GENERAL OBLIGATION DEBT SERVICE SUMMARY

General Obligation debt is secured by and payable from the receipts of annual ad valorem taxes within legal limits on taxable property within the City. The City has covenanted to assess, levy and collect an ad valorem tax in each calendar year within applicable limitations sufficient to pay the principal and interest on all outstanding obligations payable in such tax year. Such obligations include (1) Public Improvement Bonds, (2) Certificates of Obligation, (3) Certain obligations to fund a portion of the City's unfunded actuarially accrued liability to the City's pension programs, and (4) General obligation commercial paper notes. The debt service requirements, excluding any bond issuance or refunding for FY2019 are estimated to be $428 million.

The largest revenue source for the General Debt Service Funds is the General Fund, which transfers a portion of ad valorem taxes (property tax receipts) required for debt service on the obligations. Within the limits prescribed by law, the City is obligated to assess, levy, and collect annual ad valorem taxes sufficient to pay the principal and interest on the obligations. The Constitution of the State of Texas limits the maximum ad valorem tax rate to $2.50 per $100 assessed valuation for home-rule cities such as the City of Houston. In addition, Proposition 1 limits increases in the City's ad valorem tax revenue by requiring voter approval for increases in ad valorem taxes in future years above a limit equal to the lesser of the actual revenues in the preceding fiscal year plus 4.5%, or a formula that is based upon the actual revenues received in Fiscal Year 2005 adjusted for the cumulative combined rate of inflation and the City's population growth. In addition, in November 2006, Proposition H was passed to further increase the applicable revenue limitations by $90 million. The City's tax rate for Fiscal Year 2018 (tax year 2017) was $0.58421 (per $100 assessed valuation), which consists of $0.420227 for general purposes and $0.163983 for debt service. The proposed Fiscal Year 2019 Budget assumes the City will collect the maximum ad valorem tax revenues allowable under Proposition 1 and H. The tax rate will be adjusted accordingly when the City collects the final tax figures and sets the tax rate.

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

Other sources include, but are not limited to, debt service reimbursement for special financings that vary from year to year. Examples of special financings include projects managed by the City but funded by Tax Increment Reinvestment Zones (TIRZ). Interest earned on construction funds (as a result of bonds issued) may be used as a revenue source to help fund debt service and may also be used for expenditures incurred for administering bond programs.

The FY2019 Annual Financing Plan outlines the anticipated sale of City bonds, certificates of obligation, pension bonds, tax and revenue anticipation notes, and commercial paper notes for the upcoming fiscal year. It is expected that the City will issue a total ranging from $50 million to $2.3 billion depending on needs and market conditions.

Tax Bonds and Certificates of Obligation

The Obligations issued as fixed rate debt bear yields ranging from 0.20% up to 6.29%, which are established at the time of issuance and are based on market rates. The City issues Tax Bonds to provide for permanent financing through refunding of commercial paper notes or refunding previously issued and outstanding Tax Obligations of the City. The City has also issued Pension Obligation Bonds in FY2005 through FY2010, as well as FY2018. Pension Obligations Bonds are payable from and secured by ad valorem taxes and/or revenues to fund Unfunded Actuarial Accrued Liabilities (UAAL) associated with its pension funds.

The City may also issue Certificates of Obligation payable from ad valorem taxes and, in some cases, a pledge of certain City revenues for the purpose of paying any contractual obligations. Certificates of Obligation are issued for special financings and demolitions of dangerous buildings.

The budget includes a seven-month reserve for Tax Bonds and Certificates of Obligation. This reserve covers principal and interest payable in the first seven months of the following fiscal year.

Variable Rate Debt - Commercial Paper Notes

Commercial paper programs provide for the issuance of voter-authorized obligations related to the 2001, 2006, 2012 and 2017 bond elections and these series have been implemented to fund various public improvement projects in the Capital Improvement Plan (CIP). These commercial paper programs include:

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

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

- Series E with a total authorization of $200 million is primarily used to fund equipment acquisitions, and
- Series K with a total authorization of $300 million is used to provide appropriation capacity to fund capital improvements related to drainage and streets.

The commercial paper programs serve as a management tool to access the credit market to meet cash needs while minimizing the rebate liability on unspent proceeds. The commercial paper notes are refunded periodically into fixed rate tax bonds to limit the City's variable rate exposure and to match the average life of bonds to the life of the assets purchased. Interest on the notes varies depending on the market conditions. The notes may be issued for a period not to exceed 270 days and will bear interest based upon the specified terms, but initially not to exceed 6.5%. The reserves for the notes are based on the amount projected to be outstanding during the fiscal year. The budget includes reserves for interest on commercial paper notes to provide for fluctuations in interest rates at a rate of 6.0% of the estimated amount to be outstanding during the fiscal year.

Assumed Bonds

Prior to FY1991, the City had an aggressive annexation program. There were no annexations during FY1991 and FY1992. However, from FY1993 to FY1997 the City completed seven new annexations. Although annexations have benefited the City in economic growth, no additional annexations have occurred since FY1997. Beginning in FY1999, the legislation requires the City to adopt a three-year annexation plan with certain exceptions; only those areas identified in such plan would be eligible for annexation. The City does not currently have a plan in place to annex additional districts. Debt assumed by the City from annexations of various districts within the extra-territorial jurisdiction becomes a part of the City's debt service requirements. As of FY2007, all of the debt related to annexation has been refunded.

Interest Rate Swaps

As part of its debt management program, the City considers and reviews various interest rate swap proposals, including tax supported interest rate swaps, consistent with the guidelines set forth in its Interest Rate Swap Policy adopted on November 25, 2003. On February 20, 2004, with respect to certain outstanding Tax Bonds, the City entered into a tax supported interest rate swap agreement with Rice Financial Products Corp. LLC. This swap was terminated at the City's option on August 25, 2009. An accumulated profit of approximately $8 million was earned on this swap. No swaps are being contemplated at this time.

Rebuild Houston

On November 2, 2010, voters approved an amendment to the City Charter which requires the City to establish a dedicated pay-as-you-go drainage and street renewal fund to provide for enhancement, improvement and ongoing renewal of the City's drainage and streets. Among other sources of funding, Proposition 1 (2010) requires the City to capture an amount equal to revenues from $0.118 equivalent per $100 of assessed valuation in property taxes. This revenue has two authorized uses under Proposition 1. First, the $0.118 equivalent of captured property tax revenue must be used to pay debt service on tax supported bonds for drainage and street improvements that were issued prior to December 31, 2011. Second, to the extent that any of the $0.118 of captured property tax revenue is left over after the payment of debt service, that remaining captured tax revenue will be deposited into a dedicated drainage and street improvement fund to provide cash funding for pay-as-you-go drainage and street improvements.

Ad Valorem Tax Obligations of the City

State law permits the City to incur total bonded indebtedness through the issuance of ad valorem tax bonds in an amount not to exceed 10% of the total appraised valuation of property in the City. The schedule below shows an estimate for the current fiscal year of outstanding debt applicable to the statutory limitation.

(in thousands of dollars)

Appraised Value [1]		$ 299,059,599
Debt Limit, 10% of Appraised Value		$ 29,905,960
Debt applicable to limitation [2]		
Public Improvement Bonds	$2,151,850	
Commercial Paper Notes	30,000	
Pension Obligation	1,576,435	
Certificates of Obligation	14,670	
Total Debt Applicable to Limitation	$3,772,955	
Less:		
Amount available for repayment of general obligation debt [3]	(128,072)	
Total debt applicable to limitation		$ 3,644,883

[1] Appraised value for the Fiscal Year 2018 (Tax Year 2017), as of April 6, 2018.

[2] Balance as of March 31, 2018.

[3] Balance as of June 30, 2017.

Outstanding General Obligation Debt

(in thousands of dollars)	FY2016 Actual	FY2017 Actual	FY2018 Estimate	FY2019 Budget
OUTSTANDING DEBT:				
Public Improvement Bonds	$2,320,605	$2,135,185	$2,151,850	$1,979,997
Commercial Paper Notes	$ 99,900	$ 239,900	$ 60,000	$ 238,749
Pension Obligation	$ 587,375	$ 579,605	$1,576,435	$1,536,930
Certificates of Obligation	$ 16,360	$ 15,750	$ 14,670	$ 14,831
TOTAL OUTSTANDING DEBT	$3,024,240	$2,970,440	$3,802,955	$3,770,507