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 and interest on all outstanding obligations payable in such tax year. Such obligations include (1) Public Improvement Bonds, (2) Certificates of Obligation, (3) Certain obligations to fund a portion of the City's unfunded actuarially accrued liability to the City's pension programs, and (4) General obligation commercial paper notes. The debt service requirements, excluding any bond issuance or refunding for FY2026 are estimated to be $383 million.

The largest revenue source for the General Debt Service 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 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. In addition, Proposition 1 limits increases in the City's ad valorem tax revenue 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 preceding 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. In addition, in November 2006, Proposition H was passed to further increase the applicable revenue limitations by $90 million. The City's tax rate for Fiscal Year 2025 (tax year 2024) was $0.519190 (per $100 assessed valuation), which consists of $0.378605 for general purposes and $0.140585 for debt service. The Fiscal Year 2026 Budget assumes the City will collect the maximum ad valorem tax revenues allowable under Proposition 1 and H. The tax rate will be adjusted accordingly when the City collects the final tax figures and sets the tax rate.

The second largest source of revenue for the Fund is annual charges to the Combined Utility System to compensate the Debt Service Fund for the cost of paying 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.

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 FY2026 Annual Financing Plan outlines 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 $75 million to $3.8 billion depending on needs and market conditions.

Tax Bonds and Certificates of Obligation

The Obligations are issued as fixed rate debt, with interest rates being established at the time of issuance and are based on market conditions. 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 has also issued Pension Obligation Bonds in FY2005 through FY2010, as well as FY2018. Pension Obligation 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 reserve sufficient to fund debt service payments for Tax Bonds and Certificates of Obligation. This reserve covers principal and interest payable the first 180 days 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 2006, 2012, 2017 and 2022 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:

- Series G with a total authorization of $200 million.
- Series H with a total authorization of $100 million.
- 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 primarily used to fund equipment acquisitions, and
- Series K with a total authorization of $400 million is used to provide appropriation capacity 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 10%. 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 3.75% of the estimated amount to be outstanding during the fiscal year. Currently rates typically range from 2.81-2.90%.

Assumed Bonds

Prior to FY1991, the City had an aggressive annexation program. There were no annexations during FY1991 and FY1992. However, from FY1993 to FY1997 the City completed seven new annexations. Although annexations have benefited the City in economic growth, no additional annexations have occurred since FY1997. Beginning in FY1999, the legislation requires the City to adopt a three-year annexation plan 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 the debt related to annexation has been refunded.

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]		$ 434,834,685
Debt Limit, 10% of Appraised Value		$ 43,483,469
Debt applicable to limitation [2]		
Public Improvement Bonds	$ 2,070,810	
Commercial Paper Notes	95,000	
Pension Obligation	1,367,370	
Certificates of Obligation	-	
Total Debt Applicable to Limitation	$ 3,533,180	
Less:		
Amount available for repayment of general obligation debt [3]	(194,535)	
Total debt applicable to limitation		$ 3,338,645

[1] Appraised value for the Fiscal Year 2025 (Tax Year 2024), as of March 7, 2025.

[2] Balance as of March 31, 2025.

[3] Balance as of June 30, 2024.

Outstanding General Obligation Debt

(in thousands of dollars)	FY2023 Actual	FY2024 Actual	FY2025 Estimate	FY2026 Budget
OUTSTANDING DEBT:				
Public Improvement Bonds	$ 1,481,110	$ 1,560,020	$ 2,070,810	$ 2,078,911
Commercial Paper Notes	$ 275,400	$ 91,000	$ 130,625	$ 144,386
Pension Obligation	$ 1,438,420	$ 1,404,470	$ 1,367,370	$ 1,326,920
Certificates of Obligation	$ 10,985	$ 2,595	$ -	$ 2,000
TOTAL OUTSTANDING DEBT	$ 3,205,915	$ 3,058,085	$ 3,568,805	$ 3,552,217