

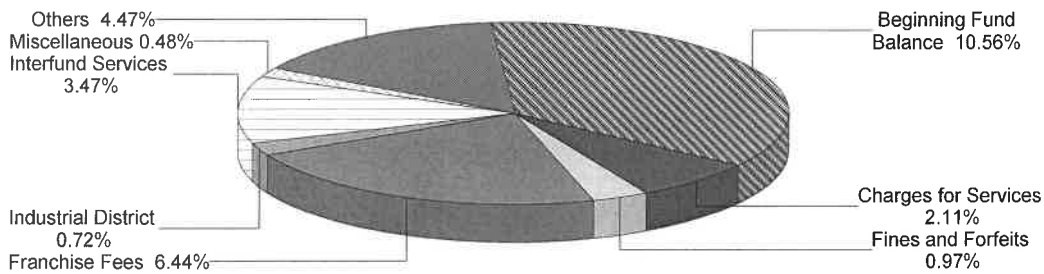
GENERAL FUND RESOURCES SUMMARY

The General Fund is the City of Houston's largest operating fund. With total resources of \$2.7 billion budgeted in FY2020, 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 FY2020 BUDGET



COMPOSITION OF OTHER (ABOVE)



FISCAL YEAR 2020 BUDGET

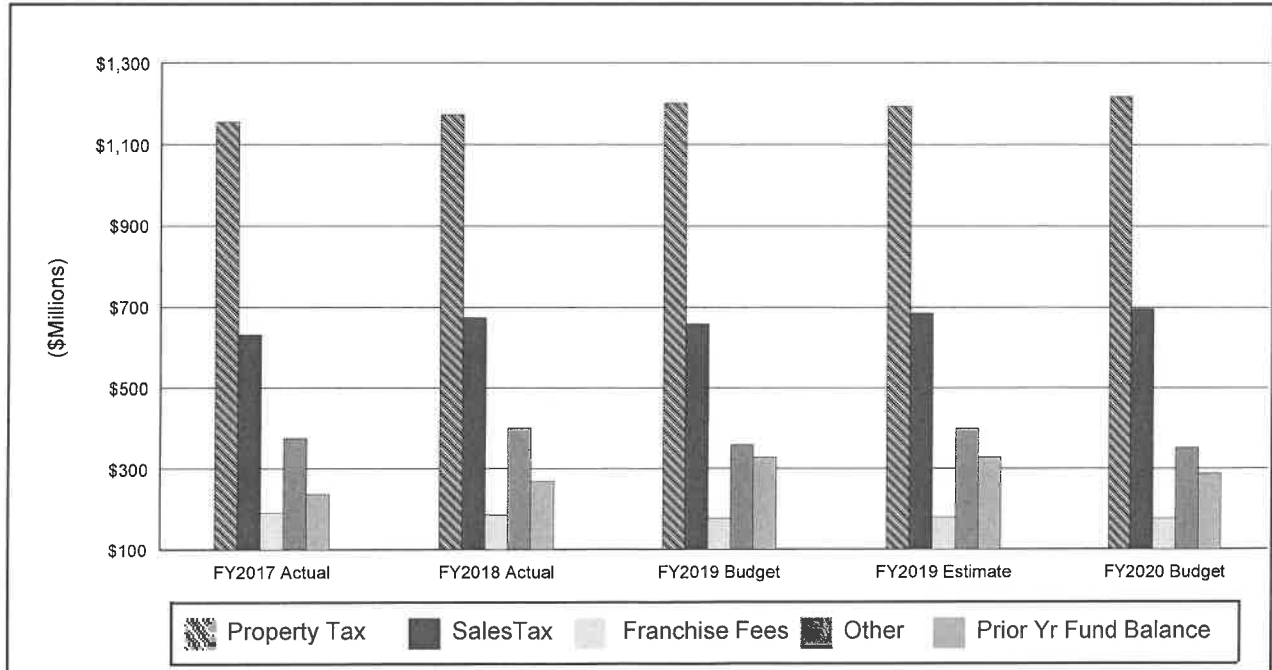
The composition of the FY2020 General Fund resources is listed below:

<u>RESOURCE CATEGORIES</u>	<u>RESOURCE FY2020 BUDGET*</u>	<u>% OF TOTAL BUDGET</u>
Taxes:		
Property Taxes	1,217,066	44.62%
Sales Taxes	694,567	25.46%
Other Tax	19,024	0.70%
Franchise Fees	175,760	6.44%
Industrial District	19,550	0.72%
Licenses and Permits	33,969	1.24%
Intergovernmental	61,051	2.24%
Charges for Services	57,594	2.11%
Interfund Services	94,516	3.47%
Fines and Forfeits	26,537	0.97%
Interest	9,011	0.33%
Miscellaneous/Other	12,998	0.48%
Total Revenue	<u>2,421,643</u>	<u>88.78%</u>
Sale of Capital Assets	2,176	0.08%
Transfers In	15,707	0.58%
Beginning FY2020 Fund Balance	288,017	10.56%
TOTAL RESOURCES	<u>2,727,543</u>	<u>100.00%</u>

* 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
FY2017 THROUGH FY2020**



Total General Fund Revenue

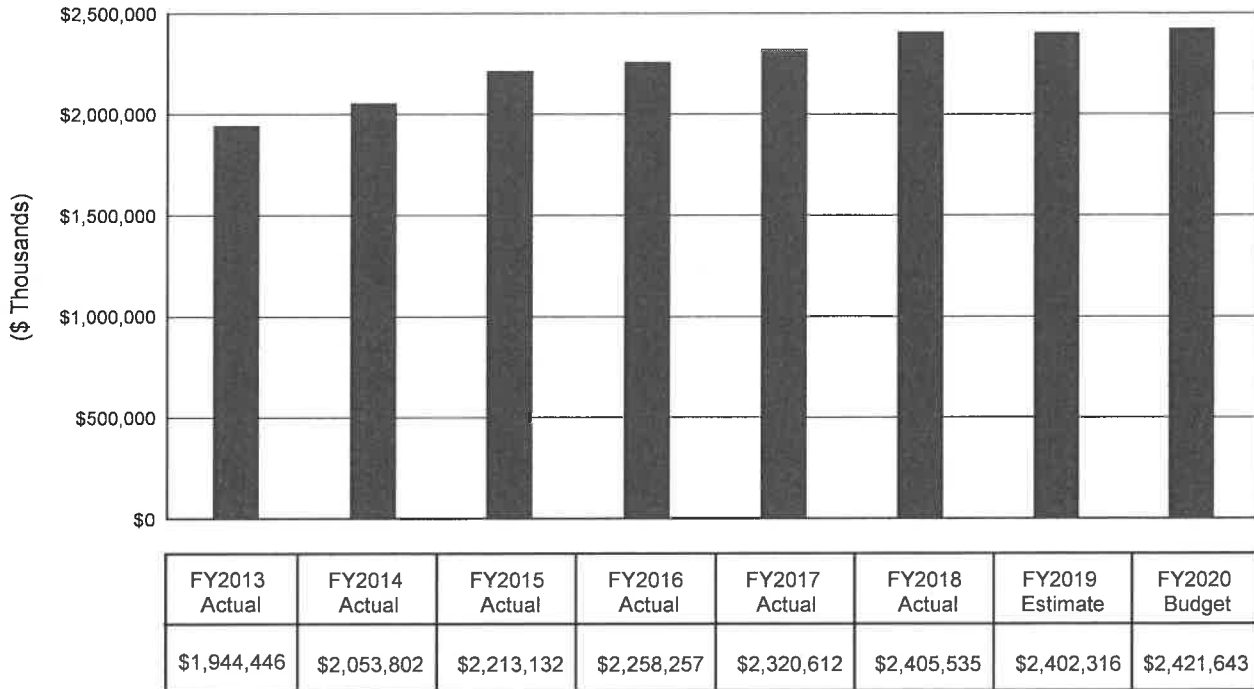


Table I below provides the FY2020 General Fund revenue budget by categories. As shown, the total revenue is expected to be \$2.4 billion or \$19.3 million higher than the projected FY2019 revenue.

**Table I
FY2020 Revenue Budget
Compared with FY2019 Estimate**

Category	Projected Revenue (\$ Thousands)		
	FY2019 Estimate	FY2020 Budget	Increase / (Decrease)
General Property Taxes	1,193,375	1,217,066	23,691
Industrial Assessment	19,463	19,550	87
Sales Taxes	684,700	694,567	9,867
Other Tax	18,450	19,024	574
Electric Franchise	100,578	100,774	196
Telephone Franchise	37,084	34,700	(2,384)
Gas Franchise	12,324	12,386	62
Other Franchise	29,321	27,901	(1,420)
Licenses and Permits	34,495	33,969	(526)
Intergovernmental	65,273	61,051	(4,222)
Charges for Services	56,971	57,594	623
Direct Interfund Services	64,166	66,825	2,659
Indirect Interfund Services	26,618	27,690	1,072
Municipal Courts Fines and Forfeits	22,072	22,572	500
Other Fines and Forfeits	3,999	3,965	(34)
Interest	9,011	9,011	0
Miscellaneous/Other	24,416	12,998	(11,418)
Total	2,402,316	2,421,643	19,327

Table II provides the revenue estimate for each distinct revenue source that is expected to produce at least \$3 million in FY2020. 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)		
	FY2019 Estimate	FY2020 Budget	Increase / (Decrease)
General Property Taxes	\$1,193,375	\$1,217,066	\$ 23,691
Sales Taxes	684,700	694,567	9,867
Industrial Assessment	19,463	19,550	87
Mixed Beverage Tax	18,228	18,792	565
Electric Franchise	99,206	99,414	208
Telephone Franchise	36,975	34,700	(2,275)
Gas Franchise	12,324	12,386	62
Cable TV Franchise Tax	20,300	19,075	(1,225)
Solid Waste Hauler Franchise Fee	7,869	8,000	131
Licenses and Permits	34,494	33,969	(526)
TIRZ Funding	30,928	30,707	(221)
Intergovernmental Revenue - 1115 Waiver	10,838	10,215	(623)
Ambulance Fees	43,000	43,000	-
Ambulance Fee Supplemental Reimbursement	23,377	20,000	(3,377)
Other Charges for Services	13,971	14,594	623
Interfund Police Protection	32,308	33,152	844
Interfund Fire Protection	21,971	23,850	1,879
Other Direct Interfund	9,888	9,824	(64)
Indirect Cost Recovery	26,618	27,691	1,073
Moving Violations	12,737	13,026	289
Other Municipal Courts Fines and Forfeitures	9,335	9,547	211
Miscellaneous/Other	24,416	12,998	(11,418)
All Other Revenues	15,996	15,521	(475)
Total	\$2,402,316	\$2,421,643	\$ 19,327

Taxes

Property Taxes

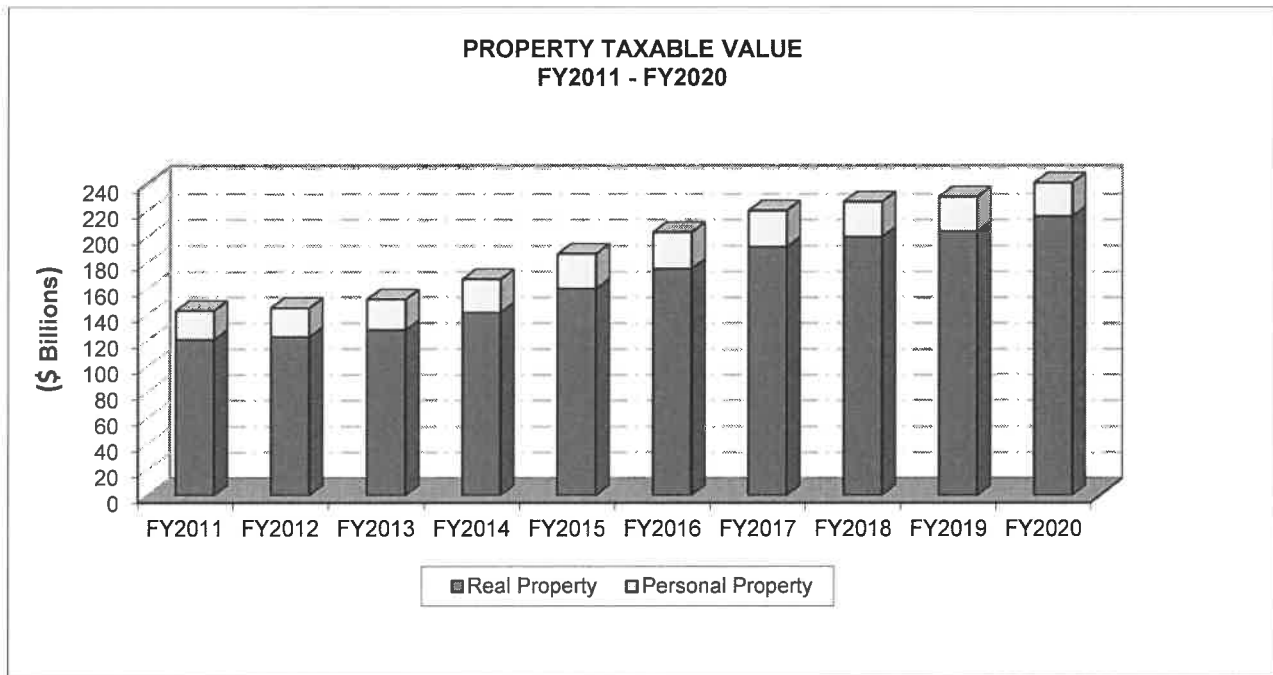
General property taxes are ad valorem taxes levied on the assessed valuation of real and personal property. Taxable values for all real and personal property within the City, depending on their locations, are established by the Harris County Appraisal District (HCAD), Montgomery County Appraisal District (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 58.831 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 the 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. The 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 FY2020 property tax value certified estimate provided by CAD to the City on April 2019 is \$244.2 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 \$212.2 billion.

Below is a graph showing the ten-year history of property taxable values in Houston, with the \$244.2 billion estimate shown for FY2020.



FISCAL YEAR 2020 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>
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	149,628
2010	2009	125,999	24,094	150,093
2011	2010	120,546	22,360	142,905
2012	2011	122,747	22,279	145,026
2013	2012	128,081	23,670	151,752
2014	2013	141,684	25,714	167,398
2015	2014	160,088	26,956	187,043
2016	2015	175,512	28,267	203,779
2017	2016	192,510	28,023	220,533
2018	2017	200,189	27,131	227,319
2019	2018	204,699	26,587	231,287
2020	2019	216,124	28,072	244,196*

*County Appraisal District Certified Estimates, as of April 30, 2019.

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 Index (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 FY2020 property tax revenue estimate is derived according to Proposition 1 and Proposition H. The Finance Department applied the 2018 inflation rate of 2.3883% and population estimate as of 7/1/2018 of 0.68% to arrive at a net revenue estimate of \$1.22 billion. This revenue is approximately 2% higher than the estimated FY2019 revenue of \$1.19 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%
July 1, 2017	2,312,717 + 0.4009%	2017	220.657 + 1.9606%
July 1, 2018 (3)	2,328,419 + 0.6789%	2018	225.927 + 2.3883%

FISCAL YEAR 2020 BUDGET

	(\$ In Thousand)
Proposition 1	
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>
FY2018 CAP	\$1,068,297
Population Increase 2017	0.4009%
CPI Increase 2017	<u>1.9606%</u>
FY2019 CAP	\$1,093,525
Population Increase 2018	0.6789%
CPI Increase 2018	<u>2.3883%</u>
FY2020 CAP	\$ 1,127,066
Proposition H	<u>\$90,000</u>
FY2020 CAP (4a)	\$1,217,066
FY2019 Estimate	\$1,193,375
FY2020 CAP (4b)	\$1,313,711
Final FY2020 CAP (the Lower FY2020 CAP)	\$1,217,066

- (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-The Woodlands-Sugar Land, Texas as published by the Bureau of Labor Statistics, for the preceding calendar year.
- (3) Population numbers based upon Planning Department estimate.

- (4) The revenue cap is calculated:
- a. In accordance with Proposition H, to increase the applicable revenue limitation by \$90 million.
 - b. Based on 4.5% Increase from FY2019 Estimate plus the lower of \$90 million or the prior year balance of Prop H supplement less prior year usage of Prop H.

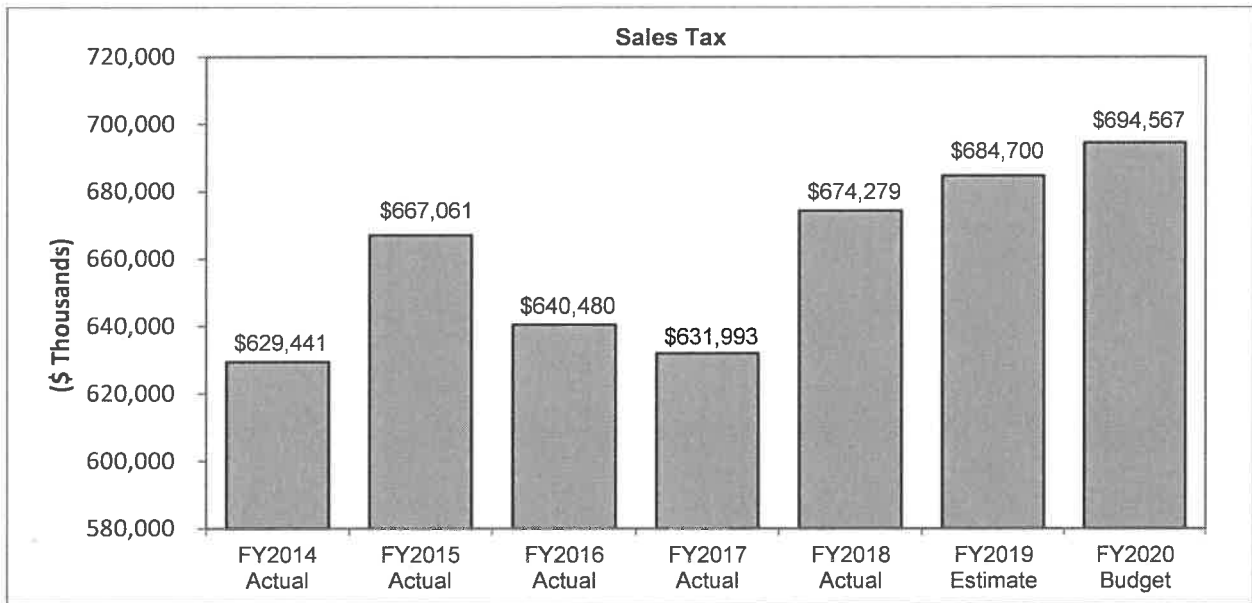
Sales Tax

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 FY2020 budget amount of \$694.6 million is approximately \$9.9 million, or 1.4% higher than FY2019 estimated amount of \$684.7 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. With Dr. Gilmer and the Greater Houston Partnership projecting approximately, two percent employment growth for the Houston area in 2019 the sales tax projection is expected to grow moderately.

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



Industrial District Assessments

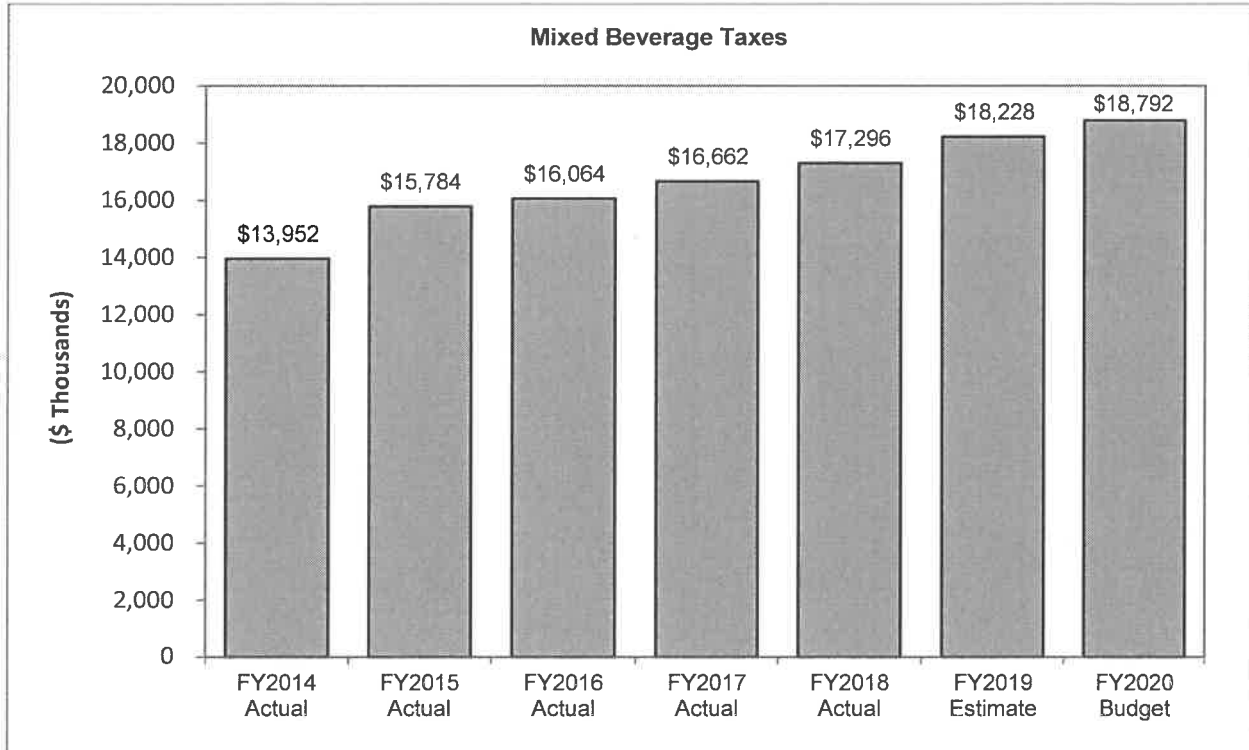
The City of Houston has Industrial District Contract Agreements with more than 100 companies located within the Houston Extra-Territorial Jurisdiction (ETJ), for a period of fifteen years. A contractually reduced ad valorem assessed valuation fee is calculated and billed annually to each company in lieu 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 \$19.5 million in FY2020.

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 FY2020 projection, we are anticipating the revenue estimate of \$18.8 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 Energy. CenterPoint pays approximately 99.9% of the electric franchise fees paid to the City, which represents approximately \$99.4 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 FY2019 electric franchise fee estimate is \$99.2 million. The FY2020 electric franchise fee estimate of \$99.4 million is approximately 0.2% higher than the FY2019 estimate. Kilowatt hour consumption for calendar year 2018 was up 0.2% from 2017.

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

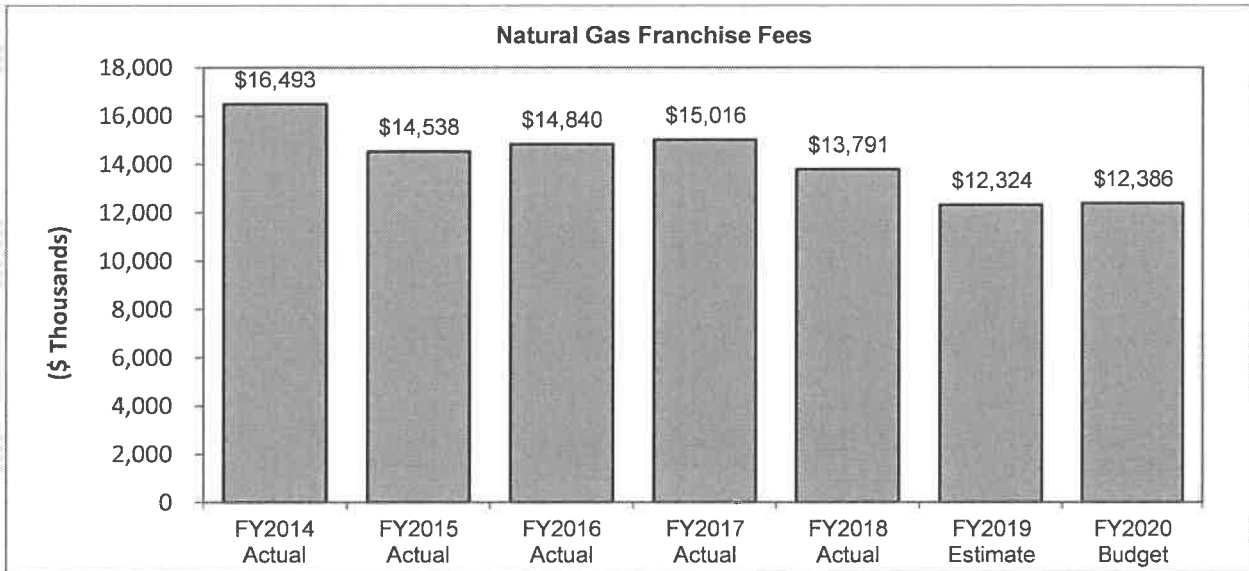
Natural Gas Franchise

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 FY2020, franchise fees are based on CenterPoint’s 2016, 2017 and 2018 gross revenues.

The estimate for FY2019 natural gas franchise fees from CenterPoint is approximately \$12.3 million. The FY2020 natural gas franchise fee estimate is \$12.4 million, an increase of 0.5% from FY2019. CenterPoint’s calendar year 2018 revenues were \$274.9 million compared to calendar year 2015’s revenues of \$271.2 million, an increase of 1.4%. Transportation revenues and residential account revenues in 2018 were up 11.3% and 3.0%, respectively, compared to 2015’s accounts, which accounts for the majority of the increase in overall revenue.

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



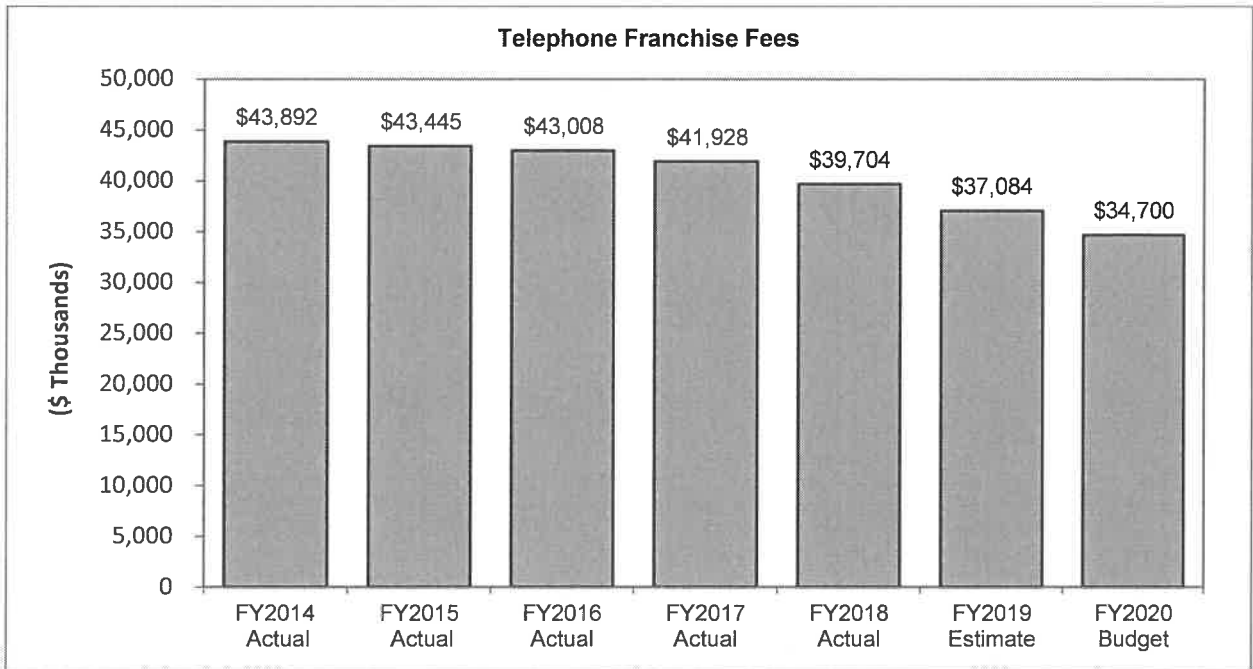
The City of Houston exercises original jurisdiction over the rates, operations and services of these natural gas utilities for the Houston area.

Telephone Franchise

Since deregulation of this industry in 2000, the telephone franchise fee paid to municipalities in Texas is derived by applying an “access line rate,” assigned by the Public Utilities Commission of Texas (PUCT) and adjusted annually for inflation. The access line rates that will be in effect during FY2020 are as follows: residential (\$1.86); non-residential (\$6.27); and point-to-point (\$17.73).

The FY2019 estimate for telephone franchise fee is \$36.9 million. The FY2020 projection of \$34.7 million is a 6.2% decrease from FY2019 estimate and is reflective of the continued decrease in the number of access lines being reported by Certificated Telephone Providers (CTPs).

The following graph below provides a seven-year comparison of the City’s telephone franchise fee revenue.



Cable TV Franchise Fees

Currently, there are four cable television/video service-providers operating in Houston under state-issued certificates of franchise authority: Comcast Cable, AT&T U-Verse, Suddenlink, and En-Touch Systems. 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 these franchises is Comcast, which accounts for approximately 62.29% of the total cable franchise revenue projection for FY2020. The projection for FY2020 is \$19.1 million, which is 6% lower than the FY2019 estimate of \$20.3 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.

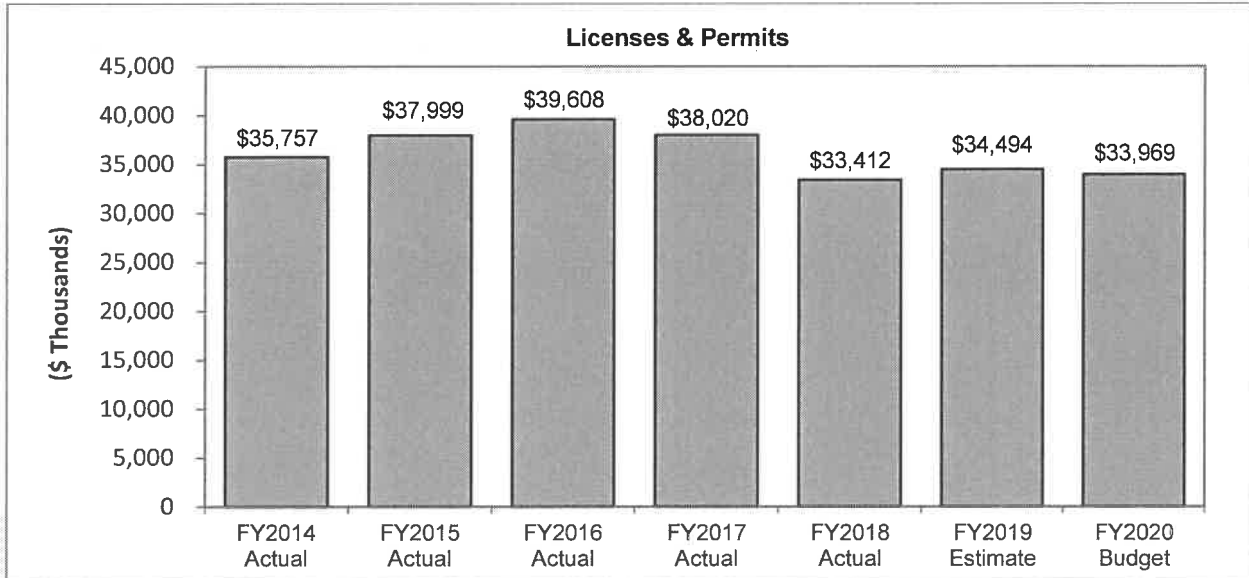
Solid Waste Hauler Franchise Fees

Solid waste haulers pay fees to compensate the City for the use of City streets. Approximately 142 active solid waste hauler franchises pay 4% of gross revenues from transporting commercial solid and industrial wastes that originate within the City limits. The FY2019 estimate for solid waste hauler franchise fees is \$8 million, exclusive of audit recoveries. The FY2020 estimate of \$8 million assumes no change in revenues as a result of projected flattened local economic growth.

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 FY2020 revenue is estimated at \$34 million, which is approximately \$526,000 lower than the FY2019 estimate of \$34.5 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 revenue projection for Emergency Medical Services provided by the City of Houston for FY2020 is \$43 million, which remains unchanged from the FY2019 estimate.

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. The FY2020 revenues is \$14.6 million, which is \$623,000 higher than the FY2019 estimate of \$14 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 FY2020 projection of \$33.2 million is \$844,000 higher, or approximately 2.6% higher than the FY2019 estimates of \$32.3 million.

The Aviation Enterprise Fund also pays for fire protection provided by the Fire Department to the Houston Airport System. The FY2020 projection of \$23.9 million is \$1.9 million higher, or approximately 8.6% higher than the FY2019 estimates of \$22 million.

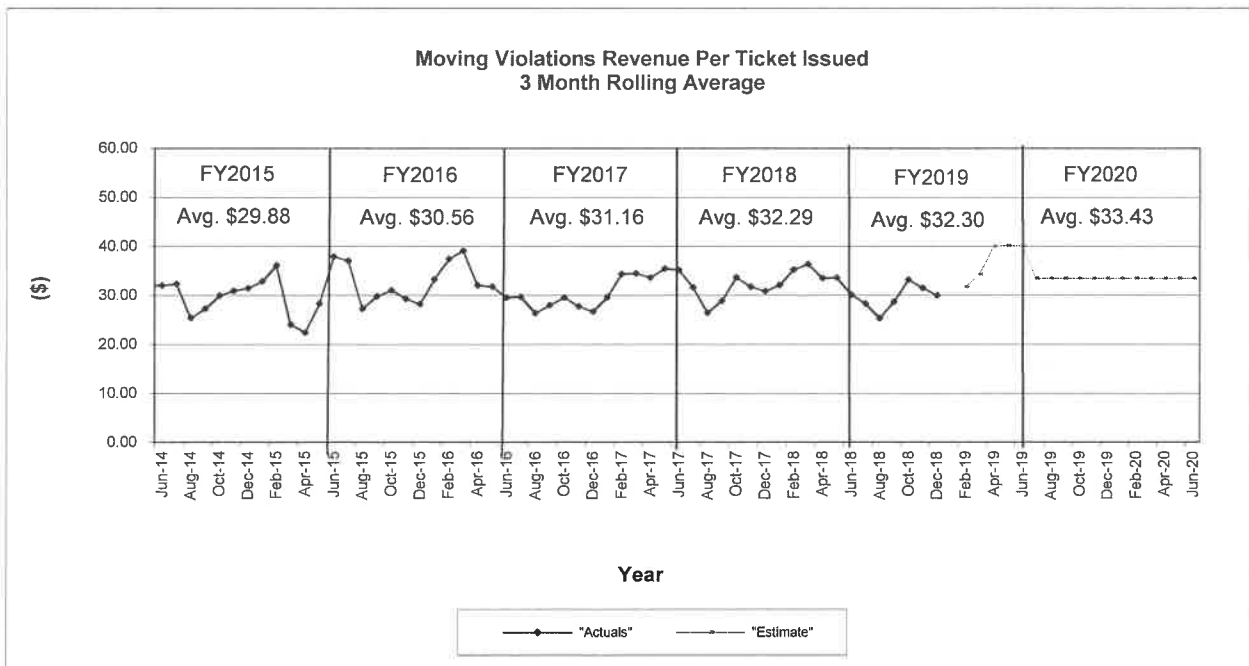
Payments received for other direct services performed by the General Fund are recovered throughout the year. The FY2020 projection of \$9.8 million is \$64,000 lower than the FY2019 estimate of \$9.9 million.

Indirect Cost Recovery

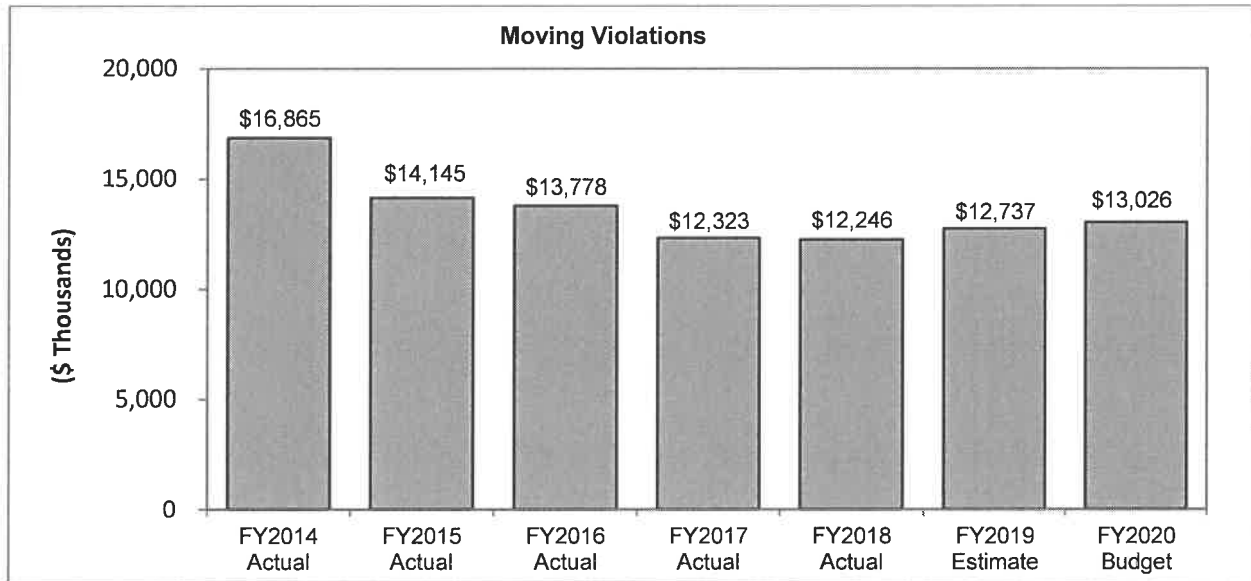
The General Fund provides citywide central support services and recovers the cost of these services through allocation of indirect costs. These amounts are determined through the preparation of an annual cost allocation plan, which distributes administrative overhead costs to General Fund operating departments and to other funds. For FY2020, the proposed plan calls for cost recoveries totaling \$27.7 million, an increase of \$1.1 million in indirect interfund revenue from the FY2019 estimate of \$26.6 million.

Moving Violations

In FY2020, we project 389,684 tickets to be issued. Total Moving Violations revenue budgeted is \$13 million, which results in an average of \$33.43 for tickets issued in FY2020.



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



Other Municipal Courts Fines and Forfeitures

The FY2020 Municipal Court Fines and Forfeitures are projected at \$9.5 million.

Miscellaneous/Other

The FY2020 revenue is estimated at \$13 million, which is approximately \$11.4 million lower than FY2019 estimate of \$24.4 million. This is mainly due legal settlement and prior year revenue adjustments.

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 \$15.5 million in FY2020, and \$16 million for FY2019.

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