

MAYOR'S OFFICE

HOUSTON, TEXAS

April 3, 2013

To the Honorable City Council of the City of Houston, Texas

In accordance with the provisions of Article VII, Section 7 of the Charter of the City of Houston, I submit and introduce to you the Ordinance set out as attached with the request that it be passed finally on the date of its introduction. There exists a public emergency requiring such action and I accordingly request that you pass the same if it meets with your approval.



Mayor, City of Houston, Texas

City of Houston Ordinance No. 2013- 286

CITY OF HOUSTON ORDINANCE NO. 2013- 286

AN ORDINANCE AUTHORIZING THE ISSUANCE OF CITY OF HOUSTON, TEXAS PUBLIC IMPROVEMENT REFUNDING BONDS IN ONE OR MORE SERIES OR SUBSERIES (TAX-EXEMPT AND TAXABLE) AS MAY BE FURTHER DESIGNATED AND DESCRIBED HEREIN AND PROVIDING FOR THE PAYMENT AND SECURITY THEREOF; AUTHORIZING THE MAYOR, CITY CONTROLLER AND/OR CERTAIN OTHER DESIGNATED CITY OFFICIALS TO APPROVE THE SALE, PRINCIPAL AMOUNT, INTEREST RATES, PRICES AND TERMS THEREOF; AUTHORIZING SUCH OFFICIALS TO DETERMINE THE OUTSTANDING OBLIGATIONS TO BE REFUNDED AND/OR DEFEASED AND TO APPROVE CERTAIN OTHER PROCEDURES, PROVISIONS AND AGREEMENTS RELATED THERETO; AUTHORIZING THE EXECUTION AND DELIVERY OF ONE OR MORE PURCHASE CONTRACTS, PAYING AGENT/REGISTRAR AGREEMENTS, ESCROW AGREEMENTS, AND OTHER AGREEMENTS; APPROVING THE USE OF A PRELIMINARY OFFICIAL STATEMENT AND AUTHORIZING THE PREPARATION AND DISTRIBUTION OF AN OFFICIAL STATEMENT IN CONNECTION WITH SUCH OFFERING; AUTHORIZING A BOND COUNSEL AGREEMENT AND A SPECIAL DISCLOSURE COUNSEL AGREEMENT; MAKING CERTAIN FINDINGS AND OTHER DECLARATIONS NECESSARY AND INCIDENTAL TO THE ISSUANCE OF SUCH REFUNDING BONDS; AND DECLARING AN EMERGENCY

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF HOUSTON, TEXAS:

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LIST OF EXHIBITS

- Exhibit A: Form of Officers Pricing Certificate
- Exhibit B: Form of Paying Agent/Registrar Agreement
- Exhibit C-1: Bond Counsel Engagement Letter
- Exhibit C-2: Special Disclosure Counsel Engagement Letter
- Exhibit D: Form of Purchase Contract
- Exhibit E: Preliminary Official Statement
- Exhibit F: Description of Annual Financial Information and Accounting Principles

AN ORDINANCE AUTHORIZING THE ISSUANCE OF CITY OF HOUSTON, TEXAS PUBLIC IMPROVEMENT REFUNDING BONDS IN ONE OR MORE SERIES OR SUBSERIES (TAX-EXEMPT AND TAXABLE) AS MAY BE FURTHER DESIGNATED AND DESCRIBED HEREIN AND PROVIDING FOR THE PAYMENT AND SECURITY THEREOF; AUTHORIZING THE MAYOR, CITY CONTROLLER AND/OR CERTAIN OTHER DESIGNATED CITY OFFICIALS TO APPROVE THE SALE, PRINCIPAL AMOUNT, INTEREST RATES, PRICES AND TERMS THEREOF; AUTHORIZING SUCH OFFICIALS TO DETERMINE THE OUTSTANDING OBLIGATIONS TO BE REFUNDED AND/OR DEFEASED AND TO APPROVE CERTAIN OTHER PROCEDURES, PROVISIONS AND AGREEMENTS RELATED THERETO; AUTHORIZING THE EXECUTION AND DELIVERY OF ONE OR MORE PURCHASE CONTRACTS, PAYING AGENT/REGISTRAR AGREEMENTS, ESCROW AGREEMENTS, AND OTHER AGREEMENTS; APPROVING THE USE OF A PRELIMINARY OFFICIAL STATEMENT AND AUTHORIZING THE PREPARATION AND DISTRIBUTION OF AN OFFICIAL STATEMENT IN CONNECTION WITH SUCH OFFERING; AUTHORIZING A BOND COUNSEL AGREEMENT AND A SPECIAL DISCLOSURE COUNSEL AGREEMENT; MAKING CERTAIN FINDINGS AND OTHER DECLARATIONS NECESSARY AND INCIDENTAL TO THE ISSUANCE OF SUCH REFUNDING BONDS; AND DECLARING AN EMERGENCY

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF HOUSTON, TEXAS:

**ARTICLE I
FINDINGS AND DETERMINATIONS**

Section 1.1 Findings and Determinations. It is hereby officially found and determined that:

(a) The City of Houston, Texas (the "City") intends to issue one or more series of bonds to refund certain outstanding (i) public improvement bonds (the "Refunded Bonds"), (ii) certificates of obligation (the "Refunded Certificates") and (iii) general obligation commercial paper notes (the "Refunded Notes" and, with the Refunded Bonds and Refunded Certificates, collectively the "Refunded Obligations"), each of which are to be determined in the Officers Pricing Certificate. As further described and set forth herein, the City hereby declares and finds that all outstanding general obligation and/or tax-supported (whether wholly or partially secured thereby) debt shall be available to be refunded and/or defeased by the Bonds (as defined herein) and such outstanding debt shall be referred to and designated as the "Refunded Candidates."

(b) Pursuant to the authority granted under Authorizing Law (as defined herein) and this Ordinance, the City desires to refund all or a portion of the Refunded Candidates through the issuance of one or more series of its Public Improvement Refunding Bonds (the "Tax-exempt Bonds") and one or more series of its Taxable Public Improvement Refunding Bonds (the "Taxable Bonds" and, with the Tax-exempt Bonds, collectively, the "Bonds"), and the City

desires to delegate certain authority to the Pricing Officers (as defined herein) to effectuate the sale of the Bonds as designated herein.

(c) Chapter 1207 (as defined herein) authorizes the City to issue refunding bonds for the purpose of refunding the Refunded Obligations in advance of their maturities, and to accomplish such refunding by, as applicable, (i) depositing with a qualified escrow agent, the proceeds of such refunding bonds, together with other available funds or securities, or (ii) depositing with a paying agent for the Refunded Obligations the proceeds of such Bonds, each in an amount sufficient to provide for the payment or redemption of the Refunded Obligations, and provides that such deposits shall constitute the making of firm banking and financial arrangements for the discharge and final payment or redemption of the Refunded Obligations.

(d) The City desires to authorize the execution of one or more escrow agreements in order to provide for the deposit of certain proceeds of the Bonds (as defined herein) and, to the extent specified pursuant hereto, other securities and/or lawfully available funds of the City, to pay the redemption price of the Refunded Obligations when due.

(e) Upon the issuance of the Bonds and the deposit of funds and securities referred to above, the Refunded Obligations shall no longer be regarded as being outstanding, except for the purpose of being paid pursuant to such deposit, and the pledges, liens, trusts and all other covenants, provisions, terms and conditions of the ordinances authorizing the issuance of the Refunded Obligations shall be, with respect to the Refunded Obligations, discharged, terminated and defeased.

(f) The City hereby finds and determines that the refunding of the Refunded Bonds and the Refunded Certificates will benefit the City by providing a net present value saving in the debt service payable by the City and the refunding of the Refunded Notes will provide long term financing at fixed rates, and that such benefits constitute a valid public purpose and are sufficient consideration for the refunding contemplated herein. Further, the City hereby finds and determines that the manner in which the refunding is being executed does not make it practicable to make the determination required by Section 1207.008(a)(2), Texas Government Code, as amended.

(g) Concurrently with the adoption of this Ordinance, the City Council is adopting an ordinance authorizing the issuance of the City's Certificates of Obligation (Demolition Program), Series 2013 (the "Certificates") and an ordinance authorizing the issuance of the City's Qualified Energy Conservation Tax Notes (QECB Direct Pay to Issuer), Series 2013Q (the "Notes"). To the extent the Bonds, the Certificates and the Notes are authorized and issued under a common plan of finance, certain of the forms of agreements approved in this Ordinance shall also be deemed forms for the Certificates and the Notes, and approval in this Ordinance shall constitute approval for all purposes of the Certificates and the Notes, as further set forth in the ordinances authorizing the Certificates and the Notes.

ARTICLE II
DEFINITIONS AND INTERPRETATIONS

Section 2.1 Definitions. As used in this Ordinance, the following terms shall have the meanings set forth below.

“*Attorney General*” means the Attorney General of the State of Texas.

“*Authorized Denomination*” means \$5,000 in principal amount or any integral multiple thereof.

“*Authorized Representative*” means the person from time to time holding the office of the City Controller, or the Deputy City Controller, or any other officer or manager of the Office of the City Controller so designated in writing by the City Controller to serve in such capacity.

“*Authorizing Law*” means, collectively, Chapter 1207 and Chapter 1201, the City Charter of the City and other applicable law.

“*Blanket Issuer Letter of Representation*” means the Blanket Issuer Letter of Representation between the City and DTC setting forth the respective duties of the City and DTC with respect to the Bonds and other obligations issued or to be issued by the City.

“*Bond Counsel*” means a firm or firms of nationally recognized attorneys experienced in the issuance of bonds acceptable to the City, initially Bracewell & Giuliani LLP and Baker Williams Matthiesen LLP, each of Houston, Texas and any successor firms thereto.

“*Bond(s)*” means any or all of the Tax-exempt Bonds and the Taxable Bonds, as the context may indicate.

“*Business Day*” means any day except a Saturday, Sunday or any other day on which commercial banks in Texas are authorized or required by law to close.

“*Chapter 1201*” means Chapter 1201, Texas Government Code, as amended.

“*Chapter 1207*” means Chapter 1207, Texas Government Code, as amended.

“*City*” means the City of Houston, Texas, and where appropriate, its City Council.

“*City Controller*” means the Controller of the City.

“*City Council*” means the City Council of the City, which is the governing body of the City.

“*Code*” means the Internal Revenue Code of 1986, as amended.

“*Comptroller*” means the Comptroller of Public Accounts of the State of Texas.

“*Dated Date*” means the date of the Bonds, as set forth in the Officers Pricing Certificate.

“DTC” means The Depository Trust Company, New York, New York or any successor securities depository.

“DTC Participant” means brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of clearance transactions among DTC participants through electronic book-entry changes in the accounts of the DTC participants.

“Financial Advisors” means, collectively, First Southwest Company and Kipling Jones & Co., each of Houston, Texas, and any successor firms thereto.

“Fiscal Year” means the City’s then designated fiscal year, which currently is the twelve month period beginning July 1 of a calendar year and ending June 30 of the next succeeding calendar year, and such period may be designated with the number of the calendar year in which such period ends.

“Form of Bond” means the form of bond(s), inclusive of all attachments and related certificate, attached to the Officers Pricing Certificate as Appendix A, and further described in Article IV hereof.

“Initial Bond(s)” means the Initial Bond(s) authorized by Section 3.2 hereof.

“Interest Payment Date” means each March 1 and September 1, commencing on the initial Interest Payment Date set forth in the Officers Pricing Certificate, until maturity or earlier redemption (if any) of the Bonds.

“Issuance Date” with respect to each series of Bonds issued hereunder, means the date of initial delivery for each series of Bonds to the Underwriters, as further designated in the applicable Officers Pricing Certificate. If more than one series of Bonds is issued hereunder, the separate series of Bonds may have separate delivery dates.

“Mayor” means the Mayor of the City.

“MSRB” means the Municipal Securities Rulemaking Board.

“Officers Pricing Certificate” means one or more certificates executed by the Pricing Officers with respect to the pricing of any series of the Bonds pursuant to Article III hereof.

“Ordinance” means this ordinance and all amendments hereof and supplements hereto, including any appendices, exhibits and schedules attached hereto, authorizing the issuance of the Bonds.

“Owner” or “Registered Owner” means any person or entity in whose name any Bond is registered in the Register.

“Paying Agent/Registrar” means with respect to the Bonds, the entity appointed pursuant to Section 6.1 to act as Paying Agent/Registrar, and its successors in that capacity.

“*Pricing Officers*” means any combination of the Mayor, City Controller, Director of Finance of the City or the Deputy City Controller.

“*Purchase Contract*” means one or more bond Purchase Contract(s) between the City and the Underwriters relating to the Bonds, in substantially the form attached as **Exhibit D** to this Ordinance.

“*Record Date*” means the fifteenth day of the calendar month immediately preceding the applicable Interest Payment Date.

“*Refunded Bond Escrow Agent*” means The Bank of New York Mellon Trust Company, N.A., and its successors in such capacity.

“*Refunded Bond Escrow Agreement*” means one or more escrow agreement(s) by and between the City and the Refunded Bond Escrow Agent entered into for the refunding of the Refunded Bonds and the Refunded Certificates, in substantially the form to be attached to the Officers Pricing Certificate.

“*Refunded Bonds*” means all or any such portion of the City’s outstanding public improvement bonds, which are specifically set forth in Schedule I of the Officers Pricing Certificate, and are being refunded and redeemed with a portion of the proceeds of the Bonds and other available funds of the City, if any.

“*Refunded Candidates*” has the meaning set forth in section 1.1(a) hereof.

“*Refunded Certificates*” means all or any such portion of the City’s tax-supported certificates of obligation, which are specifically set forth in Schedule I of the Officers Pricing Certificate, and are being refunded and redeemed with a portion of the proceeds of the Bonds and other available funds of the City, if any.

“*Refunded Notes Escrow Agent*” means U.S. Bank National Association, and its successors in such capacity.

“*Refunded Notes Escrow Agreement*” means one or more escrow agreement(s) by and between the City and the Refunded Notes Escrow Agent entered into for the refunding of the Refunded Notes, in substantially the form to be attached to the Officers Pricing Certificate.

“*Refunded Notes*” means those certain general obligation commercial paper notes issued by the City as set forth in Schedule I of the Officers Pricing Certificate, which are being refunded and redeemed with a portion of the proceeds of the Bonds and other available funds of the City, if any.

“*Refunded Obligations*” means the Refunded Bonds, the Refunded Certificates and Refunded Notes, as may be determined by the Officers Pricing Certificate.

“*Refunded Obligations Escrow Agreement*” means, collectively, the Refunded Bond Escrow Agreement and the Refunded Notes Escrow Agreement.

“*Register*” means the registration books for the Bonds kept and maintained by the Paying Agent/Registrar in which are maintained the names and addresses of, and the principal amounts registered to, each Registered Owner of the Bonds.

“*Report*” shall mean the report or reports prepared by the Verification Agent with respect to the adequacy of the escrowed securities referred to in the Refunded Obligations Escrow Agreement to pay, when due, the principal of and interest on the Refunded Obligations.

“*Rule*” means SEC Rule 15c2-12, as amended from time to time.

“*SEC*” means the United States Securities and Exchange Commission.

“*Securities Depository*” means the DTC, initially, or, if applicable, any successors and assigns or any other securities depository selected by the City.

“*Special Disclosure Co-Counsel*” means a firm or firms of nationally recognized attorneys acceptable to the City, initially Haynes and Boone LLP and Bratton & Associates, each of Houston, Texas and any successor firms thereto.

“*Tax-exempt Bonds*” means one or more series of the City of Houston, Texas, Public Improvement Refunding Bonds authorized and as designated by the City in the Officers Pricing Certificate as a “Tax-exempt Bond.”

“*Tax-exempt Refunded Obligations*” means the Refunded Obligations that are refunded with the proceeds of the Tax-exempt Bonds.

“*Taxable Bonds*” means one or more series of the City of Houston, Texas, Taxable Public Improvement Refunding Bonds authorized and designated by the City in the Officers Pricing Certificate as a “Taxable Bond.”

“*Underwriters*” shall have the meaning set forth in the Purchase Contract.

“*Verification Agent*” means Grant Thornton LLP, certified public accountants, or any other party designated as such by the Pricing Officers pursuant to the Officers Pricing Certificate.

Section 2.2 Interpretations. All terms defined and all pronouns used in this Ordinance shall be deemed to apply equally to the singular and the plural and to all genders. The titles and headings of the articles and sections of this Ordinance have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify, enlarge or restrict any of the terms of the provisions hereof. This Ordinance and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of the Bonds and the validity of the levy of ad valorem taxes to pay the principal of, premium, if any, and interest on the Bonds.

ARTICLE III TERMS OF THE BONDS

Section 3.1 Name, Amount, Purpose and Authorization. The Bonds shall be issued in one or more series or subseries on one or more Issuance Dates in fully registered form in the aggregate principal amount not to exceed \$450,000,000 (except as such amount may be modified by any supplemental ordinance), and shall be known and designated as either CITY OF HOUSTON, TEXAS PUBLIC IMPROVEMENT REFUNDING BONDS or CITY OF HOUSTON, TEXAS TAXABLE PUBLIC IMPROVEMENT REFUNDING BONDS, as provided and/or modified in the Officers Pricing Certificate, which is substantially in the form set forth in **Exhibit A** to this Ordinance with such additions, deletions and variations as may be necessary and desirable and permitted by this Ordinance and Authorizing Law. Each series or subseries of Bonds may be designated with or without a letter suffix (e.g. 2013, 2013A, 2013B) and may be designated as "Tax-exempt" or "Taxable," as provided in the applicable Officers Pricing Certificate. The Bonds of any series shall be issued for the following purposes: (i) defeasing and/or refunding the Refunded Obligations and (ii) paying the related costs of issuance, all under and pursuant to the authority of the Authorizing Law.

Section 3.2 Date, Denomination, Interest Rates and Maturities.

(a) The Bonds of each series shall have a final maturity not later than March 1, 2048, shall be dated the date(s), and shall mature on the maturity date(s) in each of the years and in the amounts as set forth in the Officers Pricing Certificate, and shall be subject to optional, make-whole and mandatory redemption on the dates, at the redemption prices and in the amounts as set forth in the Officers Pricing Certificate and/or the Form of Bond. The Bonds shall bear interest from their Issuance Date or the most recent Interest Payment Date for which interest has been paid or duly provided for, at the rate(s) set forth in the Officers Pricing Certificate. Interest on the Bonds shall be payable on each Interest Payment Date to the Registered Owner as of the close of business on the applicable Record Date.

(b) If interest on any Bond is not paid on any Interest Payment Date and continues unpaid for thirty (30) days thereafter, the Paying Agent/Registrar will establish a new record date for such interest payment (a "Special Record Date") when funds for the payment of such interest have been received from the City. Such Special Record Date shall be fifteen (15) days prior to the date fixed for payment of such past due interest, and notice of the date of payment and the Special Record Date shall be sent at least five (5) Business Days prior to the Special Record Date by United States mail, first class, postage prepaid, to each Registered Owner as of the close of business on the Business Day prior to mailing of such notice.

(c) Except as provided below, no Bond shall be valid or obligatory for any purpose or be entitled to any security or benefit of this Ordinance unless and until there appears thereon the Paying Agent/Registrar's Authentication Certificate substantially in the form provided in the Form of Bond, duly authenticated by manual execution by an officer or duly authorized signatory of the Paying Agent/Registrar. In lieu of the executed Paying Agent/Registrar's Authentication Certificate described above, the Initial Bond delivered on the applicable Issuance Date for each series shall have attached thereto the Comptroller's Registration Certificate substantially in the form provided in the Form of Bond, manually executed by the Comptroller,

or by his duly authorized agent, which certificate shall be evidence that such Initial Bond has been duly approved by the Attorney General and that it is a valid and binding obligation of the City, and has been registered by the Comptroller.

(d) The Bonds shall initially be evidenced by an Initial Bond for each series of Bonds, being a single bond representing the entire principal amount of the applicable series of Bonds, payable in stated installments to the Underwriters of the Bonds, executed by manual or facsimile signature, approved by the Attorney General, and registered and manually signed by the Comptroller. Such Initial Bonds shall be numbered AGA-1 for the initial series issued hereunder, and for each series thereafter shall be numbered upward and such that the letter designation after the letters "AG" corresponds to the letter suffix in the caption of the respective series of Bonds. Thereafter, the Bonds shall be evidenced by definitive bonds numbered in sequence beginning with RA-1 for each series, with each series thereafter numbered with the appropriate letter designation, as may be further designated in the Officers Pricing Certificate.

On the Issuance Date for any series of Bonds, the Initial Bond for such series shall be delivered to the Underwriters. Upon payment for the Initial Bond, the Paying Agent/Registrar shall cancel the Initial Bond and deliver definitive Bonds to DTC registered in the name of Cede & Co. Definitive Bonds delivered on transfer of or in exchange for the Initial Bond or other Bonds of the same series shall be issued in Authorized Denominations and shall mature on the same date and bear interest at the same rate as the Bonds in lieu of which they are delivered.

Section 3.3 Selling and Delivering Bonds. Pursuant to the Authorizing Law, specifically Chapter 1207, the Pricing Officers are hereby authorized to act on behalf of the City in selling and delivering the Bonds and carrying out the other procedures specified in this Ordinance, including without limitation determining the manner in which the Bonds should be sold and delivered, the price(s), the Dated Date(s), the Issuance Date(s), the Form of Bond, and the manner in which such Bonds shall be issued (whether as current interest bonds or as any combination of current interest bonds, compound interest bonds and deferred interest bonds), whether the interest on such bonds shall be taxable or tax-exempt to the Owner thereof, the interest rates, the initial Interest Payment Dates, the maturity dates, prices and terms upon and at which the Bonds shall be subject to redemption prior to maturity at the option of the City (including make-whole redemption), as well as any mandatory sinking fund redemption provisions for the Bonds; selection of the Refunded Candidates to be designated as Refunded Obligations, the form of escrow agreement(s) required to effect such refundings, the selection of the verification agent as authorized by the Officers Pricing Certificate for the escrow fund(s) to be established for the Refunded Obligations, the selection of a bond insurer, if any, and all other matters relating to the issuance, sale and delivery of the Bonds and the refunding of the Refunded Obligations, all as specified in the Officers Pricing Certificate; provided that:

(i) the price to be paid for any series of the Bonds shall not be less than 90% of the aggregate original principal amount of any current interest bonds or 90% of the present value of any compound interest bonds plus accrued interest, if any, thereon from their date to their delivery;

(ii) the refunding of the Refunded Bonds and the Refunded Certificates shall produce an aggregate net present value debt service savings, as shown by a calculation prepared by the Financial Advisors and attached to the Officers Pricing Certificate;

(iii) the aggregate principal amount of the Bonds of each series shall not exceed the maximum amount authorized in Section 3.1, and the sum of the principal amounts of the Bonds of each series, in combination with any net premium from the sale of the Bonds, plus other available funds of the City, if any, shall be sufficient to provide amounts necessary to fund the purposes authorized in Section 3.1 which are applicable to such series of Bonds, including, if applicable to such series, the costs of refunding and/or defeasance of the applicable Refunded Obligations and the estimated costs of issuance of such series of Bonds;

(iv) the Bonds shall bear interest at such rates that the true interest cost with respect to any series of Bonds shall not exceed 10% per annum, all of which shall be certified and set forth in the Officers Pricing Certificate;

(v) prior to delivery, the Bonds shall be rated by a nationally recognized rating agency for municipal securities in one of the four highest rating categories for long-term obligations; and

(vi) to the extent the City shall purchase any bond insurance policy (one or more) issued by one or more bond insurers, such policy or policies shall result in a net interest rate savings to the City which is greater than the costs of the premium of such policy or policies, as may be certified in the Officers Pricing Certificate.

Any finding or determination made in the Officers Pricing Certificate shall have the same force and effect as a finding or determination made by the City Council.

Section 3.4 Further Delegations for Bonds. Pursuant to the provisions of the Authorizing Law, the City delegates to the Authorized Representative and any Pricing Officer the authority, under the terms of this Ordinance, to execute and/or consent to the delivery of any consents, certificates, notices, or other instrument on behalf of the City under the Paying Agent/Registrar Agreement, the Refunded Obligations Escrow Agreement, or related agreement for any of the Refunded Obligations, and any certificate, notice, or other instrument in connection therewith or in connection with the refunding and defeasance of the Refunded Obligations, and to authorize the delivery to Registered Owners of any notices of redemption as may be required or permitted under the terms of this Ordinance in connection with a refunding of the Bonds. So long as any Bonds remain outstanding, the City shall at all times appoint an Authorized Representative, which shall initially be the individuals set forth in the definition of Authorized Representative. To the extent the Authorized Representative designates in writing someone to act on his or her behalf, such appointment shall be in writing and shall be delivered to the other parties to the Paying Agent/Registrar Agreement, the Refunded Obligations Escrow Agreement or related agreement, or the other documents authorized under this Ordinance, as applicable.

Section 3.5 Redemption Prior to Maturity. The Bonds of any series shall be subject to optional, make-whole and mandatory redemption prior to maturity in the manner established by the applicable Officers Pricing Certificate and set forth in the Form of Bond. The Authorized Representative shall have the authority on behalf of and in the name of the City to direct and/or consent to the delivery to Registered Owners and other required notice parties of any notice of redemption of the Bonds, provided that any notice of optional redemption may be conditioned on the authorization and issuance of a series of refunding bonds by the City or on any other condition.

Section 3.6 Manner of Payment, Characteristics, Execution and Authentication. The Bonds shall be payable, shall have the characteristics, shall be signed, sealed, and executed, and shall be authenticated, all as provided and in the manner indicated in the Officers Pricing Certificate, Form of Bond and this Ordinance. If any official of the City whose manual or facsimile signature shall appear on the Bonds, as provided in the Form of Bond, shall cease to be such official before the authentication of the Bonds or before the delivery of the Bonds, such manual or facsimile signature shall nevertheless be valid and sufficient for all purposes as if such official had remained in such office.

Section 3.7 Ownership. The City, the Paying Agent/Registrar and any other person may treat the person in whose name any Bond is registered as the absolute Owner of such Bond for the purpose of making and receiving payment of the principal thereof and premium, if any, thereon, and for the further purpose of making and receiving payment of the interest thereon, and for all other purposes, whether or not such Bond is overdue, and neither the City nor the Paying Agent/Registrar shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the Owner of any Bond in accordance with this section shall be valid and effectual and shall discharge the liability of the City and the Paying Agent/Registrar upon such Bond to the extent of the sums paid.

Section 3.8 Registration, Transfer and Exchange.

(a) The Paying Agent/Registrar shall keep the Register at its designated corporate trust office in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of the Bonds in accordance with the terms of this Ordinance.

(b) The Paying Agent/Registrar shall also maintain books of registration for the Bonds in the State of Texas at the Paying Agent/Registrar's offices in the State of Texas, which books of registration may be a copy of the Register and which shall be kept current by the Paying Agent/Registrar.

(c) Each Bond shall be transferable only upon the presentation and surrender thereof at the designated corporate trust office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation and surrender of any Bond for transfer, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor, within 72 hours after such presentation and surrender, a new Bond or Bonds, registered in the name of the transferee or transferees, in Authorized Denominations and of the

same series, maturity and aggregate principal amount and bearing interest at the same rate as the Bond or Bonds so presented and surrendered.

(d) All Bonds shall be exchangeable upon the presentation and surrender thereof at the designated corporate trust office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity of the same series and interest rate and in any Authorized Denomination, in an aggregate principal amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar shall be and is hereby authorized to authenticate and deliver exchange Bonds in accordance with the provisions of this section. Each Bond delivered in accordance with this section shall be entitled to the benefits and security of this Ordinance to the same extent as the Bonds in lieu of which such Bond is delivered.

(e) The City or the Paying Agent/Registrar may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the City.

(f) The Paying Agent/Registrar shall not be required to transfer or exchange any Bond during the 45-day period prior to the date fixed for redemption; provided, however, that such restriction shall not apply to the transfer or exchange by the Registered Owner of the unredeemed portion of any Bond called for redemption in part.

Section 3.9 Cancellation. All Bonds paid or redeemed in accordance with this Ordinance, and all Bonds in lieu of which exchange Bonds or replacement Bonds are authenticated and delivered in accordance herewith, shall be cancelled and destroyed upon the making of proper records regarding such payment or redemption. The Paying Agent/Registrar shall periodically furnish the City with certificates of destruction of such Bonds.

Section 3.10 Replacement Bonds.

(a) Upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like series, maturity, interest rate, and principal amount, bearing a number not contemporaneously outstanding. The City or the Paying Agent/Registrar may require the Owner of such Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith and any other expenses connected therewith, including the fees and expenses of the Paying Agent/Registrar;

(b) If any Bond is lost, apparently destroyed, or wrongfully taken, the City, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall execute, and the Paying Agent/Registrar shall authenticate and deliver, a replacement Bond of like series, maturity, interest rate, and principal amount, bearing a number not contemporaneously outstanding, provided that the Owner thereof shall have:

(i) Furnished to the City and the Paying Agent/Registrar satisfactory evidence of the ownership of and the circumstances of the loss, destruction or theft of such Bond;

(ii) Furnished such security or indemnity as may be required by the Paying Agent/Registrar and the City to save them harmless;

(iii) Paid all expenses and charges in connection therewith, including, but not limited to, printing costs, legal fees, fees of the Paying Agent/Registrar and any tax or other governmental charge that may be imposed; and

(iv) Met any other reasonable requirements of the City and the Paying Agent/Registrar.

(c) If, after the delivery of such replacement Bond, a bona fide purchaser of the original Bond in lieu of which such replacement Bond was issued presents for payment such original Bond, the City and the Paying Agent/Registrar shall be entitled to recover such replacement Bond from the person to whom it was delivered or any person taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the City or the Paying Agent/Registrar in connection therewith.

(d) If any such mutilated, lost, apparently destroyed or wrongfully taken Bond has become or is about to become due and payable, the City, in its sole discretion, may, instead of issuing a replacement Bond, authorize the Paying Agent/Registrar to pay such Bond.

(e) Each replacement Bond delivered in accordance with this section shall be entitled to the benefits and security of this Ordinance to the same extent as the Bond or Bonds in lieu of which such replacement Bond is delivered.

Section 3.11 Securities Depository; Appointment of DTC.

(a) There may be appointed a qualified financial institution to be a clearing agency and securities depository for the Bonds in accordance with the provisions of this section. The Securities Depository will accept and hold the Bonds as the Registered Owner thereof and will maintain a book-entry-only system of recording the ownership and transfer of ownership of beneficial interests in the Bonds. The Securities Depository so appointed shall be qualified to act as such under Section 17A of the Securities Exchange Act of 1934, as amended, capable of properly discharging its duties in such capacity and acceptable to the Paying Agent/Registrar.

(b) DTC is hereby appointed to act as the initial Securities Depository for the Bonds. The Underwriters shall register the Bonds in the name of Cede & Co., as the nominee of the Securities Depository, and deposit the Bonds with the initial Securities Depository in the form of a separate fully registered Bond for each maturity. The City and the Securities Depository have heretofore entered into the Blanket Issuer Letter of Representation setting forth their respective duties with respect to the Bonds and other obligations issued or to be issued by the City.

(c) The Initial Bond for each series of Bonds shall be registered in the name of the Underwriters or their nominee, as further set forth in the Officers Pricing Certificate. Except as otherwise expressly provided herein, all other Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

(d) With respect to Bonds registered in the name of the Securities Depository or its nominee, the City and the Paying Agent/Registrar shall be entitled to treat the person in whose name any Bond is registered in the Register as the absolute owner of such Bond for all purposes of this Ordinance, and neither the City nor the Paying Agent/Registrar shall have any responsibility or obligation to any person who holds a beneficial interest in the Bonds. Without limiting the immediately preceding sentence, neither the City nor the Paying Agent/Registrar shall have any responsibility or obligation with respect to (i) the accuracy of the records of the Securities Depository, its nominee, or any other person with respect to any ownership interest in the Bonds, (ii) the delivery to any person, other than an Owner as shown on the Register, of any notice with respect to the Bonds, including any notice of redemption or advance refunding, (iii) the selection of the particular Bonds or portions thereof to be redeemed in the event of a partial redemption or an advance refunding of part of the Bonds outstanding or (iv) the payment to any person, other than an Owner as shown in the Register, of any amount with respect to the principal of, redemption premium, if any, or interest on the Bonds.

(e) Notwithstanding any other provision of this Ordinance to the contrary, so long as DTC or a successor Securities Depository is acting in such capacity with respect to the Bonds, all payments of principal of, redemption premium, if any, and interest on the Bonds, and all notices with respect to such Bonds, including any notices of redemption or advance refunding of all or part of the Bonds, shall be made and given, respectively, in accordance with the Blanket Issuer Letter of Representation or with the written agreement between the City, the Paying Agent/Registrar, and the successor Securities Depository.

(f) If DTC or any successor Securities Depository appointed by the City determines to discontinue acting as Securities Depository for the Bonds and the City desires to continue the book-entry-only system of recording the ownership and transfer of ownership of beneficial interests in the Bonds, the City shall appoint a successor Securities Depository for the Bonds. Upon acceptance by the successor Securities Depository of its appointment and its duties and responsibilities in such capacity, the City shall, upon receipt from the preceding Securities Depository of a certified copy of its records of ownership of beneficial interests in the Bonds, provide a copy of such records to the successor Securities Depository and cause the Paying Agent/Registrar to authenticate and deliver exchange Bonds to the successor Securities Depository, registered in the name of the nominee of such successor Securities Depository.

(g) If the City shall have appointed a Securities Depository with respect to the Bonds and if any of the events specified below shall occur, the Paying Agent/Registrar shall authenticate and deliver, in accordance with this Ordinance, to each person who appears on the records of the Securities Depository as an owner of a beneficial interest in such Bonds, an exchange Bond or Bonds, in any Authorized Denomination, of the same type, maturity and interest rate and in the same aggregate principal amount as the Bonds beneficially owned by such person or entity, as set forth in such record.

(h) The City will provide notice of the following events to the Paying Agent/Registrar and Securities Depository:

(i) If the Securities Depository determines not to continue to act as Securities Depository for the Bonds and the City is unable to locate a qualified successor Securities Depository;

(ii) If the City determines that the Securities Depository is incapable of properly discharging its duties as Securities Depository for the Bonds and is unable to locate a qualified successor Securities Depository;

(iii) If the City determines that it is in the best interest of the City to discontinue the book-entry-only system of registration of ownership of beneficial interest in the Bonds provided by the Securities Depository; or

(iv) If the City determines that the continuance of the book-entry-only system of registration of ownership of beneficial interest in the Bonds provided by the Securities Depository might adversely affect the interests of the owners of such beneficial interest in the Bonds.

(i) If any Securities Depository appointed by the City ceases to act in such capacity with respect to the Bonds, the Authorized Representative is hereby authorized to take all actions required to print the Bonds in the form prescribed in the applicable Form of Bond.

ARTICLE IV FORM OF BOND

Section 4.1 Form of Bond. Each series of Bonds, including the Form of Registration Certificate of the Comptroller, Form of Authentication Certificate and Form of Assignment, shall be in substantially the form set forth in Appendix A to the Officers Pricing Certificate, with such additions, deletions and variations as may be necessary or desirable and permitted or required by this Ordinance. Each series of the Bonds initially delivered hereunder shall be registered by the Comptroller, as provided by law.

Section 4.2 Legal Opinions, CUSIP Numbers and ISIN Numbers. The bond opinion of Bond Counsel, any statement of bond insurance, if any, and CUSIP Numbers and ISIN Numbers, as appropriate, may be printed on or attached to the Bonds, but errors or omissions in the printing of such opinion and numbers shall have no effect on the validity of the Bonds.

ARTICLE V SECURITY FOR THE BONDS; TAX LEVY

Section 5.1 Security for the Bonds; Tax Levy and Pledge. During each year while any of the Bonds or interest thereon are outstanding or unpaid, the City Council shall compute and ascertain a rate and amount of ad valorem taxes which will be sufficient to raise and produce the money required to provide for the payment of the interest on the Bonds as such interest comes due and to provide and maintain a sinking fund adequate to pay the principal of each series of Bonds as such principal matures (but never less than 2% of the principal amount, as required by the Constitution and laws of the State of Texas); and such tax shall be based on the latest approved tax rolls of the City, with full allowance being made for tax delinquencies and the cost of tax collection.

Such rate and amount of ad valorem taxes are hereby levied, and are hereby ordered to be levied, within the limits prescribed by law, against all taxable property in the City for each year while any of the Bonds or interest thereon are outstanding; such tax shall be assessed and collected each such year; the proceeds of such tax shall be deposited in a separate account hereby created and designated for the Bonds; and the proceeds in such account shall be appropriated and applied to the payment of principal of and interest on each series of the Bonds.

To pay the debt service coming due on the Bonds prior to receipt of taxes levied to pay such debt service, there is hereby appropriated, from current funds on hand, which are hereby certified to be on hand and available for such purpose, an amount sufficient to pay such debt service, and such amount shall be used for no other purpose.

Section 5.2 Provision for Interest and Sinking Fund. Pursuant to Article VII, Section 11 of the City Charter, the City covenants that for each Fiscal Year in which each series of the Bonds remains outstanding in making up the budget allowance for any current year, the City Council shall first make provision for the payment of the interest and the creation, the setting aside and preservation of a legal sinking fund for each series of the Bonds (always to be in amounts not less than the scheduled principal payments on each series of the Bonds) before making such appropriations as the remaining revenues of the City justify, to be apportioned among the respective departments, or otherwise appropriated for public uses, as to the City Council may deem best.

Section 5.3 Application of Chapter 1208, Government Code. Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of the taxes granted by the City under Section 5.1 of this Ordinance, and such pledge is therefore valid, effective and perfected. If Texas law is amended at any time while any series of the Bonds are outstanding and unpaid such that the pledge of the taxes granted by the City under Section 5.1 of this Ordinance is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the Registered Owners of any series of the Bonds the perfection of the security interest in said pledge, the City agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code and enable a filing to perfect the security interest in said pledge to occur.

ARTICLE VI PAYING AGENT/REGISTRAR

Section 6.1 Paying Agent/Registrar; Computation of Amount of Interest. The Bank of New York Mellon Trust Company, N.A. is hereby appointed Paying Agent/Registrar for the Bonds, and the City is hereby authorized to enter into a Paying Agent/Registrar Agreement (one or more) with such bank in substantially the form attached hereto as **Exhibit B**, which Paying Agent/Registrar Agreement is hereby authorized and approved. The Mayor is authorized to execute and deliver such agreement on behalf of the City, and the City Controller is authorized and directed to countersign such agreement and the City Secretary is authorized and directed to attest such agreement and impress the seal of the City thereon. In addition to such Paying Agent/Registrar Agreement, by undertaking the performance of the duties of the Paying Agent/Registrar hereunder, and in consideration of the payment of fees and/or deposits of money

pursuant to this Ordinance, the Paying Agent/Registrar accepts and agrees to abide by the terms of this Ordinance.

Section 6.2 Trust Funds. All money transferred to the Paying Agent/Registrar in its capacity as Paying Agent/Registrar for the Bonds under this Ordinance (except any sums representing Paying Agent/Registrar's fees) shall be held in trust for the benefit of the City, shall be the property of the City and shall be disbursed in accordance with this Ordinance.

Section 6.3 Bonds Presented and Surrendered. Subject to the provisions of Section 6.4, all matured Bonds presented and surrendered to the Paying Agent/Registrar for payment shall be paid without the necessity of further instructions from the City. Such Bonds shall be canceled as provided herein.

Section 6.4 Unclaimed Funds Held by the Paying Agent/Registrar. Funds held by the Paying Agent/Registrar that represent principal of and interest and premium, if any, on the Bonds remaining unclaimed by the Registered Owner after the expiration of three (3) years from the date such funds have become due and payable (a) shall be reported and disposed of by the Paying Agent/Registrar in accordance with the provisions of Title 6 of the Texas Property Code, as amended, to the extent such provisions are applicable to such funds, or (b) to the extent such provisions do not apply to the funds, such funds shall be paid by the Paying Agent/Registrar to the City upon receipt by the Paying Agent/Registrar of a written request therefor from the City.

The Paying Agent/Registrar shall have no liability to the Registered Owners of the Bonds by virtue of actions taken in compliance with this section.

Section 6.5 Paying Agent/Registrar May Own Bonds. The Paying Agent/Registrar, in its individual or any other capacity, may become the owner or pledgee of Bonds with the same rights it would have if it were not the Paying Agent/Registrar.

Section 6.6 Successor Paying Agent/Registrar. The City covenants that at all times while any Bonds are outstanding it will provide a legally qualified bank, trust company, financial institution or other agency to act as Paying Agent/Registrar for the Bonds. If the Paying Agent/Registrar or its successors become unable for any reason to act as Paying Agent/Registrar hereunder, the City covenants that the Authorized Representative will appoint a successor Paying Agent/Registrar to perform the duties of Paying Agent/Registrar hereunder. The City reserves the right to change the Paying Agent/Registrar for the Bonds on not less than sixty (60) days' written notice to the Paying Agent/Registrar, as long as any such notice is effective not less than sixty (60) days prior to the next succeeding principal or Interest Payment Date on the Bonds. Promptly upon the appointment of any successor Paying Agent/Registrar, the previous Paying Agent/Registrar shall deliver the Register or a copy thereof to the new Paying Agent/Registrar, and the new Paying Agent/Registrar shall notify each Registered Owner, by United States mail, first-class, postage prepaid, or by other customary means, of such change and of the address of the new Paying Agent/Registrar. Each successor Paying Agent/Registrar hereunder, by acting in that capacity, shall be deemed to have agreed to the provisions of this Ordinance.

**ARTICLE VII
PROVISIONS CONCERNING COUNSEL**

Section 7.1 Bond Counsel. Bracewell & Giuliani LLP and Baker Williams Matthiesen LLP, each of Houston, Texas, are hereby appointed to act as Bond Counsel to the City relating to matters described in the letter agreement between Bond Counsel and the City, which shall be substantially in the form attached hereto as **Exhibit C-1**. The terms and provisions of such engagement letter are hereby approved, and the Mayor, the City Controller and/or the City Attorney are hereby authorized and directed to execute and deliver such engagement letter on behalf of the City in multiple counterparts and the City Secretary is hereby authorized to affix the City's Seal.

Section 7.2 Special Disclosure Counsel. Haynes and Boone LLP and Bratton & Associates, each of Houston, Texas, are hereby appointed to act as Special Disclosure Counsel to the City relating to matters described in the letter agreement between Special Disclosure Counsel and the City, which shall be substantially in the form attached hereto as **Exhibit C-2**. The terms and provisions of such engagement letter are hereby approved, and the Mayor, the City Controller and/or the City Attorney are hereby authorized and directed to execute and deliver such engagement letter on behalf of the City in multiple counterparts and the City Secretary is hereby authorized to affix the City's Seal.

**ARTICLE VIII
PROVISIONS CONCERNING SALE AND
APPLICATION OF PROCEEDS OF BONDS**

Section 8.1 Sale of Bonds. Upon the execution of the Officers Pricing Certificate for any series of the Bonds, the sale of such Bonds shall be awarded to the underwriters named in the respective Purchase Contract for such Bonds or the underwriters otherwise designated in any supplemental purchase contract approved by ordinance or as designated in the Officers Pricing Certificate relating to such series of Bonds (such underwriters being collectively referred to herein as the "Underwriters" with respect to the applicable series of Bonds), in accordance with the terms and conditions of the Purchase Contract substantially in the form attached hereto as **Exhibit D**. The appointment of the Underwriters and the form of the Purchase Contract are hereby accepted, approved and authorized, and such Purchase Contract shall be completed for the Bonds (or each series of Bonds or such other obligations issued concurrently with the Bonds) in accordance with the terms of the Officers Pricing Certificate and this Ordinance, and subject to such insertions, additions and modifications as shall be necessary to carry out the intent and purposes of this Ordinance. The Mayor and the City Controller are hereby authorized and directed to enter into and execute and the City Secretary to attest and affix the City's seal to the Purchase Contract for each series of Bonds on behalf of the City.

Section 8.2 Approval, Registration and Initial Delivery. The Authorized Representative is hereby authorized to have control and custody of the Bonds and all necessary records and proceedings pertaining thereto pending their delivery, and the Authorized Representative is hereby authorized, directed and instructed to make such certifications and to execute such instruments (including the printed facsimile signature) as may be necessary to accomplish the delivery of the Bonds and to assure the investigation, examination, and approval

thereof by the Attorney General and the registration of the Initial Bonds of each series by the Comptroller. Upon registration of the Bonds, the Comptroller (or a deputy designated in writing to act for the Comptroller) shall be requested to sign manually the Comptroller's Registration Certificate prescribed herein to be attached or affixed to each Initial Bond initially delivered and the seal of the Comptroller shall be impressed or printed or lithographed thereon.

Section 8.3 Offering Documents. In connection with the sale of one or more series of the Bonds, the preparation and distribution of a Preliminary Official Statement (one or more) in the form attached hereto as **Exhibit E** is hereby authorized, with such changes as approved by the City's finance working group, and the City further authorizes the preparation and distribution of a final Official Statement in substantially the same form (or in such amended form as reviewed and approved by the City's financing working group) containing such additional information and amendments as may be necessary to conform to the terms of the applicable series of Bonds, this Ordinance, and the Officers Pricing Certificate. The Preliminary Official Statement is hereby deemed "final" as of its date except for certain omissions as permitted under Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Rule. To the extent necessary, the Mayor or the Authorized Representative may execute such other certificates as may be necessary to deem "final" this or any related Preliminary Official Statements pertaining to the Bonds.

Section 8.4 Application of Proceeds of Bonds. Except as may be modified or supplemented under the Officers Pricing Certificate, proceeds from the sale of each series of the Bonds shall, promptly upon receipt by the City, be applied as follows:

(i) Proceeds allocable to the refunding of the Refunded Obligations shall be applied, together with any other lawfully available funds, to make all necessary deposits required by the Refunded Obligations Escrow Agreement, as described in Section 8.6 or shall otherwise be applied to the redemption of the Refunded Obligations, which may be accomplished by depositing directly with the Paying Agent for such Refunded Obligations, on the redemption date(s) therefor; and

(ii) The remaining proceeds shall be applied for any of the purposes authorized in Section 3.1. The City reserves the right to create or designate such additional funds or accounts as it deems necessary or convenient to provide for the administration of such remaining proceeds, which shall be determined in the Officers Pricing Certificate.

Section 8.5 Redemption and Defeasance of Refunded Obligations. The discharge, defeasance, and redemption of the Refunded Obligations shall be carried out pursuant to the terms and provisions of this Ordinance and the applicable Officers Pricing Certificate. The Refunded Bonds and Refunded Certificates are hereby called for redemption prior to maturity on the dates and at the redemption prices set forth in the Officers Pricing Certificate. The Authorized Representative is hereby authorized and directed to cause to be delivered to the Paying Agent/Registrar for the Refunded Bonds and Refunded Certificates a certified copy of this Ordinance and a copy of the Officers Pricing Certificate calling the Refunded Bonds and Refunded Certificates for redemption. The delivery of this Ordinance and the Officers Pricing Certificate to the Paying Agent/Registrar for the Refunded Bonds and Refunded Certificates

shall constitute the giving of notice of redemption to the Paying Agent/Registrar for the Refunded Bonds and Refunded Certificates, and the Paying Agent/Registrar is hereby authorized and directed to give notice of redemption to the owners of the Refunded Bonds and Refunded Certificates in accordance with the requirements of the respective ordinances authorizing the issuance thereof. The Refunded Notes shall be defeased and/or paid as required by the ordinances authorizing such Refunded Notes. The City Council hereby authorizes and directs the Authorized Representative to take all necessary steps to redeem and defease the Refunded Obligations and use proceeds of the Bonds and other available revenues of the City to pay the principal of, redemption premium, if any, and interest on the respective redemption dates or payment dates set forth in the Officers Pricing Certificate.

Section 8.6 Escrow Agreements.

(a) Refunded Bond Escrow Agreement. The discharge, redemption and/or defeasance of the Refunded Bonds and Refunded Certificates may, if necessary or desirable as determined by the Authorized Representative, be carried out pursuant to the terms and provisions of one or more Refunded Bond Escrow Agreements in substantially the form approved by the Officers Pricing Certificate, the terms and provisions of each of which are hereby approved, subject in each case to such insertions, additions and modifications as shall be necessary (a) to carry out the program designed for the City by the Underwriters, which shall be certified as to mathematical accuracy by the Verification Agent, (b) to maximize the City's present value savings or other financial benefits to the City and/or to minimize the City's costs of refunding, (c) to comply with all applicable laws and regulations relating to the defeasance and refunding of the Refunded Bonds and Refunded Certificates and (d) to carry out the other intents and purposes of this Ordinance and the Officers Pricing Certificate. The Mayor and City Controller or their designees are hereby authorized to execute and deliver the Refunded Bond Escrow Agreement on behalf of the City in multiple counterparts and the City Secretary is hereby authorized to attest thereto.

(b) Refunded Notes Escrow Agreement. The discharge, redemption and/or defeasance of the Refunded Notes may, if necessary or desirable as determined by the Authorized Representative, be carried out pursuant to the terms and provisions of one or more Refunded Notes Escrow Agreements in substantially the form approved by the Officers Pricing Certificate, the terms and provisions of each of which are hereby approved, subject in each case to such insertions, additions and modifications as shall be necessary (a) to carry out the program designed for the City by the Underwriters, which shall be certified as to mathematical accuracy by the Verification Agent, (b) to maximize financial benefits to the City and/or to minimize the City's costs of refunding, (c) to comply with all applicable laws and regulations relating to the defeasance and refunding of the Refunded Notes and (d) to carry out the other intents and purposes of this Ordinance and the Officers Pricing Certificate. The Mayor and City Controller or their designees are hereby authorized to execute and deliver the Refunded Notes Escrow Agreement on behalf of the City in multiple counterparts and the City Secretary is hereby authorized to attest thereto.

Section 8.7 Related Matters. In order that the City shall satisfy in a timely manner all of its obligations under this Ordinance, the Paying Agent/Registrar Agreement, and the Refunded Obligations Escrow Agreement, the Mayor, the City Attorney, the City's Director of Finance, the

City Secretary, the City Controller, and the Deputy City Controller, the Authorized Representative, and all other appropriate officers and agents of the City are hereby authorized and directed to take all other actions that are reasonably necessary and/or convenient to carry out the terms of this Ordinance and to provide for issuance and delivery of the Bonds and the refunding and/or defeasance of the Refunded Obligations, including, without limitation, executing by manual or facsimile signature and delivering on behalf of the City those certificates, consents, receipts, requests, notices, investment agreements, and other documents as may be reasonably necessary to satisfy the City's obligations under the Paying Agent/Registrar Agreement, the Refunded Obligations Escrow Agreement and this Ordinance and to direct the transfer and application of funds of the City consistent with the provisions of such agreements and this Ordinance. In order to obtain the approval of the Bonds by the Attorney General, the City Attorney is hereby authorized to make such changes in the written text of this Ordinance as he determines are consistent with the intent and purposes of this Ordinance, which determination shall be final. Such changes shall be included in the transcript of proceedings relating to the Bonds and provided to the City Secretary, and the City Secretary is hereby directed to make such changes part of the City's permanent records.

Section 8.8 Verification Agent. Grant Thornton LLP, or such successor as authorized by the Officers Pricing Certificate, is hereby appointed to act as the Verification Agent and to prepare the Report. The Mayor (or the City's Director of Finance), City Controller (or Deputy City Controller), City Secretary, and other appropriate officials of the City are hereby authorized and directed to do any and all things necessary and/or convenient to cause the Verification Agent or such successor as authorized by the Officers Pricing Certificate to issue the Report.

Section 8.9 Purchase of Escrowed Securities. To ensure the purchase of the escrowed securities referred to in the Refunded Obligations Escrow Agreement, the Mayor (or the City's Director of Finance), City Controller (or Deputy City Controller), or other authorized officer of the City is hereby authorized and directed to agree to purchase such obligations of the United States of America, in such amounts and maturities and bearing interest at such rates as may be provided for in the Report to be attached to the Refunded Obligations Escrow Agreement, and to execute by manual or facsimile signature any and all Purchase Contracts, subscriptions, commitments, letters of authorization and other documents necessary to effectuate the foregoing, and any actions heretofore taken by such officials for such purpose are hereby ratified and approved.

ARTICLE IX FEDERAL INCOME TAX EXCLUSION

Section 9.1 General Tax Covenants. The City intends that the interest on the Tax-exempt Bonds will be excludable from gross income for purposes of federal income taxation pursuant to sections 103 and 141 through 150 of the Code, and applicable regulations promulgated thereunder (the "Regulations"). The City covenants and agrees not to take any action, or knowingly omit to take any action within its control, that if taken or omitted, respectively, would cause the interest on the Tax-exempt Bonds to be includable in the gross income, as defined in section 61 of the Code, of the holders thereof for purposes of federal income taxation. In particular, the City covenants and agrees to comply with each requirement of this Article IX; provided, however, that the City will not be required to comply with any

particular requirement of this Article IX if the City has received an opinion of nationally recognized bond counsel (“Counsel’s Opinion”) that (i) such noncompliance does not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Tax-exempt Bonds or (ii) if the City has received a Counsel’s Opinion to the effect that compliance with some other requirement set forth in this Article IX will satisfy the applicable requirements of the Code, in which case compliance with such other requirement specified in such Counsel’s Opinion will constitute compliance with the corresponding requirement specified in this Article IX.

Section 9.2 No Private Use or Payment and No Private Loan Financing. The City will certify, through an authorized officer, employee or agent that, based upon all facts and estimates known or reasonably expected to be in existence on the date the Tax-exempt Bonds are delivered, the proceeds of the Tax-exempt Refunded Obligations have not been or will be and the Tax-exempt Bonds will not be used in a manner that would cause the Tax-exempt Bonds to be “private activity bonds” within the meaning of section 141 of the Code and the Regulations promulgated thereunder. The City covenants and agrees that it will make such use of the proceeds of the Tax-exempt Bonds, including interest or other investment income derived from Tax-exempt Bond proceeds, regulate the use of property financed, directly or indirectly, with such proceeds, and take such other and further action as may be required so that the Tax-exempt Bonds will not be “private activity bonds” within the meaning of section 141 of the Code and the Regulations promulgated thereunder.

Section 9.3 No Federal Guarantee. The City covenants and agrees that it has not and will not to take any action, or knowingly omit to take any action within its control, that, if taken or omitted, respectively, would cause the Tax-exempt Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code and the Regulations thereunder, except as permitted by section 149(b)(3) of the Code and the Regulations promulgated thereunder.

Section 9.4 No Hedge Bonds. The City covenants and agrees not to take any action, or knowingly omitted and will not knowingly omit to take any action, within its control, that, if taken or omitted, respectively, would cause the Tax-exempt Bonds to be “hedge bonds” within the meaning of section 149(g) of the Code and the applicable Regulations thereunder.

Section 9.5 No Arbitrage. The City covenants and agrees that it will make such use of the proceeds of the Tax-exempt Bonds including interest or other investment income derived from Tax-exempt Bond proceeds, regulate investments of proceeds of the Tax-exempt Bonds, and take such other and further action as may be required so that any issue of the Tax-exempt Bonds will not be “arbitrage bonds” within the meaning of section 148(a) of the Code and the applicable Regulations promulgated thereunder. The City will certify, through an authorized officer, employee or agent that based upon all facts and estimates known or reasonably known or reasonably expected to be in existence on the date the Tax-exempt Bonds are delivered, the proceeds of the Tax-exempt Bonds will not be used in a manner that would cause the Tax-exempt Bonds to be “arbitrage bonds” within the meaning of section 148(a) of the Code and the Regulations promulgated thereunder.

Section 9.6 Arbitrage Rebate. If the City does not qualify for an exception to the requirements of section 148(f) of the Code, the City will take all necessary steps to comply with

the requirement that certain amounts earned by the City on the investment of the “gross proceeds” of each issue of the Tax-exempt Bonds (within the meaning of section 148(f)(6)(B) of the Code), be rebated to the federal government. Specifically, the City will (i) maintain records regarding the investment of the gross proceeds of each issue of the Tax-exempt Bonds as may be required to calculate the amount earned on the investment of the gross proceeds of each issue of the Tax-exempt Bonds separately from records of amounts on deposit in the funds and accounts of the City allocable to other bond issues of the City or monies that do not represent gross proceeds of any bonds of the City, (ii) calculate at such times as are required by applicable Regulations, the amount earned from the investment of the gross proceeds of each issue of the Tax-exempt Bonds that is required to be rebated to the federal government, and (iii) pay, not less often than every fifth anniversary date of the delivery of each issue of the Tax-exempt Bonds or on such other dates as may be permitted under the Regulations, all amounts required to be rebated to the federal government. Further, the City will not indirectly pay any amount otherwise payable to the federal government pursuant to the foregoing requirements to any person other than the federal government by entering into any investment arrangement with respect to the gross proceeds of the Tax-exempt Bonds that might result in a reduction in the amount required to be paid to the federal government because such arrangement results in a smaller profit or a larger loss than would have resulted if the arrangement had been at arm’s length and had the yield on the issue not been relevant to either party.

Section 9.7 Information Reporting. The City covenants and agrees to file or cause to be filed with the Secretary of the Treasury, not later than the 15th day of the second calendar month after the close of the calendar quarter in which each issue of the Tax-exempt Bonds is issued, an information statement concerning each issue of the Tax-exempt Bonds, all under and in accordance with section 149(e) of the Code and the Regulations promulgated thereunder.

Section 9.8 Record Retention. The City will retain all pertinent and material records relating to the use and expenditure of the proceeds of each issue of the Tax-exempt Bonds until three (3) years after such issue is redeemed, or such shorter period as authorized by subsequent guidance issued by the Department of Treasury, if applicable. All records will be kept in a manner that ensures their complete access throughout the retention period. For this purpose, it is acceptable that such records are kept either as hardcopy books and records or in an electronic storage and retrieval system, provided that such electronic system includes reasonable controls and quality assurance programs that assure the ability of the City to retrieve and reproduce such books and records in the event of an examination of any issue of the Tax-exempt Bonds by the Internal Revenue Service.

Section 9.9 Registration. The Tax-exempt Bonds will be issued in registered form.

Section 9.10 Continuing Obligation. Notwithstanding any other provision of this Ordinance, the City’s obligations under the covenants and provisions of this Article IX shall survive the defeasance and discharge of the Tax-exempt Bonds for so long as such matters are relevant to the exclusion from gross income of interest on the Tax-exempt Bonds for federal income tax purposes.

ARTICLE X
CONTINUING DISCLOSURE UNDERTAKING

Section 10.1 Annual Reports. The City shall provide annually to the MSRB, within six (6) months after the end of each fiscal year, financial information and operating data with respect to the City of the general type included in the final Official Statement authorized by Section 8.3 of this Ordinance, being the information described in **Exhibit F** hereto. Any financial statements so to be provided shall be (1) prepared in accordance with the accounting principles described in **Exhibit F** hereto and (2) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If audited financial statements are not so provided, then the City shall provide audited financial statements for the applicable fiscal year to the MSRB, when and if audited financial statements become available, but if such audited financial statements are unavailable the City will provide such financial statements on an unaudited basis within the above-described six-month period.

If the City changes its fiscal year, it will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this section.

The financial information and operating data to be provided pursuant to this section may be set forth in full in one or more documents or may be included by specific reference to any document (available from the MSRB) or filed with the SEC, or may be provided in any other manner consistent with the Rule.

Section 10.2 Material Event Notices. The City shall notify the MSRB, in a timely manner, but not later than ten (10) Business Days after the occurrence of the event of any of the following events with respect to the Bonds:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Tax-exempt Bonds, or other material events affecting the tax status of the Tax-exempt Bonds;
- (g) modifications to rights of security holders of the Bonds, if material;
- (h) bond calls, if material, and tender offers;
- (i) defeasances;

(j) release, substitution, or sale of property securing repayment of the Bonds, if material;

(k) rating changes;

(l) bankruptcy, insolvency, receivership, or similar event of the City;¹

(m) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(n) the appointment of a successor or additional trustee or the change of name of a trustee, if material.

The City shall notify the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with Section 10.1 by the time required. All documents provided to the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

Section 10.3 Limitations, Disclaimers, and Amendments. The City shall be obligated to observe and perform the covenants specified in this Article for so long as, but only for so long as, the City remains an “obligated person” with respect to the Bonds within the meaning of the Rule, except that the City in any event will give the notice required by Section 10.2 of any Bond calls and defeasance that cause the City to be no longer such an “obligated person.”

The provisions of this Article are for the sole benefit of the Registered Owners and beneficial owners of the Bonds, and nothing in this Article, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The City undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Article and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the City’s financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Article or otherwise, except as expressly provided herein. The City does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE CITY BE LIABLE TO THE REGISTERED OWNER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN

¹ **Note to Subsection 10.2(l):** For the purposes of the event described in Subsection 10.2(l), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

PART FROM ANY BREACH BY THE CITY, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS ARTICLE, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

No default by the City in observing or performing its obligations under this Article shall constitute a breach of or default under this Ordinance for purposes of any other provision of this Ordinance.

Nothing in this Article is intended or shall act to disclaim, waive, or otherwise limit the duties of the City under federal and state securities laws.

The provisions of this Article may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions of this Article, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the Registered Owners of a majority in aggregate principal amount (or any greater amount required by any other provision of this Ordinance that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person or entity that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Registered Owners and beneficial owners of the Bonds. If the City so amends the provisions of this Article, it shall include with any amended financial information or operating data next provided in accordance with Section 10.1 an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided. The City may also amend or repeal the provisions of this Article if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the City also may amend the provisions of this Article in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

ARTICLE XI MISCELLANEOUS

Section 11.1 Defeasance. The City may defease the provisions of this Ordinance and discharge its obligation to the Registered Owners of any or all of the Bonds to pay the principal of and interest thereon in any manner now or hereafter permitted by law, including by depositing with the Paying Agent/Registrar, the Comptroller or any other entity with which such deposits may be made (as specified by Section 1207.061, Texas Government Code, as amended) either: (a) cash in an amount equal to the principal amount of such Bonds plus interest thereon to the date of maturity or redemption, or (b) pursuant to an escrow or trust agreement (or, if payment or redemption shall occur on or before the next Interest Payment Date, by deposit to that certain debt service fund or account for the Bonds), any of the following:

- (i) cash;
- (ii) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States;
- (iii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the City Council adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent;
- (iv) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the City Council adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; and/or
- (v) any other securities or obligations which, at the time of such defeasance, are authorized by state law to be used to effectuate a defeasance of the Bonds

in principal amounts and maturities and bearing interest at rates sufficient to provide for the timely payment of the principal amount of the Bonds plus interest thereon to the date of maturity or redemption; provided, however, that if any of the Bonds are to be redeemed prior to their respective dates of maturity, provision shall have been made for giving notice of redemption as provided in this Ordinance. Upon such deposit, such Bonds shall no longer be regarded to be outstanding or unpaid. Any surplus amounts not required to accomplish such defeasance shall be returned to the City.

Section 11.2 Legal Holidays. If a date fixed for payment of principal or interest on the Bonds is not a Business Day, then payment need not be made on such date but may be made on the next succeeding day which is a Business Day with the same force and effect as if made on the date fixed for payment.

Section 11.3 No Recourse Against City Officials. No recourse shall be had for the payment of principal of or interest on any Bonds or for any claim based thereon or on this Ordinance against any official, officer, agent or employee of the City or any person executing any Bonds.

Section 11.4 Further Proceedings. The Mayor (or the City's Finance Director), City Controller (or Deputy City Controller), City Secretary and other appropriate officials of the City are hereby authorized and directed to do any and all things necessary and/or convenient to carry out the terms of this Ordinance, including without limitation, executing by manual or facsimile signature and delivering on behalf of the City all other certificates for the benefit of the Attorney General, executing and delivering on behalf of the City all other certificates, consents, receipts, requests, notices and other documents as may be reasonably necessary to satisfy the City's obligations under this Ordinance, the Purchase Contract, or any other documents authorized hereunder, and executing and delivering any certificates or agreements necessary for the use of

the Euroclear and Clearstream systems. The City Attorney or his designee may authorize changes in the written text of this Ordinance as necessary to issue and deliver the Bonds.

Section 11.5 Severability. If any section, paragraph, clause or provision of this Ordinance shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Ordinance.

Section 11.6 Open Meeting. It is hereby found, determined and declared that a sufficient written notice of the date, hour, place and subject of the meeting of the City Council at which this Ordinance was adopted was posted at a place convenient and readily accessible at all times to the general public at the City Hall of the City for the time required by law preceding this meeting, as required by the Open Meetings Act, Chapter 551, Texas Government Code, as amended, and that this meeting has been open to the public as required by law at all times during which this Ordinance and the subject matter thereof has been discussed, considered and formally acted upon. The City Council further ratifies, approves and confirms such written notice and the contents and posting thereof.

Section 11.7 Declaration of Emergency. It is hereby officially found and determined that a case of emergency and urgent public necessity exists which requires the holding of the meeting at which this Ordinance is passed and further requires that this Ordinance be passed finally on the date of its introduction, such emergency and urgent public necessity being that the proceeds from the sale of the Bonds are required as soon as possible and without delay for the purposes set forth herein.

Section 11.8 Repealer. All orders, resolutions and ordinances or parts thereof inconsistent with the provisions of this Ordinance are hereby repealed to the extent of such inconsistency.

Section 11.9 Effective Date. This Ordinance shall be in full force and effect immediately upon its passage and its approval by the Mayor; however, in the event that the Mayor fails to sign this Ordinance within five (5) days after its passage and adoption, it shall take effect in accordance with Article VI, Section 6, City Charter of the City of Houston, Texas.

[The remainder of this page intentionally left blank.]

PASSED AND APPROVED this 3rd day of April, 2013.

Annie D. Parker

Mayor

APPROVED AS TO FORM:

Gary L. Wood

Gary L. Wood
Senior Assistant City Attorney

Requested by Kelly Dowe, Director, Department of Finance.
L.D. File No. 0341300016001

| AYE | NO | |
|---------|---------|-----------------------------------|
| ✓ | | MAYOR PARKER |
| •••• | •••• | COUNCIL MEMBERS |
| ✓ | | BROWN |
| ✓ | | DAVIS |
| ✓ | | COHEN |
| ✓ | | ADAMS |
| ✓ | | MARTIN |
| | | ABSENT-CITY BUSINESS HOANG |
| ✓ | | PENNINGTON |
| ✓ | | GONZALEZ |
| ✓ | | RODRIGUEZ |
| ✓ | | LASTER |
| ✓ | | GREEN |
| ✓ | | COSTELLO |
| | | ABSENT DUE TO BEING ILL BURKS |
| ✓ | | NORIEGA |
| ✓ | | BRADFORD |
| ✓ | | CHRISTIE |
| CAPTION | ADOPTED | |

CAPTION PUBLISHED IN DAILY COURT
REVIEW DATE: APR 09 2013

EXHIBIT A

FORM OF OFFICERS PRICING CERTIFICATE

FOR
CITY OF HOUSTON, TEXAS
PUBLIC IMPROVEMENT REFUNDING* BONDS

_____*

THIS OFFICERS PRICING CERTIFICATE is executed as of the _____ day of _____, 2013 by [the Mayor or the City's Director of Finance] and [the City Controller or the Deputy City Controller] of the City of Houston, Texas (the "City") pursuant to the authorization contained in City Ordinance No. 2013-_____ adopted on April __, 2013 (the "Ordinance"), authorizing the issuance of the City of Houston, Texas Public Improvement Refunding Bonds* (the "Bonds") and delegating to the undersigned the authority to agree to and stipulate certain terms and provisions thereof, all of which are set forth herein.

Capitalized terms used in this Officers Pricing Certificate and not otherwise defined shall have the meanings assigned to them in the Ordinance.

I. TERMS OF THE BONDS*

1. Principal Amounts. The Bonds shall be issued in the aggregate principal amount of \$_____.
2. Dates. The Bonds will be dated _____, 2013 (the "Dated Date"), but shall accrue interest from _____, 2013 (the "Issuance Date").
3. Initial Interest Payment Date. The initial interest payment date for the Bonds shall be _____, 20__.
4. Tax Designation. The Bonds are designated as [Tax-exempt/Taxable Bonds].
5. Maturities, Amounts and Interest Rates. The Bonds shall mature on the following dates in the following principal amounts and bear interest from the Issuance Date at the following rates:

| <u>Maturity</u> <u>(March 1)</u> | <u>Principal Amount</u> <u>Maturing (\$)</u> | <u>Interest Rate (%)</u> |
|-------------------------------------|---|--------------------------|
|-------------------------------------|---|--------------------------|

6. Redemption Provisions.
 - a. Optional Redemption. The Bonds maturing on or after March 1, 20__ shall be subject to optional redemption on March 1, 20__ and on any date

* To be conformed to one or more series of Bonds with applicable captions.

thereafter at a redemption price equal to the principal amount of the Bonds to be redeemed plus accrued interest to but not including the redemption date.

b. *Make-Whole Redemption.* [The Taxable Bonds are subject to Make-Whole Redemption as further described in the Form of Bond set forth in **Appendix A.**]

c. *Mandatory Redemption.* The Bonds maturing on March 1 of the years 20__, 20__ and 20__ (the “Term Bonds”) will be subject to mandatory sinking fund redemption on the dates, in the principal amounts, as follows:

\$ ____ Term Bonds Maturing ____ 1, 20 ____

| | |
|--|--|
| <u>Mandatory Redemption Date (March 1)</u> | <u>Principal Amount to be Redeemed</u> |
|--|--|

7. Sales Price. The sale of the Bonds is authorized pursuant to the form of Purchase Contract approved in the Ordinance at the following price:

| | |
|-----------------------------|----------|
| PRINCIPAL AMOUNT | \$ _____ |
| LESS DISCOUNT/PLUS PREMIUM | _____ |
| LESS UNDERWRITERS’ DISCOUNT | ===== |
| PURCHASE PRICE | \$ _____ |

8. Bond Insurance. The payment of principal of and interest on the Bonds shall be insured by a Bond Insurance Policy issued by the following Bond Insurer: _____, upon the terms and conditions of the commitment attached to this Officers Pricing Certificate as Appendix _____. [To be attached if Bond Insurance is purchased]

9. Authorization to Refund the Refunded Obligations. Pursuant to the Ordinance, proceeds of the Bonds, together with lawfully available amounts, will be applied to defease and/or redeem the Refunded Obligations or other applicable fund created for the respective Refunded Obligations and to purchase escrowed securities in the amounts set forth in the Refunded Obligations Escrow Agreement. The Refunded Obligations are set forth in the schedule attached as **Schedule I** hereto. The redemption date for the Refunded Obligations is [_____], 2013. [To be revised as applicable] [The Refunded Obligations Escrow Agreement is hereby approved in substantially the form(s) attached hereto as **Appendix B**]

10. Form of Bond. Pursuant to Section 3.02 of the Ordinance, the Form of Bond as set forth in **Appendix A** hereto is hereby approved.

11. Application of Funds. The proceeds of the Bonds and other available funds, if any, shall be applied as set forth in Article VIII of the Ordinance.

12. Findings and Determinations. Pursuant to Section 3.3 of the Ordinance, we hereby further find and determine that:
- a. The price to be paid for the Bonds is not less than 90% of the aggregate original principal amount of any current interest bonds or 90% of the present value of any compound interest bonds plus accrued interest, if any, thereon from their date of delivery;
 - b. The refunding of the Refunded Bonds [and the Refunded Certificates] produces a net present value debt service savings, as shown by the calculation prepared by the Financial Advisors and attached hereto as **Appendix C**;
 - c. The aggregate principal amount of the Bonds of each series does not exceed the maximum amount authorized in Section 3.1 of the Ordinance, and equals, together with any net premium or amount contributed by the City, an amount sufficient to (i) accomplish the refunding of the Refunded Obligations identified on **Schedule I** hereto, and (ii) provide for the payment of the costs of issuance; and
 - d. Each series of Bonds bears interest at a true interest cost that does not exceed 10% per annum.
13. The undersigned hereby find, determine and declare, that in accordance with the requirements of the Ordinance, this Officers Pricing Certificate complies with and satisfies the terms and provisions of the Ordinance in accordance with the delegation contained therein.

[Execution page to follow]

EXECUTED as of this ____ day of _____, 2013.

CITY OF HOUSTON, TEXAS

Mayor

City Controller

[Execution Page to Officers Pricing Certificate]

SCHEDULE I TO OFFICERS PRICING CERTIFICATE
REFUNDED OBLIGATIONS

APPENDIX A TO OFFICERS PRICING CERTIFICATE

FORM OF BOND

The Bonds (which may be issued in one or more series) shall be in substantially the following form, with such additions, deletions and variations as may be necessary or desirable and permitted by the Ordinance and this Officers Pricing Certificate:

(a) Form of Bond

(Face of Bond)

United States of America
State of Texas

NUMBER
-
REGISTERED

DENOMINATION
\$
REGISTERED

CITY OF HOUSTON, TEXAS
PUBLIC IMPROVEMENT REFUNDING² BONDS
SERIES _____³

INTEREST RATE: _____% MATURITY DATE: March 1, 20____ ISSUANCE DATE: _____, 2013 CUSIP _____ [ISIN] _____

Registered Owner:

Principal Amount: _____ DOLLARS

THE CITY OF HOUSTON, TEXAS, a municipal corporation duly incorporated under the laws of the State of Texas (the "City"), for value received, hereby promises to pay to the Registered Owner identified above or registered assigns, on the date specified above, upon presentation and surrender of this Bond at the designated corporate trust office of the "Paying Agent/Registrar," initially The Bank of New York Mellon Trust Company, N.A., the Principal Amount identified above, payable in any coin or currency of the United States of America which on the date of payment of such principal is legal tender for the payment of debts due to the United States of America, and to pay, solely from ad valorem taxes, interest thereon at the rate shown above, calculated on the basis of a 360-day year composed of twelve 30-day months,

¹ AG__-1 for the Initial Bond of each series (with the blank to be completed with the letter matching the letter suffix in the Bond caption, e.g. AGA-1 for the initial series of Bonds and upward for each series); R-1 and upward, for all bonds issued in exchange therefor.

² May be captioned as "Taxable."

³ May be designated with any letter or other suffix.

from the later of the Issuance Date set forth above or the most recent Interest Payment Date to which interest has been paid or duly provided for.

Interest on this Bond is payable each March 1 and September 1, commencing _____, 2013 (each an "Interest Payment Date"), until maturity or earlier redemption of this Bond, to the Registered Owner whose name appears in the Register at the close of business on the Record Date and shall be paid by the Paying Agent/Registrar (i) by check sent by United States mail, first class postage prepaid, to the address of the Registered Owner recorded in the Register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, such Registered Owner. Any accrued interest payable at maturity or earlier redemption shall be paid upon presentation and surrender of this Bond at the principal payment office of the Paying Agent/Registrar. The Bonds shall be issued in denominations of \$5,000 or any integral multiple thereof.

THIS BOND IS ONE OF A DULY AUTHORIZED SERIES OF BONDS, dated as of _____, in the aggregate principal amount of \$_____ (the "Bonds"), issued pursuant to an ordinance adopted by the City Council of the City (the "Ordinance") and the authority of Chapter 1201 and 1207, Texas Government Code, as amended, and all other applicable law, for the purpose of: (i) defeasing and/or refunding the Refunded Obligations; and (ii) paying the related costs of issuance. To the extent not defined herein, capitalized terms used in this Bond shall have the meanings as set forth in the Ordinance.

Optional Redemption. The Bonds maturing on or after _____ shall be subject to redemption prior to maturity at the option of the City on _____ or any date thereafter, in whole or in part, at a price equal to [___%] principal amount of the Bonds to be redeemed plus the accrued interest thereon to (but not including) the date fixed for redemption.

*Make-Whole Redemption.** The Taxable Bonds are subject to redemption prior to maturity at the option of the City on any date, in whole or in part, at a redemption price equal to the greater of:

- (a) 100 percent of the principal amount of the Taxable Bonds to be redeemed; or
- (b) the sum of the present values of the remaining scheduled payments of principal of and interest on the Taxable Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus [___] basis points, plus, in each case, accrued and unpaid interest on the Taxable Bonds being redeemed to the date fixed for redemption.

For the purposes of determining the Treasury Rate, the following definitions shall apply:

"Comparable Treasury Issue" means, with respect to any redemption date for a particular Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the applicable Bonds to be redeemed, and that would be utilized in accordance with customary

*Included in connection with the Taxable Bonds.

financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the applicable Bonds to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular Bond, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Deal Quotations, or (2) if the Designated Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the City.

“Reference Treasury Dealer” means _____ and its successors and three other firms, specified by the City from time to time, that are primary U.S. Government securities dealers in the City of New York, New York (each a “Primary Treasury Dealer”); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the City shall substitute another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day preceding such redemption date.

“Treasury Rate” means, with respect to any redemption date for a particular Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

Mandatory Sinking Fund Redemption. The Bonds issued as term bonds maturing on March 1 in the year(s) ____ are subject to mandatory redemption prior to maturity in the following amounts (subject to reduction as hereinafter provided), on the following dates (“Mandatory Redemption Dates”), at a price equal to the principal amount of the Bonds to be redeemed plus accrued interest to (but not including) the applicable Mandatory Redemption Date, subject to the conditions set forth below:

\$ _____ Term Bonds Maturing March ____, 20__

Mandatory Redemption Date
(March 1)

Principal Amount to be
Redeemed

*Maturity

On or before thirty (30) days prior to each Mandatory Redemption Date set forth above, the Paying Agent/Registrar shall (i) determine the principal amount of such Term Bonds that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select, by lot or other customary random method, the Term Bonds or portions of Term Bonds of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided below. The principal amount of any Term Bonds to be mandatorily redeemed on a Mandatory Redemption Date shall be reduced by the principal amount of such Term Bonds which, by the 45th day prior to such Mandatory Redemption Date, either have been purchased in the open market and delivered or tendered for cancellation by or on behalf of the City to the Paying Agent/Registrar or optionally redeemed by the City and which, in either case, have not previously been made the basis for a reduction under this sentence.

Partial Redemption. The Bonds may be redeemed in part only in integral multiples of \$5,000. If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000. In selecting portions of Bonds for redemption, the Paying Agent/Registrar shall treat each Bond as representing that number of Bonds of \$5,000 denomination which is obtained by dividing the principal amount of such Bond by \$5,000. Upon presentation and surrender of any Bond for redemption in part, the Paying Agent/Registrar, in accordance with the provisions of the Ordinance, shall authenticate and deliver in exchange therefor a Bond(s) of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so presented and surrendered.

Selection of Bond to be Redeemed. In the case of any optional redemption in part of the Bonds, the City shall select the stated maturities of Bonds to be redeemed. If less than all of the Bonds of a stated maturity are to be redeemed, the Paying Agent/Registrar shall select the particular Bonds of such stated maturity to be redeemed in such manner as it deems fair and appropriate and consistent with the requirements contained herein.

Notice of Redemption. In the event any of the Bonds are called for optional redemption, the Paying Agent/Registrar shall give notice, in the name of the City, of the redemption of such Bonds, which notice shall (i) specify the Bonds to be redeemed, the redemption date, the redemption price, and the place or places where amounts due upon such redemption will be payable (which shall be the designated corporate trust office of the Paying Agent/Registrar) and, if less than all of the Bonds are to be redeemed, the portions of the Bonds so to be redeemed, (ii) state any condition to such redemption, and (iii) state that on the redemption date, and upon the satisfaction of any such condition, the Bonds to be redeemed shall cease to bear interest. CUSIP number and ISIN number, as applicable, identification shall accompany all redemption notices. Such notice may set forth any additional information relating to such redemption. Such notice shall be given by mail, postage prepaid, at least thirty (30) days but not more than sixty (60) days prior to the date fixed for redemption to each Registered Owner of Bonds to be redeemed at its address shown on the registration books kept by the Paying Agent/Registrar; provided, however, that failure to give such notice to any Registered Owner or any defect in such notice shall not affect the validity of the proceedings for the redemption of any of the other Bonds. Any notice given as provided in this paragraph shall be conclusively presumed to have been duly given, whether or not the Registered Owner or Beneficial Owner receives such notice. When the Bonds

have been called for redemption in whole or in part and due provision has been made to redeem the same as provided herein and in the Ordinance, the Bonds or portions thereof to be so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

THIS BOND IS TRANSFERABLE only upon presentation and surrender at the designated corporate office of the Paying Agent/Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner or his authorized representative, subject to the terms and conditions of the Ordinance.

THIS BOND IS EXCHANGEABLE at the designated payment office of the Paying Agent/Registrar for Bonds of the same series, maturity and interest rate in the principal amount of \$5,000 or any integral multiple thereof, subject to the terms and conditions of the Ordinance.

THE CITY OR PAYING AGENT/REGISTRAR may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the City.

THE PAYING AGENT/REGISTRAR IS NOT REQUIRED TO ACCEPT any Bond for transfer or exchange during the 45-day period prior to the date fixed for redemption; provided, however, that such restriction shall not apply to the transfer or exchange by the Registered Owner of the unredeemed portion of any Bond called for redemption in part.

THIS BOND and the other Bonds of the series of which it is a part, are payable from the proceeds of a direct annual ad valorem tax levied upon all taxable property subject to taxation within the City, within the limitations prescribed by law.

THE REGISTERED OWNER of this Bond by acceptance hereof, acknowledges and agrees to be bound by all the terms and conditions of the Ordinance.

IT IS HEREBY DECLARED AND REPRESENTED that this Bond has been duly and validly issued and delivered; that all acts, conditions and things required or proper to be performed, to exist, and to be done precedent to or in the issuance and delivery of this Bond and to render the Bonds lawful, valid and binding have been performed, exist and have been done in accordance with law; that the Bonds do not exceed any constitutional or statutory limitation; and that annual ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds, as such interest comes due and such principal matures, have been levied and ordered to be levied, within the limits prescribed by law, against all taxable property in the City and have been irrevocably pledged for such payment.

THIS BOND shall not be valid or obligatory for any purpose or be entitled to any benefit under the Ordinance unless this Bond is (i) registered by the Comptroller of Public Accounts by due execution of the registration certificate endorsed hereon or (ii) is authenticated by the Paying Agent/Registrar by due execution of the authentication certificate endorsed hereon.

IN WITNESS WHEREOF, the City has caused its corporate seal to be impressed or placed in facsimile hereon and this Bond to be signed by the Mayor and the City Controller and countersigned by the City Secretary by their manual, lithographed, or printed facsimile signatures.

CITY OF HOUSTON, TEXAS

(SEAL)

Mayor

City Controller

City Secretary

(b) Form of Assignment

The following form of assignment shall be printed on the back of each of the Bonds:

ASSIGNMENT

For value received, the undersigned hereby sells, assigns, and transfers unto

(Please print or type name, address, and zip code of Transferee)

(Please insert Social Security or Taxpayer Identification Number of Transferee)

the within bond and hereby irrevocably constitutes and appoints _____ attorney to transfer said bond on the books kept for registration thereof, with full power of substitution in the premises.

DATED: _____

Registered Owner

Signature Guaranteed:

NOTICE: The signature above must correspond to the name of the registered owner as shown on the face of this bond in every particular, without any alteration, enlargement or change whatsoever.

NOTICE: The signatures must be guaranteed by an eligible guarantor institution (banks, stockbrokers, savings and loan associations and credit unions with membership in an approved signature guarantee medallion program) pursuant to S.E.C. 17 Ad-15.

(c) Form of Registration Certificate

The Initial Bonds shall be registered by the Comptroller of Public Accounts of the State of Texas, as provided by law. The registration certificate of the Comptroller of Public Accounts for the Bonds shall be in substantially the following form:

OFFICE OF THE COMPTROLLER
THE STATE OF TEXAS

REGISTER NO. _____

I HEREBY CERTIFY that this Bond has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Bond has been registered by the Comptroller of Public Accounts of the State of Texas.

WITNESS MY HAND AND SEAL OF OFFICE this _____.

Comptroller of Public Accounts of
the State of Texas

(SEAL)

(d) Form of Authentication Certificate

The following form of authentication certificate shall be printed on each series of the Bonds, except for the Initial Bond of each series registered by the Comptroller of Public Accounts of the State of Texas.

AUTHENTICATION CERTIFICATE

Registration Date: _____

It is hereby certified that this bond is one of the series described in and delivered pursuant to the Ordinance described in the text of this bond, in exchange for or in replacement of a bond, bonds or a portion of a bond or bonds of a series which was originally approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

THE BANK OF NEW YORK MELLON TRUST COMPANY, N. A.

By _____
Authorized Officer

(e) Legal Opinion, CUSIP Numbers, ISIN Numbers and Statement of Insurance

The CUSIP Numbers, ISIN Numbers and a statement of bond insurance from the Bond Insurer, if any, may be printed on the Bonds, and the approving opinion of Bond Counsel may at the City's option be printed on the Bonds, but errors or omissions in the printing of such opinion, statement of insurance, and number shall have no effect on the validity of the Bonds.

(f) Unique Provisions for the Initial Bond

The Initial Bond for each series of Bonds shall be in the form set forth in paragraph (a) above, except for the following alterations:

(i) the registered owner shall be the representative of the Underwriters designated in the Purchase Contract;

(ii) immediately under the name of the bond, the headings "INTEREST RATE" and "MATURITY DATE" shall both be completed with the words "As Shown Below" and the words "CUSIP" [and "ISIN"] deleted;

(iii) in the first paragraph of the Bond, the words "on the date specified above" and "at the rate shown above" shall be deleted and the following shall be inserted at the end of the first sentence "..., with such principal to be paid in installments on March 1 in each of the years and in the principal amounts identified in the following schedule and with such installments bearing interest at the per annum rates set forth in the following schedule:

[Information to be inserted from Officers Pricing Certificate]

(iv) the Initial Bond of each series shall be numbered AG ___-1 (with the blank completed as provided in the Form of Bond and/or the Officers Pricing Certificate.

APPENDIX B-1 TO OFFICERS PRICING CERTIFICATE
FORM OF REFUNDED BOND ESCROW AGREEMENT

APPENDIX B-2 TO OFFICERS PRICING CERTIFICATE
FORM OF REFUNDED NOTE ESCROW AGREEMENT

APPENDIX C TO OFFICERS PRICING CERTIFICATE
FINANCIAL ADVISORS' CALCULATION

**EXHIBIT B
FORM OF PAYING AGENT/REGISTRAR AGREEMENT**

PAYING AGENT/REGISTRAR AGREEMENT

THIS PAYING AGENT/REGISTRAR AGREEMENT dated as of April __, 2013 (together with any amendments or supplements hereto, the "Agreement") is entered into by and between the City of Houston, Texas (the "Issuer"), and The Bank of New York Mellon Trust Company, N. A. as paying agent/registrar (together with any successor in such capacity, the "Bank").

WITNESSETH:

WHEREAS, the Issuer has duly authorized and provided for the issuance of bonds, entitled City of Houston, Texas Public Improvement Refunding Bonds, Series 2013A; City of Houston, Texas Taxable Public Improvement Refunding Bonds, Series 2013B; and City of Houston, Texas Certificates of Obligation (Demolition Program), Series 2013 (collectively, the "Obligations") issued in fully registered form;

WHEREAS, all things necessary to make the Obligations the valid obligations of the Issuer, in accordance with their terms, will be done upon the issuance and delivery thereof;

WHEREAS, the Issuer and the Bank wish to provide the terms under which the Bank will act as Paying Agent to pay the principal of and interest on the Obligations, in accordance with the terms thereof, and under which the Bank will act as Registrar for the Obligations; and

WHEREAS, the Issuer and the Bank have duly authorized the execution and delivery of this Agreement; and all things necessary to make this Agreement the valid agreement of the parties, in accordance with its terms, have been done.

NOW, THEREFORE, it is mutually agreed as follows:

ARTICLE ONE

APPOINTMENT OF BANK AS
PAYING AGENT AND REGISTRAR

Section 1.01 Appointment.

The Issuer hereby appoints the Bank to act as Paying Agent with respect to the Obligations, to pay to the Registered Owners of the Obligations, in accordance with the terms and provisions of this Agreement and the ordinances authorizing the issuance of the Obligations (collectively the "Ordinance"), the principal of and interest on all or any of the Obligations.

The Issuer hereby appoints the Bank as Registrar with respect to the Obligations. As Registrar of the Obligations, the Bank shall keep and maintain for and on behalf of the Issuer books and records as to the ownership of the Obligations and with respect to the transfer and exchange thereof as provided herein and in the Ordinance.

The Bank hereby accepts its appointment, and agrees to act as Paying Agent and Registrar with respect to the Obligations.

Section 1.02 Compensation.

As compensation for the Bank's services as Paying Agent/Registrar, the Issuer hereby agrees to pay the Bank the fees set forth in the Bank's fee schedule attached as Annex A hereto. The Bank reserves the right to amend the fee schedule at any time, provided the Bank shall have furnished the Issuer with a written copy of such amended fee schedule at least 75 days prior to the date the new fees are to become effective.

To the extent permitted by Texas law, if the Bank renders any service hereunder not provided for in this Agreement, or the Bank is made a party to or intervenes in any litigation pertaining to this Agreement or institutes interpleader proceedings relative hereto, the Bank shall be compensated reasonably by the Issuer for such extraordinary services and reimbursed for any and all claims, liabilities, losses, damages, fines, penalties, and expenses, including out-of-pocket and incidental expenses and legal fees and expenses occasioned thereby provided that the City shall not be obligated to compensate the Bank for any costs described in this section arising from the Bank's negligence or willful misconduct.

ARTICLE TWO

DEFINITIONS

Section 2.01 Definitions.

For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

"Authorized Officer" means the City Controller and any other officer or employee of the Issuer designated as an Authorized Officer for the purposes of this Agreement in a written communication delivered to the Paying Agent/Registrar.

"Bank" means The Bank of New York Mellon Trust Company, N. A. (together with any successor in such capacity), a commercial bank, which is duly organized and existing under the laws of the United States of America and authorized to do business in the State of Texas.

"Financial Advisor" means First Southwest Company and Kipling Jones & Co., as co-financial advisors to the Issuer, or such successor company or companies as the Issuer may designate from time to time.

"Issuer" means the City of Houston, Texas.

"Obligations" means Issuer's duly authorized bonds, entitled City of Houston, Texas Public Improvement Refunding Bonds, Series 2013A; City of Houston, Texas Taxable Public Improvement Refunding Bonds, Series 2013B; and City of Houston, Texas Certificates of Obligation (Demolition Program), Series 2013.

“Officer’s Pricing Certificate” means one or more certificates executed by either the Mayor or the City’s Director of Finance and the City Controller or the Deputy City Controller with respect to the pricing of any series of the Obligations pursuant to Article III of the Ordinance.

“Ordinance” means collectively the ordinances of the Issuer approved by its City Council on April __, 2013 pursuant to which the Obligations are issued.

“Paying Agent” means the Bank when it is performing the function of paying agent.

“Person” means any individual, corporation, partnership, joint venture, associations, joint stock company, trust, unincorporated organization or government or any agency or political subdivision of a government or any entity whatsoever.

“Registrar” means the Bank when it is performing the function of registrar.

“Registered Owner” means the Person in whose name any Bond is registered in the books of registration maintained by the Bank under this Agreement.

All other capitalized terms shall have the meanings assigned to them in the Ordinance or the recital paragraphs of this Agreement.

ARTICLE THREE

DUTIES OF THE BANK

Section 3.01 Initial Delivery of the Obligations.

The Obligations will be initially registered and delivered by the Bank to the purchaser designated by the Issuer as set forth in the Ordinance and the Officer’s Pricing Certificate. If such purchaser delivers a written request to the Bank not later than five business days prior to the date of initial delivery, the Bank will, on the date of initial delivery, exchange an Obligation initially delivered for Obligations of authorized denominations, registered in accordance with the instructions in such request, the Ordinance and the Officer’s Pricing Certificate.

Section 3.02 Duties of Paying Agent.

As Paying Agent, the Bank shall, provided adequate funds have been provided to it for such purpose by or on behalf of the Issuer, timely pay on behalf of the Issuer the principal of and interest on each Bond in accordance with the provisions of the Ordinance.

The Bank is authorized to receive the purchase price of and, if applicable, accrued interest on the Obligations from the purchaser of the Obligations and to transfer said funds relating to the closing and initial delivery of the Obligations in the manner disclosed in the closing memorandum as prepared by the Issuer's Financial Advisor or other agent. The Bank may act on a facsimile or electronic mail transmission of the closing memorandum acknowledged by the Issuer or the Issuer's Financial Advisor as the final closing memorandum.

The Bank shall not be liable for any losses, costs or expenses arising directly or indirectly from the Bank's reliance upon and compliance with such instructions.

Since the issue will be Depository Trust Company (DTC) eligible, the Paying Agent shall comply with all eligibility requirements as outlined and agreed upon in the eligibility questionnaire.

Section 3.03 Duties of Registrar.

The Bank shall provide for the proper registration of the Obligations and the timely exchange, replacement and registration of transfer of the Obligations in accordance with the provisions of the Ordinance. Any changes to Registered Owners for such exchange, replacement and registration shall be made by the Bank only in accordance with the Ordinance. The Bank will maintain the books of registration in accordance with the Bank's general practices and procedures in effect from time to time; provided, however, that the Bank agrees to comply with the terms of Chapter 1203 of the Texas Government Code, as amended, and more specifically agrees also to maintain books of registration for the Obligations at the Bank's offices in Texas, which books of registration may be a copy of the register which shall be kept current by the Bank. The books of registration may be maintained in written form or in any other form capable of being converted into written form within a reasonable period of time.

Section 3.04 Unauthenticated Obligations.

The Issuer shall provide an adequate inventory of unauthenticated Obligations to facilitate transfers. The Bank covenants that it will maintain such unauthenticated Obligations in safekeeping and will use reasonable care in maintaining such Obligations in safekeeping, which shall be not less than the care it maintains for debt securities of other government entities or corporations for which it serves as registrar, or which it maintains for its own obligations.

Section 3.05 Reports.

Upon request of the Issuer, the Bank will provide the Issuer reports, which will describe in reasonable detail all transactions pertaining to the Obligations and the books of registration for the period of time specified by the Issuer. The Issuer may also inspect and make copies of the information in the books of registration and such other documents related to the Obligations and in the Bank's possession at any time the Bank is customarily open for business, provided that reasonable time is allowed the Bank to provide an up-to-date listing or to convert the information into written form.

The Bank will not release or disclose the content of the books of registration to any person other than to, or at the written request of, an Authorized Officer or employee of the Issuer, except upon receipt of a subpoena, court order or as otherwise required by law. Upon receipt of a subpoena, court order or other lawful request, the Bank will notify the Issuer immediately so that the Issuer may contest the subpoena, court order or other request if it so chooses.

Section 3.06 Cancelled Obligations.

All Obligations surrendered for payment, redemption, transfer, exchange or replacement, if surrendered to the Bank, shall be promptly cancelled by it and, if surrendered to the Issuer, shall be delivered to the Bank and, if not already cancelled, shall be promptly cancelled by the Bank. The Issuer may at any time deliver to the Bank for cancellation any Bond previously authenticated and delivered which the Issuer may have acquired in any manner whatsoever, and all Obligations so delivered shall be promptly cancelled by the Bank. All cancelled Obligations held by the Bank shall be destroyed and evidence of such destruction shall be furnished to the Issuer; provided however that no Obligation shall be destroyed before the expiration of one year after the date of its payment or before the expiration of three months after the date the Registrar files with the Issuer a list identifying the Obligations to be destroyed.

Section 3.07 Reliance on Documents, Etc.

(a) The Bank may conclusively rely, as to the truth of the statements and correctness of the opinions expressed therein, on certificates or opinions furnished to the Bank by the Issuer.

(b) The Bank shall not be liable to the Issuer for actions taken under this Agreement as long as it acts in good faith and exercises due diligence, reasonableness and care, as prescribed by law, with regard to its duties hereunder.

(c) This Agreement is not intended to require the Bank to expend its own funds for performance of any of its duties hereunder.

(d) The Bank may exercise any of the powers hereunder and perform any duties hereunder either directly or by or through agents or attorneys.

Section 3.08 Money Held by Bank.

All money transferred to the Bank in its capacity as Paying Agent for the Obligations under the Ordinance (except any sums representing Paying Agent fees) shall be held in trust for the benefit of the Registered Owners, at the direction of the Issuer, and shall be disbursed in accordance with the Ordinance.

All money deposited with the Bank hereunder shall be secured in the manner and to the fullest extent required by law for the security of funds of the Issuer. Any money held by the Bank that exceeds the deposit insurance provided by the Federal Deposit Insurance Corporation will be fully collateralized with obligations that are eligible under the laws of the State of Texas.

All amounts held by the Bank may be invested, pending their disbursement, at the direction of an Authorized Officer of the Issuer to the extent permitted by law either in (a) money market mutual funds (investing in U.S. Treasury obligations or tax exempt obligations) maturing no later than the date of scheduled disbursements or (b) other legally authorized short term investments which are scheduled to mature on or before the date or dates on which proceeds of such other investments are required to pay interest and/or principal on the maturing

Obligations; provided, however, that if for any reason such funds are not disbursed on a scheduled payment date, any continued investment of such funds pending disbursement shall be limited to short term direct obligations of the United States of America.

Any money deposited with the Bank for the payment of the principal of or interest on any Bond and remaining unclaimed by the Registered Owner after the expiration of three years from the date such funds have become due and payable shall be reported and disposed of by the Bank in accordance with the provisions of Texas law including, to the extent applicable, Title 6 of the Texas Property Code, as amended. To the extent such provisions of the Property Code do not apply to the funds, such funds shall be paid by the Bank to the Issuer upon receipt of a written request therefor from the Issuer. The Bank shall have no liability to the Registered Owners of the Obligations by virtue of actions taken in compliance with the foregoing provision.

ARTICLE FOUR

MISCELLANEOUS PROVISIONS

Section 4.01 May Own Obligations.

The Bank, in its individual or any other capacity, may become the owner or pledgee of any Bond with the same rights it would have if it were not the Paying Agent and Registrar for the Obligations.

Section 4.02 Amendment.

This Agreement may be amended only by an agreement in writing signed by both of the parties hereto. As soon as practicable, after any amendment to this Agreement, the Paying Agent shall provide notice of such amendment to each of the rating agencies then providing a rating on the Obligations.

Section 4.03 Assignment.

This Agreement may not be assigned by either party without the prior written consent of the other.

Section 4.04 Notices.

Any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted hereby to be given or furnished to the Issuer or the Bank shall be mailed or delivered to the Issuer or the Bank, respectively, at the addresses shown herein, or such other address as may have been given by one party to the other by 15 days' written notice.

Section 4.05 Effect of Headings.

The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

Section 4.06 Successors and Assigns.

All covenants and agreements herein by the Issuer and the Bank shall bind their successors and assigns, whether so expressed or not. This Agreement shall not be assigned by the Bank without the prior written consent of the Issuer.

Section 4.07 Merger, Conversion, Consolidation or Succession.

Any corporation into which the Bank may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion, or consolidation to which the Bank shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Bank shall be the successor of the Bank hereunder without the execution or filing of any paper or any further act on the part of either of the parties hereto. In case any Bond shall have been registered, but not delivered, by the Bank then in office, any successor by merger, conversion, or consolidation to such authenticating Bank may adopt such registration and deliver the Bond so registered with the same effect as if such successor Bank had itself registered such Bond.

Section 4.08 Severability.

If any provision of this Agreement shall be invalid or unenforceable, the validity and enforceability of the remaining provisions hereof shall not in any way be affected or impaired.

Section 4.09 Benefits of Agreement.

Nothing herein, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, any benefit or any legal or equitable right, remedy or claim hereunder.

Section 4.10 Ordinance Governs Conflicts.

This Agreement and the Ordinance constitute the entire agreement between the parties hereto relative to the Bank acting as Paying Agent and Registrar and if any conflict exists between this Agreement and the Ordinance, the Ordinance shall govern. The Bank agrees to be bound by the terms of the Ordinance with respect to the Obligations.

Section 4.11 Term and Termination.

This Agreement shall be effective from and after its date and may be terminated for any reason by the Issuer or the Bank at any time upon 60 days' written notice; provided, however, that no such termination shall be effective until a successor has been appointed and has accepted the duties of the Bank hereunder. In the event of early termination, regardless of circumstances, the Bank shall deliver to the Issuer or its designee all funds, Obligations and all books and records pertaining to the Bank's role as Paying Agent and Registrar with respect to the Obligations, including, but not limited to, the books of registration.

Section 4.12 Email and Facsimile Authorization.

The Bank agrees to accept and act upon instructions or directions pursuant to this Agreement sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Bank shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the Issuer elects to give the Bank e-mail or facsimile instructions (or instructions by a similar electronic method) and the Bank in its discretion elects to act upon such instructions, the Bank's understanding of such instructions shall be deemed controlling. The Bank shall not be liable for any losses, costs or expenses arising directly or indirectly from the Bank's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The Issuer agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Bank, including without limitation the risk of the Bank acting on unauthorized instructions, and the risk of interception and misuse by third parties.

Section 4.13 Execution; Governing Law.

This Agreement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same agreement. This Agreement shall be construed in accordance with and shall be governed by the laws of the State of Texas.

Section 4.14 Counterparts.

This Agreement may be executed in several counterparts, each of which shall be regarded as an original and all of which constitute one and the same instrument. The section headings of this Agreement are for convenience of reference only and shall not affect its interpretation.

Section 4.15 Indemnification.

To the extent permitted by law, the Issuer agrees to indemnify the Bank for, and hold it harmless against, any loss, liability or expense incurred by the Bank without negligence or bad faith on the Bank's part, arising out of or in connection with its acceptance or administration of the Bank's duties hereunder, including the cost and expense (including the Bank's counsel fees) of defending against any claim or liability in connection with the exercise or performance of any of the Bank's power or duties under this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

THE CITY OF HOUSTON, TEXAS

By: _____
Mayor

COUNTERSIGNED AS OF THE DATE HEREOF:

By: _____
City Controller

ADDRESS: City of Houston, Texas
P.O. Box 1562
Houston, TX 77251

Attention: Charisse Mosely, Deputy City Controller

ATTEST:

City Secretary

[CITY SEAL]

APPROVED AS TO FORM:

Senior Assistant City Attorney

THE BANK OF NEW YORK MELLON TRUST
COMPANY, N. A.

By: _____
Erin Fitzpatrick
Associate, Client Services

ADDRESS: The Bank of New York Mellon Trust
Company, N. A.
601 Travis, 16th Floor
Houston, Texas 77002

Attention: Erin Fitzpatrick

ATTEST:

By: _____

Title: _____

Annex A
Bank Fee Schedule

EXHIBIT C-1
BOND COUNSEL ENGAGEMENT LETTER

BRACEWELL & GIULIANI LLP

711 Louisiana Street
Suite 2300
Houston, Texas 77002

BAKER WILLIAMS MATTHIESEN LLP

1177 West Loop South
Suite 1600
Houston, Texas 77027

April 3, 2013

Mayor and City Council
City of Houston
City Hall
901 Bagby
Houston, Texas 77002

Re: City of Houston, Texas Public Improvement Refunding Bonds, Series 2013 and such other series as may be authorized; Certificates of Obligation (Demolition Program), Series 2013; and Qualified Energy Conservation Notes, Series 2013Q (collectively, the "Obligations")

Dear Mayor and Council Members:

We are pleased to submit to you an agreement for Bracewell & Giuliani LLP and Baker Williams Matthiesen LLP to serve as Co-Bond Counsel with respect to the Obligations and such other matters as may be directed by the City Attorney from time to time. When approved by the City, this letter will become effective and will evidence an agreement between the City and Co-Bond Counsel, subject to all applicable provisions of the Charter and Code of Ordinances of the City. This letter may be supplemented, amended or superceded by other letter agreements as may be approved by City Council from time to time.

Our services as Co-Bond Counsel include all of the following services, which may include services from prior projects, services on related projects or projects relating to general obligation debt obligations of the City, as requested by the City through the City Attorney's Office:

- A. the preparation of all necessary legal memoranda, analysis and documents to be acted upon and executed in connection with the authorization of the Obligations or other related matters, including preparing, reviewing, revising and analyzing one or more ordinances and other financing documents and agreements authorizing and issuing each series of Obligations and implementing the plan of finance directed by the City;
- B. reviewing those sections of the offering documents that pertain to the (a) descriptions of the Obligations, (b) refunding and defeasance of any outstanding obligations of the City, (c) City documents related to this financing, (d) matters related to tax exemption or tax credits and related Co-Bond Counsel opinions, and (e) description of the security for the Obligations;

Mayor and City Council
April 3, 2013

- C. providing assistance in structuring this transaction to achieve the goals and objectives of the City, and providing such other advice relating to the structure of any general obligation or general obligation and revenue obligation of the City for any purpose;
- D. assisting in any required meetings with appropriate officials of the City, the underwriters or purchasers, rating agencies, credit enhancers, and the City's financial advisors;
- E. preparing transcripts for and obtaining the approval of the Attorney General relating to the Obligations or any preliminary approval from the Attorney General for certain structures referenced in paragraph (iii) above; and
- F. providing assistance and legal analysis relating to state law issues, federal tax issues, federal securities issues, disclosure, or related transactional services;
- G. providing assistance, legal analysis and all necessary documents pertaining to any amendments or reauthorization of any general obligation commercial paper programs (collectively, "Bond Counsel Services").

In connection with the foregoing Bond Counsel Services, we would expect to be compensated on an hourly basis pursuant to our rate schedule attached hereto as Exhibit A and be subject to the other terms and provisions regarding this engagement contained in Exhibit A; provided, however, we understand that the blended hourly rate should not exceed the lowest partner hourly rate. The aggregate maximum fees paid for Bond Counsel Services as Co-Bond Counsel shall not exceed \$355,000.

In addition, we would expect to be reimbursed for our reasonable and actual out-of-pocket expenses, such as the cost of reproduction of documents, long-distance telephone, telegraph, telex and similar expenses, deliveries, filing fees, and all items paid for by us on behalf of the City, incurred in connection with the performance of all services hereunder. All of such expenses will be reasonable and subject to approval of the City Attorney, provided, however, that aggregate maximum reimbursable expenses shall not exceed \$25,000, which may include reimbursement for transcript fees paid to the Office of the Attorney General.

For purposes of evaluating conflicts of interests, you acknowledge that we rely upon the Texas Disciplinary Rules of Professional Conduct. We may represent other clients that may be adverse to your interest in substantially unrelated matters, and we may represent other clients within the same industry.

Disputes arising under or pertaining to this engagement shall be resolved, if possible, by a non-binding mediation conducted by a mutually acceptable mediator at a location that is acceptable to the City and Co-Bond Counsel. The mediation process may be initiated by a written request with a list of acceptable mediators and site for the proceeding. In the event that mediation is not successful, the parties agree to resolve their dispute by arbitration conducted according to the rules of the American Arbitration Association for non-administered proceedings or an authorized fee arbitration program.

Mayor and City Council
April 3, 2013

Nothing herein shall be construed as creating personal liability on the part of any officer of the City, and this Agreement may be terminated by the City by giving 30 days' written notice.

We agree to submit to the City Attorney at the beginning of each calendar year a schedule showing the ethnic and gender make-up of partners and associates of our firm. In addition, it is agreed that conflicts affecting the City will be resolved in the City's favor, whenever possible.

If the terms of this letter are satisfactory, it is requested that your acceptance be indicated below.

BRACEWELL & GIULIANI LLP

By _____
Barron F. Wallace

BAKER WILLIAMS MATTHIESEN LLP

By _____
JoAnn Matthiesen

APPROVED BY CITY OF HOUSTON:

David M. Feldman, City Attorney

Attachments

HOURLY BILLING RATES AND OTHER TERMS FOR
BRACEWELL & GIULIANI LLP

Hourly billing rates for Bracewell & Giuliani personnel are reviewed annually and periodically readjusted by management of Bracewell & Giuliani. The following information has been prepared based upon hourly rates schedule approved for 2013 for Houston-based personnel that might work on this matter:

| | |
|--|-----------|
| Legal Assistants | \$115-300 |
| Associate Attorneys up to Four Years Experience | \$295-445 |
| Associate Attorneys Four Years Experience and Longer, including Counsel | \$450-625 |
| Partners | \$550-850 |

The services of Bracewell & Giuliani will be subject to our Standard Terms of Engagement for Legal Services attached hereto.

Bracewell & Giuliani recognizes that it shall be disqualified from representing any other client with interests materially and directly adverse to yours (i) in any matter which is substantially related to the firm's representation of you and (ii) with respect to any matter where there is a reasonable probability that confidential information you furnished to the firm could be used to your disadvantage. You understand and agree that with those exceptions, the firm is free to represent other clients, including clients whose interests may conflict with yours in litigations, business transactions or other matters. Also, as you know, the firm represents or has represented clients with interests that may conflict with yours, such as clients with litigation involving condemnation. You agree that the firm's representing you in this matter will not prevent or disqualify the firm from representing clients adverse to you in unrelated condemnation matters and in other unrelated matters, and that you consent in advance to the firm's undertaking such adverse representations.

BRACEWELL & GIULIANI LLP

TERMS OF ENGAGEMENT

Introduction

These are the Terms of Engagement adopted by Bracewell & Giuliani LLP (“B&G”) and the addressee of the preceding Engagement Letter (“Client”) and referred to in our Engagement Letter as the basis for our representation. Because they are an integral part of our agreement to provide representation, we ask that you review this document carefully and retain it for your files. If you have any questions after reading it, please promptly inform your principal contact at the Firm.

Client of the Firm

Because B&G has been engaged to represent the Client only, the engagement does not include the Client’s family members, affiliated or related entities, or their respective individual officers, directors, partners, equity owners or employees.

Unless otherwise specifically stated in the Engagement Letter, our representation does not include any parent, subsidiary, or affiliated entity; employee, officer, director, shareholder, member or partner of an entity; or, any commonly owned entity. For any trade association, our representation does not include any member of the trade association; and for individuals, our representation does not include any employer, partner, spouse, sibling, or other family member. In the event we are asked to undertake representation of any other entity in connection with this engagement, we will do so only by agreement defined in the Engagement Letter. By execution of the Engagement Letter, Client consents to B&G’s use of the name and a generic description of the transaction in B&G marketing materials. Confidential Client information will not be included in such materials.

Our Relationship with Others and Conflicts of Interest

Conflict of Interest is a concern for B&G and its clients. We attempt to identify actual and potential conflicts at the outset of each engagement. Unfortunately, conflicts sometimes arise or become apparent after work begins on an engagement. When that happens, we will do our best to address and resolve the situation in the manner that best serves the interests of all of our affected clients.

If a Conflict of Interest unrelated to this engagement develops between you and another client of B&G, you consent to the firm’s adverse representation in the unrelated matter.

B&G accepts this engagement on the understanding that our representation of you will not preclude us from accepting another engagement from a new or existing client provided that (1) such engagement is not substantially related to the subject matter of services we provide to you and (2) such other engagement would not impair the confidentiality of related client information.

Staffing the Project

In most cases, one attorney will be your primary contact. In order to provide you with the expertise of our firm, and to provide services on a cost effective basis, that attorney will delegate parts of your work to other lawyers, paralegals and professionals.

Billing Arrangements and Terms of Payment

Fees for professional services and expenses are not contingent on the outcome of the project, unless expressly stated in the Engagement Letter.

Unless expressly stated in the Engagement Letter, B&G issues invoices on a periodic basis, normally each month, for fees and expenses. Invoices are due on receipt and are considered past due 30 days after receipt.

Clients frequently ask us to estimate the fees and other charges they are likely to incur in connection with a particular matter. Any estimate is based on professional judgment and facts and circumstances that appear at the time. As such, any estimate is subject to the understanding that, unless we agree otherwise in writing, it does not represent a maximum, minimum, or fixed-fee quotation. The ultimate cost frequently is more or less than the amount estimated.

It may be necessary for us to retain third parties, such as consultants, experts and investigators, in order to represent you adequately. In that event, you will be responsible for the prompt payment of the invoices of those third parties. Although we may advance third-party disbursements in reasonable amounts, we will ask you to pay larger third-party invoices (usually those over \$500) directly to the third party providing the services.

If the representation will require a concentrated period of activity, such as a trial, arbitration, or hearing, we reserve the right to require the payment of all amounts owed and the prepayment of the estimated fees and expenses to be incurred in completing the trial, arbitration, or hearing, as well as arbitration fees likely to be assessed. If you fail to pay timely the estimated fees and expenses, we will have the right to cease performing further work and the right to withdraw from the representation, subject to any applicable rules of court or other applicable tribunal.

Although an insurer's payment of defense costs may be applied to billings of the firm, the payment obligation remains with you. Failure of any insurer to pay all or part of the billings for this project does not relieve you from the obligation to pay billings in full and in a timely manner.

Taxes

The Client agrees that all payments under the Engagement Letter shall be payable to B&G in U.S. Dollars, free and clear of any and all present and future taxes, levies, imposts, duties, deductions, withholdings, fees, liabilities and similar charges (the "Taxes"). If any Taxes are required to be withheld or deducted from any amount payable under the Engagement Letter, then the amount payable under the Engagement Letter shall be increased to the amount which, after deduction from such increased amount of all Taxes required to be withheld or deducted

therefrom, will yield to B&G the amounts stated to be payable to B&G under the Engagement Letter.

Termination

Because B&G has been engaged to provide services in connection with the representation specifically defined in our Engagement Letter, the attorney-client relationship terminates upon our completion of those services.

You may terminate the engagement at any time, with or without cause, by notifying us in writing. The firm also can terminate the engagement before the completion of its representation of you in the specified matter if (a) the continued representation would result in a violation of the applicable rules of professional conduct or other law; (b) the termination can be accomplished without material adverse effect on your interests; (c) you persist in a course of action that B&G reasonably believes is criminal or fraudulent, or you have used our services to perpetrate a crime or fraud, (d) the firm has a fundamental disagreement with the objective or tactics in this engagement; (e) you deliberately and substantially fail to discharge an obligation regarding this engagement, including the payment of fees and expenses and the duty of cooperation as provided in the Terms of Engagement; or (f) other good cause for termination exist. In the event that the firm intends to terminate the engagement, the firm will give reasonable notice and allow you access to your files relating to this engagement.

For purposes of this Engagement Letter, this engagement terminates upon written notice of termination by Client or by B&G, or 120 days after the date of B&G's last substantive legal service billed to Client's account, whichever may first occur.

The termination of our services will not affect your responsibility for payment of legal services rendered and other charges incurred before termination and in connection with an orderly transition of the project.

After completion of the representation, however, changes may occur in the applicable laws or regulations that could affect your future rights and liabilities in regard to the matter. B&G has no continuing obligation to give advice with respect to any future legal developments that may relate to the project.

Retention of Client Files

Client files are limited to: materials supplied by Client; final contracts; estate planning documents, deeds and corporate records; and, routine correspondence related to this engagement. At the close of any matter, Client files may be returned to you, sent to a private storage facility, archived for a limited time or destroyed. The attorney closing the file will determine, at his or her discretion, the disposition of Client files, unless you make a specific written request that they be returned.

Your request for return of Client files must be delivered to B&G no later than 120 days after the last substantive service relating to the closed matter. A substantive service does not include audit letter research and preparation, or any other service that does not directly relate to the substantive discharge of a Client engagement. Your request must be specific and designate your

representative to receive the files. Client is responsible for paying the reasonable cost to retrieve, duplicate and deliver the Client files.

B&G adopted a program of document retention and management of electronically stored information, including regular deletion of outdated, corrupt or useless files. Such program may change from time-to-time.

It is important for Client to alert B&G in advance of special treatment, sensitive information, retention requirements and other unique conditions pertaining to Client files. Client agrees that it will notify B&G in a timely, written and specific manner, concerning any requirement for special or unusual handling or attention of its Client files. This includes any statutory or regulatory requirements relating to confidentiality and retention of Client files.

B&G Files

You agree that B&G will own and retain its own files and any related electronically stored information pertaining to the engagement. You will not have the right or ability to require us to deliver such files and records (or copies thereof) to you. Examples of B&G files and records are: firm administrative records, financial files and documents, time and expense reports, personnel and staffing materials, credit and accounting records, electronic mail correspondence (other than such correspondence which was sent to you by a member of our firm) and internal lawyer's work product, such as drafts, notes, memoranda and legal and factual research, including investigative reports prepared by or for the internal use of lawyers. Further, at the discretion of the responsible partner for the project in question, we may destroy any such documentation which is the property of B&G or any documentation which such partner determines to be duplicative or unnecessary in all cases without having to obtain your consent.

Choice of Law

Because B&G performs legal services in a number of jurisdictions, for consistency and predictability, the Client and B&G agrees that the Texas Disciplinary Rules of Professional Conduct (found at www.texasbar.com or www.txethics.org) will govern all issues of legal ethics and professionalism.

Disclaimer

We cannot guarantee the outcome of any matter. Any expression of our professional judgment regarding your matter or the potential outcome is, of course, limited by our knowledge of the facts and based on the law at the time of expression. It is also subject to any unknown or uncertain factors or conditions beyond our control.

Either at the commencement or during the course of the representation, we may express opinions or beliefs about the matter or various courses of action and the results that might be anticipated. Any expressions on our part concerning the outcome of the representation, or any other legal matters, are based on our professional judgment and are not guarantees.

By signing the Engagement Letter or otherwise indicating your acceptance of the Engagement Letter, you acknowledge that B&G has made no promises or guarantees to you about the

outcome of the representation, and nothing in these Terms of Engagement shall be construed as such a promise or guarantee.

Your Cooperation

To enable us to provide effective representation, you agree to: (1) disclose to us fully, accurately and on a timely basis, all facts and documents that are or might be material or that we may request; (2) keep us apprised on a timely basis of all developments relating to the representation that are or might be material; (3) attend meetings, conferences, and other proceedings when it is reasonable to do so; (4) provide updated information for conflicts purposes, if necessary; and (5) cooperate fully with us in all matters relating to the engagement.

Modification of Our Agreement

The Terms of Engagement reflect our agreement on the terms of all engagements, and are not subject to any oral agreements, modifications, or understandings. Any change in these Terms of Engagement must be made in writing signed by both B&G and Client.

In Conclusion

If you have questions or concerns, at any time, relating to the terms and conditions of this engagement, the services or advice provided by B&G, or the fees and expenses reflected in the invoices, please bring them to the attention of your principal contact at our firm, or B&G's General Counsel or Managing Partner.

BAKER WILLIAMS MATTHIESEN LLP
Schedule of Standard Hourly Rates
for Attorneys and Legal Assistants

Baker Williams Matthiesen LLP maintains a schedule of standard hourly rates for its attorneys and legal assistants, which is subject to periodic revision. The schedule in effect as of January 1, 2013, is as follows:

| | <u>Hourly Rate</u> |
|-----------------------------------|--------------------|
| JoAnn Matthiesen, Partner | \$470.00 |
| Claudia Gee Vassar, Associate | \$350.00 |
| Jennifer Underwood, Associate | \$250.00 |
| Teresa Menacho, Legal Assistant | \$175.00 |
| Sharon D. Taylor, Legal Assistant | \$175.00 |

EXHIBIT C-2

SPECIAL DISCLOSURE COUNSEL ENGAGEMENT LETTER

HAYNES AND BOONE, LLP
1221 McKinney St., Suite 2100
Houston, Texas 77010

BRATTON & ASSOCIATES
12 Greenway Plaza, Suite 1100
Houston, Texas 77046

April 3, 2013

Mayor and City Council
City of Houston
City Hall Annex
900 Bagby
Houston, Texas 77002

Re: Special Disclosure Co-Counsel Engagement for the City of Houston, Texas
Permanent Improvement Refunding Bonds, Series 2013A
Taxable Permanent Improvement Refunding Bonds, Series 2013B
Certificates of Obligation (Demolition Program), Series 2013A

Mayor and Council Members:

On behalf of Haynes and Boone, LLP (“HB”) and Bratton & Associates (“Bratton”) (together, “Disclosure Co-Counsel”), we appreciate your decision to engage us to provide legal representation to the City of Houston, Texas (the “City”). We look forward to this engagement, and are confident that you will be pleased with the quality of our work and our responsiveness to your needs.

The purpose of this engagement letter is to confirm the terms on which HB and Bratton will undertake to represent the City as Disclosure Co-Counsel in connection with the issuance of the captioned bonds and certificates of obligation (collectively, the “Obligations”). When approved by you, this letter will become effective and will evidence an agreement between the City and Disclosure Co-Counsel, subject to all applicable provisions of the City’s Charter and Code of Ordinances.

Disclosure Co-Counsel agrees to comply with the requirements and terms of the City’s Contractor’s Pay or Play Program, as set out in the Executive Order 1-7 at the time of City Council’s approval of this Agreement.

1. Client Relationship

HB and Bratton are being retained by the City solely as its Disclosure Co-Counsel with respect to the issuance of the Obligations, and our representation pursuant to this letter does not

include the representation of any other entity or any individual, including but not limited to any of your affiliates, employees or agents. As a result, our representation in this matter does not give rise to an attorney-client relationship between HB or Bratton attorneys and any of your affiliates. You agree that during the course of our representation, we will not be given any confidential information regarding any of your affiliates. Accordingly, in most instances, our representation of the City in this matter will not give rise to any conflict of interest if other clients of HB or Bratton are or become adverse to any of the City's affiliates.

2. Scope of Representation

You have asked us to represent the City as Disclosure Co-Counsel in connection with the issuance of the Obligations. You acknowledge that we are not the City's bond counsel or general counsel and that our acceptance of this engagement does not involve our representation of the City or its business, operations or other interests with respect to any matter other than disclosure issues relating to the issuance of the Obligations. After the closing of the issuance of the Obligations, changes may occur in the applicable laws or regulations that could affect the City's future rights and liabilities. Unless you engage us after closing to provide additional services on issues arising from the issuance of the Obligations, you agree that neither HB nor Bratton have a continuing obligation to advise the City with respect to future legal developments.

As Disclosure Co-Counsel, we will assist the City's Legal and Finance Departments and the Office of the City Controller, together with the City's Co-Financial Advisors, in connection with the issuance, sale and delivery of the Obligations. Our basic services shall include the following: consultation with and advice to City officials and staff and its financial advisor regarding any disclosure issues, including assistance in evaluating the materiality of such issues; preparation of the preliminary and final offering documents for the Obligations; assistance in the performance of any necessary due diligence investigation, including participation in due diligence calls or meetings, as appropriate; analysis of the requirements of Rule 15c2-12 and the basis upon which such rule is satisfied; and providing the City with a securities disclosure opinion in customary form reasonably satisfactory to the City and Disclosure Co-Counsel. In addition to the foregoing basic services, we are prepared to undertake additional services as directed by the City.

3. Staffing

Cheryl K. Rosenberg will be the primary contact at HB for the City's representation, although other HB lawyers and legal assistants may work on your engagement as we believe appropriate under the circumstances. We may delegate work to lawyers or support personnel with special experience in a given area or whom we otherwise believe will enable us to provide services on an efficient, timely and cost-effective basis. Regardless of who is working on a particular component of the engagement, we will always be available to discuss any aspect of our representation with you.

Lynette Bratton will be the primary contact at Bratton for the City's representation, although other Bratton lawyers and legal assistants may work on your engagement as appropriate under the circumstances.

4. Fees and Expenses

Experience has shown that our relationship will be better if we begin with a clear understanding about our fees and the timing of payment. For the basic services described in paragraph 2, the City agrees to pay Disclosure Co-Counsel a professional services fee determined on an hourly rate basis pursuant to the schedules of rates attached hereto. The invoice for such service will include an itemization of the hours worked by each attorney and legal assistant, the rate for each individual and a description of the work performed by the individual. The fee for Disclosure Co-Counsel's services with respect to the Obligations shall not exceed \$205,000. The City's obligation to pay such fee is contingent upon the successful closing of the issuance of the Obligations. Such fee may be paid from any funds of the City, as it deems appropriate. Payment of the fee shall be made upon delivery of the Obligations and receipt by the City of an invoice therefor.

Bratton is a certified minority-owned business enterprise and Disclosure Co-Counsel agrees to a goal of 25% as the value of this Agreement which will be attributed to professional services rendered by Bratton.

The fees for any services provided by Disclosure Co-Counsel over and above those services which are customarily provided by Disclosure Counsel will be determined on an hourly rate basis or as the City and Disclosure Co-Counsel may agree. Our hourly rates will be those customarily charged by HB and Bratton to other clients for the same or similar services, taking into consideration the time consumed in provided such additional services, the level of experience and ability of the attorneys providing the services, and the difficulty and complexity of the tasks involved. See Exhibit A for the standard hourly rates for HB and Bratton attorneys.

Disclosure Co-Counsel will be reimbursed for its reasonable and actual out-of-pocket expenses incurred and paid by HB or Bratton on behalf of the City in connection with the performance of services hereunder. If our representation of the City requires us to incur any single expense in excess of \$2,500.00, you agree that the City will pay the expense directly, and authorize us to make arrangements to have the City billed directly.

Disclosure Co-Counsel understands further that the City's obligation to pay for our services is limited to the amount of the original allocation and any supplemental allocations that the City may make for payments for services performed under this Agreement, all as set forth in the provisions of "Limitation of City's Duties" attached hereto as Exhibit B. Nothing herein shall be construed as creating personal liability on the part of any officer of the City, and this Agreement may be terminated by the City by giving 30 days' written notice.

5. Advance and General Waiver/Consent to HB Conflicts with Respect to Unrelated Matters

Haynes and Boone, LLP is a large firm, with offices and professionals in many cities. HB's practice is broadly based and covers several areas of both domestic and international law. The very size of HB has created situations where work for one client in an area has precluded lawyers in HB from pursuing other matters, whether related or unrelated to the first matter. In order to avoid the potential for this kind of restriction on our practice, we request a waiver and

advance agreement that HB will not be disqualified from representing interests that may become adverse to you in regard to matters that are not substantially related to the issuance of the Obligations. This waiver is not intended to, and would not permit, HB to represent interests directly adverse to you in matters that are substantially related to the work done for you. Nor is it intended that there be, and there would not be, any waiver of the City's right not to have confidences or secrets that you transmit to HB disclosed to any third party or used against you. We would, of course, hold such information that the City provides to us in strict confidence. Accordingly, you agree that the City will not object to HB's representation of other clients on the basis of your retention of HB, and you consent to and waive any objection to HB's representation of other clients, unless the other representation would involve HB representing an interest directly adverse to you on a matter substantially related to the issuance of the Obligations.

Further, the nature of HB's practice is such that HB may from time to time represent one client in a matter while also representing that client's adversary in another unrelated matter. Such concurrent representation is undertaken only if it is HB's professional judgment that HB can do so impartially and without any adverse effect on our responsibilities to either client. Accordingly, you also agree that you do not consider any such concurrent representation, in unrelated matters, to be inappropriate and you consent to any such present or future concurrent representations.

HB agrees that conflicts of interest in which HB is asked to represent interests directly adverse to the City in matters substantially related to work performed for the City will be resolved in the City's favor whenever possible. If such a conflict cannot, in the judgment of HB, be resolved in the City's favor, HB will immediately advise the City Attorney. Any failure to resolve such a conflict in the City's favor will constitute grounds for termination of this Agreement by the City Attorney by giving 30 day's prior written notice.

6. Discharge and Withdrawal

You will have the right at any time to terminate Disclosure Co-Counsel's representation of the City by delivering written notice of termination to HB and Bratton. Disclosure Co-Counsel will have the right to withdraw from its representation of the City at any time with its consent, or for good cause without its consent. For example, if the City does not honor the terms of this letter (including the City's or a third-party payor's failure to pay), or if the City fails or refuses to cooperate with us or to follow our advice on a material matter, or if we become aware of any fact or circumstance that would, in our view, render our continuing representation of the City ineffective, unlawful or unethical, then we will have good cause to withdraw.

If the City discharges us or we elect to withdraw, then the City will take all steps necessary to free us of any obligation to perform, including by executing any documents necessary to complete the termination of the representation, and we will take all steps that, in our view, are reasonably practicable to protect the City's interests. If a discharge or withdrawal occurs, then the City will pay us for all costs and expenses paid or incurred by us on the City's behalf.

Unless previously terminated, our representation of the City with respect to any matters for which we have been engaged will terminate when we send the City our final statement for

services rendered. In the course of our representation of the City, we likely will come into possession of copies or originals of documents or other materials belonging to the City or others (collectively, "materials"). When our engagement as Disclosure Co-Counsel with respect to the issuance of the Obligations is concluded, we will make arrangements either to return the documents to the City, retain them in our storage facilities, or to dispose of the materials. Absent any other arrangements made with the City, upon the expiration of five years after the closing of the issuance of the Obligations, all materials in the file may be destroyed. We may retain our own files, including lawyer work product, pertaining to the representation.

7. Entire Agreement

This letter constitutes the entire agreement between the City and HB and Bratton regarding our representation of the City as Disclosure Co-Counsel with respect to the issuance of the Obligations, and is subject to no oral agreements or understandings. No obligation or undertaking that is not set forth expressly in this letter shall be implied on the part of either the City, HB or Bratton.

8. Conclusion

We are pleased to have this opportunity to represent the City as Disclosure Co-Counsel. If you have any questions about any aspect of our engagement or our invoices at any time, please feel free to raise those questions.

If this letter correctly reflects your understanding of the scope, terms, and conditions of our representation of the City as Disclosure Co-Counsel with respect to the issuance of the Obligations, please indicate your acceptance by executing the enclosed copy of this letter in the space provided below. By executing this letter, you will be acknowledging that you have read this letter and understand its terms.

Very truly yours,

HAYNES AND BOONE, LLP

By: _____
Cheryl K. Rosenberg, Partner

BRATTON & ASSOCIATES

By: _____
Lynette D. Bratton

APPROVED:

Mayor, City of Houston

ATTEST:

COUNTERSIGNED:

City Secretary

(Seal)

City Controller

Date: _____

APPROVED:

City Attorney

Attachments

EXHIBIT A

Standard Billing Rates

HAYNES & BOONE, LLP

| | |
|-------------------|------------|
| <u>Partner</u> | |
| Cheryl Rosenberg | \$600/hour |
| <u>Of Counsel</u> | |
| Janet Robertson | \$505/hour |
| <u>Associate</u> | |
| Robin Smith | \$300/hour |

BRATTON & ASSOCIATES

| | |
|--------------------|------------|
| <u>Partner</u> | |
| Lynette D. Bratton | \$400/hour |
| <u>Associate</u> | |
| Jalene M. Mack | \$225/hour |

EXHIBIT B

Limitation of City's Duties

(a) The City's duties to pay money to the Firm for any purpose under this Agreement are limited in their entirety by the provisions of this Section.

(b) In order to comply with Article II, Sections 19 and 19a of the City's Charter and Article XI, Section 5 of the Texas Constitution, the City has appropriated and allocated the sum of \$127,500 for fees and expenses to be used to discharge its duties to pay money under this Agreement (the "Original Allocation"). The parties recognize that the executive and legislative officers of the City, in the exercise of their sound discretion, may allocate supplemental sums of money for the purpose of this Agreement. Because the City's officers are not obligated to make any such supplemental allocations, the parties have agreed to certain procedures and remedies to be followed with respect thereto.

(c) A supplemental allocation will only be deemed to be made when the City sends a notice to the Firm (which notice must be signed by the City Attorney and signed by the City Controller, and for which no Council action will be required) in substantially the following form:

"NOTICE OF SUPPLEMENTAL ALLOCATION OF FUNDS"

TO: [Name of Firm]

FROM: City of Houston, Texas

DATE: [Date of Notice]

SUBJECT: Supplemental allocation of funds for the purpose of that certain "[title of this Agreement]" by and between the City and [name of Firm] countersigned by the City Controller on [date of countersignature] [the "Agreement"]

I, [name of City Controller], City Controller, do hereby certify that the supplemental sum of \$_____ has been allocated for the purpose of this Agreement.

The aggregate of all sums allocated for the purpose of such Agreement, including the Original Allocation, other supplemental allocations (if any) and the supplemental sum specified herein, as of the date of this notice, is \$_____.

Signed:

[Signature of the City Controller]
City Controller

REQUESTED:

[Signature of the City Attorney]
City Attorney

(d) City Council delegates to the City Attorney the authority to approve up to \$127,500 in supplemental allocations for this Agreement without returning to Council. The aggregate of the Original Allocation and all supplemental allocations, if any, effected by notice from the City Controller to the Firm in substantially the foregoing form shall be the Allocated Funds.

(e) The Original Allocation plus any supplemental allocations are the Allocated Funds. The City shall never be obligated to pay any money under this Agreement in excess of the Allocated Funds. The Firm must assure itself that sufficient allocations have been made to pay for services it provides. If Allocated Funds are exhausted, the Firm's only remedy is suspension or termination of its performance under this Agreement and it has no other remedy in law or in equity against the City and no right to damages of any kind.

EXHIBIT D
FORM OF PURCHASE CONTRACT

PURCHASE AGREEMENT

Relating to

CITY OF HOUSTON, TEXAS

§ _____
**PUBLIC IMPROVEMENT
REFUNDING BONDS,
Series 2013A**

§ _____
**TAXABLE PUBLIC
IMPROVEMENT
REFUNDING BONDS,
SERIES 2013B**

§ _____
**CERTIFICATES OF
OBLIGATION
(DEMOLITION
PROGRAM)
SERIES 2013**

April __, 2013

Mayor, City Council and City Controller
City of Houston, Texas
901 Bagby, 2nd Floor
Houston, Texas 77002

Ladies and Gentlemen:

The undersigned (the "Representative"), acting as the representative to the Underwriters appearing on the signature page hereof (collectively, the "Underwriters"), offers to enter into this Purchase Agreement (this "Purchase Agreement") with the City of Houston, Texas (the "Issuer") which, upon your acceptance of this offer and the approval of certain terms by the Mayor and the City Controller of the Issuer, or other authorized City officials, pursuant to one or more officers' pricing certificates, substantial copies of which are attached hereto as Exhibit A (the "Pricing Certificates"), will be binding upon you and the Underwriters. This offer is made subject to its acceptance by the execution of this Purchase Agreement on or before 9:00 p.m., Houston time, on the date set out above, and, if not so accepted by the execution hereof, will be subject to withdrawal by the Underwriters upon notice delivered to the Issuer at any time prior to its acceptance by the execution, counter execution and attestation hereof. Terms not otherwise defined herein shall have the same meanings as set forth in certain ordinances adopted by the Issuer on April __, 2013 (collectively, the "Ordinances") authorizing the issuance of the City of Houston, Texas, Public Improvement Refunding Bonds, Series 2013A (the "2013A Bonds"), the City of Houston, Texas, Certificates of Obligation (Demolition Program), Series 2013 (the "2013 Certificates" and together with the 2013A Bonds, the "Tax-Exempt Obligations") and the City of Houston, Texas Taxable Public Improvement Refunding Bonds, Series 2013B (the "2013B Bonds" or the "Taxable Obligations" and together with the Tax-Exempt Obligations, the "Obligations").

1. **Purchase and Sale of the Obligations.** Upon the terms and conditions, and in reliance upon the representations, warranties, and covenants herein, the Underwriters hereby agree to purchase from the Issuer, and the Issuer hereby agrees to sell to the Underwriters, all, but not less than all, of the Obligations. The Issuer acknowledges and agrees that (i) the

purchase and sale of the Obligations pursuant to this Agreement is an arm's-length commercial transaction between the Issuer and the Underwriters, (ii) the Underwriters have financial and other interests that differ from those of the Issuer, (iii) in connection with such transaction, the Underwriters are acting solely as principals and not as agents or fiduciaries of the Issuer, (iv) the Underwriters have not assumed (individually or collectively) a fiduciary responsibility in favor of the Issuer with respect to (x) the offering of the Obligations or the process leading thereto (whether or not the Underwriters have advised or are currently advising the Issuer on other matters) or (y) any other obligation to the Issuer except the obligations expressly set forth in this Agreement and (v) the Issuer has consulted with its own legal and other professional advisors to the extent it deemed appropriate in connection with the offering of the Obligations.

The Representative represents and warrants to the Issuer that it has been duly authorized to act on behalf of itself and the other Underwriters to enter into this Purchase Agreement and to take all actions, on behalf of the Underwriters, required or contemplated to be performed by the Underwriters under this Purchase Agreement.

The principal amount, the dated date, the maturities, the redemption provisions, and the interest rates per annum for the Obligations are set forth in the respective Pricing Certificate for each series of Obligations, as attached as Exhibit A.

The 2013A Bonds shall be issued in the aggregate principal amount of \$_____. The purchase price for the 2013A Bonds is \$_____, representing the principal amount of the 2013A Bonds plus/less original issue premium/discount of \$_____ and less an Underwriters' discount of \$_____.

The 2013 Certificates shall be issued in the aggregate principal amount of \$_____. The purchase price for the 2013 Certificates is \$_____, representing the principal amount of the 2013 Certificates plus/less original issue premium/discount of \$_____ less an Underwriters' discount of \$_____.

The 2013B Bonds shall be issued in the aggregate principal amount of \$_____. The purchase price for the 2013B Bonds is \$_____, representing the principal amount of the 2013B Bonds plus/less original issue premium/discount of \$_____ and less an Underwriters' discount of \$_____.

The Obligations shall be as described in, and shall be issued and secured under and pursuant to the provisions of the applicable Ordinances.

As further described in the Ordinances, proceeds of the sale of the 2013A Bonds and the 2013B Bonds may be used for one or more of the following purposes: (i) refunding and defeasing certain of the City's outstanding public improvement bonds and other tax-supported obligations of the City (collectively, the "Refunded Bonds"), (ii) refunding and defeasing certain of the City's outstanding general obligation commercial paper notes (the "Refunded Notes" and together with the Refunded Bonds, the "Refunded Obligations") and (iii) paying the costs of issuance related to the 2013A Bonds and the 2013B Bonds, all under and pursuant to the authority of Chapters 1201 and 1207, Texas Government Code, and all other applicable laws.

As further described in the Ordinances, proceeds of the sale of the 2013 Certificates maybe be used for one or more of the following purposes: (i) demolishing dangerous structures within the City and other professional services related to such purposes and (ii) paying the costs of issuance related to the 2013 Certificates, all under and pursuant to the authority of Chapter 271, Texas Government Code, and all other applicable laws.

2. **Public Offering.** The Underwriters agree to make a bona fide public offering of all the Obligations at the initial offering prices set forth on the inside cover pages of the Final Official Statement; provided, however, that the Underwriters may change such initial offering price or prices as they deem necessary in connection with the offering of the Obligations without any requirement of prior notice, and may offer and sell the Obligations to certain institutions (including dealers depositing the Obligations into investment trusts) at prices lower than those stated in the Official Statement. The Underwriters also reserve the right to: (i) over-allot or effect transactions that stabilize or maintain the market price of the Obligations at levels above those that might otherwise prevail in the open market, and (ii) discontinue such stabilizing, if commenced, at any time without prior notice; provided, however that no such actions shall effect the certification of original issue price of the Obligations as provided below. On or before the Closing, the Representative shall execute a certificate, in form and substance mutually acceptable to Co-Bond Counsel (as defined herein) and the Underwriters, verifying the initial offering prices to the public at which a substantial amount of each stated maturity of the Obligations were sold to the public.

3. **Official Statement.**

(a) The Issuer previously has delivered copies of the Preliminary Official Statement dated April __, 2013 (the "Preliminary Official Statement"), to the Underwriters in a "designated electronic format," as defined in the Municipal Securities Rulemaking Board's ("MSRB") Rule G-32 ("Rule G-32"). The Issuer will prepare or cause to be prepared a final Official Statement relating to the Obligations, which will be (1) dated the date of this Purchase Agreement, (2) complete within the meaning of the United States Securities and Exchange Commission's Rule 15c2-12, as amended (the "Rule"), and (3) substantially in the form of the most recent version of the Preliminary Official Statement provided to the Underwriters before the execution hereof and (4) in both a "designated electronic format" consistent with the requirements of Rule G-32 and in a printed format. Such final Official Statement, including the cover page thereto, all exhibits, appendices, maps, charts, pictures, diagrams, reports, and statements included or incorporated therein or attached thereto, and all amendments and supplements thereto that may be authorized for use with respect to the Obligations, is herein referred to as the "Official Statement." Until the Final Official Statement has been prepared and is available for distribution, the Issuer shall provide to the Underwriters sufficient quantities of the Preliminary Official Statement (which may be in electronic form) as the Underwriters reasonably deem necessary to satisfy the obligation of the Underwriters under the Rule with respect to distribution to each potential customer, upon request, of a copy of the Preliminary Official Statement.

(b) The Preliminary Official Statement has been prepared by the Issuer for use by the Underwriters in connection with the public offering, sale and distribution of the Obligations. The Issuer hereby represents and warrants that (a) the Preliminary Official Statement was "deemed final" by the Issuer as of its date for purposes of the Rule, except for the omission of

such information which is dependent upon the final pricing of the Obligations for completion, all as permitted to be excluded by Section (b)(1) of the Rule; and (b) that the Issuer will not supplement or amend the Preliminary Official Statement without the prior written consent of the Representative on behalf of the Underwriters.

(c) The Issuer represents and warrants that it has reviewed and approved the information in the Official Statement and the Issuer hereby authorizes the distribution and use of the Official Statement, and the information therein contained, by the Underwriters in connection with the public offering and the sale of the Obligations. The Issuer ratifies and consents to the distribution and use by the Underwriters prior to the date hereof of the Preliminary Official Statement in connection with the public offering and sale of the Obligations. The Issuer shall provide, or cause to be provided, to the Underwriters as soon as practicable after the date of the Issuer's acceptance of this Purchase Agreement (but, in any event, not later than within seven business days after the Issuer's acceptance of this Purchase Agreement and in sufficient time to accompany any confirmation that requests payment from any customer) copies of the Official Statement which is complete as of the date of its delivery to the Underwriters (i) in a "designated electronic format" consistent with the requirements of Rule G-32 and (ii) in a printed format in such quantity as the Representative shall reasonably request in order for the Underwriters to comply with Section (b)(4) of the Rule and the rules of the MSRB. The Issuer hereby confirms that it does not object to the distribution of the Preliminary Official Statement or the Official Statement in electronic form.

(d) If, after the date of this Purchase Agreement to and including the date the Underwriters are no longer required to provide an Official Statement to potential customers who request the same pursuant to the Rule (the earlier of (i) 90 days from the "end of the underwriting period" (as defined in Rule) and (ii) the time when the Official Statement is available to any person from the MSRB, but in no case less than 25 days after the "end of the underwriting period" for the Obligations), the Issuer becomes aware of any fact or event which might or would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or if it is necessary to amend or supplement the Official Statement to comply with law, the Issuer will notify the Representative (and for the purposes of this clause provide the Representative with such information as it may from time to time request), and if, in the reasonable opinion of the Representative, such fact or event requires preparation and publication of a supplement or amendment to the Official Statement, the Issuer will forthwith prepare and furnish, at the Issuer's own expense (in a form and manner approved by the Representative), a reasonable number of copies of either amendments or supplements to the Official Statement so that the statements in the Official Statement as so amended and supplemented will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading or so that the Official Statement will comply with law; provided, however, that for all purposes of this Purchase Agreement and any representation, warranty or covenant made herein, or any certificate delivered by the Issuer in accordance herewith, the Issuer makes no representations with respect to the descriptions in the Preliminary Official Statement or the Official Statement of The Depository Trust Company, New York, New York ("DTC"), or its book-entry-only system. If such notification shall be subsequent to the Closing, the Issuer shall furnish such legal opinions, certificates, instruments and other

documents as the Representative may reasonably deem necessary to evidence the truth and accuracy of such supplement or amendment to the Official Statement. The Issuer shall provide any such amendment or supplement, or cause any such amendment or supplement to be provided, (i) in a “designated electronic format” consistent with the requirements of Rule G-32 and (ii) in a printed format in such quantity as the Representative shall reasonably request in order for the Underwriters to comply with Section (b)(4) of the Rule and the rules of the MSRB.

(e) The Representative hereby agrees to timely file, or cause to be filed, the Official Statement (and any amendment or supplement to the Official Statement prepared in accordance with Section 3(d) above) with (i) the MSRB or its designee (including the MSRB’s Electronic Municipal Market Access System) or (ii) other repositories approved from time to time by the United States Securities and Exchange Commission (either in addition to or in lieu of the filing referred to in clause (i) above). Unless otherwise notified in writing by the Representative, the Issuer can assume that the “end of the underwriting period” for purposes of the Rule is the date of the Closing.

(f) The Issuer has agreed in the Ordinances to provide certain periodic information and notices of material events in accordance with the Rule as described in the Official Statement under “CONTINUING DISCLOSURE OF INFORMATION.” The Underwriters’ obligation to accept and pay for the Obligations is conditioned upon the Representative’s review and approval of a certified copy of the Ordinances containing the agreements described under such heading.

(g) To the knowledge and belief of the Issuer, the Official Statement contains information, including financial information or operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Obligations. Except as otherwise provided in the Official Statement, during the last five years the Issuer has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

4. **Good Faith Check.** In connection with the execution of this Purchase Agreement, the Representative, on behalf of the Underwriters, has delivered to the Issuer a corporate check of the Representative payable to the Issuer, in the amount of \$_____ as security for the performance by the Underwriters of their obligations to accept and pay for the Obligations at the Closing (described below) in accordance with the provisions of this Purchase Agreement. Such check shall be held by the Issuer uncashed until the Closing. At the Closing, such check shall be returned to the Representative upon receipt by or on behalf of the Issuer of the purchase price for the Obligations. In the event the Issuer fails to deliver the Obligations at the Closing, or if the Issuer shall be unable to satisfy the conditions to the Obligations of the Underwriters contained in this Purchase Agreement, or if such Obligations shall be terminated for any reason permitted by this Purchase Agreement, such check shall be returned to the Representative within two (2) business days of such event. In the event that the Underwriters fail (other than for a reason permitted under this Purchase Agreement) to accept and pay for the Obligations at the Closing, such check shall be retained and may be cashed by the Issuer as and for full liquidated damages for such failure for any and all defaults hereunder on the part of the Underwriters, and the cashing of such check and retention of such proceeds shall constitute a full release and discharge of all claims and rights hereunder against the Underwriters.

5. **Representations and Warranties of the Issuer.** The Issuer represents and warrants to the Underwriters that:

(a) The Issuer is a home rule city operating as such under the Constitution and laws of the State of Texas (the “State”), and the Issuer is authorized by the Applicable Law, among other things, (i) to issue the Obligations for the purposes described in the Ordinances and (ii) to secure the Obligations in the manner described in the Ordinances and as described in the Official Statement.

(b) The Issuer has the full legal right, power, and authority (i) to adopt the Ordinances authorizing the issuance of and awarding the sale of the Obligations; (ii) to authorize the Mayor, the City Controller or such other officers designated in the Ordinances to execute the Pricing Certificates awarding the sale of the Obligations; (iii) to enter into this Purchase Agreement; (iv) to issue, sell, and deliver the Obligations to the Underwriters as provided herein; and (v) to carry out and consummate all other transactions described in each of the aforesaid documents, and the Issuer has complied in all material respects with all provisions of applicable law in all matters relating to such transactions.

(c) The Issuer has duly authorized (i) the execution and delivery of the Obligations and the execution, delivery, and due performance of this Purchase Agreement; (ii) the distribution and use of the Preliminary Official Statement and the Official Statement; and (iii) the taking of any and all such actions as may be required on the part of the Issuer to carry out, give effect to, and consummate the transactions described in such instruments. All consents or approvals necessary to be obtained by the Issuer in connection with the foregoing have been received or will be received prior to, or in connection with, the Closing, and the consents or approvals so received are still in full force and effect.

(d) (i) The Ordinances have been duly adopted by the Issuer, are in full force and effect, and constitute the valid, legal and binding acts of the Issuer; (ii) this Purchase Agreement, the Refunded Bond Escrow Agreement and the Refunded Notes Escrow Agreement (collectively, the “Refunded Obligations Escrow Agreement”) when executed and delivered, will constitute legal, valid, and binding obligations of the Issuer; and (iii) the Ordinances, including but not limited to the continuing disclosure undertaking included therein, the Refunded Obligations Escrow Agreement, and this Purchase Agreement are enforceable against the Issuer in accordance with their respective terms, except as enforceability thereof may be limited by bankruptcy, insolvency, or other laws affecting creditors’ rights generally.

(e) When delivered to the Underwriters, the Obligations will have been duly authorized, executed, authenticated, issued, and delivered and will constitute legal, valid, and binding special obligations of the Issuer in conformity with the laws of the State and will be entitled to the benefit and security of the Ordinances.

(f) As of its date, the Preliminary Official Statement did not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(g) At the time of the Issuer's acceptance hereof and (unless the Official Statement is amended or supplemented pursuant to paragraph (d) of Section 3 of this Purchase Agreement) at all times subsequent thereto during the period up to and including the date of Closing, the Official Statement does not and will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(h) If the Official Statement is supplemented or amended pursuant to paragraph (d) of Section 3 of this Purchase Agreement, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such paragraph) at all times subsequent thereto during the period up to and including the date of Closing, the Official Statement as so supplemented or amended will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which made, not misleading.

(i) The adoption of the Ordinances (and the City's continuing disclosure undertaking included therein), the execution and delivery of this Purchase Agreement, the Pricing Certificates, or the Obligations, the consummation of the transactions described herein or therein or the compliance with the provisions hereof or thereof will not conflict with or constitute on the part of the Issuer a violation of, or a breach of or default under, (i) any statute, indenture, mortgage, commitment, note, or other agreement or instrument to which the Issuer is a party or by which it is bound; (ii) any provision of the State Constitution; or (iii) any existing law, rule, regulation, charter provision, ordinance, judgment, order, or decree to which the Issuer (or the members of the City Council, or any of its officers in their respective capacities as such) is subject; and except as described in the Official Statement, the Issuer has not entered into any contract or arrangement of any kind which might give rise to any lien or encumbrance on the revenues pledged to the payment of the Obligations superior to or on a parity with the pledge securing the payment of the Obligations.

(j) Except as may be disclosed in the Official Statement, the Issuer is not, in any material respect that would adversely affect the validity or marketability of the Obligations, in breach of or default under any applicable law or administrative regulation of the State or any department, division, agency, or instrumentality thereof, or of the United States or any agency or instrumentality thereof or any applicable judgment or decree or any loan agreement, note, resolution, certificate, agreement, or other instrument to which the Issuer is a party or is otherwise subject.

(k) Except as is specifically disclosed in the Official Statement, there is no action, suit, proceeding, inquiry, or investigation, at law or in equity, before or by any court, public board, or body or, to the best knowledge of the Issuer after due inquiry, threatened against the Issuer, affecting the existence of the Issuer or the titles of its officers to their respective offices or affecting or seeking to prohibit, restrain or enjoin the (i) sale issuance or delivery of the Obligations, (ii) the collection of the ad valorem taxes pledged to the payment of the principal of and interest on the Obligations pursuant to the Ordinances, or (iii) the application of the ad valorem taxes collected pursuant to the Ordinances, nor is there any such action, suit, proceeding, inquiry or investigation which in any way questions the powers of the Issuer referred to in paragraph (b) above, or the validity of any proceeding taken by the Issuer in connection

with the issuance of the Obligations, or wherein an unfavorable decision, ruling, or finding could materially adversely affect the transactions described in this Purchase Agreement, or of any other document or instrument required or described in this Purchase Agreement, or which, in any way, could adversely affect the validity or enforceability of the Ordinances (and the City's continuing disclosure undertaking included therein), the Obligations, or this Purchase Agreement, or, to the knowledge of the Issuer, which in any way questions the exclusion from gross income of the recipients thereof of the interest on the Tax-Exempt Obligations for federal income tax purposes, or, to the knowledge of the Issuer, which in any way questions the status of the Tax-Exempt Obligations under federal or State tax laws or regulations.

(l) Any certificate signed by an official of the Issuer and delivered to the Underwriters shall be deemed a representation and warranty by the Issuer, as appropriate, to the Underwriters as to the truth of the statements therein contained.

(m) The Issuer has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that it is a bond issuer whose arbitrage certifications may not be relied upon.

(n) The Issuer will not knowingly take or omit to take any action, which action or omission will in any way cause the proceeds from the sale of the Obligations to be applied in a manner other than as provided in the Ordinances.

(o) To the best of the knowledge of the Issuer, the financial statements of the Issuer included in Appendix A to the Official Statement present fairly the financial position and the results of operations of the Issuer at the respective dates and for the respective periods indicated therein, in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods presented.

(p) As of the date of the Closing, there will not be any material adverse change in the financial position, results of operations, or condition, financial or otherwise, of the Issuer from that described in the Official Statement other than in the ordinary course of business or as may be otherwise disclosed to the Underwriters in accordance with this Purchase Agreement.

(q) The Issuer covenants that between the date hereof and the Closing it will take no actions which will cause the representations and warranties made in this Section to be untrue as of the date of Closing.

(r) The Issuer, to the extent heretofore requested in writing by the Representative, has delivered to the Representative true, correct, complete, and legible copies of all information, applications, reports, or other documents of any nature whatsoever submitted to any rating agency for the purpose of obtaining a rating for the Obligations and true, correct, complete, and legible copies of all correspondence or other communications relating, directly or indirectly, thereto.

6. **Covenants of the Issuer.** The Issuer covenants with the Underwriters as follows:

(a) The Issuer will cooperate, at no expense to the Issuer, with the Underwriters in qualifying the Obligations for offer and sale under the securities or Blue Sky laws of such

jurisdictions of the United States as the Representative may request; provided, however, that the Issuer shall not be required to consent to suit or to service of process in any jurisdiction. The Issuer consents to the use by the Underwriters in the course of their compliance with the securities or Blue Sky laws of the various jurisdictions of the documents relating to the Obligations, subject to the right of the Issuer to withdraw such consent for cause by written notice to the Representative.

(b) To advise the Representative immediately of receipt by the Issuer of any notification with respect to the suspension of the qualification of the Obligations for sale in any jurisdiction or the initiation or threat of any proceeding for that purpose.

7. **Closing.** At or before 12:00 p.m., Houston, Texas time on May [16], 2013 or at such other time and/or date as shall have been mutually agreed upon by the Issuer and the Representative, at the offices of Bracewell & Giuliani LLP, the Issuer will deliver, or cause to be delivered, to the Underwriters, the Obligations. The payment for the Obligations and simultaneous delivery of the Obligations to the Underwriters is herein referred to as a "Closing."

On the date of the Closing, the Issuer shall deliver the Obligations together with the other documents hereinafter mentioned and, provided the Underwriters have made arrangements with DTC, for the Obligations to be book-entry only securities, the Issuer shall take appropriate steps to provide DTC with one or more definitive bonds for each year of maturity of such Obligations (in the amounts provided in Section 1 hereof), and the Underwriters will accept such delivery and pay the purchase price of such Obligations by making a federal funds wire transfer to the City as more fully described in the Ordinances and the closing memorandum prepared for the Closing. Unless otherwise agreed to by the Representative, the Obligations will be delivered under DTC's FAST delivery system or through the Euroclear System and Clearstream in Luxembourg, as applicable. Upon receipt of such payment and at the Closing, the Issuer immediately shall return to the Representative the good-faith check described in Section 4 hereof.

The activities relating to the final execution and delivery of the Obligations and the payment therefor and the delivery of the certificates, opinions, and other instruments as described in Section 8 of this Purchase Agreement shall occur at the offices of Bracewell & Giuliani LLP in Houston, Texas, or such other place as shall have been mutually agreed upon by the Issuer and the Representative.

8. **Closing Conditions.** The obligations of the Underwriters to purchase the Obligations shall be subject (a) to the performance by the Issuer of its obligations to be performed hereunder at and prior to the Closing, (b) to the accuracy, in all material respects, of the representations and warranties of the Issuer herein as of the date hereof and as of the time of the Closing, and (c) to the following conditions, including the delivery by the Issuer of such documents as are enumerated herein in form and substance reasonably satisfactory to Co-Bond Counsel (named below), Special Disclosure Co-Counsel (named below) and Andrews Kurth LLP of Houston, Texas, as counsel to the Underwriters (the "Underwriters' Counsel"):

(a) At the time of the Closing, (i) the Official Statement, this Purchase Agreement, the Pricing Certificates, the Ordinances, and the Refunded Obligations Escrow Agreement shall

be in full force and effect and shall not have been amended, modified, repealed, or supplemented from the date hereof except as may have been agreed to in writing by the Representative; (ii) the proceeds of the sale of the Obligations shall be deposited and applied as described in the Ordinances and the Pricing Certificates; and (iii) the Issuer shall have duly adopted and there shall be in full force and effect such ordinances or resolutions as, in the opinion of Bracewell & Giuliani LLP and Baker Williams Matthiesen LLP, both of Houston, Texas, as co-bond counsel (“Co-Bond Counsel”), shall be necessary in connection with the transactions described herein.

(b) The Issuer shall not have failed to pay principal or interest when due on any of its outstanding obligations for borrowed money payable from ad valorem taxes.

(c) All steps to be taken and all instruments and other documents to be executed, and all other legal matters in connection with the transactions described in this Purchase Agreement shall be reasonably satisfactory in legal form and effect to the Representative, Co-Bond Counsel and counsel to the Underwriters.

(d) At or prior to the Closing, the Representative shall receive the following executed or certified documents in such number or counterparts as shall be mutually agreeable to the Issuer, Underwriters’ Counsel, and Co-Bond Counsel:

(1) The Obligations, the Ordinances (containing the agreement to provide continuing disclosure of information as described in the Official Statement), and the Pricing Certificates;

(2) Final opinions of Co-Bond Counsel dated the date of Closing, in substantially the forms set forth as Appendix C-1 and C-2 to the Official Statement;

(3) A letter of Co-Bond Counsel addressed to the Underwriters and dated the date of Closing, to the effect that Co-Bond Counsel’s final opinions referred to in Section 8(d)(2) hereof and being delivered on such date may be relied upon by the Underwriters to the same extent as if such opinion was addressed to the Underwriters;

(4) A supplemental opinion of Co-Bond Counsel addressed to the Underwriters and dated the date of Closing, in substantially the form set forth in Exhibit C hereto;

(5) An opinion of Haynes and Boone, LLP and Bratton & Associates, both of Houston, Texas, Special Disclosure Co-Counsel to the Issuer (“Special Disclosure Co-Counsel”), addressed to the Underwriters, substantially in the form of Exhibit D attached hereto;

(6) Certificates signed by an authorized officer of the Issuer as prepared by Co-Bond Counsel setting forth facts, estimates, and circumstances in existence on the date of Closing, which facts, estimates, and circumstances shall be sufficiently set forth therein to support the conclusion that it is not expected that the proceeds of the Tax-Exempt Obligations will be used in a manner or that the Issuer will take any action or omit to take any action that would cause the Tax-Exempt Obligations to be “arbitrage bonds” within the meaning of the Internal Revenue Code of 1986, as amended (the

“Code”), and the regulations, temporary regulations, and proposed regulations promulgated under the Code, and stating that to the best knowledge and belief of such officer there are no other facts, estimates, or circumstances that would materially affect such expectations;

(7) A survey from Underwriters’ Counsel addressed to the Underwriters indicating the jurisdictions in which the Obligations have been qualified or exempt under the securities or “Blue Sky” laws;

(8) An opinion of Underwriters’ Counsel in substantially the form set forth in Exhibit F hereto;

(9) The approving opinions of the Attorney General of Texas with respect to the Obligations;

(10) The registration certificate of the Comptroller of Public Accounts of the State of Texas with respect to the Obligations;

(11) The Official Statement;

(12) Specimen Obligations;

(13) An executed copy of the Refunded Obligations Escrow Agreement;

(14) Letters from Fitch Ratings and Standard and Poor’s Financial Services LLC Business to the effect that the Obligations have been assigned ratings of “___” and “___”;

(15) A copy of an awareness letter from Deloitte & Touche LLP, independent certified public accountants and auditors acknowledging the inclusion in the Preliminary Official Statement and the Official Statement of the audited financial statements of the Issuer and its report thereon, for the fiscal year ended June 30, 2012;

(16) A certificate, in form and substance reasonably satisfactory to the Representative and Underwriters’ Counsel, of the Issuer or any duly authorized officer or official of the Issuer satisfactory to the Representative and Underwriters’ Counsel, dated as of the Closing, to the effect that: (i) each of the Issuer’s representations, warranties, and covenants contained herein are true and correct in all material respects as of the Closing; (ii) the Issuer has authorized, by all action necessary under the Applicable Law and the laws and Constitution of the State, the adoption of the Ordinances, and the execution, delivery, and due performance of the Obligations, this Purchase Agreement, the Pricing Certificates and the Refunded Obligations Escrow Agreement; (iii) no litigation is pending, or to the knowledge of the officer or official of the Issuer signing the certificate threatened, to restrain or enjoin the issuance or sale of the Obligations or in any way affecting any authority for or the validity of the Ordinances, the Obligations, this Purchase Agreement, the Pricing Certificates and the Refunded Obligations Escrow Agreement; (iv) the Obligations, this Purchase Agreement, the Pricing Certificates and the Refunded Obligations Escrow Agreement are in the form or in substantially the form

approved for such execution by appropriate proceedings of the Issuer; (v) since June 30, 2012 there has not been any material adverse change in the properties, financial position, or results of operations of the Issuer, whether or not arising from transactions in the ordinary course of business, other than as set forth in the Official Statement or as otherwise disclosed to the Underwriters pursuant to this Purchase Agreement; (vi) the information contained in the Official Statement relating to the Issuer, its organization, activities, properties, and financial condition, is true and correct in all material respects and does not contain any untrue or incorrect statement of a material fact and does not omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading;

(17) A Receipt and Cross Receipt, dated the date of Closing, of the Issuer and the Underwriters as to the receipt of the Obligations and the payment therefor;

(18) To the extent proceeds of the Obligations are used to refund and defease the Refunded Obligations, a copy of the verification report prepared by Grant Thornton L.L.P., addressed to the Issuer, Co-Bond Counsel, and the Underwriters verifying the arithmetical computations of the adequacy of the maturing principal and interest on the escrowed securities and uninvested cash on hand to pay, when due, the principal of and interest on the Refunded Obligations and the computation of the yield with respect to such securities and the Obligations; and

(19) Such additional legal opinions, certificates, proceedings, instruments, and other documents as Underwriters' Counsel or Co-Bond Counsel may reasonably request to evidence compliance by the Issuer with legal requirements, the truth and accuracy, as of the time of Closing, of the representations of the Issuer herein contained, and the due performance or satisfaction by the Issuer at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the Issuer.

If the Issuer shall be unable to satisfy the conditions to the obligations of the Underwriters contained in this Purchase Agreement, or if the obligations of the Underwriters to purchase and accept delivery of the Obligations shall be terminated for any reason permitted by this Purchase Agreement, the good faith check described in Section 4 hereof shall be returned to the Representative, this Purchase Agreement shall terminate, and neither the Underwriters nor the Issuer shall be under further obligation hereunder; except that the respective obligations to pay expenses, as provided in Section 12 hereof, shall continue in full force and effect.

9. **Cancellation Rights.** The Representative shall have the right to cancel the Underwriters' obligations to purchase the Obligations if between the date hereof and the date of Closing one or more of the following events shall have occurred:

(a) the House of Representatives or the Senate of the Congress of the United States, or a committee of either, shall have pending before it, or shall have passed or been recommended favorably, legislation introduced after the date hereof, which legislation, if enacted in its form introduced or as amended, would have the purpose or effect of imposing federal income taxation upon revenues or other income of the general character to be derived by the Issuer, or by any similar body, or upon interest received on obligations of the general character of the Tax-Exempt

Obligations to be includable in gross income for purposes of federal income taxation, and such legislation, in the Representative's reasonable opinion, materially adversely affects the market price of, or market for, the Tax-Exempt Obligations; or

(b) a decision with respect to legislation shall be reached by a committee of the House of Representatives or the Senate of the Congress of the United States, or legislation shall be favorably reported by such a committee or be introduced, by amendment or otherwise, in or be passed by the House of Representatives or the Senate, or recommended to the Congress of the United States for passage by the President of the United States, or be enacted, or a decision by a federal court of the United States or the United States Tax Court shall have been rendered, or a ruling, release, order, regulation or official statement by or on behalf of the United States Treasury Department, the Internal Revenue Service, or other governmental agency shall have been made or proposed to be made having the purpose or effect, or any other action or event shall have occurred which has the purpose or effect, directly or indirectly, of adversely affecting the federal income tax consequences of owning the Tax-Exempt Obligations, or of any of the transactions contemplated in connection herewith, including causing interest on the Tax-Exempt Obligations, to be included in gross income for purposes of federal income taxation, or imposing federal income taxation upon revenues or other income of the general character to be derived by the Issuer, or by any similar body, which, in the Representative's reasonable opinion, materially adversely affects the market price of, or market for, the Tax-Exempt Obligations; or

(c) legislation shall have been enacted, or actively considered for enactment with an effective date prior to Closing, or a decision by a court of the United States shall have been rendered, the effect of which is that the Obligations, including any underlying obligations, or the Ordinances, as the case may be, are not exempt from the registration, qualification, or other requirements of the Securities Act of 1933, as amended and as then in effect, the Securities Exchange Act of 1934, as amended and as then in effect, or the Trust Indenture Act of 1939, as amended and as then in effect; or

(d) a stop order, ruling, regulation, or official statement by the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, shall have been issued or made, or any other event occurs, the effect of which is that the issuance, offering, or sale of the Obligations, including any underlying obligations, or the execution and delivery of the Ordinances, as contemplated hereby or by the Official Statement is, or would be, in violation of any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, the Securities Exchange Act of 1934, as amended and as then in effect, or the Trust Indenture Act of 1939, as amended and as then in effect; or

(e) (i) the Constitution of the State shall be amended or an amendment shall be proposed, or (ii) legislation shall be enacted, or (iii) a decision shall have been rendered as to matters of State law, or (iv) any order, ruling or regulation shall have been issued or proposed by or on behalf of the State by an official, agency or department thereof, affecting the tax status of the Issuer, its property or income, its notes or bonds or the interest thereon, which in the reasonable judgment of the Representative would make it impracticable to market the Obligations on the terms and in the manner contemplated in the Official Statement; or

(f) there shall exist any event or circumstance that either makes untrue or incorrect any statement of a material fact in the Official Statement (other than any statement provided by the Underwriters) or is not reflected in the Official Statement but should be reflected therein in order to make the statements therein, in light of the circumstances under which they were made, not misleading and, in either such event, the City refuses to permit the Official Statement to be supplemented to supply such statement or information, or the effect of the Official Statement as so supplemented is, in the reasonable judgment of the Representative, to materially adversely affect the market price or marketability of the Obligations; or

(g) There shall have occurred any (i) new material outbreak of hostilities (including, without limitation, an act of terrorism), or (ii) new material other national or international calamity or crisis, or any material adverse change in the financial or economic conditions affecting the United States, including, but not limited to, an escalation of hostilities that existed prior to the date hereof and the effect of any such event on the financial markets of the United States, shall be such as would make it impracticable, in the reasonable judgment of the Representative, for the Underwriters to sell the Obligations on the terms and in the manner described in the Preliminary Official Statement; or

(h) Any state blue sky or securities commission or other governmental agency or body in a state in which fifteen percent (15%) or more of the Obligations have been sold shall have withheld registration, exemption or clearance of the offering of the Obligations as described herein, or issued a stop order or similar ruling relating thereto, provided that such withholding or stop order is not due to the malfeasance, misfeasance or nonfeasance of the Underwriters; or

(i) there shall be in force a general suspension of trading on the New York Stock Exchange, the NYSE Amex Equities or any other major exchange, the effect of which on the financial markets of the United States is such, in the reasonable judgment of the Representative, would materially adversely affect the market price of, or market for, the Obligations; or

(j) a general banking moratorium shall have been declared by federal, New York, or State authorities; or

(k) any proceeding shall be pending by the Securities and Exchange Commission against the Issuer, which in the reasonable judgment of the Representative materially adversely affects the market price or marketability of the Obligations; or

(l) additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange, which in the reasonable judgment of the Representative materially adversely affects the market price or marketability of the Obligations; or

(m) a material disruption in securities settlement, payment, or clearance services affecting any municipal securities shall have occurred that would make it impracticable for the Underwriters to market the Obligations on the terms and in the manner contemplated by the Official Statement; or

(n) the purchase of and payment for the Obligations by the Underwriters, or the resale of the Obligations by the Underwriters, on the terms and conditions herein provided shall be prohibited by any applicable law, governmental authority, board, agency or commission; or

(o) any new restriction on transactions in securities materially affecting the market for securities (including the imposition of any limitation on interest rates) or the extension of credit by, or a charge to the net capital requirements of, underwriters shall have been established by the New York Stock Exchange, the SEC, any other federal or State agency or the Congress of the United States, or by Executive Order, which in the reasonable judgment of the Representative materially adversely affects the market price or marketability of the Obligations.

10. **Issuer Obligations Subject to Performance by Underwriters.** The obligations of the Issuer hereunder are subject to the performance by the Underwriters of its obligations hereunder.

11. **Survival of Representations, Warranties, and Agreements.** Unless otherwise set forth herein, all representations, warranties, and agreements of the Issuer shall remain operative and in full force and effect, regardless of any investigations made by or on behalf of the Underwriters or the Issuer and shall survive the Closing.

12. **Expenses.**

(a) The Underwriters shall be under no obligation to pay, and the Issuer shall pay, any expenses incident to the performance of the Issuer's obligations hereunder, including, but not limited to (i) the cost of preparation, printing and delivery of the Official Statement in quantities as reasonably requested by the Underwriters and copies of any supplement or amendments to the Official Statement, (ii) the cost of preparation and printing of the Obligations, (iii) the fees and disbursements of Co-Bond Counsel of the Issuer, (iv) the fees and disbursements of the Issuer's Special Disclosure Co-Counsel, (v) the fees and disbursements of Deloitte & Touche LLP for their services as Independent Accountants of the Issuer; (vi) the fees and disbursements of First Southwest Company and Kipling Jones & Co. (the "Co-Financial Advisors"); (vii) the fees and disbursements of any other accountants, and other experts, consultants or advisers retained by the Issuer; (viii) the fees, if any, for bond ratings; (ix) any Paying Agent/Registrar fees, (x) fees incident to the redemption of the Refunded Obligations, including the cost of the Verification Report, (xi) the out-of-pocket, miscellaneous and closing expenses, including the cost of travel, of the representatives of the Issuer and (xii) any other expenses mutually agreed to by the Issuer and the Representative to be reasonably considered expenses of the Issuer which are incident to the transaction described herein.

(b) The Underwriters shall pay (i) the cost of preparation and printing of this Purchase Agreement, the Agreement Among Underwriters and the Blue Sky Survey, if any; (ii) all advertising expenses in connection with the public offering of the Obligations; and (iii) all other expenses incurred by them or any of them in connection with the public offering of the Obligations, including the fees and disbursements of counsel retained by the Underwriters.

(c) In order to ensure compliance with applicable state and/or local ethics statutes that may apply to representatives of the Issuer as well as federal securities regulations that may apply

to the Underwriters, the Issuer shall be solely responsible for and shall pay for any expenses incurred by the Underwriters on behalf of the Issuer's employees and representatives in connection with this Purchase Agreement, including, but not limited to, meals, transportation, lodging, and entertainment of those employees and representatives. Such payment may be in the form of inclusion of such expenses in the expense component of the Underwriters' discount.

(d) If this Purchase Agreement shall be terminated by the Underwriters because of any failure or refusal on the part of the Issuer to comply with the terms or to fulfill any of the conditions of this Purchase Agreement, or if for any reason the Issuer shall be unable to perform its obligations under this Purchase Agreement, the Issuer will reimburse the Underwriters for all out-of-pocket expenses (including the fees and disbursements of their counsel) reasonably incurred by the Underwriters in connection with this Purchase Agreement or the offering contemplated hereunder.

13. **Other Transactions by Underwriters and Issuer.** The Underwriters or their affiliates may from time to time, in their individual capacity and separate and apart from the transactions contemplated hereby and the compensation provided for herein, sell securities to, provide derivative products to, engage in swaps with, and enter into other transactions with the Issuer, or its agents acting in its behalf, and shall be entitled to retain any compensation or profits inuring to the Underwriters or its affiliates in connection therewith as approved by the Issuer.

14. **Notices.** Any notice or other communication to be given to the Issuer under this Purchase Agreement may be given by delivering the same in writing at its address set forth above, Attention: City Secretary, with a copy to (i) the City Attorney and (ii) the Director, Department of Finance; and any notice or other communication to be given to the Underwriters under this Purchase Agreement may be given by delivering the same in writing to Rice Financial Products Co., 333 Clay Street, Suite 3010, Houston, TX 77002, Attention: Karlos Allen or Leonard Jones.

15. **No Recourse Against Individuals.** No recourse shall be had for payment of the principal of or interest on any Obligations or for any claim based thereon, against any official or employee of the Issuer or any person executing any Obligations.

16. **Parties in Interest.** This Purchase Agreement is made solely for the benefit of the Issuer and the Underwriters (including the successors or assigns of the Underwriters) and no other person, including any purchaser of the Obligations, shall acquire or have any right hereunder or by virtue hereof.

17. **Effectiveness.** This Purchase Agreement shall become effective upon the acceptance hereof by the Issuer and shall be valid and enforceable at the time of such acceptance.

18. **Entire Agreement.** This Purchase Agreement constitutes the entire agreement between the parties hereto with respect to the matters covered hereby, and supersedes all prior agreements and understandings between the parties. This Purchase Agreement shall only be amended, supplemented or modified in a writing signed by both of the parties hereto.

19. **Governing Law.** This Purchase Agreement shall be governed by and construed in accordance with the laws of the State of Texas and the United States of America.

20. **Severability.** If any provision of this Purchase Agreement shall be held or deemed to be or shall, in fact, be invalid, inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions, or in all jurisdictions because it conflicts with any provisions of any Constitution, statute, rule of public policy, or any other reason, such circumstances shall not have the effect of rendering the provision in question invalid, inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions of this Purchase Agreement invalid, inoperative or unenforceable to any extent whatever.

21. **Section Headings.** Headings have been inserted in this Purchase Agreement as a matter of convenience of reference only, and it is agreed that such section headings are not a part of this Purchase Agreement and will not be used in the interpretation of any provisions of this Purchase Agreement.

22. **Counterparts.** This Purchase Agreement may be executed in several counterparts, each of which shall be regarded as an original and all of which shall constitute one and the same document. This Purchase Agreement shall become effective upon the execution of the acceptance hereof by the officially authorized and designated officers of the Issuer shown below and shall be valid and enforceable as of the time of such acceptance.

[Execution pages to follow]

Very truly yours,

By: RICE FINANCIAL PRODUCTS COMPANY,
Individually and as Representative of the
following Underwriters:

BARCLAYS CAPITAL, INC.
WELLS FARGO BANK, NATIONAL
ASSOCIATION
BACKSTROM MCCARLEY BERRY &
CO., LLC

By: _____
Authorized Signatory of Representative

[Signature Page to the Purchase Agreement]

Accepted and agreed to as
of the date first written above:

CITY OF HOUSTON, TEXAS

By: _____
Annise D. Parker, Mayor

ATTEST:

COUNTERSIGNED:

By: _____
Anna Russell, City Secretary

By: _____
Ronald C. Green, City Controller

[Signature Page to the Purchase Agreement]

EXHIBIT A
PRICING CERTIFICATES

EXHIBIT B

RESERVED.

EXHIBIT C

FORM OF SUPPLEMENTAL OPINION OF CO-BOND COUNSEL

BRACEWELL & GIULIANI LLP
711 LOUISIANA STREET, SUITE 2300
HOUSTON, TEXAS 77002

BAKER WILLIAMS MATTHIESEN LLP
1177 WEST LOOP SOUTH, SUITE, 1600
HOUSTON, TEXAS 77027

April ____, 2013

Rice Financial Products Company
as Representative for the Underwriters
333 Clay Street, Suite 3010
Houston, Texas 77002

Re: City of Houston, Texas Public Improvement Refunding Bonds, Series 2013A; City of Houston, Texas Taxable Public Improvement Refunding Bonds, Series 2013B; and City of Houston, Texas Certificates of Obligation (Demolition Program), Series 2013A (collectively, the "Obligations")

Ladies and Gentlemen:

This opinion is being rendered pursuant to the Purchase Agreement, dated April ____, 2013 (the "Purchase Agreement"), between Rice Financial Products Company, as Representative of the Underwriters named in the Purchase Agreement (the "Underwriters"), and the City of Houston, Texas (the "City") relating to the issuance, sale, and delivery by the City to the Underwriters of the Obligations. Except as otherwise defined herein, the terms defined in the Purchase Agreement are used in this opinion with the meanings assigned to them in the Purchase Agreement.

We have acted as Co-Bond Counsel to the City in connection with the issuance, sale, and delivery of the Obligations to the Underwriters. In our capacity as Co-Bond Counsel, we have examined a transcript of certain materials and proceedings pertaining to the Obligations, including certain certified and original proceedings of the City, and customary certificates, opinions, affidavits, and other documents executed by officers, agents, and representatives of the City and others. In our capacity as Co-Bond Counsel, we have also attended meetings of the City and have participated in conferences from time to time with representatives of the City, the Co-Financial Advisors, Special Disclosure Co-Counsel and Underwriters relative to the Official Statement.

In our examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents.

Based upon the foregoing, we are of the opinion that, under applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Obligations are exempted securities under the Securities Act of 1933, as amended (the "1933 Act"), and the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), and it is not necessary, in connection with the offering and sale of the Obligations, to register the Obligations under the 1933 Act or to qualify the Ordinances under the Trust Indenture Act; and
2. The descriptions and summaries of the Obligations and the Ordinance (as defined in the Official Statement) contained under the headings "PURPOSE AND PLAN OF FINANCING-Series 2013A and Series 2013B Bonds," "THE SERIES 2013 OBLIGATIONS" (except for the information under the subheadings "Transfers and Exchanges" and "Additional Obligations") and "CONTINUING DISCLOSURE OF INFORMATION" (except for the information contained under the subheading "Compliance with Prior Undertakings") in all material respects fairly and accurately describe the provisions of such instruments for the purposes of the Official Statement; and the statements contained in the Official Statement under the captions "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS", "TAX MATTERS FOR THE TAX-EXEMPT OBLIGATIONS", "ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS" and "TAX MATTERS FOR THE SERIES 2013B BONDS" fairly and accurately summarize the law and legal issues addressed therein.

Except as stated above in paragraph 3, we have not assumed responsibility in this opinion with respect to the Official Statement or undertaken to verify the accuracy, completeness, or fairness of the statements contained therein. However, we advise you that in the course of our participation described above, nothing has come to our attention that would cause us to believe that the Official Statement as of its date and as of the date of this opinion (except for the financial statements and other financial, statistical, or technical data, as to which we express no view) contained or contains any untrue statement of a material fact or omitted or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In our capacity as Co-Bond Counsel we have delivered on this date the approving opinion with respect to the Obligations in substantially the form set forth in Appendix C of the Official Statement. The Underwriters may rely on such approving opinion as if it were addressed to them.

In rendering this opinion, we have not represented any of the Underwriters nor rendered any advice to the Underwriters in connection with the Purchase Agreement or the transactions contemplated thereby, other than that set forth herein.

We do not undertake to advise you of matters which may come to our attention subsequent to the date hereof which may affect our legal opinion and conclusions expressed herein, and we call to your attention the fact that our legal opinions and conclusions are an expression of professional judgment and not a guarantee of result. This opinion may not be released to or relied upon by any other person or by you in any other context, without our prior written consent.

EXHIBIT D

OPINION OF SPECIAL DISCLOSURE CO-COUNSEL TO THE ISSUER

[LETTERHEAD OF SPECIAL DISCLOSURE CO-COUNSEL]

EXHIBIT E

FORM OF OPINION OF UNDERWRITERS' COUNSEL



EXHIBIT E

PRELIMINARY OFFICIAL STATEMENT

NEW ISSUES — BOOK-ENTRY ONLY

RATINGS: See "RATINGS" herein

In the opinion of Co-Bond Counsel, under existing law, interest on the Tax-Exempt Obligations is excludable from gross income for federal income tax purposes and the Tax-Exempt Obligations are not "private activity bonds". See "TAX MATTERS FOR THE TAX-EXEMPT OBLIGATIONS" for a discussion of the opinion of Co-Bond Counsel, including a description of alternative minimum tax consequences for corporations.

THE TAX-EXEMPT OBLIGATIONS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

Interest on the Series 2013B Bonds is not excludable from gross income for federal tax purposes under existing law. See "TAX MATTERS FOR THE SERIES 2013B BONDS" herein.



\$ _____ *
CITY OF HOUSTON, TEXAS

\$ _____ *
PUBLIC IMPROVEMENT REFUNDING BONDS, SERIES 2013A

\$ _____ *
TAXABLE PUBLIC IMPROVEMENT REFUNDING BONDS, SERIES 2013B

\$ _____ *
CERTIFICATES OF OBLIGATION (DEMOLITION PROGRAM), SERIES 2013A

Interest Accrual Date: Date of Delivery

CUSIP Prefix: 442331
ISIN Prefix: US442331

Due: March 1; see inside cover pages

This Official Statement is provided to furnish information in connection with the offering by the City of Houston, Texas (the "City") of its Public Improvement Refunding Bonds, Series 2013A (the "Series 2013A Bonds"), its Taxable Public Improvement Refunding Bonds, Series 2013B (the "Series 2013B Bonds"), and its Certificates of Obligation (Demolition Program), Series 2013A (the "Series 2013A Certificates"). The Series 2013A Bonds and the Series 2013A Certificates are collectively referred to herein as the "Tax-Exempt Obligations." The Series 2013A Bonds, the Series 2013B Bonds and the Series 2013A Certificates are collectively referred to herein as the "Series 2013 Obligations." The Series 2013 Obligations are direct obligations of the City, secured by and payable from the receipts of an annual ad valorem tax levied, within legal limits, on taxable property within the City. See "THE SERIES 2013 OBLIGATIONS – Source of Payment." The Series 2013 Obligations are authorized pursuant to the laws of the State of Texas, the City's Charter and ordinances adopted by the City Council of the City authorizing the issuance of the Series 2013 Obligations. See "INTRODUCTION" for a detailed discussion of the laws authorizing the issuance of the Series 2013 Obligations.

Proceeds of the sale of the Series 2013A Bonds and the Series 2013B Bonds will be used to refund and defease certain of the City's outstanding public improvement bonds and other tax-supported obligations of the City (collectively, and as further described herein, the "Refunded Bonds") and certain of the City's outstanding general obligation commercial paper notes (as further described herein, the "Refunded Notes" and, together with the Refunded Bonds, collectively, the "Refunded Obligations") and pay costs of issuance relating to the Series 2013A Bonds and Series 2013B Bonds. Proceeds of the sale of the Series 2013A Certificates will be used to (i) demolish dangerous structures within the City and other professional services related to such purposes and (ii) pay costs of issuance of the Series 2013A Certificates. See "PURPOSE AND PLAN OF FINANCING."

Interest on the Series 2013 Obligations will accrue from the Date of Delivery and will be payable on each September 1 and March 1, commencing September 1, 2013, until maturity or earlier redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bank of New York Mellon Trust Company, N.A., is the initial paying agent/registrars for the Series 2013 Obligations (the "Paying Agent/Registrar").

The Series 2013 Obligations are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2013 Obligations. Individual purchases will initially be made in book-entry form only in denominations of \$5,000 principal amount or any integral multiple thereof. No physical delivery of the Series 2013 Obligations will be made to the owners thereof. See "APPENDIX E," which describes the DTC securities clearance procedures.

The Series 2013A Bonds are subject to optional and mandatory redemption prior to maturity, as described herein. See "THE SERIES 2013 OBLIGATIONS – Optional Redemption – Series 2013A Bonds" and "– Mandatory Redemption." The Series 2013B Bonds are also subject to certain optional make-whole redemption terms. See "THE SERIES 2013 OBLIGATIONS – Optional Redemption – Series 2013B Bonds." The Series 2013A Certificates are not subject to redemption prior to maturity.

SEE INSIDE COVER PAGES FOR MATURITY AND PRICING SCHEDULES.

This cover page is not intended to be a summary of the terms of, or the security for, the Series 2013 Obligations. Investors are advised to read the Official Statement in its entirety to obtain information essential to the making of an informed investment decision.

The Series 2013 Obligations are offered when, as and if issued by the City, subject to the approving opinions of the Attorney General of the State of Texas and the opinions of Bracewell & Giuliani LLP and Baker Williams Matthiesen LLP, each of Houston, Texas, Co-Bond Counsel for the City, as to the validity of the issuance of the Series 2013 Obligations under the Constitution and laws of the State of Texas. Certain legal matters will be passed upon for the City by its Special Disclosure Co-Counsel, Haynes and Boone, LLP, and Bratton & Associates, each of Houston, Texas. Certain legal matters will be passed upon for the Underwriters by Andrews Kurth LLP, Houston, Texas, Counsel to the Underwriters. The Series 2013 Obligations are expected to be available for delivery on or about May 17, 2013 (the "Date of Delivery") through the facilities of DTC in New York, New York, and, as appropriate, through the Euroclear System and Clearstream in Luxembourg in Europe.

BARCLAYS

RICE FINANCIAL PRODUCTS COMPANY

WELLS FARGO SECURITIES

BACKSTROM MCCARLEY BERRY & Co., LLC

* Preliminary, subject to change.

This Preliminary Official Statement and any information contained herein are subject to completion or amendment. The Bonds may not be sold nor may offers to buy be accepted prior to the time the Official Statement becomes final. Under no circumstances may this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

MATURITY AND PRICING SCHEDULE

\$ _____*
CITY OF HOUSTON, TEXAS
PUBLIC IMPROVEMENT REFUNDING BONDS,
SERIES 2013A

CUSIP Prefix⁽¹⁾: 442331

| <u>Maturity (March 1)⁽²⁾</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Initial Yield/Price⁽³⁾</u> | <u>CUSIP Suffix⁽¹⁾</u> |
|---|-----------------------------|----------------------|--|-----------------------------------|
|---|-----------------------------|----------------------|--|-----------------------------------|

\$ _____ Term Bonds Due _____, _____⁽⁴⁾, Interest Rate _____%, Yield _____%⁽³⁾, CUSIP Suffix⁽¹⁾ _____

* Preliminary, subject to change.

- ⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City, the Co-Financial Advisors, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.
- ⁽²⁾ The City reserves the right, at its option, to redeem Series 2013A Bonds having stated maturities on and after March 1, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 20__, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See "THE SERIES 2013 OBLIGATIONS – Optional Redemption – Series 2013A Bonds."
- ⁽³⁾ The initial yield is calculated to maturity or the first optional and mandatory redemption date, whichever produces a lower yield.
- ⁽⁴⁾ The Series 2013A Bonds are subject to mandatory redemption as described in "THE SERIES 2013 OBLIGATIONS – Mandatory Redemption."

MATURITY AND PRICING SCHEDULE

\$ _____
CITY OF HOUSTON, TEXAS
TAXABLE PUBLIC IMPROVEMENT REFUNDING BONDS,
SERIES 2013B

CUSIP Prefix⁽¹⁾: 442331
ISIN Prefix⁽¹⁾: US442331

| <u>Maturity (March 1)⁽²⁾⁽³⁾</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Initial Yield/Price⁽⁴⁾</u> | <u>CUSIP Suffix⁽¹⁾</u> | <u>ISIN Suffix⁽¹⁾</u> |
|--|-----------------------------|----------------------|--|-----------------------------------|----------------------------------|
|--|-----------------------------|----------------------|--|-----------------------------------|----------------------------------|

* Preliminary, subject to change.

- ⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP and ISIN data herein is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City, the Co-Financial Advisors, nor the Underwriters are responsible for the selection or correctness of the CUSIP or ISIN data set forth herein.
- ⁽²⁾ The City reserves the right, at its option, to redeem Series 2013B Bonds having stated maturities on and after March 1, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 20__, or any date thereafter, at ___% of par value thereof plus accrued interest to the date of redemption. See "THE SERIES 2013 OBLIGATIONS – Optional Redemption – Series 2013B Bonds."
- ⁽³⁾ The Series 2013B Bonds are subject to make-whole redemption prior to maturity, as described in "THE SERIES 2013 OBLIGATIONS – Optional Redemption – Series 2013B Bonds."
- ⁽⁴⁾ The initial yield is calculated to maturity or the first optional redemption date, whichever produces a lower yield.

MATURITY AND PRICING SCHEDULE

§ _____
CITY OF HOUSTON, TEXAS
CERTIFICATES OF OBLIGATION (DEMOLITION PROGRAM),
SERIES 2013A

CUSIP Prefix⁽¹⁾: 442331

| <u>Maturity (March 1)⁽²⁾</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Initial Yield/Price</u> | <u>CUSIP Suffix⁽¹⁾</u> |
|---|-----------------------------|----------------------|--------------------------------|-----------------------------------|
|---|-----------------------------|----------------------|--------------------------------|-----------------------------------|

* Preliminary, subject to change.

⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City, the Co-Financial Advisors, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

⁽²⁾ The Series 2013A Certificates are not subject to redemption prior to maturity.

City of Houston, Texas

ELECTED OFFICIALS

Annise D. Parker, Mayor

Ronald C. Green, City Controller

CITY COUNCIL

Council Member,
District A..... Helena Brown

Council Member,
District I..... James G. Rodriguez

Council Member,
District B..... Jerry Davis

Council Member,
District J..... Mike Laster

Council Member,
District C..... Ellen Cohen

Council Member,
District K..... Larry Green

Council Member,
District D..... Wanda Adams

Council Member, At-Large
Position 1..... Stephen C. Costello

Council Member,
District E..... Dave Martin

Council Member, At-Large
Position 2..... Andrew C. Burks, Jr.

Council Member,
District F..... Al Hoang

Council Member, At-Large
Position 3..... Melissa Noriega

Council Member,
District G..... Oliver Pennington

Council Member, At-Large
Position 4..... C.O. "Brad" Bradford

Council Member,
District H..... Edward Gonzalez

Council Member, At-Large
Position 5..... Jack Christie

APPOINTED OFFICIALS

City Attorney David M. Feldman
Deputy City Controller Charisse Page Mosely
Director, Department of Finance Kelly Dowe
City Secretary Anna Russell

ADVISORS AND CONSULTANTS

Co-Financial Advisors..... First Southwest Company
Kipling Jones & Co.
Co-Bond Counsel Bracewell & Giuliani LLP
Baker Williams Mathiesen LLP
Special Disclosure Co-Counsel..... Haynes and Boone, LLP
Bratton & Associates

FINANCING WORKING GROUP

Chief Pension Officer Craig Mason
Department of Finance Jennifer Olenick
Jaime Alvarez
Veronica Lizama
Office of the City Attorney..... Gary L. Wood
Sameera Mahendru
Office of the City Controller..... Asha Patnaik
Vivien Nguyen
Kedrick Winfield

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For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”), as amended and in effect on the date of this Preliminary Official Statement, this document constitutes an Official Statement of the City with respect to the Series 2013 Obligations that has been deemed “final” by the City as of its date, except for the omission of no more than the information permitted by the Rule.

No broker, dealer, sales representative or any other person has been authorized by the City or the Underwriters to give any information or to make any representation other than as contained in this Official Statement in connection with the offering described in it and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy any securities other than those described on the cover page, nor shall there be any offer to sell, solicitation of any offer to buy or sale of such securities by any persons in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

THE SERIES 2013 OBLIGATIONS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. ANY REGISTRATION OR QUALIFICATION OF THE SERIES 2013 OBLIGATIONS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE SERIES 2013 OBLIGATIONS MAY HAVE BEEN REGISTERED OR QUALIFIED AND ANY EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THIS OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE SERIES 2013 OBLIGATIONS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

The information set forth herein has been furnished by the City and includes information obtained from other sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation, by the Co-Financial Advisors. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the other matters described herein since the date hereof.

Certain statements in this Official Statement, which may be identified by the use of such terms as “plan,” “project,” “expect,” “estimate,” “budget” or other similar words, constitute forward-looking statements. Such forward-looking statements refer to the achievement of certain results or other expectation or performance that involves known and unknown risks, uncertainties and other factors. These risks, uncertainties and other factors may cause actual results, performance or achievements to be materially different from any projected results, performance or achievements described or implied by such forward-looking statements. Although the City currently publishes certain monthly financial reports that are available upon written request from the City to the extent permitted by applicable law, the City reserves the right to discontinue or modify this practice at any time, and the City does not plan to issue any other updates or revisions to any forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based, occur, or if actual results, performance or achievements are materially different from any results, performance or achievements described or implied by such forward-looking statements.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement includes descriptions and summaries of certain events, matters and documents. Such descriptions and summaries do not purport to be complete, and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the City or from the Co-Financial Advisors to the City for this issuance. Any statements made in this Official Statement or the appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

This Official Statement is delivered in connection with the sale of securities referred to herein and may not be produced or used, in whole or in part, for any other purposes. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2013 Obligations in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. No dealer, salesman or other person has been authorized by the City to give any information or to make any representation other than those contained herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by the City or any other person. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create the implication that there has been no change in the matters described herein since the date hereof.

The prices and other terms respecting the offering and sale of the Series 2013 Obligations may be changed from time to time by the Underwriters after the Series 2013 Obligations are released for sale, and the Series 2013 Obligations may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Series 2013 Obligations into investment accounts.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2013 OBLIGATIONS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

\$ _____*
CITY OF HOUSTON, TEXAS

\$ _____*
PUBLIC IMPROVEMENT
REFUNDING BONDS, SERIES 2013A

\$ _____*
TAXABLE PUBLIC IMPROVEMENT
REFUNDING BONDS, SERIES 2013B

\$ _____*
CERTIFICATES OF OBLIGATION
(DEMOLITION PROGRAM),
SERIES 2013A

INTRODUCTION

This Official Statement is provided to furnish information in connection with the offering by the City of Houston, Texas (the "City") of its Public Improvement Refunding Bonds, Series 2013A (the "Series 2013A Bonds"), its Taxable Public Improvement Refunding Bonds, Series 2013B (the "Series 2013B Bonds"), and its Certificates of Obligation (Demolition Program), Series 2013A (the "Series 2013A Certificates"). The Series 2013A Bonds and the Series 2013A Certificates are collectively referred to herein as the "Tax-Exempt Obligations." The Series 2013A Bonds, the Series 2013B Bonds and the Series 2013A Certificates are collectively referred to herein as the "Series 2013 Obligations." The Series 2013A Bonds and Series 2013B Bonds are authorized pursuant to the general laws of the State of Texas, particularly Chapters 1201 and 1207, Texas Government Code, as amended, the City's Charter (the "City Charter"), an ordinance adopted by the City Council of the City on April 3, 2013, and one or more Officers' Pricing Certificates for the Series 2013A Bonds and Series 2013B Bonds (the "Bond Ordinance"). The Series 2013A Certificates are authorized pursuant to the general laws of the State of Texas, particularly Chapter 271, Subchapter C, Texas Local Government Code, as amended, Chapter 1371, Texas Government Code, as amended, an ordinance adopted by the City Council of the City on April 3, 2013, and the Officers' Pricing Certificate for the Series 2013A Certificates (the "Certificate Ordinance"). The Bond Ordinance and the Certificate Ordinance are referred to collectively herein as the "Ordinance."

The City's audited basic financial statements for the Fiscal Year ended June 30, 2012 (the "Financial Statements") are attached to this Official Statement as APPENDIX A. The Financial Statements present information on the general financial condition of the City on the dates and for the periods described therein. Attached as APPENDIX B is certain economic and demographic information about the City. Attached as APPENDIX C-1 and APPENDIX C-2 are the forms of opinions of Co-Bond Counsel for the Series 2013 Obligations. Attached as APPENDIX D is a list of continuing disclosure schedules included in this Official Statement. Attached as APPENDIX E is information relating to the securities clearance procedures applicable to the Series 2013 Obligations, including a description of The Depository Trust Company, New York, New York ("DTC"), and, as appropriate, the global securities clearance procedures of the Euroclear System and Clearstream.

The Series 2013 Obligations are direct obligations of the City, secured by and payable from the receipts of an annual ad valorem tax levied, within legal limits, on taxable property within the City. See "THE SERIES 2013 OBLIGATIONS – Source of Payment" and "PROPERTY TAXES." The inclusion of the Financial Statements, which are part of the City Controller's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2012, and other financial information in this Official Statement is not intended to imply that any other tax receipts, revenues or moneys of the City are pledged to pay the principal of or interest on the Series 2013 Obligations. As used herein, the term "Fiscal Year," unless otherwise indicated, means the City's Fiscal Year, which currently is the twelve-month period beginning on July 1 of a calendar year and ending on June 30 of the next succeeding calendar year. Each such period may be designated with the number of the calendar year in which such period ends.

The City is the fourth most populous city in the nation and the most populous city in Texas. According to the 2010 U.S. Census, the City's population was approximately 2.1 million and the population of the Houston – Sugar Land – Baytown Metropolitan Statistical Area was approximately 6.08 million, which makes it the fifth largest in the United States. Located on the coastal plain in Southeast Texas, approximately 50 miles from the Gulf

* Preliminary, subject to change.

of Mexico, the City is a major corporate and international financial center. Leading industries include energy, engineering and construction, real estate, aerospace, commerce, medicine and health care, transportation, biotechnology and computer technology. For additional information about the City, see “APPENDIX B – ECONOMIC AND DEMOGRAPHIC CHARACTERISTICS.”

PURPOSE AND PLAN OF FINANCING

Series 2013A and Series 2013B Bonds

Proceeds of the sale of the Series 2013A Bonds and the Series 2013B Bonds will be used to refund and defease certain of the City’s outstanding public improvement bonds, certificates of obligation and other tax-supported obligations of the City (collectively, and as further described herein, the “Refunded Bonds”) and certain of the City’s outstanding general obligation commercial paper notes (as further described herein, the “Refunded Notes”) and, together with the Refunded Bonds, the “Refunded Obligations”) and pay costs of issuance relating to the Series 2013A Bonds and Series 2013B Bonds. The Refunded Notes were issued under one or more of the City’s General Obligation Commercial Paper Programs. See “AD VALOREM TAX OBLIGATIONS OF THE CITY – Authority to Issue Bonds and Other Obligations – General Obligation Commercial Paper Programs.”

Refunded Bonds. A portion of the proceeds of the Series 2013A Bonds and Series 2013B Bonds, together with other available funds of the City, if any, will be used to purchase a portfolio of obligations authorized under Texas law and the ordinances authorizing the Refunded Bonds (the “Refunded Bond Escrowed Securities”) to be deposited in one or more escrow funds (the “Refunded Bond Escrow Fund”) with The Bank of New York Mellon Trust Company, N.A. (the “Refunded Bond Escrow Agent”), the maturing principal of and interest on which will be sufficient, together with other funds, to pay, when due, the principal of and interest on the Refunded Bonds. The accuracy of the mathematical computations of the adequacy of the maturing principal of and interest on the Refunded Bond Escrowed Securities, together with other available funds held in the Refunded Bond Escrow Fund, to provide for the payment of the Refunded Bonds will be verified by Grant Thornton LLP, a firm of independent certified public accountants. See “VERIFICATION OF MATHEMATICAL ACCURACY.”

In the opinion of Co-Bond Counsel, by making the escrow deposits required by the ordinances authorizing the Refunded Bonds, the Bond Ordinance and the escrow agreement to be entered into with the Refunded Bond Escrow Agent in connection with the Refunded Bonds (the “Refunded Bond Escrow Agreement”), the City will have made firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds pursuant to the provisions of Chapter 1207, Texas Government Code, as amended. Thereafter, the Refunded Bonds will be deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor pursuant to the Refunded Bond Escrow Agreement.

Refunded Notes. A portion of the proceeds of the Series 2013A Bonds, together with other available funds of the City, if any, will be used to purchase a portfolio of obligations authorized under Texas law and the ordinances authorizing the Refunded Notes (the “Refunded Note Escrowed Securities”) to be deposited in one or more escrow funds (the “Refunded Note Escrow Fund”) with U.S. Bank National Association (the “Refunded Note Escrow Agent”), the maturing principal of and interest on which will be sufficient, together with other funds, to pay, when due, the principal of and interest on the Refunded Notes. The accuracy of the mathematical computations of the adequacy of the maturing principal of and interest on the Refunded Note Escrowed Securities, together with other available funds held in the Refunded Note Escrow Fund, to provide for the payment of the Refunded Notes will be verified by Grant Thornton LLP, a firm of independent certified public accountants. See “VERIFICATION OF MATHEMATICAL ACCURACY.”

In the opinion of Co-Bond Counsel, by making the escrow deposits required by the ordinances authorizing the Refunded Notes, the Bond Ordinance and the escrow agreement to be entered into with the Refunded Note Escrow Agent in connection with the Refunded Notes (the “Refunded Note Escrow Agreement”), the City will have made firm banking and financial arrangements for the discharge and final payment of the Refunded Notes pursuant to the provisions of Chapter 1207, Texas Government Code, as amended. Thereafter, the Refunded Notes will be deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor pursuant to the Refunded Note Escrow Agreement.

Series 2013A Certificates

Proceeds of the sale of the Series 2013A Certificates will be used to (i) demolish dangerous structures within the City and other professional services related to such purposes and (ii) pay costs of issuance of the Series 2013A Certificates.

SOURCES AND USES OF FUNDS

The proceeds from the sale of the Series 2013 Obligations will be applied as follows:

| | <u>Series 2013A</u> <u>Bonds</u> | <u>Series 2013B</u> <u>Bonds</u> | <u>Series 2013A</u> <u>Certificates</u> | <u>Total</u> |
|---|-------------------------------------|-------------------------------------|--|--------------|
| <u>Sources of Funds:</u> | | | | |
| Principal Amount of the Series 2013 Obligations | | | | |
| Net Premium/Discount..... | | | | |
| Total Sources of Funds..... | _____ | _____ | _____ | _____ |
| <u>Uses of Funds:</u> | | | | |
| Deposit to Refunded Bond Escrow Agent | | | | |
| Deposit to Refunded Note Escrow Agent | | | | |
| Deposit to Refunded Note Paying Agent | | | | |
| Deposit to Construction/ Project Funds | | | | |
| Issuance Expenses ⁽¹⁾ | | | | |
| Total Uses of Funds..... | _____ | _____ | _____ | _____ |

⁽¹⁾ Includes underwriters' discount, legal, paying agent, escrow agent and rating agency fees and contingency.

THE SERIES 2013 OBLIGATIONS

Source of Payment

The Series 2013 Obligations are secured by and payable from the receipts of an annual ad valorem tax levied, 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 ("Tax Year"), within the applicable limitations described below, sufficient to pay the principal of and interest on the Series 2013 Obligations. Except for certain exemptions described herein, all property in the City is subject to the ad valorem tax. See "PROPERTY TAXES." Under the terms of the Ordinance, prior ordinances and applicable Texas law, the City is obligated to assess, levy and collect in each Tax Year ad valorem taxes sufficient to pay the principal of and the interest on all outstanding obligations payable in such Tax Year from ad valorem tax proceeds. Such obligations are described below (collectively referred to herein as "Tax Obligations") and include the following:

(i) Public improvement bonds ("Tax Bonds"), tax-supported certificates of obligation ("Tax Certificates"), notes ("Tax Notes") and general obligation commercial paper notes ("Commercial Paper Notes") payable from ad valorem taxes, including Tax Bonds issued to refund prior Tax Obligations, such as the Refunded Obligations; and

(ii) Certain obligations to fund the City's unfunded actuarially accrued liability ("UAAL") to the City's pension programs (collectively, the "Pension Obligations"), all as more fully described herein.

Under Texas law, the City may assume certain debt of water districts (“Assumed Bonds”) and secure such Assumed Bonds with ad valorem taxes. See “ANNEXATION PROGRAM AND ‘IN-CITY’ DISTRICTS.” In addition, the City is authorized to enter into tax-supported interest rate swap agreements that may be payable in whole or in part from ad valorem taxes if payments become due under any such swap agreements. The City does not have any currently outstanding Assumed Bonds or interest rate swap agreements payable from ad valorem taxes. See “ACCOUNTING AND BUDGETING PROCEDURES AND GENERAL FUND REVENUES – City Interest Rate Swap Policy.” As of February 28, 2013, the outstanding principal amount of Tax Obligations, excluding the Series 2013 Obligations, was \$607,775,000. See “AD VALOREM TAX OBLIGATIONS OF THE CITY,” “SCHEDULE 4: OUTSTANDING DEBT” and “PROPERTY TAXES – City Charter Tax and Revenue Propositions.”

Description

The Series 2013 Obligations will mature in the aggregate principal amounts and on the dates indicated on the inside cover pages of this Official Statement. The Series 2013 Obligations will be dated as set forth in the Officers’ Pricing Certificates and will accrue interest from the Date of Delivery. The Series 2013 Obligations will be payable commencing September 1, 2013, and each March 1 and September 1 thereafter until maturity or earlier redemption. The Bank of New York Mellon Trust Company, N.A., is the initial paying agent/registrar (the “Paying Agent/Registrar”) for the Series 2013 Obligations. The Series 2013 Obligations will be issued in fully registered form in denominations of \$5,000 principal amount or any integral multiple thereof.

Principal of the Series 2013 Obligations is payable upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar, which is currently located in Houston, Texas. Interest on the Series 2013 Obligations will be payable to the registered owner (the “Registered Owner”) whose name appears in the registration books for the Series 2013 Obligations (the “Register”) maintained by the Paying Agent/Registrar at the close of business on the 15th day of the calendar month immediately preceding the applicable interest payment date (the “Record Date”) and shall be payable by the Paying Agent/Registrar (i) by check sent by United States mail, first class postage prepaid, or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Registered Owner. Accrued interest payable at maturity of the Series 2013 Obligations will be paid upon presentation and surrender of such Series 2013 Obligations at the principal payment office of the Paying Agent/Registrar.

All references in this Official Statement to the Series 2013 Obligations are subject to the specific provisions of the Ordinance authorizing the issuance of the Series 2013 Obligations.

Ownership

The City, the Paying Agent/Registrar, and any other person may treat the Registered Owner as the absolute owner of such Series 2013 Obligation for the purpose of making and receiving payment of the principal thereof and the interest thereon and for all other purposes, whether or not such Series 2013 Obligation is overdue. Neither the City nor the Paying Agent/Registrar will be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the Registered Owner of any Series 2013 Obligation in accordance with the Ordinance will be valid and effectual and will discharge the liability of the City and the Paying Agent/Registrar for such Series 2013 Obligation to the extent of the sums paid.

Special Record Date

If interest on any Series 2013 Obligation is not paid on an interest payment date and continues unpaid for thirty (30) days thereafter, the Paying Agent/Registrar will establish a new Record Date for the payment of such interest, to be known as a “Special Record Date.” The Paying Agent/Registrar will establish a Special Record Date when funds to make such interest payment are received from or on behalf of the City. Such Special Record Date will be fifteen (15) days prior to the date fixed for payment of such past due interest, and notice of the date of payment and the Special Record Date will be sent by United States mail, first class postage prepaid, not later than five (5) days prior to the Special Record Date, to each affected Registered Owner of record as of the close of business on the day prior to the mailing of such notice.

Transfers and Exchanges

Beneficial ownership of Series 2013 Obligations registered in the name of DTC will be initially transferred as described under "APPENDIX E – SECURITIES DEPOSITORY – The Depository Trust Company." APPENDIX E also describes the global clearance procedures of the Euroclear and Clearstream systems.

So long as any Series 2013 Obligations remain outstanding, the Paying Agent/Registrar shall keep the Register at its designated corporate trust office in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of the Series 2013 Obligations in accordance with the terms of the Ordinance.

The Series 2013 Obligations shall be transferable only upon the presentation and surrender thereof by Cede & Co., as DTC's nominee, or any subsequent Registered Owner, at the designated corporate trust office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by Cede & Co., as DTC's nominee, or any subsequent Registered Owner or the authorized representative thereof in a form satisfactory to the Paying Agent/Registrar. Upon due presentation and surrender of a Series 2013 Obligation for transfer, the Paying Agent/Registrar is required to authenticate and deliver in exchange therefor, in a timely fashion after such presentation and surrender, a new Series 2013 Obligation or Obligations, registered in the name of Cede & Co., as DTC's nominee, or such other transferee, in authorized denominations, of the same series, maturity and interest rate, in the same aggregate principal amount as the Series 2013 Obligation or Obligations so presented and surrendered.

In the event the Series 2013 Obligations are not held in a book-entry registration system, all Series 2013 Obligations shall be exchangeable upon the presentation and surrender thereof at the designated office of the Paying Agent/Registrar, initially in New York, New York, for a Series 2013 Obligation or Obligations of the same series, maturity and interest rate, in any authorized denomination and in an aggregate principal amount equal to the Series 2013 Obligation or Obligations presented for exchange. Series 2013 Obligations issued in exchange for other Series 2013 Obligations shall be entitled to the benefits and security of the Ordinance to the same extent as the Series 2013 Obligation or Obligations in lieu of which such Series 2013 Obligation is delivered.

The City or the Paying Agent/Registrar may require DTC or any subsequent Registered Owner of any Series 2013 Obligation to pay a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in connection with the transfer or exchange of such Series 2013 Obligation. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the City.

The Paying Agent/Registrar shall not be required to transfer or exchange any Series 2013 Obligation called for redemption for the 45-day period prior to a date fixed for redemption; provided, however, that such restriction shall not apply to the transfer or exchange by Cede & Co. as DTC's nominee or any subsequent Registered Owner of the unredeemed portion of a Series 2013 Obligation called for redemption in part.

Optional Redemption

Series 2013A Bonds. The Series 2013A Bonds maturing on or after March 1, 20__ shall be subject to redemption prior to stated maturity at the option of the City on March 1, 20__ or any date thereafter, in whole or in part, at a price equal to the principal amount of the Series 2013A Bonds to be redeemed, plus the accrued interest thereon to (but not including) the date fixed for redemption.

Series 2013B Bonds. The Series 2013B Bonds maturing on or after March 1, 20__ shall be subject to redemption prior to stated maturity at the option of the City on March 1, 20__ or any date thereafter, in whole or in part, at a price equal to the principal amount of the Series 2013B Bonds to be redeemed, plus the accrued interest thereon to (but not including) the date fixed for redemption.

The Series 2013B Bonds also are subject to make-whole redemption prior to stated maturity at the option of the City on any business day, in whole or in part, at a redemption price equal to the greater of:

- (a) 100% of the principal amount of the Series 2013B Bonds to be redeemed; or

(b) the sum of the present value of the remaining scheduled payments of principal of and interest on the Series 2013B Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus ___ basis points, plus, in each case, accrued and unpaid interest on the Series 2013B Bonds being redeemed to the date fixed for redemption.*

Series 2013A Certificates. The Series 2013A Certificates are not subject to optional redemption prior to maturity.

Selection of Series 2013 Obligations to be Redeemed

In the case of any optional redemption in part of the Series 2013A Bonds or the Series 2013B Bonds, the City shall select the stated maturities of such Series 2013 Obligations to be redeemed. If less than all of such Series 2013 Obligations of a stated maturity are to be redeemed the Paying Agent/Registrar shall select the particular Series 2013 Obligations of such stated maturity to be redeemed in such manner as it deems fair and appropriate and consistent with the requirements contained in the Ordinance and such Series 2013 Obligations.

Mandatory Redemption

Series 2013A Term Bonds. The Series 2013A Bonds issued as term bonds maturing on _____ 1 in the years 2037 and 2042 (the "Term Bonds") are subject to mandatory redemption prior to maturity in the following amounts (subject to reduction as hereinafter provided), on the following dates ("Mandatory Redemption Dates"), at a price equal to the principal amount of the Series 2013A Bonds to be redeemed plus accrued interest to (but not including) the applicable Mandatory Redemption Date, subject to the conditions set forth below:

\$ _____ TERM BONDS MATURING IN _____

| Mandatory Redemption Dates (_____) | Principal Amount to be Redeemed |
|--|------------------------------------|
|--|------------------------------------|

* For the purposes of determining the Treasury Rate, the following definitions shall apply:

"Comparable Treasury Issue" means, with respect to any redemption date for a particular Series 2013B Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the applicable Series 2013B Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the applicable Series 2013B Bonds to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date for a particular Series 2013B Bond, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Deal Quotations, or (2) if the Designated Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Designated Investment Banker" means one of the Reference Treasury Dealers appointed by the City.

"Reference Treasury Dealer" means _____ and its successors and three other firms, specified by the City from time to time, that are primary U.S. Government securities dealers in the City of New York, New York (each a "Primary Treasury Dealer"); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the City shall substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series 2013B Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business day preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date for a particular Series 2013B Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

\$ _____ TERM BONDS MATURING IN _____

| | |
|--|------------------------------------|
| Mandatory Redemption Dates (_____) | Principal Amount to be Redeemed |
|--|------------------------------------|

On or before thirty (30) days prior to each Mandatory Redemption Date set forth above, the Paying Agent/Registrar shall (i) determine the principal amount of such Term Bonds that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemption, as more fully provided for below, (ii) select, by lot or other customary random method, the Term Bonds or portions of Term Bonds of such maturity to be mandatorily redeemed on such Mandatory Redemption Date and (iii) give notice of such redemption, as provided below. The principal amount of any Term Bonds to be mandatorily redeemed on a Mandatory Redemption Date shall be reduced by the principal amount of such Term Bonds which, by the 45th day prior to such Mandatory Redemption Date, either have been purchased in the open market and delivered or tendered for cancellation by or on behalf of the City to the Paying Agent/Registrar or optionally redeemed by the City and which, in either case, have not previously been made the basis for a reduction under this sentence.

Series 2013B Bonds. The Series 2013B Bonds are not subject to mandatory redemption.

Partial Redemption

The Series 2013A Bonds and the Series 2013B Bonds may be redeemed in part only in integral multiples of \$5,000. If a Series 2013A Bond or Series 2013B Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Series 2013A Bond or Series 2013B Bond may be redeemed, but only in integral multiples of \$5,000. In selecting portions of Series 2013A Bonds and Series 2013B Bonds for redemption, the Paying Agent/Registrar shall treat each bond as representing that number of Series 2013A Bonds or Series 2013B Bonds of \$5,000 denomination, which is obtained by dividing the principal amount of such Series 2013A Bond or Series 2013B Bond by \$5,000. Upon presentation and surrender of any Series 2013A Bond or Series 2013B Bond for redemption in part, the Paying Agent/Registrar, in accordance with the provisions of the Ordinance, shall authenticate and deliver in exchange therefor an obligation of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Series 2013A Bond or Series 2013B Bond or so presented and surrendered.

Notice of Redemption

In the event any of the Series 2013A Bonds or Series 2013B Bonds are called for optional redemption, the Paying Agent/Registrar shall give notice, in the name of the City, of the redemption of such Series 2013 Obligations, which notice shall (i) specify the Series 2013 Obligations to be redeemed, the redemption date, the redemption price and the place or places where amounts due upon such redemption will be payable (which shall be the designated principal corporate trust office of the Paying Agent/Registrar) and, if less than all of the Series 2013 Obligations are to be redeemed, the portions of the Series 2013 Obligations so to be redeemed, (ii) state any condition to such redemption and (iii) state that on the redemption date, and upon the satisfaction of any such condition, the Series 2013 Obligations to be redeemed shall cease to bear interest. CUSIP number identification shall accompany all redemption notices. Such notice may set forth any additional information relating to such redemption. Such notice shall be given by United States mail, first class postage prepaid, at least thirty (30) days but not more than sixty (60) days prior to the date fixed for redemption to each Registered Owner of Series 2013 Obligations to be redeemed at its address shown on the registration books kept by the Paying Agent/Registrar; provided, however, that failure to give such notice to any Registered Owner or any defect in such notice shall not affect the validity of the proceedings

for the redemption of any of the other Series 2013 Obligations. Any notice given as described in this paragraph shall be conclusively presumed to have been duly given, whether or not the Registered Owner or Beneficial Owner receives such notice. When the Series 2013 Obligations have been called for redemption in whole or in part and due provision has been made to redeem the same as provided in the Ordinance, the Series 2013 Obligations, or portions thereof to be so redeemed, shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest that would otherwise accrue after the redemption date on any Series 2013 Obligation or portion thereof called for redemption shall terminate on the date fixed for redemption.

Additional Obligations

The City expects to issue additional Tax Obligations payable (in whole or in part) from ad valorem taxes. Such Tax Obligations may be issued or incurred as Tax Bonds, Tax Notes, Tax Certificates, Commercial Paper Notes, Pension Obligations or interest rate swaps, all of which may be payable at such time or times and under such other terms, conditions and details as determined and approved by City Council. The City does not have any currently outstanding interest rate swap agreements payable from ad valorem taxes. See also "SCHEDULE 4: OUTSTANDING DEBT." The City may also annex special districts and thereby create Assumed Bonds. See "ANNEXATION PROGRAM AND 'IN-CITY' DISTRICTS – Annexation Program" and "SCHEDULE 9: VOTER-AUTHORIZED OBLIGATIONS."

PROPERTY TAXES

Property Subject to Taxation by the City

Except for certain exemptions provided by federal law and the Texas Tax Code (the "Tax Code"), all real and personal property in the City is subject to ad valorem taxation from which the City's general expenditures and debt service expenditures (which include the City's Tax Obligations) are paid. Taxable property in the City is required to be valued for tax purposes at 100% of the market, cost or income based value (with certain limited exceptions) as of January 1 of each Tax Year; however, exemptions apply to reduce tax liability for certain eligible properties. In addition to residential homestead exemptions and additional exemptions for elderly and disabled homesteads, exemptions applicable to the City relate to: (i) property used for public purposes and owned by the State or political subdivisions thereof and (ii) certain property affiliated with charitable and religious organizations and qualified schools and used for certain public purposes. See "– Constitutional and Statutory Tax Rate Limitations" and "– City Charter Tax and Revenue Propositions."

Residential Homestead Exemption. Pursuant to the Tax Code, which authorizes residential homestead exemptions of up to 20% of the appraised value, City Council has authorized the full amount of such residential homestead exemptions.

Additional Exemptions. The Fiscal Year 2013 Budget (Tax Year 2012) maintains the Fiscal Year 2012 amount of senior citizen and disabled exemption (collectively "Additional Exemptions") at \$70,862 per household. A household may claim one but not both Additional Exemptions. In Tax Year 2012, approximately 107,055 households claimed an Additional Exemption, with an average Additional Exemption claim of \$59,128 for each such household as compared to \$59,971 for Tax Year 2011. In addition, the Tax Code provides for an exemption of up to \$12,000 for real or personal property of disabled veterans or the surviving spouse of children of a deceased veteran who died while on active duty in the armed forces. Further, disabled veterans (and their surviving spouses) who receive a rating of 100% disabled are entitled to an exemption equal to the total appraised value of a residence homestead.

As of February 8, 2013, certified exemptions claimed by taxpayers totaled approximately \$50.8 billion and the estimate for additional losses due to other challenges totaled \$48.3 billion, which when subtracted from the total certified appraised value for Tax Year 2012 of approximately \$203.7 billion yields a net certified taxable value of approximately \$152.8 billion. See "– Tax Rolls."

Taxing Procedures

The Fort Bend Central Appraisal District, the Montgomery Central Appraisal District and the Harris County Appraisal District (collectively, the "Appraisal Districts") are county-wide agencies created under the Tax Code responsible for appraising property within their respective jurisdictions. The City primarily lies within the jurisdiction of the Harris County Appraisal District, but portions of the City lie within each of the other Appraisal Districts as well. Each Appraisal District has its own Appraisal Review Board (collectively, the "Review Boards"), which are appointed by the respective Appraisal Districts. Each Review Board is responsible for reviewing the values established by the Appraisal Districts. Each Appraisal District is governed by a six-member board of directors. Voting for membership on the board of directors of an Appraisal District is cumulative, based on total taxes levied by taxing entities within the Appraisal District. The City appoints one board member to the Harris County Appraisal District's Board of Directors; however, the City does not appoint board members to any of the other Appraisal Districts.

The Tax Code requires the Appraisal Districts to implement a plan for periodic re-appraisal of property at least once every three (3) years. Taxpayers may protest appraisals annually. In certain cases, the Review Boards determine whether the appraisals are substantially uniform and compliant with Texas law. The City also has the right to challenge certain classes of Appraisal District determinations, but not the appraised value of an individual taxpayer's property. Orders of the Review Boards are subject to appeal to a Texas district court. The City's tax roll is certified for the City by the Appraisal Districts' chief appraisers and the tax rate established by the City Council is applied to the values set by the Appraisal Districts, as reduced by exemptions granted by the City Council. The City's voters can require the Appraisal Districts, the Harris County Tax Assessor-Collector or a specified taxing entity within the Appraisal Districts to collect such taxes on behalf of the City by approving an appropriate proposition at an election held for that purpose. The City contracts with the Harris County Tax Office to collect current taxes and a law firm to enforce the collection of delinquent taxes.

Before September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the City based upon the valuation of property within the City as of the preceding January 1 as well as the amount of funds required to be raised for general operations, debt service and authorized contractual obligations.

Tax statements are required to be mailed by October 1 or as soon thereafter as practicable. Taxes are due upon receipt of a tax bill and become delinquent on February 1 of the following year. Delinquent taxes incur a penalty of 6% of the amount of the tax for the first calendar month of delinquency plus 1% for each month or portion of a month of delinquency until July 1, when the penalty becomes 12%. Interest on delinquent taxes accrues at the rate of 1% per month until the taxes are paid.

To secure the payment of all taxes, and penalty and interest on delinquent taxes, the City has a statutory lien on taxable property, which is on parity with the lien of other taxing entities. The taxpayer is personally liable for payment of the tax, and property of the taxpayer is subject to seizure and sale to satisfy delinquent taxes. The City also may sue to foreclose on real or personal property to satisfy its tax lien or to enforce personal liability, or both. If a judgment is obtained to foreclose a tax lien, the court may order the property sold to satisfy the tax lien. See "SCHEDULE 2: AD VALOREM TAX LEVIES AND COLLECTIONS."

The City's ability to collect delinquent taxes by foreclosure may be adversely affected by the amount of taxes owed to other taxing units, the foreclosure sale price attributable to market conditions, the taxpayer's right to redeem the property, or by bankruptcy proceedings that restrain the collection of a taxpayer's debts.

Constitutional and Statutory Tax Rate Limitations

The Constitution of the State of Texas (the "State" or "Texas") limits the maximum ad valorem tax rate to \$2.50 (per \$100 of assessed valuation) for home-rule cities such as the City. However, as discussed below, the City Charter has tax rate limitations that are more restrictive than those imposed under the Texas Constitution. The Fiscal Year 2013 Budget includes an estimated tax rate of \$0.63875 (per \$100 assessed valuation) for Tax Year 2012 (Fiscal Year 2013), of which \$0.480709 is for general purposes and \$0.158041 is designated for debt service on the City's outstanding Tax Obligations; however, the final rate is not determined until City Council levies its ad valorem taxes, which is typically in October or November of each year following budget approval.

The Tax Code provides certain limitations on annual tax rate increases based on a complex formula. These limitations are not applicable to tax levy increases to pay debt service on specified debt, including the Tax Obligations. Generally, these limitations require two public hearings if the proposed tax rate exceeds the lower of the “effective tax rate” or the “rollback tax rate,” as such terms are defined in the Tax Code, and an election (upon petition of 7% of the qualified voters of the City) to limit to 8% any proposed increase that would otherwise exceed 8%. In addition, before the City Council can adopt a tax rate that produces tax revenues that exceed the previous year’s tax revenues, it must first conduct public hearings on the tax rate. An additional public hearing is required if the proposed tax rate will increase property tax revenue in the current Fiscal Year by more than 5%.

City Charter Tax and Revenue Propositions

General. In addition to certain constitutional and statutory limits described above, the City Charter may be amended not more frequently than every two years to limit certain revenue resources available during a given Fiscal Year, or, as in the case of Drainage Proposition (as defined below), cause additional revenues to be generated for specific purposes. Notwithstanding the foregoing, the City Charter provides that, in preparing the City’s budget, provision shall first be made for the payment of debt service on the City’s outstanding Tax Obligations, with the remaining revenues to be apportioned among the City’s respective departments. In future Fiscal Years, the amount of the tax levy allocated to debt service may need to be increased, reducing the amount allocable for the delivery of essential governmental services if there is no corresponding increase in the overall tax levy.

Proposition 1 and Proposition 2 (2004). In 2004, voters approved Proposition 1 in order to limit increases in (i) 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 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 rates of inflation and the City’s population growth; and (ii) water and sewer rates (i.e., the City’s Combined Utility System) by limiting rate increases to the combined increases in the rates of inflation and population growth, excluding rate increases required by certain bond covenants and rates established by contract, unless approved by the voters. At the same election, the voters also approved Proposition 2, which proposed to limit increases in the City’s “combined revenues,” which would include revenues of the General Fund, Special Funds and Enterprise Funds. Based on the specific language of Proposition 1 and Proposition 2, and the language of the City Charter, the City declared that Proposition 2 was not effective. Supporters of Proposition 2 filed a lawsuit to declare Proposition 2 effective. On August 26, 2011, the Texas Supreme Court vacated the judgment of the trial court without reference to the merits and dismissed the case for want of jurisdiction.

Propositions G and H. In response to Proposition 1 and Proposition 2, the City held an election on November 7, 2006, at which the voters approved Proposition G and Proposition H, which are currently effective. Proposition G amends the City Charter to exclude revenues of the City’s enterprise systems (i.e., Combined Utility System, Houston Airport System and the Convention and Entertainment Facilities Department) from the types of revenues limited under the City Charter. Voter approval of Proposition G removed the enterprise systems from the revenue limitations of Proposition 2, although the limitation on water and sewer rate increases included in Proposition 1 remains in effect. Proposition H allows the City to collect and spend up to \$90 million of revenue, over and above any Proposition 2 limitations, for increased police, fire and emergency medical services and related matters. The amount collected and spent in each year becomes part of the base revenue calculations for the following year. The City has incorporated Propositions G and H into its financial policies, and it anticipates collecting revenues and making expenditures for public safety purposes in compliance with Proposition H.

Proposition G and H Litigation. A voter filed suit to invalidate Propositions G and H. That action was dismissed by a state district court; however, the plaintiff appealed the ruling to the First Court of Appeals, which on April 15, 2010 overturned the district court’s dismissal of the case and gave the plaintiff an opportunity to amend his pleading to establish standing to bring suit. The Texas Supreme Court has denied the City’s petition for review. The case was remanded to the trial court where it remains pending. The City intends to continue to defend this case vigorously.

Drainage and Street Proposition. In 2010, voters approved Proposition 1 (2010) to provide for the improvement of the City’s drainage system by imposing assessments upon property in the drainage service area, unless such property is exempted. City Council approved assessments in April 2011. Exempted properties include,

but are not limited to, Texas State government agency facilities, public and private institutions of higher education, and existing churches.

Drainage and Street Proposition Litigation. In December 2010, a lawsuit under the Texas Election Code was filed in State district court seeking to have the Drainage and Street Proposition declared unlawful. On May 24, 2011, the district court granted summary judgment in favor of the City, thereby disposing of all plaintiffs' claims. The plaintiffs filed a motion for a new trial, which was denied. On August 22, 2011, the plaintiffs filed a Notice of Appeal, and the case was assigned to the Fourteenth Court of Appeals. On July 10, 2012, the Fourteenth Court of Appeals affirmed the district court's summary judgment decision. Plaintiffs filed a motion for rehearing with the court of appeals and the court of appeals has requested a response from the City. The decision of the court of appeals may be appealed to the Texas Supreme Court.

In addition, in February 2012, the owners of three apartment complexes filed a lawsuit against the City and the Director of Public Works and Engineering in his official capacity challenging the validity of various aspects of the Drainage and Street Proposition. The City has filed a plea to the court's jurisdiction to consider the lawsuit. The Plea was granted in part and denied in part, and the City has appealed the denial. Three railroad companies had intervened in the lawsuit to challenge the ordinance but, on the City's motion, the court struck the railroad companies' intervention. The railroad companies then filed their own lawsuit challenging the validity of various aspects of the Drainage and Street Proposition, seeking injunctive relief as well as attorneys' fees. The City intends to defend this case vigorously. Recently, the City's Plea to the Jurisdiction on all of the railroads' ultra vires claims was granted, which order may be appealed on an interlocutory basis by the railroads. Their declaratory judgment claims and constitutional challenges to the ordinance remain pending in the trial court.

Tax Rolls

Set forth in the table below are the City's tax rolls for Tax Years 2008 through 2012, as provided by the Appraisal Districts. The Tax Year 2008 through 2012 tax rolls represent the total appraised value of property, after subtracting all exemptions, and reflect all adjustments made by the Appraisal Districts. All figures are as of June 30 of each Fiscal Year, except for Tax Year 2012, which are based upon certified tax rolls as of February 8, 2013.

SCHEDULE 1: TAX ROLLS

| <u>Tax Year</u> | <u>Fiscal Year</u> | <u>Real Property (in thousands)</u> | <u>Personal Property (in thousands)</u> | <u>Total Tax Rolls^{(a)(b)} (in thousands)</u> |
|-----------------|--------------------|-------------------------------------|---|--|
| 2008 | 2009 | \$126,197,951 | \$23,676,597 | \$149,874,548 |
| 2009 | 2010 | 126,145,185 | 24,125,719 | 150,270,904 |
| 2010 | 2011 | 120,586,907 | 22,376,894 | 142,963,801 |
| 2011 | 2012 | 122,761,707 | 22,281,272 | 145,042,978 |
| 2012 | 2013 | 129,156,434 ^(c) | 25,645,269 ^(c) | 192,801,703 ^(c) |

- (a) As of November 2012, the Harris County Appraisal District reported that 6,736 active lawsuits have been filed which, in the aggregate, challenge the valuation placed on approximately \$25,352,299,709 of the total appraised tax rolls for Tax Year 2012 and all prior Tax Years. No prediction can be made as to how the tax rolls may be affected by these lawsuits.
- (b) The City has entered into approximately 18 active abatement agreements and 380 grant agreements to stimulate economic development. Property owners receiving these abatements agree to construct certain real property and/or personal property improvements in consideration of the abatement of ad valorem taxes on such improvements for a specified period of time, with a minimum investment exceeding \$1 million and the creation or retention of 25 (or more) full-time jobs. Ad valorem taxes are assessed on all other property. According to the Harris County Appraisal District, these abatement projects currently represent investments of approximately \$1 billion with the value of abatable improvements totaling approximately \$500 million.
- (c) These amounts reflect the Appraisal Districts' certified taxable valuations and uncertified taxable valuations less an estimate of hearing loss based on tax rolls available as of February 8, 2013.

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Ad Valorem Tax Levies and Collections

The following table sets forth for Fiscal Years 2009 through 2013 (i) the tax rate in each year, (ii) the net amount of ad valorem taxes levied by the City, (iii) the amount of each year’s levy that was collected through the end of each respective Fiscal Year, (iv) the amount of prior years’ delinquent taxes collected and (v) the percentage of the net levy represented by such total collections. All figures are as of June 30 of each Fiscal Year, except for Fiscal Year 2013, which are approximate amounts as of February 8, 2013.

SCHEDULE 2: AD VALOREM TAX LEVIES AND COLLECTIONS

| Fiscal Year | Tax Rate ^(a) | | | Net Current Year Tax Levy ^{(b)(d)} (in thousands) | Current Collections ^{(c)(d)} (in thousands) | Prior Years’ Delinquent Collections (in thousands) | Total Collections ^{(c)(d)} (in thousands) | Total Collections (Percentage of Net Levy) ^(d) |
|-------------|-------------------------|--------------|------------|---|---|---|---|---|
| | General Purposes | Debt Service | Total | | | | | |
| 2009 | \$ 0.45460 | \$ 0.18415 | \$ 0.63875 | \$ 961,059 | \$ 926,956 | \$ 32,395 | \$ 959,351 | 99.8% |
| 2010 | 0.45728 | 0.18147 | 0.63875 | 960,083 | 932,952 | 23,672 | 958,860 | 101.9 |
| 2011 | 0.46336 | 0.17538 | 0.63875 | 912,808 | 891,910 | 27,684 | 919,594 | 100.7 |
| 2012 | 0.48071 | 0.15804 | 0.63875 | 927,886 | 907,472 | 24,177 | 931,649 | 100.4 |
| 2013 | 0.46221 | 0.17654 | 0.63875 | 972,526 | 948,212 | 26,035 | 974,247 | 100.2 |

- (a) The Texas Constitution limits the maximum ad valorem tax rate to \$2.50 per \$100 of assessed valuation for home-rule cities such as the City. See “PROPERTY TAXES – City Charter Tax and Revenue Propositions.” The City Charter provides that, in preparing the City’s budget, provision shall first be made for the payment of debt service on the City’s outstanding bond indebtedness, with the remaining revenues to be apportioned among the City’s respective departments.
- (b) The figures represent net adjusted levies, including the late certification and correction rolls from the Appraisal Districts, through June 30 of each Fiscal Year, except for Fiscal Year 2013, which is as of the date set forth above.
- (c) These amounts do not include revenues from various types of Industrial District Contracts (as defined herein) entered into by the City with industrial property owners outside of the City’s corporate limits, which is as of the date set forth above, are projected to be approximately \$14,500,000 in Fiscal Year 2013. Such Industrial District Contracts have a term of 15 years (currently scheduled to terminate in Tax Year 2027) and allow property owners to make payments to the City in lieu of paying ad valorem taxes.
- (d) Includes all ad valorem tax receipts received by the City, including tax increment revenues (“Tax Increments”) that are deposited into special funds designated for various tax increment reinvestment zones (the “Zones”). By virtue of contracts among the City, the Zones and the local government corporations that manage the Zones, the Tax Increments are transferred to the respective local government corporation and are available to fund authorized projects in the Zone and to be pledged to obligations issued by the local government corporation on behalf of the Zone. Bonds and other obligations issued by the local government corporation are not debt of the City. In Fiscal Year 2013, the City has budgeted approximately \$74 million of Tax Increments to be transferred to special funds for such Zones, as required by State law, of which approximately \$20 million will be transferred back to the City for affordable housing projects, an administrative fee and a fee for municipal service costs attributable to development in such Zones. Much of the Tax Increments transferred to the Zones are used to promote economic developments through the acquisition and construction of public improvements to spur development in certain areas of the City. Additionally, the Zones provide affordable housing and funds for certain City capital improvement projects.

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Principal Taxpayers

The top ten taxpayers for Tax Year 2012 by taxable valuations, as provided by the Appraisal Districts, and the percentage of the total taxable valuation attributable to each such taxpayer were as follows:

SCHEDULE 3: PRINCIPAL TAXPAYERS^{(a)(b)}

| <u>Rank</u> | <u>Name</u> | <u>Taxable Valuation</u> | <u>% of Tax Roll^{(a)(b)}</u> |
|-------------|----------------------------------|--------------------------|---------------------------------------|
| 1 | CenterPoint Energy Inc. | \$1,440,809,144 | 0.94% |
| 2 | Hines Interests Ltd. Partnership | 1,393,328,217 | 0.91 |
| 3 | Crescent Real Estate | 1,284,063,390 | 0.84 |
| 4 | Chevron Chemical Company | 593,572,159 | 0.39 |
| 5 | Exxon Mobil Corporation | 498,420,993 | 0.33 |
| 6 | AT&T | 494,393,663 | 0.32 |
| 7 | Continental Airlines Inc. | 458,366,330 | 0.30 |
| 8 | Behringer Harvard | 437,500,663 | 0.29 |
| 9 | Houston Refining | 413,597,492 | 0.27 |
| 10 | TPG | <u>413,118,823</u> | <u>0.27</u> |
| | TOTAL | <u>7,427,170,874</u> | <u>4.86%</u> |

(a) Based on information from the Harris County Tax Office as of November 1, 2012.

(b) Tax Year 2012 estimated final taxable value of \$192,801,703 as of February 8, 2013, the percentage of total taxable valuation attributable to the top ten taxpayers is approximately 4.86%.

AD VALOREM TAX OBLIGATIONS OF THE CITY

Authority to Issue Bonds and Other Obligations

Statutory Limitation. Texas law authorizes the City to incur total bond indebtedness through the issuance of Tax Obligations in an amount not to exceed 10% of the total assessed valuation of property in the City. As of February 8, 2013, the statutory limitation on such ad valorem tax obligations was approximately \$20.4 billion based on an approximate assessed valuation of \$204 billion for Tax Year 2012. See “– Ad Valorem Tax Obligation Percentages.” Revenue bonds, tax and revenue anticipation notes, and other contracts are not included in the bonded debt total to which the statutory limitation of 10% applies. See “SCHEDULE 4: OUTSTANDING DEBT.” The City has covenanted to assess, levy and collect an ad valorem tax in each Tax Year sufficient to pay debt service on the outstanding Tax Obligations, subject to City Charter limitations. See “PROPERTY TAXES – City Charter Tax and Revenue Propositions.”

Tax Bonds, Tax Certificates and Commercial Paper Notes. Voter-authorized ad valorem Tax Obligations may be issued as Tax Bonds, Commercial Paper Notes or Bond Anticipation Notes provided that such debt is approved by a favorable vote by a majority of those voting in an election held for that purpose. The City may issue Tax Bonds without an election to refund previously issued and outstanding Tax Obligations of the City, whether or not voter authorized, and to refund assumed debt by an annexed water district or utility district. Although the City has never exercised its authority, Texas law allows the issuance of Tax Bonds without an election to refund revenue bonds of the City. The City may also issue Tax Bonds without an election to refund any general or special obligation of the City, including final, unappealable judgments resulting from lawsuits or legal settlements against the City.

The City may also issue Tax Certificates payable from ad valorem taxes and, in some cases, a pledge of certain City revenues for the purpose of paying any contractual obligations to be incurred in the construction of any public work or for the purchase of materials, supplies, equipment, machinery, buildings, land and rights-of-way, for the demolition of dangerous structures, and other professional services. The City also is authorized to issue anticipation notes and time warrants payable from ad valorem taxes for general purposes. The issuance of Tax Certificates, certain commercial paper notes, tax and revenue anticipation notes and time warrants does not require voter approval unless the applicable law allows a qualifying referendum petition to be filed with the City within a specified time limit. The City may add to its bonded debt payable from ad valorem taxes through the Assumed

Bonds of water districts that have been annexed into the City or water districts within the City that have been abolished. The City is authorized to issue pension obligations, which may be payable from and secured by ad valorem taxes or revenues or both to fund UAAL associated with its pension funds. See “THE CITY – Employee Pension Funds” and “SCHEDULE 4: OUTSTANDING DEBT.”

General Obligation Commercial Paper Programs. The City has multiple general obligation commercial paper programs with an aggregate authorization of \$875 million. Each of the various programs may be used for the purposes of the voter-authorized obligations, as shown above, or for other purposes allowed by law, including for equipment and other purposes. As of February 28, 2013, an aggregate amount of \$291.9 million of commercial paper notes was outstanding. The City plans to use proceeds of the Series 2013 Obligations to refund certain outstanding commercial paper notes. See “PURPOSE AND PLAN OF FINANCING.” The City’s Series A, B, C, D and F General Obligation Commercial Paper Programs have expired.

The City authorized a \$100 million Series E-1 General Obligation Commercial Paper Program (the “Series E-1 Notes”). The liquidity provider for the Series E-1 Notes is J.P. Morgan Chase Bank. As of February 28, 2013, \$65 million of the Series E-1 Notes have been issued.

The City authorized a \$150 million Series E-2 General Obligation Commercial Paper Program (the “Series E-2 Notes”). The liquidity provider for the Series E-2 Notes is Wells Fargo Bank, N.A. As of February 28, 2013, \$57 million of the Series E-2 Notes have been issued.

The City authorized a \$75 million Series G-1 General Obligation Commercial Paper Program (the “Series G-1 Notes”), which includes voter authorization from the 2001 and 2006 Elections. The liquidity provider for the Series G-1 Notes is Comerica Bank. As of February 28, 2013, none of the Series G-1 Notes have been issued.

The City authorized a \$125 million Series G-2 General Obligation Commercial Paper Program (the “Series G-2 Notes”), which includes voter authorization from the 2001 and 2006 Elections. The liquidity provider for the Series G-2 Notes is Sumitomo Mitsui Banking Corporation, acting through its New York Branch. As of February 28, 2013, \$100.1 million of the Series G-2 Notes have been issued.

The City authorized a \$100 million Series H-2 General Obligation Commercial Paper Program (the “Series H-2 Notes”), which includes voter authorization from the 2001 and 2006 Elections. The liquidity provider for the Series H-2 Notes is U.S. Bank, National Association. As of February 28, 2013, \$69.8 million of the Series H-2 Notes have been issued.

The City authorized a \$125 million Series J General Obligation Commercial Paper Program (the “Series J Notes”), which includes voter authorization from the 2001 and 2006 Elections. The liquidity provider for the Series J Notes is State Street Bank and Trust Company. As of February 28, 2013, none of the Series J Notes have been issued.

The City authorized a \$200 million Series K General Obligation Commercial Paper Program (the “Series K Notes”) to support its drainage program. See “CAPITAL IMPROVEMENT PLAN – Drainage and Street Renewal Fund.” The City plans to utilize the new program for appropriation purposes only and does not expect to issue any notes under such commercial paper program. The liquidity provider for the Series K Notes is Banco Bilbao Vizcaya Argentina, S.A.

With regard to all general obligation commercial paper programs, Commercial Paper Notes may be issued for a period not to exceed 270 days and will bear interest based upon the specified term of the Commercial Paper Notes, but not to exceed 10%. The principal and interest on the Commercial Paper Notes is payable from ad valorem taxes and other funds that may be provided under their respective lines of credit. The Commercial Paper Notes are offered for sale by commercial paper dealers. In addition, the rating of each liquidity provider has a direct effect on the liquidity of the respective commercial paper notes being secured and the cost to the City to issue such commercial paper notes. Financial and other information about each liquidity provider may be available from the applicable liquidity provider or one or more nationally recognized rating agencies.

Interest Rate Swaps. As part of its debt management program, consistent with the guidelines set forth in its interest rate swap policy, the City considers and reviews various interest rate swap proposals, including tax-

supported interest rate swaps. The City currently has no interest rate swaps for its tax-supported debt. The City's interest rate swap policy does not impose any quantitative limits on the rate, credit, or other risks that the City could assume under interest rate swap agreements. See "ACCOUNTING AND BUDGETING PROCEDURES AND GENERAL FUND REVENUES – City Interest Rate Swap Policy."

Enterprise System Debt. The City also is authorized to issue revenue bonds and notes without voter approval to finance improvements to its Combined Utility System, Convention and Entertainment Facilities, Houston Airport System and certain other revenue-producing enterprises. Such revenue bonds and notes are payable solely from the revenues derived from the operation of the related enterprise system.

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Obligations of the City

The following table sets forth, as of February 28, 2013, the outstanding principal amounts of obligations (including the Series 2013 Obligations and excluding the Refunded Obligations) of the City payable from ad valorem taxes and other revenue sources.

SCHEDULE 4: OUTSTANDING DEBT as of February 28, 2013

| | Amount (in thousands) |
|---|--------------------------|
| Payable from Ad Valorem Taxes | |
| Tax Obligations ^(a) | \$ 2,582,320 |
| Pension Obligations ^(b) | 607,775 |
| General Obligation Commercial Paper Notes ^(c) | 291,900 |
| Certificates of Obligation..... | 17,365 |
| Subtotal..... | <u>\$ 3,499,360</u> |
| Payable from Sources Other Than Ad Valorem Taxes | |
| Combined Utility System Revenue Bonds ^(d) | \$ 5,605,790 |
| Combined Utility System Commercial Paper Notes ^(e) | 100,000 |
| Water and Sewer System Revenue Bonds ^(f) | 280,971 |
| Contract Revenue Obligations ^(g) | 112,320 |
| Airport System Senior Lien Bonds..... | 449,660 |
| Airport System Senior Lien Commercial Paper Notes ^(h) | 0 |
| Airport System Subordinate Lien Revenue Obligations ⁽ⁱ⁾ | 1,818,055 |
| Airport System Inferior Lien Revenue Obligations ^(j) | 28,115 |
| Airport Special Facilities Revenue Bonds ^(k) | 670,520 |
| Hotel Occupancy Tax and Civic Parking Facilities Revenue Bonds ^(l) | 572,339 |
| Hotel Occupancy Tax Revenue Commercial Paper ^(m) | 43,000 |
| Subtotal..... | <u>\$ 9,680,770</u> |
| Total Debt Payable by the City..... | <u>\$ 13,180,130</u> |

- (a) A portion of the debt service for Tax Obligations is paid by transfers of certain revenues from certain Enterprise Funds, Special Revenue Funds or otherwise dedicated funds. See "SCHEDULE 18: DISCRETIONARY DEBT SERVICE TRANSFERS BY COMBINED UTILITY SYSTEM TO THE DEBT SERVICE FUND."
- (b) This amount includes certain Tax Bonds issued to refund outstanding unfunded pension obligations. A portion of the debt service for the Pension Obligations is paid by certain Enterprise Funds. See "THE CITY – Municipal System" and "– Police System."
- (c) The City has multiple general obligation commercial paper programs with total authorization of \$875 million. Liquidity for such commercial paper programs is provided by various commercial banks with various commitments ranging from one year to three years.
- (d) This amount includes \$48.75 million in bonds [expected to be] purchased by the Texas Water Development Board on April 11, 2013. As of February 28, 2013, \$902 million of bonds are outstanding as variable rate demand obligations and \$249.1 million of the bonds are outstanding as SIFMA indexed notes. The City has entered into revenue supported interest rate swap agreements related to these bonds in accordance with its swap policy. See "– Authority to Issue Bonds and Other Obligations" and Note 8.C.15, 16 of the City's audited Financial Statements for Fiscal Year 2012 presented in APPENDIX A.
- (e) The City has authorized \$700 million of Combined Utility System Commercial Paper Note Programs.
- (f) This amount represents outstanding Water and Sewer System Revenue Bonds issued prior to the City's creation of the Combined Utility System in 2004 and includes \$70.0 million accreted value of capital appreciation bonds. The Water and Sewer System is now a component of the Combined Utility System.
- (g) Contract Revenue Obligations consist of obligations under certain contracts between the City and the Coastal Water Authority, which are payable, as to both principal and interest, as operating expenses of the City's Combined Utility System, except for \$28 million of bonds issued to the Texas Water Development Board that are paid from net revenues of the Combined Utility System.
- (h) The City has authorized a \$150 million Airport System Senior Lien Commercial Paper Program.
- (i) Of this amount, \$305.4 million of the Airport System Subordinate Lien Revenue Bonds are outstanding as auction rate securities, and \$93.5 million are outstanding as variable rate demand obligations.
- (j) The automated people mover was financed with proceeds of certain Series 1997A Special Facilities Revenue Bonds with a current principal balance of \$28.1 million. Under the sublease with an airline, the City agreed to make sublease payments, a portion of which relates to debt service on the Series 1997A Bonds. Such payments are payable from Airport System net revenues on the same priority as Houston Airport System Inferior Lien Revenue Obligations. In addition, the City has created a \$150 million Airport System Inferior Lien Commercial Paper Program, which the City uses to manage appropriations for capital projects of the Airport System. There is no commercial paper outstanding under the Inferior Lien program.
- (k) All Special Facilities Revenue Bonds are secured solely from Special Facilities Lease Revenues, which are not revenues of the Houston Airport System.

- (l) This amount includes \$75 million of the Hotel Occupancy Tax and Special Revenue Bonds issued as auction rate securities and \$109.0 million accreted value of capital appreciation bonds. The Harris County–Houston Sports Authority (“Sports Authority”), which has also issued hotel occupancy tax-supported debt, is a venue district created jointly by the City and Harris County and exists as a political subdivision separate and apart from the City. Sports Authority debt is not included in the foregoing table.
- (m) The City has authorized a \$50 million Hotel Occupancy Tax Revenue Commercial Paper Program to fund certain capital improvements of the Convention and Entertainment Facilities.

Ad Valorem Tax Obligation Percentages

The following table shows (i) tax-supported debt, (ii) tax rolls as of June 30 of each Fiscal Year, except for Tax Year 2012, the figures of which are based on tax rolls as of February 8, 2013, (iii) tax-supported debt as a percentage of the City’s tax rolls, (iv) tax-supported debt per capita and (v) debt service requirements payable from taxes at the end of Tax Years 2008 through 2012. For purposes of this table, tax-supported debt consists of the outstanding Tax Bonds, Tax Certificates, Commercial Paper Notes and Pension Obligations as of the dates shown.

SCHEDULE 5: AD VALOREM TAX OBLIGATION PERCENTAGES

| Tax Year/Fiscal Year | Tax Obligations as of December 31 (in thousands) ^(a) | | Tax Obligations as a Percentage of Tax Roll | Tax-Supported Per Capita Debt ^(c) | Debt Service Requirement Payable from Taxes ^{(d)(e)} (in thousands) | Tax Levy for Debt Service ^(f) (in thousands) |
|----------------------------|--|---|---|---|--|--|
| | | Tax Roll ^(b) (in thousands) | | | | |
| 2008/2009 | \$ 3,174,023 | \$ 149,627,515 | 2.12% | \$ 1,418 | \$ 254,513 | \$ 251,700 |
| 2009/2010 | 3,324,065 | 150,270,904 | 2.21 | 1,472 | 308,113 | 254,600 |
| 2010/2011 | 3,440,075 | 142,964,244 | 2.41 | 1,639 | 342,966 | 232,545 |
| 2011/2012 | 3,471,590 | 145,042,978 | 2.39 | 1,617 | 297,923 | 229,700 |
| 2012/2013 | 3,469,360 | 192,801,703 | 2.27 | 1,613 | 300,124 | 241,100 |

- (a) Information as reported in the City’s Monthly Financial and Operations Report dated as of December 31 of each Fiscal Year.
- (b) With the exception of Tax Year 2012, the tax roll represents the total appraised value of property, after subtracting all exemptions, and reflects all adjustments made by the Appraisal Districts as of June 30 of each Fiscal Year. As of February 8, 2013, the total assessed value for Tax Year 2012 (including exempt property values) was approximately \$193 billion, which is the appraised value used to determine the statutory limitation of approximately \$19.3 billion relating to total bond indebtedness. See “SCHEDULE 4: OUTSTANDING DEBT.”
- (c) Per capita figures are based on population estimates according to the U.S. Census Bureau. See “APPENDIX B – ECONOMIC AND DEMOGRAPHIC CHARACTERISTICS” for additional population information and other economic and demographic information.
- (d) These amounts have not been reduced by the combined ending fund balances in the General Debt Service Fund, which were as follows for the Fiscal Years indicated: Fiscal Year 2009 - \$131,500,000, Fiscal Year 2010 - \$181,958,000, Fiscal Year 2011 - \$143,885,000, Fiscal Year 2012 is \$193,064,000 and estimate for Fiscal Year 2013 is \$143,696,000.
- (e) These amounts include principal and interest payments for Tax Obligations, except that only interest is included for Commercial Paper Notes at an assumed market rate appropriate for each Fiscal Year.
- (f) Sources of funds for the general obligation debt service requirements include the tax levy and transfers from Enterprise and Special Revenue Funds.

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Principal and Interest Payable from Ad Valorem Taxes

The following schedule presents the City's annual principal and interest requirements for Fiscal Years 2013 through 2042 for the outstanding Tax Bonds, Pension Obligations, and Tax Certificates as of February 28, 2013. The following table has not been adjusted to give effect to the issuance of the Series 2013 Obligations and the refunding of the Refunded Obligations. Debt service on Commercial Paper Notes is not reflected in the following schedule, but see footnote (a) below. As of February 28, 2013, the principal amount of Commercial Paper Notes outstanding is \$291.9 million.

SCHEDULE 6: PRINCIPAL AND INTEREST PAYABLE FROM AD VALOREM TAXES (EXCLUDING OUTSTANDING COMMERCIAL PAPER NOTES)^(a)

| Fiscal Year Ended June 30 | Tax Bonds ^{(b)(d)} | Pension Obligations ^(c) | Tax Certificates | Total Debt Service ^(e) |
|------------------------------|-----------------------------|---------------------------------------|------------------|--------------------------------------|
| 2013 | \$ 250,038,714 | \$ 36,297,353 | \$ 11,264,900 | \$ 297,600,967 |
| 2014 | 252,989,325 | 42,642,353 | 2,534,150 | 298,165,828 |
| 2015 | 282,331,919 | 42,688,252 | 2,535,750 | 327,555,921 |
| 2016 | 279,277,025 | 42,736,161 | 2,535,750 | 324,548,936 |
| 2017 | 307,844,126 | 42,784,193 | - | 350,628,319 |
| 2018 | 304,020,380 | 42,840,460 | - | 346,860,840 |
| 2019 | 263,529,072 | 42,897,446 | - | 306,426,518 |
| 2020 | 256,377,985 | 42,962,951 | - | 299,340,936 |
| 2021 | 213,448,007 | 52,989,143 | - | 266,437,150 |
| 2022 | 201,079,548 | 53,017,022 | - | 254,096,570 |
| 2023 | 205,804,816 | 53,033,446 | - | 258,838,262 |
| 2024 | 148,725,908 | 53,059,012 | - | 201,784,920 |
| 2025 | 147,505,691 | 53,087,743 | - | 200,593,434 |
| 2026 | 108,787,075 | 53,118,665 | - | 161,905,740 |
| 2027 | 125,132,452 | 53,150,488 | - | 178,282,940 |
| 2028 | 118,718,765 | 53,176,606 | - | 171,895,371 |
| 2029 | 81,447,636 | 61,545,416 | - | 142,993,052 |
| 2030 | 43,367,985 | 61,591,516 | - | 104,959,501 |
| 2031 | 21,299,926 | 73,050,274 | - | 94,350,200 |
| 2032 | 23,754,270 | 73,088,498 | - | 96,842,768 |
| 2033 | 16,809,651 | 30,715,357 | - | 47,525,008 |
| 2034 | 14,093,682 | 6,505,750 | - | 20,599,432 |
| 2035 | 16,815,201 | 50,850,750 | - | 67,665,951 |
| 2036 | 13,955,320 | 39,478,572 | - | 53,433,892 |
| 2037 | 10,521,137 | 24,547,367 | - | 35,068,504 |
| 2038 | 6,922,490 | 880,470 | - | 7,802,960 |
| 2039 | 3,917,824 | 880,470 | - | 4,798,294 |
| 2040 | 1,361,200 | 880,470 | - | 2,241,670 |
| 2041 | 1,362,800 | 21,130,470 | - | 22,493,270 |
| 2042 | 1,362,400 | - | - | 1,362,400 |
| | \$ 3,722,602,330 | \$ 1,205,626,674 | \$ 18,870,550 | \$ 4,947,099,554 |

- (a) Each Fiscal Year the City budgets for Commercial Paper Notes debt service and related reserve funds based on a calculation that assumes a certain amount of Commercial Paper Notes is expected to be issued during that Fiscal Year at an assumed rate of interest. See "SCHEDULE 4: OUTSTANDING DEBT."
- (b) Total debt service does not include payments related to various leases for office space and equipment, which are not considered debt under Texas law. The terms and conditions of such leases and agreements vary. See Note 9 to the City's audited Financial Statements for Fiscal Year 2012 presented in APPENDIX A.
- (c) A portion of the debt service for the Pension Obligations is paid by the City's Combined Utility System, Airport System and Convention and Entertainment Facilities. See "THE CITY - Employee Pension Funds," "- Municipal System" and "- Police System."
- (d) Excludes estimated federal Build America Bond subsidy payment of 35% of interest paid in connection with the City's Public Improvement Refunding Bonds, Taxable Series 2009B and 2010B (Direct Pay to Issuer-Build America Bonds).
- (e) Totals may reflect a variance due to rounding.

COMPUTATION OF DIRECT AND OVERLAPPING DEBT

Other governmental entities whose boundaries overlap the City have outstanding bonds or other obligations payable from ad valorem taxes. The information contained in SCHEDULE 7 under the heading "Net Direct Debt," other than for the City, has been obtained from the Municipal Advisory Council of Texas and from the individual governmental entities. The information contained in SCHEDULE 7 under the heading "City Share of Debt" has been obtained from the Municipal Advisory Council of Texas. Net Direct Debt is equal to the outstanding principal amount less sinking fund balances.

The City has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon such information as being accurate or complete. Furthermore, some entities listed below may have issued additional bonds or other obligations since the dates shown on this table and may have programs requiring the issuance of substantial amounts of additional bonds or other obligations, the amount of which cannot be determined.

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SCHEDULE 7: DIRECT AND OVERLAPPING DEBT

| Entity | Net Direct Debt ^(a) | | % of Debt Applicable to City ^{(a)(c)} | City Share of Debt (in thousands) |
|---|--------------------------------|----------|--|---|
| | Amount (in thousands) | As of | | |
| <u>City</u> | | | | |
| City of Houston-direct debt | \$ 3,499,360 | 02/28/13 | 100.00% | \$ 3,499,360 |
| <u>County</u> | | | | |
| Fort Bend County | 371,303 | 09/30/11 | 2.21 | 8,206 |
| Harris County ^(b) | 2,208,298 | 02/29/12 | 52.53 | 1,160,019 |
| Harris County Flood Control | 91,076 | 02/29/12 | 52.53 | 47,842 |
| Montgomery County | 451,323 | 06/30/12 | 1.14 | 5,145 |
| <u>Independent School</u> | | | | |
| Aldine I.S.D. | 377,224 | 06/30/12 | 48.54 | 183,105 |
| Alief I.S.D. | 186,159 | 08/31/12 | 77.19 | 143,696 |
| Clear Creek I.S.D. | 619,423 | 08/31/12 | 47.32 | 293,111 |
| Crosby I.S.D. | 63,690 | 08/31/11 | 0.23 | 146 |
| Cypress-Fairbanks I.S.D. | 1,734,596 | 06/30/12 | 11.25 | 195,142 |
| Deer Park I.S.D. | 220,747 | 09/30/12 | 0.12 | 265 |
| Fort Bend I.S.D. | 895,592 | 11/30/12 | 1.89 | 16,927 |
| Galena Park I.S.D. | 233,777 | 08/31/11 | 13.49 | 31,537 |
| Goose Creek C.I.S.D. | 318,456 | 09/30/11 | 0.00 | - |
| Houston I.S.D. | 2,124,183 | 05/01/12 | 90.95 | 1,931,944 |
| Huffman I.S.D. | 51,604 | 08/31/11 | 26.02 | 13,427 |
| Humble I.S.D. | 604,581 | 09/30/11 | 43.25 | 261,481 |
| Katy I.S.D. | 1,160,289 | 08/31/11 | 19.16 | 222,311 |
| Klein I.S.D. | 717,190 | 08/31/12 | 1.26 | 9,037 |
| New Caney I.S.D. | 248,858 | 08/31/11 | 18.28 | 45,491 |
| North Forest I.S.D. | 59,916 | 08/31/11 | 93.89 | 56,255 |
| Pasadena I.S.D. | 410,765 | 06/01/12 | 41.35 | 169,851 |
| Sheldon I.S.D. | 151,250 | 08/31/11 | 0.44 | 665 |
| Spring Branch I.S.D. | 728,321 | 09/01/12 | 70.46 | 513,175 |
| Spring I.S.D. | 613,907 | 06/30/12 | 1.67 | 10,252 |
| <u>Municipal Utility Districts</u> | | | | |
| Fort Bend County WC&ID No. 2 | 56,301 | 12/20/11 | 1.00 | 563 |
| Harris County Improvement Dist No.1 | 9,698 | 06/30/12 | 100.00 | 9,698 |
| Harris County MUD No. 355 | 9,519 | 09/30/12 | 99.08 | 9,431 |
| Harris County MUD No. 359 | 5,914 | 08/31/12 | 100.00 | 5,914 |
| Harris County MUD No. 366 | 467 | 06/30/10 | 89.27 | 417 |
| Harris County MUD No. 372 | 10,760 | 09/01/12 | 100.00 | 10,760 |
| Harris County MUD No. 381 | 8,400 | 07/31/12 | 100.00 | 8,400 |
| Harris County MUD No. 390 | 16,704 | 10/19/11 | 100.00 | 16,704 |
| Harris County MUD No. 393 | 7,551 | 04/30/12 | 100.00 | 7,551 |
| Harris County MUD No. 407 | 5,114 | 09/06/11 | 100.00 | 5,114 |
| Harris County MUD No. 410 | 8,840 | 09/02/12 | 100.00 | 8,840 |
| Harris County MUD No. 411 | 3,496 | 07/31/12 | 100.00 | 3,496 |
| Harris County MUD No. 450 | 4,643 | 03/31/11 | 100.00 | 4,643 |
| Harris County MUD No. 460 | 2,154 | 06/30/12 | 100.00 | 2,154 |
| Harris County WC&ID No. 156 | 3,160 | 02/28/13 | 55.74 | 1,761 |
| Northwood MUD No. 1 | 2,255 | 06/30/12 | 100.00 | 2,255 |
| <u>Other Jurisdictions</u> | | | | |
| Clear Lake City Water Authority | 69,239 | 02/29/12 | 68.69 | 47,560 |
| Harris County Department of Education | 7,795 | 08/31/12 | 52.53 | 4,095 |
| Houston Community College System | 291,685 | 08/31/11 | 90.86 | 265,025 |
| Lee College District | 13,134 | 08/31/11 | 0.00 | - |
| Lone Star College System ^(d) | 516,389 | 08/31/11 | 11.64 | 60,108 |
| Port of Houston Authority | 704,419 | 12/31/11 | 52.53 | 370,032 |
| San Jacinto Jr. College District | 319,288 | 08/31/11 | 15.44 | 49,298 |
| Total overlapping debt | \$ 16,719,454 | | | \$ 6,212,850 |
| Total direct and overlapping debt | \$ 20,218,814 | | | \$ 9,712,210 |

- (a) The net direct debt amounts, except for the amount that relates to the City, and the percentage of debt applicable to the City was provided by the Municipal Advisory Council of Texas. Net Direct Debt is equal to the outstanding principal amount less sinking fund balances, except for City debt.
- (b) Excludes all outstanding Harris County Toll Road Tax Bonds which are secured by a subordinate lien on toll road net revenues; no tax has ever been required to pay such bonds.
- (c) Amounts may not be current as of the date of this Official Statement, but are current as of the dates listed.
- (d) Formerly North Harris-Montgomery Community College District.

CAPITAL IMPROVEMENT PLAN

City policy requires the Mayor to develop and submit annually to the City Council for approval a continuous five-year Capital Improvement Plan (the “CIP”). In each Fiscal Year, the Mayor must review the CIP, revise it as necessary and prepare a capital budget for approval and adoption by the City Council. The annual update of the CIP provides, upon approval by the City Council, a continuous five-year plan. In addition, the process of developing the CIP provides for significant public participation, as well as input from other governmental entities for joint projects. An example of such coordination is the joint effort between the City and the Metropolitan Transit Authority of Harris County, Texas (“METRO”) to repair streets and overpasses in order to improve the transportation system and general mobility.

The 2013-2017 CIP (Non-Enterprise Fund) consists of the projects and facilities described in the following chart. The 2013-2017 CIP also includes proposed improvements for the Combined Utility System, Airport System and Convention and Entertainment Facilities, which are financed primarily with revenues of those enterprise systems and, therefore, are not included in the schedule below.

SCHEDULE 8: CAPITAL IMPROVEMENT PLAN (NON-ENTERPRISE FUND)

| | Amount (in thousands) |
|---|--------------------------------------|
| Streets, Bridges and Traffic Control..... | \$ 621,510 |
| Storm Sewers and Drainage | 335,322 |
| Parks and Recreation | 68,088 |
| Police Department | 87,552 |
| Fire Department..... | 54,637 |
| General Government | 15,720 |
| Public Library..... | 37,004 |
| Public Health..... | 20,450 |
| Solid Waste Management..... | 14,983 |
| Low Income Housing | <u>14,800</u> |
| Total | <u>\$1,270,066^(a)</u> |

(a) The tax-supported component (approximately \$378 million) of the 2013-2017 CIP addresses a full range of capital facility and infrastructure improvements. Approximately \$350 million of the tax-supported component is from current voted authorization, and such voter authorized improvements are expected to be initially financed with Commercial Paper Notes and then refunded with long-term obligations that have been authorized by the voters. See “SCHEDULE 9: VOTER-AUTHORIZED OBLIGATIONS” for a discussion of the City’s voted authorization. The remaining amount is expected to be funded by grants, funds from agencies participating in joint capital improvement projects with the City and various other sources. See also “PROPERTY TAXES – City Charter Tax and Revenue Propositions” for a discussion on the limit of ad valorem tax revenues of the City.

Drainage and Street Renewal Fund

In November 2010, the voters of the City approved a proposition to fund the City’s drainage and street infrastructure by imposing an assessment (hereafter, a “Drainage Utility Fee”) upon property owners that receive drainage services, which are virtually all property owners of the City. Certain properties are exempt including, but not limited to, State agency facilities and public and private institutions of higher education. Since approved, the initiative operates under the City’s public works and engineering department, and is commonly referred to as “Rebuild Houston.” In addition to the Drainage Utility Fees, the proposition also contemplates funding from other sources, including a developer impact fee, ad valorem taxes and other public entities, such as METRO and the State. Rebuild Houston will provide “pay as you go” funding for drainage and street infrastructure.

To implement Rebuild Houston, City Council adopted Ordinance No. 2011-254 (the “Enabling Ordinance”), which directs the City’s public works and engineering department to approve a 10-year plan, and make such plan available for public input and consideration. Among other matters, the plan will consider and prioritize infrastructure projects relating to storm drainage, major thoroughfares and local streets. The proposition requires

additional funding equivalent to the proceeds of \$0.118 (11.8 cents) of the City’s Fiscal Year ad valorem tax levy less an amount equal to general obligation debt service for bonds previously issued to fund drainage and street projects.

In Fiscal Year 2013, the City projects as of February 28, 2013 that revenues for the Drainage and Street Renewal Fund for Fiscal Year 2013 will be \$198,816,000. Of that amount, the Drainage Utility Fee represents approximately \$100,000,000. Additionally, the City projects as of February 28, 2013 that approximately \$160,550,000 of property tax revenue would be produced with an ad valorem tax levy of \$0.118 (11.8 cents). After subtracting Fiscal Year 2013 debt service allocable to public improvement bonds issued in the approximate amount of \$149,655,000 to fund street and drainage projects, approximately \$10,897,000 would be available for deposit into the Drainage and Street Renewal Fund for Rebuild Houston projects.

Since Rebuild Houston will provide a separate funding source for drainage and street projects, the City anticipates that public improvement bonds issued to fund drainage and street projects will be substantially reduced or eliminated over the next several Fiscal Years. Consequently, the City does not expect to utilize the \$ million unissued portion of the voted general obligation bond authority for “Streets, Bridges, Traffic Control, Storm Sewers and Drainage.” See SCHEDULE 9: VOTER-AUTHORIZED OBLIGATIONS.

Voter-Authorized Obligations

The following schedule sets forth the categories of bond authorization approved by the voters in elections held in November 2001 (the “2001 Election”), November 2006 (the “2006 Election”) and November 2012 (the “2012 Election”) and the amount of each such authorization approved by City Council for issuance as Commercial Paper Notes, the amount of Commercial Paper Notes issued as of year-end, and the amount of Commercial Paper approved but unissued.

SCHEDULE 9: VOTER-AUTHORIZED OBLIGATIONS
(in thousands)

2001 Election

| Purposes | Approved by City Council for Issuance as Commercial Paper Notes | | Commercial Paper Issued ^(a) | Commercial Paper Notes Approved by City Council but Unissued | | All Voter Authorized but Unissued |
|--|---|-------------------|--|--|------------------|-----------------------------------|
| | Voter Authorized | | | | | |
| Streets, Bridges, Traffic Control, Storm Sewers and Drainage | \$ 474,000 | \$ 474,000 | \$ 471,850 | \$ 2,150 | \$ 2,150 | |
| Parks and Recreation | 80,000 | 80,000 | 80,000 | 0 | 0 | |
| Police and Fire Department | 82,000 | 82,000 | 82,000 | 0 | 0 | |
| Permanent & General Improvements ^(b) | 80,000 | 80,000 | 80,000 | 0 | 0 | |
| Public Libraries | 40,000 | 40,000 | 40,000 | 0 | 0 | |
| Low Income Housing | 20,000 | 20,000 | 10,870 | 9,130 | 9,130 | |
| Total | \$ 776,000 | \$ 776,000 | \$ 764,720 | \$ 11,280 | \$ 11,280 | |

2006 Election

| Purposes | Voter Authorized | Approved by City Council for Issuance as Commercial Paper Notes | Commercial Paper Issued^(a) | Commercial Paper Notes Approved by City Council but Unissued | All Voter Authorized but Unissued |
|--|-----------------------------|--|--|---|--|
| Streets, Bridges, Traffic Control, Storm Sewers and Drainage | \$ 320,000 | \$ 219,950 | \$ 79,550 | \$ 140,400 | \$ 240,450 |
| Parks and Recreation | 55,000 | 41,100 | 30,700 | 10,400 | 24,300 |
| Public Safety | 135,000 | 76,450 | 59,105 | 17,345 | 75,895 |
| Permanent & General Improvements ^(b) | 60,000 | 60,000 | 44,400 | 15,600 | 15,600 |
| Public Libraries | 37,000 | 32,675 | 32,675 | - | 4,325 |
| Low Income Housing | 18,000 | 7,375 | 0 | 7,375 | 18,000 |
| Total | \$ 625,000 | \$ 437,550 | \$ 246,430 | \$ 191,120 | \$ 378,570 |

2012 Election

| Purposes | Voter Authorized | Approved by City Council for Issuance as Commercial Paper Notes | Commercial Paper Issued^(a) | Commercial Paper Notes Approved by City Council but Unissued | All Voter Authorized but Unissued |
|--|-----------------------------|--|--|---|--|
| Parks and Recreation | \$ 166,000 | \$ 0 | \$ 0 | \$ 0 | \$ 166,000 |
| Public Safety | 144,000 | 0 | 0 | 0 | 144,000 |
| Permanent & General Improvements ^(b) | 57,000 | 0 | 0 | 0 | 57,000 |
| Public Libraries | 28,000 | 0 | 0 | 0 | 28,000 |
| Low Income Housing | 15,000 | 0 | 0 | 0 | 15,000 |
| Total | \$ 410,000 | \$ 0 | \$ 0 | \$ 0 | \$ 410,000 |
| Combined Total (2001 Election, 2006 Election and 2012 Election) | \$ 1,811,000 | \$ 1,213,550 | \$ 1,011,150 | \$ 202,400 | \$ 799,850 |

(a) As of , 2013.

(b) Includes Public Health and Solid Waste Management

THE CITY

Governmental Structure

The City has a mayor-council form of government in which the Mayor and the sixteen-member City Council serve as the legislative body. Eleven council members are elected by district and five council members are elected at-large. The Mayor, all members of the City Council and the City Controller are elected for two-year terms. The present term of office for all elected officials expires in January 2014. The City Charter limits the terms of office for all elected City officials to three, two-year terms.

The Mayor is the City's chief executive officer. The Mayor exercises administrative control over the City's government; presides over City Council meetings; establishes the City Council agenda; and appoints the heads of the various departments of the City, subject to confirmation by the City Council. The Mayor also is responsible for preparing and submitting the City's annual budget proposals to the City Council for adoption.

The City Controller is the City's chief financial officer. The Office of the City Controller superintends, supervises, manages and conducts the fiscal affairs of the City; maintains the books of accounts; prepares financial statements; conducts the sales of City obligations; certifies the availability of funds before the City incurs any financial obligation; and, along with the Mayor, countersigns all warrants, contracts or orders for payment of any money by the City.

Services Provided by the City

The City provides law enforcement and fire protection services, emergency medical services, water, sanitary sewer and solid waste disposal services, storm drainage, bridge and street facility maintenance, library and park services, building inspection and civil defense services. In addition to these services, the City also provides preventive health services through numerous health facilities within the City and certain housing services to low income and homeless families and operates convention, cultural, sports and airport facilities.

The City does not operate public hospitals, schools, transit services or a higher education system, nor does it expend City funds for public assistance programs. Public hospitals and schools within the City's boundaries are administered by the State or special districts or other governmental entities with independent taxing authority. METRO operates the transit system and is financed by a separate 1% sales and use tax, federal and State grants and fare receipts

Home-Rule Charter

Voters of the City adopted the City Charter under the home-rule provision of the Texas Constitution. Under the Texas Constitution, the City Charter may be amended not more than once every two (2) years at an election held for that purpose, which may be called by the City Council or upon petition of 20,000 of the City's registered voters. The last City Charter amendments were adopted on November 2, 2010. See "PROPERTY TAXES – City Charter Tax and Revenue Propositions – Drainage and Street Proposition." In addition, the City Charter allows the City's voters to exercise the powers of initiative and referendum. To enact an initiative ordinance, a petition signed by voters equal in number to at least 15% of the greater total vote cast for Mayor in any general election in the preceding three (3) years must be submitted to the City. Thereafter, the City Council may enact the ordinance or call an election on the question of its adoption. In order to exercise the referendum power, a petition signed by voters equal in number to at least 10% of the greater total vote cast for Mayor in any general election in the preceding three (3) years must be submitted to the City. City Council may repeal the ordinance that is the subject of the referendum petition or submit the issue to the electorate. See "PROPERTY TAXES – City Charter Tax and Revenue Propositions."

Employees

The following schedule shows the total number of City employees at the end of Fiscal Years 2009 through 2012 and estimated Fiscal Year 2013 figures:

SCHEDULE 10: CITY EMPLOYEES

| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013^(a)</u> |
|---------------------|---------------|---------------|---------------|---------------|---------------------------|
| Police (classified) | 5,043 | 5,261 | 5,267 | 5,224 | 5,226 |
| Fire (classified) | 3,861 | 3,897 | 3,854 | 3,801 | 3,755 |
| Other Municipal | <u>13,515</u> | <u>13,466</u> | <u>12,763</u> | <u>11,879</u> | <u>11,881</u> |
| Total | <u>22,419</u> | <u>22,624</u> | <u>21,884</u> | <u>20,904</u> | <u>20,862</u> |

(a) Based on the City's Monthly Financial and Operations Report dated as of February 28, 2013.

Bargaining with Police and Firefighters. Texas law prohibits municipal employees from engaging in strikes. Accordingly, classified police officers and firefighters may not strike if they feel aggrieved of any terms or conditions of their employment in Texas. They may, however, elect bargaining agents. The bargaining agents for police officers "meet and confer" upon specific terms and conditions of employment, including wages, in a negotiated manner with the Mayor and/or her representatives. The bargaining agents for firefighters negotiate with the City pursuant to Subchapter C of Chapter 174 of the Texas Local Government Code and engage in collective bargaining.

In Fiscal Year 2011, the City and the police union agreed on terms of a five year "meet and confer" agreement relating to various matters, including wages, staffing and other benefits. Pursuant to such agreement, no pay increases were required for Fiscal Years 2011 and 2012, but pay raises of 3% in Fiscal Years 2013 and 2014 and 4% in Fiscal Year 2015 are included. The City and the firefighters' union have proposed a three-year collective bargaining agreement.

Bargaining with Other Municipal Employees. Chapter 146 of the Texas Local Government Code (“Chapter 146”), extends to municipal employees of the City, other than department heads, firefighters and police officers, the right to appoint bargaining agents to “meet and confer” with representatives of the City of any agency, board, commission or political subdivision that is required to establish wages, salaries, rates of pay, hours, working conditions or other terms and conditions of employment regarding such issues. Chapter 146 prohibits municipal employees from engaging in strikes and specifically prohibits the bargaining agent and the City from entering into agreements regarding pension-related matters governed by Article 6243g, Vernon’s Texas Civil Statutes, or a successor statute (now Article 6243h, Vernon’s Texas Civil Statutes). See “– Employee Pension Funds.” However, any agreement affecting the salaries of municipal employees will likely have an effect on the City’s pension liabilities. See also “– Health Benefits – Health Care Benefits for Retired Employees.”

In order to invoke the provisions of Chapter 146, a majority of the municipal employees submitted a petition requesting the recognition of a particular employee association as the sole and exclusive bargaining agent. After receiving such a petition, the City recognized the Houston Organization of Public Employees (“HOPE”) as the exclusive bargaining agent for all covered employees, which generally consist of municipal employees, but not elected officials, employees of elected officials, directors or classified employees. The City and HOPE’s current meet and confer agreement expires on June 30, 2015 (the “2011 HOPE Agreement”). The 2011 HOPE Agreement provides for an “across-the-board” pay increase of 3% in 2013 and 3% in 2014. Following the expiration of the 2011 HOPE Agreement, the City will no longer have a contractual obligation to pay increases unless it negotiates to do so in a successor contract. While pension benefits and contributions are not part of the 2011 HOPE Agreement, the increase in wages previously agreed to will affect the City’s pension contributions. The City has recently reached an agreement with the Houston Municipal Employees Pension Board (“HMEPS”) specifically related to pension benefits and contributions. See also the section captioned “– Employee Pension Funds” for a discussion of the “meet and confer” process for HMEPS.

The City offers various vacation, sick leave and compensatory time benefits for its employees with distinctions based on date or duration of employment or other factors. As of June 30, 2012 the amount of accumulated vacation, sick leave and compensatory time was valued at approximately \$462 million. Of this, \$143 million was expected to be paid within 12 months from governmental funds, and \$285 million was recorded as a long-term liability of the governmental funds. A short-term liability of \$13 million and a long-term liability of \$21 million were recorded in the enterprise funds.

Additionally, the City provides in its annual budget for each Fiscal Year an amount reasonably calculated to provide funding for the payment of accumulated sick leave and vacation benefits for City employees whose employment terminates during that year. In Fiscal Years 2010 and 2011, the City paid out approximately \$4 million and \$8.6 million, respectively, relating to these benefits for civilian employees, and approximately \$12 million and \$14 million, respectively, relating to these benefits for classified employees.

The City is subject to federal and state laws regarding the terms, conditions and extent of financial benefits it must provide to its employees. Future changes in the benefits required by such laws cannot be predicted and may substantially increase the City’s personnel costs. The following schedules provide the compensated absence liability and long-term disability obligation as of June 30, 2012. See also “– Health Benefits – Health Care Benefits for Retired Employees.”

SCHEDULE 11: COMPENSATED ABSENCE LIABILITY AND LONG-TERM DISABILITY FUND

SCHEDULE 11A: COMPENSATED ABSENCE LIABILITY

| | Fiscal Year 2012 (in thousands) |
|---|------------------------------------|
| General Fund Short-term Liability | \$ 3,700 |
| Other Governmental Short-term Liability | 153,763 |
| Enterprise Funds Liability | 33,232 |
| Governmental Funds Long-Term Liability..... | <u>285,149</u> |
| Total | <u>\$ 475,844</u> |

SCHEDULE 11B: LONG-TERM DISABILITY FUND^(a)

| | |
|---|------------------------------------|
| | Fiscal Year 2012 (in thousands) |
| Assets Available for Future Long-Term Disability Obligations..... | \$ 9,254 |
| Less: Claims Payable on Long-Term Disability Obligations..... | <u>(8,109)</u> |
| Net Assets..... | <u>\$ 1,145</u> |

(a) Based on information reported in the City's audited Financial Statements for Fiscal Year 2012 presented in APPENDIX A.

Health Benefits

The Health Benefits Fund (the "Health Benefits Fund") is an Internal Service Fund administered by the Human Resources department of the City. The Health Benefits Fund was established to centralize the financial transactions for the City's employee benefit plans, which include medical, dental and life insurance programs.

Health Insurance Plans. Effective May 1, 2011, the City awarded CIGNA a three-year contract with two one-year renewal options for four health plans and changed its funding method from fully insured to self-insured. Both individual and aggregate stop-loss coverage (with a monthly attachment/protection feature) has been purchased to limit the financial risk of catastrophic claims. The City's four health plans, all of which contain a wellness component, are: (i) a limited network HMO-type plan, (ii) an open-access PPO-type plan with no out-of-network coverage, (iii) a high deductible Health Plan (CDHP), partnered with a health reimbursement account and (iv) a specific plan for retirees not eligible for Medicare, mostly those under age 65, who live outside the limited network service area but who live in Texas. The retiree plan combines the co-payment benefits of the limited plan and the network and contributions of the open access plan.

Other Health Benefits for Active Employees. The Health Benefits Fund also includes two dental plans, funded entirely by participants, a dental health maintenance organization (DHMO) and dental indemnity plan. Basic Life Insurance is paid by the City and Voluntary Life Insurance is paid by the subscribers. Basic life insurance coverage is one times the base salary of the employee, which is 100% employer funded. Basic life insurance coverage premiums for retirees are paid by retiree contributions. Participants may purchase additional life insurance coverage at their own expense. A Healthcare Flexible Spending Account, in addition to a Dependent Care Account, is also included in the Health Benefits Fund.

Health Care Benefits for Retired Employees. The City provides certain health care benefits for its retired employees, their spouses and survivors. Employees on long-term disability and their spouses can also qualify for retiree health care benefits. Currently, substantially all of the City's employees who qualify for pension benefits while working for the City will become eligible for such benefits.

The City provides six Medicare plans with five different vendors and has made these plans mandatory for all retirees over age 65 who are eligible for Medicare. The medical plans are supported by contributions from the City and subscribers. In addition to the medical plan and in an effort to mitigate costs and maximize benefits to the City and Medicare eligible retirees, the City offers Medicare Advantage plans from several insurance providers. On January 1, 2010, the City entered into separate three-year contracts, each with two one-year renewal options, with six insurance providers. The first of the one-year renewal options has been exercised. Effective January 1, 2011, the City awarded a three-year contract with two one-year renewal options to Texan Plus, Texas HealthSpring, Aetna ESA (PPO Plan), Kelsey (HMO & POS Plans) and United Health Care. These Medicare Advantage Plans provide retirees with alternative managed healthcare plans. The Medicare Advantage Plans continue to be fully insured products and offer retirees several plans to choose from. Effective May 1, 2011, the City requires all Medicare eligible retirees to enroll in the Medicare Advantage Plans.

Funding of Other Postemployment Benefits. Similar to many issuers, the City's current practice has been to fund the cost of Other Postemployment Benefits ("OPEB") on an annual pay-as-you-go basis, with OPEB costs accounted for as a current operating expense in the City's Financial Statements in the Fiscal Year in which the OPEB cost is paid. The City has taken steps to assess the current and future financial impact of its unfunded OPEB liabilities and continues to review the appropriate policies to address and manage any such liabilities.

Beginning in Fiscal Year 2007, the City became required by the Government Accounting Standards Board Statement No. 45 ("GASB 45"), *Accounting by Employers for Other Postemployment Benefits*, to report an actuarially determined cost of post-employment benefits, other than pensions, such as health and life insurance for current and future retirees. Under GASB 45, the City must recognize such costs over the working lifetime of employees and, to the extent such costs are not prefunded, report such costs as a financial statement liability. GASB has begun a project to consider modifications to the existing standards of accounting and financial reporting for OPEB. As of the date hereof, no proposed changes to OPEB accounting rules have been released by GASB.

The City's most recent actuarial study indicates that, as of July 1, 2011, (i) the City's actuarial accrued liability ("AAL") for the portion of the total liability for projected benefits expected to be paid to the City's municipal employees and classified police officers and firefighters not funded by normal cost payments was approximately \$2.0 billion and (ii) the annually required contribution that would be required to pay the normal costs of the benefits and to effect a level amortization of the AAL over a 30-year period would have been approximately \$237.5 million. The AAL measured as of June 30, 2009, was approximately \$3.1 billion. The reduction in AAL from \$3.1 billion to \$2.0 billion results from changes in treatment of those eligible for Medicare, certain actuarial gain, assumption changes and the impact of certain plan changes made as of May 1, 2011. The City paid approximately \$39.6 million for retiree claim payments and health insurance premiums in Fiscal Year 2011 out of the General Fund and paid approximately \$24.2 million in Fiscal Year 2012. To date, the City has not accumulated assets to offset future benefit costs.

Options available to any issuer such as the City to offset or reduce the future OPEB liability that will be reported under GASB 45 include the following:

- Reduction of benefits for active employees and/or retirees;
- Increase of required contributions from active employees and/or retirees; and
- Contributing assets or pre-funding with real property, a dedicated revenue stream or other taxes or City assets not yet identified.

See also Note 11 of the City's audited Financial Statements for Fiscal Year 2012 presented in APPENDIX A, which includes information relating to retiree health care premiums paid by the City in Fiscal Year 2012, as well as information relating to health and long-term disability benefits.

Employee Pension Funds

Prospective investors are advised that any projections or forecasts in the section below, including projections of the amount of the UAAL and the amounts of actuarially calculated contributions by the City, constitute "forward-looking" information that reflects the judgment of the City, the boards of the Pension Systems and the actuaries as to the amount of assets that will be required to be accumulated for the payment to both active and retired employees of future benefits. Such judgments are based on a variety of assumptions concerning future events and circumstances, one or more of which could prove to be inaccurate or be changed in the future. The assumptions underlying the projections are material to the development of the projections, and variations in the assumptions may produce substantially different results.

General Overview of the Pension Systems. As of the date hereof, the City has met all material obligations with regard to its contributions under the various "meet and confer" agreements, with respect to HMEPS (as defined below) and HPOPS (as defined below) or such contributions required under Texas law for HFRRF (as defined below). The City has actively managed its obligations to the extent possible under the governance structure established by State law. All three pension systems (the "Pension Systems") are overseen by the City's Chief Pension Officer, who serves on the board of each of the Pension Systems. Over the last several years, the City has taken a number of actions to address the UAAL associated with its Pension Systems, including (i) conducting a successful election to opt-out of an amendment to the Texas Constitution, which prohibits (unless the jurisdiction has "opted-out") a reduction in or other impairments of the accrued retirement or death benefits provided by the public retirement systems of political subdivisions and (ii) concluding "meet and confer" negotiations with HMEPS and HPOPS. For a complete discussion of the funding status of the Pension Systems, investors are encouraged to review "Municipal System," "Police System," and "Firefighter Fund." Based on the most recent actuarial reports for each Pension System and the funding policies adopted by the Board of the Pension Systems, the City believes

that the projected assets of each Pension System are sufficient to pay benefits to all participants when they become due.

The City has three pension programs that cover all full-time City employees:

- (i) the Houston Municipal Employees Pension System (“HMEPS” or the “Municipal System”) for municipal employees, which was established pursuant to Article 6243h of Vernon’s Texas Civil Statutes, as amended (the “HMEPS Statute”);
- (ii) the Houston Police Officers’ Pension System (“HPOPS” or the “Police System”) for classified police officers, which was established pursuant to Article 6243g-4, as amended (the “HPOPS Statute”); and
- (iii) the Houston Firefighters’ Relief and Retirement Fund (“HFRRF” or the “Firefighter Fund”) for classified firefighters, which was established pursuant to Article 6243e.2(1), as amended (the “HFRRF Statute” and, collectively with the HMEPS Statute and the HPOPS Statute, the “Pension Statutes”).

Governance. The Pension Statutes establish the governance structure of each Pension System, City and employee contribution levels and the method for the determination of benefits payable to retirees under the Pension Systems; provided, however, that the HMEPS Statute and the HPOPS Statute allow for modification of the City and employee contribution levels and the determination of benefits payable to retirees pursuant to a local “meet and confer” process through which the City and the boards of trustees of those systems may reach binding agreements. In contrast, the HFRRF Statute solely governs both benefits and contributions. The majority of the trustees of each Pension System have a personal interest in the pension plan administered by each board of trustees. All trustees of each Pension System take an oath to “diligently and honestly administer” such Pension System, and each trustee is counseled on his/her fiduciary responsibilities. Trustees appointed by the City are counseled that their fiduciary duties to the Pension System take precedence over the interests of the agency or official that appointed them to the board. No legal challenges have arisen as a result of potential conflicts of interest.

“Meet and Confer” Process. The Municipal System and Police System are authorized by the HMEPS Statute and the HPOPS Statute, respectively, to make binding agreements with the City with regard to City and employee contribution rates, the determination of benefits payable to retirees and other matters that differ from those provided in the Pension Statutes. The HFRRF Statute does not authorize comprehensive agreements on such issues through the “meet and confer” process. The Mayor directs “meet and confer” negotiations on behalf of the City. While the Pension Statutes require each Pension System to undergo periodic actuarial valuations, there is no statutory requirement that the funding plan determined through “meet and confer” negotiations be actuarially based or subject to independent actuarial evaluation. Accordingly, the funding plan negotiated through the “meet and confer” process may not be consistent with the actuarially determined contributions and their component UAALs determined by a standard actuarial cost method that currently exists within the Pension Systems.

Actuarially Determined Contribution Amounts and Changes in Pension Plan Assets. The most recent actuarial valuation report as of July 1, 2012 for the Firefighter Fund contains a UAAL of approximately \$490 million with a funded ratio (ratio of assets to accrued liability) of 87%. The most recent actuarial valuation report as of July 1, 2011 for the Police System reports a UAAL of \$770 million with a funded ratio of 83%. The most recent actuarial valuation report for the Municipal System as of July 1, 2011 reported a UAAL of approximately \$1.46 billion with a funded ratio of 61%.

The current actuarially determined contributions and their component UAALs for the Municipal System and the Police System do not fully take into consideration either the reductions in benefits for future participants in those systems or the scheduled increases in future City contributions provided for in their respective “meet and confer” agreements. Accordingly, for the near term, the actual City contributions for the Municipal System and the Police System required by the “meet and confer” agreements are expected to be less than the actuarially determined contributions. However, over the long term, it is expected that as the reduced benefit structures and scheduled increases in future contributions take effect, the projected assets of the Municipal System and the Police System will continue to be sufficient to pay benefits to all participants when they become due. With regard to the Firefighter Fund, the City will make a contribution of 23.9% of payroll in Fiscal Year 2013, which is equal to the actuarially determined amount applicable for Fiscal Year 2012, Fiscal Year 2013 and Fiscal Year 2014.

Funding of Pension Systems. The City has historically funded the Pension Systems in amounts (i) agreed upon by the City and the respective boards of the Pension Systems as part of jointly sponsored changes in State law or (ii) agreed upon in negotiations with the Municipal System's and Police System's respective boards through the "meet and confer" process. The City budgets for its contributions by allocating the cost between its General Fund and Enterprise Funds based upon the nature of the employment of the covered employees. In Fiscal Year 2012, the General Fund was responsible for approximately 39% (\$38.6 million) of the City's \$98.5 million contribution to the Municipal System. In Fiscal Years 2012 and 2013, the General Fund covered, or is anticipated to cover, substantially all of the City's contributions to the Police System and the Firefighter Fund, except that in Fiscal Year 2012, \$17 million of the \$83 million contribution to the Police System was an in-kind contribution of real estate; and in Fiscal Year 2013, \$8.5 million of the \$93 million contribution to the Police System is an in-kind contribution of real estate.

The City's Fiscal Year 2013 contribution to the Municipal System will be approximately \$109 million, which was determined through "meet and confer" negotiations, and is approximately 21.0% of payroll. The City's Fiscal Year 2013 contribution to the Police System will be \$93 million, which was set through "meet and confer" negotiations, and is approximately 23.0% of payroll. See "– Police System," below. The City's Fiscal Year 2013 contribution to the Firefighter Fund will be approximately \$61.8 million, which is 23.9% of payroll. As stated in the Fiscal Year 2013 Budget, the total amount of the City's contribution to the three Pension Systems for Fiscal Year 2013 will be approximately \$263.8 million, which represents an approximate \$21.1 million increase over the Fiscal Year 2012 contribution of approximately \$242.7 million.

Pension Accounting Rules. New accounting rules adopted by GASB in June 2012 will result in significant changes in the City's financial statements relating to the pension plans. Statement No. 67 (effective for fiscal years ending June 30, 2014 or later) addresses financial reporting for state and local government pension plans and Statement No. 68 (effective for fiscal years ending June 30, 2015 or later) establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The statements are available from GASB. Changes include, but are not limited to:

- A disconnect between funding obligations and financial reporting amounts.
- A different discount rate for unfunded liabilities, based upon a long-term "tax-exempt, high-quality municipal bond index rate." To the extent that pension assets are "projected to be sufficient to pay pensions," projected pension payments would be discounted based upon the "long-term expected rate of return on plan investments." Thus, if a pension plan was fully funded under the proposed new accounting rules, its discount rate would be unchanged from the current accounting rules.
- Shorter amortizations of unfunded liabilities than the currently-allowed 30 years. In any year where there is an unfunded liability, a shorter amortization would result in a higher annual required contribution than under current accounting rules.
- Numerous changes to the presentation of financial, actuarial, and accounting information.

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SCHEDULE 12: ACTUARIALLY DETERMINED CONTRIBUTION AMOUNTS AND CHANGES IN PENSION PLAN ASSETS

Each part of the following tables should be read in context with the respective sections that follow that describe in more detail the Pension Systems individually. Part 1 of the following table sets forth for each of the Fiscal Years 2008 through 2012 the amount of the annual pension cost to the City and the percentage contribution made by the City to each of the Pension Systems. Part 2 of the following table sets forth for each of the Fiscal Years 2008 through 2012 actuarially determined amounts and actual City pension contribution amounts as a percentage of payroll. Part 3 of the following table sets forth certain information from the published financial reports for the Municipal System, the Police System and the Firefighter Fund, which are dated as of the end of Fiscal Year 2012 (June 30, 2012).

Part 1: Annual Pension Costs and Contributions Made^(a)
(in millions)

| Fiscal Year | Municipal System | | | Police System | | | Firefighter Fund | | |
|-------------|------------------------------------|------------------------------|------------------|---------------------|------------------------------|------------------|---------------------|------------------------------|------------------|
| | Annual Pension Cost ^(b) | City Contrib. ^(b) | Percent Contrib. | Annual Pension Cost | City Contrib. ^(b) | Percent Contrib. | Annual Pension Cost | City Contrib. ^(b) | Percent Contrib. |
| 2008 | \$ 96.7 | \$75.0 | 78% | \$129.5 | \$63.0 | 49% | \$66.7 | \$54.0 | 81% |
| 2009 | 106.1 | 78.5 | 74 | 119.3 | 68.0 | 57 | 58.7 | 70.9 | 121 |
| 2010 | 117.2 | 83.5 | 71 | 128.3 | 73.0 | 57 | 60.4 | 74.2 | 123 |
| 2011 | 129.8 | 88.5 | 68 | 133.5 | 78.0 | 58 | 62.4 | 76.4 | 122 |
| 2012 | 127.4 | 98.5 | 61 | 137.1 | 66.0 | 48 | 61.4 | 61.2 | 123 |

- (a) For further details, see the City's Financial Statements for Fiscal Year 2012 presented in APPENDIX A, particularly Note 10 and the section captioned "Required Pension System Supplementary Information."
 (b) Contributions made by the City in compliance with binding "meet and confer" agreements or the Pension Statutes, as applicable.

Part 2: Actuarially Determined Contribution Amount and Actual City Contribution as a Percentage of Payroll^{(a)(b)}

| Fiscal Year | Municipal System | | Police System | | Firefighter Fund | |
|-------------|------------------|--------|---------------|----------------------|------------------|--------|
| | Actuarial | Actual | Actuarial | Actual | Actuarial | Actual |
| 2008 | 19.4% | 15.7% | 32.1% | 16.3% ^(c) | 29.7% | 23.9% |
| 2009 | 19.2 | 14.8 | 35.9 | 18.7 | 24.1 | 29.4 |
| 2010 | 20.1 | 14.9 | 31.7 | 19.2 | 23.8 | 29.4 |
| 2011 | 22.4 | 15.8 | 32.0 | 20.1 | 23.9 | 29.3 |
| 2012 | 23.5 | 19.0 | 32.7 | 17.0 | 23.9 | 23.8 |

- (a) For further details, see the City's Financial Statements for Fiscal Year 2012 presented in APPENDIX A, particularly Note 10 and the section captioned "Required Pension System Supplementary Information."
 (b) Adopted actuarial reports for the respective Pension System for actuarially determined percentages and internal City figures for actual contribution percentages. See "- Municipal System," "- Police System" and "- Firefighter Fund."
 (c) Actual contribution percentages take into account the City's contribution of proceeds obtained from the issuance of Pension Obligations.

Part 3: Changes in Pension Plan Assets^(a)
(in millions)

| Fiscal Year 2012 | Municipal | Police | Fire | Total |
|-----------------------------------|-------------------|----------------|------------------|------------------|
| Additions ^(b) | \$ 104.3 | \$ 220.8 | \$ 141.9 | \$ 467.0 |
| (Deductions) ^(c) | <u>(209.5)</u> | <u>(184.4)</u> | <u>(169.9)</u> | <u>(563.8)</u> |
| Net Increase | <u>(\$ 105.2)</u> | <u>\$ 36.4</u> | <u>(\$ 28.0)</u> | <u>(\$ 96.8)</u> |
| City's Total Contribution..... | <u>\$ 97.2</u> | <u>\$ 83.0</u> | <u>\$ 61.3</u> | <u>\$ 241.5</u> |

- (a) Amounts are derived from the separately audited Financial Statements of the Municipal System, the Police System, and the Firefighter Fund for the year ended June 30, 2012.
 (b) Includes contributions by the employees and the City, net increase in the fair value of investments, income from investments, and other income.
 (c) Includes benefits paid to members, refunds to members, and other costs, including professional services and administrative expenses.

Municipal System

General. The Municipal System provides benefits to most municipal employees other than classified police officers and firefighters. Employees receive benefits defined by enrollment in one of three programs. There is a contributory defined benefits pension program (“Plan A”) for employees hired between January 1, 1999 and January 1, 2008, which they contribute 5% of their salary to the plan. Employees hired prior to January 1, 1999 had a choice between Plan A, the contributory defined benefit program, and a non-contributory plan (“Plan B”). Employees hired after January 1, 2008 are covered by a new non-contributory defined benefit plan (“Plan D”). As of July 1, 2012, 63.6% of active employees of the City were in Plan A, 15.7% were in Plan B and 20.7% were in Plan D.

Meet and Confer Agreements. As a result of the 2011 HMEPS Agreement, the City’s contribution to the Municipal System for Fiscal Year 2012 was \$98.5 million. For the succeeding years, the City contribution will be the Actuarially Required Contribution (“ARC”) or the previous year’s contribution increased by 2% of payroll, whichever is less. For Fiscal Year 2013, the City’s contribution is estimated to be \$109 million. Based on the July 1, 2011 actuarial valuation, the City’s contribution to HMEPS is projected to be equal to the ARC within 5 years. At that time the ARC is estimated to be approximately 26% of payroll and is calculated to pay the Normal Cost and amortize the UAAL over the next 30 years.

City Funding Commitment. To date the City has made all payments required under the HMEPS Agreements. In addition, the City has issued \$448 million in Pension Obligations for the benefit of HMEPS. The issuance of Pension Obligations in lieu of using cash has resulted in an increase in the City’s tax-supported bond indebtedness in order to achieve a reduction in UAAL. Under the terms of the 2007 HMEPS Agreement, the City was obligated to make contributions to the Municipal System of \$98.5 million in Fiscal Year 2012 and under the terms of the 2011 HMEPS Agreement is obligated to contribute approximately \$109 million in Fiscal Year 2013.

SCHEDULE 12A: Municipal System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability^(a) (in millions)

| | As of July 1, | | | | |
|---|---------------|---------------|----------------|---------------------------|---------------------------|
| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010^(c)</u> | <u>2011^(d)</u> |
| Actuarial Accrued Liability | \$3,129 | \$3,296 | \$3,451 | \$3,632 | \$3,791 |
| Actuarial Value of Plan Assets ^(a) | <u>2,194</u> | <u>2,310</u> | <u>2,284</u> | <u>2,273</u> | <u>2,329</u> |
| Unfunded Actuarial Accrued Liability | <u>\$ 935</u> | <u>\$ 986</u> | <u>\$1,167</u> | <u>\$1,359</u> | <u>\$1,462</u> |
| Funded Ratio ^(b) | 70% | 70% | 66% | 63% | 61% |

(a) The actuarial value of plan assets is determined by the actuary for the Municipal System. The value represents a generally accepted method of recognizing market gains and losses (relative to the assumed rate of return) over a five year period.

(b) Funded Ratio means actuarial value of plan assets divided by accrued liability.

(c) Information is derived from HMEPS Actuarial Valuation dated July 1, 2010.

(d) Information is derived from the HMEPS actuarial valuation report dated July 1, 2011.

Police System

General. The Police System provides benefits to the City’s classified police officers and is structured as a contributory defined benefits pension program. In 2011, the Board of Trustees of the Police System and the City approved a “meet and confer” agreement (the “HPOPS Agreement”), which amended the 2004 HPOPS Agreement and contains the funding plan and benefit changes discussed below. The 2004 HPOPS Agreement became effective on October 9, 2004 and was scheduled to terminate on June 30, 2017. The 2011 HPOPS Agreement extends the duration of the HPOPS Agreement until 2023. The HPOPS Agreement has three elements: (1) a funding commitment by the City from any available source, including budgeted contributions and net proceeds of Pension Obligations; (2) a required increase in the employee’s contribution; and (3) benefit level reductions initiated primarily for future employees (as further defined below, “New Members”).

Following the execution of the HPOPS Agreement, the City issued Pension Obligations in the approximate amount of \$159 million and delivered the proceeds of such Pension Obligations to the Police System to satisfy a portion of its Fiscal Year 2005 through Fiscal Year 2011 funding commitment. See “SCHEDULE 4: OUTSTANDING DEBT.” See “SCHEDULE 12: ACTUARIALLY DETERMINED CONTRIBUTION AMOUNTS AND CHANGES IN PENSION PLAN ASSETS.” Under the terms of the HPOPS Agreement, the City’s funding commitment for Fiscal Year 2013 is \$84 million. The use of Pension Obligations in subsequent Fiscal Years will depend on budgetary constraints at the time of each Fiscal Year’s budget preparation.

Member Contributions. Beginning October 9, 2004, current active members began contributing 9%, rather than the former 8.75%, of pay (as defined by the HPOPS Agreement). Persons becoming active members after October 9, 2004 are designated as New Members and contribute 10.25% of pay. As of July 1, 2011, 72.9% were current active members and 27.1% were New Members.

Funding Status. As shown in “SCHEDULE 12 – Part 2: Actuarially Determined Contribution Amount and Actual City Contribution as a Percentage of Payroll,” through 2011, the City’s contributions to the Police System were substantially lower than the actuarially determined amounts (although such contributions have been legally sufficient under the HPOPS Statute or “meet and confer” agreements). See “SCHEDULE 12B: Police System Pension Plan Assets, Liabilities and Unfunded Actuarial Liability” for additional results and trends. The most recent actuarial valuation as of July 1, 2011 for the Police System indicates a UAAL of \$770 million with a funded ratio of 83%.

SCHEDULE 12B: Police System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability^(a)
(in millions)

| | As of July 1, | | | | |
|---|---------------|---------------|---------------|---------------|---------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 ^(c) |
| Actuarial Accrued Liability..... | \$3,858 | \$4,079 | \$4,369 | \$4,233 | \$4,488 |
| Actuarial Value of Plan Assets ^(b) | <u>3,005</u> | <u>3,338</u> | <u>3,431</u> | <u>3,527</u> | <u>3,718</u> |
| Unfunded Actuarial Accrued Liability..... | <u>\$ 853</u> | <u>\$ 741</u> | <u>\$ 938</u> | <u>\$ 706</u> | <u>\$ 770</u> |
| Funded Ratio..... | 78% | 82% | 79% | 83% | 83% |

(a) For further details, see the City’s Financial Statements for Fiscal Year 2012 presented in APPENDIX A, including particularly Note 10 and the section in APPENDIX A captioned “Required Pension System Supplementary Information.” No actuarial report was prepared or required for July 1, 2006.
 (b) The actuarial value of plan assets is determined by the actuary for the Police System. Such value represents a generally accepted method of recognizing market gains and losses (relative to the assumed rate of return) over a five-year period.
 (c) Information is derived from HPOPS Actuarial Valuation dated July 1, 2011.

Firefighter Fund

General. The Firefighter Fund provides benefits to the City’s classified firefighters and is structured as a contributory defined benefits pension program. Each fund member in active service must make contributions to the fund in an amount equal to 9% of the member’s salary at the time of the contribution. The City’s contribution rate to the Firefighter Fund is an amount at least equal to the program’s normal costs plus an actuarially determined percentage of salary required to amortize the UAAL of the fund over a rolling period of 30 years, subject to a statutorily mandated minimum contribution rate set in 2003 by the Texas Legislature.

Funding Status. See “SCHEDULE 12 – Part 2: Actuarially Determined Contribution Amount and Actual City Contribution as a Percentage of Payroll,” in Fiscal Years 2008 and 2012. State law provides that the City contribution to the Firefighter Fund be the greater of two times the firefighter’s contribution or an actuarially determined rate established at least once every three (3) years. Classified firefighters in the Fire Department currently contribute 9% of their pay to the Firefighter Fund, and the City’s contribution in Fiscal Year 2012 was 23.9% of payroll, or approximately \$61.8 million. The Fiscal Year 2013 contribution will continue to be the actuarially determined rate of 23.9% of payroll, determined for Fiscal Year 2012, Fiscal Year 2013 and Fiscal Year 2014, or approximately \$61.5 million. While projected assets of the Firefighter Fund are sufficient to pay current benefits, the City believes the current and projected contribution rates are unsustainable in the future. The City is

making efforts to address this issue, including conducting an actuarial study to evaluate benefit reductions and discussions with the HFRRF Board and State legislators. See “SCHEDULE 12 – Part 2: Actuarially Determined Contribution Amount and Actual City Contribution as a Percentage of Payroll.” See also “SCHEDULE 12C: Firefighter Fund Pension Plan Assets, Liabilities and Unfunded Actuarial Liability” for additional results and trends.

The most recent actuarial valuation as of July 1, 2012 results in a UAAL of \$490 million with a funded ratio of 87%.

SCHEDULE 12C: Firefighter Fund Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability^(a)
(in millions)

| | As of July 1, | | | | |
|---|---------------|---------------|---------------|---------------------|---------------------|
| | 2008 | 2009 | 2010 | 2011 ^(c) | 2012 ^(d) |
| Actuarial Accrued Liability | \$3,080 | \$3,210 | \$3,337 | \$3,558 | \$3,753 |
| Actuarial Value of Plan Assets ^(b) | <u>2,945</u> | <u>3,062</u> | <u>3,117</u> | <u>3,222</u> | <u>3,263</u> |
| Unfunded Actuarial Accrued Liability (Surplus)..... | <u>\$ 135</u> | <u>\$ 147</u> | <u>\$ 221</u> | <u>\$ 336</u> | <u>\$ 490</u> |
| Funded Ratio | 96% | 95% | 93% | 91% | 87% |

- (a) For further details, see the City’s Financial Statements for Fiscal Year 2012 presented in APPENDIX A, including particularly Note 10 and the section in APPENDIX A captioned “Required Pension System Supplementary Information.”
- (b) The actuarial value of the plan assets is determined by the actuary for the Firefighter Fund. Such value represents a generally accepted method of recognizing market gains and losses (relative to the assumed rate of return) over a five-year period.
- (c) Information is derived from HFRRF Actuarial Valuation dated July 1, 2011.
- (d) Information is derived from HFRRF Actuarial Valuation dated July 1, 2012.

ANNEXATION PROGRAM AND “IN-CITY” DISTRICTS

Annexation Program

General. Chapter 42, Texas Local Government Code, as amended, provides that, within the limits described therein, the unincorporated area contiguous to the corporate limits of any city constitutes that city’s extraterritorial jurisdiction. For the City, the extraterritorial jurisdiction consists of all the contiguous unincorporated areas, not a part of any other city, within five (5) miles of the corporate limits of the City. With certain exceptions, a city may annex territory only within the confines of its extraterritorial jurisdiction. Under Chapter 43, Texas Local Government Code, as amended, when a city annexes additional territory, the city’s extraterritorial jurisdiction expands in conformity with such annexation; however, since 1999, there are significant additional procedures and requirements governing annexation, including the requirement that the City adopt a three-year annexation plan, discussed below, as well as a service plan for each area to be annexed. Each service plan must include certain municipal services as well as the construction or acquisition of any needed capital improvements by certain dates. A failure by the City to provide the required services or improvements for a particular area on a timely basis may result in a petition for disannexation of the area and its subsequent disannexation. Accordingly, full purpose annexations are infrequent. Since 1999, the City has completed four full purpose annexations. The City is required to adopt a three-year annexation plan and, with certain exceptions, only those areas identified in such plan are eligible for annexation. The City has adopted three-year plans every year since 1999. The City has identified certain territory along the Ship Channel and Jacintoport area for annexation. Areas subject to industrial district agreements will not be annexed.

Limited-Purpose Annexations and Strategic Partnership Agreements. Strategic partnership agreements may provide for limited-purpose annexation for a period of time, during which the City may impose a sales and use tax within the boundaries of the part of the district that is annexed for limited purposes. Strategic partnership agreements may provide that at the completion of the agreed duration of the limited-purpose annexation, full-purpose annexation may occur either on an agreed full-purpose annexation date without the need for further action by the City, or by City action at that time. The qualified voters of an area annexed for limited purposes are entitled to vote in municipal elections for members of the governing body or for amendments to the municipal charter. Such voters may not vote in a bond election.

The City has completed limited-purpose annexations by mutual consent with approximately one-third of the water districts in the City's extraterritorial jurisdiction. The City expects to enter into similar agreements with other districts in the future. Generally, the limited-purpose annexations have applied only to non-residential property, and the City is authorized to, and does impose, its sales tax in each of the areas annexed for limited purposes. In most cases the City and a district each receive an amount equal to one-half the sales tax received in that area. The City is not authorized to levy an ad valorem tax on property annexed for limited purposes, and the district continues to levy and collect ad valorem taxes. The strategic partnership agreements entered into so far by the City defer the time for full-purpose annexation by City action for periods of up to 30 years or, in some cases, until the district utility system is developed or some other event occurs. As of the end of Fiscal Year 2011, the City's strategic partnership agreements have generated \$204 million, and the revenues from those agreements constitute approximately 7% of the sales tax revenue of the City.

The City does not assume the debts of a district until such time as the district is annexed for full purposes, at which time all of the sales taxes collected within the district will be retained by the City, the annexed area will become subject to the City's ad valorem tax levy and collection, the district will be dissolved and the debt will be assumed by the City. In some cases, the City agrees to provide police or fire services to the district, if the cost of providing such services is marginal to the City.

Regional Participation Agreements. Under Texas law, the City and certain large unincorporated areas within the City's extraterritorial jurisdiction are authorized to enter into regional participation agreements. The City and The Woodlands Township entered into a Regional Participation Agreement (the "RPA") in 2007, pursuant to which the City agreed (i) not to annex the land in The Woodlands Township for a term of 50 years and (ii) if during that time, The Woodlands Township incorporates as a municipality or any other form of local government under Texas law, the City will release it from the City's extraterritorial jurisdiction. In exchange for such provisions, The Woodlands Township agreed to provide a sixteenth of one percent of sales and use taxes for mutually beneficial projects in the City, including improvements at the City's parks, the Texas Medical Center and various road improvements. On May 19, 2010, the City's City Council voted to approve an amendment to the RPA, which allows for the addition of land into The Woodlands Township, but requires consent of the City's mayor for future annexation by The Woodlands Township. The City may further amend the RPA from time to time.

In-City Districts

Texas law authorizes the creation of certain types of "in-city" districts with independent taxing authority. The City has authorized by ordinance the creation of water districts within its corporate limits, six of which have been created (two of which, Harris County Municipal Utility District No. 361 and Harris County Municipal Utility District No. 412, were disannexed and then re-annexed for limited purposes pursuant to a strategic partnership agreement) and three additional water districts that have been consented to by the City but not yet created.

In order to encourage development within the City, the City has entered into agreements with "in-city" districts whereby the district will provide the water, wastewater and stormwater drainage infrastructure in the district and convey such facilities to the City, although in some instances, the district has retained ownership and operation of its facilities. In exchange, the City agrees to maintain the facilities and rebate to the district the portion of City ad valorem taxes collected within the district and attributable to drainage. In some agreements, the City agrees to collect water and wastewater charges at standard City retail rates and remit to the district for deposit in the debt service fund of the district the difference between City retail rates and wholesale rates. The City's obligations under these agreements are payable only from revenues from within the district, can never exceed annually the annual debt service of the district and expire upon maturity of the district's bonds.

There are numerous municipal management districts within the corporate limits of the City. Such districts have independent authority to impose assessments on certain property owners to support and enhance specific residential or business corridors within the City. Municipal management districts may issue bonds secured by assessments or taxes levied on property within the district pursuant to a vote in such district approving the bonds.

The City has also created certain entities to enhance and encourage redevelopment activities within the City and to provide a mechanism to fund certain public improvements and related redevelopment costs, in addition to providing administrative support for these projects. In many cases, in order to more effectively and efficiently manage its tax increment reinvestment zones, the City has created local government corporations, which are not-for-profit local government corporations created under Chapter 431 of the Texas Transportation Code, as amended. Such redevelopment authorities are created to aid, assist and act on behalf of the City in the performance of certain

of the City's governmental and proprietary functions, including acting as a financing vehicle for the reinvestment zones. Tax increment revenues for each such reinvestment zone are initially deposited in separate tax increment funds maintained by the City and then a local government corporation if a local government corporation has been created to manage such reinvestment zone. Projects financed on behalf of tax increment reinvestment zones are typically accomplished through the issuance of bonds by local government corporations that pledge tax increment revenues received from the City by virtue of a contract between the respective local government corporation, the tax increment reinvestment zone, and the City. The City has also created certain public improvement districts but their existence does not materially impact the operations of the City.

ACCOUNTING AND BUDGETING PROCEDURES AND GENERAL FUND REVENUES

Financial Accounting

The accounts of the City are organized on the basis of funds, each of which constitutes a separate entity for accounting purposes. The most significant of these funds is a general fund, which accounts for all revenues and expenditures of the City not accounted for in the various enterprise funds or the other funds maintained by the City. Other than ad valorem taxes, the primary sources of General Fund revenues include sales and use taxes, franchise charges and fees, charges to other City funds, industrial district contract revenues and miscellaneous revenue sources such as fines, penalties, licenses, fees, interest income from investments and other taxes. There are three major enterprise funds: the Combined Utility System Fund, the Houston Airport System Fund and the Convention and Entertainment Facilities Fund (collectively, the "Enterprise Funds").

The methods of accruing revenues and expenditures differ between the General Fund and the Enterprise Funds. For a description of the accrual methods and the reporting entity definitions, see Note 1 to the City's audited Financial Statements for Fiscal Year 2012 as presented in APPENDIX A. Other major governmental funds maintained by the City include the Debt Service Fund, the Capital Projects Fund and the Grants Fund. Other funds include Nonmajor Special Revenue Funds, Internal Service Funds and Fiduciary Funds, including Pension Trust Funds and certain agency funds.

Budgeting Procedures

State law and the City Charter require that the Mayor annually prepare and submit to the City Council a balanced budget consisting of an estimate of the revenues and expenditures in the budget period. The proposed expenditures in each budget period may not exceed the estimated available resources in such period. According to the City Charter, the estimate of available resources is based on the amount of available surplus, if any, carried forward from the preceding period, the estimated revenues of the City derived from ad valorem taxes, based on the total valuation of the property for taxation for the preceding period, and such other contingent revenues of the City as may probably accrue.

The City Charter further provides that, in preparing the budget, provision shall first be made for the payment of debt service on the City's outstanding bond indebtedness, with the remaining revenues to be apportioned among the City's respective departments. After a budget has been approved by the City Council, the Mayor may, under certain limited circumstances, submit a revised budget to the City Council for approval.

The City Council appropriates funds both in support of the budget and for specific purposes. The City Charter also provides that no appropriation or obligation of City funds may be made unless the City Controller first certifies that funds are available for payment of such obligation or that such funds will be available before the maturity of such obligation. The City Charter prohibits the execution of any warrant, contract or order for payment unless signed by the Mayor and countersigned by the City Controller, each of whom is an independently elected official. The City Controller's responsibility not to certify the availability of funds in the event of a shortfall in revenues in a Fiscal Year can serve to assure that expenditures do not exceed resources during such Fiscal Year. If a budget is not adopted prior to the beginning of a Fiscal Year, the City Council historically has adopted an ordinance that appropriates funds to authorize an interim spending plan for City operations.

Financial Policies

The City Council has adopted an ordinance establishing financial policies for the City (the "Financial Policies Ordinance"). The Financial Policies Ordinance divides these policies into three categories: Operating

Programs, Capital and Debt Management, and Accounting, Auditing and Financial Planning. The Financial Policies Ordinance may be amended or rescinded by the City Council as it deems appropriate.

Under the heading of Operating Programs, the Financial Policies Ordinance states that current revenues will be sufficient to support current expenditures. All retirement and employee benefit systems will be financed in a manner to systematically fund liabilities. The City will assure that sufficient funds are provided to pay for current expenditures. See the sections captioned “THE CITY – Health Benefits” through and including “THE CITY – Firefighter Fund” and SCHEDULES 12, 12A, 12B and 12C for more detailed information relating to the funding of the City’s OPEB and pension benefit systems. Each Enterprise Fund of the City will maintain revenues that support the full (direct and indirect) cost of the service provided. An annual review of all fees and charges will be conducted to determine the extent to which the full cost of associated services are being recovered by revenues. The General Fund undesignated fund balance shall be maintained at a level sufficient to provide for temporary financing of unforeseen needs of an emergency nature and to permit orderly adjustment to changes resulting from termination of revenue sources. The Financial Policies Ordinance also provides that the level of the General Fund balance will be a minimum of 5% of total expenses less debt service. To the extent that the General Fund unreserved and undesignated fund balance exceeds 7.5% of total expenses less debt service, the excess funds are available upon appropriation for non-recurring expenses.

Under the heading of Capital and Debt Management, the Financial Policies Ordinance provides that any capital project financed through the issuance of bonds or other obligations shall be financed for a period not to exceed the expected life of the project. Average (weighted) general obligation bond (or other obligations) maturities shall be kept at or below 12 years. The Financial Policies Ordinance also provides that annual contributions to the Debt Service Fund from the General Fund shall not exceed 20% of the total General Fund revenues, excluding state and federal grants.

The City’s Financial Policies Ordinance requires that an annual audit be performed by an independent public accounting firm in accordance with generally accepted accounting principles. The June 30, 2012 City Controller’s audited Comprehensive Annual Financial Report of the City and additional financial information are available for public inspection, or copies may be obtained by written request, to the extent permitted by law, addressed to the Office of the City Controller.

City Investment Policy

The City maintains an investment strategy that emphasizes, in order of priority, safety, liquidity and return on investment, as embodied in its investment policy (the “Policy”). The City does not invest in inverse floaters, or interest-only or principal-only mortgage-backed securities. The Policy provides, among other things, that (1) the Investment Manager (as defined in the Policy) shall submit quarterly investment reports to City Council and (2) the Policy shall be reviewed annually by City Council. For a further discussion of the City’s investments as of June 30, 2012, see Note 1.E.1 and Note 3.B of the Notes to the Financial Statements as set forth in APPENDIX A. On December 12, 2012, the City Council amended the Investment Policy to increase the maximum allowable investment in callable agency securities from 15% to 25% of the General Fund Investment Pool.

Fitch Ratings, Inc. has assigned a “AAA” credit quality rating to the City’s General Investment Portfolio. The ratings reflect the view of Fitch Ratings, Inc., from whom an explanation of the significance of such ratings may be obtained.

City Interest Rate Swap Policy

The City currently has no outstanding interest rate swap agreements for ad valorem tax-supported debt.

In 2003, the City adopted a master swap policy (the “Swap Policy”) to provide guidance for the City in its use of swaps, caps, floors, collars, options and other derivative financial products (collectively, “Swaps”) in conjunction with the City’s management of its assets and liabilities. The Swap Policy describes the circumstances and methods by which Swaps will be used, the guidelines to be employed when Swaps are used, and who is responsible for carrying out these policies. The City may enter into Swaps as authorized by the City Council and approved by the Attorney General of the State of Texas in connection with the issuance or payment of certain debt obligations, before, concurrently with, or after the actual issuance of the debt. See “AD VALOREM TAX OBLIGATIONS OF THE CITY – Authority to Issue Bonds and Other Obligations.”

As a general rule, the City will enter into transactions only with counterparties whose obligations are rated in the double-A category or better from at least one nationally recognized rating agency. In addition, if a counterparty's credit rating is downgraded below the double-A rating category, the City may require that its exposure to the counterparty be collateralized or may exercise its right to terminate the transaction prior to its scheduled termination date. In order to limit the City's counterparty risk, the City will seek to avoid excessive concentration of exposure to a single counterparty or guarantor.

The Swap Policy provides that City may choose counterparties for entering into Swap contracts on either a negotiated or competitive basis. To provide safeguards on negotiated transactions, the Swap Policy provides that the City should generally secure outside professional advice to assist in the process of structuring, documenting and pricing the transaction, and to verify that a fair price was obtained. In any negotiated transactions, the counterparty will be required to disclose all payments to third parties (including lobbyists, consultants and attorneys) who had any involvement in assisting the counterparty in doing business with the City.

The City will track and regularly report on the financial implications of its Swaps. A quarterly report will be prepared for the City Council including: (i) a summary of key terms of the agreements, including notional amounts, interest rates, maturity and method of procurement, including any changes to Swap agreements since the last reporting period; (ii) the mark-to-market value (termination value) of its Swaps, as measured by the economic cost or benefit of terminating outstanding contracts at specified intervals; (iii) the amount of exposure that the City has to each specific counterparty, as measured by aggregate mark-to-market value, netted for offsetting transactions; (iv) the credit ratings of each counterparty (or guarantor, if applicable) and any changes in the credit rating since the last reporting period; and (v) any collateral posting as a result of Swap agreement requirements. In addition, the City will perform such monitoring and reporting as is required by the rating agencies or for compliance with GASB requirements.

Special Revenue Funds

The City maintains various special revenue funds, which are budgeted and accounted for outside the City's General Fund. Revenues of such funds are not considered available revenues and are dedicated to specific City projects. For further information regarding the special revenue funds, see Note 1.C. to the Financial Statements in APPENDIX A.

General Fund and General Debt Service Fund Budgets

The City's budget process has several phases, including public meetings to obtain public input, departmental submission of budget requests and CIP requests, and presentation of the Mayor's budget priorities, policies and strategies to City Council. State law provides that no budget may be adopted when budgeted expenditures exceed budgeted resources, and the City Charter provides that no appropriation or obligation of City funds may be made unless the City Controller first certifies that funds are or will be available for payment of such obligation before maturity. The discussion of the City's Fiscal Year 2013 Budget contains projections that are subject to change due to a variety of factors and circumstances. The City, as in prior Fiscal Years, expects to monitor the receipt of revenues and expenditures within its department, and recommend such changes as may be necessary to meet its statutory, charter and internal financial requirements.

Fiscal Year 2013. The City is operating under its Fiscal Year 2013 Budget adopted in June 2012, and all references to the Fiscal Year 2013 Budget in this section are to the Fiscal Year 2013 Budget adopted at such time. In the Fiscal Year 2013 Budget, approximately \$1.9 billion was budgeted for expenditures and transfers and approximately \$2.1 billion was budgeted for total available resources, which was expected to produce a General Fund undesignated ending balance of approximately \$136.9 million. Based on current estimates by the Finance Department and the Office of City Controller, the ending balance is projected to be \$133.9 million. The Fiscal Year 2013 Budget provides for transfers of approximately \$241.1 million from the General Fund to the Debt Service Fund. The City adopted a tax rate of \$0.63875 (per \$100 assessed valuation) for Tax Year 2012 (Fiscal Year 2013), which was the same as the City's Tax Year 2011 (Fiscal Year 2012) tax rate.

The following tables set forth a summary of the adopted General Fund Budget (excluding grant programs) and Debt Service Fund Budget for Fiscal Year 2012 and the adopted General Fund Budget (excluding grant programs) and the Debt Service Fund Budget for Fiscal Year 2013.

SCHEDULE 13: GENERAL FUND BUDGET FOR FISCAL YEARS 2013 AND 2012

| | Adopted Fiscal Year 2013 ^(a) <u>(in thousands)</u> | Adopted Fiscal Year 2012 <u>(in thousands)</u> |
|---|--|---|
| BUDGETED RESOURCES | | |
| Ad Valorem Taxes (current and delinquent)..... | \$ 900,197 | \$ 842,478 |
| Sales and Use Tax..... | 577,373 | 518,912 |
| Franchise Fees | 191,672 | 190,230 |
| Municipal Court Fines and Forfeits | 34,486 | 35,894 |
| Miscellaneous/Other | 187,564 | 175,451 |
| TOTAL CURRENT REVENUES^(b)..... | \$ 1,891,292 | \$ 1,762,965 |
| | | |
| Sale of Capital Assets/Transfers from Other Funds..... | 31,578 | 65,030 |
| Beginning Fund Balance as of July 1 – undesignated..... | 161,904 | 102,646 |
| TOTAL BUDGETED RESOURCES^(b)..... | \$ 2,084,774 | \$ 1,930,641 |
| | | |
| BUDGETED EXPENDITURES | | |
| Administrative Services..... | \$ 99,060 | \$ 111,355 |
| Public Safety | 1,166,950 | 1,095,011 |
| Development and Maintenance Services | 161,598 | 156,315 |
| Human and Cultural Services | 152,860 | 133,322 |
| General Government..... | 126,330 | 102,294 |
| Transfer to Debt Service Fund..... | 241,100 | 229,700 |
| Transfer of Equipment Debt Service to Departments | 0 | 0 |
| | | |
| TOTAL BUDGETED EXPENDITURES^(b)..... | \$ 1,947,898 | \$ 1,827,997 |
| | | |
| ENDING FUND BALANCE as of June 30 - undesignated..... | \$ 136,876 | \$ 102,644 |
| | | |
| TOTAL BUDGETED EXPENDITURES AND ENDING FUND BALANCE..... | \$ 2,084,774 | \$ 1,930,641 |

- (a) Information as reported in the City’s Fiscal Year 2013 Adopted Budget as of June 20, 2012.
(b) Totals may reflect a slight variance due to rounding.

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SCHEDULE 14: DEBT SERVICE FUND BUDGET FOR FISCAL YEARS 2013 AND 2012^(a)

| | Adopted Fiscal Year 2013 ^(b) <u>(in thousands)</u> | Adopted Fiscal Year 2012 <u>(in thousands)</u> |
|---|--|---|
| BUDGET RESOURCES | | |
| Interest Earnings on Debt Reserves and Bond Funds | \$ 0 | \$ 2,800 |
| Transfers in from: | | |
| General Fund for Tax Bonds | 230,600 | 220,200 |
| General Fund for Certificates of Obligations | 10,500 | 9,500 |
| Drainage Supplemental Debt Service Fund ^(c) | 0 | 0 |
| Fleet/Equipment Special Revenue Fund (General Fund Departments) | 0 | 0 |
| Combined Utility System | 27,593 | 32,013 |
| Other Sources | 23,463 | 24,841 |
| Third Party Reimbursement | 3,600 | 0 |
| TOTAL CURRENT REVENUES | <u><u>\$295,755</u></u> | <u><u>\$289,354</u></u> |
| Beginning Fund Balance Estimate as of July 1 | 153,064 | 160,944 |
| TOTAL BUDGETED RESOURCES^(d) | <u><u>\$448,819</u></u> | <u><u>\$450,298</u></u> |
| BUDGETED EXPENDITURES | | |
| Debt Service Requirements | | |
| Principal Retirement for Tax Bonds | 128,435 | 113,715 |
| Principal Retirement for Tax Certificates | 10,440 | 5,620 |
| Principal Retirement for Commercial Paper | 2,700 | 0 |
| Interest | 153,299 | 158,685 |
| Projected Future Debt Service | 0 | 5,177 |
| Commercial Paper Expenses | 5,000 | 8,137 |
| Cost of Issuance Expenses | 0 | 0 |
| Other | 300 | 300 |
| TOTAL EXPENDITURES | <u><u>\$300,124</u></u> | <u><u>\$291,634</u></u> |
| Ending Fund Balance | 148,696 | 158,664 |
| Total Expenditures and Ending Fund Balance ^(d) | <u><u>\$448,819</u></u> | <u><u>\$450,298</u></u> |

- (a) This fund includes the debt service for the City's Tax Bonds, Pension Obligations, Certificates of Obligations and Commercial Paper Notes.
- (b) Information as reported in the City's adopted Fiscal Year Budget.
- (c) Due to funding to be received from the Drainage and Street Renewal Fund, the City does not expect to fund the Drainage Supplemental Debt Service Fund in future Fiscal Years.
- (d) Totals may reflect a variance due to rounding.

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Summary of General Fund Revenues, Expenditures, Transfers and Changes in Fund Balance

The following table sets forth the actual revenues, expenditures, and transfers for Fiscal Year 2012 and Fiscal Year 2011. Fund balances in this summary differ from budgeted fund balances due primarily to the inclusion of certain reserves. See footnote (b) below. The Fiscal Year 2012 and Fiscal Year 2011 amounts are taken from the audited basic Financial Statements included in the City Controller's Comprehensive Annual Financial Report of the City of Houston, Texas for the years ended June 30, 2012 and June 30, 2011, respectively. For additional information concerning the City's audited basic Financial Statements for the General Fund for Fiscal Year 2012, see APPENDIX A.

SCHEDULE 15: SUMMARY OF GENERAL FUND

| | Fiscal Year 2012 (in thousands) | Fiscal Year 2011 (in thousands) |
|--|------------------------------------|------------------------------------|
| REVENUES | | |
| Taxes and Assessments..... | \$ 1,615,199 | \$ 1,567,709 |
| Licenses and Permits | 25,492 | 19,412 |
| Charges for Services ^(a) | 105,537 | 100,636 |
| Intergovernmental-grants..... | 16,536 | 59,327 |
| Fines and Forfeits | 37,190 | 39,222 |
| Investment Income | 4,609 | 3,854 |
| Other..... | 9,022 | 22,820 |
| Total Revenues | <u>\$ 1,813,585</u> | <u>\$ 1,812,980</u> |
| EXPENDITURES | | |
| General Government..... | \$ 170,729 | \$ 161,658 |
| Public Safety..... | 1,092,997 | 1,126,081 |
| Public Works | 182,229 | 229,393 |
| Health | 40,138 | 45,473 |
| Housing and Community Development..... | 599 | 860 |
| Parks and Recreation | 63,156 | 62,609 |
| Library | 31,607 | 35,296 |
| Retiree Benefits | 10,360 | 15,996 |
| Capital Outlay..... | 63,197 | 109,654 |
| Debt service principal..... | - | - |
| Debt service interest | 2,061 | 932 |
| Total Expenditures..... | <u>\$ 1,657,073</u> | <u>\$ 1,787,952</u> |
| OTHER FINANCING SOURCES (USES) | | |
| Proceeds from Issuance of Debt and Tax Notes | \$ 76,118 | 95,582 |
| Sale of capital assets | 2,330 | 14,835 |
| Transfers in..... | 73,147 | 78,350 |
| Transfers out..... | (276,317) | (269,380) |
| Transfers from component units..... | 12,849 | - |
| Total other financing sources (uses) | <u>\$ (111,873)</u> | <u>(80,613)</u> |
| Changes in Fund Balance | 44,639 | (55,585) |
| FUND BALANCE, beginning of year | <u>168,588</u> | <u>224,022</u> |
| FUND BALANCE, end of year ^(b) | <u>\$ 213,227</u> | <u>\$ 168,437</u> |

(a) This category includes ambulance service, library fees, parking fees, charges for direct and indirect services performed for other funds, rents and royalties, and other fees and charges.

(b) This amount includes various reserves totaling \$60,102,000 for Fiscal Year 2012 and \$41,445,000 for Fiscal Year 2011. Per governmental accounting standards, the year-end balance includes the General Fund and other governmental accounting funds, as well as balances categorized as restricted, committed and assigned.

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The following table sets forth the unreserved and undesignated fund balance for the General Fund for the periods designated below:

SCHEDULE 16: GENERAL FUND UNRESERVED AND UNDESIGNATED (ASSIGNED) FUND BALANCES^(a)

| <u>Fiscal Year</u> | <u>Balance (in thousands)</u> |
|---------------------------|-----------------------------------|
| 2009 | \$236,311 |
| 2010 | 165,383 |
| 2011 | 129,041 |
| 2012 ^(b) | 171,677 |
| 2013 ^(c) | 165,383 |

- (a) Fund balances for Fiscal Years 2011 and 2012 differ from the ending fund balances shown in "SCHEDULE 15: SUMMARY OF GENERAL FUND" due to government accounting standards that require the inclusion of General Fund and other government accounting funds, as well as balances categorized as restricted, committed and assigned in SCHEDULE 15.
- (b) Information as reported in the City's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2012.
- (c) Information as reported in the City's Monthly Financial and Operations Report as of February 28, 2013.

Sales and Use Tax and Franchise Charges and Fees

A 1% sales and use tax is collected for the City by the State. The sales and use tax is collected by the retailer from the consumer or purchaser and remitted by the retailer to the Comptroller of Public Accounts of the State, which then remits a portion of the collected amount to the City on a monthly basis. Sales and use tax revenues accounted for approximately 27% to 28% of General Fund revenues for Fiscal Years 2009 through 2012, and are projected to be approximately 31% of the adopted budgeted Fiscal Year 2013 General Fund revenues.

The City also collects franchise charges and fees on utilities, including electric, telephone and gas companies, and other parties that have obtained franchises from the City. The fees generally vary from 1% to 5% of the gross receipts collected by the franchise holder within the City, although this varies. For example, some franchise fees are a designated amount set forth in the franchise agreement, adjusted annually by an inflation or growth factor. This is true of electric franchise fees and fiber optic franchises. Other fees, such as those for the use of the right-of-way by telecommunications companies, are a function of the number of access lines in the municipality's right-of-way. All of the City's franchise fee revenue above a base amount has been dedicated to public safety expenditures. Over the past five (5) Fiscal Years, franchise charges and fees accounted for approximately 10% to 11% of Fiscal Year General Fund Revenues, and are expected to be 10% of the adopted budgeted Fiscal Year 2013 General Fund Revenues.

SCHEDULE 17 shows the amount of revenues obtained by the City from the sales and use tax and from franchise charges and fees for the periods designated below:

SCHEDULE 17: SALES AND USE TAX AND FRANCHISE CHARGES AND FEES^(a)

| <u>Fiscal Year</u> | <u>Sales and Use Tax (in thousands)</u> | <u>Franchise Charges And Fees (in thousands)</u> |
|---------------------------|---|--|
| 2009 | \$ 507,103 | \$ 190,322 |
| 2010 | 468,965 | 190,868 |
| 2011 | 492,824 | 190,563 |
| 2012 | 546,543 | 192,760 |
| 2013 ^(b) | 593,870 | 193,898 |

- (a) Information as reported in the City's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2012.
- (b) Information as reported in the City's Monthly Financial and Operations Report as of February 28, 2013.

Charges to Other City Funds

Discretionary Debt Service Transfers. The City’s Combined Utility System is charged each year to compensate the Debt Service Fund for the cost of paying debt service (“Discretionary Debt Service”) on certain Tax Bonds issued to pay the cost of water and sewer improvements. See “ENTERPRISE SYSTEMS OF THE CITY.” Payments to the Debt Service Fund of Discretionary Debt Service and debt service on such Tax Bonds are shown in the following schedule for the periods designated below:

SCHEDULE 18: DISCRETIONARY DEBT SERVICE TRANSFERS BY COMBINED UTILITY SYSTEM TO THE DEBT SERVICE FUND^(a)

| <u>Fiscal Year</u> | <u>Transfer Amount (in thousands)</u> |
|--------------------------------------|---|
| 2009..... | \$28,419 |
| 2010..... | 26,828 |
| 2011..... | 21,744 |
| 2012..... | 21,163 |
| 2013 ^(b) (estimated)..... | 15,807 |

- (a) Information as reported in the City’s Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2012.
- (b) Information as reported in the City’s Monthly Financial and Operations Report as of February 28, 2013.

Direct and Indirect Charges. An Indirect Charge is a charge made by the General Fund to the Combined Utility System, Houston Airport System or Convention and Entertainment Facilities funds, or to certain grant and special revenue funds for indirect charges incurred by the General Fund on behalf of such funds. A Direct Charge is a charge made by the General Fund to the Combined Utility System, Houston Airport System, Convention and Entertainment Facilities or the Capital Projects funds or certain other funds of the City for specific services provided to such funds by the General Fund.

SCHEDULE 19: GENERAL FUND INDIRECT CHARGES TO OTHER CITY FUNDS^(a)

| <u>Fiscal Year</u> | <u>Indirect Charges (in thousands)</u> | <u>Direct Charges (in thousands)</u> |
|--------------------------------------|--|--|
| 2009..... | \$ 13,190 | \$ 47,890 |
| 2010..... | 16,012 | 46,906 |
| 2011..... | 16,328 | 46,034 |
| 2012..... | 18,255 | 41,469 |
| 2013 ^(b) (estimated)..... | 16,850 | 44,646 |

- (a) Information as reported in the Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2012.
- (b) Information as reported in the City’s Monthly Financial and Operations Report as of February 28, 2013.

Tax Abatement

The City has entered into various economic development tax abatement agreements and redevelopment tax abatement agreements for certain projects. See footnote (b) under “SCHEDULE 1: TAX ROLLS.”

Short-Term Financing

The City’s General Fund revenue collections are not evenly distributed throughout a Fiscal Year. The principal revenue source is ad valorem taxes, which are largely collected shortly before the tax delinquency date, which ordinarily is February 1 of each year.

Prior to these collections, the City finances current operations by the expenditure of the beginning fund balance, collections from other revenue sources and the City’s tax and revenue anticipation notes which, by Texas law, must be repaid by the end of the Fiscal Year in which they are incurred.

It is the normal business practice of the City to issue tax and revenue anticipation notes each Fiscal Year that are repaid before the close of each such Fiscal Year. On July 2, 2012, the City issued its \$180,000,000 Tax and Revenue Anticipation Notes, Series 2012, to fund general operating expenditures for Fiscal Year 2013 in anticipation of the collection of taxes and revenues, a significant portion of which will be collected in the latter half

of Fiscal Year 2013. The City has currently reserved sufficient revenues to pay the Series 2012 tax and revenue anticipation notes. The City does not expect to issue any additional tax and revenue anticipation notes during Fiscal Year 2013. The City expects to borrow in a similar manner for Fiscal Year 2014. For further information regarding tax and revenue anticipation notes, see Note 7 to the Financial Statements in APPENDIX A.

ENTERPRISE SYSTEMS OF THE CITY

The City's Enterprise Funds account for the activities of the City that render service on a user charge basis to the general public. Enterprise Funds are assessed charges by various City departments for services performed on their behalf. See "ACCOUNTING AND BUDGETING PROCEDURES AND GENERAL FUND REVENUES – Charges to Other City Funds." Revenues of the Enterprise Funds are not pledged to the payment of Tax Obligations (including the Series 2013 Obligations).

Enterprise Funds: Summary of Revenues, Expenses and Changes in Net Fund Assets

Below is a summary of the revenues, expenses, and changes in net fund assets of the City's Enterprise Funds for Fiscal Year 2012.

SCHEDULE 20: ENTERPRISE FUNDS (in thousands)

| | Fiscal Year 2012 | | | |
|--|------------------|---------------------------------------|-------------------------|--------------|
| | Airport System | Convention & Entertainment Facilities | Combined Utility System | Total |
| Operating Revenues | | | | |
| Total operating revenues | \$ 417,550 | \$ 8,934 | \$ 917,238 | \$ 1,343,722 |
| Operating Expenses | | | | |
| Administrative costs: | -- | -- | -- | -- |
| Maintenance and operating | 264,060 | 1,885 | 410,781 | 676,726 |
| Depreciation and amortization | 190,664 | 14,703 | 211,170 | 416,537 |
| Total operating expenses | 454,724 | 16,588 | 621,951 | 1,093,263 |
| Operating income (loss) | (37,174) | (7,654) | 295,287 | 250,459 |
| Non-operating revenues (expenses) | | | | |
| Investment income | 5,634 | 10,010 | 5,696 | 21,340 |
| Hotel occupancy tax | -- | 68,623 | -- | 68,623 |
| Other revenue | 4,644 | 525 | 33,434 | 38,603 |
| Loss on disposal of assets | (11) | -- | (670) | (681) |
| Interest on long-term debt | (87,652) | (25,799) | (290,882) | (404,333) |
| Passenger facility charges | 63,550 | -- | -- | 63,550 |
| Contributions | -- | -- | 12,014 | 12,014 |
| Total nonoperating revenues (expenses) | (13,835) | 53,359 | (240,408) | (200,884) |
| Income (loss) before contributions and transfers | (51,009) | 45,705 | 54,879 | 49,575 |
| Capital Contributions | 15,029 | -- | 7,955 | 22,984 |
| Transfers in | -- | -- | 42 | 42 |
| Transfers out | -- | (10,388) | (65,532) | (75,920) |
| Transfers to component unit | -- | (89,658) | -- | (89,658) |
| Total Transfers | -- | (100,046) | (65,490) | (165,536) |
| Change in net assets | (35,980) | (54,341) | (2,656) | (92,977) |
| Liability resulting from internal service fund's undercharging proprietary funds | | | | (4,136) |
| Net change | | | | (97,113) |
| Total net assets (deficit), July 1 | 1,430,490 | 234,478 | (53,786) | 1,611,182 |
| Total net assets (deficit), June 30 | \$ 1,394,510 | \$ 180,137 | \$ (56,442) | \$ 1,514,069 |
| Cumulative liability resulting from internal service funds undercharging proprietary funds | | | | (1,168) |
| Total net assets business-type activities | | | | \$ 1,512,901 |

LITIGATION AND REGULATION

General Litigation and Claims

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; class actions and other lawsuits and claims alleging discriminatory hiring and promotion practices and certain civil rights violations arising under the Federal Voting Rights Act; various claims from contractors for additional amounts under construction contracts; claims involving ad valorem tax assessments; and various other liability claims. The status of such litigation ranges from an early discovery stage to various levels of appeal of judgments both for and against the City. The amount of damages is limited in certain cases under the Texas Tort Claims Act and is subject to appeal. The City intends to defend itself vigorously against the suits; however, no prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the final outcome of such suits. The City typically utilizes its General Fund to liquidate claims and judgments; however, the City may, at its option, issue Tax Bonds to pay any final, unappealable judgments and settlements resulting from lawsuits against the City. See Note 13 to the Financial Statements for Fiscal Year 2012 in APPENDIX A. See also the section captioned "PROPERTY TAXES — City Charter Tax and Revenue Propositions."

The City is also aware that various claims for inverse condemnation may be asserted against the City in connection with the City's operations, the aggregate amounts of which are unknown. In one such case, a Texas Court of Appeals awarded a group of plaintiffs an amount which, with interest, exceeded \$26 million, for the alleged inverse condemnation of their mineral rights under and in the vicinity of Lake Houston. However, the Texas Supreme Court reversed and remanded the case to the trial court resulting in a judgment for the plaintiffs for the original amount. On appeal, the Court of Appeals rendered a take nothing judgment in favor of the City; however, the plaintiffs are expected to ask for a rehearing, and if unsuccessful, appeal the case to the Texas Supreme Court. The City intends to defend itself vigorously against such litigation and all other inverse condemnation claims; however, the City's liability with respect to these claims cannot be predicted. See also the section captioned "PROPERTY TAXES — Constitutional and Statutory Tax Rate Limitations" and Note 13 to the Financial Statements for Fiscal Year 2012 in APPENDIX A.

State Legislation

Although the City is a home-rule city under the Texas Constitution, it may not adopt ordinances or charter provisions inconsistent with Texas law. The Texas Legislature may enact legislation that (i) materially increases the costs and expenditures of the City or (ii) reduces the ability of the City to collect ad valorem taxes or other revenues described herein. Under the Texas and United States Constitutions, the Texas Legislature may not, however, enact legislation that impairs the City's ability to pay principal of and interest on its indebtedness.

Environmental Regulation

The City is subject to the environmental regulations of the State and the United States. These laws and regulations are subject to change, and the City may be required to expend substantial funds to meet the requirements of such regulatory authorities, such as requirements relating to quality of the City's water supply or wastewater discharges or to the handling and disposal of wastes. Failure to comply with these laws and regulations may result in the imposition of administrative, civil and criminal penalties, or the imposition of an injunction requiring the City to take or refrain from taking certain actions. In addition, the City may be required to remediate contamination on properties owned or operated by the City, or at sites where the City has sent waste for disposal.

Other Environmental Measures

Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality ("TCEQ") may adversely affect new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act Amendments of 1990, the eight county Houston-Galveston-Brazoria Area ("HGB Area") has been designated by the EPA as a non-attainment area under the EPA's ozone standards. Such areas are required to demonstrate progress in reducing ozone concentrations each year until compliance with EPA's standards are achieved. To provide for annual reductions in ozone concentrations, the EPA and the TCEQ have imposed increasingly stringent limitations on emissions of volatile organic compounds and nitrogen oxides (chemical precursors of ground level ozone) from existing stationary

sources of air emissions. In addition, any significant new source of those types of emissions, such as a new industrial plant, must provide for a net reduction of those air emissions by arranging or paying for reductions of emissions by 1.3 times the amount of pollutants proposed to be emitted by the new source. Even though existing air emissions controls are quite stringent, studies have indicated that even more stringent air emissions controls will be necessary in order for the HGB Area to achieve compliance with ozone standards. Due to the magnitude of air emissions reductions required as well as shortage of economically reasonable control options, the development of a successful air quality compliance plan has been and continues to be extremely challenging and will inevitably impact a wide cross-section of the business and residential community. More stringent controls on sources of air emissions in the HGB Area could make the Houston area a less attractive location to businesses in comparison to other areas of the country that are not subject to similarly stringent air emissions controls. Although air quality data indicates steady improvements in the HGB Area, if it fails to meet EPA's standards, EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects. The EPA may also impose more stringent emissions offset requirements on new major sources of emissions for which construction has not already commenced.

Other constraints on economic growth and development include lawsuits filed under the Clean Air Act by plaintiffs seeking to require emission reduction measures that are even more stringent than those adopted by TCEQ and approved by EPA. From time to time, various plaintiff environmental organizations have filed lawsuits against TCEQ and EPA seeking to compel the early adoption of additional emission reduction measures, many of which could make it more difficult for businesses to construct or expand industrial facilities or which could result in new restrictions on the actions of businesses, governmental entities and private citizens. Any successful court challenge to the currently effective air emissions control plan could result in the imposition of even more stringent air emission controls that could threaten continued growth and development in the HGB Area.

Periodic Flooding

Owing in part to its relatively flat topography and moist coastal climate, certain areas in the City are subject to periodic flooding and associated severe property damage as a result of storm events and hurricanes. The City and Harris County each participate in the National Flood Insurance Program, which is administered by FEMA. Communities participating in the National Flood Insurance Program are required by FEMA to adopt restrictions on development in designated flood prone areas. In exchange, the National Flood Insurance Program makes federally subsidized flood insurance available to homeowners, renters and business owners located in the participating communities.

In connection with its administration of the National Flood Insurance Program, FEMA will from time to time revise its Flood Insurance Rate Maps, which serve to classify the relative flooding potential of geographic areas. FEMA revised its Flood Insurance Rate Maps for the Greater Houston area as well as unincorporated Harris County in late 2006. As a result of this most recent revision, some homes and businesses within the City and the surrounding area that were outside of the 100-year flood plain (those areas that are determined to have a greater than 1% chance of flooding in any given year) under the previous Flood Insurance Rate Maps are now included in the 100-year flood plain under the new maps. Residential, commercial and industrial properties in the City that recently have been reclassified as being within the 100-year flood plain could experience a diminution in value, the extent of which has not yet been determined.

REMEDIES

The Ordinance does not specifically provide any remedies to a Registered Owner if the City defaults on the payment of the principal of or interest on any Series 2013 Obligations, nor does it provide for the appointment of a trustee to protect and enforce the interest of the Registered Owners upon the occurrence of such a default. If a Registered Owner of a Series 2013 Obligation does not receive payment of principal or interest when due, the Registered Owner may seek a writ of mandamus from a court of competent jurisdiction requiring the City to levy and collect taxes. Such Registered Owner also may seek a judgment against the City. The mandamus remedy, however, may be impractical and difficult to enforce. There is no provision for the acceleration of maturity of principal of a Series 2013 Obligation in the event of a default. A Registered Owner of a Series 2013 Obligation could file suit against the City if a default occurred in the payment of principal of or interest on any such Series 2013 Obligations; however, a suit for monetary damages could be vulnerable to the defense of sovereign immunity and any judgment could not be satisfied by execution against any property of the City. The enforcement of a claim for the payment of a Series 2013 Obligation also would be subject to the applicable provisions of the Federal

bankruptcy laws and to any other statutes affecting the rights of creditors of political subdivisions and may be limited by general principles of equity.

2013 LEGISLATIVE SESSION

The 83rd Texas Legislature convened its regular session on January 8, 2013. The Texas Legislature may consider bills that could have a direct impact on the City and its operations. The City can make no representations or predictions concerning the substance or effect of any legislation that has been proposed and that ultimately may be passed during the regular session or any special session that may convene after the end of the regular session, or how any such legislation would affect the financial condition of the City or its operations.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under Texas law, the Series 2013 Obligations are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries and trustees. The Series 2013 Obligations are also legal and authorized investments for the sinking funds of cities, towns, villages, school districts and other political subdivisions or public agencies of the State of Texas and are eligible to secure deposits of public funds of the State of Texas or any political subdivision or agency thereof and are lawful and sufficient security for the deposits to the extent of their market value. For political subdivisions in Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act, the Series 2013 Obligations may have to be assigned a rating of "A" or its equivalent as to investment quality by a nationally recognized rating agency before such obligations are eligible investments for sinking funds and other public funds. The City has not reviewed the laws in other states to determine with the Series 2013 Obligations are legal investments for various institutions in those states.

The City has not made any investigation of any other laws, rules, regulations or investment criteria that affect the suitability of the Series 2013 Obligations for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Series 2013 Obligations.

RATINGS

The rating services of Fitch Ratings, Inc. and Standard & Poor's Rating Services have assigned ratings of "___" and "___" respectively on the Series 2013 Obligations. Ratings reflect only the views of the rating agencies, from whom an explanation of the significance of such ratings may be obtained. There is no assurance that ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal could have an adverse effect on the market price of the Series 2013 Obligations. The City and the Co-Financial Advisors will undertake no responsibility to oppose any revision or withdrawal of such ratings.

Due to changes in rating criteria and the current economic conditions of the United States, obligations issued by state and local governments, such as the Series 2013 Obligations, could be subject to a rating downgrade. Additionally, if a significant financial crisis or budgetary reductions should occur in the affairs of the U.S. Government or of any of its agencies or political subdivisions, then such an event could adversely affect the market for and ratings, liquidity and market value of outstanding debt obligations, including the Series 2013 Obligations.

TAX MATTERS FOR THE TAX-EXEMPT OBLIGATIONS

Tax Exemption

In the opinion of Co-Bond Counsel, under existing law (i) interest on the Tax-Exempt Obligations is excludable from gross income for federal income tax purposes and (ii) the Tax-Exempt Obligations are not "private activity bonds" under the Code, and, as such, interest on the Tax-Exempt Obligations is not subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Tax-Exempt Obligations, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information

report with the Internal Revenue Service (the “IRS”). The City has covenanted in the Ordinance that it will comply with these requirements.

Co-Bond Counsel’s opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Tax-Exempt Obligations for federal income tax purposes and, in addition, will rely on representations by the City, the City’s Co-Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the City, the City’s Co-Financial Advisor and the Underwriters, respectively, which Co-Bond Counsel has not independently verified. Co-Bond Counsel will further rely on the report (the “Report”) of Grant Thornton LLP, certified public accountants, regarding the mathematical accuracy of certain computations. If the City fails to comply with the covenants in the Ordinance or if the foregoing representations or the Report are determined to be inaccurate or incomplete, interest on the Tax-Exempt Obligations could become includable in gross income from the date of delivery of the Tax-Exempt Obligations, regardless of the date on which the event causing such inclusion occurs. [References to the Report included in advance refunding disclosure only.]

The Code also imposes a 20% alternative minimum tax on the “alternative minimum taxable income” of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation’s regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, or REMIC), includes 75% of the amount by which its “adjusted current earnings” exceeds its other “alternative minimum taxable income.” Because interest on tax-exempt obligations, such as the Tax-Exempt Obligations, is included in a corporation’s “adjusted current earnings,” ownership of the Tax-Exempt Obligations could subject a corporation to alternative minimum tax consequences.

Except as stated above, Co-Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Tax-Exempt Obligations.

Co-Bond Counsel’s opinions are based on existing law, which is subject to change. Such opinions are further based on Co-Bond Counsel’s knowledge of facts as of the date thereof. Co-Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Co-Bond Counsel’s attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Co-Bond Counsel’s opinions are not a guarantee of result and are not binding on the IRS; rather, such opinions represent Co-Bond Counsel’s legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The IRS has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the IRS will commence an audit of the Tax-Exempt Obligations. If an audit is commenced, in accordance with its current published procedures the IRS is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Tax-Exempt Obligations could adversely affect the value and liquidity of the Tax-Exempt Obligations regardless of the ultimate outcome of the audit.

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

Collateral Tax Consequences

Prospective purchasers of the Tax-Exempt Obligations should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Tax-Exempt Obligations. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Tax-Exempt Obligations should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Tax-Exempt Obligations, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium

The issue price of all or a portion of the Tax-Exempt Obligations may exceed the stated redemption price payable at maturity of such Tax-Exempt Obligations. Such Tax-Exempt Obligations (the “Premium Tax-Exempt Obligations”) are considered for federal income tax purposes to have “bond premium” equal to the amount of such excess. The basis of a Premium Tax-Exempt Obligation in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Tax-Exempt Obligation in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Tax-Exempt Obligation by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Tax-Exempt Obligation that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Tax-Exempt Obligation) is determined using the yield to maturity on the Premium Tax-Exempt Obligation based on the initial offering price of such Tax-Exempt Obligation.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Tax-Exempt Obligations that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Tax-Exempt Obligations should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Tax-Exempt Obligation and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Tax-Exempt Obligations.

Tax Accounting Treatment of Original Issue Discount

The issue price of all or a portion of the Tax-Exempt Obligations may be less than the stated redemption price payable at maturity of such Tax-Exempt Obligations (the “Original Issue Discount Tax-Exempt Obligations”). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Tax-Exempt Obligation, and (ii) the initial offering price to the public of such Original Issue Discount Tax-Exempt Obligation constitutes original issue discount with respect to such Original Issue Discount Tax-Exempt Obligation in the hands of any owner who has purchased such Original Issue Discount Tax-Exempt Obligation in the initial public offering of the Tax-Exempt Obligations. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Tax-Exempt Obligation equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Tax-Exempt Obligation continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Tax-Exempt Obligations under the captions “TAX MATTERS FOR THE TAX-EXEMPT OBLIGATIONS – Tax Exemption” and “ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS – Collateral Tax Consequences” and “– Tax Legislative Changes” generally apply and should be considered in connection with the discussion in this portion of the Official Statement.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Tax-Exempt Obligation prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Tax-Exempt Obligation in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Tax-Exempt Obligation was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the Underwriter has purchased the Tax-Exempt Obligations for contemporaneous sale to the public and (ii) all of the Original Issue Discount Tax-Exempt Obligations have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm’s-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the inside cover pages of this Official Statement. Neither the City nor Co-Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Tax-Exempt Obligations will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Tax-Exempt Obligation accrues daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Tax-Exempt Obligations and ratably within each such six-month period) and the accrued amount is added to an initial owner’s basis for such Original

Issue Discount Tax-Exempt Obligation for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (ii) the amounts payable as current interest during such accrual period on such Tax-Exempt Obligation.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Tax-Exempt Obligations that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Original Issue Discount Tax-Exempt Obligations should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Tax-Exempt Obligations and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Tax-Exempt Obligations.

Tax Legislative Changes

Current law may change so as to directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Tax-Exempt Obligations from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Tax-Exempt Obligations. Prospective purchasers of the Tax-Exempt Obligations should consult with their own tax advisors with respect to any proposed, pending or future legislation.

TAX MATTERS FOR THE SERIES 2013B BONDS

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS OFFICIAL STATEMENT IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS OF THE SERIES 2013B BONDS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON SUCH HOLDERS UNDER THE CODE; (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE HOLDERS OF THE SERIES 2013B BONDS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

General

The following discussion summarizes certain U.S. federal income tax considerations that may be relevant to the acquisition, ownership and disposition of the Series 2013B Bonds by a U.S. holder (as defined below). This discussion is based upon the provisions of the Code, applicable U.S. Treasury Regulations promulgated thereunder, judicial authority and administrative interpretations, as of the date of this document, all of which are subject to change, possibly with retroactive effect, or are subject to different interpretations. Neither the City nor Co-Bond Counsel offers any assurance that the Internal Revenue Service, or IRS, will not challenge one or more of the tax consequences described in this discussion, and neither the City nor Co-Bond Counsel has obtained, nor do the City or Co-Bond Counsel intend to obtain, a ruling from the IRS or an opinion of counsel with respect to the U.S. federal tax consequences of acquiring, holding or disposing of the Series 2013B Bonds.

This discussion is limited to U.S. holders who purchase the Series 2013B Bonds in this offering for a price equal to the issue price of the Series 2013B Bonds (i.e., the first price at which a substantial amount of the Series 2013B Bonds is sold for cash other than to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) and who hold the Series 2013B Bonds as capital assets (generally, property held for investment). This discussion does not address the tax considerations arising under the laws of any foreign, state, local or other jurisdiction or income tax treaties or any U.S. federal estate or gift tax considerations. In addition, this discussion does not address all tax considerations that may be important to a particular holder in light of the holder's circumstances, or to certain categories of investors that may be subject to special rules, such as:

- dealers in securities or currencies;

- traders in securities that have elected the mark-to-market method of accounting for their securities;
- U.S. holders (as defined below) whose functional currency is not the U.S. dollar;
- persons holding the Series 2013B Bonds as part of a hedge, straddle, conversion or other “synthetic security” or integrated transaction;
- certain U.S. expatriates;
- financial institutions;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- persons subject to the alternative minimum tax;
- entities that are tax-exempt for U.S. federal income tax purposes; and
- partnerships and other pass-through entities and holders of interests therein.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds the Series 2013B Bonds, the tax treatment of a partner of the partnership generally will depend upon the status of the partner and the activities of the partnership. A partner of a partnership acquiring the Series 2013B Bonds should consult his/her own tax advisor about the U.S. federal income tax consequences of acquiring, holding and disposing of the Series 2013B Bonds.

INVESTORS CONSIDERING THE PURCHASE OF THE SERIES 2013B BONDS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP OR DISPOSITION OF THE SERIES 2013B BONDS UNDER THE LAWS OF ANY STATE, LOCAL OR FOREIGN JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

[Premium Redemption: In certain circumstances (see “Description of the Series 2013B Bonds – Optional Redemption”) the City may be obligated to pay amounts on the Series 2013B Bonds that are in excess of stated interest or principal on the Series 2013B Bonds. The City does not intend to treat the possibility of paying such additional amounts as causing the Series 2013B Bonds to be treated as “contingent payment debt instruments.” However, additional income will be recognized if any such additional payment is made. It is possible that the IRS may take a different position, in which case a bondholder might be required to accrue interest income at a higher rate than the stated interest rate and to treat as ordinary interest income any gain realized on the taxable disposition of the Bond. The remainder of this discussion assumes that the Series 2013B Bonds will not be treated as contingent payment debt instruments. Investors should consult their own tax advisors regarding the possible application of the contingent payment debt instrument rules to the Series 2013B Bonds.]

Make-Whole Redemption: The City does not intend to treat the possibility of the payment of additional amounts described in “THE SERIES 2013 OBLIGATIONS – Optional Redemption – Series 2013B Bonds,” as (i) affecting the determination of the yield to maturity of the Series 2013B Bonds, (ii) giving rise to original issue discount or recognition of ordinary income on the sale, exchange or redemption of the notes or (iii) resulting in the notes being treated as contingent payment debt instruments under the applicable U.S. Treasury Regulations.

Tax Consequences to U.S. Holders

As used herein “U.S. holder” means a beneficial owner of a Bond and who or that is, for U.S. federal income tax purposes:

- an individual who is a U.S. citizen or U.S. resident alien;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, that was created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or

- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or that has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a United States person.

Interest on the Series 2013B Bonds and Original Issue Discount. Interest on the Series 2013B Bonds generally will be taxable to a bondholder as ordinary income at the time it is received or accrued in accordance with the bondholder's regular method of accounting for U.S. federal income tax purposes. In addition, all or a portion of the Series 2013B Bonds may be issued with original issue discount ("OID") for U.S. federal income tax purposes. The amount of OID is generally equal to the excess of the principal amount of the notes over the issue price of the notes. The issue price of a Bond will be equal to the first price at which a substantial amount of Series 2013B Bonds are sold for cash (excluding sales to underwriters or placement agents). Accordingly, a bondholder will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest, before the receipt of cash payments attributable to this income. Under this method, a bondholder generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

Original Issue Premium. A bondholder who purchases a Bond in the initial offering for an amount that exceeds the principal amount of such Bond will be considered to have purchased the Bond with "amortizable bond premium" equal in amount to the excess. Generally, a bondholder may elect to amortize the bond premium (or, if it results in a smaller amortizable bond premium attributable to the period of an earlier call date, an amount determined with reference to the amount payable on the earlier call date) as an offset to stated interest income, using a constant yield method, over the remaining term of the Bond (or assuming the exercise of a call option, if use of the call date in lieu of the stated maturity date results in a smaller amortizable bond premium for the period ending on the call date). If a bondholder elects to amortize bond premium, the bondholder must reduce its adjusted tax basis in the Bond by the amount of the bond premium used to offset stated interest income as set forth above. An election to amortize bond premium applies to all taxable debt obligations held or subsequently acquired by a bondholder on or after the first day of the first taxable year to which the election applies and may be revoked only with the consent of the IRS.

Disposition of the Series 2013B Bonds. A bondholder will generally recognize capital gain or loss on the sale, redemption, exchange, retirement or other taxable disposition of a Bond. This gain or loss will equal the difference between the bondholder's adjusted tax basis in the Bond and the proceeds received (excluding any proceeds attributable to accrued but unpaid stated interest which will be recognized as ordinary interest income to the extent any such bondholder has not previously included such amounts in income) by the bondholder. The proceeds the bondholder receives will include the amount of any cash and the fair market value of any other property received for the Bond. The adjusted tax basis in the Bond will generally equal the amount the bondholder paid for the Bond. The gain or loss will be long-term capital gain or loss if the bondholder held the Bond for more than one year at the time of the sale, redemption, exchange, retirement or other disposition. Long-term capital gains of individuals, estates and trusts currently are subject to a reduced rate of U.S. federal income tax. The deductibility of capital losses is subject to certain limitations.

Information Reporting and Backup Withholding. Information reporting will apply to payments of interest on, and the proceeds of the sale, redemption, exchange, retirement or other disposition of, the Series 2013B Bonds held by a bondholder, and backup withholding may apply to such payments unless a bondholder provides the appropriate intermediary with a taxpayer identification number, certified under penalties of perjury, as well as certain other information. Backup withholding is not an additional tax. Any amount withheld under the backup withholding rules is allowable as a credit against a bondholder's U.S. federal income tax liability, if any, and a refund may be obtained if the amounts withheld exceed the bondholder's actual U.S. federal income tax liability and the bondholder timely provides the required information or appropriate claim form to the IRS.

Net Investment Income. For taxable years beginning after December 31, 2012, there is imposed a 3.8% tax on the "net investment income" of certain United States citizens and resident aliens and on the undistributed "net investment income" of certain estates and trusts. Among other items, "net investment income" generally would include interest and certain net gain from the sale, redemption, exchange, retirement or other taxable disposition of a Bond, less certain deductions.

Prospective holders should consult their tax advisors with respect to the tax consequences of the legislation described above.

Tax Consequences to Non-U.S. Holders

As used herein, a “non-U.S. holder” means a beneficial owner of a Bond that is an individual, corporation, estate or trust that is not a U.S. holder.

Interest on the Series 2013B Bonds. Payments to a non-U.S. holder of interest on the Series 2013B Bonds generally will be exempt from withholding of U.S. federal tax under the “portfolio interest” exemption if the bondholder properly certifies as to the bondholder’s foreign status as described below, and:

- the bondholder does not own, actually or constructively, 10% or more of the City’s capital or profits interests;
- the bondholder is not a “controlled foreign corporation” for U.S. federal income tax purposes that is related to the City (actually or constructively);
- the bondholder is not a bank whose receipt of interest on the Series 2013B Bonds is in connection with an extension of credit made pursuant to a loan agreement entered into in the ordinary course of the bondholder’s trade or business; and
- interest on the Series 2013B Bonds is not effectively connected with the bondholder’s conduct of a U.S. trade or business.

The portfolio interest exemption and several of the special rules for non-U.S. holders described below generally apply only if a non-U.S. holder appropriately certifies as to the bondholder’s foreign status. A bondholder can generally meet this certification requirement by providing a properly executed IRS Form W-8BEN or appropriate substitute form to the withholding agent. If a non-U.S. holder holds the Series 2013B Bonds through a financial institution or other agent acting on the bondholder’s behalf, the bondholder may be required to provide appropriate certifications to the agent. The agent will then generally be required to provide appropriate certifications to the withholding agent, either directly or through other intermediaries. Special rules apply to foreign partnerships, estates and trusts, and in certain circumstances certifications as to the foreign status of partners, trust owners or beneficiaries may have to be provided to the City or its paying agent. In addition, special rules apply to qualified intermediaries that enter into withholding agreements with the IRS.

If a non-U.S. holder cannot satisfy the requirements described above, payments of interest made to the bondholder will be subject to U.S. federal withholding tax at a 30% rate, unless the bondholder provides the withholding agent with a properly executed IRS Form W-8BEN (or successor form) claiming an exemption from (or a reduction of) withholding under the benefit of an applicable income tax treaty, or the payments of interest are effectively connected with the bondholder’s conduct of a trade or business in the United States and the bondholder meets the certification requirements described below. (See “– Tax Consequences to Non-U.S. Holders – Income or Gain Effectively Connected With a U.S. Trade or Business”).

Disposition of the Series 2013B Bonds. A non-U.S. holder generally will not be subject to U.S. federal income tax on any gain realized on the sale, redemption, exchange, retirement or other taxable disposition of a Bond unless:

- the gain is effectively connected with the conduct by the bondholder of a U.S. trade or business (and, if required by an applicable income tax treaty, is treated as attributable to a permanent establishment maintained by the bondholder in the United States); or
- the bondholder is a nonresident alien individual who has been present in the United States for 183 days or more in the taxable year of disposition and certain other requirements are met.

If a bondholder is a non-U.S. holder described in the first bullet point above, the bondholder generally will be subject to U.S. federal income tax in the same manner as a U.S. holder (See “– Tax Consequences to Non-U.S. Holders – Income or Gain Effectively Connected With a U.S. Trade or Business”). If a bondholder is a non-U.S. holder described in the second bullet point above, the bondholder generally will be subject to U.S. federal income tax at a flat rate of 30% on the gain derived from the sale or other disposition, which may be offset by U.S. source capital losses.

Income or Gain Effectively Connected with a U.S. Trade or Business. If any interest on the Series 2013B Bonds or gain from the sale, redemption, exchange, retirement or other taxable disposition of the Series 2013B

Bonds is effectively connected with a U.S. trade or business conducted by a non-U.S. holder, then the income or gain will be subject to U.S. federal income tax at regular graduated income tax rates in the same manner as a U.S. holder unless an applicable tax treaty provides otherwise. Effectively connected income will not be subject to U.S. withholding tax if a non-U.S. holder satisfies certain certification requirements by providing to the withholding agent a properly executed IRS Form W-8ECI or IRS Form W-8BEN (claiming exemption under an income tax treaty). For a non-U.S. holder that is a corporation, that portion of your earnings and profits that is effectively connected with its U.S. trade or business may also be subject to a “branch profits tax” at a 30% rate, although an applicable income tax treaty may provide for a lower rate.

Information Reporting and Backup Withholding. Payments to a non-U.S. holder of interest on a Bond, and amounts withheld from such payments, if any, generally will be required to be reported to the IRS and to the non-U.S. holder. Copies of the information returns reporting such interest may also be made available to the tax authorities in the country in which the non-U.S. holder resides under the provisions of a treaty or agreement.

United States backup withholding generally will not apply to payments to a non-U.S. holder of interest on a Bond if the statement described in “Tax Consequences to Non-U.S. Holders—Interest on the Series 2013B Bonds” is duly provided or the bondholder otherwise establishes an exemption, provided that the City does not have actual knowledge or reason to know that the bondholder is a United States person.

Payment of the proceeds of a disposition of a Bond effected by the U.S. office of a U.S. or foreign broker will be subject to information reporting requirements and backup withholding unless a non-U.S. holder properly certifies under penalties of perjury as to the bondholder’s foreign status and certain other conditions are met or the bondholder otherwise establishes an exemption. Information reporting requirements and backup withholding generally will not apply to any payment of the proceeds of the disposition of a Bond effected outside the United States by a foreign office of a broker. However, unless such a broker has documentary evidence in its records that a bondholder is a non-U.S. holder and certain other conditions are met, or the bondholder otherwise establishes an exemption, information reporting will apply to a payment of the proceeds of the disposition of a Bond effected outside the United States by such a broker if the broker is:

- a United States person;
- a foreign person that derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States;
- a controlled foreign corporation for U.S. federal income tax purposes; or
- a foreign partnership that, at any time during its taxable year, has more than 50% of its income or capital interests owned by United States persons or is engaged in the conduct of a U.S. trade or business.

Backup withholding is not an additional tax. Any amount withheld under the backup withholding rules is allowable as a credit against a non-U.S. holder’s U.S. federal income tax liability, if any, and a refund may be obtained if the amounts withheld exceed the non-U.S. holder’s actual U.S. federal income tax liability and the non-U.S. holder timely provides the required information or appropriate claim form to the Service.

THE PRECEDING DISCUSSION OF CERTAIN U.S. FEDERAL INCOME CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. WE URGE EACH PROSPECTIVE INVESTOR TO CONSULT ITS OWN TAX ADVISOR REGARDING THE PARTICULAR U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF THE SERIES 2013B BONDS, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAWS.

LEGAL PROCEEDINGS

The delivery of the Series 2013 Obligations is subject to receipt of the approving opinions of the Attorney General of the State of Texas and the opinions of Co-Bond Counsel, Bracewell & Giuliani LLP, Houston, Texas, and Baker Williams Matthiesen LLP, Houston, Texas, as to the validity of the issuance of the Series 2013 Obligations under the Constitution and laws of the State. The opinions of Co-Bond Counsel will be based upon an examination of transcripts of certain proceedings taken by the City incident to the issuance and authorization of the Series 2013 Obligations. Copies of the proposed opinions of Co-Bond Counsel to be issued in connection with the

issuance of the Series 2013 Obligations are included in APPENDIX C-1 and APPENDIX C-2 to this Official Statement.

Co-Bond Counsel has reviewed the statements and information under the headings “PURPOSE AND PLAN OF FINANCINGS – Series 2013A and Series 2013B Bonds,” “THE SERIES 2013 OBLIGATIONS” (except for the information under the subheading “Transfers and Exchanges”) and “CONTINUING DISCLOSURE OF INFORMATION” (except for the information under the subheading “Compliance with Prior Undertaking”), solely to determine that such statements and information fairly and accurately describe the Series 2013 Obligations and the Ordinance; further, Co-Bond Counsel has reviewed the statements and information under the captions “TAX MATTERS FOR THE TAX-EXEMPT OBLIGATIONS,” “ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS” and “TAX MATTERS FOR THE SERIES 2013B BONDS” solely to determine whether such information fairly summarizes the law referred to therein. Such firms have not, however, independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firms’ limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained herein.

Certain matters will be passed on for the City by its Special Disclosure Co-Counsel, Haynes and Boone, LLP, Houston, Texas, and Bratton & Associates, Houston, Texas. Certain other legal matters will be passed on for the Underwriters by their Counsel, Andrews Kurth LLP, Houston, Texas.

The fees of Co-Bond Counsel, Special Disclosure Co-Counsel and Underwriters’ Counsel for their services with respect to the Series 2013 Obligations are contingent upon the sale and delivery of the Series 2013 Obligations.

Bracewell & Giuliani LLP, Baker Williams Matthiesen LLP and Haynes and Boone, LLP, Houston, Texas, represent the Underwriters from time to time in matters unrelated to the issuance of the Series 2013 Obligations. Andrews Kurth LLP represents the City from time to time in matters unrelated to the issuance of the Series 2013 Obligations.

The various legal opinions to be delivered concurrently with the delivery of the Series 2013 Obligations express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

CO-FINANCIAL ADVISORS

First Southwest Company and Kipling Jones & Co. (the “Co-Financial Advisors”) are retained by the City in connection with the issuance of the Series 2013 Obligations and, in such capacity, have assisted the City in the preparation of documents. The Co-Financial Advisors’ fees for services rendered with respect to the sale of the Series 2013 Obligations are not contingent upon the issuance and delivery of the Series 2013 Obligations.

Although the Co-Financial Advisors have read and participated in the preparation of this Official Statement, they have not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the City’s records and from other sources that are believed to be reliable, including financial records of the City and other entities that may be subject to interpretation. No guarantee is made as to the accuracy or completeness of any such information. No person, therefore, is entitled to rely upon the participation of the Co-Financial Advisors as an implicit or explicit expression of opinion as to the completeness and accuracy of the information contained in this Official Statement.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from City records, audited Financial Statements and/or other sources that are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, ordinances and documents contained in this Official Statement are made subject to all of the provisions of such statutes, ordinances and documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

INDEPENDENT AUDITORS

The Financial Statements of the City as of and for the year ended June 30, 2012, included in this Official Statement as APPENDIX A, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report, and the report of other auditors, appearing herein (which includes an explanatory paragraph relating to the implementation of Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*).

UNDERWRITING

Rice Financial Products Company, as representative of the Underwriters, has agreed, subject to certain conditions, to purchase the Series 2013 Obligations at a price of \$_____ (reflecting the par amount of the Series 2013 Obligations, plus a net premium of \$_____, less an underwriting discount of \$_____). The Underwriters will be obligated to purchase all of the Series 2013 Obligations if any such Series 2013 Obligations are purchased. The Series 2013 Obligations to be offered to the public may be offered and sold to certain dealers (including the respective Underwriters and other dealers depositing Series 2013 Obligations into investment trusts) at prices lower than the public offering prices of such Series 2013 Obligations, and such public offering prices may be changed, from time to time, by the Underwriters. The City has also agreed to reimburse the Underwriters for certain expenses in connection with the offering.

The offering of the Series 2013 Obligations by the Underwriters is subject to receipt and acceptance and subject to the Underwriters' right to reject any order in whole or in part.

The Series 2013 Obligations are a new issue of securities with no established trading market. The City has been advised by the Underwriters that they intend to make a market in the Series 2013 Obligations but are not obligated to do so and may discontinue market-making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Series 2013 Obligations.

Certain of the Underwriters have entered into distribution agreements with other broker-dealers (that have not been designated by the City as Underwriters) for the distribution of the Series 2013 Obligations at the original issue prices. Such agreements generally provide that the relevant Underwriter will share a portion of its underwriting compensation or selling concession with such broker-dealers.

The Underwriters and their respective affiliates are full-service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the City, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the City. The Underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

FORWARD-LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. It is important to note that the City's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or development in social, economic,

business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this official statement would prove to be accurate.

REGISTRATION, SALE AND DISTRIBUTION

The Series 2013 Obligations have not been registered under the federal Securities Act of 1933, as amended (in reliance upon an exemption therefrom), or the blue sky laws of any jurisdiction. The Ordinance has not been qualified under the federal Trust Indenture Act of 1939, as amended (in reliance upon an exemption therefrom).

VERIFICATION OF MATHEMATICAL ACCURACY

The accuracy of the mathematical computations of (i) the adequacy of the maturing principal of and interest earned on the Refunded Bond Escrowed Securities, together with other available funds held in the Refunded Bond Escrow Fund to provide for the payment of the Refunded Bonds; (ii)) the adequacy of the maturing principal of and interest earned on the Refunded Note Escrowed Securities, together with other available funds held in the Refunded Note Escrow Fund to provide for the payment of the Refunded Notes; and (iii) yields used by Co-Bond Counsel to support its opinion that interest on the Tax-Exempt Obligations will be excluded from gross income for federal tax purposes, will be verified by Grant Thornton LLP, a firm of independent certified public accountants.

These computations will be based upon information and assumptions supplied by the Underwriters on behalf of the City. Grant Thornton LLP, has restricted its procedures to recalculating the computations provided by the Underwriters and has not evaluated or examined the assumptions or information used in the computations.

CONTINUING DISCLOSURE OF INFORMATION

General

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Series 2013 Obligations. The City is required to observe the agreement for as long as it remains obligated to advance funds to pay the Series 2013 Obligations. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB"), which is the sole information repository. The City will provide the updated information, within six (6) months after the end of each Fiscal Year, to the MSRB. Access to such information will be made available to the public without charge by the MSRB on its Electronic Municipal Market Access ("EMMA") website at www.emma.msrb.org.

Annual Reports

The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement, in APPENDIX A and under the SCHEDULES in this Official Statement numbered 1 through 20, as shown in APPENDIX D. The City will update and provide this information within six (6) months after the end of each Fiscal Year.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"). The updated information will include audited Financial Statements, if the City commissions an audit and it is completed by the required time. If audited Financial Statements are not available by the required time, the City will provide unaudited financial information and operating data that is customarily prepared by the City by the required time, and audited Financial Statements when and if such audited Financial Statements become available. Any such Financial Statements will be prepared in accordance with the accounting principles described in APPENDIX A or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current Fiscal Year end is June 30. Accordingly, it must provide updated information by December 31 in each year, unless the City changes its Fiscal Year. If the City changes its Fiscal Year, it will notify the MSRB of the change.

Notices of Certain Events

The City will covenant in the Ordinance, for the benefit of the holders and beneficial owners of the Series 2013 Obligations, to provide timely notices, not in excess of ten (10) business days after the occurrence of certain events, to the MSRB. Specifically, the City will provide notice of any of the following events with respect to the Series 2013 Obligations: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2013 Obligations or other material events affecting the tax status of the Series 2013 Obligations; (7) modifications to rights of holders of the Series 2013 Obligations, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2013 Obligations, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) the appointment of a successor or additional trustee or the change of name of a trustee, if material. In addition, the City will provide timely notice of any failure by the City to provide information, data, or Financial Statements in accordance with its agreement described above under “– Annual Reports.”

For the purposes of the event numbered (12) in the preceding paragraph the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

Limitations and Amendments

The City has agreed to provide notices of certain events only as described above. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its agreement to provide notices of certain events or from any statement made pursuant to its agreement, although holders of Series 2013 Obligations may seek a writ of mandamus to compel the City to comply with its agreement.

Except for the City's obligation to comply with the foregoing, the City has not agreed and does not intend to provide owners of the Series 2013 Obligations, subsequent to the issuance thereof, with continuing information about its finances, changes in its debt structure or tax base, legal matters, ratings or any other information related to the City or the Series 2013 Obligations.

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the City, if the agreement, as amended, would have permitted an underwriter to purchase or sell Series 2013 Obligations in the offering made hereby in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Series 2013 Obligations consent or nationally recognized bond counsel determines that the amendment will not materially impair the interests of the beneficial owners of the Series 2013 Obligations. The City may also amend or repeal the agreement if the Securities and Exchange Commission amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, and the City may amend the agreement in its discretion in any other circumstances or manner, but in either case only to the extent that its right to do so would not prevent the Underwriters from purchasing the Series 2013 Obligations in the offering described herein in compliance with the Rule. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under “–

Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Undertaking

The City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

GENERAL INFORMATION

The descriptions herein of the Series 2013 Obligations and the Ordinance do not purport to be complete, and all such descriptions or references thereto are qualified in their entirety by reference to the complete form of the Ordinance. Statements made herein involving estimates or projections, whether or not expressly identified as such, should not be construed to be statements of fact or as representations that such estimates or projections will ever be attained or will approximate actual results. Any summaries or excerpts of constitutional provisions, statutes, ordinances or other documents do not purport to be complete statements of same and are made subject to all of the provisions thereof. Reference should be made to such original sources in all respects.

This Official Statement is not to be construed as a contract with the Underwriters or the holders of any of the Series 2013 Obligations.

For additional information with respect to the financial condition of the City, a copy of the June 30, 2012 Comprehensive Annual Financial Report of the City is available upon written request addressed to the City Controller, P.O. Box 1562, Houston, Texas 77251-1562. A copy of the most recent quarterly investment report is also available upon request from the City Controller. Copies of the Ordinance may be obtained from Anna Russell, City Secretary, City Hall Annex, 900 Bagby, Level P, Room P-101, Houston, Texas, or by mail, P.O. Box 1562, Houston, Texas 77251-1562.

This document has been approved by the City Council of the City of Houston, Texas.

SCHEDULE I

REFUNDED OBLIGATIONS

Refunded by the Series 2013A Bonds

Refunded by the Series 2013B Bonds

APPENDIX A

AUDITED BASIC FINANCIAL STATEMENTS OF THE CITY

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APPENDIX B

ECONOMIC AND DEMOGRAPHIC CHARACTERISTICS

This Appendix contains a brief discussion of certain selected economic and demographic data on the City of Houston, Texas (the "City") and surrounding areas. Information in this Appendix has been obtained from sources that are believed to be reliable; however, such information is subject to revision and adjustment, and no representation is made with respect to the accuracy or completeness of such information.

The following data focuses primarily on four geographic areas, the Houston Primary Metropolitan Statistical Area (the "Houston PMSA"), the Consolidated Metropolitan Statistical Area (the "Houston CMSA"), the Greater Houston Area and Harris County, the county in which the City primarily lies. The Greater Houston Area includes all of Harris County and parts of six surrounding counties. The Houston PMSA consists of six counties: Chambers, Fort Bend, Harris, Liberty, Montgomery and Waller. The Houston CMSA consists of eight counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery and Waller.

IT SHOULD BE NOTED THAT THE FOUR GEOGRAPHIC AREAS DESCRIBED ABOVE ENCOMPASS POPULATIONS AND AREAS THAT FAR EXCEED THE POPULATION AND AREA OF THE CITY, SO THAT THE FOLLOWING DATA MAY SET FORTH STATISTICS AND TRENDS THAT DO NOT NECESSARILY REFLECT STATISTICS AND TRENDS APPLICABLE SOLELY TO THE CITY ITSELF. IN ADDITION, INVESTORS SHOULD NOTE THE DATA CONTAINED IN THIS APPENDIX MAY FLUCTUATE MORE OR LESS IN SUBSEQUENT YEARS THAN IN PRIOR YEARS AND SUCH FLUCTUATIONS MAY BE COUNTER TO THE TRENDS AND STATISTICS EXHIBITED IN THE FOLLOWING TABLES.

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HOUSTON-SUGAR LAND-BAYTOWN MSA POPULATION ESTIMATES^(a)
2002-2011

| Year^(a) | Population Estimates (In Thousands) | Annual % Change |
|---------------------------|--|----------------------------|
| 2011 | 6,086.54 | 1.81 |
| 2010 | 5,976.47 | 1.82 |
| 2009 | 5,867.49 | 2.46 |
| 2008 | 5,726.71 | 2.31 |
| 2007 | 5,597.67 | 2.06 |
| 2006 | 5,484.88 | 3.50 |
| 2005 | 5,299.57 | 2.10 |
| 2004 | 5,190.44 | 2.09 |
| 2003 | 5,084.02 | 2.12 |
| 2002 | 4,978.64 | 2.63 |

(a) The City previously provided population numbers for the City's PMSA. The City believes that the MSA population numbers better reflect the economic relationship of the region.
 Source: Population Division, U.S. Census Bureau.

HOUSTON POPULATION ESTIMATES (WITHIN THE CITY LIMITS)^(a)
2002-2011

| Year^(a) | Population Estimates (In Thousands) | Annual % Change |
|---------------------------|--|----------------------------|
| 2011* | 2,145.1 | 2.17% |
| 2010 | 2,099.5 | (7.02) |
| 2009 | 2,257.9 | 0.88 |
| 2008 | 2,238.2 | 1.43 |
| 2007 | 2,206.6 | 1.72 |
| 2006 | 2,169.2 | 4.48 |
| 2005 | 2,076.2 | 0.85 |
| 2004 | 2,058.6 | 1.26 |
| 2003 | 2,033.0 | 1.03 |
| 2002 | 2,012.3 | 0.90 |

* Based on 2011/2010 U.S. Census, which is as of July 11, 2011.

(a) Figures are as of July of each year.

Source: Population Division, U.S. Census Bureau.

**HOUSTON CONSUMER PRICE INDEX
ALL URBAN CONSUMERS 2002-2011**

| <u>Calendar Year</u> | <u>Average Index</u> | <u>Annual % Change</u> |
|----------------------|--------------------------|----------------------------|
| 2011 | 200.5 | 3.2% |
| 2010 | 194.2 | 2.0 |
| 2009 | 190.5 | 0.3 |
| 2008 | 189.9 | 3.3 |
| 2007 | 183.8 | 1.8 |
| 2006 | 180.6 | 2.8 |
| 2005 | 175.7 | 3.7 |
| 2004 | 169.5 | 3.5 |
| 2003 | 163.7 | 2.8 |
| 2002 | 159.2 | 0.3 |

Source: Federal Reserve Bank of Dallas

HOUSTON PMSA

**NON-AGRICULTURAL WAGE AND SALARY EMPLOYMENT (SEASONALLY ADJUSTED)
AND AVERAGE NUMBER OF JOBS
2002-2011**

| <u>Calendar Year</u> | <u>Annual Average (in thousands)</u> | <u>Percent Change</u> |
|----------------------|--|-----------------------|
| 2011 | 2,636.0 | 2.9% |
| 2010 | 2,561.4 | -1.6 |
| 2009 | 2,520.0 | -2.8 |
| 2008 | 2,592.8 | 1.9 |
| 2007 | 2,543.7 | 4.5 |
| 2006 | 2,434.3 | 4.2 |
| 2005 | 2,337.2 | 2.6 |
| 2004 | 2,278.7 | 0.7 |
| 2003 | 2,262.9 | -0.6 |
| 2002 | 2,277.4 | -0.2 |

Source: Texas Workforce Commission, December 2011.

HOUSTON PMSA
UNEMPLOYMENT RATE
(NOT SEASONALLY ADJUSTED)
% UNEMPLOYED
2002-2011

| <u>Calendar Year</u> | <u>Annual Average %</u> |
|----------------------|-------------------------|
| 2011 | 8.30% |
| 2010 | 8.50 |
| 2009 | 7.60 |
| 2008 | 4.80 |
| 2007 | 4.30 |
| 2006 | 5.00 |
| 2005 | 5.60 |
| 2004 | 6.20 |
| 2003 | 6.80 |
| 2002 | 6.10 |

Source: Texas Workforce Commission, December 2011.

PORT OF HOUSTON TONNAGE
TOTAL CARGO
2001-2011

| <u>Calendar Year</u> | <u>Short Tons</u> |
|----------------------|-------------------|
| 2011 | 236,000,000 |
| 2010 | 228,900,000 |
| 2009 | 220,000,000 |
| 2008 | 225,500,000 |
| 2007 | 225,000,000 |
| 2006 | 219,100,000 |
| 2005 | 212,400,000 |
| 2004 | 202,000,000 |
| 2003 | 190,923,145 |
| 2002 | 177,560,718 |

Source: Estimates; Port of Houston Authority.

**HOUSTON-GALVESTON-BRAZORIA CMSA
ANNUAL HOUSING STARTS
2001-2010**

| Calendar Year | Units | | Total |
|----------------------|----------------------|---------------------|--------------|
| | Single Family | Multi-Family | |
| 2010 | 22,113 | 5,166 | 27,279 |
| 2009 | 22,324 | 4,953 | 27,277 |
| 2008 | 28,154 | 14,553 | 42,707 |
| 2007 | 42,072 | 21,158 | 63,230 |
| 2006 | 55,080 | 16,570 | 71,650 |
| 2005 | 51,085 | 11,080 | 62,165 |
| 2004 | 45,039 | 10,858 | 55,897 |
| 2003 | 41,995 | 16,761 | 58,756 |
| 2002 | 34,640 | 12,401 | 47,041 |
| 2001 | 34,311 | 7,183 | 41,494 |

Source: CDS Market Research, February 2011.

**GREATER HOUSTON AREA
APARTMENT OCCUPANCY RATES^(a)
2002-2011**

| Calendar Year | Occupancy Rate |
|----------------------|-----------------------|
| 2011 | 87.70% |
| 2010 | 86.30 |
| 2009 | 84.30 |
| 2008 | 86.30 |
| 2007 | 87.40 |
| 2006 | 88.10 |
| 2005 | 90.60 |
| 2004 | 85.80 |
| 2003 | 87.10 |
| 2002 | 89.70 |

(a) Physical occupancy based on calendar year.
Source: CB Richard Ellis, January 2011.

**HOUSTON HOTEL OCCUPANCY RATES
2001-2011**

| <u>Calendar Year</u> | <u>Average Occupancy Rate</u> |
|----------------------|-----------------------------------|
| 2011 | 57.7% |
| 2010 | 55.8% |
| 2009 | 56.1 |
| 2008 | 67.7 |
| 2007 | 66.3 |
| 2006 | 66.2 |
| 2005 | 67.2 |
| 2004 | 61.9 |
| 2003 | 60.4 |
| 2002 | 63.2 |

Source: The PKF Consulting, May 2011.

**CITY OF HOUSTON BUILDING PERMITS
2002-2011**

New Non-Residential^(a)

| <u>Calendar Year</u> | <u>Number of Permits Issued</u> | <u>Dollar Value (In Thousands)</u> |
|--------------------------|---------------------------------|--|
| 2011 | 2,031 | \$858,370 |
| 2010 | 2,005 | 614,458 |
| 2009 | 2,063 | 1,052,147 |
| 2008 | 2,778 | 2,186,599 |
| 2007 | 2,991 | 1,777,311 |
| 2006 | 2,944 | 1,342,131 |
| 2005 | 3,231 | 1,150,103 |
| 2004 | 1,218 | 673,381 |
| 2003 | 3,217 | 731,725 |
| 2002 | 2,976 | 864,773 |

(a) Privately Owned.
Source: City of Houston, Public Works and Engineering.

**CITY OF HOUSTON BUILDING PERMITS
2002-2011**

New Residential^(a)

| Calendar Year | Single Family | | Multi-Family | |
|----------------------|---------------------------------|------------------------------------|---------------------------------|------------------------------------|
| | Number of Permits Issued | Dollar Value (In Thousands) | Number of Permits Issued | Dollar Value (In Thousands) |
| 2011 | 2,714 | \$701,546 | 157 | \$313,580 |
| 2010 | 2,741 | 610,208 | 125 | 127,868 |
| 2009 | 2,850 | 542,991 | 74 | 113,154 |
| 2008 | 3,749 | 847,394 | 237 | 439,346 |
| 2007 | 6,480 | 1,307,714 | 444 | 712,494 |
| 2006 | 7,628 | 1,330,846 | 538 | 588,083 |
| 2005 | 7,296 | 1,152,592 | 274 | 359,663 |
| 2004 | 5,958 | 943,913 | 440 | 344,397 |
| 2003 | 5,140 | 819,294 | 472 | 510,474 |
| 2002 | 4,152 | 666,003 | 696 | 524,060 |

(a) Privately Owned.

Source: City of Houston, Public Works and Engineering.

**HOUSTON PMSA
GENERAL PURPOSE OFFICE SPACE ACTIVITY^(a)
2002-2011**

| Calendar Year | Net Rentable Area (msf) | Net Absorption^(b) (msf) | Annual Vacancy Rate | Average Rents (Per Square Foot)^(c) |
|----------------------|--------------------------------|---|----------------------------|--|
| 2011 | 190.72 | 1.7 | 14.99% | \$22.84 |
| 2010 | 190.02 | -0.5 | 16.30 | 22.82 |
| 2009 | 190.63 | -2.7 | 15.89 | 24.00 |
| 2008 | 185.14 | 2.7 | 11.90 | 23.57 |
| 2007 | 180.76 | 3.3 | 10.98 | 21.61 |
| 2006 | 178.21 | 0.3 | 14.48 | 18.09 |
| 2005 | 177.88 | 1.2 | 14.46 | 17.78 |
| 2004 | 178.14 | 0.2 | 16.35 | 17.81 |
| 2003 | 147.31 | 0.8 | 16.44 | 21.01 |
| 2002 | 147.23 | 1.1 | 16.55 | 20.66 |

(a) Based on buildings greater than 29,999 square feet. (Excludes single tenant government-owned and medical office buildings).

(b) Net absorption is the difference between the total number of square feet that are leased (excluding renewals of leases) and the total number of square feet that have become vacant in the year.

(c) Average asking rental rates are quoted on a gross basis.

Source: CB Richard Ellis, January 2012.

**CITY OF HOUSTON
AVIATION PASSENGER AND AIR FREIGHT TRENDS
2002-2011**

The following table presents total passenger arrivals and departures and air freight (in pounds) for George Bush Intercontinental Airport, William P. Hobby Airport, and Ellington Airport for the years indicated.

| Calendar Year | Passenger Domestic | Passenger International | Passenger Domestic and International | Air Freight Total Domestic and International ^(a) |
|----------------------|---------------------------|--------------------------------|---|--|
| 2011 | 41,393,412 | 8,637,332 | 50,030,744 | 934,268,782 |
| 2010 | 41,025,643 | 8,507,878 | 49,533,571 | 882,569,658 |
| 2009 | 40,695,852 | 7,809,943 | 48,505,795 | 766,313,947 |
| 2008 | 42,525,054 | 7,960,133 | 50,485,187 | 836,613,923 |
| 2007 | 44,094,573 | 7,722,990 | 51,817,563 | 864,395,702 |
| 2006 | 43,688,377 | 7,411,010 | 51,099,387 | 810,143,748 |
| 2005 | 41,065,006 | 6,909,083 | 47,974,089 | 768,561,131 |
| 2004 | 38,472,465 | 6,385,139 | 44,857,604 | 784,125,513 |
| 2003 | 36,471,462 | 5,620,391 | 42,091,853 | 740,645,402 |
| 2002 | 36,357,296 | 5,668,225 | 42,025,521 | 731,476,709 |

(a) Air Freight in pounds and excludes airmail.
Source: Houston Airport System

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APPENDIX C-1

**FORM OF CO-BOND COUNSEL OPINION
FOR THE SERIES 2013A BONDS AND THE SERIES 2013B BONDS**

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APPENDIX C-2

**FORM OF CO-BOND COUNSEL OPINION
FOR THE SERIES 2013A CERTIFICATES**

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APPENDIX D

SUMMARY OF SCHEDULES RELATED TO CONTINUING DISCLOSURE OF INFORMATION

| | |
|-----------------|---|
| Schedule 1: | Tax Rolls |
| Schedule 2: | Ad Valorem Tax Levies And Collections |
| Schedule 3: | Principal Taxpayers |
| Schedule 4: | Outstanding Debt |
| Schedule 5: | Ad Valorem Tax Obligation Percentages |
| Schedule 6: | Principal and Interest Payable from Ad Valorem Taxes (Excluding Outstanding Commercial Paper Notes) |
| Schedule 7: | Direct and Overlapping Debt |
| Schedule 8: | Capital Improvement Plan (Non-Enterprise Fund) |
| Schedule 9: | Voter-Authorized Obligations |
| Schedule 10: | City Employees |
| Schedule 11: | Compensated Absence Liability And Long-Term Disability Fund |
| Schedule 12:* | Actuarially Determined Contribution Amounts and Changes in Pension Plan Assets |
| Schedule 12A: * | Municipal System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability |
| Schedule 12B: * | Police System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability |
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| Schedule 13: | General Fund Budget for Fiscal Years 2013 and 2012 |
| Schedule 14: | Debt Service Fund Budget for Fiscal Years 2013 and 2012 |
| Schedule 15: | Summary of General Fund |
| Schedule 16: | General Fund Unreserved and Undesignated Fund Balances |
| Schedule 17: | Sales and Use Tax and Franchise Charges and Fees |
| Schedule 18: | Discretionary Debt Service Transfers by Combined Utility System to the Debt Service Fund |
| Schedule 19: | General Fund Indirect Charges to Other City Funds |
| Schedule 20: | Enterprise Funds |

*The City agrees and is obligated to update Schedules 12 (Part 2), 12A, 12B and 12C only to the extent that the City receives updated actuarial reports from the boards of the Pension Systems. The City is not empowered to require the boards of the Pension Systems to obtain updated actuarial reports. The Pension Systems will periodically receive additional actuarial reports with regard to the City's pension plans, to the extent required under State law or requested by the boards of the Pension Systems. Accordingly, updated Schedules 12 (Part 2), 12A, 12B and 12C may not be available in every annual continuing disclosure filing.

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APPENDIX E

SECURITIES DEPOSITORY

The Depository Trust Company

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 2013 Obligations. The Series 2013 Obligations will be issued as fully-registered securities in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of each series of the Series 2013 Obligations, in the aggregate principal amount of such series, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s Rating Services’ rating of: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2013 Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2013 Obligations on DTC’s records. The ownership interest of each actual purchaser of each Series 2013 Obligation (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2013 Obligations are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2013 Obligations, except in the event that use of the book-entry system for the Series 2013 Obligations is discontinued.

To facilitate subsequent transfers, all Series 2013 Obligations deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2013 Obligations with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2013 Obligations; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2013 Obligations are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2013 Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2013 Obligations, such as redemptions, tenders, defaults, and proposed amendments to the Series 2013 Obligation documents. For example, Beneficial Owners of Series 2013 Obligations may wish to ascertain that the nominee holding the Series 2013 Obligations for their benefit has agreed to

obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2013 Obligations within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2013 Obligations unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2013 Obligations are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2013 Obligations will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Series 2013 Obligations held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Paying Agent/Registrar; disbursement of such payments to Direct Participants will be the responsibility of DTC; and reimbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 2013 Obligations purchased or tendered, through its Participant, to the Paying Agent/Registrar, and shall effect delivery of such Series 2013 Obligations by causing the Direct Participant to transfer the Participant's interest in the Series 2013 Obligations, on DTC's records, to the Paying Agent/Registrar. The requirement for physical delivery of Series 2013 Obligations in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2013 Obligations are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2013 Obligations to the Paying Agent/Registrar's DTC account.

DTC may discontinue providing its services as depository with respect to the Series 2013 Obligations at any time by giving reasonable notice to the City or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

Global Clearance Procedures

The information that follows is based solely on information obtained from Clearstream or Euroclear, as appropriate. No representation is made as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

General. The Bonds initially will be registered in the name of Cede & Co. as registered owner and nominee for DTC, which will act as securities depository for the Bonds. Purchases of the Bonds will be in book-entry form only, as more fully described below. Clearstream and Euroclear may hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and/or Euroclear's names on the books of their respective U.S. Depositories, which, in turn, hold such positions in customers' securities accounts in the U.S. Depositories' names on the books of DTC. Citibank, N.A. acts as the U.S. depository for Clearstream and JPMorgan Chase Bank acts as the U.S. Depository for Euroclear.

The City cannot and does not give any assurances that DTC, Participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants will distribute to the Beneficial Owners of the Bonds: (i) payments of principal and interest payments (including redemption payments) with respect to the Bonds; (ii) confirmation of ownership interest in the Bonds; or (iii) notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will do so on a timely basis, or that DTC, the

Participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants will serve and act in the manner described in this Official Statement.

The City will have no responsibility or obligations to DTC, the Participants, Euroclear, Euroclear Participants, Clearstream, Clearstream customers or the Beneficial Owners with respect to: (i) the accuracy of any records maintained by DTC or any DTC Participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants; (ii) the payment by DTC or any DTC Participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants of any amount due to any Beneficial Owner in respect of principal and interest payments (including redemption payments) on the Bonds; (iii) the delivery by DTC or any DTC Participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants of any notice to any Beneficial Owner that is required or permitted to be given to owners under the terms of the Bonds; or (iv) any consent given or other action taken by DTC as registered holder of the Bonds.

The information concerning Clearstream and Euroclear has been derived from information obtained from Clearstream and Euroclear and other sources. Neither the City nor the Underwriters make any representation or warranty regarding the accuracy or completeness thereof.

Clearstream. Clearstream Banking, société anonyme, 42 Avenue J.F. Kennedy, L-1855 Luxembourg ("Clearstream, Luxembourg"), was incorporated in 1970 as "Cedel S.A.", a company with limited liability under Luxembourg law (a société anonyme). Cedel S.A. subsequently changed its name to Cedelbank. On 10 January 2000, Cedelbank's parent company, Cedel International, société anonyme ("CI") merged its clearing, settlement and custody business with that of Deutsche Börse AG ("DBAG"). The merger involved the transfer by CI of substantially all of its assets and liabilities (including its shares in Cedelbank), and the transfer by DBAG of its shares in Deutsche Börse Clearing (DBC), to a new Luxembourg company, which with effect 14 January 2000 was renamed Clearstream International, société anonyme, and was then 50% owned by CI and 50% owned by DBAG.

Following this merger, the subsidiaries of Clearstream International were also renamed to give them a cohesive brand name. On 18 January 2000, Cedelbank was renamed "Clearstream Banking, société anonyme", and Cedel Global Services was renamed "Clearstream Services, société anonyme". On 17 January 2000, Deutsche Börse Clearing AG was renamed "Clearstream Banking AG".

Today Clearstream International is 100% owned by DBAG. The shareholders of DBAG are comprised of mainly banks, securities dealers and financial institutions.

Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg customers through electronic book-entry changes in accounts of Clearstream, Luxembourg customers, thereby eliminating the need for physical movement of certificates.

Transactions may be settled by Clearstream, Luxembourg in any of 36 currencies, including United States Dollars. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg also deals with domestic securities markets in over 30 countries through established depository and custodial relationships.

Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance du Secteur Financier, "CSSF", and the Banque Centrale du Luxembourg ("BCL") which supervise and oversee the activities of Luxembourg banks. Clearstream, Luxembourg's customers are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Clearstream, Luxembourg's U.S. customers are limited to securities brokers and dealers and banks. Currently, Clearstream, Luxembourg has approximately 2,000 customers located in over 80 countries, including all major European countries, Canada, and the United States. Indirect access to Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of Clearstream, Luxembourg. Clearstream, Luxembourg has established an electronic bridge with Euroclear Bank S.A./N.V. as the Operator of the Euroclear System (the "Euroclear Operator") in Brussels to facilitate settlement of trades between Clearstream, Luxembourg and the Euroclear Operator.

Euroclear Bank. Euroclear Bank S.A./N.V. ("Euroclear Bank") holds securities and book-entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear Participants, and between Euroclear Participants and Participants of certain other securities intermediaries through electronic book-entry changes in accounts of such Participants or other securities intermediaries.

Euroclear Bank provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Euroclear Participants are investment banks, securities brokers and dealers, banks, central banks, supranationals, custodians, investment managers, corporations, trust companies and certain other organizations. Certain of the managers or underwriters for this offering, or other financial entities involved in this offering, may be Euroclear Participants.

Non-Participants in the Euroclear System may hold and transfer book-entry interests in the Securities through accounts with a Participant in the Euroclear System or any other securities intermediary that holds a book-entry interest in the securities through one or more securities intermediaries standing between such other securities intermediary and Euroclear Bank.

Clearance and Settlement. Although Euroclear Bank has agreed to the procedures provided below in order to facilitate transfers of securities among Participants in the Euroclear System, and between Euroclear Participants and Participants of other intermediaries, it is under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time.

Initial Distribution. Investors electing to acquire Securities through an account with Euroclear Bank or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of new issues of securities. Securities to be acquired against payment through an account with Euroclear Bank will be credited to the securities clearance accounts of the respective Euroclear Participants in the securities processing cycle for the business day following the settlement date for value as of the settlement date, if against payment.

Secondary Market. Investors electing to acquire, hold or transfer securities through an account with Euroclear Bank or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of secondary market transactions in securities. Please be aware that Euroclear Bank will not monitor or enforce any transfer restrictions with respect to the securities offered herein.

Custody. Investors who are Participants in the Euroclear System may acquire, hold or transfer interests in the securities by book-entry to accounts with Euroclear Bank. Investors who are not Participants in the Euroclear System may acquire, hold or transfer interests in the securities by book-entry to accounts with a securities intermediary who holds a book-entry interest in the securities through accounts with Euroclear Bank.

Custody Risk. Investors that acquire, hold and transfer interests in the securities by book-entry through accounts with Euroclear Bank or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the individual securities.

Euroclear Bank has advised as follows:

Under Belgian law, investors that are credited with securities on the records of Euroclear Bank have a co-property right in the fungible pool of interests in securities on deposit with Euroclear Bank in an amount equal to the amount of interests in securities credited to their accounts. In the event of the insolvency of Euroclear Bank, Euroclear Participants would have a right under Belgian law to the return of the amount and type of interests in securities credited to their accounts with Euroclear Bank. If Euroclear Bank did not have a sufficient amount of interests in securities on deposit of a particular type to cover the claims of all Participants credited with such interests in securities on Euroclear Bank's records, all Participants having an amount of interests in securities of such type credited to their accounts with Euroclear Bank would have the right under Belgian law to the return of their pro-rata share of the amount of interests in securities actually on deposit.

Under Belgian law, Euroclear Bank is required to pass on the benefits of ownership in any interests in securities on deposit with it (such as dividends, voting rights and other entitlements) to any person credited with such interests in securities on its records.

Initial Settlement; Distributions; Actions Upon Behalf of Owners. All of the Bonds will initially be registered in the name of Cede & Co., the nominee of DTC. Clearstream and Euroclear may hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and/or Euroclear's names on the books of their respective U.S. Depository, which, in turn, holds such positions in customers' securities accounts in its U.S. Depository's name on the books of DTC. Citibank, N.A. acts as depository for Clearstream and JPMorgan Chase Bank acts as depository for Euroclear (the "U.S. Depositories").

Holders of the Bonds may hold their Bonds through DTC (in the United States) or Clearstream or Euroclear (in Europe) if they are participants of such systems, or directly through organizations that are participants in such systems.

Investors electing to hold their Bonds through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional EuroBonds in registered form. Securities will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

Distributions with respect to the Bonds held beneficially through Clearstream will be credited to the cash accounts of Clearstream customers in accordance with its rules and procedures, to the extent received by its U.S. Depository. Distributions with respect to the Bonds held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions, to the extent received by its U.S. Depository. Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations.

Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by an owner of the Bonds on behalf of a Clearstream customer or Euroclear Participant only in accordance with the relevant rules and procedures and subject to the U.S. Depository's ability to effect such actions on its behalf through DTC.

Secondary Market Trading. Secondary market trading between Participants (other than U.S. Depositories) will be settled using the procedures applicable to U.S. corporate debt obligations in same-day funds.

Secondary market trading between Euroclear Participants and/or Clearstream customers will be settled using the procedures applicable to conventional EuroBonds in same-day funds.

When securities are to be transferred from the account of a Participant (other than U.S. Depositories) to the account of a Euroclear Participant or a Clearstream customer, the purchaser must send instructions to the applicable U.S. Depository one business day before the settlement date. Euroclear or Clearstream, as the case may be, will instruct its U.S. Depository to receive the securities against payment. Its U.S. Depository will then make payment to the Participant's account against delivery of the securities. After settlement has been completed, the securities will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the Euroclear participant's or Clearstream customers' accounts. Credit for the securities will appear on the next day (European time) and cash debit will be back-valued to, and the interest on the Bonds will accrue from the value date (which would be the preceding day when settlement occurs in New York). If settlement is not completed on the intended value date (i.e., the trade fails), the Euroclear or Clearstream cash debit will be valued instead as of the actual settlement date.

Euroclear Participants and Clearstream customers will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream. Under this approach, they may take on credit exposure to Euroclear or Clearstream until the securities are credited to their accounts one day later.

As an alternative, if Euroclear or Clearstream has extended a line of credit to them, participants/customers can elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear Participants or Clearstream customers purchasing securities would incur overdraft charges for one day, assuming they cleared the overdraft when the securities were credited to their accounts. However, interest on the securities would accrue from the value date. Therefore, in many cases, the investment income on securities earned during that one day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each Participant's/customer's particular cost of funds.

Because the settlement is taking place during New York business hours, Participants can employ their usual procedures for sending securities to the applicable U.S. Depository for the benefit of Euroclear Participants or Clearstream customers. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the Participant, a cross-market transaction will settle no differently from a trade between two Participants.

Due to time zone differences in their favor, Euroclear Participants and Clearstream customers may employ their customary procedure for transactions in which securities are to be transferred by the respective clearing system, through the applicable U.S. Depository to another Participant's. In these cases, Euroclear will instruct its U.S. Depository to credit the securities to the Participant's account against payment. The payment will then be reflected in the account of the Euroclear Participant or Clearstream customer the following business day, and receipt of the cash proceeds in the Euroclear Participants' or Clearstream customers' accounts will be back-valued to the value date (which would be the preceding day, when settlement occurs in New York). If the Euroclear Participant or Clearstream customer has a line of credit with its respective clearing system and elects to draw on such line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over that one-day period. If settlement is not completed on the intended value date (i.e., the trade fails), receipt of the cash proceeds in the Euroclear Participant's or Clearstream customer's accounts would instead be valued as of the actual settlement date.

Procedures May Change. Although DTC, Clearstream and Euroclear have agreed to these procedures in order to facilitate transfers of securities among DTC and its Participants, Clearstream and Euroclear, they are under no obligation to perform or continue to perform these procedures and these procedures may be discontinued and may be changed at any time by any of them.

THE CITY AND THE PAYING AGENT/REGISTRAR CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (1) PAYMENTS OF PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS (2) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE BONDS OR (3) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

NEITHER THE CITY NOR THE PAYING AGENT/REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR, EUROCLEAR PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE TRUST AGREEMENT; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE BONDS.

EXHIBIT F

DESCRIPTION OF ANNUAL FINANCIAL INFORMATION AND ACCOUNTING PRINCIPLES

The following information is referred to in Section 10.1 of the Ordinance.

Annual Financial Statements and Operating Data

The financial information and operating data with respect to the City to be provided annually in accordance with Section 10.1 of the Ordinance is specified below:

1. The portions of the financial statements of the City appended to the Official Statement as Appendix A, but for the most recently concluded fiscal year.

2. Quantitative financial information and operating data with respect to the City of the general type described in the Official Statement in the following schedules, but for the most recently concluded year:

| | |
|----------------|---|
| Schedule 1: | Tax Rolls |
| Schedule 2: | Ad Valorem Tax Levies and Collections |
| Schedule 3: | Principal Taxpayers |
| Schedule 4: | Outstanding Debt |
| Schedule 5: | Ad Valorem Tax Obligation Percentages |
| Schedule 6: | Principal and Interest Payable from Ad Valorem Taxes (Excluding Outstanding Commercial Paper Notes) |
| Schedule 7: | Direct and Overlapping Debt |
| Schedule 8: | Capital Improvement Plan (Non-Enterprise Fund) |
| Schedule 9: | Voter-Authorized Obligations |
| Schedule 10: | City Employees |
| Schedule 11: | Compensated Absence Liability and Long-Term Disability Fund |
| Schedule 12:* | Actuarially Determined Contribution Amounts and Changes in Pension Plan Assets |
| Schedule 12A:* | Municipal System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability |
| Schedule 12B:* | Police System Pension Plan Assets; Liabilities and Unfunded Actuarial Accrued Liability |
| Schedule 12C:* | Firefighter Fund Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability |

* The City agrees and is obligated to update Schedules 12 (Part 2), 12A, 12B and 12C only to the extent that the City receives updated actuarial reports from the boards of the Pension Systems. The City is not empowered to require the boards of the Pension Systems to obtain updated actuarial reports. The Pension Systems will periodically receive additional actuarial reports with regard to the City's pension plans, to the extent required under State law or requested by the boards of the Pension Systems. Accordingly, updated Schedules 12 (Part 2), 12A, 12B and 12C may not be available in every annual continuing disclosure filing.

- Schedule 13: General Fund Budget for Fiscal Year 2013 and Fiscal Year 2012
- Schedule 14: Debt Service Fund Budget for Fiscal Year 2013 and Fiscal Year 2012
- Schedule 15: Summary of General Fund
- Schedule 16: General Fund Unreserved and Undesignated (Assigned) Fund Balances
- Schedule 17: Sales and Use Tax and Franchise Charges and Fees
- Schedule 18: Discretionary Debt Service Transfers by Combined Utility System to the Debt Service Fund
- Schedule 19: General Fund Indirect Charges to Other City Funds
- Schedule 20: Enterprise Funds