GENERAL OBLIGATION DEBT SERVICE SUMMARY

General Obligation debt is secured by and payable from the receipts of annual ad valorem taxes, within legal limits, on taxable property within the City. The City has covenanted to assess, levy and collect an ad valorem tax in each calendar year, within applicable limitations, sufficient to pay the principal of and interest on all outstanding obligations payable in such tax year. Such obligations include (1) Public Improvement Bonds, (ii) Certificates of Obligation, (iii) Certain obligations to fund a portion of the City's unfunded actuarially accrued liability to the City's pension programs, and (iv) General Obligation commercial paper notes. The debt service requirements for FY2014 are estimated to be $300 million.

The largest revenue source for the General Debt Service Funds 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"). In addition, the City Charter limits increases in the City's ad valorem tax revenues by requiring voter approval for increases in ad valorem taxes in future years above a limit equal to the lesser of the actual revenues in the proceeding fiscal year, plus 4.5%, or a formula that is based upon the actual revenues received in Fiscal Year 2005 adjusted for the cumulative combined rate of inflation and the City's population growth plus credits for previous years that fall under the cap. The City's tax rate for Fiscal Year 2013 (tax year 2012) was $0.63875 (per $100 assessed valuation), which consists of $0.462210 for general purposes and $0.176540 for debt service. The proposed Fiscal Year 2014 Budget includes a tax rate of $0.63875 (per $100 assessed valuation) for Fiscal Year 2014 (tax year 2013).

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 FY2014 General Fund transfer to pay debt service is approximately 12.1% of expected General Fund revenues.

The second largest source of revenue for the General Debt Service Funds are annual charges to the Combined Utility System to compensate the Debt Service Fund for the cost of debt service on assumed annexed water district debt. The Combined Utility System, via the Storm Water fund, is also charged for debt service payments on certain tax bonds issued for storm water purposes.

In past years, another source of revenue for the General Debt Service Funds was third party reimbursements, which primarily consisted of the Metro Transit Authority of Harris County (METRO). The City used various commercial paper programs to initially fund certain projects and then received reimbursements to retire the appropriate portion of the commercial paper. The City is still participating with METRO to complete certain projects; however, there is a new agreement for METRO to provide the funds before project initiation, rather than as a reimbursement. Therefore, going forward, funding from METRO will primarily be a source of revenue for the Capital Projects Funds.

Other sources include but are not limited to debt service reimbursement for special financings that vary from year to year. Examples of special financings include projects managed by the City but funded by Tax Increment Reinvestment Zones (TIRZ). 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 FY2014 Annual Financing Plan is presented to outline the anticipated sale of City bonds, certificates of obligation, pension bonds, tax and revenue anticipation notes and commercial paper notes for the upcoming fiscal year. It is expected that the City will issue a total ranging from $0.49 to $2.6 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 no more than 20% of the obligations in a variable rate structure and 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, or is otherwise deemed prudent, the commercial paper notes are refunded with fixed rate bonds 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 yields ranging from 0.20% up to 6.29%, 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 refunding of commercial paper notes or refunding previously issued and outstanding tax obligations of the City. The City issued Pension Obligation Bonds in FY2005 - FY2010 and is not expected to issue more in FY2014. Pension Obligations Bonds are payable from and secured by ad valorem taxes and/or revenues 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 demolitions 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

Commercial paper programs provide for the issuance of voter-authorized obligations related to the 2001, 2006 and 2012 bond elections and these series have been implemented to fund various public improvement projects in the Capital Improvement Plan (CIP). These commercial paper programs include the:

- Series G with a total authorization of $200 million,
- Series H with a total authorization of $100 million, and
- Series J with a total authorization of $125 million.

The City has also authorized two other commercial paper programs under Chapter 1431, Texas Government Code, as amended, which does not require voter authorization. These programs and their uses are:

- Series E with a total authorization of $200 million is used to fund equipment acquisitions, and
- Series K with a total authorization of $200 million is used to fund capital improvements related to drainage and streets.

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 into 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 6.5%. The reserves for the notes are based on the amount projected to be outstanding during the fiscal year. The budget includes reserves for interest on commercial paper notes to provide for fluctuations in interest rates at a rate of 6.0% 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. As of FY2007, all of 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 paid a variable interest rate based on the London Interbank Offered Rate ("LIBOR") plus a fixed spread, and the City paid a variable interest rate based on a Securities Industry and Financial Markets Association ("SIFMA," formerly Bond Market Association "BMA") tax exempt rate, times a notional principal amount equal to $200 million. The underlying bonds were Public Improvement Bonds (PIB) issued between 1998 and 2005 with various maturities. The initial payment date was March 1, 2005, and thereafter payments continued every September 1 and March 1 through 2009. This swap was terminated at the City's option on August 25, 2009. An accumulated profit of approximately $8 million was earned on this swap. No swaps are being contemplated at this time.

Rebuild Houston

On November 2, 2010, voters approved an amendment to the City Charter which requires the City to establish a dedicated pay-as-you-go drainage and street renewal fund to provide for enhancement, improvement and ongoing renewal of the City's drainage and streets. Among other sources of funding, Proposition 1 (2010) requires the City to capture an amount equal to revenues from 11.8 cents per $100 of assessed valuation in property taxes, which is the amount currently levied for debt service on bonds issued for streets and drainage purposes. This revenue has two authorized uses under Proposition 1. First, the 11.8 cents of captured property tax revenue must be used to pay debt service on tax supported bonds for drainage and street improvements that were issued prior to December 31, 2011. To the extent that any of the 11.8 cents of captured property tax revenue is left over after the payment of debt service, that remaining captured tax revenue will be deposited into a dedicated drainage and street improvement fund to provide cash funding for pay-as-you-go drainage and street improvements.

Ad Valorem Tax Obligations of the City

State law permits the City to incur total bonded indebtedness through the issuance of ad valorem tax bonds in an amount not to exceed 10% of the total appraised 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)

Appraised Value (1)		$ 203,151,124
Debt Limit, 10% of Appraised Value		$ 20,315,112
Debt applicable to limitation (2)		
Public Improvement Bonds	$2,453,885	
Commercial Paper Notes	291,900	
Pension Obligation	607,775	
Certificates of Obligation	6,925	
Total Debt Applicable to Limitation	$3,360,485	
Less:		
Amount available for repayment of general obligation debt (2)	(149,115)	
Total debt applicable to limitation		$ 3,211,370

(1) Appraised value for the Fiscal Year 2013 (Tax Year 2012), as of March 8, 2013.

(2) Balance as of March 31, 2013.

Outstanding General Obligation Debt

(in thousands of dollars)	FY2011 Actual	FY2012 Actual	FY2013 Estimate	FY2014 Budget
OUTSTANDING DEBT:				
Public Improvement Bonds	$2,468,160	$2,582,320	$2,561,515	$2,472,445
Commercial Paper Notes	$ 237,400	$ 226,900	$ 166,900	$ 241,900
Pension Obligation	$ 607,625	$ 607,775	$ 607,775	$ 607,775
Certificates of Obligation	$ 75,990	$ 17,365	$ 11,870	$ 13,715
TOTAL OUTSTANDING DEBT	$3,389,175	$3,434,360	$3,348,060	$3,331,780

The strength of the City's general obligation debt is reflected in the statements of the ratings agencies:
***Standard & Poor's* (AA)** - The stable outlook reflects the City's "sizable, deep, and diverse economic base, which has shown resiliency, strong wealth and good income indicators ,and improved financial performance that has returned the financial position to a level we consider strong. The rating is partially constraining the rating are self-imposed revenue-raising restrictions and a large capital program that will likely keep overall net debt moderately high and debt service carrying charges elevated."

***Moody's (Aa2)* -** "The rating reflects the city's large tax base that is expected to have stabilized in fiscal 2012, a financial position that remains adequate following significant draw downs in fiscal 2010 and 2011 and an above average yet manageable debt burden. The stable outlook reflects Moody's expectation that 2011 reflects a low point and that the trend of narrowing reserves will be reversed in 2012 following improving economic conditions and management commitment to improving financial margins."

***Fitch (AA)* -** Key rating drivers include improved operations; large benefit liabilities; a large, diverse regional economy; and budget pressures to continue.

Principal and Interest Payable from Ad Valorem Taxes

Existing debt as of April 30, 2013

Fiscal	Tax Bonds		Pension Obligations	
Year	Principal	Interest (1)	Principal	Interest
2014	139,070,000	112,487,589	6,345,000	36,297,353
2015	172,305,000	109,181,998	6,790,000	35,898,252
2016	177,645,000	103,206,782	7,265,000	35,471,161
2017	211,265,000	95,619,907	7,770,000	35,014,193
2018	222,945,000	87,051,312	8,315,000	34,525,460
2019	192,640,000	76,864,190	8,895,000	34,002,446
2020	194,085,000	68,263,993	9,520,000	33,442,951
2021	160,495,000	59,153,402	20,145,000	32,844,143
2022	149,375,000	51,517,325	21,440,000	31,577,022
2023	161,465,000	44,409,084	22,805,000	30,228,446
2024	112,265,000	36,823,459	24,265,000	28,794,012
2025	116,580,000	31,595,345	25,820,000	27,267,743
2026	85,110,000	25,965,816	27,475,000	25,643,665
2027	105,940,000	21,868,762	29,235,000	23,915,488
2028	105,140,000	16,664,845	31,100,000	22,076,606
2029	73,830,000	11,829,293	41,425,000	20,120,416
2030	40,095,000	8,679,173	43,995,000	17,596,516
2031	20,310,000	6,852,863	58,135,000	14,915,274
2032	22,555,000	5,834,207	61,650,000	11,438,498
2033	14,985,000	4,723,216	22,965,000	7,750,357
2034	12,980,000	3,999,944	0	6,505,750
2035	14,945,000	3,359,463	44,345,000	6,505,750
2036	14,290,000	2,633,384	35,400,000	4,078,572
2037	11,585,000	1,943,584	22,425,000	2,122,367
2038	8,590,000	1,386,048	0	880,470
2039	6,045,000	979,066	0	880,470
2040	3,810,000	711,200	0	880,470
2041	3,990,000	532,800	20,250,000	880,470
2042	4,175,000	345,900	0	0
2043	3,005,000	150,250	0	0
	2,561,515,000	**994,634,198**	**607,775,000**	**561,554,319**

(1) Net of Build America Subsidies

Tax Certificates		TOTAL		Total
Principal	Interest	Principal	Interest	Debt Service
2,210,000	494,733	147,625,000	149,279,675	296,904,675
2,300,000	483,000	181,395,000	145,563,251	326,958,251
0	368,000	184,910,000	139,045,944	323,955,944
0	368,000	219,035,000	131,002,100	350,037,100
1,080,000	368,000	232,340,000	121,944,771	354,284,771
1,135,000	314,000	202,670,000	111,180,636	313,850,636
1,195,000	257,250	204,800,000	101,964,193	306,764,193
1,255,000	197,500	181,895,000	92,195,044	274,090,044
1,315,000	134,750	172,130,000	83,229,097	255,359,097
1,380,000	69,000	185,650,000	74,706,530	260,356,530
0	0	136,530,000	65,617,471	202,147,471
0	0	142,400,000	58,863,088	201,263,088
0	0	112,585,000	51,609,482	164,194,482
0	0	135,175,000	45,784,250	180,959,250
0	0	136,240,000	38,741,451	174,981,451
0	0	115,255,000	31,949,709	147,204,709
0	0	84,090,000	26,275,688	110,365,688
0	0	78,445,000	21,768,137	100,213,137
0	0	84,205,000	17,272,705	101,477,705
0	0	37,950,000	12,473,573	50,423,573
0	0	12,980,000	10,505,694	23,485,694
0	0	59,290,000	9,865,212	69,155,212
0	0	49,690,000	6,711,956	56,401,956
0	0	34,010,000	4,065,951	38,075,951
0	0	8,590,000	2,266,518	10,856,518
0	0	6,045,000	1,859,536	7,904,536
0	0	3,810,000	1,591,670	5,401,670
0	0	24,240,000	1,413,270	25,653,270
0	0	4,175,000	345,900	4,520,900
0	0	3,005,000	150,250	3,155,250
11,870,000	**3,054,233**	**3,181,160,000**	**1,559,242,750**	**4,740,402,750**