

DEMOGRAPHIC/ECONOMIC SUMMARY OF THE CITY

Houston, Texas is a diverse and dynamic metropolitan area with notable aspirations, unlimited potential and a commitment to achieving a better quality of life for all residents. The Metropolitan Statistical Area (MSA) composed of Austin, Brazoria, Chambers, Ft. Bend, Galveston, Harris, Liberty, Montgomery, San Jacinto, and Waller counties, ranks seventh largest in the United States. The City of Houston, located within Harris County, is the fourth most populous city in the United States. With over 8,900 square miles and an estimated population of 4.7 million, the Houston MSA is an eclectic combination of multicultural urban, rural, and suburban communities.

ECONOMIC DRIVERS

Long recognized as a world energy capital, Houston continues to expand its economic base in the areas of international business, information systems technology, biotechnology, and service related industries. Consolidation of the energy industry has centralized headquarters and energy technology in Houston. More than 3,500 businesses located in the central business district (downtown Houston) and adjacent business districts (Ship Channel, Uptown/Galleria area, Greenway Plaza, and the Interstate 10 Energy Corridor) have created a thriving business community. Economists at the Federal Reserve Bank of Dallas expect Houston's economy to "surge ahead" over 2005.

Lyndon B. Johnson Space Center (JSC) continues to advance Houston's cosmopolitan image, with its vision and leadership in space exploration and scientific achievements. JSC's responsibilities include training and developing astronauts worldwide. It also leads the design and implementation of the International Space Station where astronauts from all over the world convene to perform experiments that enhance technology and medical science. JSC's research complements the local business community by transferring its findings to the private sector for commercial development. The center employs approximately 3,000 residents and 12,000 contractors in the Houston area.

Houston is also home to the world renown Texas Medical Center, a sprawling campus south of downtown with more than 13,000 hospitals, 11 teaching colleges and universities, and 65,000 employees providing cutting edge patient care, research and medical advancements to approximately 5 million patients annually. As one of the largest employers in Houston, the Medical Center reportedly generates \$13.5 billion annually indirectly to the local economy.

The Houston Airport System (HAS) forms one of North America's largest public airport systems, ranking fourth in the United States and sixth Internationally. Last year, HAS served over 48 million passengers and processed over 782 thousand tons of cargo.

Similarly, the Port of Houston maintains its position as a world-class port, ranking first in the United States in foreign waterborne commerce, second in total tonnage, and sixth in the world. Since 1997, annual tonnage figures have increased 29 million, sustaining Houston's position as a world-class port and a leader in the United States maritime industry. A study sponsored by the Port of Houston Authority revealed that port activity has added more than 287,000 jobs to the local and state economy along with approximately \$7.2 billion in personal wages and salaries annually. Maritime activity in the Port has also contributed \$10.9 billion in business revenue as well as \$649 million in state and local taxes annually. The Greater Houston Partnership reports that the total value of foreign trade through the port was \$65 billion in 2004.

MOBILITY

In a dynamic metropolitan area of 4.7 million residents and over one million daily commuters, mobility is of great concern. While Houston's traffic congestion ranks low compared to the largest metropolitan areas nationwide, efforts are underway to lower traffic congestion by adding additional roadways and developing alternate forms of transportation. According to the Texas Transportation Institute, the Houston-Galveston Area Council will spend \$65.2 billion over the next 20 years on road and transit projects. The Fort Bend County Parkway, completed last year, connects major roads to enhance traffic flow. The Harris County Toll Road Authority has planned 331 miles of road construction over the next two decades.

With the success of METRO's development of the Downtown-to-Reliant Stadium complex corridor, plans have been made to develop an 8-mile University line connecting the Uptown Park/Galleria Area and Greenway Plaza to both the University of Houston and Texas Southern University. Other METRO projects include the development of 28 miles of Commuter Rail Transit (CRT) along U.S. Highway 290 from the Cypress Park & Ride to a transit facility downtown; 10 new transit facilities; and an High Occupancy Vehicle (HOV)/High Occupancy Toll (HOT) conversion that will convert HOV lanes into two-way HOT lanes.

EDUCATION

The Houston metropolitan area has a highly skilled workforce supported by a network of primary/secondary and higher education institutions. The area includes 41 colleges and universities; 23 school districts; and approximately 51,000 students enrolled in 195 accredited private or parochial schools. The Houston Independent School District, the largest school district in Houston, is the seventh largest in the U. S. with an enrollment of over 208,000 students in 302 schools including 110 "magnet" schools that offer specialized programs. The prestigious Rice University's Jesse H. Jones School of Management and the University of Houston's School of Law are consistently ranked as the top universities in the nation in the fields of business and law respectively.

URBAN AREAS

During this period of economic growth and business diversification, Houston has made considerable efforts to revitalize its inner city. Long time area residents marvel at the renewed vigor of the downtown area, which features a vital restaurant and entertainment hub that attracts residents and visitors alike. Historical districts, once home to abandoned buildings, have been converted into thriving residential projects including the San Jacinto and Hermann Lofts as well as The Rice which was visited by six presidents and other dignitaries during its storied history.

The historic Union Station, once the center of Houston's prominent rail industry, was renovated as part of the new ballpark home of the MLB Houston Astros. Also added to Houston's iconic skyline was The Toyota Center, a multi-use arena home to the Houston Rockets and Houston Comets basketball teams. City leaders remain committed to promoting growth while enhancing quality of life.

With unprecedented growth and renewal underway, there remains the need for city services such as fire and police protection as well as health and cultural services. Currently, there are 90 fire stations in the City of Houston, as well as 36 libraries to serve the community at large. The Houston Public Library has joined a collaborative effort with Housing and Community Development as well as the Building Services Department to renovate branch libraries to meet all Americans with Disabilities Act (ADA) requirements by the end of the fiscal year. Also, construction will begin on the new Vinson Branch Library in conjunction with the South Post Oak Multi-Service Center to provide enhanced community services for the growing needs of Southwest Houston. Renovations will begin soon on The Gregory School, a centerpiece of Houston's historic Freedmen's Town, to convert the building into a multipurpose community center for neighborhood residents. The recent development encourages a community atmosphere in an effort to foster a neighborhood way of life in the inner city.

ARTS AND ENTERTAINMENT

With the nation's fifth largest ballet and opera companies, world-traveling symphony orchestra and multiple theater companies, Houston is one of only a few U.S. cities with performing arts year-round. The theater district also offers Houstonians the Houston Broadway Series, which includes shows direct from Broadway and London and is the largest non-profit producer of musical theater in America. Houston is one of only five cities in the United States with permanent professional resident companies in all of the major performing arts disciplines of opera, ballet, music and theater.

Houston's museum district offers a wide array of exhibits featuring the themes of art, history, science or nature. The district includes the Museum of Fine Arts, the sixth largest museum in the country with the opening of the Beck Building; the Contemporary Arts Museum; the C.G. Jung Education Center; the Children's Arts Museum; the Museum of Health and Medical Science; the Houston Zoo and the Museum of Natural Science, one of the most respected museums in the country. The museum district recently added the Buffalo Soldiers National Museum, a museum dedicated to the purpose of preserving, promoting, and perpetuating the history, tradition, and outstanding contributions of the Buffalo Soldier toward the development and defense of the United States of America.

Houston is fast becoming a destination for hosting major league sporting events: Super Bowl XXXVIII in January 2004; the World Series in October 2005; and the NBA All-Star game in February 2006. Recently, major league soccer (MLS) was added to Houston's lineup of world-class sports franchises. The MLS Houston Dynamo hosted its first home game against the Colorado Rapids at Robertson Stadium.

Houston is not only developing its economic base and revitalizing its inner city but does its utmost for the promotion and betterment of intellectual and cultural opportunities afforded to its citizens.

Houston Area Sports Teams:

Professional Teams		Collegiate Teams/Mascots
Aeros	International Hockey League	Houston Baptist University - Huskies
Astros	Major League Baseball – National League	Rice University - Owls
Comets	Women's National Basketball Association	Texas Southern University - Tigers
Dynamo	Major League Soccer	University of Houston - Cougars
Energy	Women's Professional Football League	
Rockets	National Basketball Association	
Texans	National Football League American Conference	

Houston Area Major Colleges and Universities

Colleges	Universities
Alvin Community College	Houston Baptist University
Baylor College of Medicine	Prairie View A&M University
Blinn College	Rice University
Brazosport College	Sam Houston State University
College of the Mainland	South Texas College of Law
Galveston College	Texas A&M University
Houston Community College System	Texas Southern University
Lee College	Texas Women's University
North Harris Montgomery Community College System	University of Houston
San Jacinto College	University of Houston – Clear Lake
South Montgomery Community College System	University of Houston – Downtown
Wharton County Junior College	University of Houston – Victoria
	University of Phoenix
	University of St. Thomas
	University of Texas – Health Science Center
	University of Texas – M.D. Anderson Cancer Center

EXHIBIT 1 HOUSTON PMSA AT A GLANCE

<u>POPULATION</u>		<u>NEW REAL ESTATE SUPPLY - RESIDENTIAL</u> <u>(Units)</u>	
1996	3,692,900	1996	30,433
1997	3,829,300	1997	40,282
1998	3,964,900	1998	55,053
1999	4,057,800	1999	40,951
2000	4,177,600	2000	36,656
2001	4,268,100	2001	37,752
2002	4,340,900	2002	46,093
2003	4,376,600	2003	56,210
2004	4,428,400	2004	51,568
2005	4,528,100	2005	51,227

<u>NON-AGRICULTURAL WAGE & SALARY EMPLOYMENT *</u>		<u>RESIDENTIAL VACANCY RATE</u>	
1996	1,972,100	1996	9.9 %
1997	2,054,400	1997	8.9
1998	2,156,900	1998	7.9
1999	2,191,400	1999	7.9
2000	2,243,600	2000	7.2
2001	2,282,400	2001	6.1
2002	2,277,400	2002	5.8
2003	2,262,900	2003	6.4
2004	2,278,700	2004	8.2
2005	2,338,700	2005	9.4

<u>PERSONAL INCOME (Per Capita)</u>		<u>UNEMPLOYMENT RATE (*)</u>	
1995	24,262	1996	5.6 %
1996	25,820	1997	5.3
1997	27,820	1998	4.4
1998	29,787	1999	4.8
1999	30,877	2000	4.4
2000	33,717	2001	4.7
2001	35,151	2002	6.0
2002	34,291	2003	6.9
2003	34,989	2004	6.3
2004	36,529	2005	5.7

HOUSTON CONSUMER PRICE INDEX
ALL URBAN (1982-84 = 100)

	<u>Average Index</u>	<u>% Change</u>
1996	142.7	2.1 %
1997	145.4	1.9
1998	146.8	1.0
1999	148.7	1.3
2000	154.2	3.7
2001	158.8	3.0
2002	159.2	0.3
2003	163.7	2.8
2004	169.5	3.5
2005	175.6	3.6

TOP TEN PROPERTY TAXPAYERS IN 2005
(Amounts Expressed in Millions)

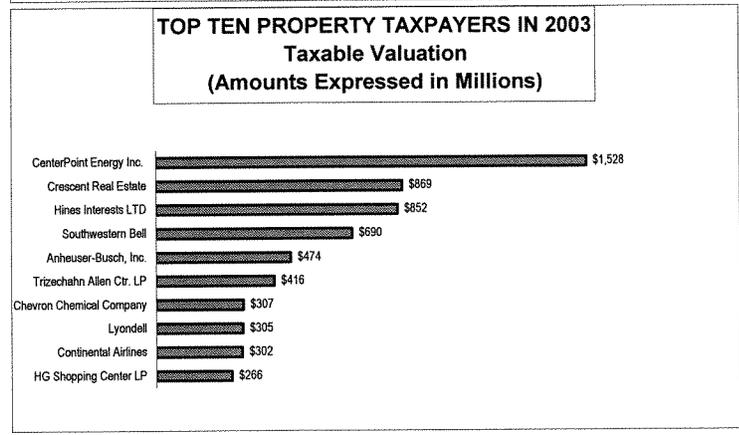
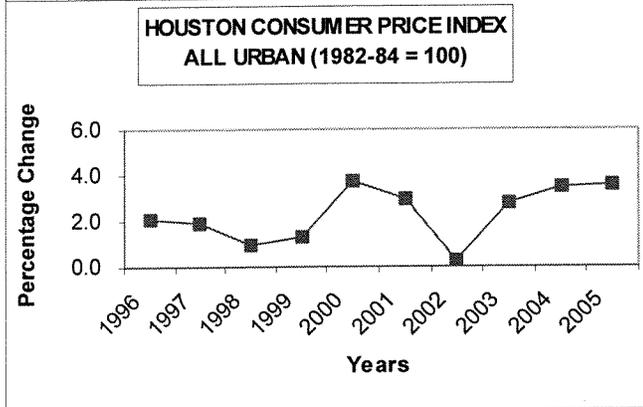
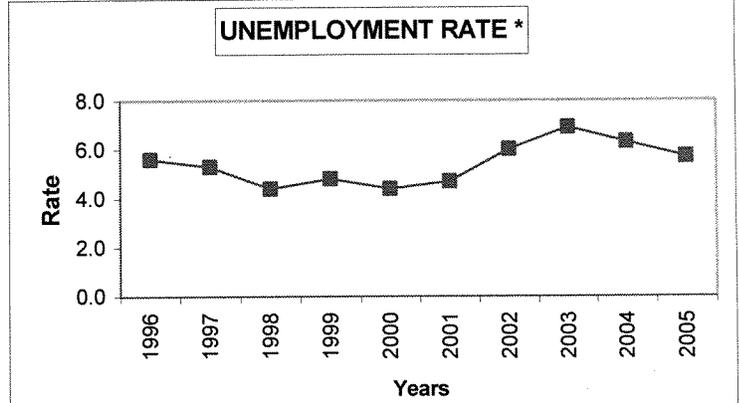
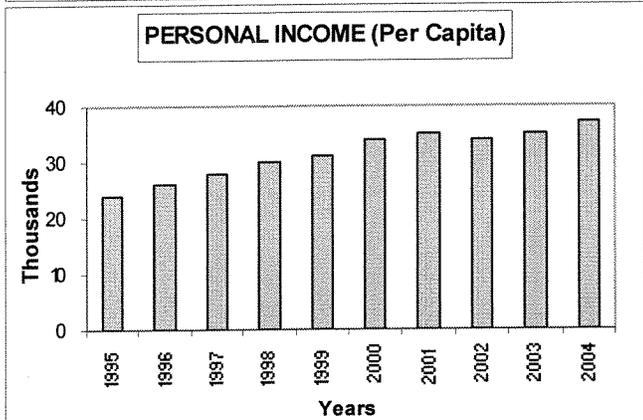
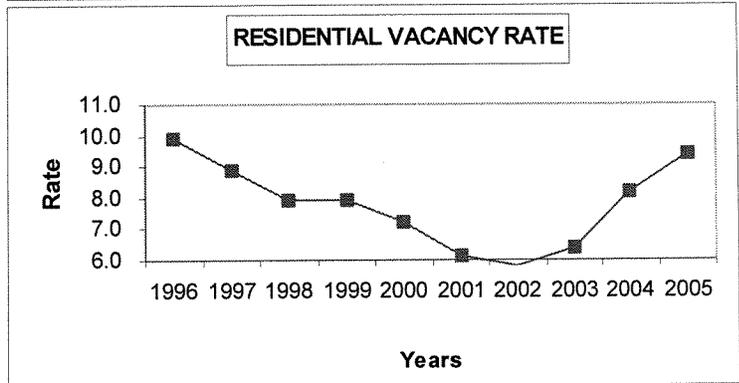
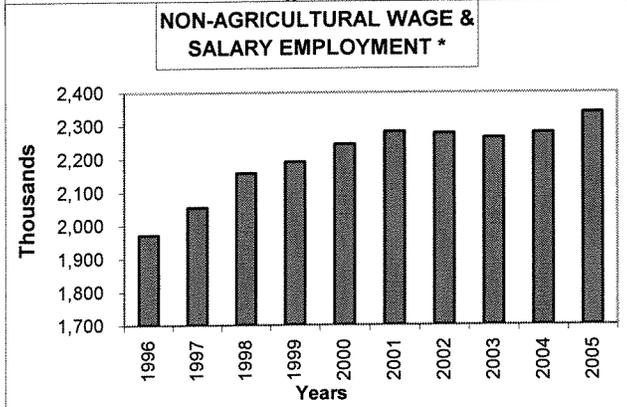
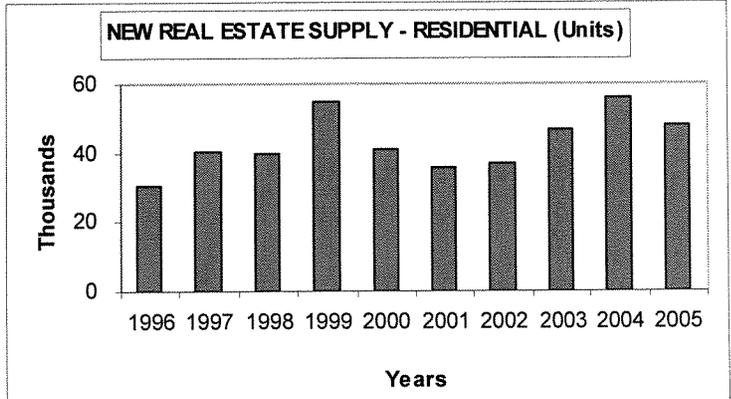
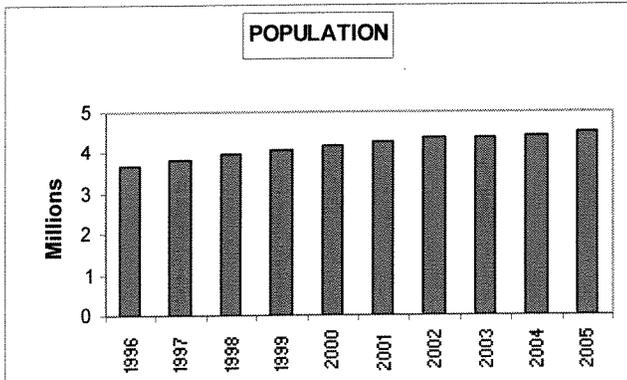
	<u>Taxable Value</u>
CenterPoint Energy Inc.	\$1,528
Crescent Real Estate	869
Hines Interests LTD	852
Southwestern Bell	690
Anheuser Busch, Inc.	474
Trizechahn Allen Ctr. LP	416
Chevron Chemical Company	307
Lyondell	305
Continental Airlines	302
HG Shopping Center LP	266

PMSA: Primary Metropolitan Statistical Area

* Not Seasonally Adjusted

Source: University of Houston, Center for Public Policy (as of March, 2006 except as otherwise noted).

EXHIBIT 2 HOUSTON PMSA AT A GLANCE



* Not Seasonally Adjusted

ECONOMIC OUTLOOK

ECONOMIC INDICATORS

Factors influencing the growth of the local economy include the performance of the U.S. economy, a strong global economy, and energy prices. The Bureau of Economic Analysis reports that U.S. GDP stands at 3.5% for 2005 while the *World Economic Outlook*, published by the International Monetary Fund, forecasts global GDP growth at 4.3% for 2005 and 2006. Due to demand coming from both the U.S. and China, the average price of domestic crude increased 23% between October 2004 and October 2005. Natural gas prices were 101% higher in October 2005 compared to October 2004.

According to the Greater Houston Partnership, the economic forecast for the future is a return to modest job growth and 2005 gains are expected to be stronger. Additionally, all sectors of Houston's economy show moderate gains in jobs over the next five years except construction.

The following table shows actual and projected economic indicators for the Houston MSA (Metropolitan Statistical Area):

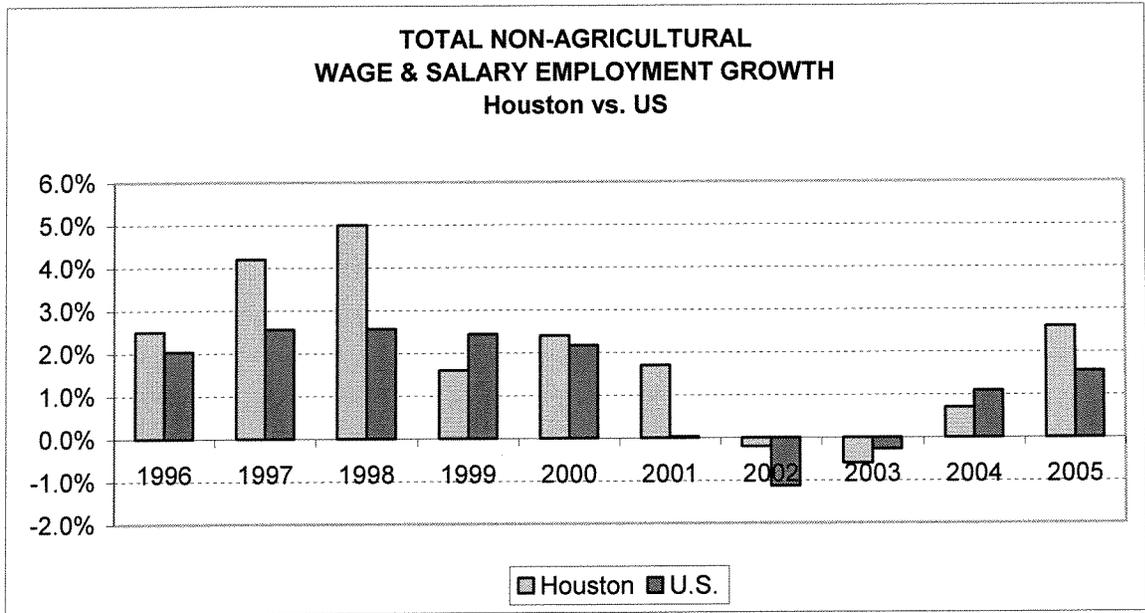
ECONOMIC INDICATORS SIX YEAR FORECAST (Revised November 2005) HOUSTON MSA							
	2004	2005	2006	2007	2008	2009	2010
Population	4,414,844 0.87%	4,499,400 1.92%	4,555,910 1.26%	4,627,945 1.58%	4,730,481 2.22%	4,843,003 2.38%	4,961,884 2.45%
Per Capita Income	\$ 39,252 3.54%	\$ 41,056 4.60%	\$ 42,984 4.70%	\$ 44,747 4.10%	\$ 46,842 4.68%	\$ 49,433 5.53%	\$ 51,955 5.10%
Retail Sales (Millions)	\$ 60,521 3.12%	\$ 63,902 5.59%	\$ 66,932 4.74%	\$ 70,162 4.83%	\$ 74,589 6.31%	\$ 79,450 6.52%	\$ 84,241 6.03%
Total Employment	2,108,299 0.60%	2,141,795 1.59%	2,178,443 1.71%	2,221,497 1.98%	2,272,212 2.28%	2,326,480 2.39%	2,374,307 2.06%
Construction	148,163 -5.34%	149,858 1.14%	145,907 -2.64%	143,354 -1.75%	140,454 -2.02%	140,394 -0.04%	142,119 1.23%
Trade	466,389 0.85%	472,795 1.37%	480,816 1.70%	490,335 1.98%	500,382 2.05%	511,330 2.19%	519,643 1.63%
Services	683,113 2.02%	698,483 2.25%	714,514 2.30%	738,706 3.39%	768,109 3.98%	798,998 4.02%	826,616 3.46%
Government	294,413 0.93%	298,446 1.37%	303,400 1.66%	308,892 1.81%	315,132 2.02%	321,466 2.01%	328,249 2.11%

Source: University of Houston Center for Public Policy - December 2005

EMPLOYMENT AND POPULATION

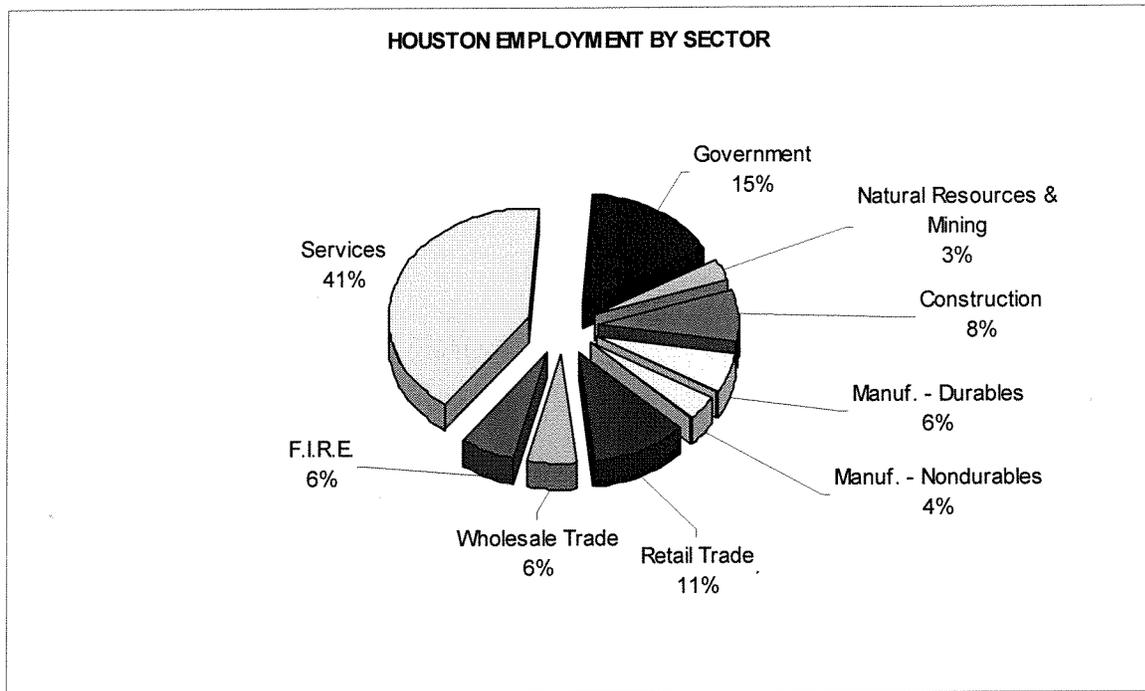
According to the University of Houston Center for Public Policy, Houston's population grew at 1.05 percent in 2004, and will continue to grow at an estimated annual average of 1.89% over the next 4 years. Employment figures increased slightly, with total non-agricultural employment growth of 0.6%, but will grow at an average of 2.3% over the next five years.

FIGURE 1



From January 1988 to January 2002, the historically dominant sectors of Houston's economy, mining, manufacturing, and construction, showed growth but were largely outpaced by the services sector, which grew by more than 30%. The Greater Houston Partnership reports that the following sectors should experience acceleration normal in periods of economic weakness: services sector, educational and social services. Engineering, accounting, research and management services can expect a slight downturn tied to energy and construction. An estimated 32% of all jobs in Houston are from the services sector. (See Figures 1 and 2)

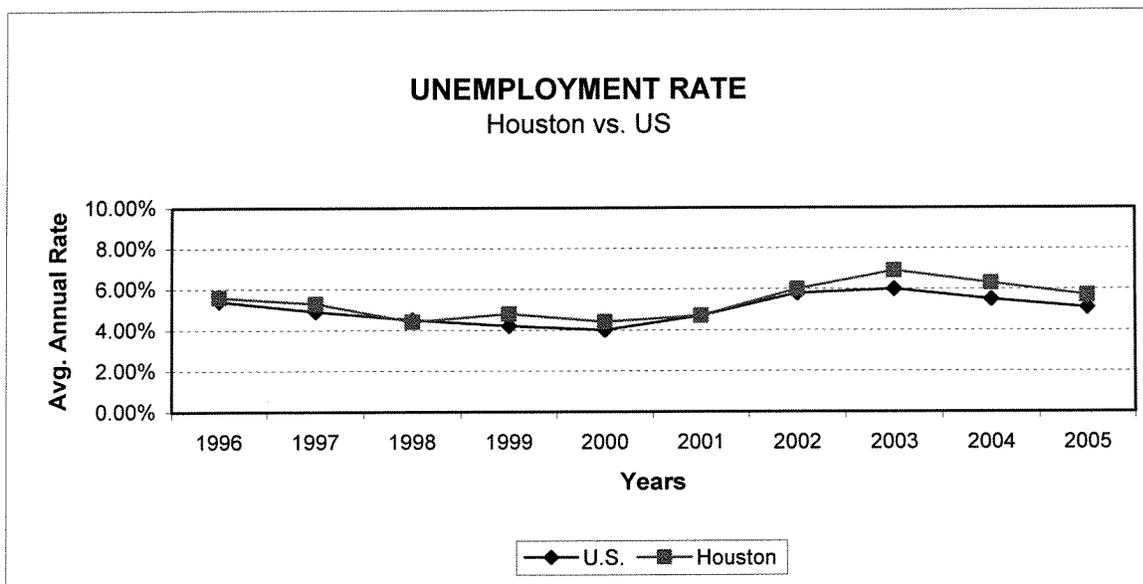
FIGURE 2



The University of Houston Institute for Regional Forecasting expects employment growth to remain fairly flat over the next five years. Jobs in the energy field continue to decline, and the non-energy base has become essentially flat. The Federal Reserve Bank Dallas reports that Houston's flat employment growth is attributed to the growth of productivity that has "accelerated sharply since early 2001."

The Unemployment rates for both Houston and the U.S. fell slightly compared to the previous year. The local unemployment rate for 2005 was 5.70% (6.30% 2004) compared to the national rate of 5.10% (5.50% 2004). (See Figure 3)

FIGURE 3



ENERGY

The long years of worldwide historically low oil prices led Houston to improve efficiencies and diversify its economy. After 1982, the oil exploration and production industry made the necessary changes to profit in a newly efficient environment. As such, there have been many important technological advances that have increased exploration efficiency more than threefold over the last 10 years and decreased finding costs by 40% in the past five years, according to the Greater Houston Partnership. Additionally, changes in the structure of the energy industry have resulted in oil and gas firms developing new ways to capitalize on skills, international contracts, and expertise.

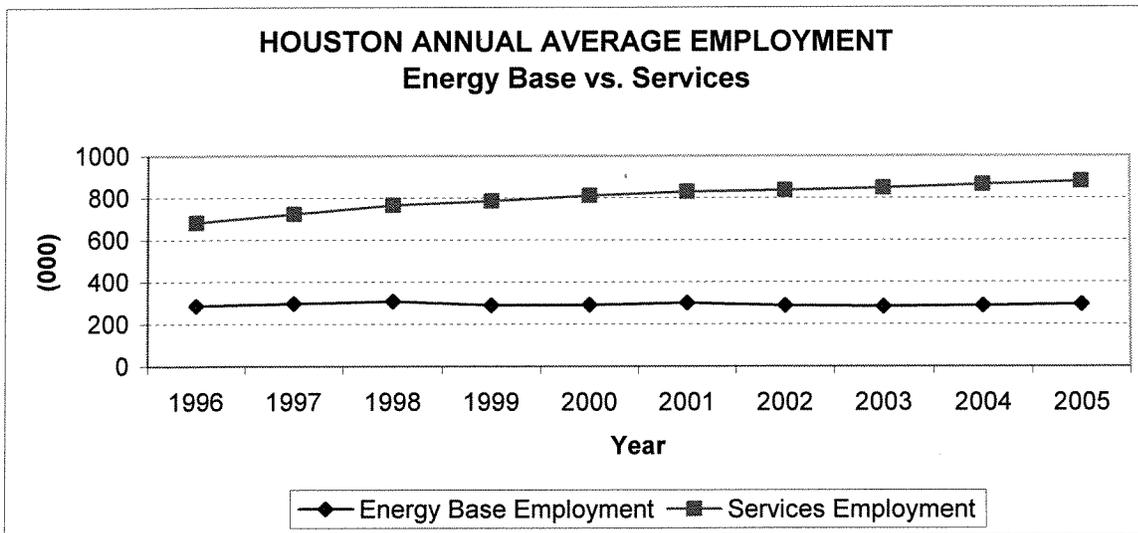
The recession that occurred after the eighties oil price decline, in fact, forced the local economy to move away from the heavy dependence on upstream energy (the exploration and production of oil and gas), oilfield equipment manufacturing, and pipeline transportation to shape its growth. This area, which once made up two thirds of the local economy, decreased to 35 percent in 1999. Energy dependent base employment for 2004 is 295,700 or just 14% of the Total Nonagricultural employment for the Houston MSA.

According to the Greater Houston Partnership, Houston is the leading domestic and international center for virtually every segment of the oil and gas industry; exploration, production, transmission, marketing, service, supply, offshore drilling, and technology. Houston is home to 47 of the nation's 200 largest publicly traded oil and gas exploration and production firms. Further, many major oil and gas companies have operations in Houston.

SERVICES

Since the recession of the early eighties, there has been astounding growth in services employment (See Figure 4).

FIGURE 4



Job growth in the services sector is expected to continue through the next four years averaging 3.4% growth annually, according to the University of Houston Center for Public Policy's Institute for Regional Forecasting. Some of the largest employers in this sector are recognized worldwide: The Texas Medical Center, Johnson Space Center, Continental Airlines, Administaff, Shell, Landry's restaurants, Fiesta Mart, United Space Alliance, Waste Management, and AIM Investments

TRADE

Houston's strategic location on the Gulf of Mexico, midway between the East and West coasts of the US makes it a natural conduit for international trade. During 2000, 191.4 million tons of cargo was moved through the Port of Houston with an estimated 190 million tons during 2003. The Port Authority's top trading partners include Europe, Latin America, and Asia. (See Figure) The top five commodities traded – petroleum and petroleum products; machinery, organic chemicals, iron and steel, and electric machinery – were 68 percent (by dollar value) of the total.

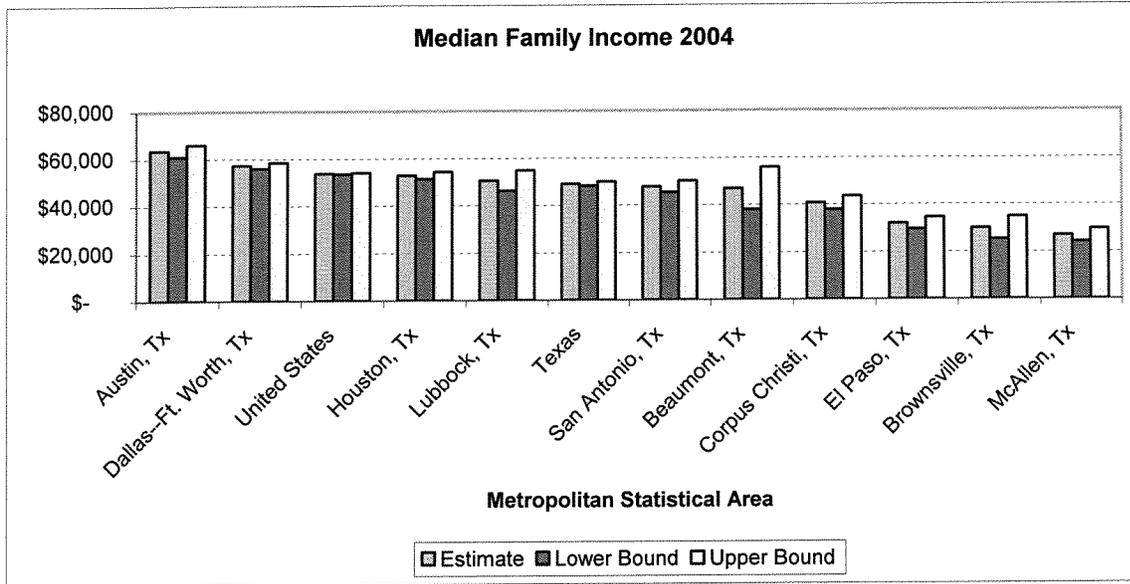
TRADE THROUGH THE PORT OF HOUSTON BY REGION IN 2004 (000)				
	Imports	Exports	Total	% of World Total
Europe	\$ 13,689,339	\$ 9,049,726	\$22,739,065	34.5%
Latin America	\$ 6,952,462	\$ 7,437,224	\$14,389,686	21.8%
Asia and Pacific Rim	\$ 3,350,675	\$ 5,385,368	\$ 8,736,043	13.3%
North America	\$ 5,515,744	\$ 2,722,717	\$ 8,238,461	12.5%
Africa	\$ 3,723,398	\$ 2,359,339	\$ 6,082,737	9.2%
Middle East	\$ 3,603,738	\$ 2,109,321	\$ 5,713,059	8.7%
Worldwide Total	\$ 36,835,356	\$29,063,695	\$65,899,051	

Source: Greater Houston Partnership

Air cargo through the Houston Airport System totaled 701 million pounds last year as of November 2005 with approximately 42% directly attributed to international destinations. The HAS key trading partners include Europe, Asia/Africa/Australia, and Central/South America. According to the University of Houston Institute for Regional forecasting, trade employment will increase 2.39% in 2005.

INCOME

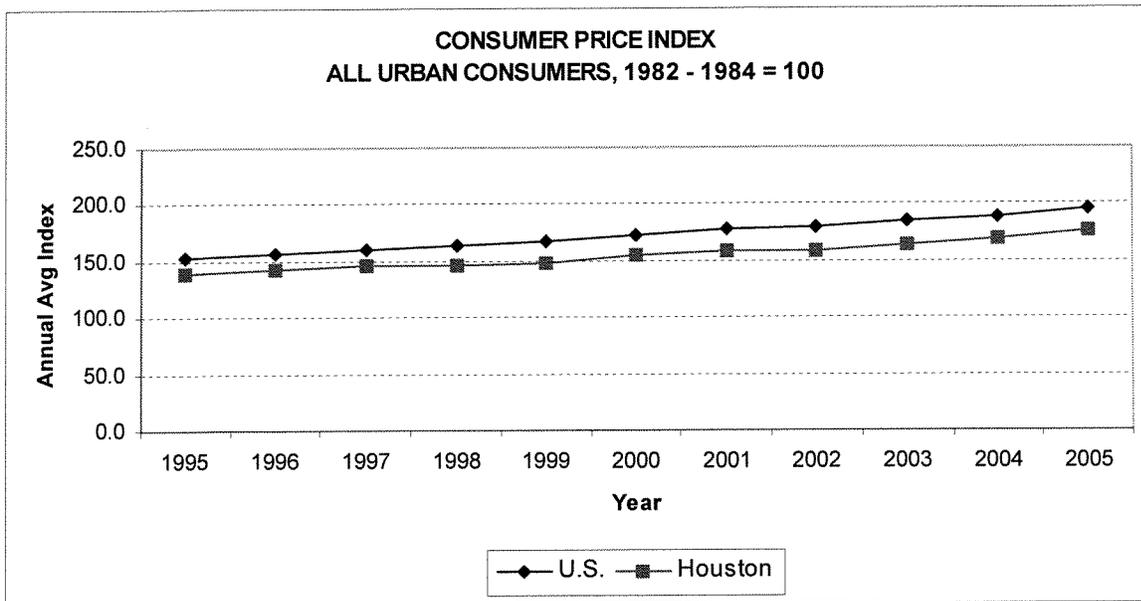
Per capita income is an average calculated by the sum of all sources of income (wages, salaries, profits, interest, rents and transfer payments) divided by the population of a specific area. Per capita income is widely used to compare the standards of living in different regions. In Houston, personal income rose from \$39,252 in 2004 to \$41,056 in 2005; a 4.60% increase and is projected to increase an average of 4.82% annually for the five years from 2006 through 2010.



PRICES

The Consumer Price Index (CPI) is the nation's best-known inflation indicator. It is a measure of the average change over time in the prices paid by urban consumers for a fixed market basket of consumer goods and services. While the affects of U.S monetary policy are felt locally, Houstonians have enjoyed lower inflation rates compared to the nation over the last 10 years as measured by the CPI (See Figure 5). The average annual CPI over the last 10 years is 154.95 for Houston compared to the U.S. average annual rate of 172.4. (See Figure 5)

FIGURE 5

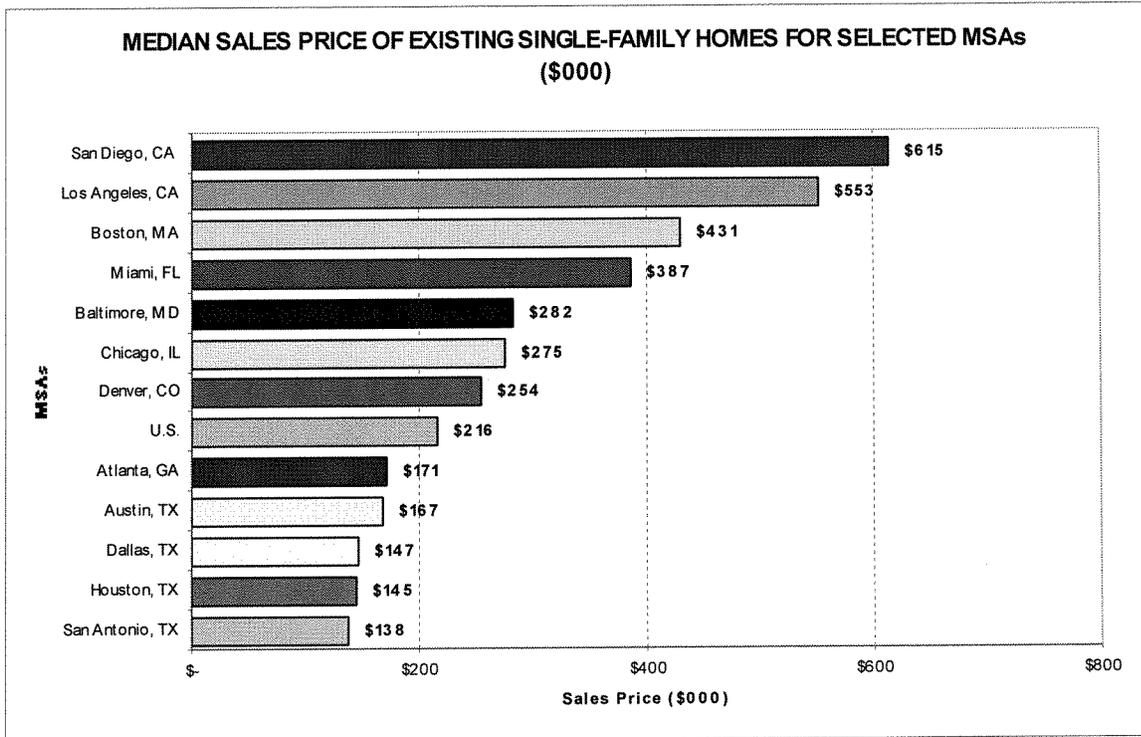


HOUSING COSTS

Housing costs in Houston continue to be the lowest among major metropolitan areas in the United States. According to the National Association of Realtors, Houston's median sales price of \$145,100 is \$70,800 lower than the national median sales price (See Figure 6). All MSAs in Texas fall below the national median sales price with San Antonio having the lowest followed by Houston, Dallas, and Austin.

Compared to third quarter 2004, Houston's median sales price for third quarter 2005 increased only 7% while Miami, FL and Baltimore, MD experienced price increases over 20%.

FIGURE 6



Sources:

- DATABook Houston – University of Houston Center for Public Policy
- Houston Facts – The Greater Houston Partnership Research Department
- City of Houston, Aviation Department
- City of Houston, Convention and Entertainment Facilities Department
- The Port of Houston Authority
- Houston Economics – University of Houston Center for Public Policy
- Facts and Figures about the Texas Medical Center – Texas Medical Center
- Twentieth Anniversary 20 Most Frequently Asked Questions and Answers about Light Rail Metropolitan Transit Authority
- The Official Guide to Houston – Greater Houston Convention and Visitors Bureau
- Downtown Houston Association
- Harris County – Houston Sports Authority
- Houston Downtown Management District
- National Association of Realtors Quarterly Report
- US Bureau of Labor Statistics
- Real Estate Market Overview 2005 Houston-Sugarland-Baytown – Real Estate Center at Texas A&M University
- Federal Reserve Bank of Dallas – Houston Branch
- U.S. Government Energy Information Administration
- Houston Chronicle 100

LONG-TERM BUDGET GOALS

This budget continues the goals of the administration: neighborhood oriented government, opportunities for youth, transportation and infrastructure, economic development, and continuous management improvement. These guiding principles form the basis for the development of the FY2007 budget, as well as long-term goals to guide future development.

NEIGHBORHOOD ORIENTED GOVERNMENT

Foster Neighborhood Oriented Government through continued emphasis on public safety, development and maintenance of our communities and delivery of quality city services, with a focused effort to include citizens and promote a neighborhood approach making city government more readily accessible to address the needs of our citizens in the most efficient manner.

OPPORTUNITIES FOR YOUTH

Incorporate where possible opportunities for youth through ongoing programs, encouraging volunteerism among city employees.

TRANSPORTATION AND INFRASTRUCTURE

Take a leadership role in developing comprehensive, long-range cooperative plans to address local as well as regional transportation and infrastructure issues with lasting effects.

ECONOMIC DEVELOPMENT

Work closely with local and foreign businesses to promote an environment that fosters economic growth on a broad spectrum of issues, utilizing specific programs including tax incentives, downtown revitalization, inner-city redevelopment joint ventures, housing development, and marketing both nationally and internationally.

CONTINUOUS MANAGEMENT IMPROVEMENT

Continued management improvements through performance studies, creation and update of written policies and operation manuals, enhanced monthly financial reporting, and studies on increasing revenues, analysis of compensation infrastructure, and increased efforts to obtain grant funding and operational efficiency.

FY07 PRIORITIES

Consistent with these guiding principles, the following budget priorities were addressed in the development of the FY2007 budget:

No tax increase: Adopted an operating budget that does not increase the overall tax rate from 64.5 cent per \$100 valuation.

Conservative Revenue Estimates: Continue to use outside experts to assist in this area.

Fire Department Staffing: Adopted a budget that contains sufficient overtime to allow the four-on-a-truck staffing.

Service Delivery: Maintain current level of service given available resources.

Capital Project Management: FY07 recommendations will include coordination with district Council Members to insure that the elected official closest to the district has a leading role in project determination and scheduling.

Debt Management: Review all outstanding debts, maximize savings through refunding and taking advantage of current market environment.