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 debt service requirements for FY2008 are estimated to be $306 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 2007 (Tax Year 2006) was reduced to $0.6450 (per $100 assessed valuation), which consists of $0.45927 or general purposes and $0.18573 for debt service. The proposed Fiscal Year 2008 Budget includes a tax rate of $0.6450 (per $100 assessed valuation) for Fiscal Year 2008 (Tax Year 2007).

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 FY2008 General Fund transfer to pay debt service is approximately 13.38% 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 but are not limited to 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 FY2008 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 $780 million to $1.0 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 reaches a level of 20% 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 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 or refund previously issued and outstanding Tax Obligations of the City. The City has issued Pension Obligations Bonds in FY2005, FY2006, FY2007 and is expected to issue more in FY2008. 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 General Obligation Commercial Paper Program, Series A, Series B, and Series C have expired. Series A and B provided for the issuance of voter authorized obligations from the 1991 and 1997 bond elections. Series C was used for the purchase of equipment and other special permanent improvement projects.

The General Obligation Commercial Paper Program, Series D ("Series D") with a current total available authorization of $500 million and General Obligation Commercial Paper Program, Series G ("Series G") in the amount of $115 million. Series D and Series G provides for the issuance of voter-authorized obligations related to the 2001 and 2006 bond elections and both series have been implemented to fund various public improvement projects in the Capital Improvement Plan (the "CIP").

The City authorized General Obligation Commercial Paper Program, Series E ("Series E Notes") with a current total available authorization of $225 million under Chapter 1431, Texas Government Code, as amended (voter authorization not required). The City authorized General Obligation Commercial Paper Program, Series F (the "Series F ") with a total available authorization of $139.5 million under Chapter 1431, Texas Government Code, as amended (voter authorization not required) 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 FY2007, average all-in interest cost for variable rate obligations was approximately 3.7%. The budgeted all-in interest cost for the City's variable rate obligations in FY2008 is 4.25%. The budget includes reserves for interest on commercial paper notes to provide for fluctuations in interest rates at a rate of 5.50% 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 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. During Fiscal Year 2007 all the debt related to annexation has been refunded.

Interest Rate Swaps

As part of its debt management program, the City considers and reviews various interest rate swap proposals, including tax supported interest rate swaps, consistent with the guidelines set forth in its Interest Rate Swap Policy adopted on November 25, 2003. 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 rate, SIFMA (formerly BMA), 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.

(in thousands of dollars)

Assessed Value (1)		$154,818,094
Debt Limit, 10% of Assessed Value		$15,481,809
Debt applicable to limitation (2)		
Public Improvement Bonds	$1,760,090	
Commercial Paper Notes	462,500	
Pension Obligation	515,933	
Certificates of Obligation	82,232	
	$2,820,755	
Less:		
Amount available for repayment of general obligation debt (2)	(107,445)	
Total debt applicable to limitation		
Legal debt margin		$2,713,310

(1) Assessed value for the Fiscal Year 2007 (2006-tax year), as of March 30, 2007, based on the appraised value.
(2) Estimated fund balance for fiscal year ending June 30, 2007.

Outstanding General Obligation Debt

(in thousands of dollars)	FY2005 Actual	FY2006 Actual	FY2007 Estimate	FY2008 Budget
OUTSTANDING DEBT:				
Public Improvement Bonds	$1,618,000	$1,658,020	$1,760,090	$1,791,360
Commercial Paper Notes	445,700	544,575	462,500	587,250
Pension Obligation	357,165	437,608	515,933	567,432
Certificates of Obligation	30068	81,400	82,232	87,957
Annexed Districts' Bonds	11,650	10,835	0	0
TOTAL OUTSTANDING DEBT	$2,462,583	$2,732,438	$2,820,755	$3,033,999

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."

Principal and Interest Payable from Ad Valorem Taxes [a]

Fiscal Year	Tax Bonds Principal	Tax Bonds Interest	Pension Obligations Principal	Pension Obligations Interest
2008	133,730,000	90,214,090	0	22,436,528
2009	132,930,000	82,785,603	0	23,838,901
2010	132,810,000	76,042,893	0	25,241,273
2011	124,440,000	69,354,161	546,503	26,643,646
2012	117,775,000	62,978,836	1,638,928	27,975,352
2013	105,100,000	57,019,299	2,816,479	29,215,257
2014	95,515,000	51,566,755	4,163,566	30,350,199
2015	100,280,000	46,636,555	5,627,589	44,022,046
2016	103,755,000	41,399,074	7,218,698	46,933,121
2017	104,535,000	36,025,049	8,947,925	46,283,550
2018	105,510,000	30,629,936	10,827,260	45,483,872
2019	76,005,000	25,178,175	12,869,733	44,521,055
2020	73,120,000	21,375,275	14,657,096	43,380,939
2021	68,280,000	17,717,288	14,785,049	42,104,047
2022	70,575,000	14,302,913	13,666,161	40,874,007
2023	74,125,000	10,758,888	12,472,453	39,734,133
2024	51,445,000	7,052,638	11,020,368	38,704,189
2025	37,035,000	4,480,388	9,442,233	37,800,296
2026	18,675,000	2,628,638	7,727,105	37,033,394
2027	2,125,000	1,694,888	5,863,094	36,415,376
2028	2,235,000	1,588,638	3,837,276	35,959,166
2029	2,345,000	1,476,888	9,975,603	35,678,810
2030	2,460,000	1,359,638	9,016,879	35,146,718
2031	2,585,000	1,236,638	20,665,000	34,670,433
2032	5,175,000	1,107,388	21,785,000	33,550,520
2033	5,435,000	852,350	22,965,000	32,369,887
2034	2,980,000	584,475	300,000,000	35,375,280
2035	5,840,000	442,925	44,345,000	5,625,280
2036	3,270,000	155,325	35,400,000	3,198,102
2037			22,425,000	1,241,897
	1,760,090,000	**758,645,600**	**634,705,000**	**981,807,274**

[a] As of July 1, 2007

Tax Certificates		Total
Principal	Interest	Debt Service
2,280,000	3,529,793	252,190,411
5,225,000	3,437,468	248,216,971
6,440,000	3,254,768	243,788,933
7,246,972	6,343,158	234,574,440
2,675,000	2,840,120	215,883,236
6,095,000	2,734,380	202,980,415
2,890,000	2,458,085	186,943,605
3,010,000	2,341,805	201,917,995
3,155,000	2,196,985	204,657,878
3,310,000	2,044,415	201,145,939
3,470,000	1,883,565	197,804,633
3,640,000	1,714,115	163,928,079
3,820,000	1,535,495	157,888,806
4,005,000	1,347,150	148,238,533
4,205,000	1,148,750	144,771,831
3,395,000	938,500	141,423,973
3,565,000	768,750	112,555,945
3,745,000	590,500	93,093,416
3,935,000	403,250	70,402,387
4,130,000	206,500	50,434,858
		43,620,079
		49,476,300
		47,983,235
		59,157,070
		61,617,907
		61,622,237
		338,939,755
		56,253,205
		42,023,427
		23,666,897
80,236,972	**41,717,550**	**4,257,202,397**