SUMMARY OF OUTSTANDING GENERAL OBLIGATION DEBT

The City of Houston General Debt Service Fund (the "Fund") accumulates resources for the principal and interest payments on tax supported debt consisting of: 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 (the "Obligations"). Payments for arbitrage rebate and administrative fees to administer the debt program (paying agent, lines of credit, rating agencies and other professional services) are also accounted for in the Fund. The budgeted debt service requirements for FY2005 are estimated to be $223 million.

The largest revenue source for the Fund is the General Fund, which transfers a portion of ad valorem taxes (property tax receipts) required for debt service on the Obligations. Within the limits prescribed by law, the City is obligated to assess, levy, and collect annual ad valorem taxes sufficient to pay the principal of and interest on the Obligations. The Constitution of the State of Texas limits the maximum ad valorem tax rate to $2.50 per $100 assessed valuation for home-rule cities such as the City of Houston. A voter-approved 1982 amendment to the City's home-rule charter limits the tax rate for general purposes to $0.50 (per $100 of assessed valuation) but does not limit the taxes to be levied for debt service on the Obligations. The tax rate for FY2004 (Tax Year 2003) was $0.655 (per $100 of assessed valuation), which consists of $0.49452 for general purposes and $0.16048 for debt service. A tax rate of $0.655 is budgeted for FY2005 (Tax Year 2004).

The City's current policy states that the annual contribution from the General Fund for general obligation debt service should not exceed 20% of the total General Fund revenues, excluding state and federal grants. The budgeted FY2005 General Fund transfer to pay debt service is approximately 12.91% of expected General Fund revenues.

The second largest source of funding for the Fund is the City's Water and Sewer System Revenue Fund. The Water and Sewer System Revenue Fund is charged each year to compensate the Fund for the cost of paying debt service on certain tax bonds and assumed bonds. The sewer portion of the Water and Sewer System is also charged for debt service payments on certain tax bonds issued for sewer purposes.

Interest earned on construction funds (as a result of bonds issued) may be used as a revenue source to help fund debt service and may also be used for expenditures incurred for administering bond programs.

The FY2005 Annual Financing Plan is presented to outline the sale of City bonds, certificates and notes for the fiscal year. It is expected that the City will offer a total ranging from $1.2 billion to $1.4 billion, depending on needs and market conditions.

The Obligations are issued in both fixed and variable rate structures. The City's current policy is to maintain up to 20% of the Obligations in a variable rate structure. The City currently issues variable rate commercial paper notes. When the amount of outstanding commercial paper notes reach a level of 20 – 30% of total outstanding debt, a refunding of commercial paper notes is planned to lock in a portion of the outstanding commercial paper notes at fixed rates to minimize interest rate exposure.

Tax Bonds and Certificates of Obligation

The Obligations issued as fixed rate debt bear interest at average rates, ranging from 2.00% up to 7.00%, which are established at the time of issuance and are based on market rates. The City's policy is to keep the combined weighted average life of the fixed rate debt at or below 12 years. The City issues Tax Bonds to provide for permanent financing through refinancing of commercial paper notes. Certificates of Obligation are issued to fund the demolition of dangerous building and other special financings.

The budget includes a seven-month reserve for Tax Bonds and Certificates. This reserve covers principal and interest payable in the first seven months of the following fiscal year.

Variable Rate Debt -Commercial Paper Notes

The Obligations issued as variable rate debt bear interest rates that are based on current market rates. The City began issuing variable rate debt in FY1992; however, the City does not currently have any variable rate bonds outstanding. The City's variable rate obligations include commercial paper notes, which are issued under commercial paper programs.

The General Obligation Commercial Paper Program, Series A has been authorized with a current available authorization in the amount of $279 million, which provides for the issuance of voter authorized obligations from the 1991 and 1997 bond elections. The General Obligation Commercial Paper Program, Series B has been authorized with a current available authorization in the amount of $99.3 million for the issuance of the voter-authorized obligations from the 1991 bond election. The General Obligation Commercial Paper Program, Series D has been authorized with a current available authorization in the amount of $275 million for the issuance of the voter-authorized obligations from the 2001 bond election. The Series A, B and D programs have been implemented to fund various public improvement projects in the Capital Improvement Plan (the "CIP").

The City's Series C General Obligation Commercial Paper Program ("Series C Notes") has no outstanding Series C Notes and will expire July 2004, in accordance with the terms of the ordinance creating such program. As such, a new General Obligation Commercial Paper Program, Series E has been authorized to fund equipment acquisitions and other special permanent improvement projects with a current available authorization in the amount of $155 million.

The City created Series F General Obligation Commercial Paper Program (voter authorization not required) to fund certain capital improvements related to drainage. The Series F has been authorized with a current available authorization in the amount approximately $140 million.

The commercial paper programs serve as a management tool to access the credit market to meet cash needs to effect less rebate liability on unspent proceeds. The commercial paper notes are refunded to fixed rate tax bonds periodically to limit the City's variable rate exposure and to match the average life of bonds to the life of the assets purchased. Interest on the notes varies periodically. The notes may be issued for a period not to exceed 270 days and will bear interest based upon the specified terms, but initially not to exceed six and one-half percent. The reserves for the notes are based on the amount projected to be outstanding during the fiscal year. For FY2004, average all-in interest cost for variable rate obligations was approximately 1.18%. The budgeted all-in interest costs for the City's variable rate obligations in FY2005 is 2.50%. The budget includes reserves for interest on commercial paper notes to provide for fluctuations in interest rates at a rate of 3.50% of the estimated amount to be outstanding during the fiscal year.

Assumed Bonds

Prior to FY1991, the City had an aggressive annexation program. However, no annexations took place during FY1991 and FY1992 until the period from FY1993 to FY1997 in which the City completed seven new annexations. Although annexations have benefited the City in economic growth, no additional annexations have occurred since FY1997. Recently approved legislation requires the City to adopt a three-year annexation plan, and with certain exceptions, only those areas identified in such plan would be eligible for annexation. The City does not currently have a plan in place to annex additional districts. Debt assumed by the City from annexations of various districts within the extra-territorial jurisdiction becomes a part of the City's debt service requirements.

Principal and Interest Payable from Ad Valorem Taxes

Fiscal Year Ending June 30	Tax Bonds		Tax Certificates	
	Principal	Interest	Principal	Interest
2005	122,130,000	81,810,700	2,985,000	1,525,830
2006	136,470,000	75,761,825	4,245,000	1,394,780
2007	146,525,000	68,509,198	1,590,000	1,218,080
2008	154,425,000	60,401,698	1,645,000	1,150,618
2009	118,010,000	51,834,723	3,390,000	1,080,518
2010	116,225,000	45,808,513	1,230,000	962,043
2011	81,435,000	39,885,775	5,979,289	4,879,866
2012	80,525,000	35,597,425	1,340,000	858,020
2013	75,810,000	31,347,269	1,400,000	798,580
2014	72,470,000	27,307,319	1,460,000	735,785
2015	67,675,000	23,427,013	1,530,000	668,905
2016	69,550,000	19,784,069	1,605,000	592,960
2017	68,685,000	16,068,869	1,690,000	512,484
2018	68,515,000	12,399,513	1,775,000	426,915
2019	36,010,000	8,718,050	1,860,000	340,285
2020	31,225,000	6,826,325	1,955,000	248,635
2021	28,595,000	5,231,288	2,050,000	151,400
2022	30,040,000	3,787,025	970,000	48,500
2023	31,560,000	2,269,750		
2024	6,750,000	691,750		
2025	7,085,000	354,250		
	1,549,715,000	617,822,343	38,699,289	17,594,202

* General Obligation Commercial Paper Notes debt service is not reflected in this schedule.

Judgement Bonds		Assumed Bonds		Total Debt Service
Principal	Interest	Principal	Interest	
1,365,000	34,125	770,000	601,023	211,221,678
		815,000	559,559	219,246,164
		860,000	516,736	219,219,014
		900,000	472,351	218,994,666
		875,000	428,821	175,619,061
		940,000	383,000	165,548,555
		885,000	336,963	133,401,892
		745,000	296,503	119,361,948
		665,000	263,236	110,284,085
		775,000	232,070	102,980,174
		990,000	190,763	94,481,680
		1,040,000	142,795	92,714,824
		1,090,000	92,298	88,138,650
		550,000	41,480	83,707,908
		0	28,600	46,956,935
		160,000	24,200	40,439,160
		175,000	14,988	36,217,675
		185,000	5,088	35,035,613
				33,829,750
				7,441,750
				7,439,250
1,365,000	34,125	12,420,000	4,630,471	2,242,280,430

Ad Valorem Tax Obligations of the City

State law permits the City to incur total bonded indebtedness through the issuance of voter authorized ad valorem tax bonds in an amount not to exceed 10% of the total assessed valuation of property in the City. The schedule below shows an estimate for the current fiscal year of outstanding debt applicable to the statutory limitation.

(amounts expressed in thousands)		
Assessed Value (1)		$103,179,729
Debt Limit, 10% of Assessed Value		$10,317,973
Debt applicable to limitation (2)		
Public Improvement Bonds	$1,557,030	
Commercial Paper Notes	414,300	
Annexed District Bonds assumed	38,699	
Tax and Revenue Certificates of Obligation	13,665	
Total	2,023,694	
Less:		
Amount available for repayment of general obligation debt (2)	(87,007)	
Total debt applicable to limitation		(1,936,687)
Legal debt margin		$8,381,286

(1) Assessed value for the 2003 tax year, as of April 24, 2004, based on the appraised value of property prior to any deductions.

(2) Estimated for fiscal year ending June 30, 2004.

Outstanding General Obligation Debt

(in thousands of dollars)	FY2002 Actual	FY2003 Actual	FY2004 Estimate	FY2005 Budget
OUTSTANDING DEBT:				
Public Improvement Bonds	$1,470,705	$1,505,000	$1,557,030	$1,551,080
Commercial Paper Notes	319,300	415,300	414,300	414,000
Certificates of Obligation	34,528	39,528	38,699	38,699
Annexed Districts' Bonds	97,401	42,532	13,665	12,420
TOTAL OUTSTANDING DEBT	1,921,934	2,002,360	2,023,694	2,016,199

The strength of the City's general obligation debt is reflected in the statements of the ratings agencies:

"The stable outlook reflects ***Standard & Poor's*** expectation that Houston's financial picture will reflect the economic rebound that is taking place in the city." ***(AA-)***.

Moody's (Aa3) - "The rating reflects the city's sizable tax base that continues to diversify, a moderate debt burden, narrowed, yet adequate, financial position."

Fitch - "The ***'AA'*** rating reflects the growth in tax base values, the diversifying economy, moderate direct debt burden, and improving financial margin of the general fund."