GENERAL OBLIGATION DEBT SERVICE SUMMARY

The City of Houston General Debt Service Fund (the "Fund") accumulates resources for the principal and interest payments on tax supported debt consisting of: general obligation bonds/refunding bonds, claims and judgment bonds, annexed districts' bonds, pension 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 FY2007 are estimated to be $284.2 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 (the "City"). However, the City Charter has tax rate limitations that are more restrictive than those imposed by the state. The City's tax rate for Fiscal Year 2006 (Tax Year 2005) was reduced to $0.6475 (per $100 assessed valuation), which consists of $0.46359 for general purposes and $0.18391 for debt service. The proposed Fiscal Year 2007 Budget includes a tax rate of $0.6475 (per $100 assessed valuation) for Fiscal Year 2007 (Tax Year 2006).

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 FY2007 General Fund transfer to pay debt service is approximately 13% of expected General Fund revenues.

The second largest source of revenue for the Fund is third party reimbursements. Third party reimbursements are from various parties that have special agreements with the City. Entities that have entered into these agreements with the City include the Metro Transit Authority of Harris County, Buffalo Bayou Partnership, Texas Medical Center and Federal Emergency Management Agency (FEMA). The City uses various commercial paper programs to initially fund certain projects but receives reimbursements to retire the appropriate portion of the commercial paper.

Other sources include debt service reimbursement for special financings that vary from year to year. Examples of special financings include the Lake Houston Tax Increment Reinvestment Zone (Lake Houston TIRZ) and the Integrated Case Management System (ICMS) being implemented by Municipal Court System - Administration Department (MCAD). The Combined Utility System Fund is charged each year to compensate the Debt Service Fund for the cost of paying debt service on certain tax bonds and assumed bonds. The sewer portion of the Combined Utility 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 FY2007 Annual Financing Plan is presented to outline the anticipated sale of City bonds, certificates of obligations, pension bonds, tax and revenue anticipation notes and commercial paper notes for the upcoming fiscal year. It is expected that the City will offer a total ranging from $1.1 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 approximately 20% of the Obligations in a variable rate structure. The City currently issues variable rate commercial paper notes to initially fund various projects. 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 rates ranging from 2.00% up to 8.25%, 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 or refund previously issued and outstanding Tax Obligations of the City. The City has issued Pension Obligations Bonds in FY2005, FY2006 and is expected to issue more in FY2007. Pension Obligations Bonds are payable from and secured by ad valorem taxes and/or revenues or both to fund unfunded actuarial accrued liabilities ("UAAL") associated with its pension funds.

The City may also issue Certificates of Obligation payable from ad valorem taxes and, in some cases, a pledge of certain City revenues for the purpose of paying any contractual obligations. Certificates of Obligation are issued for special financings and demolition of dangerous buildings.

The budget includes a seven-month reserve for Tax Bonds and Certificates of Obligation. 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 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 are composed of 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 $117.2 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 $25.8 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 $500 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").

There are two Commercial Paper Programs that are being utilized by the City of Houston that require no voter authorization. The first one is the General Obligation Commercial Paper Program, Series E that is authorized to fund equipment acquisitions and other special permanent improvement projects with a current available authorization in the amount of $225 million. The City authorized a second program, which is General Obligation Commercial Paper Program, Series F with a total available authorization of $139.5 million to fund certain capital improvements related to drainage.

The commercial paper programs serve as a management tool to access the credit market to meet cash needs while minimizing the rebate liability on unspent proceeds. The commercial paper notes are refunded periodically to fixed rate tax bonds 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 depending on the market conditions. 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 FY2006, average all-in interest cost for variable rate obligations was approximately 3.30%. The budgeted all-in interest cost for the City's variable rate obligations in FY2007 is 4.00%. The budget includes reserves for interest on commercial paper notes to provide for fluctuations in interest rates at a rate of 5.60% 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 during which the City completed seven new annexations. Although annexations have benefited the City in economic growth, no additional annexations have occurred since FY1997. Since FY1999 the 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.

Interest Rate Swaps

As part of its debt management program, the City, consistent with the guidelines set forth in its Interest Rate Swap Policy adopted on November 25, 2003, considers and reviews various interest rate swap proposals, including tax supported interest rate swaps. On February 20, 2004, with respect to certain outstanding Tax Bonds, the City entered into a tax supported interest rate swap agreement with Rice Financial Products Corp. LLC (RFP). Under this Swap Agreement, the counter party (RFP) effectively pays a variable interest rate based on a LIBOR rate plus a fixed spread, and the City pays a variable interest rate, based on a tax exempt BMA rate times a notional principal amount equal to $200 million. The underlying bonds are Public Improvement Bonds (PIB) issued between 1998 and 2005 with various maturities. The initial payment date was March 1, 2005, and thereafter payments continue every September 1 and March 1 through the maturity on March 1, 2025.

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)		$143,221,748
Debt Limit, 10% of Assessed Value		$14,322,175
Public Improvement Bonds	1,640,660	
Commercial Paper Notes	497,800	
Pension Obligation Bonds	437,608	
Judgment Bonds	0	
Certificates of Obligation	78,086	
Annexed Districts' Bonds	10,835	
Total	2,664,989	
Less:		
Amount available for repayment of general obligation debt (2)	(113,009)	
Total debt applicable to limitation		(2,551,980)
Legal debt margin		$11,770,195

(1) Assessed value for the Fiscal Year 2006 (2005 tax year), as of April 28, 2005, based on the appraised value of property prior to any deductions.
(2) Estimated fund balance for fiscal year ending June 30, 2006.

Outstanding General Obligation Debt

(in thousands of dollars)	FY2004 Actual	FY2005 Actual	FY2006 Estimate	FY2007 Budget
OUTSTANDING DEBT:				
Public Improvement Bonds	$ 1,556,435	$ 1,618,000	$ 1,640,660	$ $1,658,020
Commercial Paper Notes	427,800	445,700	497,800	521,200
Pension Obligation Bonds	0	357,165	437,608	570,905
Judgment Bonds	1,365	0	0	0
Certificates of Obligation	33,519	30,068	78,086	81,401
Annexed Districts' Bonds	12,420	11,650	10,835	10,835
TOTAL OUTSTANDING DEBT	$ 2,031,539	$ 2,462,583	$ 2,664,989	$ 2,842,361

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

Standard & Poor's (AA-) - "Reflected in the rating is management's commitment to control expenditure growth and deal with the City's significant contingent liabilities and also sizable, deep and diversified economic base."
Moody's (Aa3) - "The rating reflects Moody's outlook on that the City of Houston is stable with sizable tax base and positive economic trends driven recently by strong energy sector and population.
Fitch's (AA-) - The rating reflects a resilient broad economy, a moderate direct debt burden and recent growth in general fund reserves".

Principal and Interest Payable from Ad Valorem Taxes

Fiscal	Tax Bonds		Pension Obligations	
Year	Principal	Interest	Principal	Interest
2007	124,350,000	85,914,004		17,395,597
2008	132,720,000	79,050,634		19,071,032
2009	131,955,000	71,656,446		20,473,404
2010	129,260,000	64,946,336		21,875,777
2011	120,840,000	58,414,005	546,503	23,278,149
2012	114,180,000	52,207,768	1,703,501	24,609,856
2013	100,380,000	46,418,643	2,953,974	25,841,411
2014	90,485,000	41,194,649	4,312,997	26,964,417
2015	86,490,000	36,506,330	5,789,991	42,512,920
2016	89,290,000	31,947,699	7,395,197	43,352,523
2017	89,360,000	27,291,399	9,139,746	42,687,631
2018	90,170,000	22,646,374	11,035,732	41,871,302
2019	60,540,000	17,957,000	13,096,301	40,890,388
2020	56,890,000	14,927,350	14,838,760	39,730,605
2021	55,515,000	12,080,863	14,915,165	38,440,687
2022	57,180,000	9,304,738	13,659,126	37,199,352
2023	60,055,000	6,430,463	12,310,051	36,066,398
2024	36,675,000	3,427,713	10,843,869	35,050,552
2025	21,525,000	1,593,963	9,250,412	34,161,979
2026	2,390,000	517,713	7,518,634	33,411,729
2027		398,213	5,636,526	32,811,808
2028		398,213	3,591,040	32,375,265
2029		398,213	9,707,992	32,116,283
2030		398,213	8,874,485	31,607,422
2031		398,213	20,665,000	31,137,189
2032	2,460,000	398,213	21,785,000	30,017,276
2033	2,590,000	272,138	22,965,000	28,836,643
2034		139,400	300,000,000	31,842,036
2035	2,720,000	139,400	24,215,000	2,092,036
2036			14,155,000	779,657
	1,658,020,000	687,374,298	570,905,002	898,501,323

Tax Certificates		Assumed Bonds		Total
Principal	Interest	Principal	Interest	Debt Service
1,218,717	3,616,168	860,000	516,736	233,871,222
2,280,000	3,529,793	900,000	472,351	238,023,810
5,225,000	3,437,468	875,000	428,821	234,051,139
6,440,000	3,254,768	940,000	383,000	227,099,881
7,192,739	6,297,391	885,000	336,963	217,790,749
2,675,000	2,840,120	745,000	296,503	199,257,747
6,095,000	2,734,380	665,000	263,236	185,351,644
2,890,000	2,458,085	775,000	232,070	169,312,218
3,010,000	2,341,805	990,000	190,763	177,831,809
3,155,000	2,196,985	1,040,000	142,795	178,520,199
3,310,000	2,044,415	1,090,000	92,298	175,015,488
3,470,000	1,883,565	550,000	41,480	171,668,453
3,640,000	1,714,115		28,600	137,866,404
3,820,000	1,535,495	160,000	24,200	131,926,410
4,005,000	1,347,150	175,000	14,988	126,493,852
4,205,000	1,148,750	185,000	5,088	122,887,053
3,395,000	938,500			119,195,412
3,565,000	768,750			90,330,884
3,745,000	590,500			70,866,854
3,935,000	403,250			48,176,326
4,130,000	206,500			43,183,047
				36,364,518
				42,222,488
				40,880,120
				52,200,401
				54,660,488
				54,663,780
				331,981,436
				29,166,436
				14,934,657
81,401,457	45,287,951	10,835,000	3,469,890	3,955,794,920