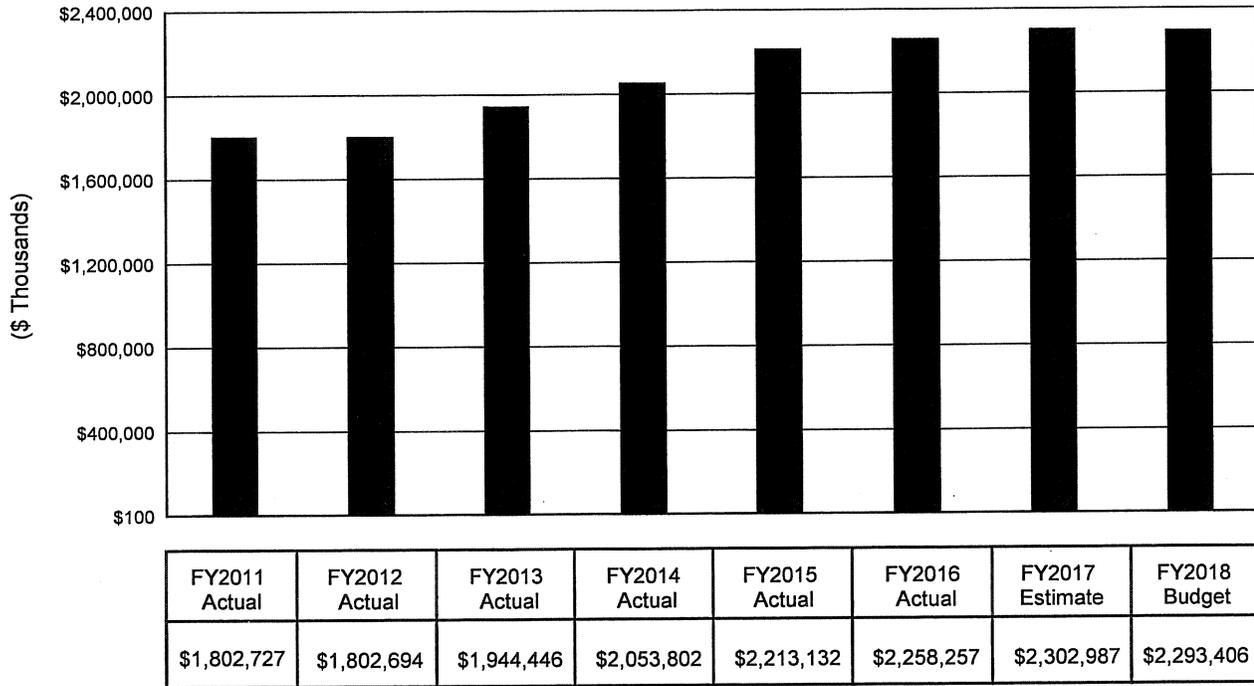


Table I below provides the FY2018 General Fund revenue budget by categories. As shown, the total revenue is expected to be \$2.3 billion or \$9.6 million lower than the projected FY2017 revenue.

**Table I**  
**FY2018 Revenue Budget**  
**Compared with FY2017 Estimate**

Category	Projected Revenue (\$ Thousands)		
	FY2017 Estimate	FY2018 Budget	Increase / (Decrease)
General Property Taxes	1,158,377	1,158,297	(80)
Industrial Assessment	18,322	17,917	(405)
Sales Taxes	621,000	627,000	6,000
Other Tax	16,909	17,413	504
Electric Franchise	102,030	102,270	240
Telephone Franchise	40,906	37,215	(3,691)
Gas Franchise	15,016	13,791	(1,225)
Other Franchise	30,431	26,806	(3,625)
Licenses and Permits	39,219	36,942	(2,277)
Intergovernmental	71,413	71,062	(351)
Charges for Services	59,119	59,230	111
Direct Interfund Services	55,581	54,859	(722)
Indirect Interfund Services	27,172	29,001	1,829
Municipal Courts Fines and Forfeits	21,371	21,371	0
Other Fines and Forfeits	4,128	4,094	(34)
Interest	4,000	3,000	(1,000)
Miscellaneous/Other	17,994	13,138	(4,856)
<b>Total</b>	<b>2,302,988</b>	<b>2,293,406</b>	<b>(9,582)</b>

**FISCAL YEAR 2018 BUDGET**

Table II provides the revenue estimate for each distinct revenue source that is expected to produce at least \$3 million in FY2018. 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)		
	FY2017 Estimate	FY2018 Budget	Increase / ( Decrease)
General Property Taxes	\$1,158,377	\$1,158,297	\$ (80)
Sales Taxes	621,000	627,000	6,000
Industrial Assessment	18,322	17,917	(405)
Mixed Beverage Tax	16,687	17,188	501
Electric Franchise	101,018	100,836	(182)
Telephone Franchise	40,892	37,215	(3,677)
Gas Franchise	15,016	13,791	(1,225)
Cable TV Franchise Tax	22,442	19,077	(3,366)
Solid Waste Hauler Franchise Fee	7,595	7,664	69
Licenses and Permits	39,219	36,942	(2,277)
TIRZ Funding	29,096	29,174	78
Intergovernmental Revenue - 1115 Waiver	18,194	20,308	2,114
Ambulance Fees	46,500	46,200	(300)
Ambulance Fee Supplemental Reimbursement	24,033	21,500	(2,533)
Other Charges for Services	12,619	13,030	411
Interfund Police Protection	26,519	26,049	(469)
Interfund Fire Protection	20,360	20,360	-
Other Direct Interfund	8,702	8,449	(253)
Indirect Cost Recovery	27,172	29,001	1,828
Moving Violations	11,777	11,777	-
Other Municipal Courts Fines and Forfeitures	9,595	9,595	-
Miscellaneous/Other	17,994	13,138	(4,857)
All Other Revenues	9,859	8,900	(959)
<b>Total</b>	<b>\$2,302,988</b>	<b>\$2,293,406</b>	<b>\$ (9,582)</b>

**Taxes**

Property Taxes

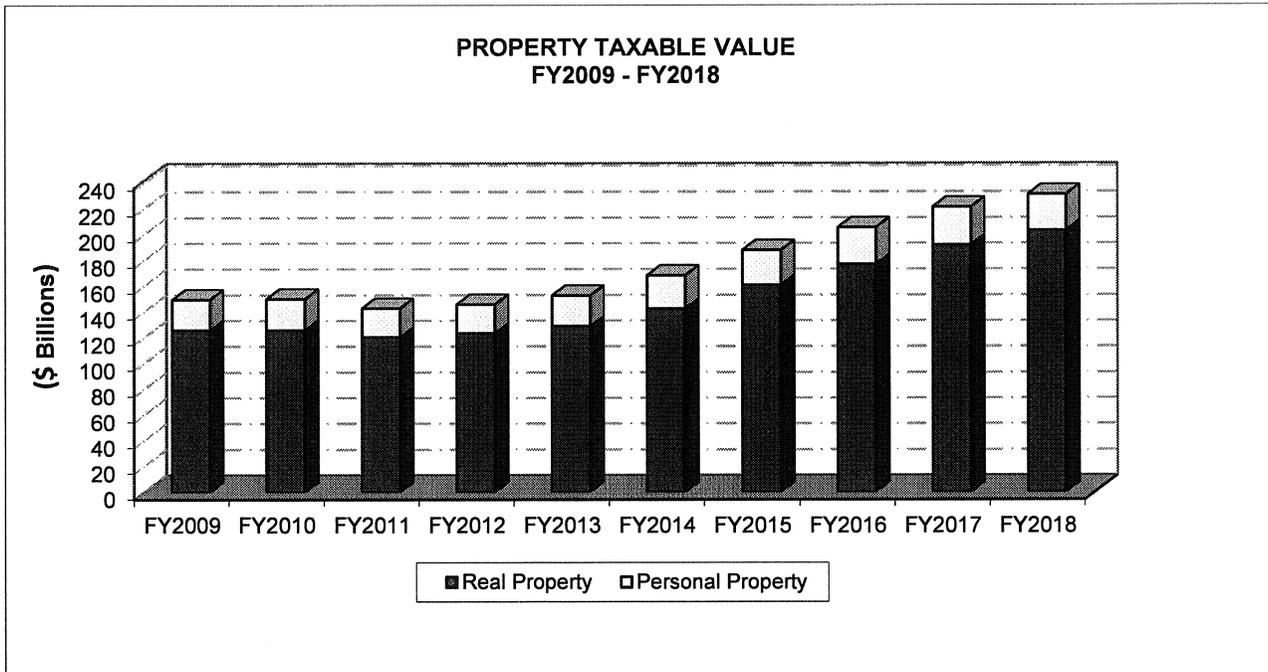
General property taxes are ad valorem taxes levied on the assessed valuation of real and personal property. Taxable values for all real and personal property within the City, depending on their locations, are established by the Harris County Appraisal District (HCAD), Montgomery County Appraisal District (MCAD) or Fort Bend County Appraisal District (FBCAD), collectively County Appraisal Districts (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 58.642 cents per \$100 of taxable value.

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 January 31st 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 FY2018 property tax value certified estimate provided by CAD to the City in April 2017 is \$231.1 billion, which is net of the current senior/disabled exemption of \$160,000. 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 \$202.7 billion.

Below is a graph showing the ten-year history of property taxable values in Houston, with the \$231.1 billion estimate shown for FY2018.



**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>
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	120,546	22,360	142,906
2012	2011	123,292	22,381	145,673
2013	2012	129,096	23,692	152,788
2014	2013	142,599	25,810	168,409
2015	2014	160,919	27,031	187,950
2016	2015	177,083	28,462	205,545
2017	2016	194,948	28,266	223,214
2018	2017	203,214	27,920	231,134*

\*County Appraisal District Certified Estimates, as of April 2017.

Property Tax Collections

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 FY2018 property tax revenue estimate is derived according to Proposition 1 and Proposition H. The Finance Department applied the 2016 inflation rate of 1.5842% and population estimate as of 7/1/2016 of 0.32% to arrive at a net revenue estimate of \$1.16 billion. This revenue will remain relatively flat, compared to the estimated FY2017 revenue of \$1.16 billion. The property tax rate will be adjusted accordingly to levy revenues no higher than the Proposition 1 and Proposition H limitation.

The Proposition 1 and Proposition H revenue limitation is calculated with the following assumptions.

<u>Population (1)</u>		<u>CPI (2)</u>	
July 1, 2003	2,009,669	2003	163.7
July 1, 2004	2,012,626 + 0.1471%	2004	169.5 + 3.5431%
July 1, 2005	2,076,189 + 3.1582%	2005	175.6 + 3.5988%
July 1, 2006	2,144,491 + 3.2898%	2006	180.6 + 2.8474%
July 1, 2007	2,208,180 + 2.9699%	2007	183.8 + 1.7929%
July 1, 2008	2,244,615 + 1.6500%	2008	189.967 + 3.3339%
July 1, 2009	2,257,926 + 0.5930%	2009	190.495 + 0.2779%
July 1, 2010	2,099,451 + 0.0000%	2010	194.172 + 1.9302%
July 1, 2011	2,145,146 + 2.1765%	2011	200.495 + 3.2564%
July 1, 2012	2,160,821 + 0.7307%	2012	204.213 + 1.8544%
July 1, 2013	2,195,914 + 1.6241%	2013	207.574 + 1.6458%
July 1, 2014	2,239,558 + 1.9875%	2014	213.365 + 2.7898%
July 1, 2015	2,296,224 + 2.5302%	2015	213.039 - 0.1528%
July 1, 2016	2,303,482 + 0.3161%	2016	216.414 + 1.5842%

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**FISCAL YEAR 2018 BUDGET**

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	(\$ In Thousand)
FY2005 Actual	\$671,294
Population Increase 2004	0.1471%
CPI Increase 2004	<u>3.5431%</u>
FY2006 CAP	\$696,066
Population Increase 2005	3.1582%
CPI Increase 2005	<u>3.5988%</u>
FY2007 CAP	\$743,100
Population Increase 2006	3.2898%
CPI Increase 2006	<u>2.8474%</u>
FY2008 CAP	\$788,705
Population Increase 2007	2.9699%
CPI Increase 2007	<u>1.7929%</u>
FY2009 CAP	\$826,269
Population Increase 2008	1.6500%
CPI Increase 2008	<u>3.3339%</u>
FY2010 CAP	\$867,450
Population Increase 2009	0.5930%
CPI Increase 2009	<u>0.2779%</u>
FY2011 CAP	\$875,005
Population Decrease 2010	-7.0186%
CPI Increase 2010	<u>1.9302%</u>
FY2012 CAP	\$875,005
Population Increase 2011	2.1765%
CPI Increase 2011	<u>3.2564%</u>
FY2013 CAP	\$922,543
Population Increase 2012	0.7307%
CPI Increase 2012	<u>1.8544%</u>
FY2014 CAP	\$946,392
Population Increase 2013	1.6241%
CPI Increase 2013	<u>1.6458%</u>
FY2015 CAP	\$977,338
Population Increase 2014	1.9875%
CPI Increase 2014	<u>2.7898%</u>
FY2016 CAP	\$1,024,029
Population Increase 2015	2.5302%
CPI Decrease 2015	<u>-0.1528%</u>
FY2017 CAP	\$1,048,375
Population Increase 2016	0.3161%
CPI Increase 2016	<u>1.5842%</u>
	\$1,068,297
Proposition H (3)	<u>\$90,000</u>
<b>FY2018 CAP</b>	<b>\$1,158,297</b>
FY2017 Estimate	\$1,158,377
FY2018 CAP (Based on 4.5% Increase from FY2017 Estimate)	\$1,207,457
<b>Final FY2018 CAP (the Lower FY2018 CAP)</b>	<b>\$1,158,297</b>

- (1) Population numbers based upon the US Census Bureau estimate most recently published when deciding limits of each respective year's property tax revenue budget increase.
- (2) CPI increase based on the change in the CPI-U for Houston-Galveston-Brazoria, Texas as published by the Bureau of Labor Statistics, for the preceding calendar year.
- (3) In accordance with Proposition H, to increase the applicable revenue limitation by \$90 million.

**Sales Tax**

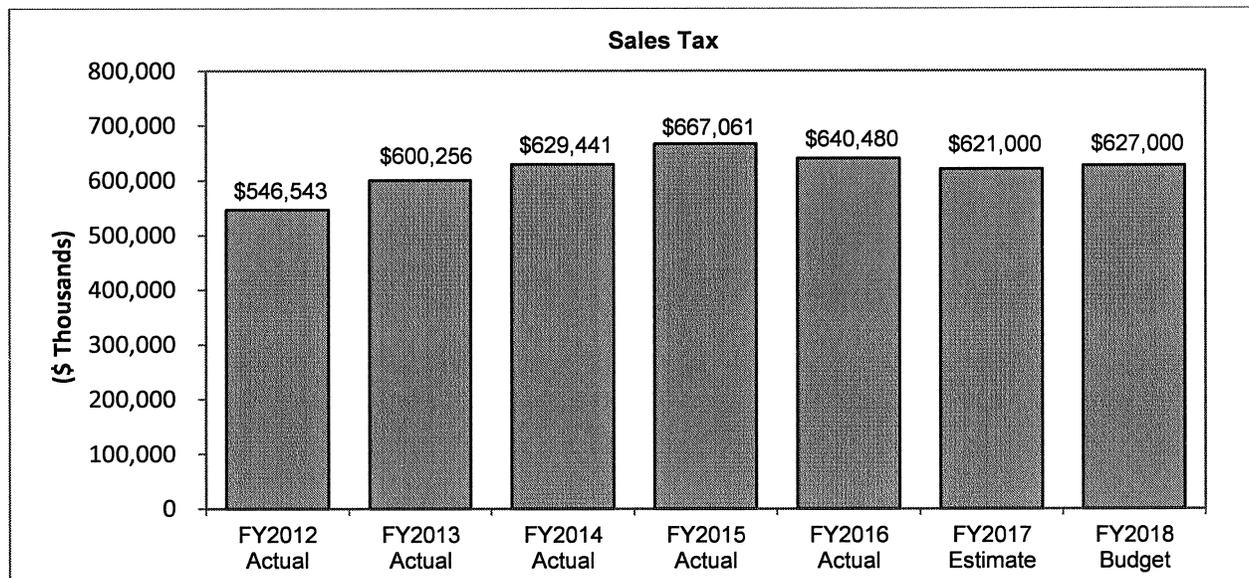
General sales and use taxes are imposed upon the sale or consumption of certain goods and services at the point of sale. In the City of Houston, a \$0.0825 sales and use tax is applied for every dollar of sales. The

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 derived from econometric models which take into account the sectors of the Houston economy and estimates of income, prices, population, and Primary Metropolitan Statistical Area (PMSA) retail sales.

The FY2018 budget amount of \$627 million is approximately \$6 million, or 0.97% higher than FY2017 estimated amount of \$621 million. This estimate is supported by the uncertainty regarding the path of oil prices. Employment is the key driver of sales tax revenue, including consumer sales and business to business sales. Historically, the sales tax has responded in an immediate manner to changes in our employment growth and/or decline. The energy exploration and drilling boom has slowed significantly, and while Houston's economy has diversified, it is still strongly tied to energy. The City will monitor oil and gas prices to see if low prices further impact the local economy.

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



**Industrial District Assessments**

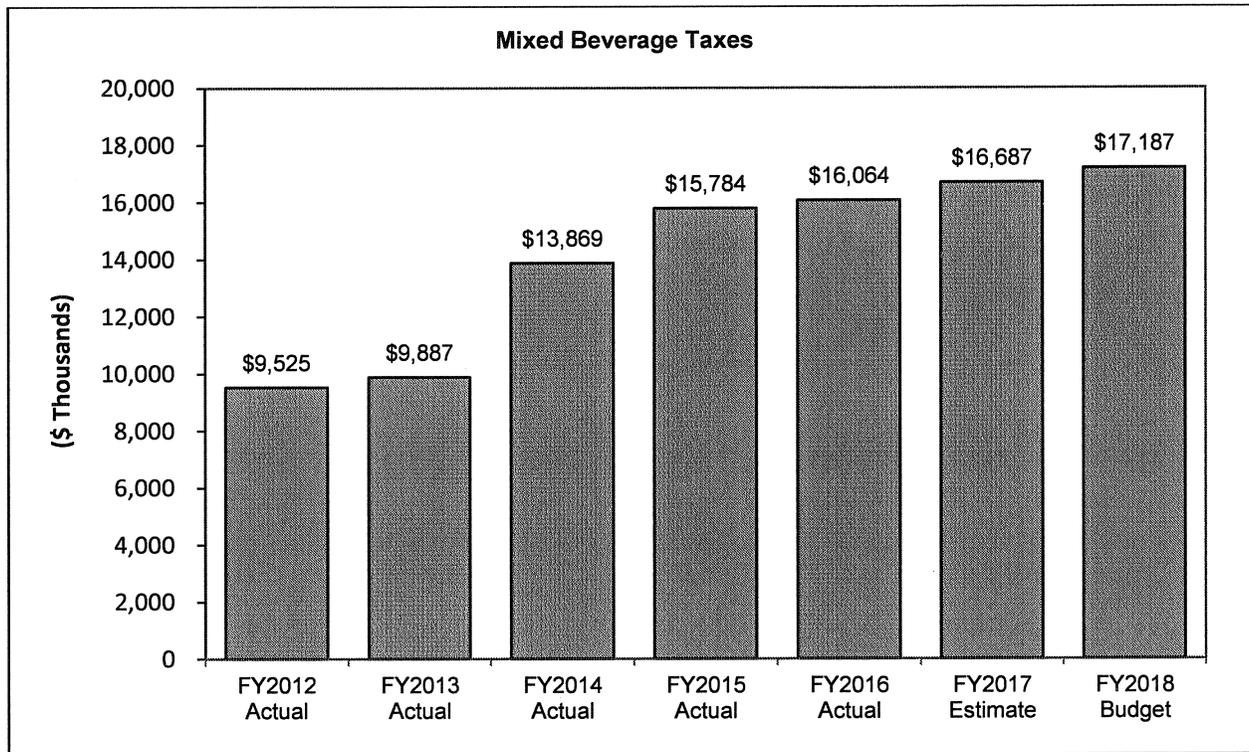
The City of Houston has Industrial District Contract Agreements having a term of fifteen years with more than 100 companies that are located within the Houston Extra-Territorial Jurisdiction (ETJ). A contractually reduced ad valorem assessed valuation fee is calculated and billed annually to each company 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. The City expects to collect \$17.9 million in FY2018.

**Mixed Beverage Tax**

Following the end of each calendar quarter, the State Comptroller allocates 10.7143% of the mixed beverage tax received to the counties and cities.

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 FY2018 projection, we are anticipating the revenue estimate of \$17.2 million reflecting the trend in recent years. 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’s 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 99.9% of the electric franchise fees paid to the City, which represents approximately \$100.7 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, 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 based on kilowatt hours delivered in the City.

The FY2017 electric franchise fee estimate is \$101 million. The FY2018 electric franchise fee estimate of \$100.8 million is approximately 0.18% lower than the FY2017 estimate. Kilowatt hour consumption for calendar year 2016 was down 0.26% from 2015.

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

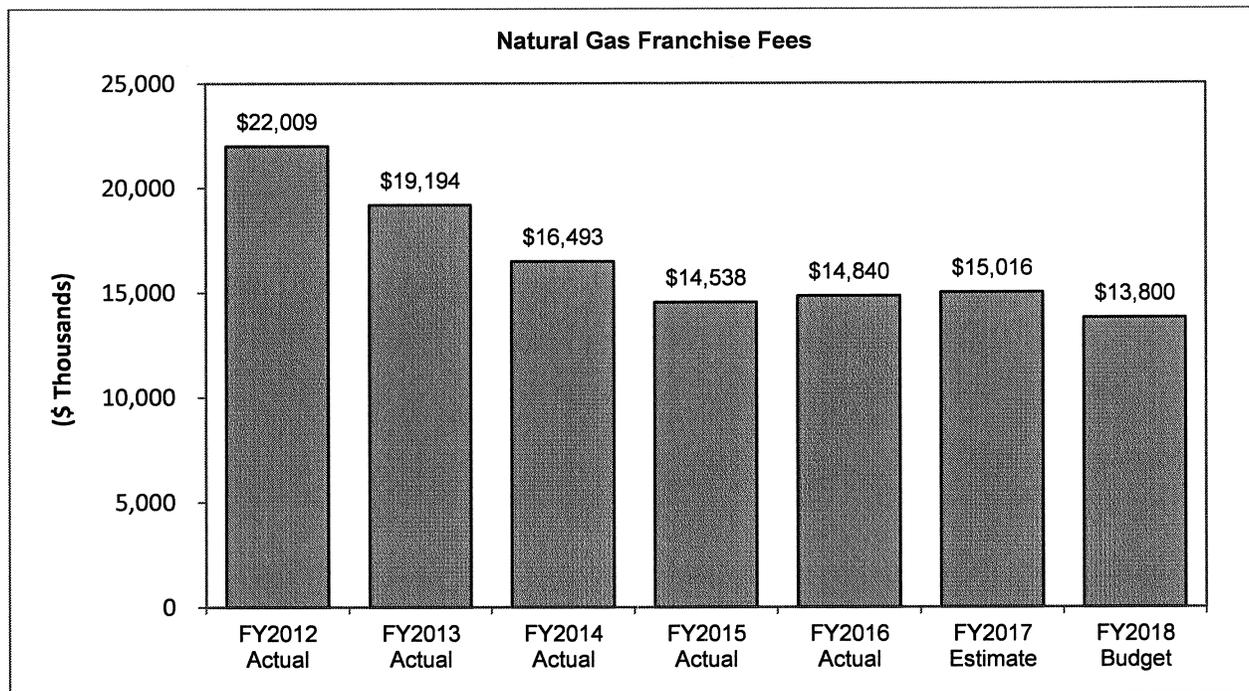
**Natural Gas Franchise**

Like electric franchise fees, natural gas franchise fees are paid by utilities that use the City's 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. For FY2018, franchise fees are based on CenterPoint's 2014, 2015 and 2016 gross revenues.

The estimate for FY2017 natural gas franchise fees from CenterPoint is approximately \$15 million. The FY2018 natural gas franchise fee estimate is \$13.8 million, a decrease of 8.16% from FY2017. CenterPoint's calendar year 2016 revenues were \$232.4 million compared to calendar year 2013's revenues of \$305.9 million, a decrease of 24.03%. Residential and commercial account revenues in 2016 were down 19.89% and 40.10%, respectively, compared to 2013's accounts, which account for the majority of the loss in overall revenues.

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



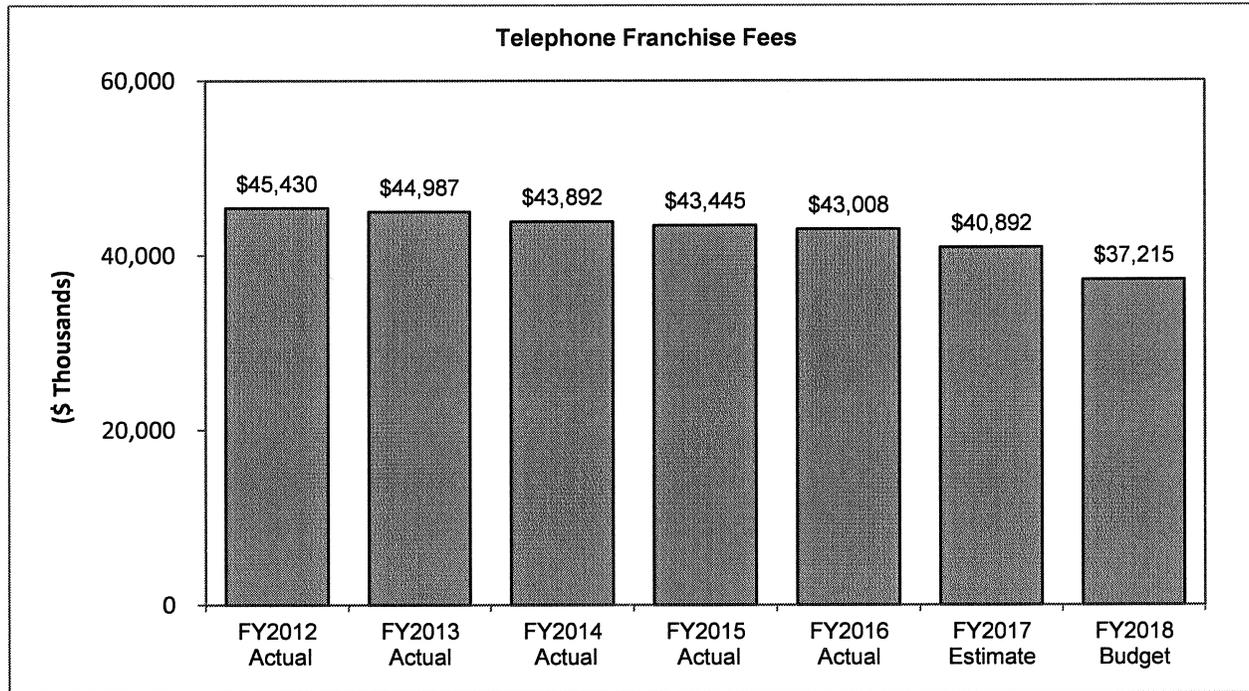
The City of Houston exercises original jurisdiction over the rates, operations and services of these natural gas utilities for the Houston area.

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. The access line rates that will be in effect during the fiscal year are as follows: residential - \$1.81; non-residential - \$6.13; and point-to-point - \$17.35.

The FY2017 estimate for telephone franchise fee is \$41 million, exclusive of audit recoveries. The FY2018 projection of \$37.2 million is a 9.27% decrease from FY2017 estimate, and is reflective of the continued decrease in the number of access lines being reported by CTPs.

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 two active cable franchises with the following cable companies: SuddenLink Communications and Phonoscope. The cable franchises expire in 2017 and 2018, respectively. 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 U-Verse. 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 65.4% of the total cable franchise revenue projection for FY2018. The projection for FY2018 is \$19.1 million, which is 14.73% lower than the FY2017 estimate of \$22.4 million. Continuing decreases in AT&T U-verse franchise fee payments are expected based on industry publication articles indicating AT&T is driving customers to its DirectTV platform and away from its U-verse platform.

Solid Waste Hauler Franchise Fees

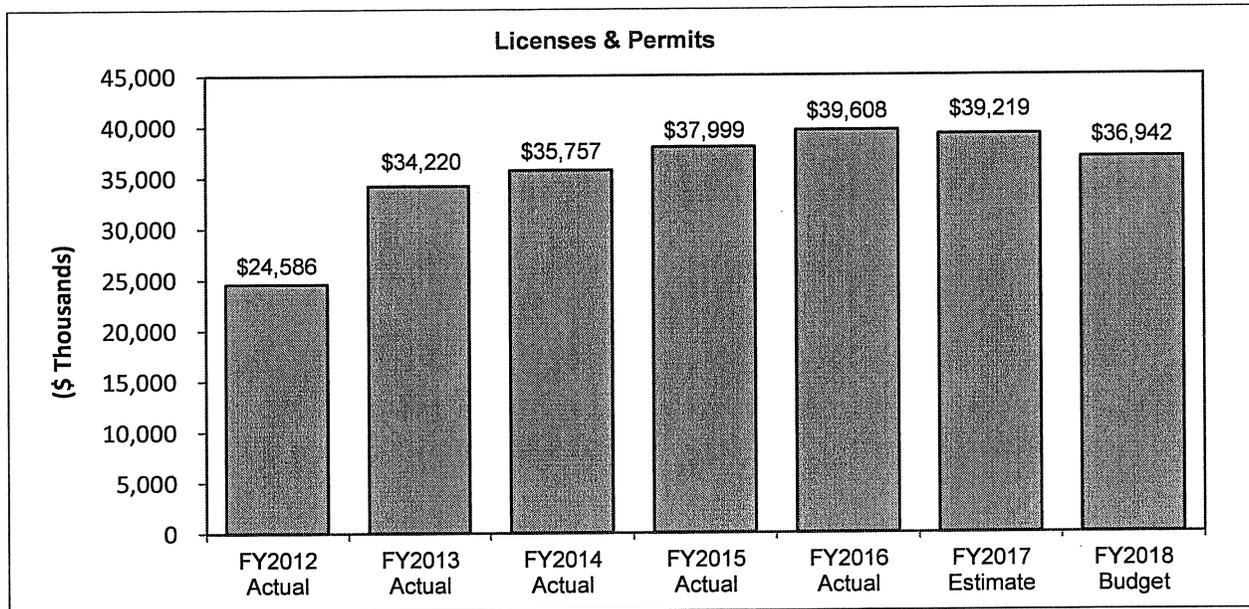
Solid waste haulers pay fees to compensate the City for the use of City streets. Approximately 122 active solid waste hauler franchises pay 4% of gross revenues from transporting commercial solid and industrial wastes that originate within the City limits. The FY2017 estimate for solid waste hauler franchise fees is \$7.6 million,

exclusive of audit recoveries. The FY2018 estimate of \$7.7 million assumes a slight increase in revenues as a result of stabilization of the local economy.

**Other Revenues**

Licenses and Permits

The Licenses and Permits category includes such items as special fire, food dealer, burglar alarm, dumpster permits, and many other permits. The FY2018 revenue is estimated at \$36.9 million, which is approximately \$2.3 million lower than FY2017 estimate of \$39.2 million.



Ambulance Fees

City of Houston Code of Ordinance Chapter 4 permits the City to provide Emergency Medical Services including ambulance transport to the public and permits the City to partially recover the cost of providing those services. The base and variable fee structure is addressed under Section 4.13.

The City contracts with a third-party vendor for the billing and collection of Emergency Medical Services. The present contract is with Digitech Computers, Inc. At the end of the four-year contract term (August 2017), the City can opt to renew the contract for up to four successive one-year terms.

The revenue projection for Emergency Medical Services provided by the City of Houston for FY2018 is \$46.2 million, a decrease of \$300,000 or approximately 1% lower than the FY2017 estimate of \$46.5 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 FY2018, revenues of \$13 million are projected, an increase of approximately \$411,000 or 3.3% higher than the FY2017 estimate of \$12.6 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 FY2018 projection of \$26 million is \$469,000 lower, or approximately 2% lower than the FY2017 estimates of \$26.5 million.

The Aviation Enterprise Fund also pays for fire protection provided by the Fire Department to the Houston Airport System. The FY2018 projection of \$20.4 million, which remains unchanged from the FY2017 estimate.

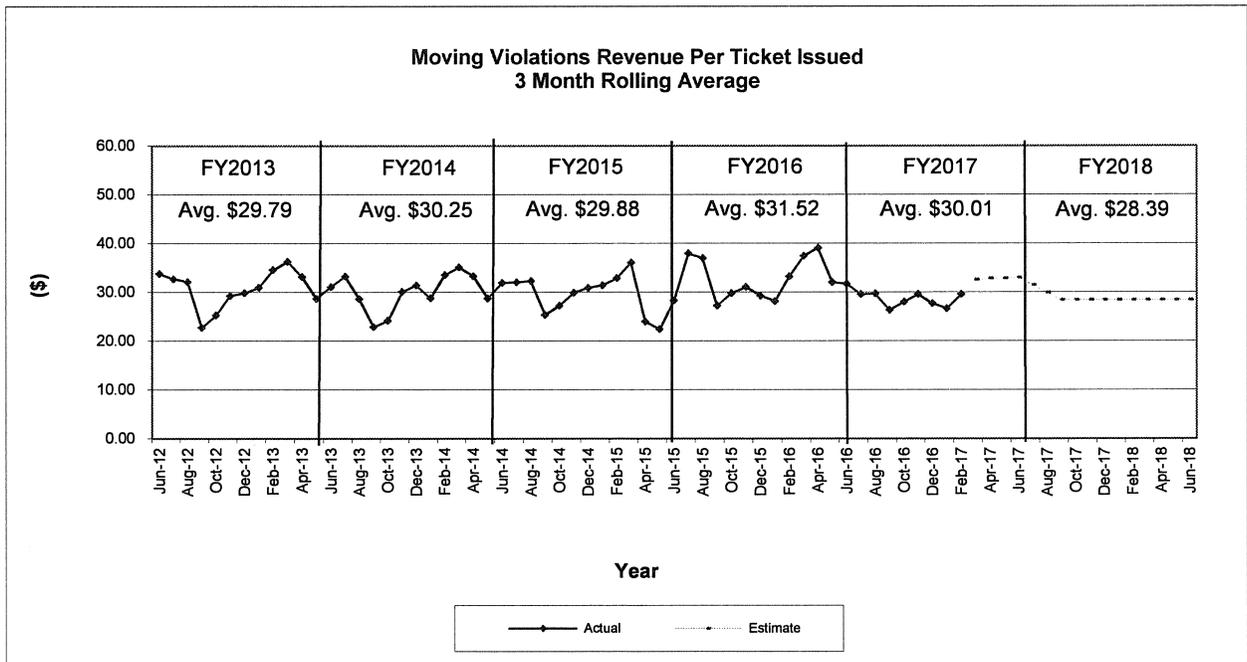
Payments received for other direct services performed by the General Fund are recovered throughout the year. The FY2018 projection of \$8.5 million is approximately \$253,000 lower than the FY2017 estimate of \$8.7 million.

**Indirect Cost Recovery**

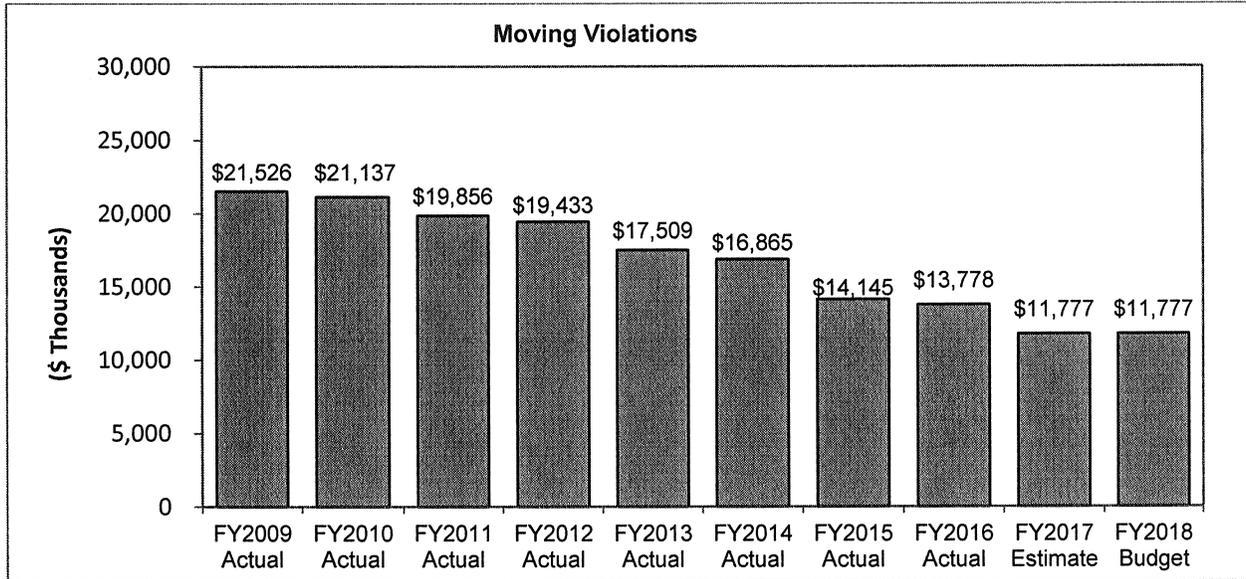
The General Fund provides citywide central support services and recovers the cost of these services through allocation of indirect costs. These amounts are determined through the preparation of an annual cost allocation plan, which distributes administrative overhead costs to General Fund operating departments and to other funds. For FY2018, the proposed plan calls for cost recoveries totaling \$29 million, an increase of \$1.8 million in indirect interfund revenue from the FY2017 estimate of \$27.2 million.

**Moving Violations**

In FY2018, we project 414,770 tickets to be issued. Total Moving Violations revenue budgeted is \$11.8 million, which results in an average of \$28.39 for tickets issued in FY2018.



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



Other Municipal Courts Fines and Forfeitures

The FY2018 Municipal Court Fines and Forfeitures are projected at \$9.6 million.

Miscellaneous/Other

The FY2018 revenue is estimated at \$13.1 million, which is approximately \$4.9 million lower than FY2017 estimate of \$18 million.

All Other Revenues

Estimated revenues in remaining categories have been calculated using simple trend analysis, as well as operational and collections information from the collecting department. These revenues are estimated at \$8.9 million in FY2018, and \$9.9 million for FY2017.

A detailed listing of General Fund revenues by category are presented in the appendices.