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 FY2009 are estimated to be $310 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 2008 (Tax Year 2007) was reduced to $0.64375 (per $100 assessed valuation), which consists of $0.461975 for general purposes and $0.181775 for debt service. The proposed Fiscal Year 2009 Budget includes a tax rate of $0.63875 (per $100 assessed valuation) for Fiscal Year 2009 (Tax Year 2008).

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 FY2009 General Fund transfer to pay debt service is approximately 13.62% 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 but are not limited to 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 FY2009 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 issue a total ranging from $1.2 billion to $1.6 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 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, FY 2007, FY2008 and is expected to issue more in FY2009. 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 D ('"Series D") has total available authorization of $500 million and General Obligation Commercial Paper Program, Series G ("Series G") has total available authorization in the amount of $276 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 $325 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 FY2008, average all-in interest cost for variable rate obligations was approximately 3.0%. The budgeted all-in interest cost for the City's variable rate obligations in FY2009 is 3.0%. 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)		$173,213,265
Debt Limit, 10% of Assessed Value		$17,321,326
Debt applicable to limitation (2)		
Public Improvement Bonds	$1,798,150	
Commercial Paper Notes	523,450	
Pension Obligation	532,431	
Certificates of Obligation	88,875	
	$2,942,906	
Less:		
Amount available for repayment of general obligation debt (2)	(247,900)	
Total debt applicable to limitation		
Legal debt margin		$2,695,006

(1) Assessed value for the Fiscal Year 2008 (2007-tax year), as of March 28, 2008, based on the appraised value.
(2) Estimated fund balance for fiscal year ending June 30, 2008.

Outstanding General Obligation Debt

(in thousands of dollars)	FY2006 Actual	FY2007 Actual	FY2008 Estimate	FY2009 Budget
OUTSTANDING DEBT:				
Public Improvement Bonds	$1,658,020	$1,760,090	$1,798,150	$1,914,270
Commercial Paper Notes	544,575	521,100	523,450	540,000
Pension Obligation	437,608	515,933	532,431	532,431
Certificates of Obligation	81,400	82,351	88,875	96,307
Annexed Districts' Bonds	10,835	0	0	0
TOTAL OUTSTANDING DEBT	$2,732,438	$2,879,474	$2,942,906	$3,083,008

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 improving economic activity, coupled with renewed employment growth and continued diversification away from the historically concentrated oil- and gas- related industries."
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
2009	133,880,000	91,013,493	0	39,636,215
2010	133,785,000	84,241,543	0	39,636,215
2011	131,765,000	77,516,411	0	40,182,718
2012	125,640,000	70,792,836	0	41,204,476
2013	118,665,000	64,500,449	0	42,219,560
2014	109,275,000	58,416,205	0	42,759,388
2015	114,665,000	52,849,155	0	42,759,388
2016	118,845,000	46,909,524	0	42,759,388
2017	110,530,000	40,786,899	0	42,759,388
2018	111,740,000	35,163,236	0	42,759,388
2019	81,285,000	29,446,875	0	42,759,388
2020	78,660,000	25,379,975	0	42,759,388
2021	74,095,000	21,444,988	0	41,503,029
2022	76,685,000	17,739,863	0	39,154,102
2023	80,535,000	13,890,338	0	36,820,519
2024	58,180,000	9,863,588	0	35,579,505
2025	44,105,000	6,954,588	0	35,579,505
2026	26,100,000	4,749,338	0	35,579,505
2027	9,920,000	3,444,338	0	35,579,505
2028	4,420,000	2,962,138	0	35,579,505
2029	4,640,000	2,741,138	8,340,000	35,579,505
2030	4,865,000	2,509,138	8,780,000	35,136,651
2031	5,115,000	2,265,888	20,665,000	34,670,433
2032	7,830,000	2,010,138	21,785,000	33,550,520
2033	8,220,000	1,622,350	22,965,000	32,369,887
2034	5,905,000	1,215,225	347,726,000	35,375,280
2035	8,915,000	927,425	44,345,000	5,625,280
2036	6,495,000	486,075	35,400,000	3,198,102
2037	3,390,000	169,500	22,425,000	1,241,897
	1,798,150,000	**772,012,650**	**532,431,000**	**1,014,317,628**

[(a)] As of April 1, 2008

Tax Certificates		Total
Principal	**Interest**	**Debt Service**
5,225,000	3,866,218	273,620,925
6,440,000	3,683,518	267,786,275
7,246,972	6,771,908	263,483,009
6,250,000	3,268,870	247,156,183
11,095,000	2,984,380	239,464,389
2,890,000	2,458,085	215,798,678
3,010,000	2,341,805	215,625,348
3,155,000	2,196,985	213,865,897
3,310,000	2,044,415	199,430,702
3,470,000	1,883,565	195,016,190
3,640,000	1,714,115	158,845,378
3,820,000	1,535,495	152,154,858
4,005,000	1,347,150	142,395,167
4,205,000	1,148,750	138,932,714
3,395,000	938,500	135,579,357
3,565,000	768,750	107,956,842
3,745,000	590,500	90,974,592
3,935,000	403,250	70,767,092
4,130,000	206,500	53,280,342
		42,961,642
		51,300,642
		51,290,788
		62,716,320
		65,175,657
		65,177,237
		390,221,505
		59,812,705
		45,579,177
		27,226,397
86,531,972	**40,152,758**	**4,243,596,008**