THIS INVITATION WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME ON APRIL 19, 2024 UNLESS EARLIER TERMINATED OR EXTENDED

INVITATION TO TENDER BONDS MADE BY CITY OF HOUSTON, TEXAS

to the Bondowners described herein of all or any portion of the maturities listed on pages (iv) through (vi) herein of

CITY OF HOUSTON, TEXAS

Combined Utility System First Lien Revenue Refunding Bonds, Series 2015D	**Combined Utility System First Lien Revenue and Refunding Bonds, Series 2016B**	**Combined Utility System First Lien Revenue Refunding Bonds, Series 2017B**
Combined Utility System First Lien Revenue Refunding Bonds, Series 2018D	**Combined Utility System First Lien Revenue Refunding Bonds, Taxable Series 2018E**	**Combined Utility System First Lien Revenue Refunding Bonds, Taxable Series 2019C**
Combined Utility System First Lien Revenue Refunding Bonds, Taxable Series 2020D	**Combined Utility System First Lien Revenue Refunding Bonds, Taxable Series 2021B**	

This Invitation to Tender Bonds, dated April 5, 2024 (as it may be amended or supplemented, this "**Invitation**"), describes an invitation by the City of Houston, Texas (the "**Issuer**"), with the assistance of Jefferies LLC, as dealer manager (the "**Dealer Manager**"), to the beneficial owners (the "**Bondowners**") of all or any portion of the Issuer's outstanding Combined Utility System First Lien Revenue Refunding Bonds, Series 2015D (the "**2015D Target Bonds**"), Combined Utility System First Lien Revenue and Refunding Bonds, Series 2016B (the "**2016B Target Bonds**"), Combined Utility System First Lien Revenue Refunding Bonds, Series 2017B (the "**2017B Target Bonds**"), Combined Utility System First Lien Revenue Refunding Bonds, Series 2018D (the "**2018D Target Bonds**"), Combined Utility System First Lien Revenue Refunding Bonds, Taxable Series 2018E (the "**2018E Target Bonds**"), Combined Utility System First Lien Revenue Refunding Bonds, Taxable Series 2019C (the "**2019C Target Bonds**"), Combined Utility System First Lien Revenue Refunding Bonds, Taxable Series 2020D (the "**2020D Target Bonds**") and the Combined Utility System First Lien Revenue Refunding Bonds, Taxable Series 2021B (the "**2021B Target Bonds**" and together with the 2015D Target Bonds, the 2016B Target Bonds, the 2017B Target Bonds, the 2018D Target Bonds, the 2018E Target Bonds, the 2019C Target Bonds, and the 2020D Target Bonds, the "**Target Bonds**") maturing on the dates set forth in the tables on pages (iv) through (vi) of this Invitation to tender to the Issuer such Target Bonds for cash at a price (each an "**Offer Purchase Price**") to be determined as follows:

- with respect to the federally tax-exempt Target Bonds listed in the table on page (iv) of this Invitation (i.e., the 2015D Target Bonds, the 2016B Target Bonds, the 2017B Target Bonds, and the 2018D Target Bonds, collectively, the "**Tax-Exempt Target Bonds**"), the Offer Purchase Prices expressed as a percentage of the par amount of such Tax-Exempt Target Bonds to be listed in the Pricing Notice (as hereinafter defined), plus accrued interest on such Target Bonds tendered for purchase to but not including the Settlement Date (as hereinafter defined); and

- with respect to the federally taxable Target Bonds listed in the tables on pages (v) and (vi) of this Invitation (i.e., the 2018E Target Bonds, the 2019C Target Bonds, the 2020D Target Bonds and the 2021B Target Bonds, collectively, the "**Taxable Target Bonds**"), the Offer Purchase Prices will be calculated based on the applicable fixed spread (each, a "**Fixed Spread**") to be listed in the Pricing Notice (as hereinafter defined) to be added to the yield on the relevant benchmark United States Treasury Security (the "**Benchmark Treasury Security**") plus accrued interest on such Target Bonds tendered for purchase to but not including the Settlement Date (as hereinafter defined).

On or about April 12, 2024, the Issuer will publish a pricing notice (the "**Pricing Notice**") in the form attached hereto as Appendix B, which will set forth the Offer Purchase Prices for the Tax-Exempt Target Bonds and the Fixed Spreads for the Taxable Target Bonds by either confirming or amending each of the "Indicative Offer Purchase Prices" and "Indicative Fixed Spreads" as listed on pages (iv) through (vi) of this Invitation for each Target Bonds CUSIP.

The purchase of any Target Bonds pursuant to this Invitation is contingent on the issuance of the Issuer's Combined Utility System Revenue Refunding Bonds, Series 2024A (the "**Series 2024A Bonds**") described in the Preliminary Official Statement of the Issuer dated April 5, 2024 and attached hereto as Appendix A (the "**Series 2024A Bonds POS**") and is also subject to the terms of this Invitation and certain other conditions as described herein. Capitalized terms used and not defined in the body of this Invitation shall have the meanings ascribed to such terms in the Series 2024A Bonds POS.

This Invitation is part of a plan by the Issuer to refund a portion of the Issuer's outstanding indebtedness, including (i) refunding of all or a portion of the City's Outstanding Combined Utility System Commercial Paper Notes, Series B (ii) refunding a portion of the City's Outstanding Combined Utility System First Lien Revenue Refunding Bonds, Series 2014C, and (iii) purchasing and cancelling all or a portion of the tendered Target Bonds (collectively, the "**Refunding Plan**"), as more fully described in the Series 2024A Bonds POS. The aggregate principal amount of the Series 2024A Bonds, if issued, cannot exceed $900,000,000 (the "**Cap Amount**"). Based on market conditions as of the date of this Invitation, Issuer expects to utilize approximately $500,000,000 of the Cap Amount for the portions of the Refunding Plan described in (i) and (ii) above. Depending upon the results of this Invitation, the proceeds realized from the issuance of the Series 2024A Bonds, the actual costs of the Refunding Plan exclusive of the purchase of any Target Bonds, and the satisfaction or waiver by the Issuer of the Financing Conditions (as defined herein), the Issuer in its sole discretion may purchase less than the total principal amount of Target Bonds tendered pursuant to this Invitation. The Issuer in its sole discretion will select which, if any, Target Bonds to purchase of a particular CUSIP based on a number of factors including, but not limited to, the present value savings and total and annual debt service resulting from such selection. Bondowners of Target Bonds who do not accept this Invitation and Bondowners of Target Bonds whose offers to purchase are not accepted by the Issuer will continue to hold their interest in such Target Bonds.

To make an informed decision as to whether, and how, to offer Target Bonds for purchase pursuant to this Invitation, Bondowners must read this Invitation carefully, including the Series 2024A Bonds POS attached as Appendix A and the Pricing Notice in the form attached hereto as Appendix B, and consult their broker, account executive, financial advisor, attorney or other professionals. **This Invitation, the Series 2024A Bonds POS and the Pricing Notice, and all other notices, amendments, and supplements hereto, if any, collectively, shall constitute an invitation to Bondowners to offer to tender their Target Bonds for purchase.**

Any Bondowner wishing to offer Target Bonds for purchase pursuant to this Invitation should follow the procedures more fully described herein. Bondowners and their brokers and account executives with questions about this Invitation should contact the Dealer Manager or the Information Agent and Tender Agent (as defined herein).

Key Dates and Times

All of these dates and times are subject to change. All times are New York City time. Notices of changes will be sent in the manner provided for in this Invitation.

Launch Date	**April 5, 2024**
Pricing Notice	**On or about April 12, 2024**
Expiration Date	**April 19, 2024 at 5:00 p.m.**
Preliminary Notice of Acceptance	**April 22, 2024**
Determination of Taxable Target Bonds Offer Purchase Price	**Approximately 10:00 a.m. on April 23, 2024**
Notice of Taxable Target Bonds Offer Purchase Price	**April 23, 2024**
Final Acceptance Date and Final Notice of Acceptance	**April 23, 2024**
Settlement Date	**May 14, 2024**

The Dealer Manager
for this Invitation is

Jefferies LLC

The Information Agent and Tender Agent
for this Invitation is

Globic Advisors Inc.

The date of this Invitation to Tender Bonds is April 5, 2024.

TAX-EXEMPT TARGET BONDS SUBJECT TO INVITATION TO TENDER FOR CASH

City of Houston, Texas

Combined Utility System First Lien Revenue Refunding Bonds Series 2015D

CUSIP[1] (Base No. 44244C)	Maturity Date (November 15)	Par Call Date	Interest Rate	Outstanding Principal Amount ($)	Indicative Offer Purchase Price[2]
CG0	2026	11/15/2025	5.000%	11,050,000	103.030%
CH8	2027	11/15/2025	5.000%	11,615,000	103.030%
CJ4	2028	11/15/2025	5.000%	12,210,000	103.030%
CK1	2029	11/15/2025	5.000%	6,295,000	103.030%
CL9	2031	11/15/2025	5.000%	2,460,000	103.030%
CM7	2032	11/15/2025	5.000%	2,440,000	103.030%
CN5	2033	11/15/2025	5.000%	2,420,000	103.030%
CP0	2034	11/15/2025	5.000%	2,395,000	103.030%
CQ8	2035	11/15/2025	5.000%	2,375,000	103.030%

Combined Utility System First Lien Revenue and Refunding Bonds, Series 2016B

CUSIP[1] (Base No. 44244C)	Maturity Date (November 15)	Par Call Date	Interest Rate	Outstanding Principal Amount ($)	Indicative Offer Purchase Price[2]
GN1	2030	11/15/2026	5.000%	31,045,000	105.277%
GQ4	2032	11/15/2026	5.000%	38,405,000	105.277%
GR2	2033	11/15/2026	5.000%	21,115,000	105.277%
HC4	2033	11/15/2026	5.250%	20,000,000	105.873%
GS0	2034	11/15/2026	5.000%	105,735,000	105.277%
GT8	2035	11/15/2026	5.000%	111,065,000	105.277%
GU5	2036	11/15/2026	5.000%	114,575,000	105.277%
GZ4	2038	11/15/2026	4.500%	43,500,000	102.762%

Combined Utility System First Lien Revenue Refunding Bonds, Series 2017B

CUSIP[1] (Base No. 44244C)	Maturity Date (November 15)	Par Call Date	Interest Rate	Outstanding Principal Amount ($)	Indicative Offer Purchase Price[2]
MZ7	2034	11/15/2027	5.000%	8,160,000	107.669%
NA1	2035	11/15/2027	5.000%	8,580,000	107.669%
NB9	2036	11/15/2027	5.000%	9,015,000	107.669%
NC7	2037	11/15/2027	5.000%	9,480,000	107.499%
ND5	2038	11/15/2027	5.000%	9,965,000	107.330%

Combined Utility System First Lien Revenue Refunding Bonds, Series 2018D

CUSIP[1] (Base No. 44244C)	Maturity Date (November 15)	Par Call Date	Interest Rate	Outstanding Principal Amount ($)	Indicative Offer Purchase Price[2]
ST5	2033	11/15/2028	5.000%	14,990,000	110.177%
SU2	2034	11/15/2028	5.000%	12,530,000	110.177%
SV0	2035	11/15/2028	5.000%	13,170,000	110.177%
SW8	2036	11/15/2028	5.000%	13,840,000	110.177%

(1) CUSIP is a registered trademark of FactSet. CUSIP numbers herein are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by FactSet Research Systems Inc., solely for the convenience of the owners of the Target Bonds and the Issuer is not responsible for the selection or correctness of the CUSIP numbers printed herein and does not make any representation with respect to such numbers or undertake any responsibility for their accuracy.

(2) The Indicative Offer Purchase Prices shown herein exclude accrued interest and are preliminary and subject to change. The final Offer Purchase Prices will appear in the Pricing Notice. The Purchase Price to be paid on the Settlement Date excludes accrued interest on the Target Bonds tendered for purchase, which accrued interest will be paid up to but not including the Settlement Date by the Issuer in addition to the applicable Purchase Price.

TAXABLE TARGET BONDS SUBJECT TO INVITATION TO TENDER FOR CASH

City of Houston, Texas

Combined Utility System First Lien Revenue Refunding Bonds, Federally Taxable Series 2018E

CUSIP[1] (Base No. 44244C)	Maturity Date (November 15)	Average Life Date[2]	Interest Rate	Outstanding Principal Amount ($)	Par Call Date	Benchmark Treasury Security[3]	Indicative Fixed Spreads[4]
TJ6	2025	N/A	3.455%	2,265,000	N/A	2-Year	- 30.0 bps
TK3	2026	N/A	3.543%	2,810,000	N/A	2-Year	- 50.0 bps
TL1	2027	N/A	3.643%	4,220,000	N/A	3-Year	- 43.0 bps
TM9	2028	N/A	3.723%	34,030,000	N/A	5-Year	- 35.0 bps
TN7	2029	N/A	3.823%	43,630,000	11/15/2028	5-Year	- 30.0 bps
TP2	2030	N/A	3.923%	44,790,000	11/15/2028	7-Year	- 25.0 bps
TQ0	2031	N/A	3.973%	46,120,000	11/15/2028	7-Year	- 15.0 bps
TR8	2032	N/A	4.073%	1,240,000	11/15/2028	10-Year	- 10.0 bps
TS6	2033	N/A	4.123%	1,340,000	11/15/2028	10-Year	- 1.0 bps
TT4	2038	12/14/2036	4.172%	14,550,000	11/15/2028	10-Year	+ 41.0 bps

Combined Utility System First Lien Revenue Refunding Bonds, Federally Taxable Series 2019C

CUSIP[1] (Base No. 44244C)	Maturity Date (November 15)	Average Life Date[2]	Interest Rate	Outstanding Principal Amount ($)	Par Call Date	Benchmark Treasury Security[3]	Indicative Fixed Spreads[4]
XP7	2025	N/A	1.949%	5,175,000	N/A	2-Year	- 30.0 bps
XQ5	2026	N/A	2.049%	5,285,000	N/A	2-Year	- 50.0 bps
XR3	2027	N/A	2.155%	5,405,000	N/A	3-Year	- 43.0 bps
XS1	2028	N/A	2.205%	27,065,000	N/A	5-Year	- 35.0 bps
XT9	2029	N/A	2.255%	46,435,000	N/A	5-Year	- 30.0 bps
XU6	2030	N/A	2.355%	53,615,000	11/15/2029	7-Year	- 25.0 bps
XV4	2031	N/A	2.455%	49,550,000	11/15/2029	7-Year	- 15.0 bps
XW2	2032	N/A	2.505%	49,425,000	11/15/2029	10-Year	- 10.0 bps
XX0	2033	N/A	2.555%	51,250,000	11/15/2029	10-Year	- 5.0 bps
XY8	2034	N/A	2.605%	21,285,000	11/15/2029	10-Year	+ 4.0 bps
XZ5	2035	N/A	2.655%	21,940,000	11/15/2029	10-Year	+ 14.0 bps
YA9	2042	3/27/2039	2.984%	151,765,000	11/15/2029	10-Year	+ 45.0 bps

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(2) Average life date is shown for the Taxable Target Term Bonds (as defined herein) only. The Taxable Target Term Bonds will be priced to their respective average life dates.

(3) Except for the 30-Year Benchmark Treasury Security, which will be the "old long bond" (maturity date November 15, 2053, 4.75%, CUSIP 912810TV0), each Benchmark Treasury Security (as defined herein) will be the most recently auctioned "on-the-run" United States Treasury Security for the maturity indicated as of the date and time that the Offer Purchase Price for the Target Bonds is set, currently expected to be approximately 10:00 a.m., New York City time, on April 23, 2024.

(4) The Indicative Fixed Spreads are preliminary and subject to change. Purchase Prices derived from the Indicative Fixed Spreads when finalized (as described herein) exclude accrued interest. Actual Fixed Spreads will appear in the Pricing Notice. The accrued interest will be paid up to but not including the Settlement Date by the Issuer in addition to the applicable Purchase Price.

TAXABLE TARGET BONDS SUBJECT TO INVITATION TO TENDER FOR CASH

City of Houston, Texas

Combined Utility System First Lien Revenue Refunding Bonds, Federally Taxable Series 2020D

CUSIP[1] (Base No. 44244C)	Maturity Date (November 15)	Average Life Date[2]	Interest Rate	Outstanding Principal Amount ($)	Par Call Date	Benchmark Treasury Security[3]	Indicative Fixed Spreads[4]
B71	2025	N/A	0.976%	8,325,000	N/A	2-Year	- 30.0 bps
B89	2026	N/A	1.221%	3,935,000	N/A	2-Year	- 50.0 bps
B97	2027	N/A	1.371%	3,995,000	N/A	3-Year	- 43.0 bps
C21	2028	N/A	1.522%	4,065,000	N/A	5-Year	- 35.0 bps
C39	2029	N/A	1.572%	9,130,000	N/A	5-Year	- 30.0 bps
C47	2030	N/A	1.622%	9,285,000	N/A	7-Year	- 25.0 bps
C54	2031	N/A	1.722%	9,445,000	11/15/2030	7-Year	- 20.0 bps
C62	2032	N/A	1.822%	9,620,000	11/15/2030	10-Year	- 10.0 bps
C70	2033	N/A	1.872%	15,550,000	11/15/2030	10-Year	- 5.0 bps
C88	2034	N/A	1.972%	15,855,000	11/15/2030	10-Year	+ 2.0 bps
C96	2035	N/A	2.022%	16,165,000	11/15/2030	10-Year	+ 14.0 bps
D20	2040	9/7/2039	2.542%	32,045,000	11/15/2030	10-Year	+ 44.0 bps
D38	2043	11/21/2042	2.642%	25,805,000	11/15/2030	30-Year	+ 39.0 bps

Combined Utility System First Lien Revenue Refunding Bonds, Federally Taxable Series 2021B

CUSIP[1] (Base No. 44244C)	Maturity Date (November 15)	Average Life Date[2]	Interest Rate	Outstanding Principal Amount ($)	Par Call Date	Benchmark Treasury Security[3]	Indicative Fixed Spreads[4]
M20	2025	N/A	0.811%	5,215,000	N/A	2-Year	- 30.0 bps
M38	2026	N/A	1.011%	9,265,000	N/A	2-Year	- 50.0 bps
M46	2027	N/A	1.366%	9,375,000	N/A	3-Year	- 43.0 bps
M53	2028	N/A	1.516%	9,515,000	N/A	5-Year	- 35.0 bps
M61	2029	N/A	1.709%	5,205,000	N/A	5-Year	- 30.0 bps
M79	2030	N/A	1.909%	730,000	N/A	7-Year	- 25.0 bps
M87	2031	N/A	1.929%	5,545,000	N/A	7-Year	- 20.0 bps
M95	2032	N/A	2.009%	5,650,000	11/15/2031	10-Year	- 10.0 bps
N29	2033	N/A	2.209%	630,000	11/15/2031	10-Year	- 5.0 bps
N37	2034	N/A	2.309%	645,000	11/15/2031	10-Year	+ 3.0 bps
N45	2035	N/A	2.409%	660,000	11/15/2031	10-Year	+ 15.0 bps
N52	2036	N/A	2.459%	12,840,000	11/15/2031	10-Year	+ 22.0 bps
N60	2037	N/A	2.509%	13,160,000	11/15/2031	10-Year	+ 29.0 bps
N78	2038	N/A	2.599%	7,205,000	11/15/2031	10-Year	+ 36.0 bps

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(2) Average life date is shown for the Taxable Target Term Bonds (as defined herein) only. The Taxable Target Term Bonds will be priced to their respective average life dates.

(3) Except for the 30-Year Benchmark Treasury Security, which will be the "old long bond" (maturity date November 15, 2053, 4.75%, CUSIP 912810TV0), each Benchmark Treasury Security (as defined herein) will be the most recently auctioned "on-the-run" United States Treasury Security for the maturity indicated as of the date and time that the Offer Purchase Price for the Target Bonds is set, currently expected to be approximately 10:00 a.m., New York City time, on April 23, 2024.

(4) The Indicative Fixed Spreads are preliminary and subject to change. Purchase Prices derived from the Indicative Fixed Spreads when finalized (as described herein) exclude accrued interest. Actual Fixed Spreads will appear in the Pricing Notice. The accrued interest will be paid up to but not including the Settlement Date by the Issuer in addition to the applicable Purchase Price.

IMPORTANT INFORMATION

This Invitation and other information with respect to this Invitation are available from the Dealer Manager and the Information Agent and Tender Agent at www.globic.com/houston. Bondowners wishing to offer their Target Bonds for purchase pursuant to this Invitation must follow the procedures more fully described herein. The Issuer reserves the right to cancel or modify, this Invitation at any time on or prior to the Expiration Date and reserves the right to make a future invitation to tender bonds at prices different than the Offer Purchase Prices described herein in its sole discretion. The Issuer will have no obligation to purchase Target Bonds offered pursuant to this Invitation. The Issuer further reserves the right to waive any irregularities or defects in any offer received. The Issuer also reserves the right in the future to refund, defease or redeem all or any remaining portion of outstanding Target Bonds.

Each of the 2015D Target Bonds maturing on and after November 15, 2026 is subject to redemption in whole or in part, at the option of the Issuer on any date on or after November 15, 2025, at a redemption price equal to 100% of the principal amount of the 2015D Target Bonds, or portions thereof to be redeemed plus accrued but unpaid interest to the date fixed for redemption. Each of the 2016B Target Bonds maturing on and after November 15, 2027 is subject to redemption in whole or in part, at the option of the Issuer on any date on or after November 15, 2026, at a redemption price equal to 100% of the principal amount of the 2016B Target Bonds, or portions thereof to be redeemed plus accrued but unpaid interest to the date fixed for redemption. Each of the 2017B Target Bonds maturing on and after November 15, 2028 is subject to redemption in whole or in part, at the option of the Issuer on any date on or after November 15, 2027, at a redemption price equal to 100% of the principal amount of the 2017B Target Bonds, or portions thereof to be redeemed plus accrued but unpaid interest to the date fixed for redemption. Each of the 2018D Target Bonds or 2018E Target Bonds maturing on and after November 15, 2029 is subject to redemption in whole or in part, at the option of the Issuer on any date on or after November 15, 2028, at a redemption price equal to 100% of the principal amount of the 2018D Target Bonds or 2018E Target Bonds, respectively, or portions thereof to be redeemed plus accrued but unpaid interest to the date fixed for redemption. Each 2019C Target Bonds maturing on and after November 15, 2030 is subject to redemption in whole or in part, at the option of the Issuer on any date on or after November 15, 2029, at a redemption price equal to 100% of the principal amount of the 2019C Target Bonds, respectively or portions thereof to be redeemed plus accrued but unpaid interest to the date fixed for redemption. The 2019C Target Bonds are also subject to make-whole redemption as described in the authorizing ordinance. Each of the 2020D Target Bonds maturing on and after November 15, 2031 is subject to redemption in whole or in part, at the option of the Issuer on any date on or after November 15, 2030, at a redemption price equal to 100% of the principal amount of the 2020D Target Bonds, or portions thereof to be redeemed plus accrued but unpaid interest to the date fixed for redemption. The 2020D Bonds are also subject to make-whole redemption as described in the authorizing ordinance. Each of the 2021B Target Bonds maturing on and after November 15, 2032 is subject to redemption in whole or in part, at the option of the Issuer on any date on or after November 15, 2031, at a redemption price equal to 100% of the principal amount of the 2021B Target Bonds, or portions thereof to be redeemed plus accrued but unpaid interest to the date fixed for redemption. The 2021B Target Bonds are also subject to make-whole redemption as described in the authorizing ordinance.

This Invitation is not being made to, and Target Bonds offered for purchase in response to this Invitation will not be accepted from or on behalf of, Bondowners in any jurisdiction in which this Invitation, the making of offers to sell Target Bonds or the acceptance thereof would not be in compliance with the laws of such jurisdiction. In those jurisdictions whose laws require this Invitation to be made through a licensed or registered broker or dealer, this Invitation is being made on behalf of the Issuer by the Dealer Manager.

None of the Issuer, the Dealer Manager or the Information Agent and Tender Agent is recommending to any Bondowner whether to offer its Target Bonds for purchase in connection with this Invitation. Each Bondowner must make its decision and should read this Invitation and the Series 2024A Bonds POS, attached as Appendix A, and the form of Pricing Notice attached as Appendix B, in entirety and consult with its broker-dealer, financial, legal, accounting, tax and other advisors in making its decision.

No dealer, salesperson or other person has been authorized to give any information or to make any representation not contained in this Invitation, including Appendix A and Appendix B; and, if given or made, such information or representation may not be relied upon as having been authorized by the Issuer.

The delivery of this Invitation shall not under any circumstances create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that there has been no change in the information set forth herein or in any attachments hereto or materials delivered herewith or in the affairs of the Issuer since the date hereof.

The Dealer Manager makes no representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein, including Appendix A. The Dealer Manager has not independently verified any of the information contained herein, and assumes no responsibility for the accuracy or completeness of any such information. References to website addresses herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not a part of, this Invitation.

This Invitation contains statements relating to future results that are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. When used in this Invitation and other materials referred to or incorporated herein, the words “estimate,” “anticipate,” “forecast,” “project,” “intend,” “propose,” “plan,” “expect” and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

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INVITATION TO TENDER BONDS
made by
CITY OF HOUSTON, TEXAS

1. Introduction.

This Invitation to Tender Bonds, dated April 5, 2024 (as it may be amended or supplemented, this "**Invitation**") describes an invitation by the City of Houton, Texas (the "**Issuer**"), with the assistance of Jefferies LLC, as dealer manager (the "**Dealer Manager**") to the beneficial owners (the "**Bondowners**") of all or any portion of the Issuer's outstanding Combined Utility System First Lien Revenue Refunding Bonds, Series 2015D (the "**2015D Target Bonds**"), Combined Utility System First Lien Revenue Refunding Bonds, Series 2016B (the "**2016B Target Bonds**"), Combined Utility System First Lien Revenue Refunding Bonds, Series 2017B (the "**2017B Target Bonds**"), Combined Utility System First Lien Revenue Refunding Bonds, Series 2018D (the "**2018D Target Bonds**"), Combined Utility System First Lien Revenue Refunding Bonds, Taxable Series 2018E (the "**2018E Target Bonds**"), Combined Utility System First Lien Revenue Refunding Bonds, Taxable Series 2019C (the "**2019C Target Bonds**"), Combined Utility System First Lien Revenue Refunding Bonds, Taxable Series 2020D (the "**2020D Target Bonds**") and Combined Utility System First Lien Revenue Refunding Bonds, Taxable Series 2021B (the "**2021B Target Bonds**") and together with 2015D Target Bonds, 2016B Target Bonds, 2017B Target Bonds, 2018D Target Bonds, 2018E Target Bonds, 2019C Target Bonds, and 2020D Target Bonds, the "**Target Bonds**") maturing on the dates set forth in the tables on pages (i) through (iii) of this Invitation to tender to sell to the Issuer such Target Bonds for cash at a price (each an "**Offer Purchase Price**") to be determined as follows:

- with respect to the federally tax-exempt Target Bonds listed in the table on page (iv) of this Invitation (i.e., the 2015D Target Bonds, the 2016B Target Bonds, the 2017B Target Bonds, and the 2018D Target Bonds, collectively, the "**Tax-Exempt Target Bonds**"), the Offer Purchase Prices expressed as a percentage of the par amount of such Tax-Exempt Target Bonds to be listed in the Pricing Notice (as hereinafter defined), plus accrued interest on such Target Bonds tendered for purchase to but not including the Settlement Date (as hereinafter defined); and

- with respect to the federally taxable Target Bonds listed in the tables on pages (v) and (vi) of this Invitation (i.e., the 2018E Target Bonds, the 2019C Target Bonds, the 2020D Target Bonds and the 2021B Target Bonds, collectively, the "**Taxable Target Bonds**"), the Offer Purchase Prices will be calculated based on the applicable fixed spread (each, a "**Fixed Spread**") to be listed in the Pricing Notice (as hereinafter defined) to be added to the yield on the relevant benchmark United States Treasury Security (the "**Benchmark Treasury Security**") plus accrued interest on such Target Bonds tendered for purchase to but not including the Settlement Date (as hereinafter defined).

On or about April 12, 2024, the Issuer will publish a pricing notice (the "**Pricing Notice**") in the form attached hereto as <u>Appendix B</u>, which will set forth the Offer Purchase Prices for the Tax-Exempt Target Bonds and the Fixed Spreads for the Taxable Target Bonds by either confirming or amending each of the "Indicative Offer Purchase Prices" and "Indicative Fixed Spreads" as listed in pages (iv) through (vi) of this Invitation for each CUSIP of the respective Target Bonds. See Section 2, "Information to Bondowners – *Pricing Notice.*"

The purchase of any Target Bonds pursuant to this Invitation is contingent on the issuance of the Issuer's Combined Utility System Revenue Refunding Bonds, Series 2024A (the "**Series 2024A Bonds**") and is also subject to the terms of this Invitation and certain other conditions as described herein.

Purpose. This Invitation is part of a plan by the Issuer to refund a portion of the Issuer's outstanding indebtedness, including (i) refunding of all or a portion of the City's Outstanding Combined Utility System Commercial Paper Notes, Series B (ii) refunding a portion of the City's Outstanding Combined Utility System First Lien Revenue Refunding Bonds, Series 2014C, and (iii) purchasing and cancelling all or a portion of the tendered Target Bonds (collectively, the "**Refunding Plan**"), as more fully described in the Series 2024A Bonds POS. The aggregate principal amount of the Series 2024A Bonds, if issued, cannot exceed $900,000,000 (the "**Cap Amount**"). Depending upon the results of this Invitation, the proceeds realized from the issuance of the Series 2024A Bonds in a principal amount not exceeding the Cap Amount, the costs of the Refunding Plan exclusive of the purchase of any Target Bonds, and the satisfaction or waiver by the Issuer of the Financing Conditions (as defined herein), the Issuer in its sole discretion may purchase less than the total principal amount of Target Bonds tendered pursuant to this Invitation. **The Issuer's outstanding bonds of any series that are not identified in the tables above are not subject to this Invitation.** For additional information concerning the Issuer, its plan of refunding and its outstanding indebtedness, see the Series 2024A Bonds POS attached hereto as Appendix A.

Offers by Bondowners. Pursuant to this Invitation, each Bondowner may offer to tender to the Issuer for purchase any or all Target Bonds, in a denomination of $5,000 principal amount (the "**Minimum Authorized Denomination**") or any integral multiple thereof, with respect to which the Bondowner has a beneficial ownership interest. The applicable Offer Purchase Price for each CUSIP of the Tax-Exempt Target Bonds at which such Tax-Exempt Target Bonds may be tendered by a Bondowner for purchase pursuant to this Invitation will be set forth in the Pricing Notice, and the applicable Fixed Spread for each CUSIP of the Taxable Target Bonds at which such Taxable Target Bonds may be tendered by a Bondowner for purchase pursuant to this Invitation will be set forth in the Pricing Notice. The applicable Offer Purchase Price for each CUSIP of the Taxable Target Bonds will be determined as further described below in Section 2, "Information to Bondowners – *Tender Consideration*" herein.

Source of Funds. The source of funds to pay the aggregate Offer Purchase Prices of all Target Bonds validly tendered and accepted for purchase pursuant to this Invitation (the "**Aggregate Purchase Price**") will be a portion of the net proceeds of the Issuer's Series 2024A Bonds to be issued on the Settlement Date (defined below). The payment of accrued interest on such Target Bonds validly tendered and accepted for purchase ("**Accrued Interest**") is expected to be made from funds held by or for the account of the Issuer for such purpose. The purchase of any of the Target Bonds validly tendered and accepted for purchase pursuant to this Invitation is contingent on the issuance of the Series 2024A Bonds. The Issuer's obligations to accept for purchase and to pay for Target Bonds validly tendered (and not validly withdrawn) and accepted pursuant to this Invitation are also subject to the satisfaction or waiver of certain other conditions. See Section 14, "Conditions to Purchase," for additional information regarding certain of such conditions.

Issuer's Obligation to Purchase Target Bonds. Subject to the terms of this Invitation and the satisfaction of all conditions to the Issuer's obligation to purchase tendered Target Bonds as described herein, and provided that (i) the Target Bonds offered by a Bondowner for purchase have been validly tendered by 5:00 p.m., New York City time, on April 19, 2024 (as extended from time to time in accordance with this Invitation, the "**Expiration Date**"), and (ii) accepted by the Issuer on April 23, 2024 (as extended from time to time in accordance with this Invitation, the "**Final Acceptance Date**"), the Issuer will purchase such Target Bonds tendered for purchase on May 14, 2024 or such later date as the Issuer shall determine (such date, the "**Settlement Date**"). Accrued interest on the Target Bonds purchased will also be paid on the Settlement Date.

All times in this Invitation are local time in New York City.

No assurances can be given that the Series 2024A Bonds will be issued or that any Target Bonds offered for purchase by a Bondowner will be purchased. See Section 14, "Conditions to Purchase" and Section 10, "Determination of Amounts to be Purchased; Acceptance of Offers; Final Notice of Acceptance," for more information on the selection of tendered Target Bonds to be purchased, if any. The Issuer reserves the right to amend or waive the terms of this Invitation as to any or all of the Target Bonds in any respect and at any time prior to the Expiration Date or from time to time, in its sole discretion. The Issuer also has the right to terminate this Invitation at any time up to and including the Expiration Date. See Section 15, "Extension, Termination and Amendment of Invitation; Changes to Terms," below.

Notwithstanding any other provision of this Invitation, the Issuer has no obligation to accept for purchase any tendered Target Bonds. The Issuer's obligation to pay for Target Bonds validly tendered (and not validly withdrawn) and accepted pursuant to this Invitation is subject to the satisfaction of or waiver of the following conditions on or prior to the Settlement Date: (a) the successful completion by the Issuer of the issuance of the Series 2024A Bonds, the proceeds of which will be sufficient to, together with other available moneys of the Issuer, (i) fund the purchase of all Target Bonds validly tendered and accepted for purchase pursuant to this Invitation, and (ii) pay all fees and expenses associated with the issuance of the Series 2024A Bonds and this Invitation; (b) receipt of all certifications and opinions required by the Dealer Manager Agreement executed between the Issuer and the Dealer Manager in connection with this Invitation, and (c) when taken together with the issuance of the Series 2024A Bonds, the Issuer determines in its sole discretion that it will obtain a satisfactory and sufficient economic or other benefits as a result of market conditions, the expected or actual level of participation by Bondowners of the Target Bonds, or any other factors not within the sole control of the Issuer, all on terms and conditions that are in the Issuer's best interest (collectively, the "**Financing Conditions**"). The Issuer reserves the right, in its sole discretion and subject to applicable law, to amend or waive any of the conditions to this Invitation, in whole or in part, at any time prior to the Expiration Date.

Any Target Bonds not tendered by Bondowners, or Target Bonds tendered by Bondowners pursuant to this Invitation but not accepted for purchase by the Issuer will be returned to the Bondowners and will continue to be payable and secured under the terms of the Master Ordinance dated as of April 21, 2004, as supplemented from time to time (the "**Master Ordinance**") until maturity or prior redemption. If the Financing Conditions and all other conditions to the Invitation are not satisfied or waived by the Issuer on or prior to the Settlement Date, any Target Bonds tendered by Bondowners pursuant to this Invitation will be returned to the Bondowners and will continue to be payable and secured under the terms of the Master Ordinance until maturity or prior redemption. See Section 17, "Additional Considerations – *Potential Subsequent Transactions*" herein.

To make an informed decision as to whether, and how, to offer Target Bonds for purchase pursuant to this Invitation, a Bondowner must read this Invitation carefully, including the Series 2024A Bonds POS attached hereto as <u>Appendix A</u> and the Pricing Notice in the form attached hereto as <u>Appendix B</u>.

None of the Issuer, the Dealer Manager or the Information Agent and Tender Agent (as defined below) makes any recommendation that any Bondowner offer to tender or refrain from offering to tender all or any portion of such Bondowner's Target Bonds for purchase. Bondowners

must make these decisions and should consult with their broker, account executive, financial advisor, attorney and/or other appropriate professionals.

The Dealer Manager for this Invitation is Jefferies LLC. Globic Advisors is serving as Information Agent and Tender Agent (the "**Information Agent**" or the "**Information Agent and Tender Agent**") in connection with this Invitation. Bondowners with questions about the substance of this Invitation should contact the Dealer Manager. Bondowners with questions about the mechanics of this Invitation should contact the Information Agent and Tender Agent at the email address and telephone number set forth in Section 20 "Available Information, Contact Information" of this Invitation.

2. Information to Bondowners.

General. The Issuer will provide additional information about this Invitation, if any, to the market and Bondowners, including, without limitation, any supplement to the Series 2024A Bonds POS, the Pricing Notice in the form attached hereto as Appendix B, expected to be delivered on or about **April 12, 2024,** and all other notices, supplements and amendments hereto, by delivery of such information in the following ways: (a) to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access website, currently located at http://emma.msrb.org (the "**EMMA Website**"), using the CUSIP numbers for the Target Bonds listed in the tables on pages (iv) through (vi) of this Invitation; (b) to DTC (defined below) and through DTC to the DTC participants holding the Target Bonds; and (c) by posting electronically on the website of the Information Agent at www.globic.com/houston (collectively, the "Information Services"). Delivery of such additional information by the Issuer to the Information Services will be deemed to constitute delivery of such information to each Bondowner. The Issuer, the Dealer Manager, and the Information Agent and Tender Agent have no obligation to ensure that a Bondowner actually receives any information provided by the Issuer in this manner. A Bondowner who would like to receive information furnished by or on behalf of the Issuer as described above must make appropriate arrangements with its broker, account executive or other financial advisor or representative.

Pricing Notice. On or about **April 12, 2024**, the Issuer will publish the Pricing Notice in the form attached hereto as Appendix B, which will set forth the Offer Purchase Prices for the Tax-Exempt Target Bonds and the Fixed Spreads for the Taxable Target Bonds by either confirming or amending each of the "Indicative Offer Purchase Prices" and "Indicative Fixed Spreads" as listed on pages iv) through (vi) of this Invitation for each CUSIP of the respective Target Bonds.

Tender Consideration—Determination of Offer Purchase Prices for Tax-Exempt Target Bonds. The purchase price for Tax-Exempt Target Bonds for each particular CUSIP tendered pursuant to this Invitation is the Offer Purchase Price set forth in the Pricing Notice.

Tender Consideration—Determination of Offer Purchase Prices for Taxable Target Bonds. With respect to the Taxable Target Bonds, the applicable Fixed Spread, expressed in basis points, will be added to the yield on the relevant Benchmark Treasury Security (the "**Treasury Security Yield**") to arrive at a yield (each a "**Purchase Yield**") used to calculate the Offer Purchase Price for each of the Taxable Target Bonds. The Benchmark Treasury Security for each CUSIP is identified on pages (v) and (vi) of this Invitation and will be identified in the Pricing Notice. The Treasury Security Yield will equal the bid-side yield of the Benchmark Treasury Security as quoted on the Bloomberg Bond Trader FIT1 series of pages at approximately 10:00 a.m., New York City time, on April 23, 2024, or such other time or date identified in the Pricing Notice.

The Purchase Yields will be used to calculate the Offer Purchase Prices expressed as a dollar amount per $100 principal amount of the Taxable Target Bonds. Such Offer Purchase Prices will be calculated using the market standard bond pricing formula as of the Settlement Date using the relevant Purchase Yield, the coupon of the relevant Taxable Target Bond, and the maturity date for each of the Taxable Target Bonds, except that for the Series 2018E Target 2038 Term Bond, Series 2019C Target 2042 Term Bond, Series 2020D Target 2040 Term Bond and Series 2020D Target 2043 Bond, as shown in the table below (collectively, the "**Taxable Target Term Bonds**"), the Offer Purchase Price will be calculated using the market standard bond pricing formula assuming its "average life date" as shown below.

Summary of the Taxable Target Term Bonds

Series	CUSIP[1]	Maturity Date	Average Life Date	Outstanding Principal Amount
Series 2018E Target 2038 Term	44244CTT4	11/15/2038	12/14/2036	$14,550,000
Series 2019C Target 2042 Term	44244CYA9	11/15/2042	3/27/2039	$151,765,000
Series 2020D Target 2040 Term	44244CD20	11/15/2040	9/7/2039	$32,045,000
Series 2020D Target 2043 Term	44244CD38	11/15/2043	11/21/2042	$25,805,000

Sinking Fund Amortization of Unpurchased Taxable Target Term Bond. The Taxable Target Term Bonds are subject to mandatory sinking fund redemption in specified principal amounts prior to their respective maturity dates. If less than all of any Taxable Target Term Bonds are purchased by the Issuer pursuant to this Invitation, such Taxable Target Term Bond's specified principal amounts scheduled to be redeemed on each mandatory sinking fund redemption date and paid upon their maturity date will be reduced, pro rata in Authorized Denominations, to a principal amount equal to such original principal amount multiplied by a percentage equal to (a) the par amount of such unpurchased Taxable Target Term Bond by (b) principal amount of such Taxable Target Term Bond shown above and on pages (v) through (vi) herein, so that the revised total of all scheduled mandatory sinking fund redemptions and the principal amount due at maturity will equal the aggregate par amount of such unpurchased Taxable Target Term Bonds. Thereafter, the unpurchased Taxable Target Term Bonds will continue to be outstanding and subject to the mandatory sinking fund redemption in annual amounts that will be reflected on a revised mandatory sinking fund redemption schedule. Such schedule will be posted on EMMA when available.

3. Expiration Date; Offers Only Through Financial Institutions; Brokerage Commissions. This Invitation to tender Target Bonds will expire at 5:00 p.m., New York City time, on April 19, 2024, the Expiration Date, unless earlier terminated or extended as described in this Invitation. Offers to tender Target Bonds received after 5:00 p.m., New York City time, on the Expiration Date (as it may be extended) will not be considered. See Section 15 for a discussion of the Issuer's ability to extend the Expiration Date and to terminate or amend this Invitation. In the sole discretion of the Issuer, the Issuer may extend the Expiration Date, the Preliminary Acceptance Date (defined herein), the Final Acceptance Date, or the Settlement Date.

[1] CUSIP is a registered trademark of FactSet. CUSIP numbers herein are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by FactSet Research Systems Inc., solely for the convenience of the owners of the Target Bonds and the Issuer is not responsible for the selection or correctness of the CUSIP numbers printed herein and does not make any representation with respect to such numbers or undertake any responsibility for their accuracy.

All of the Target Bonds are held in book-entry-only form through the facilities of The Depository Trust Company of New York ("**DTC**"). The Information Agent and Tender Agent and DTC have confirmed that this Invitation is eligible for submission of tenders for purchase through DTC's Automated Tender Offer Program (known as the "**ATOP**" system). **Bondowners of Target Bonds who want to accept the Issuer's Invitation to tender Target Bonds for purchase to this Invitation must do so through a DTC participant in accordance with the relevant DTC procedures for the ATOP system. The Issuer will not accept any offers of Target Bonds for purchase that are not made through the ATOP system**. Bondowners who are not DTC participants can only offer Target Bonds for purchase pursuant to this Invitation by making arrangements with and instructing the bank or brokerage firm through which they hold their Target Bonds (sometimes referred to herein as a "custodial intermediary") to tender their Target Bonds on their behalf through the ATOP system. To ensure a Bondowner's Target Bonds are tendered through the ATOP system by 5:00 p.m., New York City time, on the Expiration Date, Bondowners must provide instructions to its custodial intermediary with sufficient time for such custodial intermediary to tender the Target Bonds in accordance with DTC procedures through the ATOP system by this deadline. Bondowners wishing to tender Target Bonds should contact their custodial intermediary for information on when such custodial intermediary needs the Bondowner's instructions in order to tender the Bondowner's Target Bonds through the ATOP system by 5:00 p.m., New York City time, on the Expiration Date. See also Section 6 below.

The Issuer, the Dealer Manager, and the Information Agent and Tender Agent are not responsible for making or transmitting any tender of Target Bonds or for the transfer of any tendered Target Bonds through the ATOP system or for any mistakes, errors or omissions in the making or transmission of any offer or transfer.

Bondowners will not be obligated to pay any brokerage commissions or solicitation fees to the Issuer, the Dealer Manager or the Information Agent and Tender Agent in connection with this Invitation. However, Bondowners should check with their broker, account executive or other financial institution which maintains the account in which their Target Bonds are held to determine if it will charge any commission or fees.

4. Minimum Denominations and Consideration for Offers; Changes to the Terms of this Invitation.

Authorized Denominations for Offers. A Bondowner may make an offer to tender for purchase all or a portion of Target Bonds of a particular CUSIP that it owns in a principal amount of its choosing, but only in principal amounts equal to the Minimum Authorized Denomination or any integral multiple of $5,000 in excess thereof.

Changes to Terms of this Invitation. As described in Section 15 hereof, the Issuer may revise the terms of this Invitation prior to the Expiration Date. If the Issuer determines to revise the terms of this Invitation, it shall provide notice thereof in the manner described in Section 2 of this Invitation within a reasonable time for dissemination of such revision to Bondowners. If pursuant to this Invitation the Issuer decreases the Offer Purchase Price for any of the Tax-Exempt Target Bonds or increases the Fixed Spread for any of the Taxable Target Bonds (which decrease or increase respectively would thereby reduce the related Offer Purchase Price), the Issuer shall provide notice thereof (as described in Section 2) no less than three (3) Business Days prior to the Expiration Date, as extended. **In such event, any offers submitted with respect to the affected Target Bonds prior to such change in Offer Purchase Price for such Tax-Exempt Target Bonds or such change in the Fixed Spread for such Taxable Target Bonds pursuant to this Invitation will remain in full force and effect and any Bondowner of such affected Target**

Bonds wishing to revoke its tender offer of such Target Bonds must affirmatively withdraw such offer prior to the Expiration Date as described in Section 8 hereof.

5. Provisions Applicable to all Offers. A Bondowner should ask its financial advisor, investment manager, broker or account executive for advice in determining whether to tender Target Bonds for purchase and the principal amount of Target Bonds to be tendered. A Bondowner should also inquire as to whether its financial institution will charge a fee for submitting tenders. The Issuer, the Dealer Manager, and the Information Agent and Tender Agent will not charge fees to any Bondowner making an offer or completing the purchase of Target Bonds.

A tender of Target Bonds cannot exceed the par amount of Target Bonds owned by the Bondowner. Target Bonds may be tendered and accepted for payment only in principal amounts equal to the Minimum Authorized Denomination and integral multiples of $5,000 in excess thereof.

"All or none" offers are not permitted. No alternative, conditional or contingent tenders will be accepted. All tenders shall survive the death or incapacity of the tendering Bondowner.

By tendering Target Bonds pursuant to this Invitation, each Bondowner will be deemed to have represented and warranted to and agreed with the Issuer and the Dealer Manager that:

(a) the Bondowner has received, and has had the opportunity to review, this Invitation (including the Series 2024A Bonds POS attached as Appendix A hereto) and the Pricing Notice prior to making the decision as to whether or not they should tender their Target Bonds for purchase;

(b) the Bondowner has full authority to tender, sell, assign and transfer such Target Bonds, and that, on the Settlement Date, the Issuer, as transferee, will acquire good title, free and clear of all liens, charges, encumbrances, conditional sales agreements or other obligations and not subject to any adverse claims, subject to payment to the Bondowner of the applicable Offer Purchase Price, plus payment of Accrued Interest;

(c) the Bondowner has made its decision to tender, the appropriateness of the terms thereof, and whether the offer is appropriate for the Bondowner;

(d) such decisions are based upon the Bondowner's own judgment and upon advice from such advisors as the Bondowner has consulted;

(e) the Bondowner is not relying on any communication from the Issuer, the Dealer Manager, or the Information Agent and Tender Agent as investment advice or as a recommendation to tender, it being understood that the information from the Issuer, the Dealer Manager or the Information Agent and Tender Agent related to the terms and conditions of this Invitation shall not be considered investment advice or a recommendation to tender Target Bonds; and

(f) the Bondowner is capable of assessing the merits of and understanding (on its own and/or through independent professional advice), and does understand and accept, the terms and conditions of this Invitation.

6. Transmission of Offers by Financial Institutions; DTC ATOP Procedures. Tenders of Target Bonds pursuant to this Invitation may only be made through DTC's ATOP system. Bondowners that are not DTC participants must make their offers through their custodial intermediary. A DTC participant must tender the Target Bonds offered by the Bondowner pursuant to this Invitation on behalf of the Bondowner for whom it is acting, by book-entry through the ATOP system. In so doing, such custodial intermediary and the Bondowner on whose behalf the custodial intermediary is acting, agree to be bound by DTC's rules for the ATOP system. In accordance with ATOP procedures, DTC will then verify receipt of the tender offer and send an Agent's Message (as described below) to the Information Agent and Tender Agent.

The term "Agent's Message" means a message transmitted by DTC to, and received by, the Information Agent and Tender Agent forming a part of the book-entry confirmation which states that DTC has received an express acknowledgement from the DTC participant tendering Target Bonds for purchase that are the subject of such book-entry confirmation, the includes: (i) the CUSIP number(s) and the par amount of the Target Bonds that have been validly tendered by such DTC participant on behalf of the Bondowner pursuant to this Invitation, and (ii) that the Bondowner agrees to be bound by the terms of this Invitation, including the representations, warranties, agreements and affirmations deemed made by it as set forth in Section 5 above. By causing DTC to transfer Target Bonds into the ATOP system, a financial institution warrants to the Issuer that it has full authority, and has received from the Bondowner(s) of such Target Bonds all direction necessary, to tender and sell such Target Bonds as set forth in this Invitation.

Agent's Messages must be transmitted to and received by the Information Agent and Tender Agent by not later than 5:00 p.m., New York City time, on the Expiration Date (as such date may have been changed as provided in this Invitation). Target Bonds will not be deemed to have been tendered for cash purchase pursuant to this Invitation until an Agent's Message with respect thereto is received by the Information Agent and Tender Agent.

Each DTC participant is advised to submit each beneficial owner's instruction individually into DTC's ATOP system to ensure proper settlement.

The Issuer, the Dealer Manager, and the Information Agent and Tender Agent are not responsible for making or transmitting any tender of Target Bonds or for the transfer of any tendered Target Bonds through the ATOP system or for any mistakes, errors, or omissions in the making or transmission of any offer or transfer.

7. Determinations as to Form and Validity of Offers; Right of Waiver and Rejection. All questions as to the validity (including the time of receipt of Agent's Messages by the Information Agent and Tender Agent), eligibility, and acceptance of any tenders of Target Bonds will be determined by the Issuer in its sole discretion and will be final, conclusive and binding.

The Issuer reserves the right to waive any irregularities or defects in any offer. The Issuer, the Dealer Manager, and the Information Agent and Tender Agent are not obligated to give notice of any defects or irregularities in offers, and they will have no liability for failing to give such notice.

8. Withdrawals of Offers Prior to Expiration Date; Irrevocability of Offers on Expiration Date. A Bondowner may withdraw its tender of Target Bonds pursuant to this Invitation by causing a withdrawal notice to be transmitted via DTC's ATOP system to, and received by, the Information Agent and Tender Agent at or before 5:00 p.m., New York City time, on the Expiration Date (as the date and time may have been changed as provided in this Invitation).

Bondowners who are not DTC participants can only withdraw their tenders by making arrangements with and instructing the custodial intermediary through which they hold their Target Bonds to submit the Bondowner's notice of withdrawal through the DTC ATOP system.

All tenders of Target Bonds will become irrevocable as of 5:00 p.m., New York City time, on the Expiration Date (as such date may have been changed from time to time as provided in this Invitation).

9. Preliminary Notice of Acceptance. On April 22, 2024, unless such time or date is extended by the Issuer (the "**Preliminary Acceptance Date**"), the Issuer will determine the preliminary principal amount, if any, of the Target Bonds for each CUSIP that it will purchase, based on satisfaction of the Financing Conditions. Notice of the preliminary principal amount of the Target Bonds, if any, for each CUSIP that the Issuer initially agrees to purchase pursuant to this Invitation will be provided to the Information Services on the Preliminary Acceptance Date via the publication of a "**Preliminary Notice of Acceptance**."

10. Determination of Amounts to be Purchased; Acceptance of Offers; Final Notice of Acceptance.

This Invitation is part of the Refunding Plan and the aggregate principal amount of the Series 2024A Bonds, if issued, cannot exceed the Cap Amount. Depending upon the results of this Invitation, the proceeds realized from the issuance of the Series 2024A Bonds in a principal amount not exceeding the Cap Amount, the costs of the Refunding Plan exclusive of the purchase of any Target Bonds, and the satisfaction or waiver by the Issuer of the Financing Conditions (as defined herein), the Issuer in its sole discretion may purchase less than the total principal amount of Target Bonds tendered pursuant to this Invitation. The Issuer in its sole discretion will select which, if any, Target Bonds to purchase of a particular CUSIP based on its determination of the economic benefit from such purchase.

Should the Issuer decide to only purchase a portion of the Target Bonds of a certain CUSIP being tendered for purchase, the Issuer will accept such Target Bonds tendered for purchase on a pro rata basis. The principal amount of each individual offer will be adjusted, pro rata, based upon a proration factor for each such CUSIP (each a "**Proration Factor**"). In such event, should the principal amount of any individual offer, when adjusted by the Proration Factor, result in an amount that is not a multiple of $5,000, the principal amount of such offer will be rounded up to the nearest multiple of $5,000. If as a result of such adjustment, the principal amount of a Bondowner's unaccepted Target Bonds is less than the Minimum Authorized Denomination of $5,000, the Issuer will reject such Bondowner's offer in whole. The Issuer will determine the Proration Factor that permits it to accept the amount of Target Bonds it has determined to purchase.

On the Final Acceptance Date (i.e., April 23, 2024 unless extended), upon the terms and subject to the conditions of this Invitation, the Issuer will announce its acceptance for purchase of Target Bonds, if any, validly tendered by Bondowners pursuant to this Invitation via the publication of a "**Final Notice of Acceptance**" in the manner described in Section 2, with acceptance subject to the satisfaction or waiver by the Issuer of the Financing Conditions or other conditions to the purchase of tendered Target Bonds. See Section 11, "Acceptance of Offers Constitutes Irrevocable Agreement" and Section 14, "Conditions to Purchase."

The Final Notice of Acceptance will state: (i) the principal amount of the Target Bonds of each maturity and corresponding CUSIP that the Issuer has accepted for purchase in accordance with this Invitation, which may be zero for a particular maturity and corresponding CUSIP, or (ii) that the Issuer has decided not to purchase any Target Bonds.

Any Target Bonds not accepted for purchase as a result of the procedures described herein will be returned to tendering institutions promptly in accordance with DTC's procedures.

Notwithstanding any other provision of this Invitation, the obligation of the Issuer to accept for purchase and to pay for Target Bonds offered and validly tendered (and not validly withdrawn) by Bondowners pursuant to this Invitation is subject to the satisfaction or waiver of the conditions set forth under Section 14, "Conditions to Purchase" below. The Issuer reserves the right to amend or waive any of the terms of or conditions to this Invitation, in whole or in part, at any time prior to the Expiration Date or from time to time subject to the Financing Conditions and other conditions described in this Invitation. This Invitation may be withdrawn by the Issuer at any time prior to the Expiration Date.

11. Acceptance of Offers Constitutes Irrevocable Agreement. Acceptance by the Issuer of validly tendered Target Bonds will constitute an irrevocable agreement between the tendering Bondowner and the Issuer to sell and purchase such Target Bonds, subject to the conditions and terms of this Invitation, including the Conditions to Purchase set forth in Section 14.

12. Settlement Date; Purchase of Target Bonds. Subject to satisfaction of all conditions to the Issuer's obligation to purchase validly tendered Target Bonds, as described herein, the Settlement Date is the day on which Target Bonds accepted for purchase will be purchased and paid for at the applicable Offer Purchase Price, and Accrued Interest on the Target Bonds to be purchased will also be paid. Such purchase and payment are expected to occur on the Settlement Date. The Settlement Date has initially been set as May 14, 2024, unless extended by the Issuer, assuming all conditions to this Invitation have been satisfied or waived by the Issuer.

The Issuer may, in its sole discretion, change the Settlement Date by giving notice thereof in the manner described in Section 2 of this Invitation prior to the change. However, the Settlement Date may not be later than **June 10, 2024**. If the Issuer does not complete the purchase of the Target Bonds by 3:00 p.m., New York City time, on **June 10, 2024**, the right and obligation of the Issuer to purchase any Target Bonds will automatically terminate, without any liability to any Bondowner, and the Issuer will instruct DTC to release from the controls of the ATOP system all Target Bonds.

Subject to satisfaction of all conditions to the Issuer's obligation to purchase Target Bonds tendered for purchase pursuant to this Invitation, as described herein, payment by the Issuer will be made through DTC on the Settlement Date. The Issuer expects that, in accordance with DTC's standard procedures, DTC will transmit the Aggregate Purchase Price to be paid for the Target Bonds tendered for purchase (plus Accrued Interest) to DTC participants holding the Target Bonds accepted for purchase on behalf of Bondowners for subsequent disbursement to the Bondowners. **The Issuer, the Dealer Manager and the Information Agent and Tender Agent have no responsibility or liability for the distribution of the Aggregate Purchase Price and Accrued Interest paid by DTC to DTC participants or by DTC participants to Bondowners**.

Promptly following such deliveries and payments, the Issuer will instruct the Paying Agent for the purchased Target Bonds to cause such purchased Target Bonds to be cancelled and retired.

13. Source of Funds. Other than the Accrued Interest, the Aggregate Purchase Price is anticipated to be funded by a portion of the proceeds received by the Issuer from the sale of its Series 2024A Bonds, expected to be issued on the Settlement Date. The payment of Accrued Interest is expected to be made from funds held by the Issuer for such purpose. The Issuer's ability to settle the cash purchase of Target Bonds tendered for purchase is contingent upon the successful delivery of its Series 2024A Bonds and the other conditions set forth herein.

14. **Conditions to Purchase**. The consummation of the purchase of the Target Bonds pursuant to this Invitation is conditioned upon the satisfaction or waiver by the Issuer of the Financing Conditions and other conditions described in this Invitation. Payment on the Settlement Date is conditioned upon the issuance of the Series 2024A Bonds. Furthermore, the Issuer will not be required to purchase any Target Bonds, and will incur no liability as a result, if, before payment for Target Bonds on the Settlement Date:

(a) The Issuer does not, for any reason, have sufficient funds on the Settlement Date from the proceeds of the Series 2024A Bonds and other available funds of the Issuer to pay the Aggregate Purchase Price of, and accrued interest on, tendered Target Bonds accepted for purchase pursuant to this Invitation and pay all fees and expenses associated with the Series 2024A Bonds and this Invitation;

(b) Litigation or another proceeding is pending or threatened which the Issuer believes may, directly or indirectly, have an adverse impact on this Invitation or the expected benefits of this Invitation to the Issuer or the Bondowners;

(c) A war, other hostilities, or the escalation thereof, public health or other national emergency, banking moratorium, suspension of payments by banks, a general suspension of trading by the New York Stock Exchange or a limitation of prices on the New York Stock Exchange exists and the Issuer believes this fact makes it inadvisable to proceed with the purchase of Target Bonds;

(d) A material change in the business or affairs of the Issuer has occurred which the Issuer believes makes it inadvisable to proceed with the purchase of Target Bonds;

(e) A material change in the net benefits of the transaction contemplated by this Invitation and the Series 2024A Bonds POS has occurred due to a material change in market conditions which the Issuer reasonably believes makes it inadvisable to proceed with the purchase of Target Bonds; or

(f) There shall have occurred a material disruption in securities settlement, payment or clearance services.

These conditions are for the sole benefit of the Issuer. They may be asserted by the Issuer prior to the time of payment for the Target Bonds on the Settlement Date. The conditions may be waived by the Issuer in whole or in part at any time and from time to time in its sole discretion and may be exercised independently for each maturity date and CUSIP number of the Target Bonds. The failure by the Issuer at any time to exercise any of these rights will not be deemed a waiver of any of these rights, and the waiver of these rights with respect to particular facts and other circumstances will not be deemed a waiver of these rights with respect to any other facts and circumstances. Each of these rights will be deemed an ongoing right of the Issuer which may be asserted at any time and from time to time. Any determination by the Issuer concerning the events described in this Section 14 will be final and binding upon all parties. If, prior to the time of payment of any Target Bonds any such events described happens, the Issuer will have the absolute right to cancel its obligations to purchase Target Bonds without any liability to any Bondowner or any other person.

15. **Extension, Termination and Amendment of Invitation**. Through and including the Expiration Date, the Issuer has the right to extend this Invitation, to any date in its sole discretion. Notice of an extension of the Expiration Date will be given in the manner described in Section 2 of this Invitation, on or about 11:00 a.m., New York City time, on the first Business Day after the then current Expiration Date.

The Issuer also has the right, prior to the Final Acceptance Date to terminate this Invitation at any time by giving notice of such termination in the manner described in Section 2 of this Invitation.

The Issuer also has the right, prior to the Expiration Date, to amend or waive the terms of this Invitation in any respect and at any time by giving notice of the amendment or waiver in the manner described in Section 2 of this Invitation. The amendment or waiver will be effective at the time specified in such notice.

If the Issuer amends the terms of this Invitation, including a waiver of any term, in any material respect, notice of such amendment or waiver will be given in the manner described in Section 2 to provide reasonable time for dissemination of such amendment or waiver to Bondowners and for Bondowners to respond. **If the Issuer decreases the Offer Purchase Price for a Tax-Exempt Target Bond or increases the Fixed Spread for a Taxable Target Bond pursuant to this Invitation, any offers submitted with respect to the affected Target Bonds prior to such change in the Offer Purchase Price for such Tax-Exempt Target Bond or such change in the Fixed Spread for such Taxable Target Bond pursuant to this Invitation will remain in full force and effect, and any Bondowner of such affected Target Bonds wishing to revoke its offer to tender such Target Bonds must affirmatively withdraw such offer prior to the Expiration Date as described in Section 8 hereof.**

No extension, termination or amendment of this Invitation (or waiver of any terms of this Invitation) will: (i) change the Issuer's right to decline to purchase any Target Bonds without liability; or (ii) give rise to any liability of the Issuer, the Dealer Manager, or the Information Agent and Tender Agent to any Bondowner or nominee.

16. Certain Federal Income Tax Consequences.

General Matters. The following discussion summarizes certain U.S. federal income tax considerations generally applicable to U.S. Holders (as defined below) that tender their Target Bonds for cash. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective tendering investors should note that no rulings have been or are expected to be sought from the U.S. Internal Revenue Service (the "**IRS**") with respect to any of the U.S. federal income tax considerations discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not address U.S. tax consequences applicable to any given investor, nor does it address the U.S. tax considerations applicable to all categories of investors, some of which may be subject to special taxing rules (regardless of whether or not such investors constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Target Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar, or certain taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies. Furthermore, it does not address: (i) alternative minimum tax consequences, (ii) the net investment income tax imposed under Section 1411 of the Internal Revenue Code of 1986 (the "**Code**"), or (iii) the indirect effects on persons who hold equity interests in a holder. This summary also does not consider the taxation of the Target Bonds under state, local or non-U.S. tax laws. In addition, this summary generally is limited to U.S. tax considerations applicable to investors who will hold their Target Bonds as "capital assets" within the meaning of Section 1221 of the Code. The following discussion does not address tax considerations applicable to any investors in the Target Bonds other than investors that are U.S. Holders. As used herein, "U.S. Holder" means a Bondowner of a Target Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where 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 (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). If a partnership holds Target Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Target Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Target Bonds (including their status as U.S. Holders).

Any federal income tax discussions in this Invitation are included for general information only and should not be construed as a tax opinion nor tax advice by the Issuer, the Dealer Manager, the Information Agent and Tender Agent or any of the Issuer's advisors or agents to Bondowners. Such discussions also do not purport to address all aspects of federal income taxation that may be relevant to particular Bondowners (e.g., a foreign person, bank, thrift institution, personal holding company, tax exempt organization, regulated investment company, insurance company, or other broker or dealer in securities or currencies). Bondowners should not rely on such discussions and are urged to consult their own tax advisors to determine the particular federal, state, local and foreign tax consequences of sales made by them pursuant to purchase offers involving the Target Bonds, including the effect of possible changes in the tax laws. In addition to federal tax consequences, the sale of Target Bonds may be treated as a taxable event for state, local and foreign tax purposes. Bondowners are urged to consult their own tax advisors to determine the particular state, local and foreign tax consequences of sales made by them pursuant to purchase offers involving the Target Bonds, including the effect of possible changes in the tax laws.

Tendering U.S. Holders. The purchase by the Issuer of a Target Bond for cash will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder will recognize gain or loss equal to the difference between (i) the amount of cash received (except to the extent attributable to Accrued Interest on the Target Bond, which will be taxed as ordinary interest income unless such interest is excludible from gross income under Section 103 of the Code) and (ii) the U.S. Holder's adjusted U.S. federal income tax basis in the Target Bond (generally, the purchase price paid by the U.S. Holder for the Target Bond, decreased by any amortized acquisition premium, and increased by the amount of any original issue discount previously included in income by such U.S. Holder with respect to such Target Bond or otherwise required to be added to the cost basis of the U.S. Holder in such Target Bond). Any such gain or loss generally will be capital gain or loss. In the case of a non-corporate U.S. Holder of the Target Bonds holding the Target Bond for a period exceeding one year, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income. The deductibility of capital losses is subject to limitations.

Backup Withholding. Amounts paid to Bondowners may be subject to backup withholding by reason of the events specified by Section 3406 of the Code which include failure of a Bondowner to supply the broker, dealer, commercial bank or trust company acting on behalf of such Bondowner with such Bondowner's taxpayer identification number certified under penalty of perjury. Certification can be made by completing a substitute IRS Form W-9, a copy of which is available from the Information Agent and Tender Agent. Backup withholding may also apply to Bondowners who are otherwise exempt from such backup withholding if such Bondowners fail to properly document their status as exempt recipients.

17. Additional Considerations. In deciding whether to participate in this Invitation, each Bondowner should consider carefully, in addition to the other information contained in this Invitation, the following:

Market for Target Bonds. The Target Bonds are not listed on any national or regional securities exchange. To the extent that the Target Bonds are traded, their prices may fluctuate greatly depending on the trading volume and the balance between buy and sell orders. Bondowners may be able to effect a sale of a Target Bond at a price higher than the Offer Purchase Price corresponding thereto established pursuant to this Invitation.

Target Bonds Not Purchased. Bondowners who do not tender their Target Bonds or whose Target Bonds are tendered but not accepted for purchase will continue to hold their interest in such Target Bonds and such Target Bonds will remain outstanding. If Target Bonds are purchased pursuant to this Invitation, the principal amount of Target Bonds for a particular maturity and corresponding CUSIP that remains outstanding will be reduced, which could adversely affect the liquidity and market value of such outstanding Target Bonds of that CUSIP.

Ratings. The ratings of the Target Bonds by each applicable rating agency reflect only the views of such organization and any desired explanation of the significance of such ratings and any outlooks or other statements given by such rating agency with respect thereto should be obtained from such rating agency. There is no assurance that the current ratings assigned to the Target Bonds will continue for any given period of time or that any of such ratings will not be revised upward or downward, suspended or withdrawn entirely by any rating agency. Any such upward or downward revision, suspension or withdrawal of such ratings may have an effect on the availability of a market for or the market prices of the Target Bonds. Each Bondowner should review such ratings and consult with its financial representatives concerning them.

Market Conditions. The purpose of this Invitation is to provide the Issuer with the opportunity to purchase a portion of the Target Bonds. The final decision to purchase Target Bonds, and which Target Bonds will be accepted for purchase by the Issuer will, in part, be based upon market conditions and other factors outside of the control of the Issuer.

Potential Subsequent Transactions. To the extent Target Bonds are not purchased pursuant to this Invitation, the Issuer reserves the right to, and may in the future decide to, acquire some or all of the Target Bonds through open market purchases, privately negotiated transactions, subsequent tender offers, exchange offers or otherwise, upon such terms and at such prices as it may determine, which may be more or less than the consideration offered pursuant to this Invitation, and which could be cash or other consideration. Any future acquisition of Target Bonds may be on the same terms or on terms that are more or less favorable to Bondowners than the terms described in this Invitation. The Issuer also reserves the right in the future to refund (on an advance or current basis), defease or redeem any remaining portion of outstanding Target Bonds through the issuance of publicly offered or privately placed tax-exempt or taxable bonds. The decision to undertake any such future transactions will depend on various factors existing at that time. There can be no assurance as to which of these alternatives, if any, the Issuer may ultimately choose to pursue in the future.

The Target Bonds were issued by the Issuer pursuant to respective supplemental ordinances and the Master Ordinance. The Target Bonds (including the optional redemption provisions) that remain outstanding after consummation of the transactions described herein will continue to be governed by the terms of the Master Ordinance and the respective supplemental ordinances. Each of the 2015D Target Bonds maturing on and after November 15, 2026 is subject to redemption in whole or in part, at the option of the Issuer on any date on or after November 15, 2025, at a redemption price equal to 100% of the principal amount of the 2015D Target Bonds, or portions thereof to be redeemed plus accrued but unpaid interest to the date fixed for redemption. Each of the 2016B Target Bonds maturing on and after November 15, 2027 is subject to redemption in whole or in part, at the

option of the Issuer on any date on or after November 15, 2026, at a redemption price equal to 100% of the principal amount of the 2016B Target Bonds, or portions thereof to be redeemed plus accrued but unpaid interest to the date fixed for redemption. Each of the 2017B Target Bonds maturing on and after November 15, 2028 is subject to redemption in whole or in part, at the option of the Issuer on any date on or after November 15, 2027, at a redemption price equal to 100% of the principal amount of the 2017B Target Bonds, or portions thereof to be redeemed plus accrued but unpaid interest to the date fixed for redemption. Each of the 2018D Target Bonds or 2018E Target Bonds maturing on and after November 15, 2029 is subject to redemption in whole or in part, at the option of the Issuer on any date on or after November 15, 2028, at a redemption price equal to 100% of the principal amount of the 2018D Target Bonds or 2018E Target Bonds, respectively, or portions thereof to be redeemed plus accrued but unpaid interest to the date fixed for redemption. Each of the 2019C Target Bond maturing on and after November 15, 2030 is subject to redemption in whole or in part, at the option of the Issuer on any date on or after November 15, 2029, at a redemption price equal to 100% of the principal amount of the 2019C Target Bonds, respectively or portions thereof to be redeemed plus accrued but unpaid interest to the date fixed for redemption. The 2019C Target Bonds are also subject to make-whole redemption as described in the authorizing ordinance. Each of the 2020D Target Bonds maturing on and after November 15, 2031 is subject to redemption in whole or in part, at the option of the Issuer on any date on or after November 15, 2030, at a redemption price equal to 100% of the principal amount of the 2020D Target Bonds, or portions thereof to be redeemed plus accrued but unpaid interest to the date fixed for redemption. The 2020D Bonds are also subject to make-whole redemption as described in the authorizing ordinance. Each of the 2021B Target Bonds maturing on and after November 15, 2032 is subject to redemption in whole or in part, at the option of the Issuer on any date on or after November 15, 2031, at a redemption price equal to 100% of the principal amount of the 2021B Target Bonds, or portions thereof to be redeemed plus accrued but unpaid interest to the date fixed for redemption. The 2021B Target Bonds are also subject to make-whole redemption as described in the authorizing ordinance.

The Dealer Manager is not acting as financial or municipal advisors to the Issuer in connection with this Invitation.

18. The Dealer Manager. References in this Invitation to the Dealer Manager is to Jefferies LLC only in its capacity as the Dealer Manager.

The Dealer Manager may contact Bondowners regarding this Invitation and may request brokers, dealers, custodian banks, depositories trust companies and other nominees to forward this Invitation to beneficial owners of the Target Bonds.

The Issuer will pay to the Dealer Manager customary fees for their services in connection with this Invitation. In addition, the Issuer will pay the Dealer Manager their reasonable out-of-pocket costs and expenses relating to this Invitation.

The Dealer Manager, including its affiliates, is a full service financial institution engaged in various activities, which may include securities trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. The Dealer Manager and its affiliates have, from time to time, performed, and may in the future perform, a variety of these services for the Issuer, for which they received and or will receive customary fees and expenses. In the ordinary course of their various business activities, the Dealer Manager and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and other instruments. Such investment and securities activities of the Dealer Manager and/or its affiliates may involve securities and other instruments of the Issuer, including but not limited to Target Bonds whether or not tendered for purchase pursuant to this Invitation.

In addition to its role as Dealer Manager in connection with this Invitation, the Dealer Manager is currently expected to act as the bookrunning senior underwriter of the Series 2024A Bonds anticipated to be issued by the Issuer as described in the Series 2024A Bonds POS attached as Appendix A and, as such, it will receive compensation in connection with that transaction as well as for acting as Dealer Manager in connection with this Invitation.

19. Information Agent and Tender Agent. The Issuer has retained Globic Advisors Inc. to serve as Information Agent and Tender Agent in connection with this Invitation. The Issuer has agreed to pay the Information Agent and Tender Agent customary fees for its services and to reimburse the Information Agent and Tender Agent for its reasonable out-of-pocket costs and expenses relating to this Invitation.

20. Available Information; Contact Information. Certain information relating to the Target Bonds and the Issuer may be obtained by contacting the Dealer Manager or the Information Agent and Tender Agent at the contact information set forth below. Such information is limited to (i) the Invitation, including the information set forth in the Series 2024A Bonds POS, which is attached hereto as Appendix A, and (ii) information about the Issuer available through the EMMA Website.

Investors with questions about this Invitation should contact the Dealer Manager or the Information Agent and Tender Agent utilizing the contact information below:

GLOBIC ADVISORS INC., *Information Agent and Tender Agent*

Attention: Robert Stevens
485 Madison Avenue, 7th Floor
New York, New York 10022
Tel: (212) 227-9622
Email: rstevens@globic.com
Document Website: www.globic.com/houston

JEFFERIES LLC, *Dealer Manager*
Contact your Jefferies LLC Representative
or
Municipal Syndicate Desk
520 Madison Avenue
New York, New York 10022
Tel: (800) 567-8567
Email: muni_underwriting@jefferies.com

21. Miscellaneous. This Invitation is not being made to and offers will not be accepted from or on behalf of, Bondowners in any jurisdiction in which this Invitation or the acceptance thereof would not be in compliance with the laws of such jurisdiction. In those jurisdictions whose laws require this Invitation to be made through a licensed or registered broker or dealer, this Invitation is being made on behalf of the Issuer by the Dealer Manager.

No one has been authorized by the Issuer, the Dealer Manager or the Information Agent and Tender Agent to recommend to any Bondowners whether to offer Target Bonds for purchase pursuant to this Invitation. No one has been authorized to give any information or to make any representation in connection with this Invitation other than those contained in this Invitation. Any recommendation, information and representations given or made cannot be relied upon as having been authorized by the Issuer, the Dealer Manager or the Information Agent and Tender Agent.

None of the Issuer, the Dealer Manager or the Information Agent and Tender Agent makes any recommendation that any Bondowner offer and tender or refrain from offering and tendering all or any portion of such Bondowner's Target Bonds for purchase. Bondowners must make these decisions and should consult with their broker, account executive, financial advisor, attorney and/or other appropriate professionals.

CITY OF HOUSTON, TEXAS

APPENDIX A

PRELIMINARY OFFICIAL STATEMENT

PRELIMINARY OFFICIAL STATEMENT DATED APRIL 5, 2024

NEW ISSUE — BOOK-ENTRY ONLY

RATINGS: Fitch: Applied For
Moody's: Applied For
See "RATINGS" herein

In the opinion of Greenberg Traurig, LLP, Tax Counsel, assuming the accuracy of certain representations and certifications, and continuing compliance with certain tax covenants, under existing statutes, regulations, rulings and court decisions, interest on the Series 2024A Bonds (defined herein) is excludable from gross income for federal income tax purposes, and, further, interest on the Series 2024A Bonds is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals. In the case of the alternative minimum tax imposed by Section 55(b)(2) of the Code (defined herein) on applicable corporations (as defined in Section 59(k) of the Code), interest on the Series 2024A Bonds is not excluded from the determination of adjusted financial statement income. See "TAX MATTERS" herein for a description of certain other federal tax consequences of ownership of the Series 2024A Bonds.

$845,000,000*
CITY OF HOUSTON, TEXAS
COMBINED UTILITY SYSTEM
FIRST LIEN REVENUE REFUNDING BONDS,
SERIES 2024A

Interest Accrual Date: Date of Delivery **CUSIP Prefix:** 44244C **Due:** November 15, see inside cover page

This Official Statement is provided to furnish information in connection with the offering by the City of Houston, Texas (the "City"), of its Combined Utility System First Lien Revenue Refunding Bonds, Series 2024A (the "Series 2024A Bonds"). The Series 2024A Bonds are special obligations of the City, payable as to principal, premium, if any, and interest solely from and secured by a lien on and pledge of Net Revenues (defined herein), as collected and received, to be derived from the operation of the City's Combined Utility System ("CUS," the "System" or the "Combined Utility System"). The Combined Utility System currently consists of the City's water and sewer system and may include such other utility systems that the City elects to combine with the Combined Utility System, as permitted by the Master Ordinance (defined herein). Capitalized terms used herein but not otherwise defined herein have the meanings given to such terms in APPENDIX C.

The proceeds of the Series 2024A Bonds will be used, together with other available funds, for the following purposes: (i) refunding of all or a portion of the City's Outstanding Combined Utility System Commercial Paper Notes, Series B (the "Refunded Notes"); (ii) refunding a portion of the City's Outstanding Combined Utility System First Lien Revenue Bonds (as more specifically described on SCHEDULE I, the "Refunded Bonds") (iii) refunding the Purchased Bonds (as defined herein) that have been validly tendered to the City for purchase and cancellation, and (iv) paying the costs of issuance of the Series 2024A Bonds. See "PURPOSE AND PLAN OF FINANCE."

The City has determined that the Series 2024A Bonds will not be Reserve Fund Participants which share in the First Lien Bond Reserve Fund.

THE LIEN ON NET REVENUES OF THE SYSTEM SECURING THE SERIES 2024A BONDS IS SUBORDINATE TO THE LIEN SECURING PREVIOUS ORDINANCE BONDS IN AN AGGREGATE AMOUNT OUTSTANDING OF APPROXIMATELY $119.5 MILLION AS OF FEBRUARY 29, 2024. THE CITY WILL NOT ISSUE ANY ADDITIONAL BONDS OR OTHER OBLIGATIONS UNDER THE PREVIOUS ORDINANCE. SEE "REQUIRED PAYMENTS UNDER PREVIOUS ORDINANCE" FOR FURTHER INFORMATION. THE SERIES 2024A BONDS DO NOT CONSTITUTE A GENERAL OBLIGATION OF THE CITY AND ARE NOT PAYABLE FROM FUNDS RAISED OR TO BE RAISED BY TAXATION.

The Series 2024A Bonds will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository with respect to the Series 2024A Bonds. The Bank of New York Mellon Trust Company, N.A., Houston, Texas, will act as the initial paying agent/registrar for the Series 2024A Bonds.

The Series 2024A Bonds are subject to optional and mandatory sinking fund redemption prior to their stated maturity, as provided herein.

The Series 2024A Bonds will be issued in authorized denominations of $5,000 principal amount and any integral multiple thereof. Interest on the Series 2024A Bonds will accrue from their Date of Delivery (defined herein) until maturity or prior redemption and is payable semiannually on each May 15 and November 15, commencing November 15, 2024.

The City, with the assistance of Jefferies LLC as dealer manager, has released an "Invitation to Tender Bonds," dated April 5, 2024, inviting owners of the Target Bonds (as defined herein) to tender such bonds to the City for purchase and cancellation. The City intends to fund the purchase of such tendered bonds with a portion of the proceeds of the Series 2024A Bonds. See "THE SERIES 2024A BONDS – The Target Bonds" herein.

This cover page contains certain information for quick reference only. It is not a summary of this Official Statement. Prospective investors must read the entire Official Statement, including certain information incorporated by reference herein and all appendices hereto, to obtain information essential to making an informed investment decision, paying particular attention to the matters discussed in "INVESTMENT CONSIDERATIONS."

SEE INSIDE COVER PAGE FOR MATURITIES, PRICING SCHEDULE AND CUSIP NUMBERS

The Series 2024A Bonds are offered, when, as and if issued by the City, subject to the approving opinion of the Attorney General of Texas and the opinion of Greenberg Traurig LLP, Houston, Texas and The Chevalier Law Firm, PLLC, Houston, Texas, Co-Bond Counsel for the City, as to the validity of the issuance of the Series 2024A Bonds under the Constitution and laws of the State of Texas. Certain legal matters will be passed upon for the City by McCall, Parkhurst & Horton L.L.P., Houston, Texas and West & Associates, L.L.P., Houston, Texas, the City's Co-special Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters (defined herein) of the Series 2024A Bonds by their counsel, Norton Rose Fulbright US LLP, Houston, Texas. The Series 2024A Bonds are expected to be available for delivery through DTC on or about May 14, 2024 (the "Date of Delivery").

Jefferies

Loop Capital Markets **Ramirez & Co., Inc.**

J.P. Morgan **Mesirow Financial, Inc.** **PNC Capital Markets LLC**

* Preliminary, subject to change.

$845,000,000*

CITY OF HOUSTON, TEXAS
COMBINED UTILITY SYSTEM
FIRST LIEN REVENUE REFUNDING BONDS,
SERIES 2024A

MATURITIES, PRICING SCHEDULE AND CUSIP NUMBERS

CUSIP Prefix 44244C[(3)]

$___________ Serial Bonds*

Year (Nov. 15)[(1)]	Maturity Amount	Interest Rate	Yield[(2)]	CUSIP Suffix[(3)]
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				
2036				
2037				
2038				
2039				
2040				
2041				
2042				
2043				

$_______ Term Bonds*

$______ Term Bond due November 15, _____[(1) (4)], _____%, Yield _____%[(2)], CUSIP Suffix[(3)] ____

(Interest accrues from Date of Delivery)

____

(1) The Series 2024A Bonds maturing on or after November 15, 20__ are subject to redemption prior to maturity, at the option of the City, on November 15, 20__, or any date thereafter. See "THE SERIES 2024A BONDS – Optional Redemption of Bonds."

(2) The initial yield is calculated to the first optional redemption date.

(3) CUSIP numbers have been assigned to the Series 2024A Bonds by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association, and are included solely for the convenience of the owners of the Series 2024A Bonds. Neither the City, the Co-Financial Advisors (defined herein) nor the Underwriters are responsible for the selection or the correctness of the CUSIP numbers set forth herein. CUSIP is a registered trademark of the American Bankers Association. This information is not intended to create a database and does not serve in any way as a substitute for CUSIP Services.

(4) Subject to mandatory sinking fund redemption as described in "THE SERIES 2024A BONDS – Mandatory Sinking Fund Redemption."

* *Preliminary, subject to change.*

For purposes of compliance with Rule 15c2-12 of the U.S. Securities and Exchange Commission, as amended (the "Rule") 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 2024A Bonds 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.

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 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.

THE SERIES 2024A BONDS 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 2024A BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE SERIES 2024A BONDS MAY HAVE BEEN REGISTERED OR QUALIFIED AND THE 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 2024A BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT APPROVED OR DISAPPROVED OF THE SERIES 2024A BONDS OR CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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.

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. 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 reproduced or used, in whole or in part, for any other purposes.

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2024A Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. No broker, dealer, salesperson or any 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.

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 prices and other terms respecting the offering and sale of the Series 2024A Bonds may be changed from time to time by the Underwriters after the Series 2024A Bonds are released for sale, and the Series 2024A Bonds may be offered and sold at prices other than the initial offering prices, including sales to Underwriters who may sell the Series 2024A Bonds into investment accounts.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for the purposes of, and as the term is defined in Rule 15c2-12 of the United States Securities and Exchange Commission.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2024A BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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City of Houston, Texas

ELECTED OFFICIALS

John Whitmire, Mayor

Chris Hollins, City Controller

CITY COUNCIL

Council Member, District A .... Amy Peck
Council Member, District B .... Tarsha Jackson
Council Member, District C .... Abbie Kamin
Council Member, District D .... Carolyn Evans-Shabazz
Council Member, District E .... Fred Flickinger
Council Member, District F .... Tiffany D. Thomas
Council Member, District G .... Mary Nann Huffman
Council Member, District H .... Mario Castillo
Council Member, District I .... Joaquin Martinez
Council Member, District J .... Edward Pollard
Council Member, District K .... Martha Castex-Tatum
Council Member, At-Large Position 1 .... Julian Ramirez
Council Member, At-Large Position 2 .... Willie Davis
Council Member, At-Large Position 3 .... Twila Carter
Council Member, At-Large Position 4 .... Letitia Plummer
Council Member, At-Large Position 5 .... Sallie Alcorn

APPOINTED OFFICIALS

City Attorney .... Arturo G. Michel
Deputy City Controller .... Vernon Lewis
Director, Department of Finance .... Melissa Dubowski
Director, Department of Houston Public Works .... Carol Haddock
City Secretary .... Pat Jefferson-Daniel

CONSULTANTS AND ADVISORS

Co-Financial Advisors .... Masterson Advisors LLC
TKG & Associates LLC

Co-Bond Counsel .... Greenberg Traurig LLP
The Chevalier Law Firm, PLLC

Co-Special Disclosure Counsel .... McCall, Parkhurst & Horton L.L.P.
West & Associates, L.L.P.

FINANCING WORKING GROUP MEMBERS

Legal Department .... Rahat Huq
Eric Nguyen

Department of Finance .... Alma Tamborello
Fahad Gulzar
Elvira Ontiveros
Chris Gonzales
Sana Ali

Office of the City Controller .... Han Au
Sharon Liu
Linjie Zhu

Department of Houston Public Works .... Samir Solanki
Betsy Varghese

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$845,000,000*
CITY OF HOUSTON, TEXAS
COMBINED UTILITY SYSTEM
FIRST LIEN REVENUE REFUNDING BONDS,
SERIES 2024A

INTRODUCTION

General

This Official Statement provides certain information in connection with the issuance by the City of Houston, Texas (the "City"), of its Combined Utility System First Lien Revenue Refunding Bonds, Series 2024A (the "Series 2024A Bonds"). This Official Statement is concurrently provided to furnish information in connection with the Invitation to Tender Bonds (the "Invitation") made by the City, dated April 5, 2024 inviting owners of certain target bonds as set forth in the Invitation and "SCHEDULE II – SCHEDULE OF TARGET AND PURCHASED BONDS" herein (the "Target Bonds") to tender such bonds to the City for purchase and cancellation (Target Bonds so purchased and cancelled, the "Purchased Bonds").

The Series 2024A Bonds are authorized to be issued pursuant to (i) Chapters 1207, 1371 and 1502, Texas Government Code, as amended, (ii) a master ordinance (the "Master Ordinance") adopted by the City Council of the City on April 21, 2004, (iii) a supplemental ordinance adopted by the City Council of the City on March 27, 2024 (the "Series 2024 Supplemental Ordinance"), and (iv) an officers' pricing certificate authorized by the Series 2024 Supplemental Ordinance (the "Officers' Pricing Certificate") dated as of the date of this Official Statement.

The Series 2024A Bonds are special obligations of the City payable as to principal, premium, if any, and interest solely from and secured by a lien on and pledge of Net Revenues (as defined herein), as collected and received, to be derived from the operation of the City's combined utility system ("CUS," the "System" or the "Combined Utility System"). The Combined Utility System currently consists of the City's water and sewer system (the "Water and Sewer System") and shall include such other utility systems that the City may from time to time elect to combine with the Combined Utility System, as permitted by the Master Ordinance, so long as the revenues of such other utility systems are included in Gross Revenues under the Master Ordinance.

The lien on Net Revenues of the System securing the Series 2024A Bonds is subordinate to the lien securing Previous Ordinance Bonds in an aggregate amount of approximately $119.5 million as of February 29, 2024. The City will not issue any additional bonds or any other obligations under the Previous Ordinance. See "REQUIRED PAYMENTS UNDER PREVIOUS ORDINANCE" for further information.

Brief descriptions and summaries of, among other things, the Series 2024A Bonds, the Combined Utility System, the Master Ordinance and the Series 2024 Supplemental Ordinance are included in this Official Statement. References to the Series 2024A Bonds, the Master Ordinance and the Series 2024 Supplemental Ordinance are qualified in their entirety by reference to such documents and the form of the Series 2024A Bonds included in the Series 2024 Supplemental Ordinance. Copies may be obtained from the office of the City Controller or the City Secretary. See "GENERAL INFORMATION." The City's Basic Financial Statements for the Fiscal Year ended June 30, 2023, which includes the supplementary schedules for the City's Combined Utility System Fund, is included in APPENDIX A to this Official Statement. A brief description of certain selected economic and demographic data of

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* *Preliminary, subject to change.*

the City is set forth in APPENDIX B. Capitalized terms used herein but not otherwise defined herein have the meanings given to such terms in APPENDIX C. Excerpts from the Master Ordinance are set forth in APPENDIX D. The proposed forms of Co-Bond Counsel Opinion and Tax Counsel Opinion are set forth as APPENDIX E. A listing of continuing disclosure schedules is included in APPENDIX F. Disclosure information pertaining to The Depository Trust Company, New York, New York ("DTC") is included in APPENDIX G. A description of the Reserve Fund Surety Policy (as defined herein) is included as APPENDIX H. A description of the distribution agreements entered into by certain of the Underwriters is included in APPENDIX I.

PURPOSE AND PLAN OF FINANCE

General

The proceeds of the Series 2024A Bonds will be used, together with other available funds, for the following purposes: (i) refunding of all or a portion of the City's Outstanding Combined Utility System Commercial Paper Notes, Series B (the "Refunded Notes"); (ii) refunding a portion of the City's Outstanding Combined Utility System First Lien Revenue Bonds (as more specifically described on SCHEDULE I, the "Refunded Bonds"), (iii) refunding the Purchased Bonds, as more specifically described in SCHEDULE II), that have been validly tendered to the City pursuant to the Invitation for purchase and cancellation and (iv) paying the costs of issuance of the Series 2024A Bonds.

The City has determined that the Series 2024A Bonds will <u>not</u> be Reserve Fund Participants which share in the First Lien Bond Reserve Fund.

The Refunded Bonds

A portion of the proceeds of the Series 2024A Bonds, together with other available funds, if any, will be used to purchase a portfolio of obligations authorized under State law and the supplemental ordinances authorizing the Refunded Bonds (the "Refunded Bonds Escrowed Securities") to be deposited in one or more escrow funds (collectively, the "Refunded Bonds Escrow Fund") with The Bank of New York Mellon Trust Company, N.A. (the "Refunded Bonds 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 Bonds Escrowed Securities, together with other available funds held in the Refunded Bonds Escrow Fund, to provide for the payment of the Refunded Bonds will be verified by Public Finance Partners LLC (the "Verification Agent"). See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

In the opinion of Co-Bond Counsel for the City, by making the escrow deposits required by the Series 2024 Supplemental Ordinance and the escrow agreement to be entered into with the Refunded Bonds Escrow Agent in connection with the Refunded Bonds (the "Refunded Bonds 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, and the lien on and pledge of Net Revenues of the Combined Utility System securing the Refunded Bonds will be deemed to have been defeased pursuant to the terms of the supplemental ordinance authorizing the issuance of the Refunded Bonds.

The City will give irrevocable instructions to the Refunded Bonds Escrow Agent to provide notice to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed on a date prior to the respective redemption dates set forth on SCHEDULE I hereto. On each such redemption date, money held in the Refunded Bonds Escrow Fund will be applied to redeem the appropriate Refunded Bonds.

The Purchased Bonds

The City, with the assistance of Jefferies LLC, as dealer manager (the "Dealer Manager"), is releasing the Invitation to the beneficial owners of the Target Bonds on the terms set forth in the Invitation. Subject to the terms and conditions of the Invitation, on the Date of Delivery of the Series 2024A Bonds, the City will purchase Target

Bonds validly tendered for purchase and accepted by the City in the principal amounts comprising the Purchased Bonds, as set forth in "SCHEDULE II – SCHEDULE OF TARGET AND PURCHASED BONDS." The City expects to pay cash for such Purchased Bonds, together with the costs related thereto, from (i) proceeds of the Series 2024A Bonds, and (ii) certain available funds of the City held in trust for the beneficial owners of the Purchased Bonds. The Purchased Bonds will be canceled on the Date of Delivery and will no longer be deemed Outstanding. See "SOURCES AND USES OF FUNDS."

Target Bonds not so purchased will remain Outstanding (the "Unpurchased Bonds"). On or before the Date of Delivery, the Verification Agent will provide the City its report verifying the sufficiency of cash deposited with the paying agent/registrar for the Purchased Bonds (the "Purchased Bonds Paying Agent") to pay the purchase price of the Purchased Bonds. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

This description is not intended to summarize the terms of the Invitation, or to solicit offers to tender Target Bonds. Reference is made to the Invitation for a discussion of the terms of the Invitation and the conditions for settlement of the Target Bonds validly tendered and accepted for purchase. The City has filed the Invitation with the MSRB through its EMMA system.

The Refunded Notes

The principal and interest on the Refunded Notes are to be paid in accordance with their terms with a portion of the proceeds of the Series 2024A Bonds, together with other available funds to be deposited with U.S. Bank National Association, the paying agent for the Refunded Notes (the "Refunded Notes Paying Agent"). The City will deposit with the Refunded Notes Paying Agent a portion of the proceeds of the Series 2024A Bonds together with other available funds, which will be sufficient to pay the principal of and interest on the Refunded Notes on the Date of Delivery. On or before the Date of Delivery, the City's financial advisor will certify in a written sufficiency certificate delivered to the City that the amounts deposited with the Refunded Notes Paying Agent will be sufficient to pay the principal of and interest on the Refunded Notes on the Date of Delivery.

By making such deposits with the Refunded Notes Paying Agent, 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 and the lien on and pledge of Net Revenues of the Combined Utility System securing the Refunded Notes will be deemed to have been defeased pursuant to the terms of the supplemental ordinance authorizing the issuance of the Refunded Notes except for the purpose of being paid from the funds deposited with the Refunded Notes Paying Agent.

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SOURCES AND USES OF FUNDS

The following table summarizes the estimated sources and uses of proceeds of the Series 2024A Bonds, together with other available funds of the City:

	Total
Sources of Funds:	
Principal Amount	$
[Net] Original Issue Premium	
Other Available Funds	
Total Sources of Funds	$
Uses of Funds:	
Deposit to Refunded Notes Paying Agent for Payment of the Refunded Notes(1)	$
Purchase of Purchased Bonds(2)	
Deposit to Refunded Bonds Escrow Fund for Payment of the Refunded Bonds(3)	
Underwriters' Discount	
Costs of Issuance (4)	
Total Uses of Funds	$

(1) The interest due on the Refunded Notes will be deposited with the Refunded Notes Paying Agent by the City from other available funds on or before the Date of Delivery.

(2) The interest due on the Purchased Bonds is expected to be paid by the City from other available funds of the City on or before the Date of Delivery.

(3) The interest due on the Refunded Bonds will be deposited to the Refunded Bonds Escrow Fund by the City from other available funds on or before the Date of Delivery.

(4) Includes legal fees, rating agency fees, verification agent fees, Dealer Manager fees, fees of the Paying Agent/Registrar, Refunded Bonds Escrow Agent, Refunded Notes Paying Agent, and other costs of issuance.

REQUIRED PAYMENTS UNDER PREVIOUS ORDINANCE

The Master Ordinance provides that before any payments may be made on System Obligations, including First Lien Bonds such as the Series 2024A Bonds, all "Required Payments" must be made. The term "Required Payments" is defined in the Master Ordinance to mean any payments required to be made under the Previous Ordinance, including without limitation (i) all payments required to be made by the City as Maintenance and Operation Expenses under the Previous Ordinance, including without limitation under existing contracts on the effective date of the Master Ordinance for the impoundment, conveyance, or treatment of water or otherwise which are treated as operating expenses under the laws of the State, and (ii) all payments required to be made by the City to pay debt service requirements on Previous Ordinance Bonds in accordance with the terms of the Previous Ordinance and to comply with the reserve fund requirements of the Previous Ordinance. As of February 29, 2024, approximately $119.5 million in Previous Ordinance Bonds remains Outstanding, representing the accreted value of Previous Ordinance Bonds issued as capital appreciation bonds.

Existing contracts include the treated water supply contracts and a project contract with the Coastal Water Authority ("CWA"). CWA has issued bonds (the "Previously Issued Contract Revenue Bonds") secured by payments from the City under an amended and restated treated water supply contract, which are considered Required Payments. For further information, see "SYSTEM DEBT AND CHARGES — Schedule 11 — Obligations Payable from System Revenues." See also "THE CITY AND THE SYSTEM — Water Facilities — Water Supply Contracts."

Other than debt currently Outstanding under the Previous Ordinance, the City has covenanted and agreed in the Master Ordinance not to issue any additional bonds or incur any other obligations under the Previous Ordinance. See "CERTAIN COVENANTS AND TERMS OF THE MASTER ORDINANCE.

THE SERIES 2024A BONDS

Source of Payment

The Series 2024A Bonds are special obligations of the City that are equally and ratably payable from and secured by a lien on Net Revenues collected and received by the City after Required Payments with respect to Previous Ordinance Bonds issued by the City and payment of all Maintenance and Operation Expenses of the Combined Utility System. Net Revenues are required to be set aside for and pledged to the payment of the City's System Obligations, including the Series 2024A Bonds, all Outstanding First Lien Bonds, Additional First Lien Bonds, Additional Second Lien Bonds and Qualified Hedge Agreements and Credit Agreements, including the Interest and Sinking Funds and the Bond Reserve Funds (for System Bonds that are Reserve Fund Participants) required to be maintained for the payment of all such System Bonds and agreements, all as more fully described and provided for in the Master Ordinance. THE SERIES 2024A BONDS, TOGETHER WITH THE INTEREST THEREON, ARE PAYABLE SOLELY FROM SUCH NET REVENUES AND DO NOT CONSTITUTE AN INDEBTEDNESS OR GENERAL OBLIGATION OF THE CITY AND ARE NOT PAYABLE FROM FUNDS RAISED OR TO BE RAISED BY TAXATION. OWNERS OF THE SERIES 2024A BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT THEREOF FROM THE LEVY OF AD VALOREM TAXES OR FROM ANY SOURCE NOT SPECIFICALLY PLEDGED TO PAYMENT OF THE SERIES 2024A BONDS. See "SECURITY FOR THE SERIES 2024A BONDS."

The lien on Net Revenues securing the System Obligations, including the Series 2024A Bonds, is subordinate to the lien securing the Previous Ordinance Bonds.

Description of the Series 2024A Bonds

The Series 2024A Bonds mature in the aggregate principal amounts and on the dates indicated on the inside cover page of this Official Statement. Interest on the Series 2024A Bonds accrues from May 14, 2024 (the "Date of Delivery"). Interest is payable semiannually on May 15 and November 15 of each year, commencing November 15, 2024 (each, an "Interest Payment Date"). The Series 2024A Bonds will be issued as fully registered bonds in denominations of $5,000 or any integral multiple thereof. The Bank of New York Mellon Trust Company, N.A., Houston, Texas, is the initial paying agent/registrar (the "Paying Agent/Registrar"). Interest on the Series 2024A Bonds is payable by check or, in the case of payment to DTC, by wire transfer of immediately available funds, to be mailed by the Paying Agent/Registrar on or before the Interest Payment Date to the registered owners of record as of the first day of the month of the Interest Payment Date. If the Series 2024A Bonds are no longer in book-entry-only form, then principal of the Series 2024A Bonds is payable upon presentation and surrender thereof at the principal corporate trust office of the Paying Agent/Registrar. See APPENDIX G – Securities Depository – The Depository Trust Company.

Optional Redemption of Series 2024A Bonds

The Series 2024A Bonds maturing on or after November 15, 20__ are subject to optional redemption by the City prior to stated maturity on November 15, 20__ or any date thereafter, in whole or in part (but if less than all the Series 2024A Bonds of a single maturity are called for redemption, those Series 2024A Bonds called shall be selected by lot or other customary random method by the Paying Agent/Registrar), at a redemption price equal to the principal amount thereof, plus accrued interest thereon to (but not including) the date fixed for redemption.

Mandatory Sinking Fund Redemption

The Series 2024A Bonds maturing on November 15 in the years ________ (the "Series 2024A Term Bonds") are subject to mandatory redemption prior to maturity in the following amounts (subject to reduction as hereinafter provided), on the following dates, in each case at a redemption price equal to 100% of their principal amount plus accrued interest to (but not including) the date fixed for redemption, if any, and subject to the following conditions:

\$_________ SERIES 2024A TERM BONDS MATURING IN ___

Mandatory Redemption Dates (November 15)	Principal Requirements
	\$
*	

*Final Maturity

On or before October 1 of every year in which there are mandatory redemption requirements as set forth above for Series 2024A Term Bonds, the Paying Agent/Registrar (i) shall determine the principal amount of Series 2024A Term Bonds of the particular coupon rate and maturity that must be mandatorily redeemed on November 15 of such year after taking into account deliveries for cancellation and optional redemptions of Series 2024A Term Bonds of such coupon rate and maturity as more fully provided below, (ii) shall select pro-rata (if permitted) or otherwise by lot or other customary random method the Series 2024A Term Bonds of such coupon rate and maturity (or portions thereof) to be mandatorily redeemed on November 15 of such year, and (iii) shall give notice thereof in the manner herein below provided. The mandatory redemption requirements stated above for the Series 2024A Term Bonds shall be reduced by the principal amount of any Series 2024A Term Bonds of such coupon rate and maturity purchased and delivered or tendered to the Paying Agent/Registrar for cancellation by September 25 of such year. In addition, in the exercise of its right of optional redemption contained herein the City may elect to redeem less than all of the Series 2024A Term Bonds of a particular coupon rate and maturity then Outstanding, and thereby reduce the mandatory redemption requirements in any year or years for the Series 2024A Term Bonds of such coupon rate and maturity by the principal amount of such Series 2024A Term Bonds optionally redeemed and that have not previously been made the basis for a credit against the mandatory redemption requirements for the Series 2024A Term Bonds.

Notice of Redemption

In the event any of the Series 2024A Bonds are called for mandatory or 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 Series 2024A 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 principal corporate trust office of the Paying Agent/Registrar) and, if less than all of the Series 2024A Bonds are to be redeemed, the portions of the Series 2024A Bonds so to be redeemed, (ii) state any condition to such redemption, which may include the issuance of a series of refunding bonds, and (iii) state that on the redemption date, and upon the satisfaction of any such condition, the Series 2024A Bonds 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 mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption to each Registered Owner of the Series 2024A Bonds to be redeemed at its address shown on the registration books kept by the Paying Agent/Registrar and to any securities depository institution registered under the Securities Exchange Act of 1934, as amended, acting as a securities depository under the Ordinance; 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 2024A 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 Series 2024A 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 Series 2024A 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.

Ownership

The City, the Paying Agent/Registrar and any other person may treat the person in whose name any Bond is registered (the "Registered Owner") as the absolute owner of such Bond for the purpose of making and receiving payment of the principal of, premium, if any, and interest on such Bond, for the purpose of giving notice to the Registered Owners thereof, and for all other purposes, whether or not such Bond is overdue. Neither the City nor the Paying Agent/Registrar shall be bound by any notice or knowledge to the contrary. All payments made to the Registered Owner of any Bond in accordance with the Series 2024 Supplemental Ordinance shall be valid and effectual and shall discharge the liability of the City and the Paying Agent/Registrar for such Bond to the extent of the sums paid.

Record Date

Interest on the Series 2024A Bonds is payable by check mailed by the Paying Agent/Registrar to the Registered Owner of record as of the first (1st) day of the month of the applicable Interest Payment Date as shown on the books of registration kept by the Paying Agent/Registrar.

Transfers and Exchanges

Beneficial ownership of Bonds registered in the name of DTC will be transferred initially as described under APPENDIX G – Securities Depository – The Depository Trust Company.

So long as any Bonds remain Outstanding, the Paying Agent/Registrar shall keep the Register at its principal 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 2024A Bonds in accordance with the terms of the Master Ordinance and the Series 2024 Supplemental Ordinance.

Each Bond shall be transferable only upon the presentation and surrender thereof by Cede & Co., as DTC's nominee, or any subsequent Registered Owner, at the principal 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 Bond for transfer, the Paying Agent/Registrar is required to authenticate and deliver in exchange therefor, within 72 hours after such presentation and surrender, a new Bond or Bonds, registered in the name of Cede & Co., as DTC's nominee, or such other transferee, in authorized denominations, of the same type, maturity and interest rate, and in the same aggregate principal amount, as the Bond or Bonds so presented and surrendered.

In the event the Series 2024A Bonds are not held in a book-entry registration system, all Bonds shall be exchangeable upon the presentation and surrender thereof at the principal corporate trust office of the Paying Agent/Registrar for a Bond or Bonds of the same type, maturity and interest rate, in any authorized denomination and in an aggregate principal amount, equal to the Bond or Bonds presented for exchange. Bonds issued in exchange for other Bonds shall be entitled to the benefits and security of the Master Ordinance and the Series 2024 Supplemental Ordinance to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

The City or the Paying Agent/Registrar may require DTC or any subsequent Registered Owner of any Bond 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 Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the City.

SECURITY FOR THE SERIES 2024A BONDS

Set forth below is a description of the revenues pledged for the payment of the Series 2024A Bonds and parity System Obligations, the flow of funds mandated by and rate covenant contained in, the Master Ordinance and a summary of certain security provisions of the Master Ordinance applicable to the Series 2024A Bonds. Capitalized terms used in this section but not otherwise defined in this section have the meanings assigned to such terms in APPENDIX C – DEFINITIONS. For further information, see APPENDIX D – EXCERPTS FROM THE MASTER ORDINANCE.

Pledge of Net Revenues

The Series 2024A Bonds are special obligations of the City payable from and secured by a lien on Net Revenues as collected and received by the City from the operation and ownership of the Combined Utility System. ***The lien on Net Revenues securing the Series 2024A Bonds is subordinate to the lien securing the Previous Ordinance Bonds.***

In the Master Ordinance, the City covenants and agrees that Gross Revenues of the System shall, as collected and received by the City, be deposited and paid into the special funds established by the Master Ordinance after satisfying any requirements of the Previous Ordinance, including the payment of all Required Payments. For so long as any Previous Ordinance Bonds remain Outstanding, the City covenants and agrees that Gross Revenues (as defined under the Previous Ordinance) shall be applied in the manner set forth in the Previous Ordinance to provide for the payment of all Required Payments, and then Gross Revenues shall be applied in the manner set forth in the Master Ordinance to provide for the payment of all remaining Maintenance and Operation Expenses that have not been paid as Required Payments. See "REQUIRED PAYMENTS UNDER PREVIOUS ORDINANCE." The Master Ordinance provides that resulting Net Revenues are to be applied to the payment of principal of, interest on and any redemption premiums on the First Lien Bonds, any parity System Obligations under Qualified Hedge Agreements and Credit Agreements and all expenses of paying same and then provides for the disposition of the remaining Net Revenues in accordance with the Master Ordinance.

First Lien Bonds, including the Series 2024A Bonds, are special obligations of the City that are payable solely from and (together with parity Qualified Hedge Agreement and Credit Agreement obligations) are equally and ratably secured by a first lien on the Net Revenues as collected and received by the City from the operation and ownership of the Combined Utility System. The Master Ordinance provides that Net Revenues are required to be set aside in the First Lien Bond Interest and Sinking Fund and the First Lien Bond Reserve Fund for and pledged to the payment of First Lien Bonds and parity System Obligations, and the First Lien Bonds are, in all respects, on a parity with and of equal dignity with one another, except that the City may elect that one or more series of Additional First Lien Bonds will not share in the benefits of the First Lien Bond Reserve Fund.

The City has determined that the Series 2024A Bonds will <u>not</u> be Reserve Fund Participants which share in the First Lien Bond Reserve Fund and, accordingly, amounts in the First Lien Bond Reserve Fund will not be available to pay principal of, and interest on, the Series 2024A Bonds.

THE SERIES 2024A BONDS DO NOT CONSTITUTE A GENERAL OBLIGATION OF THE CITY AND ARE NOT PAYABLE FROM ANY FUNDS RAISED OR TO BE RAISED BY TAXATION. OWNERS OF THE FIRST LIEN BONDS, INCLUDING THE SERIES 2024A BONDS, SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT THEREOF FROM THE LEVY OF AD VALOREM TAXES OR FROM ANY OTHER SOURCE NOT PLEDGED TO THE PAYMENT OF THE FIRST LIEN BONDS.

The Master Ordinance provides that Chapter 1208, Texas Government Code, as amended, applies to the issuance and delivery of First Lien Bonds, including the Series 2024A Bonds and the pledge of the Net Revenues granted under the Master Ordinance, and such pledge is therefore valid, effective and perfected.

The Master Ordinance defines "Net Revenues" to mean (i) all Gross Revenues remaining after deducting Maintenance and Operation Expenses, <u>plus</u> (ii) any Restricted Receipts deposited to the Revenue Fund that may be used to pay Debt Service Requirements on System Obligations. The Master Ordinance defines "Restricted Receipts" to mean (i) revenues related to the Combined Utility System received by the City that pursuant to law or contractual agreements may not be used to pay Maintenance and Operation Expenses and (ii) any interest earnings on the revenues described in clause (i) above.

The Master Ordinance defines "Gross Revenues" to mean all revenues and income of every nature now and hereafter derived or received by the City from the operation and ownership of the components of the Combined Utility System; the interest income from the investment or deposit of money in the funds created pursuant to the Master Ordinance and the Previous Ordinance; and any other revenues pledged to the payment of System Obligations issued pursuant to the Master Ordinance and the Previous Ordinance. The term "Gross Revenues" also includes all payments received by the City, except for termination payments and receipts of collateral, pursuant to Qualified Hedge

Agreements. "Gross Revenues" does not include Restricted Receipts. For the definition of "Maintenance and Operation Expenses," see APPENDIX C.

The Master Ordinance permits the City to issue certain subordinate lien obligations (secured by liens on Net Revenues subordinate and inferior to the First Lien Bonds); and to provide Reserve Fund Surety Policies (as defined below) in lieu of making cash deposits to the applicable reserve fund, all as more fully described below.

Special Funds

The Master Ordinance provides that the following special funds are to be established and accounted for by the City while the Series 2024A Bonds and any other System Bonds or other System Obligations remain Outstanding:

(i) Revenue Fund;

(ii) First Lien Bond Interest and Sinking Fund;

(iii) First Lien Bond Reserve Fund;

(iv) Second Lien Bond Interest and Sinking Fund;

(v) Second Lien Bond Reserve Fund;

(vi) Third Lien Obligation Interest and Sinking Fund;

(vii) Third Lien Obligation Reserve Fund (if and when required);

(viii) Fourth Lien Obligation Interest and Sinking Fund (if and when required);

(ix) Fourth Lien Obligation Reserve Fund (if and when required);

(x) Interest and Sinking Funds and Reserve Funds for any additional System Obligations that will be junior and subordinate to Fourth Lien Obligations (if and when required); and

(xi) CUS General Purpose Fund.

The Master Ordinance provides that the Funds listed above are to be maintained as separate accounts on the books of the City. The First Lien Bond Interest and Sinking Fund and the First Lien Bond Reserve Fund (with respect to Reserve Fund Participants) are required to be held in trust under the Master Ordinance for the Owners of the First Lien Bonds (and parity System Obligations, if any, under Qualified Hedge Agreements and Credit Agreements) and the proceeds of such funds (except for interest income, which shall be transferred to the Revenue Fund) are pledged to the payment of the First Lien Bonds (and parity Qualified Hedge Agreements and Credit Agreements). In the Master Ordinance, the City reserves the right to establish additional funds and accounts necessary or desirable for the efficient administration of the System.

Flow of Funds

The Master Ordinance provides that after making any Required Payments in accordance with the terms of the Previous Ordinance, Gross Revenues of the Combined Utility System are to be deposited as collected into the Revenue Fund, and applied as follows: to (i) pay Maintenance and Operation Expenses, to the extent not already paid, and (ii) establish and maintain an operating reserve equal to two months' budgeted Maintenance and Operation Expenses. The remaining balance, together with Restricted Receipts, will be applied in the following manner and in the following order of priority:

(i) First, to make all deposits into the First Lien Bond Interest and Sinking Fund on the dates and in the amounts required by the Master Ordinance or any Supplemental Ordinance authorizing the issuance of First Lien Bonds and described under "—First Lien Bond Interest and Sinking Fund" below (in order to provide for the full and timely payment of all principal of, interest on and any redemption premiums on all First Lien Bonds and parity System Obligations, if any, under Qualified Hedge Agreements and Credit Agreements);

(ii) Second, to make all deposits into the First Lien Bond Reserve Fund on the dates and in the amounts required by the Master Ordinance or any Supplemental Ordinance authorizing the issuance of First Lien Bonds and described under "—First Lien Bond Interest and Sinking Fund" below (in order to establish and maintain a debt service reserve for the timely payment of First Lien Bonds and parity System Obligations, if any, under Qualified Hedge Agreements and Credit Agreements that the City elects to be secured by the First Lien Bond Reserve Fund (collectively, the "Reserve Fund Participants"), and to make any required payments on repayment obligations incurred pursuant to a Reserve Fund Surety Policy (as defined below));

(iii) Third, to make all deposits into the Second Lien Bond Interest and Sinking Fund on the dates and in the amounts required by the Master Ordinance or any Supplemental Ordinance authorizing the issuance of Second Lien Bonds (in order to provide for the full and timely payment of the principal of, interest on and any redemption premiums on all Second Lien Bonds and parity System Obligations, if any, under Qualified Hedge Agreements and Credit Agreements);

(iv) Fourth, to make all deposits into the Second Lien Bond Reserve Fund on the dates and in the amounts required by the Master Ordinance or any Supplemental Ordinance authorizing the issuance of Second Lien Bonds (in order to establish and maintain a debt service reserve for the timely payment of all Second Lien Bonds and parity System Obligations, if any, under Qualified Hedge Agreements and Credit Agreements and to make any required payments on repayment obligations incurred pursuant to a Reserve Fund Surety Policy);

(v) Fifth, to make all payments and deliveries required by the Master Ordinance or any Supplemental Ordinance authorizing the issuance of certain obligations secured by liens on and pledges of Net Revenues subordinate and inferior to the First Lien Bonds and Second Lien Bonds (the "Third Lien Obligations"), including the City's obligations to deliver collateral and make termination payments under Qualified Hedge Agreements that are not payable in installments over the remaining term of the relevant transaction (in order to provide for the payment of and security for such Third Lien Obligations);

(vi) Sixth, to make all payments and deliveries required by the Master Ordinance or any Supplemental Ordinance authorizing the issuance of certain obligations secured by liens on and pledges of Net Revenues subordinate and inferior to the First Lien Bonds, Second Lien Bonds and Third Lien Obligations (the "Fourth Lien Obligations") (in order to provide for the payment of and security for such Fourth Lien Obligations); and

(vii) Seventh, to make deposits of any remaining Net Revenues into the CUS General Purpose Fund. See "SECURITY FOR THE SERIES 2024A BONDS – CUS General Purpose Fund."

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FLOW OF FUNDS
(APPLICATION OF REVENUES)
Under Provisions of the Master Ordinance
HOUSTON COMBINED UTILITY SYSTEM

Gross Revenues

Revenues derived from Water and Sewer System and other utilities that may be combined with the Combined Utility System in the future.

Required Payments

Pursuant to terms of the Previous Ordinance, including (i) Maintenance and Operation Expenses of Water and Sewer System, including payments on existing Contract Revenue Bonds and (ii) debt service payments on Previous Ordinance Bonds.

Revenue Fund

Pay all Maintenance and Operation Expenses not paid as Required Payments; establish and maintain an operating reserve of two months' budgeted Maintenance and Operation Expenses.

Revenues from Restricted Receipts

Required Deposits to First Lien Bond Interest and Sinking Fund

Includes (i) debt service payments of First Lien Bonds, including the Series 2024A Bonds; and (ii) scheduled payments in connection with related Qualified Hedge Agreements and Credit Agreements.

Required Deposits to First Lien Bond Reserve Fund

Required Deposits to Second Lien Bond Interest and Sinking Fund

Required Deposits to Second Lien Bond Reserve Fund

Pay Debt Service on Third Lien Obligations

Includes (i) payments under $1 billion Series B Commercial Paper Program; (ii) collateral deliveries and swap termination payments in connection with Qualified Hedge Agreements; and (iii) any additional Third Lien Obligations.†

Pay Debt Service on Fourth Lien Obligations (if any)

CUS General Purpose Fund

May be used for any lawful System purpose (including transfers to any interest and sinking fund or reserve fund) and for drainage purposes, subject to certain restrictions. See "SECURITY FOR THE SERIES 2024A BONDS – CUS General Purpose Fund."

† The City has authorized the Series B Commercial Paper Program in an aggregate amount not to exceed $1 billion. See "SYSTEM DEBT AND CHARGES–Commercial Paper Program" for a discussion of the Series B Commercial Paper Program.

First Lien Bond Interest and Sinking Fund

The Master Ordinance provides that on or before the last Business Day immediately preceding (i) an Interest Payment Date while any of the Series 2024A Bonds or other First Lien Bonds remain Outstanding, and (ii) any date when any payments are due and payable under a Qualified Hedge Agreement relating to First Lien Bonds, there shall be transferred into the First Lien Bond Interest and Sinking Fund from the Revenue Fund, the following amounts:

(a) Such amounts as will be sufficient to pay the amount of interest scheduled to become due on the First Lien Bonds on such Interest Payment Date; plus

(b) Such amounts, if any, as will be sufficient to pay the amount of principal of the First Lien Bonds due on such Interest Payment Date, including the principal amounts of, and any redemption premiums on, any First Lien Bonds payable as a result of the operation or exercise of any mandatory or optional redemption provision contained in any Supplemental Ordinance authorizing First Lien Bonds; plus

(c) Such amounts, if any, as shall be necessary to pay fees, charges and other amounts payable to the Paying Agent/Registrar and any auction agent, market agent, broker/dealer, remarketing agent, Credit Agreement provider or Qualified Hedge Agreement provider which, by terms of their agreements with the City, are payable from the First Lien Bond Interest and Sinking Fund.

Moneys credited to the First Lien Bond Interest and Sinking Fund shall be used solely for the purpose of paying interest on, principal (at maturity or prior redemption or to purchase First Lien Bonds issued as term bonds in the open market to be credited against mandatory redemption requirements) of and redemption premiums on the First Lien Bonds, plus all fees, charges and other amounts payable to the Paying Agent/Registrar, and any auction agent, market agent, broker/dealer, remarketing agent, Credit Agreement provider or Qualified Hedge Agreement provider which, by the terms of their agreements with the City, are payable from the First Lien Bond Interest and Sinking Fund. On or before each date principal becomes due and/or each Interest Payment Date on the First Lien Bonds, the City is required to transfer from the First Lien Bond Interest and Sinking Fund to the Paying Agent/Registrar in immediately available funds an amount equal to the principal and interest payable on the First Lien Bonds on such date.

First Lien Bond Reserve Fund

The Series 2024 Supplemental Ordinance authorizing the Series 2024A Bonds provides that the Reserve Fund Requirement for the Reserve Fund Participants (the "First Lien Participant Reserve Requirement") shall be an amount equal to 50% of the Maximum Annual Debt Service Requirements on (i) all First Lien Bonds issued through the date of the Series 2024 Supplemental Ordinance that are Reserve Fund Participants and (ii) all subsequent issues of First Lien Bonds which the City elects as Reserve Fund Participants.

The City has determined that the Series 2024A Bonds will not be Reserve Fund Participants which share in the First Lien Bond Reserve Fund; accordingly, amounts in the First Lien Bond Reserve Fund will not be available to pay principal of and interest on the Series 2024A Bonds.

The Master Ordinance provides that, if the First Lien Participant Reserve Requirement increases due to the issuance of Additional First Lien Bonds that are Reserve Fund Participants, additional deposits into the First Lien Bond Reserve Fund sufficient to provide for the increased First Lien Participant Reserve Requirement will be made by not later than sixty (60) months from the date of issuance of such Additional First Lien Bonds. The Master Ordinance also provides that, except as a result of the issuance of Additional First Lien Bonds, if the First Lien Bond Participant Reserve Requirement is not fully funded, there will be transferred into the First Lien Bond Reserve Fund from the Revenue Fund each month amounts equal to one-sixtieth (1/60th) of the First Lien Participant Reserve Requirement unless or until there has been accumulated in the First Lien Bond Reserve Fund money and investments in an aggregate amount at least equal to the First Lien Participant Reserve Requirement. But if and whenever the balance in the First Lien Bond Reserve Fund is reduced below such amount, monthly deposits into such Fund will be resumed and continued in amounts at least equal to one-sixtieth (l/60th) of the First Lien Participant Reserve Requirement until the First Lien Bond Reserve Fund has been restored to such amount. The First Lien Bond Reserve Fund will be used to pay the principal of and interest on the First Lien Bonds that are Reserve Fund Participants (and parity System Obligations, if any, under Qualified Hedge Agreements and Credit Agreements) at any time when there is not sufficient money available in the First Lien Bond Interest and Sinking Fund for such purpose, and it may be used finally to pay and retire the last First Lien Bonds that are Reserve Fund Participants to mature or be redeemed.

The Master Ordinance provides that the requirements of the immediately preceding paragraph notwithstanding, the City may provide a Reserve Fund Surety Policy issued in amounts equal to all or part of the First Lien Participant Reserve Requirement in lieu of depositing cash into the First Lien Bond Reserve Fund. In the event a Reserve Fund Surety Policy issued to satisfy all or a part of the City's obligation with respect to the First Lien Bond Reserve Fund causes the amount then on deposit in the First Lien Bond Reserve Fund to exceed the First Lien Participant Reserve Requirement, the City may transfer such excess amount to any fund or funds established for the payment of or security for First Lien Bonds, the Second Lien Bonds, or any Third Lien Obligations or Fourth Lien Obligations (including any escrow established for the final payment of any such System Obligations preceding an Interest Payment Date pursuant to Chapter 1207, Texas Government Code, as amended), or to the CUS General Purpose Fund.

For a discussion of amounts held in the First Lien Bond Reserve Fund, the requirements for a qualifying Reserve Fund Surety Policy and the existing Reserve Fund Surety Policies issued in connection with certain Outstanding First Lien Bonds and Previous Ordinance Bonds, see the section captioned "RESERVE FUND." See also APPENDIX H – Description of Reserve Fund Surety Policy.

CUS General Purpose Fund

The Master Ordinance provides that, subject to the payment to the provider of a Reserve Fund Surety Policy of any interest on amounts advanced and any expenses incurred under the Reserve Fund Surety Policy required to be paid pursuant to an agreement between the City and the provider of such Reserve Fund Surety Policy, and subject to the provisions of the Master Ordinance, from any moneys remaining in the Revenue Fund, at least annually within ninety (90) days following the end of each Fiscal Year, there shall be set aside and credited to the CUS General Purpose Fund, the remaining revenues in the Revenue Fund. Moneys accounted for in the CUS General Purpose Fund, subject to any limitations in the Master Ordinance or in any other contract pertaining to such account, may be withdrawn in any priority for any one, all, or any combination of the following:

(i) Capital Costs. To pay the costs of constructing or otherwise acquiring any betterments of, enlargement of, extensions of, or any other improvements to the System, or any part thereof, and any equipment therefor, authorized by law;

(ii) Major Maintenance Costs. To pay the costs of extraordinary and major repairs, renewals, replacements or maintenance items pertaining to any properties of the System of a type not recurring annually or at shorter intervals and not paid as Maintenance and Operation Expenses;

(iii) Debt Service Requirements. To pay any System Bonds or other System Obligations or securities pertaining to the System and payable from Net Revenues (regardless of whether such securities are secured by a lien thereon), as to Debt Service Requirements and any other appurtenant charge pertaining to such Debt Service Requirements on any Interest Payment Date, or any redemption date or redemption dates, or by purchase in the open market, or by creating an escrow to provide for the payment of or to defease such System Bonds, other System Obligations or securities or otherwise;

(iv) Legal Obligations. To pay any obligations pertaining to the System and arising from a judgment against the City or any officer, employee or other agent of the City acting within the scope of his official duties, rights or privileges, or the scope of his employment, as the case may be, in any suit, action, or special proceeding in equity or at law, in any court of competent jurisdiction, or a settlement by the City of any claim to avoid or to settle such a suit, action or special proceeding, except to the extent revenues are otherwise available to defray such an obligation, including, without limitation, insurance proceeds, or to pay any penalties, fines, settlements or other amounts required to be paid by the City as a result of federal or state administrative proceedings relating to the System;

(v) Assumed and Other Obligations. To pay any bonds or other obligations assumed by the City that were issued or incurred by water districts annexed and dissolved by the City, which bonds or other obligations are by their own terms secured in whole or in part by a pledge of water or sewer revenues that did not terminate upon the annexation and dissolution of such water districts, and other bonds or obligations issued or assumed by the City for Combined Utility System purposes that are payable from ad valorem taxes or sources other than the First Lien Bond Interest and Sinking Fund, the First Lien Bond Reserve Fund, the Second Lien Bond Interest and Sinking Fund or the Second Lien Bond Reserve Fund;

(vi) Lawful System Purposes. For any other lawful purpose of the System as the City may determine; and

(vii) Drainage Purposes. For planning, design, construction, regulation, improvement, repair, maintenance and operation of facilities and programs relating to the storm sewer system or network of storm water management facilities including, but not limited to, inlets, conduits, manholes, channels, ditches, drainage easements, retention and detention basin, infiltration facilities, and other components, including, without limitation, the costs of developing, implementing and enforcing a storm water management program to reduce the discharge of pollutants from the City's storm sewer system and protect water quality, and the costs related to obtaining, renewing or maintaining any required permits related to the operation of the storm sewer system, and also including payment of debt service on bonds, notes or other obligations issued for the purposes listed in this paragraph (vii); provided that the aggregate amount withdrawn from the CUS General Purpose Fund for such purposes in this paragraph (vii) during any Fiscal Year will not exceed 8% of the Gross Revenues of the System for the immediately preceding Fiscal Year.

The Master Ordinance provides that moneys will be withdrawn from the CUS General Purpose Fund for any one, all or other combination of such purposes designated above in the same manner that other claims against the System are presented and paid. See "THE CITY AND THE SYSTEM – Water Facilities" for a description of the contract payments made by the City from the CUS General Purpose Fund for the construction of the Luce Bayou Project. See also "SYSTEM NET REVENUES AVAILABLE FOR DEBT SERVICE — Schedule 2 – Coverage of Maximum Annual Debt Service by Net Revenues" and "SYSTEM DEBT AND CHARGES — Schedule 13 – Indirect Charges Paid by the System and CUS General Purpose Fund Transfers." Amounts in the CUS General Purpose Fund at the beginning of a Fiscal Year that are deposited into the Revenue Fund in that Fiscal Year are Gross Revenues for the Fiscal Year in which such amounts are deposited into the Revenue Fund.

Rate Covenant

The Master Ordinance provides that while any First Lien Bonds, including the Series 2024A Bonds, or any other System Bonds remain Outstanding, the City is required to fix, charge and collect rates and charges for the use and services of the System that are calculated to be fully sufficient to produce Net Revenues in each Fiscal Year at least equal to the greater of:

(i) 120% of the combined Debt Service Requirements scheduled to occur in such Fiscal Year on all Previous Ordinance Bonds and First Lien Bonds then Outstanding, or

(ii) 110% of the combined Debt Service Requirements scheduled to occur in such Fiscal Year on all Previous Ordinance Bonds, First Lien Bonds and Second Lien Bonds then Outstanding,

plus an amount equal to the sum of all deposits required to be made to the First Lien Bond Reserve Fund and to the Second Lien Bond Reserve Fund in such Fiscal Year; provided that, in calculating the Net Revenues required by paragraphs (i) and (ii) above, all or any portion of such Net Revenues that exceed 100% of the combined Debt Service Requirements may be attributed to amounts on deposit in the CUS General Purpose Fund that are available to pay Debt Service Requirements (see "– CUS General Purpose Fund, (iii) Debt Service Requirements"), and provided further that in no event will Net Revenues ever be less than the amount required to establish and maintain the First Lien Bond Interest and Sinking Fund and the First Lien Bond Reserve Fund as provided in the Master Ordinance, to establish and maintain the Second Lien Bond Interest and Sinking Fund and the Second Lien Bond Reserve Fund as provided in the Master Ordinance and, to the extent that funds for such purpose are not otherwise available, to pay all other Outstanding System Obligations payable from the Net Revenues of the System, including all amounts owed as a repayment obligation by the City pursuant to a Reserve Fund Surety Policy or a Credit Agreement, as and when the same become due. The foregoing provision of the Master Ordinance is referred to as the "Rate Covenant." The

Master Ordinance provides that the calculation required by this section will be made annually at the time the City's annual budget for the System is adopted and will be included in the annual budget for the System.

Automatic Annual Rate Adjustments

On April 21, 2010, the City Council approved a one-time increase of 20.1% in water and sewer rates. At the same time, the City also approved automatic annual adjustments to the City's water and sewer rates in place of those adopted in 2005. The ordinance approving the one-time rate increase and the revised automatic annual rate adjustments, adopted on April 21, 2010, is referred to herein as the "Rate Ordinance." See "RATES."

The Rate Ordinance, which remains in place currently, provides for automatic annual rate adjustments based upon the annual percentage increase in the Producer Price Index ("PPI"), but subject to the Proposition 1(2004) limit (which is the sum of the percentage increase in the Consumer Price Index for all Urban Consumers ("CPI-U") plus the annual Houston population percentage increase). Alternatively, if the City demonstrates that a customer segment's cost of service exceeds the PPI, the City may increase that segment's rate using the greater of (i) the annual percentage increase in the PPI or (ii) the sum of the percentage increase to CPI-U and the annual Houston population increase.

See "RATES - Water and Sewer Rate Study" for a discussion of the City engaging a utility rate consultant to review the System's water and sewer rates. See also "THE CITY AND THE SYSTEM – City Charter Tax and Revenue Limitations" for a discussion of Proposition 1 (2004), including the City's authority to raise rates as required by bond covenants and by contract, other propositions and status of related litigation.

RESERVE FUND

First Lien Bonds

The City has determined that the Series 2024A Bonds will <u>not</u> be Reserve Fund Participants which share in the First Lien Bond Reserve Fund; accordingly, amounts in the First Lien Bond Reserve Fund will not be available to pay principal of and interest on the Series 2024A Bonds.

The Master Ordinance provides that the First Lien Bond Reserve Fund is a shared bond reserve fund used to pay all First Lien Bonds that are Reserve Fund Participants; however, the City can elect not to include any series of First Lien Bonds as a Reserve Fund Participant at the time of issuance. To date, the City has elected to include all its Outstanding First Lien Bonds as Reserve Fund Participants in the shared First Lien Bond Reserve Fund, except its Combined Utility System First Lien Revenue Refunding Bonds, Series 2015D, Combined Utility System First Lien Revenue and Refunding Bonds, Series 2016B, Combined Utility System First Lien Revenue Refunding Bonds, Series 2017B, Combined Utility System First Lien Revenue Refunding Bonds, Series 2018C, Combined Utility System First Lien Revenue Refunding Bonds, Series 2018D, Combined Utility System First Lien Revenue Refunding Bonds, Taxable Series 2018E, Combined Utility System First Lien Revenue Refunding Bonds, Series 2019B, Combined Utility System First Lien Revenue Refunding Bonds, Taxable Series 2019C, Combined Utility System First Lien Revenue Refunding Bonds, Series 2020A (Forward Delivery), Combined Utility System First Lien Revenue and Refunding Bonds, Series 2020C, Combined Utility System First Lien Revenue Refunding Bonds, Taxable Series 2020D, Combined Utility System First Lien Revenue Refunding Bonds, Series 2021A and Combined Utility System First Lien Revenue Refunding Bonds, Taxable Series 2021B (collectively, the "Non-Reserve Fund Participants").

In order to satisfy a portion of its Reserve Fund Requirement for certain previously issued First Lien Bonds, the City previously acquired a Reserve Fund Surety Policy (the "Series 2004 Policy") from MBIA Insurance Corporation ("MBIA" or the "Reserve Fund Surety Provider") The Series 2004 Policy currently remains outstanding. See APPENDIX H – Description of Reserve Fund Surety Policy for additional information on the surety bond providers.

The City has satisfied the Bond Reserve Fund Requirement as follows:

Policy	Amount	Year of Termination
Cash and Investments[(1)]	$ 77,555,535.48	n/a
Reserve Fund Policy-National (2004)	143,396,950.25	2034
TOTAL	$220,952,485.73	

(1) Balance as of February 29, 2024.

The policy limit for the Series 2004 Policy is the lesser of $143,396,950.25 or the debt service reserve fund requirement for the System Obligations. The Series 2004 Policy does not define the debt service reserve fund requirement for the System Obligations, but City Ordinance No. 2004-300 authorizing issuance of the Series 2004 Bonds defines the Series 2004 Bond Reserve Fund Requirement as 50% of the Maximum Annual Debt Service Requirements on (i) the Series 2004 Bonds, and (ii) all subsequent issues of First Lien Bonds for which the City elects to fund a shared First Lien Bond Reserve Fund on a parity with the First Lien Bond Reserve Fund funded by the Ordinance, which amount currently is greater than $143,396,950.25. The term of the Series 2004 Policy expires on the earlier of the scheduled maturity of the currently Outstanding Series 2004 Bonds, or the date on which the City has made all payments so required to be made on the System Obligations under the authorizing documents.

In the event the City does not obtain a replacement Reserve Fund Surety Policy or Policies in a sufficient amount by each termination date, the City will be required to provide for any resulting deficiency in the shared First Lien Bond Reserve Fund established for the First Lien Bonds electing to participate therein by making monthly transfers over a 60-month period. See "SECURITY FOR THE SERIES 2024A BONDS – First Lien Bond Reserve Fund."

If amounts in the First Lien Bond Reserve Fund must be transferred to pay amounts coming due on any Outstanding First Lien Bonds, any cash and/or investments must be drawn first and applied pro-rata before drawing on the Reserve Fund Surety Policy. Draws on the Reserve Fund Surety Policy must also be applied pro-rata after applying cash and/or investments. If amounts then on deposit in the First Lien Bond Reserve Fund (including the amount of any Reserve Fund Surety Policy) exceed the Reserve Fund Requirements on the First Lien Bonds, the City may transfer such excess amount to any fund or funds established for the payment of or security for First Lien Bonds, the Second Lien Bonds, or any Third Lien Obligations or Fourth Lien Obligations including any escrow established for the final payment of any such System Obligations preceding an Interest Payment Date (pursuant to Chapter 1207, Texas Government Code, as amended), or to the CUS General Purpose Fund. See APPENDIX D – Excerpts from the Master Ordinance. Money deposited in the First Lien Bond Reserve Fund may, at the option of the City, be deposited in investments permitted by State law and consistent with the City's Investment Policy.

Pursuant to the Master Ordinance, any provider of a Reserve Fund Surety Policy must be rated, at the time of deposit of such Reserve Fund Surety Policy, in the highest rating category by each rating agency rating the related Outstanding System Bonds. Any subsequent downgrade of any such provider will not affect the sufficiency of the Reserve Fund. The Reserve Fund Policy issued by MBIA is now re-insured by National Public Guarantee Corporation ("National"), MBIA's successor. For additional information on the Reserve Fund Surety Provider, including current credit ratings, see www.mbia.com and APPENDIX H – Description of Reserve Fund Surety Policy. The Reserve Fund Surety Provider has not reviewed or approved this Official Statement. No assurance can be given by the System or the City with respect to a Reserve Fund Surety Policy Provider's ability to pay under its Reserve Fund Surety Policy. See also "INVESTMENT CONSIDERATIONS – Reserve Fund Surety Provider."

ADDITIONAL BONDS

Set forth below is a description of the Additional Bonds Test contained in the Master Ordinance and certain provisions relating to the issuance of other System Obligations under the Master Ordinance. Capitalized terms used in this section but not otherwise defined in this section have the meanings assigned to such terms in APPENDIX C – Definitions. For more complete information, see APPENDIX D – Excerpts from the Master Ordinance.

Additional First Lien and Second Lien Obligations

Bonds. In the Master Ordinance, the City reserves the right to issue, for any lawful System purpose, including the refunding of any previously issued First Lien Bonds, Second Lien Bonds, Previous Ordinance Bonds or any other bonds or obligations of the City issued in connection with the System or payable from Net Revenues, or to pay obligations incurred under or pursuant to any Credit Agreement or Qualified Hedge Agreement, one or more series of (i) Additional First Lien Bonds on a parity with the Outstanding First Lien Bonds payable from, and secured by a first lien on, the Net Revenues of the System senior and superior to the lien securing the Second Lien Bonds; and (ii) Additional Second Lien Bonds on a parity with the Outstanding Second Lien Bonds; provided, however, that no Additional First Lien Bonds or Additional Second Lien Bonds may be issued unless:

(a) The First Lien Bond Reserve Fund (and, for the issuance of Additional Second Lien Bonds, the Second Lien Bond Reserve Fund) contains the amount of money then required to be on deposit therein;

(b) For either the preceding Fiscal Year or any consecutive 12-month period out of the 18-month period immediately preceding the month in which the Supplemental Ordinance authorizing such Additional First Lien Bonds or Additional Second Lien Bonds, as the case may be, is adopted (the "Base Period") either:

(i) Net Revenues are certified by the City Controller to have been equal to not less than the greater of (A) 120% of the combined Maximum Annual Debt Service Requirements on all First Lien Bonds and any Previous Ordinance Bonds or (B) 110% of the combined Maximum Annual Debt Service Requirements on all First Lien Bonds, Second Lien Bonds and any Previous Ordinance Bonds, after giving effect to the issuance of the Additional First Lien Bonds or Additional Second Lien Bonds to be issued; or

(ii) Net Revenues, adjusted to give effect to any rate increase, new customers or annexation of territory placed into effect or consummated prior to the adoption of the ordinance authorizing the Additional First Lien Bonds or Additional Second Lien Bonds, as the case may be, to the same extent as if such rate increase, new customers, or annexation had been placed into effect or consummated prior to the commencement of the Base Period, would have been equal to at least the greater of (A) or (B) in paragraph (i) above, as certified by an independent consulting engineer or independent firm of consulting engineers;

provided that (1) all or any portion of the Net Revenues required by clauses (i) and (ii) of paragraph (b) above that exceed 100% of the Maximum Annual Debt Service Requirements may be attributed to amounts on deposit in the CUS General Purpose Fund that are available to pay Debt Service Requirements pursuant to the Master Ordinance; (2) the provisions of this paragraph (b) will not apply to the issuance of any series of Additional Second Lien Bonds for the purpose of refunding Outstanding First Lien Bonds, or to the issuance of any series of Additional First Lien Bonds or Additional Second Lien Bonds for refunding purposes, that will not have the result of increasing the Average Annual Debt Service Requirements on the First Lien Bonds or the Second Lien Bonds; and (3) the provisions of this paragraph (b) will not apply to the issuance of Additional First Lien Bonds for the purpose of refunding Short Term Obligations issued as First Lien Bonds or the issuance of Additional Second Lien Bonds for the purpose of refunding Short Term Obligations issued as First Lien Bonds or Second Lien Bonds; and

(c) Provision is made in the Supplemental Ordinance authorizing the Additional First Lien Bonds or Additional Second Lien Bonds then proposed to be issued for (i) additional payments into the First Lien Bond Interest and Sinking Fund or Second Lien Bond Interest and Sinking Fund, as the case may be, sufficient to provide for the payment of the increased principal of and interest on the First Lien Bonds or Second Lien Bonds resulting from the issuance of such Additional First Lien Bonds or Additional Second Lien Bonds, and (ii) additional payments into the First Lien Bond Reserve Fund (if such Additional First Lien Bonds are Reserve Fund Participants) or Second Lien Bond Reserve Fund, as the case may be, sufficient to provide for the accumulation therein of the increased Reserve Fund Requirements, if any, resulting from the issuance of such Additional First Lien Bonds or Additional Second Lien Bonds, by not later than sixty (60) months from the date of issuance of such Additional First Lien Bonds or Additional Second Lien Bonds.

Credit Agreements. The Master Ordinance provides that the City may enter into Credit Agreements with respect to any System Bonds or Qualified Hedge Agreements if:

(i) prior to entering into such Credit Agreement, the City, to the extent required by law, will cause the proceedings authorizing the Credit Agreement and any contracts or reimbursement agreements relating thereto to be submitted to and approved by the Attorney General of Texas; and

(ii) for any Credit Agreement that obligates the City to make any future payments for the availability of such Credit Agreement, the City's financial advisor must certify in a written certificate delivered to the City that the inclusion of such payments within the Debt Service Requirements on the System Bonds or Qualified Hedge Agreement to which the Credit Agreement relates will not cause such System Bonds or Qualified Hedge Agreement to fail to comply with the applicable coverage requirements for their issuance or incurrence.

The issuer of any Credit Agreement is entitled to be subrogated to the rights of the Owners of the System Bonds or the counterparty to the Qualified Hedge Agreement secured by such Credit Agreement, and the City's reimbursement and repayment obligations to the issuer of the Credit Agreement will be secured by Net Revenues as provided in the Master Ordinance.

<u>Qualified Hedge Agreements</u>. The Master Ordinance provides that the City may enter into Qualified Hedge Agreements in connection with any System Bonds for any purpose authorized by law if the following requirements are satisfied:

(i) the proceedings authorizing the Qualified Hedge Agreement and any contracts or reimbursement agreements relating thereto will, to the extent required by law, be submitted to and approved by the Attorney General of Texas; and

(ii) the City's financial advisor will certify in a written certificate delivered to the City that the System Bonds to which the Qualified Hedge Agreement relates could have been issued in satisfaction of all of the coverage requirements of Article Six of the Master Ordinance if the Debt Service Requirements with respect to such System Bonds are recalculated (as provided in the definition of Debt Service Requirements) to take into account the Qualified Hedge Agreement.

The Master Ordinance defines the term "Maximum Annual Debt Service Requirements" to mean the greatest combined Debt Service Requirements (taking into account all mandatory principal redemption requirements) scheduled to occur in any particular future Fiscal Year or in the then current Fiscal Year for the particular System Obligations (First Lien Bonds, Second Lien Bonds, Previous Ordinance Bonds or any combination of the foregoing) for which such calculation is made. See "QUALIFIED HEDGE AGREEMENTS" for a description of the Master Ordinance requirements and existing Qualified Hedge Agreements.

Short Term Obligations

In the Master Ordinance, the City reserves the right to issue, from time to time, one or more series of Additional First Lien Bonds and/or Additional Second Lien Bonds as Short Term Obligations in accordance with the provisions described in "ADDITIONAL BONDS – Additional First Lien and Second Lien Obligations."

Third Lien Obligations and Fourth Lien Obligations

In the Master Ordinance, the City also reserves the right to issue, for any lawful purpose, Third Lien Obligations secured in whole or in part by liens on Net Revenues that are junior and subordinate to the liens on Net Revenues securing payment of the First Lien Bonds and the Second Lien Bonds. The City also reserves the right to issue Fourth Lien Obligations secured in whole or in part by liens on Net Revenues that are junior and subordinate to the liens on Net Revenues securing payment of First Lien Bonds, Second Lien Bonds, and Third Lien Obligations.

The City previously authorized a $700 million Series B Commercial Paper Note program (the "Series B Commercial Paper Program"), and on May 10, 2023, increased the size of the Series B Commercial Paper Program to $1 billion. The Series B Commercial Paper Program provides for the issuance of Commercial Paper Notes as Third Lien Obligations. A portion of the Series B Commercial Paper Program, in the amount of $475 million is secured by credit facilities. In addition, the City has established a $275 million Series B-2 Extendable Commercial Paper Note program and a $250 million Series B-5 Extendable Commercial Paper Note program that provides for the issuance of extendable commercial paper notes as Third Lien Obligations under the Series B Commercial Paper Program. See "SYSTEM DEBT AND CHARGES — Commercial Paper Program."

Supplemental Ordinance

The Master Ordinance provides that System Bonds will be issued pursuant to a Supplemental Ordinance stating the purpose of the issuance, directing the application of proceeds and containing the terms of the issuance, including the date, principal amount, maturities, designation, interest rates, redemption privileges and other provisions. The Master Ordinance provides that Third Lien Obligations, Fourth Lien Obligations, Qualified Hedge Agreements and Credit Agreements will be issued pursuant to Supplemental Ordinances or pursuant to separate ordinances that provide for the timing of transfers of funds from the Revenue Fund to the debt service funds and reserve funds, if any, established for such System Obligations consistent with the order of priority set forth in the Master Ordinance.

Special Project Obligations

The City also reserves the right in the Master Ordinance to issue other obligations secured by liens on and pledges of revenues and proceeds derived from Special Projects. The Master Ordinance defines "Special Projects" to mean, to the extent permitted by law, any utility system property, improvement or facility declared by the City not to be part of the System, for which the costs of acquisition, construction and installation are paid from proceeds of a financing transaction other than the issuance of bonds payable from ad valorem taxes or revenues of the System and for which all maintenance and operation expenses are payable from sources other than ad valorem taxes or revenues of the System, but only to the extent that and for so long as all or any part of the revenues or proceeds of which are or will be pledged to secure the payment or repayment of such costs of acquisition, construction and installation under such financing transaction.

CERTAIN COVENANTS AND TERMS OF THE MASTER ORDINANCE

The following section describes certain covenants and other terms of the Master Ordinance. Capitalized terms used in this section but not otherwise defined have the meanings given to such terms in APPENDIX C – Definitions. For additional information, see APPENDIX D – Excerpts from the Master Ordinance. See also the sections captioned "SECURITY FOR THE SERIES 2024A BONDS" and "ADDITIONAL BONDS."

Restrictions on Free Service

The City has covenanted in the Master Ordinance not to grant or permit any free service from the System, except for public buildings and institutions operated by the City and properties permitted to be exempt by state law. Additionally, the City will not grant or permit any free service from the System that would violate any condition or covenant to which the City is bound in connection with any federal grant agreement or otherwise.

Bondholder Rights and Remedies

The Master Ordinance is a contract between the City and the Owners of the System Bonds from time to time Outstanding, including the Series 2024A Bonds. The Master Ordinance remains irrepealable until the System Bonds and the interest thereon are fully paid, discharged or provision therefor is made as provided in the Master Ordinance. In the event of a default in the payment of the principal of or interest on any System Bonds or a default in the performance of any duty or covenant provided by law or in the Master Ordinance, the Owners of System Bonds may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further defaults. Any Owner of System Bonds may at law or in equity, by suit, action, mandamus or other proceedings, enforce and compel performance of all duties required to be performed by the City under the Master Ordinance, including the making and collection of reasonable and sufficient rates and charges for the use of the System and the deposit and application of revenues in the manner required in the Master Ordinance. A Supplemental Ordinance may provide that, so long as an issuer of a municipal bond insurance policy has not defaulted in its payment obligations under such policy with the City insuring a portion of the System Bonds, that issuer, under the terms of the Master Ordinance, will at all times be deemed to be the exclusive owner of such System Bonds for the purpose of all approvals, consents, waivers or institution of any action and the direction of all remedies.

Defeasance

The City may defease the provisions of the Master Ordinance and discharge its obligation to the Owners of System Bonds or other System Obligations to pay principal, interest and redemption premium, if any, thereof, in any manner permitted by law, including by depositing with the Paying Agent/Registrar, or if authorized by Texas law with any national or state bank having trust powers and having combined capital and surplus of at least $50 million or with the Comptroller of Public Accounts of the State of Texas (or any successor office) either: (a) cash in an amount equal to the principal amount and redemption premium, if any, of such System Bonds or other System Obligations 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 the debt service fund), any of the following: (1) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States; (2) 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 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; (3) 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 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 (4) 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 System Bonds.

Such deposits may be invested only in obligations described above that are in principal amounts and maturities and bear interest at rates sufficient to provide for the timely payment of the principal amount and redemption premium, if any, of such System Bonds or other System Obligations plus interest thereon to the date of maturity or redemption. Upon such deposit and upon receipt of an opinion of nationally recognized bond counsel to the effect that such System Bonds or System Obligations are deemed to be fully paid and are no longer Outstanding, such System Bonds or other System Obligations will no longer be regarded to be Outstanding or unpaid; provided, however, the City shall remain obligated for all payments with respect to the Series 2024A Bonds, including the contribution of additional money or securities if necessary to provide sufficient amounts to satisfy the payment obligations. Any surplus amounts not required to accomplish such defeasance will be returned to the System after the System Obligations are retired. Payments of principal of and interest on any System Bonds or other System Obligations made by a provider of a Credit Agreement insuring a portion of the System Bonds or other System Obligations will not be deemed to have been paid under the Master Ordinance, and such System Bonds or other System Obligations will continue to be Outstanding until paid by the City.

Amendments to Ordinance

The Master Ordinance provides that the City may, with the consent of Owners holding a majority in aggregate principal amount of the System Bonds then Outstanding and affected thereby, amend, add to or rescind any of the provisions of the Master Ordinance; provided that, without the consent of all Owners of Outstanding System Bonds, no such amendment, addition or rescission will (1) extend the time or times of payment of the principal of, premium, if any, and interest on the System Bonds, or reduce the principal amount thereof, the redemption price therefor, or the rate of interest thereon, (2) give any preference to any System Bond over any other System Bond, or (3) reduce the aggregate principal amount of System Bonds required to be held by Owners for consent to any such amendment, addition, or rescission. The Master Ordinance provides that for the purposes of this amendment provision, the Owners of the System Bonds will include the initial Owners, regardless of whether such System Bonds are being held for subsequent resale. See APPENDIX D – EXCERPTS FROM THE MASTER ORDINANCE – Section 7.14 for a discussion of amendments to the Master Ordinance without the consent of Owners.

QUALIFIED HEDGE AGREEMENTS

Master Ordinance Requirements

The Master Ordinance permits the City to enter into Qualified Hedge Agreements such as interest rate swap agreements, currency swap agreements, forward payment conversion agreements and futures contracts, among others. A Qualified Hedge Agreement may only be entered into with an institution that has a long term credit rating, or the obligations of which are unconditionally guaranteed by a financial institution with a long term credit rating, in one of the two highest generic rating categories by at least one rating agency then rating the System Bonds. Each Qualified Hedge Agreement will be either (i) payable from and secured by a pledge of Net Revenues of the System on the same priority as the System Bonds of the series to which it relates, except that any obligation of the City to deliver collateral or make termination payments that are not payable in installments over the remaining life of the relevant transaction will be payable from and secured by a pledge of Net Revenues on a parity with Third Lien Obligations or (ii) an obligation inferior and subordinate to Third Lien Obligations. However, the Master Ordinance provides that issuers of and counterparties to Qualified Hedge Agreements will not be treated as Owners of System Bonds for purposes of any voting rights to approve amendments under the Master Ordinance. See "THE CITY AND THE SYSTEM – Interest Rate Swap Policy."

Qualified Hedge Agreements for Series 2004B Bonds and Series 2012A & 2012B Bonds

In an effort to mitigate and hedge interest rate exposure, the City has previously entered into three separate Qualified Hedge Agreements (the "Series 2004B/2012A&B Qualified Hedge Agreements") with three different counterparties (each a "Series 2004B/2012A&B Counterparty"): Goldman Sachs Bank USA (with a guaranty by The Goldman Sachs Group, Inc.), JPMorgan Chase and Wells Fargo Securities. The Series 2004B/2012A&B Qualified Hedge Agreements have an aggregate notional amount of $653,325,000 and substantially convert the adjustable rates on the $428,325,000 City of Houston Combined Utility System First Lien Revenue Refunding Bonds, Series 2004B (the "Series 2004B Bonds") and the $225,000,000 City of Houston Combined Utility System First Lien Revenue Refunding Bonds, Series 2012A and Series 2012B (the "Series 2012A&B Bonds") to a net fixed rate liability. The Series 2004B Bonds, Series 2012A Bonds and Series 2012B Bonds are currently Outstanding in a weekly mode.

Qualified Hedge Agreement for Series 2018C Bonds

In an effort to mitigate and hedge interest rate exposure, the City previously entered into a Qualified Hedge Agreement with Wells Fargo Bank, N.A. (the "Series 2018C Counterparty") with a notional amount of $249,075,000 (the "Series 2018C Qualified Hedge Agreement"). The Series 2018C Qualified Hedge Agreement substantially converts the adjustable rate on the City's Combined Utility System First Lien Revenue Refunding Bonds, Series 2018C (the "Series 2018C Bonds") to a net fixed rate liability. The Series 2018C Bonds are currently outstanding in a weekly mode.

General Provisions of the Qualified Hedge Agreements

The City and the respective Series 2004B/2012A&B or Series 2018C Counterparty each may terminate a Series 2004B/2012A&B or Series 2018C Qualified Hedge Agreement if the other party (or, in some cases, its credit support provider or specified affiliate) commits an event of default (including under other specified transactions and indebtedness) or certain acts of insolvency, or may not legally perform its obligations under the agreement, or the counterparty's (or its credit support provider's) long-term ratings are downgraded below "A3" or "A-" (in the case of the Series 2004B/2012A&B or Series 2018C Counterparty) or "Baa2" or "BBB" (in the case of the System) by the rating agencies that rate such party. The City has no obligation to pledge collateral under any of these Qualified Hedge Agreements unless the respective counterparty has the right to terminate and the System's credit ratings are downgraded below "Baa2" or "BBB."

The counterparties have the right to terminate their respective Series 2004B/2012A&B or Series 2018C Qualified Hedge Agreement if the long term debt ratings of the System fall below specified ratings (based on the ratings of the City or the respective swap insurer), or the respective insurer fails to meet its payment obligations under either of the Qualified Hedge Agreements, or an insurer event coupled with another termination event or an event of default has occurred and, among other possible remedies, the City fails to deliver a letter establishing the long term rating of the System Obligations as "Baa2," "BBB," or the equivalent or better. The respective insurer generally must consent to the exercise of and, under certain circumstances, may exercise the parties' termination rights. If either party terminates a Series 2004B/2012A&B or Series 2018C Qualified Hedge Agreement, the terminating party generally must pay to or be paid by the defaulting or affected party the mean or median average of amounts quoted by leading dealers to be paid to or by the terminating party to enter into an economically equivalent agreement with it, regardless of which party was the defaulting or affected party. Under Texas law, any City obligation to make a termination payment may be financed by the issuance of additional System Bonds.

The City's obligations to make net payments under Series 2004B/2012A&B or Series 2018C Qualified Hedge Agreements are payable from and secured by a pledge of Net Revenues of the System on a parity with First Lien Bonds, except that the pledge securing the City's obligations to deliver collateral, if any, and make termination payments are subordinate to the First Lien Bonds and on a parity basis with Third Lien Obligations. Any amounts received by the City under a Series 2004B/2012A&B or Series 2018C Qualified Hedge Agreement will be revenues of the System. The City could be subject to additional payments under the Series 2004B/2012A&B Qualified Hedge Agreements or the Series 2018C Qualified Hedge Agreement if there is a shortfall in its gross receivables compared to its tax-exempt variable rate interest obligations on the applicable Series 2004B Bonds, Series 2012A&B Bonds or the Series 2018C Bonds. Any substantial shortfall could result in the need to increase rates and charges. If the City is required to make substantial termination payments or to deliver substantial amounts of collateral, the liquidity of the System could be adversely affected, depending on market conditions. To date, the City has not been required to deliver any amount of collateral. The City may also enter into other interest rate hedging transactions payable from System revenues in the future, with comparable risks.

For additional information, including the estimated market valuation of the termination payment due upon termination of the Series 2004B/2012A&B Qualified Hedge Agreement and Series 2018C Qualified Hedge Agreement, as of December 31, 2023, assuming a termination were to occur, see the Quarterly Swap Report for the period ending December 31, 2023, of the City of Houston, Texas Office of the City Controller, at http://www.houstontx.gov/controller/treasury/swap.html, under the heading "Quarterly Swap Reports."

SYSTEM NET REVENUES AVAILABLE FOR DEBT SERVICE

Net Revenues of the System and Debt Service Coverage

The following schedule sets forth the Net Revenues of the System for Fiscal Years ended June 30, 2021, 2022 and 2023, and the extent to which such Net Revenues covered debt service on Junior Lien Bonds under the Previous Ordinance, First Lien Bonds under the Master Ordinance and other System debt then Outstanding. The debt service amounts and coverage ratios set out in this schedule do not include Subordinate Lien Obligations or Third Lien Obligations issued as Commercial Paper Notes under the Master Ordinance (see "SYSTEM DEBT AND CHARGES – Commercial Paper Program"). The amounts shown for Fiscal Year 2021, Fiscal Year 2022 and Fiscal Year 2023 are taken from the Annual Comprehensive Financial Report of the City of Houston, Texas, for each respective Fiscal Year. As provided in the Master Ordinance, in addition to Net Revenues, funds available in the CUS General Purpose Fund may be used for any lawful System purpose, including transfers to any interest and sinking fund or reserve fund. See "SYSTEM NET REVENUES AVAILABLE FOR DEBT SERVICE – Schedule 2 – Coverage of Maximum Annual Debt Service by Net Revenues."

For a discussion of the effects of possible conditions or events on Net Revenues of the System, see "INVESTMENT CONSIDERATIONS."

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Schedule 1 – Net Revenues of the System and Debt Service Coverage

	Fiscal Year (June 30)		
	2023 (in thousands)	2022 (in thousands)	2021 (in thousands)
OPERATING REVENUES			
Sales of water, net	$802,915	$698,263	$584,594
Sewer system user charges, net	713,004	607,343	510,832
Penalties, other services and charges	(11,937)	1,907	(2,680)
Total Operating Revenues	$1,503,982	$1,307,513	$1,092,746
NON-OPERATING REVENUES			
Investment Earnings under Previous Ordinance	$28,285	$8,935	$14,479
Investment Earnings under Master Ordinance	6,541	3,757	5,967
Contributions from Water Authorities	54,339	-	-
Other non-operating revenues	23,478	37,568	9,070
Total non-operating revenues	$112,643	$50,260	$29,516
TOTAL GROSS REVENUES:	$1,616,625	$1,357,773	$1,122,262
EXPENSES			
Total Contract Revenue Bond Payments[(1)]	$6,356	$6,376	$6,398
Maintenance and Operating Expenses	578,839	503,696	499,533
Total Expenses	$585,195	$510,072	$505,931
RESTRICTED RECEIPTS UNDER MASTER ORDINANCE	$50,697	$48,942	$32,398
NET REVENUES UNDER MASTER ORDINANCE	$1,082,127	$896,643	$648,729
BOND DEBT SERVICE:			
Previously Issued Bonds	$17,345	$15,480	$22,405
First Lien Bonds	511,023	489,715	468,467
Total Debt Service	$528,368	$505,195	$490,872
BOND DEBT SERVICE COVERAGE:			
Junior Lien Bond Coverage under Previous Ordinance[(2)]	59.09x	54.52x	27.24x
First Lien Bond Coverage under Master Ordinance[(3)]	2.08x	1.80x	1.34x
TOTAL COVERAGE [(4)]	2.05x	1.77x	1.32x

(1) See "REQUIRED PAYMENTS UNDER PREVIOUS ORDINANCE."

(2) Coverage of Debt Service on Previous Ordinance Bonds by Net Revenues as calculated under Previous Ordinance, which does not include as revenues Investment Earnings under the Master Ordinance and Restricted Receipts.

(3) Coverage of Debt Service on First Lien Bonds by Net Revenues (as defined in the Master Ordinance), less debt service on Junior Lien Bonds under Previous Ordinance.

(4) Coverage of Total Debt Service on Previous Ordinance Bonds and First Lien Bonds under Master Ordinance by Net Revenues.

Schedule 2 – Coverage of Maximum Annual Debt Service by Net Revenues

The following calculations show coverage of Maximum Annual Debt Service on the Previous Ordinance and First Lien Bonds determined as of February 29, 2024, without taking into consideration the issuance of the Series 2024A Bonds.

Maximum Annual Debt Service Requirements on Previous Ordinance Bonds (2029)[(1)]	$ 44,095,000
Maximum Annual Debt Service Requirements on First Lien Bonds (2030)[(1)(2)]	523,168,180
Combined Maximum Annual Principal and Interest Requirements on Previous Ordinance Bonds and First Lien Bonds (2030)[(1) (2)]	523,168,180
Net Revenues under Previous Ordinance for Fiscal Year ended June 30, 2023[(3)]	1,031,430,320
Net Revenues under Master Ordinance for Fiscal Year ended June 30, 2023[(4)]	1,082,127,044
Funds available from CUS General Purpose Fund at June 30, 2023	1,105,615,300
Total Funds available for Debt Service Coverage	$4,309,604,024
Coverage of Maximum Annual Debt Service Requirements on Previous Ordinance Bonds	23.39
Coverage of Maximum Annual Debt Service Requirements on First Lien Bonds	4.18x
Coverage of Combined Maximum Annual Debt Service Requirements[(5)]	4.18x

(1) Does not include debt service on Previously Issued Contract Revenue Bonds, which are payable from Gross Revenues as a Maintenance and Operating Expense of the System.

(2) Debt service for the hedged Series 2004B Bonds, Series 2012A and Series 2012B Bonds is calculated at the fixed rate of the associated swap, which is 3.7784%; and debt service for the hedged Series 2018C Bonds is calculated at the fixed rate of the associated swap, which is 3.761%.

(3) Excludes Investment Earnings under Master Ordinance and Restricted Receipts under Master Ordinance.

(4) Net Revenues as calculated under the Master Ordinance, which includes as revenues Restricted Receipts and earnings under the Master Ordinance.

(5) Coverage under the Master Ordinance for combined maximum annual debt service on Previous Ordinance Bonds and First Lien Bonds, calculated in accordance with the above assumptions.

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THE CITY AND THE SYSTEM

General

The Combined Utility System established under the Master Ordinance currently consists of the City's groundwater and surface water sources, conveyance, treatment, distribution and wastewater facilities (the "Water Facilities") and wastewater collection and treatment facilities (the "Sewer Facilities"). The Water Facilities and Sewer Facilities are sometimes collectively referred to as the "Water and Sewer Facilities." The Combined Utility System may include other utility systems as provided in Chapter 1502, Texas Government Code, as amended, which the City may, from time to time, elect to combine with the Combined Utility System so long as the revenues of such other utility systems are included in Gross Revenues under the Master Ordinance.

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 four-year terms. The present term of office for all elected officials expires at various times. The City Charter limits the terms of office for all elected City officials to two, four-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, primarily establishes the City Council agenda and appoints the heads of the various departments of the City, subject to confirmation by the City Council. On November 7, 2023, voters approved Proposition A to amend the City Charter to allow three or more council members to, by written request, have an item placed on the weekly City Council agenda for the full City Council to consider. The Mayor is also 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.

Cybersecurity Initiatives of the City

Over the past five years, the City has taken several steps to enhance and protect information systems and information of the City. To help protect the City against claims and expenses due to a cybersecurity incident, the City is self-insured.

In 2013 and 2014, the City implemented Executive Order (EO) 1-44 and Executive Order I-48 (the "Executive Orders") respectively, authorizing the Chief Information Officer (CIO) to manage citywide IT risk and develop a city-wide information security program. The CIO designated a Chief Information Security Officer (CISO) responsible for carrying out the CIO's information security responsibilities. Specific objectives of the Executive Orders include: (i) protecting all City information and information systems in a manner that is commensurate with the security classification level, sensitivity, value, and critical nature of information; (ii) protecting information from unauthorized access, disclosure, destruction, disruption, or modification while the information is being collected, processed, transmitted, stored, or disseminated; (iii) managing all information technology that is acquired, developed, or used in support of City programs, projects, and department requirements by use of a process that covers the complete system lifecycle; (iv) managing all information systems in a cost-effective manner, guided by the application of sound risk management processes that ensure an appropriate level of integrity, confidentiality, and availability of information in each phase of the system lifecycle; (v) conducting periodic audits of all City information systems that process, store, or transmit City data; (vi) investigating information security incidents for incident management, forensic investigations, and reports; and (vii) ensuring all basic information security policy requirements, audits, and forensic investigations are implemented across all City departments.

Among other initiatives, the CISO is in the process of implementing a comprehensive, multi-year cybersecurity master plan. The plan is designed to identify, protect, detect, respond and recover from cyber events and incidents from nation state actors, organized criminals, hacktivist groups and insider threats. The City recently completed year four of the master plan and several initiatives have been completed.

City Charter Tax and Revenue Propositions

General. The City may limit, increase or change the revenue resources available during a given Fiscal Year, either by voter authorization as provided by the City Charter or by amending the City Charter itself. The City Charter may not be amended more frequently than once every two years. Voters of the City have imposed limits on increases in ad valorem tax revenues and other revenues in Proposition 1 (codified in Article III, Sec. 1 and Article IX, Sec. 20 of the City Charter) and Proposition 2 (codified in Article VI a, Sec. 7 of the City Charter but not effective). Voters also have increased available revenue sources in Proposition G (codified in Article IX, Sec. 21 of the City Charter) and Proposition H, which did not amend the City Charter. Notwithstanding any limitations on revenue described below, 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 or other revenues.

Proposition 1 and Proposition 2 (2004). In 2004, voters approved Proposition 1 (Article III, Sec. 1 and Article IX, Sec. 20, City Charter) 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 (City Charter Article VI-a, Sec. 7), 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, the number of votes for each proposition, and the language of the City Charter, the City declared that Proposition 2 was not effective.

Proposition 2 Litigation. Supporters of Proposition 2 filed a lawsuit to declare Proposition 2 effective. After protracted litigation, on August 26, 2011, the Texas Supreme Court vacated the judgment of the trial court (for lack of ripeness) without reference to the merits and dismissed the case for want of jurisdiction. In April 2014, the suit was refiled. The court granted the City Defendant's Motion for Summary Judgment on September 16, 2019 and denied plaintiffs' Motion for Summary Judgment. On October 4, 2019, the trial court held a bench trial on the remaining issues. On October 29, 2019, the trial court held for the City Defendants, ordering that the plaintiffs take nothing. The parties cross appealed and on October 12, 2021, the court of appeals issued a 2-1 decision affirming the trial court's ruling. The remaining plaintiff filed a petition for review in the Texas Supreme Court. On April 21, 2023, the Texas Supreme Court reversed the judgment of the court of appeals, in part, and affirmed the trial court's judgment ruling that the City has complied with Proposition 1. On September 1, 2023, the Texas Supreme Court denied the City's motion for rehearing and thus, the case will return to the trial court on remand. The case has been set for trial on April 22, 2024.

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 amended 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. Propositions G and H are incorporated into the City's Financial Policies (as defined below), and the City has collected revenues and made expenditures for public safety purposes in compliance with Proposition H.

Impact of Proposition 1 and Proposition H on Future Fiscal Years. In Fiscal Year 2015, the City reduced its tax rate to address Proposition 1 and Proposition H limitations; however, the City did not budget above this cap and, therefore, did not have to reduce its revenues from budget. The City is expecting Proposition 1 and Proposition H to impact future budgets and, as a result, all five-year forecasts are now relying on projections of CPI plus population growth to project ad valorem revenue growth.

Drainage Utility Fee and Pay-As-You-Go Fund Assessments and Litigation

In 2011, City Council passed an ordinance that imposed an assessment upon benefitted properties that receive drainage services (the "Drainage Utility Fee") to assist with the provision, maintenance and improvement of the City's drainage and street drainage systems. Certain properties are exempt from the Drainage Utility Fee, including State government agency facilities, public and private institutions of higher education, and churches existing at the time of passage. Exempted properties comprise approximately 2.55% of the drainage service area.

The Drainage Utility Fee is deposited into a segregated drainage account in the "Dedicated Pay-As-You-Go Fund for Drainage and Streets" (the "Pay-As-You-Go Fund"), which also includes ad valorem tax revenue, certain grants, and a developer impact fee. All funding in the Pay-As-You-Go Fund that is not derived from ad valorem taxes is excluded from the revenue limitations in the City Charter.

Jones v. Turner. On October 21, 2019, taxpayers filed suit in state district court alleging miscalculation by the City of required ad valorem tax contributions to Pay-As-You-Go-Fund resulting in alleged underpayments into the fund. The plaintiffs seek declaratory relief, an injunction, mandamus relief, attorneys' fees, and any other relief to which they may be entitled. The trial court denied the City's plea to the jurisdiction in December 2019, and the Fourteenth Texas Court of Appeals reversed in the City's favor and rendered a decision dismissing Jones' claims. The Texas Supreme Court reversed the Court of Appeals decision and remanded the case to the trial court for further proceedings. On remand, the trial court granted Turner's motion for summary judgment and held that the City had not violated its City Charter in calculating the Dedicated Drainage and Street Renewal Fund allocation. As a result, Jones appealed the judgement. The case is fully briefed and oral argument occurred on March 20, 2024.

Drainage Utility Fee Litigation. In 2012, the owners of three apartment complexes filed a lawsuit against the City and the Director of Houston Public Works in their official capacity, challenging the validity of the Drainage Utility Fee and alleging ultra vires actions by the Director. The City filed a plea to the jurisdiction seeking dismissal of the suit. The City's plea was granted in part and denied in part. The apartment complexes' remaining ultra vires claims, declaratory judgment claims, and constitutional challenges to the ordinance remain pending in the district court. The apartment complexes appealed, the court of appeals affirmed the trial court's decision and the Supreme Court denied review. The case was abated pending the resolution of another case challenging the drainage fee ordinance.

A small business filed a lawsuit contending that the City and Mayor Sylvester Turner and the Director of Houston Public Works in their official capacities have illegally assessed, collected and spent hundreds of millions of dollars for drainage and street repairs from Houston taxpayers and landowners for the past seven years, pursuant to a void Charter Amendment and/or a void City Ordinance. The case was abated pending the resolution of a similar case challenging the drainage fee ordinance.

An additional lawsuit was filed against the City seeking a declaratory judgment that the Drainage Utility Fee was illegal and asking that the City reimburse residents who have paid the fee in prior years. The lawsuit seeks to certify such residents as a class. The trial court dismissed the case; the plaintiff has appealed and the dismissal of the case was affirmed on appeal. The Texas Supreme Court granted review, received briefing and heard oral argument. On June 10, 2022, the Texas Supreme Court confirmed the City's ability to charge the Drainage Utility Fee and remanded the case to the trial court to allow repleading on any remaining claims. No additional claims have been asserted.

The revenues the City derives from the Drainage Utility Fee are considered neither Gross Revenues nor Net Revenues, and are not pledged to repay the Series 2024A Bonds. However, the City cannot reasonably predict the impact of the Texas Supreme Court's decisions or other pending litigation on the future of the System's funding of the City's drainage programs' annual operating and maintenance expenses. See "SYSTEM DEBT AND CHARGES — Schedule 13 – Indirect Charges Paid by the System and CUS General Purpose Fund Transfers."

Administration of the System

The System is operated by Houston Public Works. The management of the Department is under the supervision of the following persons:

Carol Haddock, Director – Houston Public Works, was appointed as the Director of the Department on January 9, 2018 after serving as Acting Director since July 2017. The Director of Houston Public Works oversees the Department's services to the City's citizens through the planning, operation, maintenance, construction management and technical engineering of the City's public infrastructure. The Department's responsibilities include operation and maintenance of the City's streets and drainage, production and distribution of water, collection and treatment of wastewater, and permitting and regulation of public and private construction. The Department is staffed with a trained workforce of over 3,700 employees and operates with an annual budget of over $2 billion. Carol Haddock has an extensive background managing capital engineering projects and programs and is the co-author of the City's Capital Improvement Plan Process Manual for Infrastructure Programs, which sets guidelines, criteria and a transparent process to identify and prioritize infrastructure needs throughout the city. Carol has worked for the City of Houston for thirteen years. Prior to joining the Department, Carol was a Project Manager for the Harris County Flood Control District, a Congressional Fellow in Washington, DC, and a Project Manager with Klotz Associates, Inc., a Houston consulting firm. Carol is a licensed Professional Engineer, graduated with a Bachelor of Science in Civil Engineering from Rice University and has a Master's degree in Public Administration from the University of Houston.

Greg Eyerly, Director – Houston Public Works, assumed leadership as Director of Houston Water in November 2023 after serving as the Wastewater Senior Assistant Director for one year. As Deputy Director, Mr. Eyerly is responsible for the operations and maintenance of the City's regional water and wastewater utility systems. He manages a staff of over 2,000 with a five year capital plan of $4.8 billion, along with an annual operations and maintenance budget of $650 million. The City's public water and wastewater system is one of the largest utilities within the United States. The Drinking Water Operations branch is responsible for three surface water purification plants, 55 groundwater pumping stations, over 7,600 miles of pipes, 62,000 fire hydrants and 171,000 valves. The Wastewater Operations branch is responsible for 39 waste treatment plants, over 377 lift stations, 133,000 manholes and 6,100 miles of gravity and force mains. Mr. Eyerly graduated from Portland State University with an undergraduate degree in Chemistry and has a Master's degree in Business from Washington State University. Mr. Eyerly has over 30 years of industry related water and wastewater experience, and has led teams through multiple emergencies, including tornadoes and floods. Those 30 years are evenly divided between the public and private sector.

Samir Solanki, Chief Financial Officer – Houston Public Works, joined the Department in June 2017 and is responsible for the management, monitoring and control of the Department's finances and accounting. Mr. Solanki has over 15 years of public and private sector experience in accounting, finance and management. Prior to joining the Department, Mr. Solanki was a Senior Manager with Ernst & Young, LLP's Financial Accounting Advisory Services group. During his tenure at Ernst & Young, he managed and led projects such as: financial statement preparation, SEC reporting, new accounting/GAAP implementation, policy and procedures, forecasting and analysis, mergers & acquisitions, bankruptcies, and various other projects. Prior to joining Ernst & Young, Mr. Solanki worked at KBR and AIG in various accounting and reporting roles, and was successful in streamlining and automating processes. Mr. Solanki holds a Bachelor's degree in Accounting from the University of Houston-Downtown and a Master of Business Administration from Houston Christian University (formerly Houston Baptist University). He is also a Certified Public Accountant in the state of Texas.

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Schedule 3 – Employees

The number of System full time-equivalent employees at the end of each of the last five Fiscal Years (2019-2023) are as follows:

Fiscal Year	Employees[(1)]
2019	2,245
2020	2,239
2021	2,289
2022	2,245
2023	2,257

(1) As reported in the Statistical Section of the City of Houston Annual Comprehensive Financial Report for the respective year.

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 on issues related to wages, hours of employment, and other terms and conditions of employment. 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 a negative effect on the City's pension liabilities. See also "- Employee Health Benefits – *Health Benefits for Retired Employees.*"

Pursuant to the provisions of Chapter 146, 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, directors, or classified employees. On August 4, 2021, City Council enacted an ordinance approving a new "meet and confer" agreement between HOPE and the City (the "2021 HOPE Agreement"). Pursuant to the 2021 HOPE Agreement an "across-the-board" three percent pay increase occurred on October 1, 2022, July 1, 2022 and on July 1, 2023. The 2021 HOPE Agreement will expire June 30, 2025 if no successor agreement is reached.

Employee 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, vision and life insurance programs.

Health Insurance Plans. Effective May 1, 2019, the City awarded CIGNA a five-year contract, with two (2) one-year renewal options for three (3) health plans. The health benefits model is composed of three (3) plans, all of which have heavy emphasis on a wellness component, and includes: (i) a limited network HMO-type plan, (ii) an open access PPO-type plan with no out-of-network coverage, and (iii) a consumer driven high deductible Health Plan (CDHP), partnered with a health reimbursement account.

The City self-insured effective May 1, 2011. The City initially purchased stop loss insurance; however, effective May 1, 2013, the City no longer purchases individual and aggregate stop-loss coverage. Therefore, the City assumes the financial risk of catastrophic and overall claim liability. Pursuant to the City's Financial Policies adopted in December 2014, and amended from time to time, see "-City Financial Policies" below and https://houstontx.gov/finance/COH_Financial_Policies_0221.pdf the Health Benefits contingency reserve fund maintains a minimum of 10% of annual claims up to a maximum of 60 days of average claims expense paid over the prior fiscal year for each self-insured program. According to the Fiscal Year 2024 Budget, the estimated ending fund balance for the Health Benefits Fund is approximately $25.5 million, with an additional $15 million in reserve for catastrophic claims.

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 a dental DPPO (formerly indemnity) plan. Basic life insurance coverage is paid by the City and Voluntary Life Insurance coverage is paid by the subscribers. Basic life insurance coverage is one times the annual base salary of the employee, which is 100% employer funded. Basic life insurance coverage premiums for retirees are paid by retiree contributions. Active employee participants may purchase additional life insurance coverage at their own expense. A Healthcare Flexible Spending Account, in addition to the Dependent Care Reimbursement Account, is also in the Health Benefits Fund. Effective May 1, 2018, the City awarded Superior Vision a three-year contract with two (2) one-year renewal options to provide vision services. The plan year is May through April 2024. The vision plan is provided to City employees, certain retirees and their dependents and is funded exclusively by participants.

Health 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.

Effective January 1, 2021, the City provides three (3) Medicare plans with two (2) 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 two insurance providers. Effective January 1, 2021, the City awarded a three-year contract with two (2) one-year renewal options to Aetna (Premier ESA PPO and Basic PPO Plans) and Kelsey (HMO Plan). These Medicare Advantage Plans provide retirees with alternative managed healthcare plans. The Medicare Advantage Plans are to be fully insured products and offer retirees the choice of several different plans. The City requires all Medicare-eligible retirees to enroll in a Medicare Advantage Plan.

Funding of Other Postemployment Benefits. The City currently pays Other Postemployment Benefits ("OPEB") on an annual pay-as-you-go basis, which are accounted for as a current operating expense in the City's financial statements in the Fiscal Year in which the benefit is paid. See the table captioned "Statement of Revenues, Expenditures and Changes in Fund Balances in Governmental Funds" in the City's Financial Statements for Fiscal Year 2023 presented in Appendix A. 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. The City has for the first time included in the Fiscal Year 2024 budget a City contribution of $10 million to establish an OPEB trust.

To comply with the Government Accounting Standards Board Statement No. 45 ("GASB 45"), *Accounting by Employers for Other Postemployment Benefits*, the City reports an actuarially determined cost of OPEBs, other than pensions, such as health and life insurance for current and future retirees. Under GASB 45, the City recognizes such cost over the working lifetime of employees to the extent they were not pre-funded, and reported such cost as a financial statement liability. In June 2015, the Government Accounting Standards Board issued Statement 74, "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans", and Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". Under these statements, state and local government entities that provide OPEBs are required to report the cost of these benefits on their financial statements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017 (Fiscal Year end 2018 for the City). Beginning with Fiscal Year 2018, the City is required by GASB 75 to recognize its full OPEB liability on its balance sheet. The financial impact of implementing GASB 75 in Fiscal Year 2018 was an increase in OPEB liability and a decrease in total net position. The decrease in net position is primarily due to the increase in unfunded OPEB liability from previous year. Together with other changes, the City's total net position decreased from $1.86 billion to $792 million in the fiscal year ended June 30, 2019. The City's total net position was $5.88 billion and is $7.60 billion as reported in the City's Annual Comprehensive Financial Report for Fiscal Year ended June 30, 2022 and Fiscal Year ended June 30, 2023 respectively.

The City's most recent actuarial study indicated that, as of June 30, 2023, the City's net OPEB liability is $1.76 billion, the reported Actuarial Determined Contribution (ADC) is $157 million, calculated using a discount rate of 3.54%. The City expects the actuarial report for July 1, 2023 to be completed and received in Fiscal Year 2025.

The City's costs for retiree claim payments and health insurance premiums from the System were approximately $4.4 million in Fiscal Year 2023 and approximately $2.5 million as of December 31, 2023. Including non-system fund sources, payments were approximately $59.5 million at Fiscal Year end 2023 and approximately $33.8 million as of December 31, 2023.

Options available to an issuer such as the City to offset or reduce the future OPEB liability that will be reported under GASB 75 include the following:

- Reduction of benefits for new hires, active employees and/or retirees;
- Increase of required contributions from new hires, 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 – Other Employee Benefits, of the City's Financial Statements for Fiscal Year 2023 presented in APPENDIX A, which includes information relating to retiree health care premiums paid by the City in Fiscal Year 2023, as well as information relating to health and long-term disability benefits.

Budget for the System

Each year, under the provisions of Texas law and the City Charter, the Mayor prepares and submits to City Council a City Budget, which includes a budget for the System. City Council may amend the proposed budget prior to its approval and adoption. If a budget is not adopted prior to the beginning of a Fiscal Year, City Council is authorized by the City Charter to adopt a continuing appropriations ordinance in order to fund the operations of City government until City Council has approved and adopted a budget for the Fiscal Year. City Council approved the proposed budget for Fiscal Year 2024 on June 7, 2023. See "SECURITY FOR THE SERIES 2024A BONDS – Automatic Annual Rate Adjustments" and "RATES."

Schedule 4 – System Budget

The following is a summary of the adopted System budgets for Fiscal Year 2024 and Fiscal Year 2023.

RESOURCES	Fiscal Year 2024 (in thousands)	Fiscal Year 2023 (in thousands)
Beginning Fund Balance, July 1[1]	$1,161,536	$1,109,763
Current Revenues	1,835,607	1,502,617
TOTAL RESOURCES	$2,997,143	$2,612,380
EXPENDITURES		
Maintenance and Operation	$743,003	$613,972
CWA, TRA and Luce Debt Service[2]	13,288	12,449
Debt Service – Bonds	609,067	583,602
General Purpose Fund[3]	415,002	403,452
TOTAL EXPENDITURES	$1,780,359	$1,613,475
Planned Ending Fund Balance	1,216,784	998,905
TOTAL EXPENDITURES & RESERVES	$2,997,143	$2,612,380

(1) As reported in the City's Fiscal Year 2023 Adopted Operating Budget and in the City's Fiscal Year 2024 Adopted Operating Budget, respectively.
(2) See "REQUIRED PAYMENTS UNDER PREVIOUS ORDINANCE".
(3) Includes equipment replacement, transfer to capital project and transfers for stormwater.

City Financial Policies

The City operates under financial policies (the "Financial Policies") that have been adopted by City Council. Under the Financial Policies, the Mayor is required to review the Financial Policies at least once every two years. The Financial Policies were initially approved in 2003 and have been amended and updated from time to time to include, among other things, provisions regarding pay-as-you-go funding, the issuance of debt and the disclosure of financial information pursuant to state and federal securities laws. The City implemented the policies related to disclosure of financial information in 2016 and most recently amended such policies on August 30, 2023.

Under the heading of Operating Budget Policies – Revenues and Expenditures, the Financial Policies state that the City will adopt a budget annually in which current revenues and other sources will be sufficient to support current expenditures. All retirement and employee benefit systems will be financed in a manner to fully and systematically fund liabilities (with the City making all necessary payments in compliance with contractual obligations and statutory requirements and in a manner that results in full amortization of liabilities over a closed 30-year period). *See the sections captioned "THE CITY AND THE SYSTEM—Employee Health Benefits" through and including "EMPLOYEE PENSION FUNDS— Firefighter Fund" and Schedules 15, 15A, 15B and 15C for more detailed information relating to the funding of the City's OPEB and pension benefit systems.*

Each Enterprise Fund maintains revenues that support the full (direct and indirect) cost of the service provided. A review of all fees and rates will be conducted at least every five years, except for impact fees, which shall be reviewed at least every ten years, to determine the extent to which the full cost of associated services are being recovered by revenues. Fees may be adjusted in the interim period by ordinance, however, based on analysis whenever there have been significant changes in the method, level or cost of service delivery. The General Fund unassigned fund balance shall be maintained to provide for temporary financing of unforeseen needs of an emergency, disaster, and economic instability. The Financial Policies also provide that the level of the General Fund unassigned fund balance will be a minimum of 7.5% of General Fund expenditures less debt service and transfers for pay-as-you-go capital expenditures. To the extent that the General Fund unassigned fund balance exceeds 7.5% of total expenditures less debt service and transfers for pay-as-you-go capital expenditures, the excess funds are available for appropriation by City Council for non-recurring expenditures.

Under the heading "Special Revenue Fund Reserve Policy", the Financial Policies state that the proposed and adopted operating budget each year must include the budgets of all special revenue funds that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Each special revenue fund is required to have an appropriate methodology for determining minimum and maximum cash reserves. The Financial Policies also state that any fiscal year-end fund balance that exceeds the established maximum cash reserve of the special revenue fund may be transferred to the General Fund, subject to City Council approval. Under the heading of Debt Management Policies, the Financial Policies provide that any capital project financed through the issuance of bonds shall be financed for a period not to exceed the average expected life of the assets. Average (weighted) general obligation bond maturities shall be kept at or below 12 years. The Financial Policies also provide 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 until Fiscal Year 2019. Beginning in Fiscal Year 2019, and in each subsequent fiscal year, the maximum annual contribution to the Debt Service Fund from the General Fund is to be reduced by 0.5% annually until it reaches 12% of General Fund revenues (excluding state and federal grants), at which point the maximum is to be held constant at 12%.

The City's Financial Policies require that an annual audit be performed by an independent public accounting firm in accordance with generally accepted accounting principles. The June 30, 2023 City Controller's audited Annual Comprehensive 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.

Additionally, the Financial Policies require the Finance Department to annually prepare a five-year General Fund forecast that includes identification of requirements for achieving a "structural balanced budget" in the upcoming fiscal year and the subsequent fiscal year, including a list of options for eliminating any funding shortfalls preventing achievement of a structural balanced budget. If a structural balanced budget were adopted by the City Council, it is anticipated that the level of expenditure reductions would be materially and significantly higher than currently anticipated.

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 "Investment Policy"). The City does not invest in inverse floaters, or interest-only or principal-only mortgage-backed securities. The Investment Policy provides, among other things, that (1) the Investment Manager (as defined in the Investment Policy) shall submit quarterly investment reports to City Council and (2) the Investment Policy shall be reviewed annually by City Council. On November 29, 2023, the City Council approved and readopted the Investment Policy. The Investment Policy aims to further protect City assets by identifying investment objectives, addressing the issues of investment risks versus rewards, and providing the framework for the establishment of controls, limitations and responsibilities of City employees in the performance of their fiduciary responsibilities.

Fitch Ratings, Inc. has assigned a "AAA" credit quality rating to the City's General Investment Portfolio. The rating reflects the view of Fitch Ratings, Inc., from whom an explanation of the significance of such ratings may be obtained.

Interest Rate Swap Policy

The City follows a master swap policy, as amended from time to time (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 in connection with the issuance or payment of certain debt obligations, before, concurrently with, or after the actual issuance of the debt.

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 the 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 tracks and regularly reports on the financial implications of its Swaps. A quarterly report will be prepared for the City Council, which includes: (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 performs such monitoring and reporting as is required by the rating agencies or for compliance with GASB requirements.

Water Facilities

General. The Water Facilities provide treated and untreated water in a service area that includes the City and certain municipalities and unincorporated communities in the Houston metropolitan area. Some of the City's largest wholesale customers are other cities and water authorities that supply water to their own customers. See "SOURCES OF SYSTEM REVENUES — Schedule 6 — Ten Largest Treated Water Customers" and "— Schedule 7 — Ten

Largest Untreated Water Customers." The System has acquired sources of surface water at Lake Houston and Lake Conroe in the San Jacinto River System and Lake Livingston, Wallisville Saltwater barrier and senior water rights in the Trinity River System which, when aggregated with present and anticipated supplies, are expected to be sufficient to meet the anticipated demands of the Water Facilities' customers through the year 2040. The System has acquired significant surface water rights in the Trinity River, San Jacinto River, and Brazos River basins. Developed surface water rights, when aggregated with present and anticipated supplies, should be sufficient to meet anticipated customer demands through 2040. If the System were to develop all remaining surface water rights, it could meet anticipated customer demands well beyond that date. System surface water is transported into the Houston metropolitan area by the West Canal (San Jacinto System) and the CWA Conveyance System (Trinity River System) and is either treated and introduced into the System's treated water distribution system or sold as raw water. Except for amounts consumed by the City, all groundwater (after chlorination) and a portion of surface water (after treatment and disinfection) is distributed throughout the Houston metropolitan area for sale to domestic, commercial, industrial and agricultural customers.

The Water Facilities consist of treated and untreated water distribution and transmission lines, surface water treatment plants and pump stations, groundwater wells and pump facilities and ground and elevated storage tanks. The Water Facilities are operated in compliance with requirements of Texas law related to public water supply systems.

Water Supply Contracts. Under a 1968 agreement (as amended and superseded in part) and a 1995 agreement (as supplemented from time to time), CWA agreed to construct the CWA conveyance system and certain other projects, and the City agreed to pay, as a Maintenance and Operation expense of the Combined Utility System, amounts calculated to be sufficient to cover Maintenance and Operation expenses of the CWA conveyance system, plus debt service on the bonds issued by CWA that benefit the City. CWA has reserved the right to issue an unlimited amount of additional bonds on a parity with those currently outstanding; however, such issuances are subject to the approval of the City. See "REQUIRED PAYMENTS UNDER PREVIOUS ORDINANCE."

In addition, CWA and the City have entered into a contract for an interbasin surface water transfer project near Luce Bayou, and CWA has issued $57.295 million in contract revenue bonds (of which $38.745 million remain outstanding) from the Texas Water Development Board ("TWDB") and has received $304.574 million from TWDB through board participations, mostly funded through the State Water Implementation Revenue Fund of Texas (SWIRFT). The City and regional water authorities have contributed capital to fund the project's design and right of way acquisition. Approximately 55% of project costs will be paid by the Central Harris County Regional Water Authority, North Harris County Regional Water Authority, West Harris County Regional Water Authority, and North Fort Bend Regional Water Authority. The remaining costs will be paid by the City and the City's contribution to such project will come from the CUS General Purpose Fund. No additional borrowing is expected to be required for construction of the project. See "SYSTEM CAPITAL IMPROVEMENT PLAN – CUS General Purpose Fund."

For information relating to certain surface water conversion measures being undertaken by the City and other local entities to comply with subsidence district requirements, see "RESPONSE TO SUBSIDENCE DISTRICT REGULATION."

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Schedule 5 – Water Supply – Permits, Capacity, Production and Sales

Schedule 5A— Water Rights Permits

As reported in the City of Houston Annual Comprehensive Financial Report as of June 30, 2023, the City has received the following water rights permits:

	Rights in MGD
Surface Water	
Trinity River Basin	914
Water Reuse	259
San Jacinto River Basin	258
Bayous	116
Brazos River Basin	91
TOTAL SURFACE WATER RIGHTS	1,638
Ground Water	146[(1)]
TOTAL WATER AVAILABLE	1,784

(1) Pursuant to rules of the Harris-Galveston Subsidence District. See "RESPONSE TO SUBSIDENCE DISTRICT REGULATION."

Schedule 5B — Water Capacity, Production and Sales

The following schedule sets forth information concerning the Water Facilities' capacity, production and sales for Fiscal Year 2023 (million gallons per day):

Million Gallons Per Day (mgd)

	Untreated Water Capacity	Treated Water Capacity	Average Daily Production	Sales
Ground	153	71	71	NA
Surface	540	401	405	N/A
TOTAL	693	472	476	N/A
Treated				416
Untreated				227
TOTAL				643

Source: As reported in the Statistical Section of the City of Houston Annual Comprehensive Financial Report as of June 30, 2023.

Condition of the Water Facilities. Many of the Water Facilities have been constructed or reconstructed during the last 30 years. The cost of repairs and expenditures for renewal, refurbishing and replacement of such Water Facilities increases as they wear out or become obsolete. Total System production capacity is currently adequate to meet projected near-term peak demands. See "SYSTEM CAPITAL IMPROVEMENT PLAN — Capital Improvement Plan."

Water Quality. Treated water provided by the Water Facilities is subject to extensive federal and State laws and regulations. The City currently meets or surpasses all federal and State established water quality standards, and its water system has been designated as a "Superior Water System" by the State of Texas. The 1996 amendments to the federal Safe Drinking Water Act redirected the approach of the Environmental Protection Agency (the "EPA") to regulation, and have resulted in the EPA's adoption of a series of rules relating to disinfectants/disinfection byproducts in drinking water and certain specific contaminants posing health risks, such as arsenic and lead, with which the City must comply.

In addition, pursuant to the 1996 amendments of the federal Safe Drinking Water Act, all community water systems are required to prepare and mail to each system customer a report, known as a "Consumer Confidence Report," that provides information about the system's source water and the level of contaminants in the drinking water supplied to the customer. The City is required to develop and mail these Consumer Confidence Reports to customers on an annual basis and has been doing so for several years. To date, the costs incurred by the City in connection with obtaining drinking water data and preparing and distributing the reports have not been significant.

Sewer Facilities

General. The Sewer Facilities receive and process wastewater generated in a service area that includes the City and certain municipalities and unincorporated communities in the Houston metropolitan area. The Sewer Facilities consist of sanitary sewer lines, permitted wastewater treatment plants, sludge treatment facilities, lift stations and a centralized laboratory. The general condition of the collection lines of the Sewer Facilities varies depending on age, location and type of construction. The average daily wastewater flow through the Sewer Facilities for Fiscal Year 2023 was 242 mgd. The effective treatment capacity of the Sewer Facilities, as reflected by State permits, was 587 mgd as of June 30, 2023.

In general, the City addresses growth in demand for sewer services by evaluating the Sewer Facilities' ability to transport and treat the additional wastewater expected upon completion of any proposed new construction before granting a building permit for construction. Through this program, prospective users are granted or denied building permits on the basis of the Sewer Facilities' capacity to handle such additional demands.

In addition to addressing growth in demand for sewer services in the City, the Sewer Facilities' Capital Improvement Plan now includes the regional coordination of sewer facilities to be provided by utility districts in those unincorporated areas that are within the extraterritorial jurisdiction of the City and potentially subject to future annexations. See "ANNEXATION PROGRAM AND "IN-CITY" DISTRICTS." To implement this policy of regionalization, the City conditions its consent to the formation of utility districts upon such district's conformance with the City's overall System development plans. In those instances where an existing or proposed utility district is in close proximity to an existing or proposed Sewer Facilities treatment plant, the City encourages the utility district to contract with the City for wholesale treatment services under an arrangement where the utility district contributes to the capital cost of the treatment facility, as determined on a System-wide basis. See "RATES —Ratemaking" and "— Schedule 9—Rate Adjustments." Through this approach, the City intends to (i) discourage further development of incompatible or inadequate facilities that must be modified or abandoned when the utility district is annexed and (ii) gain participation by certain districts in Sewer Facilities costs.

Federal and State Regulation of the Sewer Facilities. The operations of the Sewer Facilities are subject to regulation under the federal Clean Water Act and the Texas Water Code. All discharges of pollutants into the nation's navigable waters must comply with the Clean Water Act. The Clean Water Act allows municipal wastewater treatment plants to discharge treated effluent to the extent allowed in permits issued by the EPA pursuant to the National Pollutant Discharge Elimination System ("NPDES") program, a national program established by the Clean Water Act for issuing, monitoring and enforcing wastewater discharge permits. In 1998, the EPA delegated the NPDES program to the State of Texas, resulting in the establishment of the Texas Pollutant Discharge Permit Elimination System ("TPDES") program in lieu of the NPDES program.

TPDES permits set limits on the type and quantity of discharge, in accordance with State and federal laws and regulations. The Clean Water Act requires municipal wastewater treatment plants to meet secondary treatment effluent limitations (as defined in EPA regulations). The Clean Water Act also requires that municipal wastewater treatment plants meet any effluent limitations established by State or federal laws or regulations which are more stringent than secondary treatment. Under the Clean Water Act, states must identify any body of water for which more stringent effluent standards are needed to achieve national water quality standards. For each body of water, the State is required to establish the maximum allowable daily load of certain pollutants identified by the EPA. The Texas Commission on Environmental Quality ("TCEQ") has been conducting evaluations of water quality of the streams and other waterbodies into which the City discharges wastewater, and TCEQ has established maximum allowable daily loads for certain pollutants in streams and waterbodies that do not meet applicable water quality standards. In certain instances, the City is required to perform additional treatment of wastewater in order to comply with the load limit established by TCEQ. The Clean Water Act allows municipalities to apply for extensions of applicable deadlines for additional treatment in certain circumstances.

Potential Penalties for the System's Violations. The failure by the City to achieve compliance with the Clean Water Act could result in either a private plaintiff or the EPA instituting a civil action for injunctive relief and civil penalties of up to $59,947 per day per violation. In addition, the EPA has the power to issue administrative orders, and impose administrative penalties (of up to $25,000 per day per violation), to compel compliance with its regulations and the applicable permits. The EPA can also bring criminal actions seeking to impose fines of up to $25,000 per day per violation for negligent violations and up to $50,000 per day per violation for knowing violations of permit conditions or discharge without a permit. Violations of permits or administrative orders may result in the inability of a municipality to obtain federal assistance pursuant to the Clean Water Act in financing its capital improvements.

Under State law, civil penalties for violation of State wastewater discharge permits or orders are a maximum of $25,000 per day per violation. The Executive Director of the TCEQ also has authority to levy administrative penalties of up to $10,000 per day per violation for noncompliance with the rules, orders or permits issued by the TCEQ. Such administrative penalties are subject to judicial review. An injunctive order resulting from a civil action could require the imposition of additional user or service charges or the issuance of additional bonds to finance the improvements required to ameliorate a condition that may have caused the violation of a TCEQ permit. The City has been the subject of such administrative penalties in the past. In addition to administrative and civil penalties, TCEQ may also impose criminal penalties for violations of State wastewater discharge permits or orders. Any of the enforcement options listed in this paragraph could result in the imposition of additional user or service charges or the issuance of additional bonds to finance the corrective action necessary to resolve the condition leading to the violation.

Consent Decree Status.

The City entered into a consent decree executed with the United States of America on behalf of the EPA and the State to settle claims arising under the Clean Water Act relating to the City's Wastewater Collection and Treatment System (the "Consent Decree"). The Consent Decree became effective on April 1, 2021 when it was entered by the United States District Court for the Southern District of Texas, Houston Division, in the matter entitled United States of America, et al. v. City of Houston, Texas; Civil Action No. 4:18-cv-03368.

The Consent Decree contains specific remedial measures to address sanitary sewer overflows ("SSOs") and wastewater treatment plant permit exceedances that are being implemented over the 15-year term of the Consent Decree. A copy of the Consent Decree is available on the City's website at https://www.publicworks.houstontx.gov/ that sets forth details regarding the City's obligations and progress reports to date.

Per the provisions of the Consent Decree, the City paid $4.4 million in penalties to the State and EPA, and $200,000 in attorneys fees to the State to resolve all civil claims of the federal government and the State against the City for alleged wastewater violations since 2005. The Consent Decree also provides for the imposition of stipulated penalties to be paid to the United States and State over the term of the Consent Decree for SSOs, effluent exceedances, and failure to timely complete/submit deliverables and/or implement compliance requirements. As of March 1, 2024, the City has been assessed and has paid $1,442,600.00 in stipulated penalties to the United States and the State for SSOs and effluent exceedances; the City has not been assessed any stipulated penalties to-date for failing to timely complete/submit deliverables and/or implement compliance requirements.

While the total amount of the investment to be made in the wastewater system will not be known until the System completes the assessment work to identify the condition and remedial measures needed, the scope of work identified in the Consent Decree is estimated to be $9 billion over its 15-year term. The wastewater system's normally budgeted expenditures are estimated to be $4 billion over these 15 years, therefore the Consent Decree represents an estimated $5 billion increase in expenditures over its 15 year-term. The City also plans to undertake a future water and wastewater study to take into account this additional investment in wastewater infrastructure in evaluating impacts on future wastewater rates. Other than the costs identified above that would be paid for resolution of all civil claims of the federal government and the State against the City for alleged wastewater violations since 2005, the City cannot predict the final financial impact on current and future long-term operations, annual maintenance and/or capital improvements costs that may be required, which could be substantial. Until the City conducts and completes its next rate study, the City will manage the System through capital investments, maintenance and assessment activities. These activities include enhanced sewer cleaning, restaurant inspections, system inspections and investigations, SSO response, and public outreach and education.

RESPONSE TO SUBSIDENCE DISTRICT REGULATION

Subsidence Districts - Overview

Harris-Galveston Subsidence District

The Harris-Galveston Subsidence District ("HGSD") is a special purpose district created by the Texas Legislature in 1975. HGSD was created to provide for the regulation of groundwater withdrawal throughout Harris and Galveston counties for the purpose of preventing land subsidence, which leads to increased flooding.

HGSD's Regulatory Plan was last updated on January 9, 2013 and amended on May 8, 2013 (the "Regulatory Plan"). The purpose of the Regulatory Plan is to establish policy in the areas of groundwater regulation, permits and enforcement and to establish Regulatory Areas 1, 2, and 3 and groundwater withdrawal limits for each. The Regulatory Plan was developed with an overall goal to reduce groundwater withdrawal to a level that no longer contributes to further subsidence within HGSD. Under the Regulatory Plan, the groundwater withdraw limit for Area 1 comprise no more than 10% of the permittee's annual water needs; for Area 2 no more than 20% of the permittee's annual water needs; and for Area 3 no more than 70% of the permittee's annual water current needs, no more than 40% of the permittee's annual water needs by 2025, and no more than 20% of the permittee's annual water needs by 2035. The Regulatory Plan is reviewed and may be amended as needed. The City's Groundwater Reduction Plan ("GRP") allows well permit holders to enter into contractual agreements ("GRP Participants") to facilitate groundwater permitting and surface water conversion compliance as a group. As the program manager, the City permits GRP Participants wells and pumpage under the City's permit. Compliance is calculated by using the total amount of groundwater under the permit and the total City treated surface water produced. When these amounts are added together, current regulations require that 30% be from surface water. Additionally, the City plans for the expansion of available surface water facilities for itself and its GRP Participants identified for conversion to surface water. The City is in compliance with the HGSD Regulatory Plan.

Fort Bend Subsidence District

The Fort Bend Subsidence District ("FBSD") was created by the Texas Legislature in 1989 as a conservation and reclamation district. FBSD's purpose is to provide for the regulation of the withdrawal of groundwater within the FBSD to prevent subsidence that contributes to flooding, inundation or overflow of areas within the FBSD, including rising waters resulting from storms or hurricanes. The FBSD's boundaries are defined as all the territory within Fort Bend County. The City has 2 groundwater wells permitted by FBSD. The City, FBSD and HGSD have a reciprocal agreement that allows these wells that are within the boundaries of the City to be exempt from FBSD's Regulatory Plan groundwater reduction requirements and from the FBSD disincentive fee as long as compliance is maintained within the City's HGSD certified GRP.

Lone Star Groundwater Conservation District

The Lone Star Groundwater Conservation District ("LSGCD") was created by the Texas Legislature in 2001 for the purpose of preserving, conserving, and protecting Montgomery County's groundwater supplies. LSGCD adopted a reduction plan limiting groundwater usage in Montgomery County by all permit holders pumping more than 10 million gallons of groundwater per year ("Large Volume Groundwater Users"). The LSGCD Board approved the City to pump a maximum of 501 million gallons per year. The City is in compliance with LSGCD's groundwater reduction plan requirements.

City Response to Subsidence District Regulation

The long-term objective of the City is to change the Houston area's water supply sources from predominantly groundwater to predominantly surface water. In addition to the cost of constructing additional surface water facilities, the City anticipates that the cost of operating such facilities will be greater than that of groundwater facilities. Accordingly, as the System utilizes more surface water, the operating costs of the System will increase. The increased costs reflect the additional costs of electrical power for the System's water treatment plants and chemicals used for treatment. In addition to these costs, the operating costs of the System may also increase as the result of more stringent treatment requirements for drinking water and water supply systems imposed by federal and State regulatory authorities. For further information related to federal standard for arsenic content in drinking water, see "THE CITY AND THE SYSTEM—Water Facilities— Water Quality".

Subsidence district regulations that require conversion to surface water can be costly to industries, municipalities and other groundwater well operators because the process of converting from a groundwater supply to a surface water supply can result in substantial capital expenditures. Additionally, the per unit cost of supplying surface water is substantially higher due to the cost of treatment. As the major holder of surface water rights in the area, the City has been cooperating with industries, municipalities and others to provide surface water through several different financial arrangements. In this regard, the City has entered into capital cost sharing agreements with certain other cities, water authorities, water districts and a federal government joint venture. The City has also entered into or is in the process of negotiating various water supply contracts to provide treated surface water to municipalities, water authorities and water districts in the region. As part of this effort, the City has made various improvements to its water purification plants in order to add additional surface water capacity to the region.

The City is currently undertaking two large projects to increase its production and distribution of surface water and comply with HGSD requirements. The Luce Bayou Interbasin Transfer Project ("LBITP") will transfer water from the Trinity River Basin to the San Jacinto River Basin to facilitate the conversion to surface water. In connection with the LBITP, the City has expanded the City's Northeast Water Purification Plant ("NEWPP") from an 80 mgd facility to a 400 mgd facility. Both projects are funded by the City and its regional water partners, who will benefit from this increased capacity.

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. Since 1999, the City has completed nine full purpose annexations.

However, due to amendments to Chapter 43 passed by the Texas Legislature, there are significant additional procedures and requirements governing annexation. Generally, in order to annex property for full purposes the City is required to (i) obtain a petition signed by more than 50% of the registered voters in an area with a population under 200, and if the registered voters do not own more than 50% of the land in those areas, also signed by more than 50% of the owners of land in the area, or (ii) hold an election in an area with a population of at least 200, and if the registered voters do not own more than 50% of the land in the area, obtain a petition signed by more than 50% of the owners of land in the area. But see "ANNEXATION PROGRAM AND 'IN-CITY' DISTRICTS – Annexation Program – Limited Purpose Annexations and Strategic Partnership Agreements" below.

Limited Purpose Annexations and Strategic Partnership Agreements. Strategic partnership agreements may provide for limited-purpose annexations 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 City elections for members of the governing body or for amendments to the City 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 ("SPAs") 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 fully developed or some other event occurs. Since January 2001, the City has approved 387 SPAs with 243 municipal utility districts totaling approximately $894 million in revenue to the City (as of February 2024), $37 million of which was from Fiscal Year 2024. The revenue from SPAs now represents 8.26% of sales tax collections for the City.

The City does not assume the bonds and other obligations 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 district's obligations 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 (located approximately 30 miles northeast of the City) 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 $1/16^{th}$ of 1% 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 and The Woodlands Township 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 29 water districts within its corporate limits, all of which have been created. Of the 29 water districts authorized by the City, 26 are active in-city municipal utility districts, 2 are inactive in-city municipal utility district, and 3 have been disannexed and then re-annexed for limited purposes pursuant to a strategic partnership agreement.

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 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.

SOURCES OF SYSTEM REVENUES

General

As of June 30, 2023, the Water Facilities and the Sewer Facilities served approximately 496,945 and 470,877 active service connections, respectively. During Fiscal Year 2023, approximately 48.66% of System Gross Revenues were derived from the sale of water, of which 90.50% were from treated water and 9.50% from untreated water; approximately 43.22% from providing wastewater treatment services, 1.39% from interest income and the remaining 6.73% from various other sources. Of the treated water sales, 93.27% of revenues were from retail customers and 6.73% from bulk sales to other governmental entities.

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Water and Sewer Facilities

Schedule 6 – Ten Largest Treated Water Customers

The following schedule presents information concerning the ten largest treated water customers of the System for the twelve-month period ended June 30, 2023. The total charges to such customers during such period represent approximately 3.80% of the System Gross Revenues and 7.81% of total water sales revenues for such period.

	Customers	Gross Charges
1	North Harris Co. Regional Water Authority	$13,718,755
2	North Channel Water Authority	10,563,562
3	West Harris Co. Regional Water Authority	6,667,163
4	City of Pasadena	6,582,812
5	North Fort Bend County Water Authority	5,978,393
6	Gulf Coast Water Authority (Galveston)	5,354,654
7	Anheuser Busch, Inc.	3,873,550
8	Clear Lake City	3,396,367
9	City of Bellaire	3,368,729
10	Memorial Villages Water Authority	3,191,210
	TOTAL	$62,695,195

Schedule 7 – Ten Largest Untreated Water Customers

The following schedule presents information concerning the ten largest untreated water customers of the System for a twelve-month period ended June 30, 2023. The total of the contract payments by these ten customers during such period represents approximately 3.04% of the System Gross Revenues and 6.24% of total water sales revenues for such period.

	Customers	Gross Charges
1.	Equistar Chemicals LP CH11	$9,828,146
2.	Deer Park Refining Partnership LP	6,135,281
3.	Air Liquide America Corp.	5,366,551
4.	Chevron Phillips Chemical Co.	5,057,509
5.	Battleground Water Company	4,983,430
6.	Houston Refining, LP	4,755,563
7.	Hoescht Celanese	2,959,630
8.	Occidental Chemical	2,856,201
9.	TPC Group	2,699,411
10.	Deer Park Energy Center	2,621,358
	TOTAL	$47,263,080

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Schedule 8 – Ten Largest Sewer Customers

The following schedule presents information concerning the ten largest customers of the Sewer Facilities for the twelve-month period ended June 30, 2023. The total charges to such customers represent approximately 2.01% of the System Gross Revenues and 4.67% of Sewer Facilities' gross charges during such period.

	Customers	Gross Charges
1.	Anheuser Busch	$7,316,994
2.	City of Houston	6,224,753
3.	Houston ISD	5,801,005
4.	Harris County	4,145,608
5.	University of Houston	3,521,650
6.	Memorial Hermann Hospital	2,588,863
7.	Rice University	1,839,059
8.	MD Anderson	1,119,935
9.	Houston Baptist Church	406,049
10.	Methodist Hospital	366,373
	TOTAL	$33,330,289

RATES

Ratemaking

City Council has the authority to establish and increase rates for services provided by the System, subject to certain contractual limitations and subject to the limited regulatory jurisdiction discussed below. In setting water and sewer rates, the City is bound by the legal requirements that such rates must be reasonable, equal and uniform and that no free service may be allowed, except at the discretion of City Council for certain public buildings and facilities. In the event that any such free service would violate the terms of a governmental grant, then the City may not permit any free service. By law, the City must charge and collect rates sufficient to pay all operating, maintenance, depreciation, replacement, betterment and interest charges of the System and to maintain a debt service interest and sinking fund sufficient to pay any bonds or notes issued to purchase, construct or improve the System or any outstanding indebtedness of the System. See "SECURITY FOR THE SERIES 2024A BONDS—Rate Covenant." In setting rates, City Council considers, among other things, the current federal guidelines regarding user charges and certain charges imposed on federal construction grant recipients under the Clean Water Act.

The Master Ordinance provides for automatic annual rate adjustments for the Combined Utility System. See "SECURITY FOR THE SERIES 2024A BONDS — Automatic Annual Rate Adjustments." See "THE CITY AND THE SYSTEM—City Charter Tax and Revenue Limitations" for a discussion of the limitations on increases in water and sewer rates as well as the City's authority to raise rates required by certain bond covenants and by contract, included in the Proposition 1 amendment to the City Charter approved by voters in November 2004.

In addition to the Master Ordinance and the Previous Ordinance authorizing the issuance of the Previous Ordinance Bonds, which requires an annual review of System rates and annual adjustment of rates to assure that revenues are sufficient to provide for debt service on such bonds, City Council has adopted a resolution requiring a similar annual review and adjustment of rates in connection with the payment of Maintenance and Operation expenses of the System, payment of debt service on the System, annexed utility district bonds and payment of certain contract tax obligations related to the construction of water supply and distribution and wastewater collection and treatment facilities. The resolution is a declaration of City policy, but specifically states that it may be amended by City Council at any time and will not be deemed to be an enforceable obligation of the City. See "SYSTEM DEBT AND CHARGES — Discretionary Debt Service."

The magnitude and frequency of rate increases will depend upon factors such as the rate at which operating expenses increase in the future, the interest rate on System Obligations and other revenue bonds sold to meet the System's future capital requirements, the extent to which System Obligations are used to meet those capital requirements, and the volume of water sold and future changes in environmental requirements. See "SECURITY FOR THE SERIES 2024A BONDS—Automatic Annual Rate Adjustments." See also "THE CITY AND THE SYSTEM—City Charter Tax and Revenue Limitations" and "SOURCES OF SYSTEM REVENUES." See also the section captioned "QUALIFIED HEDGE AGREEMENTS" for a discussion of the possible impact on rates in connection with the risks associated with Qualified Hedge Agreements.

Water and Sewer Rate Study

Approximately every five years, the City commissions water and sewer rate studies to assess the adequacy and equitability of its rates. In Fiscal Year 2019, the City engaged Carollo Engineers, Inc. as the City's utility rate consultant to review the System's water and wastewater cost of service and rate design, and water and wastewater impact fee update, which would, among other things, take into account the additional investment requirement as a result of the proposed Consent Decree.

The study was completed in Fiscal Year 2021 and was presented to the Budget and Fiscal Affairs Committee on April 27, 2021. Based on the study's recommendations, on September 1, 2021, City Council approved an ordinance authorizing the implementation of the new rates. A copy of the final report, incorporating an executive summary, prepared by the consultant, is available on the City Secretary's website and by accessing the following link to EMMA: https://emma.msrb.org/MarketActivity/ContinuingDisclosureDetails/P21120828. On October 4, 2021, a Travis County district judge entered a judgment that the City had legally and validly imposed the increases and adjustments in the relevant rates and that the City may legally and validly implement such rates. The Court's judgment constitutes a permanent injunction against any new or existing action contesting the legality and validity of the rates. For a discussion of the current status of the Consent Decree, including the current costs that have been identified and an estimate of the amount the City may be required to invest, see "THE CITY AND THE SYSTEM – Sewer Facilities – Potential Penalties for the System's Violations" and "-Consent Decree Status".

Current Rates

The City announced that water rates would increase by approximately 15%, effective April 1, 2023, in order to account for inflation and population increases and to pay for necessary infrastructure improvements, such as replacing old pipe, constructing new wells and improving water and wastewater treatment plants. Effective April 1, 2024, water and sewer rates increased by approximately 9% based on the City's 2021 ordinance implementing new rates. See "Water and Sewer Rate Study" above. Also, effective April 1, 2024, the City will temporarily calculate single-family residential users' monthly water and sewer bills based on set usage while Houston Public Works makes improvements, including replacing or upgrading remote reading devices, to verify the accuracy of monthly water usage readings. The City does not expect such temporary change in the calculation of rates to have a material impact. The City structures rates to encourage water conservation. See "SECURITY FOR THE SERIES 2024A BONDS – Automatic Annual Rate Adjustments;" see also "THE CITY AND THE SYSTEM – City Charter Tax and Revenue Limitations" and "THE CITY AND THE SYSTEM - Sewer Facilities" for a discussion of certain initiatives that could impact System rates.

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Schedule 9 – Rate Adjustments

For the last ten (10) years, the water and sewer rates have been adjusted on the average as follows:

	Average Percent Rate Increase	
Date of Change	**Water**	**Sewer**
April 2013[(1)]	3.6%	3.6%
April 2014[(2)]	1.2	1.2
April 2015	4.4	4.4
April 2016	1.4	1.4
April 2017	3.4	3.4
April 2018	2.8	2.8
April 2019	2.8	2.8
April 2020	3.5	3.5
April 2021	1.5	1.5
September 2021[(3)]	9.0	20.0
April 2022[(3)]	7.5	11.0
April 2022[(4)]	5.6	5.6
April 2023[(3)]	6.0	6.0
April 2023[(4)]	9.2	9.2
April 2024[(3)]	7.0	11.0

(1) Single family residential rates include annual rate adjustments, plus cost of service ratio adjustment of 5.3% on April 1, 2013, for a total increase of 8.9%. The final additional cost of service rate adjustment occurred on April 1, 2013.

(2) The April 2014 rate increase was based on the Producer Price Index.

(3) Determined from Water and Wastewater Cost of Service Rate Study formally approved by City Council in 2021. Refer to City of Houston, TX Ordinance No. 2021-15 for further information.

(4) The 2015-2023 rate increases resulted from the automatic annual rate adjustment provisions of the Master Ordinance. Simultaneous rate increases are calculated against the prior year's rate.

See "RATES — Water and Sewer Rate Study" for a discussion of a study of the water and sewer rates. See "SECURITY FOR THE SERIES 2024A BONDS — Automatic Annual Rate Adjustments" for a description of the automatic rate adjustment. Together with the automatic annual rate adjustments, additional rate increases may be required in order to implement the System's Capital Improvement Plan as currently contemplated.

Billing and Collection

The Department performs billing and collection services for the System. Customers are billed monthly based on metered water consumption, except for certain sewer customers who are billed based on their metered discharge. Effective April 1, 2024, the City is temporarily changing the billing calculations for certain customers. See "Current Rates" above. A bill is due twenty (20) days after the date on which the statement of account was mailed, and late payments incur a ten percent penalty if paid after the next billing. If a customer fails to make payment on or before the 23rd day from the date the bill was mailed, the City sends a second written notice to the customer restating the amount owed and setting forth the procedure by which the customer can discuss any dispute over the propriety of the charge with a customer service representative. No earlier than three weeks after the second written notice is mailed, a City field representative is dispatched to the customer's address to cut off water service if the amount owed has not been paid.

While the Department's collection rate has exceeded 98% historically, the City engaged two collection companies in 2013 to pursue collection on accounts that are significantly delinquent. The City also has instituted a number of programs to improve collections. One program is the passage of a lien ordinance, which authorizes the City to file liens against certain properties with delinquent bills totaling $3,000 or more. In addition, any customer with a delinquent final bill over ninety (90) days past due will be reported to the local credit bureaus.

SYSTEM CAPITAL IMPROVEMENT PLAN

Capital Improvement Plan

In order to meet the future water and wastewater needs of the Houston metropolitan area and to comply with applicable governmental and environmental regulations, the City continually evaluates System capabilities and makes plans and forecasts to accommodate future requirements in a timely manner. Each year City Council approves a rolling five-year capital improvement plan ("CIP"), which is revised annually to include new projects to reflect changes in priorities established through input from City Council, administration, other departments and citizens through public hearings.

The System's Fiscal Year 2024-2028 adopted CIP reflects appropriations or capital improvements to the System totaling approximately $4.847 billion.

The major goals of the Department's Fiscal Year 2024-2028 adopted CIP are as follows:

Water Facilities Capital Improvements — enhancement of the level of water service, including maintenance of Water Facilities pressures at adequate levels under varying demand conditions; replacement of inadequate Water Facilities components and other improvements to increase the efficiency and reliability of the Water Facilities; development of surface water supplies to permit increased reliance on surface water and to mitigate against subsidence; and surface water treatment facility modifications and Water Facilities expansions.

Sewer Facilities Capital Improvements — enhancing and replacing wastewater collection lines to eliminate infiltration; increasing the wastewater transportation capacity; increasing the wet weather treatment capacity of the Sewer Facilities; improvements to increase the efficiency and reliability of the Sewer Facilities; and upgrading the Sewer Facilities to comply with governmental and environmental regulations.

Schedule 10 – Funding of Planned System Improvements

It is anticipated that the System improvements contemplated in the System's Fiscal Year 2024-2028 adopted CIP will be financed approximately as follows:

Proposed Source of Funding	2024-2028 (in thousands)
System Revenue Bonds (Net Proceeds and Interest Earnings)(1)	$3,499,689
SWIFT Loan (subordinate lien)(2)	-
Capital Contributions from Others	97,801
System Revenues(3)	1,250,000
Total	$4,847,490

(1) The City's fiscal year 2024-2028 CIP anticipates the periodic issuance of additional First Lien Bonds and Subordinate Lien Commercial Paper. City Council must approve each issuance of bonds, but not each issuance of Commercial Paper Notes. See "SYSTEM DEBT AND CHARGES – Commercial Paper Program" and "ADDITIONAL BONDS – Third Lien Obligations and Fourth Lien Obligations." The amounts above include net bond proceeds and interest earnings.

(2) See "SYSTEM CAPITAL IMPROVEMENT PLAN – Federal and State Funds – State Water Implementation Fund for Texas and State Water Implementation Revenue Fund for Texas."

(3) The City anticipates using a portion of System revenues to pay a portion of the System's Fiscal Year 2024-2028 CIP.

For a discussion of the current status of the City's Consent Decree, including the current costs that have been identified and an estimate of the amount the City may be required to invest, see "THE CITY AND THE SYSTEM – Sewer Facilities – Potential Penalties for the System's Violations".

Federal and State Funds

General. The TWDB administers loan programs to eligible municipalities and agencies. Under the programs, described in more detail below, each state is to receive from the EPA a series of grants to establish Clean Water and Safe Drinking Water State Revolving Funds (each an "SRF") from which such state will make loans to eligible recipients. TWDB has adopted a policy to implement the SRF loan programs through the purchase of bonds issued by the loan recipients. Since 1988, the SRF loan programs have provided the City with a means to finance EPA-eligible projects at interest costs below those available in the market through the sale of bonds placed with TWDB. See "SYSTEM DEBT AND CHARGES — Schedule 11 — Obligations Payable from System Revenues." The City intends to continue to utilize such loan programs in future years.

State Clean Water Revolving Fund. One of the loan programs administered by TWDB is the Clean Water SRF. The State Revolving Fund Act, Title VI of the Federal Water Pollution Control Act of 1972, as amended by the Water Quality Act of 1987, as amended (the "Federal Act"), established the Water Pollution Control SRF program (described below) as a joint federal and State program. Under the Water Pollution Control SRF program, the EPA is authorized to make grants (the "SRF Capitalization Grants") to states to aid in providing financial assistance to municipalities; intermunicipal, interstate or state agencies; or other public entities eligible for assistance under the Federal Act (the "Eligible Cities") for publicly-owned wastewater treatment works, including storm water and non-point source pollution control projects and other authorized purposes pursuant to the Federal Act. As a condition to receipt of an SRF Capitalization Grant, a state is required to establish a perpetual state revolving fund into which the SRF Capitalization Grant must be deposited, and to provide state matching funds at least equal to 20% of the SRF Capitalization Grant. Funds in a state revolving fund are permitted to be applied to provide financial assistance to Eligible Cities for publicly-owned wastewater treatment works in a number of ways, including making direct loans, retiring existing debt through refinancing and loan guarantees.

Pursuant to Chapter 15, Subchapter J of the Texas Water Code, which became effective June 17, 1987, the State of Texas created a Water Pollution Control SRF under the federal program for the purpose of providing loans to political subdivisions for wastewater treatment works including storm water and non-point source pollution control projects and other authorized purposes. TWDB currently provides financial assistance by purchasing political subdivision bonds from Eligible Cities, including the City.

State Safe Drinking Water Revolving Fund. Another loan program administered by TWDB is the Safe Drinking Water SRF. The Safe Drinking Water Act, 42 U.S.C. § 300 et seq., as reauthorized in 1986 and amended in 1996 (the "SDWA"), established national primary drinking water regulations to protect the safety of the public's drinking water. Under the SDWA, the EPA is authorized to make grants ("DWSRF Capitalization Grants") to states to assist communities in meeting established drinking water standards. As a condition to receipt of a DWSRF Capitalization Grant, a state is required to establish a Safe Drinking Water SRF into which the DWSRF Capitalization Grant must be deposited, provide state matching funds at least equal to 20% of the DWSRF Capitalization Grant for deposit in the DWSRF and comply with certain other requirements of the SDWA. DWSRF funds are permitted to be applied to provide financial assistance to community water systems and non-profit community water systems in a number of ways, including making direct loans, retiring existing debt through refinancing, and providing loan guarantees for expenditures that facilitate compliance with the primary national drinking water regulations.

Pursuant to Chapter 15, Subchapter J of the Texas Water Code, the State of Texas created a Safe Drinking Water SRF under the federal program for the purpose of providing loans to political subdivisions and water supply corporations. TWDB currently provides financial assistance by purchasing political subdivision bonds from Eligible Cities, including the City. The Texas Legislature expanded the program, effective September 1, 1997, to allow funding for privately owned corporations for loan subsidies, provided that only appropriated funds and federal grants are utilized for such purpose.

State Water Implementation Fund for Texas and State Water Implementation Revenue Fund for Texas. On November 5, 2013, Texas voters approved legislation enabling the State to create two funds — SWIFT and the State Water Implementation Revenue Fund for Texas — that will help finance projects in the State water plan. TWDB developed a point system to prioritize projects and developed rules on how the funds will operate. The funds can be used to fund rural water projects, projects related to conservation and reuse, and projects in communities and cities of all sizes. The City participates in these financial assistance programs to fund certain water projects.

Regional Planning. Legislation enacted by the Texas Legislature in 1997 (the "1997 Act") requires regional water planning for the State of Texas. The TWDB has designated 16 regional water planning areas. The regional plans for all 16 areas, including the Houston Area referred to as Region H, have been submitted to the TWDB as required by the legislation. The TWDB has combined all of the regional plans into a State Water Plan.

The 1997 Act, as amended in 1999, not only required regional planning, but also revised the law related to interbasin water transfers, water marketing, water-related data collection and dissemination and TWDB loan assistance funds. TWDB has adopted State and regional water planning rules. The rules provide broad guidance on how the regional water planning groups will develop a regional water plan for their area, how approved regional water plans will be incorporated into the State Water Plan and how to apply for funding for regional water plan development. Each area's regional water planning group was required to submit a regional water plan to the TWDB by January 2001. TWDB adopted the 2002 State Water Plan in December 2001. The most recent State Water Plan was adopted by TWDB on July 7, 2021 (the "2022 State Water Plan"). The 2022 State Water Plan is the eleventh state water plan and the fifth plan based on the regional water planning process. Financial assistance may be provided only to projects that meet needs in a manner consistent with the approved regional water plans and are included in the State Water Plan. Further, it is expected that additional costs, which may be significant, will be necessary to meet the changes in surface water rights permitting and regional water planning. The Drinking Water State Revolving Fund, which is directed at systems that are not in compliance with Safe Drinking Water Standards, may eventually provide some assistance for City projects but, because of limited funds, projects are currently being funded on a priority basis.

CUS General Purpose Fund

The City from time to time may use amounts on deposit in the CUS General Purpose Fund to finance capital improvements to the System. Amounts in the CUS General Purpose Fund are generated primarily from Net Revenues of the System after payment of all System Obligations. The availability of such amounts for capital improvement purposes will be dependent upon the System's ability to generate sufficient Net Revenues.

SYSTEM DEBT AND CHARGES

Schedule 11 – Obligations Payable from System Revenues

The following schedule, determined as of February 29, 2024 sets forth the total outstanding principal amount of System Obligations payable from revenues of the System.

Contract Revenue Bonds Payable from System Gross Revenues	Determined as of February 29, 2024
CWA Bonds[(1)]	$40,055,000
TOTAL	$40,055,000
System Bonds Payable from System Net Revenues[(2)]	
Previous Ordinance Bonds[(3)]	$ 119,486,000
First Lien Bonds	5,924,220,000
Third Lien Obligations[(4)]	200,000,000
Subordinate Lien Obligations[(5)]	419,695,000
Pension Obligation Bonds[(6)]	81,406,611
TOTAL	$6,744,807,611
TOTAL – All Obligations Payable from System Revenues	$6,784,862,611

(1) See "REQUIRED PAYMENTS UNDER PREVIOUS ORDINANCE" and "THE CITY AND THE SYSTEM – Water Facilities – Water Supply Contracts."

(2) Excludes the principal amount of bonds payable from Discretionary Debt Service transfers of the System. See "SYSTEM DEBT AND CHARGES – Discretionary Debt Service."

(3) Previous Ordinance Bonds include Outstanding Junior Lien Bonds (including bonds purchased by TWDB prior to 2005). Includes approximately $89.91 million in accrued interest on Previous Ordinance Bonds issued as capital appreciation bonds. See "SYSTEM NET REVENUES AVAILABLE FOR DEBT SERVICE — Schedule 1 – Net Revenues of the System and Debt Service Coverage."

(4) Represents the aggregate amount of Commercial Paper Notes, Series B issued as Third Lien Obligations under the Master Ordinance.

(5) Subordinate Lien Obligations represent obligations payable from CUS general purpose funds. Excludes $353.519 million of bonds issued by CWA, a significant portion of which is payable by others pursuant to contract.

(6) Represents the Combined Utility System's allocation of the City's pension obligation bonds issued in 2005, 2008 and 2017, although not direct obligations of the Combined Utility System.

Commercial Paper Program

Under the $1 billion Series B Commercial Paper Program, the City currently issues Combined Utility System Commercial Paper Notes, Series B (the "Series B Notes" or the "Commercial Paper Notes") periodically pursuant to the Master Ordinance and a Supplemental Ordinance authorizing the issuance of the Series B Notes. The program is structured as a revolving Commercial Paper Note program. A portion of the Series B Notes, in the amount of $475 million, is secured by credit facilities from Bank of America, N.A. (Series B-1) with an expiration date of August 19, 2027; Sumitomo Mitsui Banking Corporation, acting through its New York Branch (Series B-3), with an expiration date of January 10, 2025; PNC Bank, N.A. (Series B-4) with an expiration date of July 12, 2025; Bank of America, N.A. (Series B-6) with an expiration date of August 19, 2027; and JPMorgan (Series B-7) with an expiration date of May 30, 2025.

Series B Notes may be issued for a period not to exceed 270 days and bear interest at an annual rate not to exceed 10%. Series B Notes are offered and remarketed by Commercial Paper Note dealers. Series B Notes are issued as Third Lien Obligations and are payable from and secured by a lien on Net Revenues of the System which is subordinate to the lien securing payment of First Lien Bonds. Proceeds of Series B Notes are used to finance various capital projects of the System.

Effective March 13, 2015, the City established a $75 million Series B-2 Extendable Commercial Paper Note program (the "Series B-2 Notes") that provides for the issuance of Series B-2 Notes as Third Lien Obligations through January 1, 2029. As of May 17, 2023, the City amended and restated the Supplemental Ordinance authorizing the B-2 Notes to increase the size of the Series B-2 Extendable Commercial Paper Note program from $75 million to $275 million and provide for the issuance of Series B-2 Notes through December 15, 2039. In January 2019, the City established a $250 million Series B-5 Extendable Commercial Paper Note program (the "Series B-5 Notes") that provides for the issuance of Series B-5 Notes as Third Lien Obligations through February 1, 2030. The Series B-2 Notes and Series B-5 Notes may each be issued for a period not to exceed 90 days (which may be extended, but in no event may be later than 270 days following the date of issuance) and bear interest at an annual rate not to exceed 9%. The Series B-2 Notes and Series B-5 Notes are (1) separately offered and remarketed by Morgan Stanley & Co. LLC as dealer, (2) issued as Third Lien Obligations and (3) are separately payable from and secured by a lien on Net Revenues of the System, which is subordinate to the lien securing payment of First Lien Bonds and Second Lien Bonds. Proceeds of Series B-2 Notes and Series B-5 Notes may each be used to finance various capital projects of the System.

Discretionary Debt Service

Under the budgeting policy of the City, the debt service on public improvement bonds issued for sanitary sewer purposes prior to 1976, contract tax obligations relating to the construction of water treatment and sanitary sewer facilities and debt service on assumed water district bonds attributable to water treatment and sanitary sewer facilities ("Discretionary Debt Service") was paid from the Net Revenues of the System out of the Renewal and Replacement Fund, although there was no legal requirement to do so and although such Discretionary Debt Service is secured by a pledge of ad valorem taxes. The City has also paid Discretionary Debt Service out of the CUS General Purpose Fund. See "SECURITY FOR THE SERIES 2024A BONDS — Flow of Funds" and "SYSTEM CAPITAL IMPROVEMENT PLAN — CUS General Purpose Fund".

Schedule 12 – Discretionary Debt Service Paid by the System

The following schedule shows the total amount of Discretionary Debt Service paid from Net Revenues of the System for the Fiscal Years shown below:

Fiscal Year	Discretionary Debt Service(1) (in millions)
2018	9.1
2019	7.8
2020	5.6
2021	5.0
2022	4.9
2023	4.9
2024 (budgeted)	2.8(2)

(1) As reported in the Statistical Section of the City of Houston Annual Comprehensive Financial Report.
(2) As reported in the City's Fiscal Year 2024 adopted budget.

Contract Tax Obligations

Texas law authorizes the City to incur or, through annexation, to assume, "Contract Tax Obligations," which are substantially equivalent to ad valorem tax bonds, through the pledge of ad valorem tax receipts for the payment of contracts for water and sewer services with other political subdivisions or non-profit corporations. The City currently has no outstanding Contract Tax Obligations, but may incur such obligations in the future.

Indirect Charges Paid by the System and CUS General Purpose Fund Transfers

Indirect Charges Paid by the System. Charges have been made on a cost allocation basis by the City's General Fund to the Water and Sewer System's revenue fund under the Previous Ordinance and will continue to be made to the Revenue Fund for the Combined Utility System for certain indirect charges incurred by the General Fund on behalf of the System. These indirect charges are payable out of the Revenue Fund as Maintenance and Operation Expenses of the System.

Schedule 13 – Indirect Charges Paid by the System and CUS General Purpose Fund Transfers

Schedule 13A — Indirect Charges Paid by the System

The following schedule shows the total amount of such indirect charges for the Fiscal Years shown below:

Fiscal Year	Indirect Charges(1) (in millions)
2020	11.069 (1)
2021	9.503(1)
2022	8.824(1)
2023	7.333(1)
2024 (budgeted)	8.418(2)

(1) As reported in the Statistical Section of the City of Houston Annual Comprehensive Financial Report.
(2) As reported in the City's Fiscal Year 2024 adopted budget.

CUS General Purpose Fund Transfers to Storm Water Fund. Under the Previous Ordinance, the City utilized different means for funding costs associated with its storm water management system, including transferring available water and sewer revenues into a Drainage Utility Fund created by an ordinance originally adopted by City Council in 1992 and amended a number of times thereafter. Under the Master Ordinance, the City intends to fund costs associated with its storm water management system from permitted transfers from the CUS General Purpose Fund (as described in the section captioned "SECURITY FOR THE SERIES 2024A BONDS — CUS General Purpose Fund") to the Storm Water Fund, described below.

In April 2004, the City adopted an ordinance further amending the ordinance that established the Drainage Utility Fund. The April 2004 amending ordinance renamed the Drainage Utility Fund as the Storm Water Fund and provided that all funds transferred from time to time from the CUS General Purpose Fund of the Master Ordinance are required to be deposited to the Storm Water Fund. The amending ordinance also provided that monies deposited in the Storm Water Fund may be used only for the planning, design, construction, regulation, improvement, repair, maintenance, and operation of facilities and programs relating to the system or network of storm water management facilities including, but not limited to, inlets, conduits, manholes, channels, ditches, drainage easements, retention and detention basins, infiltration facilities, and other components. The amending ordinance provides that this includes (i) the costs of developing, implementing, and enforcing a storm water management program to reduce the discharge of pollutants from the City's storm sewer system and protect water quality, and the costs related to obtaining, renewing, or maintaining any required permits related to the operation of the storm sewer system, and (ii) payment of debt service on bonds, notes, or other obligations issued for the purposes listed in this paragraph. The following schedule shows the total amount of transfers from the CUS General Purpose Fund to the Storm Water Fund for the Fiscal Years shown below.

Schedule 13B — CUS General Purpose Fund Transfers – Storm Water Fund

Fiscal Year	**CUS General Purpose Fund Transfers**[(1)] (in millions)
2020	58.8[(1)]
2021	66.5[(1)]
2022	57.1[(1)]
2023	51.4[(1)]
2024 (budgeted).....	49.7[(2)]

1) As reported in the Statistical Section of the City of Houston Annual Comprehensive Financial Report.
(2) As reported in the City's Fiscal Year 2024 adopted budget.

In 2010, voters approved Proposition 1 (2010) to amend the City Charter to provide for the improvement of the City's drainage and street system by imposing an assessment upon property owners that receive drainage services. For a discussion of litigation relating to Proposition 1 (2010), see "THE CITY AND THE SYSTEM — City Charter Tax and Revenue Limitations".

The System will continue to fund in part the City's drainage program's annual operating and maintenance expenses for several years until the Proposition 1 (2010) program generates sufficient funds. The System is obligated to pay annual drainage debt service payments on issued bonds that expire in 2042.

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Schedule 14 – System Debt Service Schedule

The following schedule sets forth the principal and interest requirements, based upon the assumptions set forth in the footnotes, on all Outstanding Bonds, including the Refunded Bonds and Target Bonds, payable from revenues of the System for each of the City's fiscal years ending June 30 as shown below. The table below does not include Discretionary Debt Service payments or Commercial Paper Notes issued as Third Lien Obligations or Fourth Lien Obligations or other subordinate obligations under the Master Ordinance. The total columns may not add due to rounding.

		Bonds Payable From System Net Revenues			
Fiscal Year Ending June 30	Total Bonds Payable From System Gross Revenues	Previous Ordinance Bonds	First Lien Bonds[1]	Total Bonds	Total Debt Service[1]
2024	$ 6,350,206	$ 19,005,000	$ 503,410,303	$ 522,415,303	$ 528,765,509
2025	6,338,956	17,990,000	503,752,302	521,742,302	528,081,258
2026	10,782,206	18,155,000	498,397,995	516,552,995	527,335,201
2027	3,378,081	30,815,000	490,409,951	521,224,951	524,603,032
2028	3,378,456	30,810,000	490,402,373	521,212,373	524,590,829
2029	3,404,306	44,095,000	476,781,144	520,876,144	524,280,450
2030	3,400,828		523,168,180	523,168,180	526,569,008
2031	3,396,313		521,943,834	521,943,834	525,340,147
2032	3,386,100		521,420,692	521,420,692	524,806,792
2033	3,381,000	--	512,126,528	512,126,528	515,507,528
2034	3,376,200	--	512,797,258	512,797,258	516,173,458
2035	3,381,300	--	350,427,387	350,427,387	353,808,687
2036		--	347,810,560	347,810,560	347,810,560
2037		--	326,747,030	326,747,030	326,747,030
2038		--	249,857,759	249,857,759	249,857,759
2039	--	--	245,105,629	245,105,629	245,105,629
2040	--	--	184,589,098	184,589,098	184,589,098
2041	--	--	184,210,158	184,210,158	184,210,158
2042	--	--	148,729,577	148,729,577	148,729,577
2043	--	--	141,548,971	141,548,971	141,548,971
2044	--	--	133,731,614	133,731,614	133,731,614
2045	--	--	121,795,379	121,795,379	121,795,379
2046	--	--	104,692,783	104,692,783	104,692,783
2047	--	--	87,342,893	87,342,893	87,342,893
2048	--	--	84,573,459	84,573,459	84,573,459
2049	--	--	66,592,080	66,592,080	66,592,080
2050	--	--	48,927,417	48,927,417	48,927,417
2051	--	--	14,722,719	14,722,719	14,722,719
2052	--	--	14,718,700	14,718,700	14,718,700
TOTAL	$53,953,953	$160,870,000	$8,410,733,769	$8,571,603,769	$8,625,557,722

(1) Debt service for the hedged Series 2004B Bonds, Series 2012A Bonds and Series 2012B Bonds is calculated at the fixed rate of the associated swap, which is 3.7784%; and debt service for the hedged Series 2018C Bonds is calculated at the fixed rate of the associated swap at 3.761%.

EMPLOYEE PENSION FUNDS

Prospective investors are advised that any projections or forecasts in the section below, including projections of the amount of the Unfunded Actuarially Accrued Liability ("UAAL") and other calculations of unfunded pension liability 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 (as defined below) and their respective actuaries as to the funding required to pay future benefits to retirees. Such forward looking information is based upon a variety of assumptions concerning future events and circumstances. Future actuarial studies may differ significantly from current estimates due to factors such as: retirements, terminations, deaths, disabilities, salary growth and investment returns, changes in contributions or investment portfolios, changes in actuarial or accounting standards, and changes in plan provisions, the Pension Statutes (as defined below) or applicable laws. See "– Pension Reform Legislation" below. The assumptions underlying the projections are material to the development of the projections, and changes in one or more of the assumptions may produce substantially different results. In addition to these projections, the City's financial statements as set forth at http://www.houstontx.gov/controller/acfr.html also report Net Pension Liability as required by GASB 68. The Net Pension Liability, as reported in the financial statements, is higher than the UAAL reported in the various actuarial reports of the Pension Systems and has materially changed the City's financial statements relating to the Pension Systems. Such differences reflect, in part, the different methods of valuation employed by accountants and actuaries. Prospective investors are strongly encouraged to review the entirety of Note 10 to the City's Financial Statements at http://www.houstontx.gov/controller/acfr.html for additional information.

Statutory Authority, Governance and Management

Texas statutes authorize three separate pension systems (collectively, the "Pension Systems") for full-time firefighters ("HFRRF" or the "Firefighter Fund"), police ("HPOPS" or the "Police System"), and municipal employees ("HMEPS" or the "Municipal System"). Detailed information regarding the funding of each Pension System is discussed under "– Municipal System," "– Police System," and "– Firefighter Fund" below and in Note 10 to the City's Financial Statements. Each Pension System is a defined benefits plan, which guarantees retiree benefits based on years of service and salary. The City bears the primary financial risk of such plans. Therefore, the City must fund the Pension Systems to pay a retiree's defined benefit regardless of why the Pension System is underfunded.

Statutory Authority. The statutes governing the Pension Systems are as follows:

(i) HMEPS: Article 6243h, Vernon's Texas Civil Statutes, as amended (the "HMEPS Statute");

(ii) HPOPS: Article 6243g-4, Vernon's Texas Civil Statutes, as amended (the "HPOPS Statute"); and

(iii) HFRRF: Article 6243e.2(1), Vernon's Texas Civil Statutes, as amended (the "HFRRF Statute" and, collectively with the HMEPS Statute and the HPOPS Statute, the "Pension Statutes").

In 2017, the Texas Legislature amended the Pension Statutes (the "Pension Reform Legislation") by establishing risk-sharing corridors that determine minimum and maximum annual City contribution rates, reducing the existing unfunded pension liabilities with lower pension benefits and increased employee contributions, mandating the management and pay off of existing unfunded liabilities (the "Legacy Liability") over a 30-year amortization period ending in 2047, reducing both anticipated earnings and the discount rate used to calculate the City's future payments to 7.00%, and by generally increasing the governance of additional aspects of future Pension System funding and City contributions through the Pension Statutes rather than by negotiated agreements. To further reduce the Legacy Liability attributable to HMEPS and HPOPs, the City also issued pension obligation bonds in the aggregate principal amount of $1,005,145,000 (the "Series 2017 POBs") in 2017.

Prior to the Pension Reform Legislation, negotiated "meet and confer" agreements had a more significant role in determining benefits and City contributions for HMEPS and HPOPS (but not for HFRRF). The Pension Statutes currently allow negotiated "meet and confer" agreements between HMEPS, HPOPS, and HFRRF under limited circumstances, but to the extent there is any conflict between the Pension Statutes and any separate "meet and confer" agreements between HMEPS and the City, or HPOPS and the City, the Pension Statutes control. Thus, any such agreements may not affect the calculation or payment of City obligations or benefit structures unless they conform to the limitations and scope set forth in the Pension Statutes.

Below is a description of Pension System governance, the funding of the Pension Systems prior to pension reform, the Pension Reform Legislation and status of funding requirements.

CUS Contributions. The System contributes only to the HMEPS based upon its share of the budgeted payroll for municipal employees of the System, and virtually all System employees are members of HMEPS. Although this Section describes the City's overall liability to all three pension programs, the System does not contribute to HPOPS or HFRRF. As a result, for specific details about the System's historical and Fiscal Year 2022 and Fiscal Year 2023 budgeted contributions to the Municipal System, see "EMPLOYEE PENSION FUNDS – Municipal System – *System Contributions to the Municipal System*" herein.

Governance

Each Pension System is separately governed by a board of trustees that acts independently of the City. The Mayor appoints a designee to serve on the board of each Pension System, and the Director of Finance of the City appoints a member to the HFRRF Board and the HPOPS Board, while the City Controller appoints a member to the HMEPS Board. However, a majority of the trustees serving on each Pension System board are either full-time employees or retirees elected by participants in the respective Pension System and are themselves participants. These trustees have a personal interest in the plan administered by the board of the Pension System on which they serve. All trustees of a Pension System board take an oath to "diligently and honestly administer" such Pension System, and each trustee is counseled and trained on their fiduciary responsibilities. Trustees appointed by the City are counseled that their fiduciary duties to the Pension System take precedence over the interests of the City and the official that appointed them. No legal challenges have arisen as a result of potential conflicts of interest.

The Pension Systems' boards are generally imbued with broad powers to interpret, construe and supplement omissions in their governing statutes and to determine questions related to eligibility for membership, services and benefits. The grant of such powers to the Pension System boards affects the City's ability to unilaterally manage its Pension Obligations through mechanisms such as reducing the number of City full-time employees by outsourcing certain City functions. The Pension Systems are funded from City contributions, employee contributions, and investment earnings, and the amount of funding required is related to the benefits projected to be paid to retirees.

Risk Sharing and Future Costs

Risk Sharing. Under the Pension Statutes, the City and each Pension System are required to share information and cooperate to evaluate the performance of the Pension System. The City and each Pension System are required to conduct an annual risk sharing valuation study (the "RSVS"), which is subject to review by the Texas Pension Review Board. The RSVS process sets the City's projected future contribution rates and the corridor midpoints, as a percentage of projected pensionable payroll for each Pension System. The corridor midpoint system was made part of the Pension Statutes under the Pension Reform Legislation in an effort to share the risk of large unexpected future contribution costs.

The initial RSVS process following the passage of the Pension Reform Legislation set the City's corridor midpoints for each of the Pension Systems, as a percentage of projected pensionable payroll for the following 31 years. For years one through 30, the corridor midpoint for HMEPS ranges from 8.17% in Fiscal Year 2018 to 8.81% in Fiscal Year 2047. Similarly, for HPOPS the corridor midpoint ranges between 31.77% in Fiscal Year 2018 to 32.13% in Fiscal Year 2047, while the corridor midpoint for HFRRF is constant at 31.89% for the 30-year period. The City bears the risk of pension contribution costs increasing up to 5% of pensionable payroll above the corridor midpoint. If the increase in the pension contribution cost is greater than 5% of the pensionable payroll, then steps must be taken, including the reduction of benefits or increase of Pension System member contributions, to reduce the City's cost. Conversely, if costs are 5% of pensionable payroll less than projected for any plan, steps must be taken to maintain the City's contribution at the minimum level. If on or after July 1, 2023, the funded ratio of HPOPS or HFRRF is less than 65% as determined in an RSVS, then the City and the Pension System are required to establish a cash balance retirement plan for any new participants in HPOPS or HFRRF, as applicable. If on or after July 1, 2027, the funded ratio of HMEPS is less than 60% as determined in an RSVS, then the City and the Pension System are required to establish a cash balance retirement plan for any new participants in HMEPS.

The projected contribution rates and the annual contribution rates for HPOPS and HFRRF include the amortization of the Legacy Liability. The annual cost of amortization of the Legacy Liability for HMEPS is excluded from the calculation of projected and annual contribution rates; however, the HMEPS Legacy Liability is paid on a fixed-dollar schedule rather than based on a percentage of pensionable payroll. Because pensionable payroll for each Pension System is projected to increase, the actual dollar amounts required to be paid based on the projected corridor midpoints and contribution rates are also projected to increase. The City's contribution rates for future Fiscal Years will be calculated by each subsequent year's RSVS

Future Costs. Costs of the Pension Systems are required to be calculated each Fiscal Year by actuarial valuations separately carried out by the respective Pension Systems and the City. The annual actuarial valuations establish the City's required payments to meet Pension System costs, based on pension system normal costs and unfunded accrued liabilities. New liability losses, excluding the Legacy Liability being amortized through 2047, will be amortized over a new 30-year period.

Investment Considerations Relating to the Risk Sharing Valuation Studies

The City has identified the following investment considerations, but any potential investor should consult his or her own advisor.

Conduct of the RSVS. The RSVS requires the sharing of information and comparison of results by the City and each Pension System. Although the Pension Statutes require the City and each Pension System to conduct the RSVS and to share information, failure to do so by the City or a Pension System could result in litigation or other enforcement efforts which could delay the RSVS in any year. If a Pension System fails to provide information, the City may conduct its RSVS based on estimates, but the estimated payments could carry a greater risk of under- or over-payments by the City.

Status of Funding of the Pension Systems

The following information is based on reports prepared reflecting the current system of funding and benefits under the Pension Statutes. The System is only directly responsible for the costs of funding the portion of the Municipal System associated with employees of the System.

Changes in pension accounting rules resulted in significant changes to the presentation of the City's liabilities for each Pension System in its financial statements beginning in Fiscal Year 2015. For a comparison of the liabilities, see "*– Net Pension Liability Under GASB 67 and 68*" below as well as Note 10 to the Financial Statements attached hereto as APPENDIX A. GASB 67 and 68 do not affect the City's pension contributions or contribution rates.

The City has historically funded the Pension Systems in amounts agreed upon by the City and the respective boards of the Pension Systems either (i) as part of jointly-sponsored changes in State law or (ii) in negotiations with the Municipal System's and Police System's respective boards through the "meet and confer" process. The City funds the Pension Systems consistent with State law. As stated in the Fiscal Year 2024 adopted budget, the total amount of the City's contribution to the three Pension Systems for Fiscal Year 2024 will be approximately $467 million, which represents an approximate $39 million increase from the Fiscal Year 2023 actual payments.

The annual contribution to the Pension Systems is sufficient to fund the annual cost of amortizing the Legacy Liability and the normal and administrative costs of the Pension Systems.

Net Pension Liability (Asset) Under GASB 67 and 68. As reflected in the schedule below, the financial statements now reflect a calculation of the City's Net Pension Liability to describe the City's funding obligation to the Pension Systems. The "Net Pension Liability" is the difference between the City's "Total Pension Liability" and the "Fiduciary Net Position" of each respective Pension System's plan. The Total Pension Liability is the present value of pension benefits that are allocated to current members due to past service by the entry age normal actuarial cost method. It includes benefits related to projected salary and service, and automatic cost of living adjustments. In addition, ad hoc cost of living adjustments are also included in the Total Pension Liability to the extent they are substantially automatic. Fiduciary Net Position is determined on the same basis used by the respective Pension System. The City's Net Pension Liability was measured as of June 30, 2023. For a more detailed break-out of Net Pension Liability for each Pension System, see Note 10.

NET PENSION LIABILITY AS OF JUNE 30, 2023
(in thousands)

	HFRRF	HMEPS	HPOPS
Total Pension Liability	$5,167,589	$5,698,777	$7,892,171
Fiduciary Net Position	(5,109,178)	(4,072,345)	(7,208,455)
Net Pension Liability	$58,411	$1,626,432	$683,716

The calculation of Net Pension Liability under GASB 67 and 68 as reported in the City's financial statements for Fiscal Year 2023 factors in the reforms enacted by the Pension Reform Legislation. See "Note 10 – B. Net Pension Liability" to the Financial Statements.

Schedule 15: Actuarially Determined Contribution Amounts and Changes in Pension Plan Assets

Each part of the following tables should be read in context with the sections that follow describing in more detail the Pension Systems individually. Part 1 sets forth for each of the Fiscal Years 2019 through 2023 the amount of the annual pension cost to the City and the percentage contribution made by the City to each of the Pension Systems. Contribution amounts are established by the Pension Statutes.

Part 2 sets forth for each of the Fiscal Years 2019 through 2023 actuarially determined amounts and actual City pension contribution amounts as a percentage of payroll. Part 3 sets forth certain information from the City's financial statements for Fiscal Year 2023 (June 30, 2023).

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Part 1: Annual Pension Costs and Contributions Made[(a)]

(in millions)

Fiscal Year	Municipal System: Annual Pension Cost	Municipal System: City Contrib.[(b)]	Municipal System: Percent Contrib.	Police System: Annual Pension Cost	Police System: City Contrib.[(b)]	Police System: Percent Contrib.	Firefighter Fund: Annual Pension Cost	Firefighter Fund: City Contrib.[(b)]	Firefighter Fund: Percent Contrib.
2019	366.1	176.3	48	330.3	142.4	43	227.3	89.9	40
2020	382.9	176.4	46	297.2	149.1	50	232.4	83.8	36
2021	64.4	184.8	35	(87.6)	151.1	58	(65.5)	77.5	85
2022	38.8	197.3	20	86.5	152.4	57	(72.5)	81.4	89
2023	69.2	204.9	34	25.2	159.9	16	(4.6)	72.5	6

(a) For further details, see the City's Financial Statements for Fiscal Year 2023 presented in APPENDIX A, particularly Note 10 and the section captioned "Required Supplementary Information."

(b) Contribution amounts are determined by the applicable Pension Statute.

Part 2: Actuarially Determined Contribution Amount and Actual City Contribution as a Percentage of Payroll[(a)(b)]

Fiscal Year	Municipal System: Actuarial	Municipal System: Actual	Police System: Actuarial	Police System: Actual	Firefighter Fund: Actuarial	Firefighter Fund: Actual
2018	27.8%	28.1%	31.8%	33.2%	31.9%	31.9%
2019	28.9	28.7	31.9	32.0	33.0	33.0
2020	29.6	28.2	31.8	32.1	32.3	32.3
2021	29.5	28.7	31.8	31.9	31.9	31.9
2022	29.5	29.0	31.9	32.0	31.9	31.9
2023	29.8	28.8	31.9	32.0	26.9	26.9
2024	27.8	TBD	32.0	TBD	26.9	TBD

(a) For further details, see the City's Financial Statements for Fiscal Year 2023 presented in APPENDIX A, particularly Note 10 and the section captioned "Required Pension System Supplementary Information." Actuarial numbers from the funding valuations prepared by the Pension Systems may be different from the GASB 68 accounting valuations used to prepare the City's financial statements.

(b) Sources: Actuarial contributions are per the applicable adopted HMEPS Risk Sharing Valuation Studies, HPOPS Risk Sharing Valuation Studies, and HFRRF Joint Addendum to Final Risk Sharing Valuation Studies. Actual Contributions are per the City's annual financial statements. See "—Municipal System," "—Police System" and "—Firefighter Fund."

Part 3: Changes in Pension Plan Assets[(a)]

(in millions)

Fiscal Year 2023	Municipal	Police	Fire	**Total**
Additions[(b)]	$ 461.5	$ 737.4	$ 304.1	$ 1,503.0
(Deductions)[(c)]	(341.5)	(390.9)	(288.7)	(1,021.1)
Net Increase	$ 120.0	$ 346.5	$ 15.4	$ 481.9
City's Total Contribution	$ 204.9	$ 159.9	$ 72.5	$ 437.3

(a) Source: Pension Systems Financial Statements for Fiscal Year 2023.

(b) Includes contributions by the employees and the City, net increase (decrease) 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

The Municipal System is a contributory defined benefits pension program that provides benefits to most municipal employees (other than classified police officers and firefighters) pursuant to three different programs.

Employees hired prior to January 1, 1999 had a choice to enroll in either a contributory defined benefit program ("Group A") or a non-contributory plan ("Group B"). Employees hired between January 1, 1999 and January 1, 2008 are provided benefits pursuant to the Group A program. Employees hired after January 1, 2008 are covered by a defined benefit plan ("Group D"). The HMEPS Risk Sharing Valuation Studies after July 1, 2019 do not provide classification of active employees by their Groups. Group A employees contribute 8% of their salary, Group B employees contribute 4% of their salary, and Group D employees contribute 2% of salary, plus 1% of salary placed in a notional cash balance plan account.

The City's annual contributions for Fiscal Year 2023 to the Municipal System was 8.44% of payroll plus $142.0 million, equating to roughly 29.8% of payroll. The Fiscal Year 2024 Budget includes annual contributions to the Municipal System of 8.48% of payroll plus $146.0 million, equating to roughly 29.8% of payroll.

Municipal System Fiscal Year Funding. The City budgets its contributions by allocating the cost between its General Fund and Enterprise Funds based upon the nature of the employment of the covered employees. Fiscal Year 2023 provides that the General Fund was responsible for approximately $68.5 million of the City's approximately $228.3 million contribution to the Municipal System (approximately 8.44% of payroll plus $142.0 million); the Fiscal Year 2024 adopted budget provides that the General Fund is responsible for approximately $71.0 million of the City's estimated $230.6 million contribution to the Municipal System (approximately 8.48% of payroll plus $146.0 million).

The table below reflects actuarial accrued liability, actuarial value of plan assets, unfunded actuarial accrued liability or surplus and funded ratio for each of the years 2019-2023. For 2019 through 2023, the values are based on the HMEPS Risk Sharing Valuation Study as of July 1, 2019 through July 1, 2023.

Schedule 15A: Municipal System Pension Plan Assets,
Liabilities and Unfunded Actuarial Accrued Liability[a]
(in millions)

	2019	2020	2021	2022	2023
Actuarial Accrued Liability	$5,091	$5,196	$5,290	$5,428.6	$5,557.8
Actuarial Value of Plan Assets	3,019	3,074	3,323	3,573.4	3,836.1
Unfunded Actuarial Accrued Liability[b]	2,072	2,122	1,967	1,855.2	1,721.7
Funded Ratio..................	59.3%	59.2%	62.8%	65.8%	69.0%

(a) Source: Municipal System Actuarial Valuation Reports. This information is no longer presented in the City's financial statements.
(b) The actuarial value of plan assets is determined by the actuary for HMEPS. Such value was calculated using a generally accepted method of recognizing market gains and losses (relative to the assumed discount rate) over a five-year period.

System's Contribution to the Municipal System. The System is directly responsible for only the costs of funding the portion of the Municipal System associated with the employees of the System. The Fiscal Year 2023 budget provides that the System is responsible for approximately $34.6 million of the City's estimated $197.3 million contribution to the Municipal System. In Fiscal Year 2024 the System will be responsible for approximately $43.6 million of the City's $224.1 million contribution to the Municipal System.

The System also is responsible for reimbursements to the City's General Fund for security and fire protection services, but anticipated increases in City Contributions to the Police System and Firefighter Fund will not have a material effect on System's contribution.

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 or 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 a negative effect on the City's pension liabilities. See also "– Health Benefits – *Health Benefits for Retired Employees*."

Pursuant to the provisions of Chapter 146, 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, directors, or classified firefighters and police officers. On August 4, 2021, City Council enacted an ordinance approving a new "meet and confer" agreement between HOPE and the City (the "2021 HOPE Agreement"). Pursuant to the 2021 HOPE Agreement, "across-the-board" three percent pay increases occurred on October 1, 2021, and July 1, 2022, and on July 1, 2023. The HOPE Agreement will expire June 30, 2025 if no successor agreement is reached.

Police System

The Police System is a contributory defined benefits pension program that provides benefits to the City's classified police officers.

Police System Fiscal Year Funding. The General Fund covers substantially all of the City's contributions to the Police System. The Fiscal Year 2023 contribution to HPOPS was approximately $165.2 million. The Fiscal Year 2024 Adopted Budget sets the contribution to HPOPS at approximately $167.3 million as determined by the applicable Pension Statute.

The table below reflects actuarial accrued liability, actuarial value of plan assets, unfunded actuarial accrued liability or surplus and funded ratio for each of the years 2019-2023. The information contained therein is derived from the HPOPS actuarial valuation reports from July 1 in each of the respective years.

Schedule 15B: Police System Pension Plan Assets,
Liabilities and Unfunded Actuarial Accrued Liability[(a)]
(in millions)

	2019	2020	2021	2022	2023
Actuarial Accrued Liability	$6,655	$6,835	$7,121	$7,381	$7,699
Actuarial Value of Plan Assets	5,435	5,631	6,082	6,459	6,877
Unfunded Actuarial Accrued Liability.	1,220	1,204	1,039	922	823
Funded Ratio	81.7%	82.4%	85.4%	87.5%	89.3%

(a) Source: Police System Actuarial Valuation Reports. This information is no longer presented in the City's financial statements due to the implementation of GASB 68.

The actuarial value of plan assets is determined by the actuary for the Police System. Such value was calculated using a generally accepted method of recognizing market gains and losses (relative to the assumed discount rate) over a five-year period.

Firefighter Fund

The Firefighter Fund provides benefits to the City's classified firefighters and is structured as a contributory defined benefits pension program. Firefighters must contribute 10.5% of the member's pensionable pay. The City contribution is now determined by the RSVS process.

Firefighter Fund Fiscal Year Funding. The General Fund covers substantially all of the City's contributions to HFRRF. The Fiscal Year 2023 contribution to HFRRF was approximately $70.6 million. The Fiscal Year 2024 Adopted Budget sets the contribution at approximately $76.5 million as determined by the applicable Pension Statute.

The schedule below reflects actuarial accrued liability, actuarial value of plan assets, unfunded actuarial accrued liability or surplus and funded ratio for 2019 to 2023. The information contained therein is derived from the HFRRF Actuarial Valuations from July 1 in each of the respective years.

Schedule 15C: Firefighter Fund Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability[a]
(in millions)

	2019	2020	2021	2022	2023
Actuarial Accrued Liability	$5,058	$4,932	$4,882	$5,076	$5,278
Actuarial Value of Plan Assets	4,191	4,252	4,550	4,844	5,065
Unfunded Actuarial Accrued Liability[b].......................................	867	680	332	232	213
Funded Ratio	82.9%	86.2%	93.2%	95.4%	96.0%

(a) Source Firefighter Fund Actuarial Valuation Reports. This information is no longer presented in the City's financial statements.
(b) The actuarial value of the plan assets is determined by the actuary for the HFRRF. Such value was calculated using a generally accepted method of recognizing market gains and losses (relative to the assumed discount rate) over a five-year period.

Pending Pension System Litigation

Local 341 Impasse Litigation. On June 28, 2017, Houston Professional Firefighters' Association, Local 341 (the "Local 341") originally filed suit against the City seeking judicial enforcement of Texas Local Government Code Chapter 174's private-sector comparable compensation standards and work conditions for Fiscal Year 2018. This City filed a plea to the jurisdiction and a motion for summary judgment on the basis that judicial enforcement under Section 174.242, violates the separation of powers doctrine, which the court denied. The court's denial was appealed up to the Texas Supreme Court. On March 31, 2023, the Texas Supreme Court issued an opinion holding that the judicial enforcement provisions of Chapter 174 were not an unconstitutional delegation of legislative authority to the courts and remanded for further proceedings on "the Fire Fighters' claim for judicial enforcement under Chapter 174's compensation standards" for Fiscal Year 2018. After Senate Bill 736, a new mandatory arbitration statute, became effective on June 2, 2023, the Local 341 amended its petition and filed motions requesting that the court compel mandatory arbitration for Fiscal Year 2018 and collective bargaining for the intervening years, Fiscal Year 2019-Fiscal Year 2023, in order to meet the prerequisite for mandatory arbitration. The City filed responses to the Local 341's motions, which included a constitutional challenge to Senate Bill 736, and filed a plea to the jurisdiction regarding collective bargaining for the intervening years. On August 29, 2023, the Court heard argument on the Local 341's motions seeking to compel arbitration and collective bargaining. The City's plea to the jurisdiction was denied, the Local 341's motion to compel collective bargaining for the intervening years was granted, and the City was ordered to collective bargain for the intervening years. On February 29, 2024 the City reached a tentative settlement agreement with the Local 341 that primarily would 1) provide lump sum payments of wages owed to certain firefighters covering Fiscal Years 2018 through 2024 (On March 14, 2024, the City and the Local 341 announced that such tentative lump sum payment amount is $650 million), 2) make permanent 6% raises given annually in Fiscal Year 2022, Fiscal Year 2023, and Fiscal Year 2024, totaling 18% and 3) mandate subsequent pay increases from Fiscal Year 2025 through Fiscal Year 2029 that have a five year value of $428M, which impacts the City's General Fund. The final financial terms of the settlement agreement are subject to City Council and court approval. See "-Municipal System - *System's Contribution to the Municipal System*." While the City has not taken any formal action related to the payment of any such final, approved settlement, it is considering issuing bonds, the proceeds of which would be used to pay all or a portion of any approved settlement amount. For a discussion on forward-looking statements see "FORWARD LOOKING STATEMENTS." As the City is considering issuing bonds, it has not yet determined the specifics of any such bond issuance.

On March 25, 2024, a Petition in Intervention was filed by the Houston Fire Department's command staff (assistant chiefs and executive assistant chief), collectively the "Intervenors," in the underlying lawsuit between the Local 341 and the City. The Intervenors request for a Temporary Restraining Order was denied. However, a temporary injunction hearing seeking to enjoin the Local 341 and the City from excluding the Intervenors from receiving settlement funds in the underlying lawsuit related to collective bargaining as well as claims for declaratory judgment and duty of fair representation, is currently scheduled for April 15, 2024. On March 28, 2024, the Local 341 filed a Motion to Sever the Intervenors claims from the underlying lawsuit between the Local 341 and the City and place it in a separate cause of action. The Court heard arguments on April 3, 2024, and on April 5, 2024, ordered that the Intervenors' claims be severed into a separate lawsuit.

BONDHOLDERS' REMEDIES

The Master Ordinance makes no provision for the appointment of a trustee to protect the rights of owners of any such obligations, and no provision for acceleration of maturity of any such bonds or foreclosure on revenues or possession of revenues by a trustee or agent for owners of any such obligations, or operation of the System by an independent third party in the event of default.

No lien has been created on the physical properties comprising the System to secure payment of principal of or interest on any revenue bonds of the System. Moreover, in the event of default, the owners of such obligations have no right or claim under the laws of the State against the System or any property of the City other than their right to payment from revenues collected and certain funds maintained pursuant to the Master Ordinance. Texas courts have held that unless expressly waived by the Texas Legislature, a municipality is immune from suit for monetary damages, and that the statutory authorization for municipalities to plead or be impleaded is insufficient to constitute a waiver of sovereign immunity. Accordingly, the only practical remedy in the event of default may be a mandamus or other equitable remedy proceeding to compel the City to increase rates and charges or to perform its other obligations under the Master Ordinance and any Supplemental Ordinance authorizing the issuance of System Obligations. Such remedy may need to be enforced on a periodic basis because maturity of such bonds is not subject to acceleration. In addition, even if rates and charges are increased, the amount of revenues generated would depend upon usage of the System by third parties, which is beyond the control of the City.

The enforcement of a claim for payment of principal of or interest on any revenue bonds of the System and the City's other obligations with respect to such bonds is subject to the applicable provisions of the federal bankruptcy laws and to any other similar laws affecting the rights of creditors of political subdivisions generally. See also "CERTAIN COVENANTS AND TERMS OF THE MASTER ORDINANCE – Bondholder Rights and Remedies."

INVESTMENT CONSIDERATIONS

Limited Obligations of the City

The Series 2024A Bonds are limited obligations of the City payable solely from and secured by a pledge of, and first lien upon, Net Revenues derived by the City from the operation of the System. Neither the faith and credit nor the taxing power of the City, the State nor any other political subdivision is pledged to the payment of the Series 2024A Bonds. Payment of the principal, redemption price of or the interest on the Series 2024A Bonds does not constitute a debt, liability or obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which it has levied or pledged any form of taxation.

System Revenues and Expenditures

Actual operation and maintenance expenses of the System may be greater or less than currently projected. Factors such as changes in technology, regulatory standards, increased costs of material, energy, labor and administration can substantially affect System expenses. Although the City has covenanted to prescribe, revise and collect rates and charges in amounts sufficient to pay debt service on the Series 2024A Bonds, there can be no assurance that such amounts will be collected. Furthermore, increases in System rates could result in a decrease in demand for System usage and result in a decrease in revenues.

As described above under "THE CITY AND THE SYSTEM – Sewer Facilities – Consent Decree Status", resolution of the issues identified in the Consent Decree related to the Sewer Facilities could entail expenditures or payment of costs by the City that could be substantial over a multi-year period and substantially reduce funds available for debt service or increase debt service requirements.

Statutory and Regulatory Requirements

State Legislative and Administrative Changes. The Texas Legislature convenes in regular session every two years. Thereafter, the Governor may call one or more additional special sessions, each of which may last no more than thirty (30) days and for which the Governor sets the agenda. The Texas Legislature may consider bills that could have a direct impact on the City, the System, their operations or the administrative agencies that oversee the City and the System. The City can make no representations or predictions concerning the substance or the effect of any legislation that may be passed in the future or how any such legislation could affect the System. Changes in the scope and standards for public agencies, such as the System, may lead to increasingly stringent operating requirements and the imposition of administrative orders issued by State regulators. Future compliance with such requirements and orders may impose substantial additional costs on the System. In addition, claims against the System for failure to comply with applicable laws and regulations could be significant. Such claims are payable from assets of the System or from other legally available sources. No assurance can be given that the cost of compliance with such existing or future laws, regulations and orders would not adversely affect the ability of the System to generate revenues sufficient to pay debt service on the Series 2024A Bonds.

Environmental Regulation. The City is subject to State and federal environmental laws and regulations applicable to the System. These laws and regulations are subject to change, and the City may be required to expend substantial funds to meet the requirements of such laws and regulations in the future. 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 as a result of City operations on properties owned or operated by the City or on properties owned by others. See “THE CITY AND THE SYSTEM – Water Facilities – Water Quality,” “THE CITY AND THE SYSTEM – Sewer Facilities – Federal and State Regulation of the Sewer Facilities” and “– Potential Penalties for the System’s Violations.” See also “RESPONSE TO SUBSIDENCE DISTRICT REGULATION.”

Other Environmental Measures. Air quality control measures required by the EPA and the 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 the EPA’s standards is 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 may 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 improvement in the HGB area, if it fails to meet the EPA’s standards, the 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 even 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.

Weather, Storm Activity and Periodic Flooding

Revenues and expenses of the System can be impacted by weather. Dry weather generally results in an increase of usage of the System, which can increase both revenues and expenses. Higher than average rainfall amounts generally result in less demand for the usage of the System. The change in the earth’s average atmospheric temperature, generally referred to as "climate change," may, among other things, increase the frequency and severity of extreme weather events. The City cannot predict the timing, extent or severity of any weather events and potential impacts on the City's operations and finances.

The City adopted the latest Drought Contingency Plan on July 1, 2019, to establish policies and procedures for the City to follow in case of a water shortage emergency. The plan is effective through June 30, 2024. System staff is currently in the process of updating the next Drought Contingency Plan, which, if adopted, is expected to be effective after June 30, 2024. A water shortage emergency caused by drought or other uncontrollable circumstances that hinder the City's ability to meet water demand can range from mild to critical and can disrupt the normal availability of water supplies. Due to record-setting high temperatures and a significant decrease in rainfall, Houston's service area experienced moderate to severe drought conditions requiring conservation measures to be implemented: from June 21, 2022 to August 26, 2023 the City enacted Stage One of the Drought Contingency Plan; from August 27, 2023 to December 13, 2023, the City enacted Stage Two of the Drought Contingency Plan; and on December 14, 2023, the City returned to Stage One. The City's Luce Bayou canal has expanded the accessibility of water in the Trinity River system and further helps ensure available water supply during drought conditions.

Downtown Houston is located approximately 50 miles north of the Gulf of Mexico. The Gulf region is prone to seasonal hurricane activity; major hurricanes or related storms may develop. 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. In addition to the damage observed due to Hurricane Harvey, the City has experienced three declared disasters for flooding and tropical systems in the past ten years (2015 Memorial Day, 2016 Tax Day, 2019 Tropical Storm Imelda). In addition, the region has experienced severe winter weather with a declared disaster in February 2021.

The City and Harris County each participate in the National Flood Insurance Program's Community Rating System (CRS), which is administered by FEMA. Communities participating in the CRS receive discounted flood insurance premium rates reflecting the reduced flood risk resulting from the jurisdiction's adopted policies and regulations, such as restrictions on development in designated flood prone areas.

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 is in the process of updating its Flood Insurance Rate Maps for Harris County and adjacent areas using latest available rainfall and topographic data and new modeling methodologies to better understand flood risks throughout the Greater Houston area. FEMA currently expects to release preliminary maps from this effort in 2024. As a result of this 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 may be included in the 100-year flood plain under the new maps. Residential, commercial, and industrial properties in the City that are reclassified as being within the 100-year flood plain could experience a diminution in value, the extent of which has not yet been determined.

The City has received hazard and flood mitigation grants from FEMA to fund flood mitigation and flood damage reduction projects. Projects include assistance to mitigate individual properties through home elevations and buyouts as well as damage reduction projects consisting of channel widening, regional detention and expanded urban stormwater infrastructure. These projects will be coordinated with the other local agencies responsible for watershed management.

Security of the System

Damage to the System resulting from vandalism, sabotage, or terrorist activities may adversely impact the operations and finances of the System. The City maintains insurance for the System as a result of terrorist activities. There can be no assurance that the City's security, emergency preparedness and response plans will be adequate to prevent or mitigate such damage, or that the costs of maintaining such security measures will not be greater than currently anticipated.

Cyber Security

Information technology systems are vulnerable to a range of cybersecurity related risks, including possible damage to or interference with operations of System facilities and the possible extraction of ransom. No assurance can be given that the System will not be exposed to cyber threats or attacks or that such incidents will not have a material adverse effect on the future operations and financial condition of the System. For information related cybersecurity the initiatives, See, "THE CITY AND THE SYSTEM - Cybersecurity Initiatives of the City".

Reserve Fund Surety Provider

As discussed above, a portion of the Reserve Fund Requirement for the First Lien Bond Reserve Fund is satisfied by surety policies issued by the Reserve Fund Surety Provider. The City is not obligated to replace the Reserve Fund Surety Provider or deposit cash in the First Lien Bond Reserve Fund in the event of a ratings downgrade of a Reserve Fund Surety Provider. See APPENDIX H – Description of Reserve Fund Surety Policy.

Qualified Hedge Agreements

The City is a party to four qualified hedge agreements with respect to System Bonds. See "QUALIFIED HEDGE AGREEMENTS."

Limited Recourse on Default

The rights of Bondholders are limited in the event the City defaults on its obligation to pay debt service on the Series 2024A Bonds. In particular, the Series 2024A Bonds are not subject to acceleration. See "BONDHOLDERS' REMEDIES."

Bankruptcy

Cities in the State, including the City, are eligible to file a petition for relief under Chapter 9 of the United State Bankruptcy Code. Accordingly, the rights of the owners of the Series 2024A Bonds are subject to the limitations on legal remedies against cities in the State, including applicable bankruptcy, moratorium, insolvency or other laws affecting creditor's rights or remedies and are subject to general principles of equity (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Series 2024A Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights or the modification of City covenants affecting the System or System revenues.

If the Net Revenues are determined to be "special revenues" under the federal Bankruptcy Code, then Net Revenues collected after the date of the bankruptcy filing should continue to be subject to the lien of the Ordinance. "Special revenues" are defined to include receipts derived from the ownership or operation of projects or systems that are primarily used to provide utility services. Although the Net Revenues appear to satisfy this definition, no assurance can be given that a court would hold that the Net Revenues are special revenues and subject to the lien of the Ordinance. If the Net Revenues are determined to not be "special revenues," then Net Revenues collected after the commencement of the bankruptcy case will likely not be subject to the lien of the Ordinance, and there may be no amounts from which the holders of the Series 2024A Bonds are entitled to be paid.

Loss of Tax Exemption for the Series 2024A Bonds

In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Series 2024A Bonds, the City has covenanted in the Series 2024 Supplemental Ordinance to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended. The interest on the Series 2024A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of such Bonds as a result of acts or omissions of the City in violation of this or other covenants in the Series 2024 Supplemental Ordinance applicable to the Series 2024A Bonds. See "TAX MATTERS." The Series 2024A Bonds are not subject to redemption or any increase in interest rates in the event of an event of taxability and will remain

Outstanding until maturity or prior redemption in accordance with the provisions contained in the Series 2024 Supplemental Ordinance.

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Series 2024A Bonds to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Series 2024A Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Series 2024A Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Series 2024A Bonds. Prospective purchasers of the Series 2024A Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Co-Bond Counsel express no opinion.

LITIGATION

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 property tax assessments; suits over the validity of City ordinances and over their enforcement; suits alleging non-compliance with certain federal and state environmental statutes; 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 is also aware that various claims for inverse condemnation have been and may be asserted against the City in connection with the City's operations, the aggregate amounts of which are unknown. The City intends to defend itself vigorously against all such inverse condemnation claims; however, the City's liability with respect to these claims cannot be predicted.

For a discussion of potential penalties for the System's violation of the Clean Water Act, see "THE CITY AND THE SYSTEM – Sewer Facilities - Potential Penalties for the System's Violations".

For a discussion of litigation related to the pension system, see "EMPLOYEE PENSION FUNDS – Pending Pension Systems Litigation."

FOR A DISCUSSION OF CONSENT DECREE NEGOTIATIONS WITH RESPECT TO THE WASTEWATER SYSTEM, SEE "THE CITY AND THE SYSTEM – SEWER FACILITIES – CONSENT DECREE STATUS."

RATINGS

Fitch Ratings and Moody's Investor Service, Inc. have assigned ratings of "___" and "___", respectively. The ratings reflect only the views of the rating agencies, from whom an explanation of the significance of such ratings may be obtained. The City is not obligated to maintain the current ratings on the Series 2024A Bonds or other Outstanding First Lien Bonds, and 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 2024A Bonds or other Outstanding First Lien Bonds. The City and the Co-Financial Advisors will undertake no responsibility to oppose any revision or withdrawal of such ratings. A rating is not a recommendation to buy, sell or hold the Series 2024A Bonds and may be subject to revision or withdrawal at any time.

Due to the ongoing uncertainty regarding the economy of the United States of America, obligations issued by state and local governments, such as the Series 2024A Bonds, could be subject to a rating downgrade. Additionally, if a significant default, other financial crisis or budgetary reductions should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity and market value of outstanding debt obligations, including the Series 2024A Bonds.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under Texas law, the Series 2024A Bonds are legal and authorized investments for insurance companies, fiduciaries or trustees, and for the sinking fund of cities, towns, villages, school districts and other political subdivisions or public agencies of the State. The Series 2024A Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions and are legal security for those 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 (Texas Government Code, Chapter 2256), the Series 2024A Bonds may have to be assigned a rating of "A" or its equivalent as to investment quality by a national 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 whether the Series 2024A Bonds are legal investments for various institutions in those states.

The City has made no investigation of any other laws, rules, regulations or investment criteria that might affect the suitability of the Series 2024A Bonds 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 2024A Bonds.

TAX MATTERS

Series 2024A Bonds

The Internal Revenue Code of 1986, as amended (the "Code"), includes requirements which the City must continue to meet after the issuance of the Series 2024A Bonds in order that the interest on the Series 2024A Bonds be and remain excludable from gross income for federal income tax purposes. The City's failure to meet these requirements may cause the interest on the Series 2024A Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2024A Bonds. The City has covenanted in the Series 2024 Supplemental Ordinance to take the actions required by the Code in order to maintain the exclusion from gross income for federal income tax purposes of interest on the Series 2024A Bonds.

In the opinion of Greenberg Traurig, LLP ("Tax Counsel"), assuming the accuracy of certain representations and certifications of the City and continuing compliance by the City with the tax covenants referred to above, under existing statutes, regulations, rulings and court decisions, the interest on the Series 2024A Bonds is excludable from gross income of the holders thereof for federal income tax purposes, and, further, interest on the Series 2024A Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. In the case of the alternative minimum tax imposed by Section 55(b)(2) of the Code on applicable corporations (as defined in Section 59(k) of the Code), interest on the Series 2024A Bonds is not excluded from the determination of adjusted financial statement income. Tax Counsel will express no opinion as to any other tax consequences regarding the Series 2024A Bonds. Prospective purchasers of the Series 2024A Bonds should consult their own tax advisors as to the status of interest on the Series 2024A Bonds under the tax laws of any state.

Except as described above, Tax Counsel will express no opinion regarding the federal income tax consequences resulting from the receipt or accrual of the interest on the Series 2024A Bonds, or the ownership or disposition of the Series 2024A Bonds. Prospective purchasers of Series 2024A Bonds should be aware that the ownership of Series 2024A Bonds may result in other collateral federal tax consequences, including (i) the denial of a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2024A Bonds, (ii) the reduction of the loss reserve deduction for property and casualty insurance companies by the applicable statutory percentage of certain items, including the interest on the Series 2024A Bonds, (iii) the inclusion of the interest on the Series 2024A Bonds in the earnings of certain foreign corporations doing business in the United States for purposes of a branch profits tax, (iv) the inclusion of the interest on the Series 2024A Bonds in the passive income subject to federal income taxation of certain Subchapter S corporations with Subchapter C earnings and profits at the close of the taxable year, (v) the inclusion of interest on the Series 2024A Bonds in the determination of the taxability of certain

Social Security and Railroad Retirement benefits to certain recipients of such benefits, (vi) net gain realized upon the sale or other disposition of property such as the Series 2024A Bonds generally must be taken into account when computing the Medicare tax with respect to net investment income or undistributed net investment income, as applicable, imposed on certain high income individuals and specified trusts and estates and (vii) receipt of certain investment income, including interest on the Series 2024A Bonds, is considered when determining qualification limits for obtaining the earned income credit provided by Section 32(a) of the Code. The nature and extent of the other tax consequences described above will depend on the particular tax status and situation of each owner of the Series 2024A Bonds. Prospective purchasers of the Series 2024A Bonds should consult their own tax advisors as to the impact of these and any other tax consequences.

Tax Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Tax Counsel as of the date thereof. Tax Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Tax Counsel's attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, Tax Counsel's opinions are not a guarantee of a particular result, and are not binding on the Internal Revenue Service or the courts; rather, such opinions represent Tax Counsel's professional judgment based on its review of existing law, and in reliance on the representations and covenants that it deems relevant to such opinion.

Original Issue Premium and Discount

Certain of the Series 2024A Bonds ("Premium Bonds") may be offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity (or earlier for certain Premium Bonds callable prior to maturity). That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually (or over a shorter permitted compounding interval selected by the owner). No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity), or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond.

Certain of the Series 2024A Bonds ("Discount Bonds") may be offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of a Discount Bond determined under Code Section 1273 or 1274 (i.e., for obligations issued for money in a public offering, the initial offering price to the public (other than to bond houses and brokers) at which a substantial amount of the obligation of the same maturity is sold pursuant to that offering). For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excludable from the owner's gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the Series 2024A Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond.

Owners of Discount and Premium Bonds should consult their own tax advisers as to the determination for federal income tax purposes of the amount of OID or bond premium properly accruable in any period with respect to the Premium Bonds and as to other federal tax consequences, and the treatment of OID and bond premium for purposes of state and local taxes on, or based on, income.

Changes in Federal Tax Law

From time to time, there are legislative proposals suggested, debated, introduced or pending in Congress that, if enacted into law, could alter or amend one or more of the federal tax matters described above including, without limitation, the excludability from gross income of interest on the Series 2024A Bonds, adversely affect the market price or marketability of the Series 2024A Bonds, or otherwise prevent the holders from realizing the full current benefit of the status of the interest thereon. It cannot be predicted whether or in what form any such proposal may be enacted, or whether, if enacted, any such proposal would affect the Series 2024A Bonds. Prospective purchasers of the Series 2024A Bonds should consult their tax advisors as to the impact of any proposed or pending legislation.

On August 16, 2022, President Biden signed the Inflation Reduction Act of 2022 (H.R. 5376) into law. For tax years beginning after 2022, this legislation imposes a minimum tax of 15 percent on the adjusted financial statement income of applicable corporations as defined in Section 59(k) of the Code (which is primarily designed to impose a minimum tax on certain large corporations). For this purpose, adjusted financial statement income is not reduced for interest earned on tax-exempt obligations. Prospective purchasers that could be subject to this minimum tax should consult with their own tax advisors regarding the potential consequences of owning the Series 2024A Bonds.

Information Reporting and Backup Withholding

Interest paid on tax-exempt bonds such as the Series 2024A Bonds is subject to information reporting to the Internal Revenue Service in a manner similar to interest paid on taxable obligations. This reporting requirement does not affect the excludability of interest on the Series 2024A Bonds from gross income for federal income tax purposes. However, in conjunction with that information reporting requirement, the Code subjects certain non-corporate owners of Series 2024A Bonds, under certain circumstances, to “backup withholding” at the rates set forth in the Code, with respect to payments on the Series 2024A Bonds and proceeds from the sale of Series 2024A Bonds. Any amount so withheld would be refunded or allowed as a credit against the federal income tax of such owner of Series 2024A Bonds. This withholding generally applies if the owner of Series 2024A Bonds (i) fails to furnish the payor such owner’s social security number or other taxpayer identification number (“TIN”), (ii) furnished the payor an incorrect TIN, (iii) fails to properly report interest, dividends, or other “reportable payments” as defined in the Code, or (iv) under certain circumstances, fails to provide the payor or such owner’s securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such owner is not subject to backup withholding. Prospective purchasers of the Series 2024A Bonds may also wish to consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

LEGAL MATTERS

The delivery of the Series 2024A Bonds is subject to the approving opinions of the Attorney General of the State of Texas and of Greenberg Traurig LLP, Houston, Texas and The Chevalier Law Firm, PLLC, Houston, Texas, Co-Bond Counsel for the City, as to the validity of the issuance of the Series 2024A Bonds under the Constitution and laws of the State of Texas. The opinions will be based upon an examination of the transcripts of certain proceedings taken by the City incident to the issuance and authorization of the Series 2024A Bonds.

In their capacity as Co-Bond Counsel, Greenberg Traurig LLP, Houston, Texas and The Chevalier Law Firm, PLLC, Houston, Texas, have reviewed the statements and information contained in this Official Statement under the captions and sub-captions “PURPOSE AND PLAN OF FINANCE,” “REQUIRED PAYMENTS UNDER PREVIOUS ORDINANCE” (except for the last sentence of the first paragraph), “THE SERIES 2024A BONDS,” “SECURITY FOR THE SERIES 2024A BONDS,” “RESERVE FUND,” “ADDITIONAL BONDS,” “CERTAIN COVENANTS AND TERMS OF THE MASTER ORDINANCE,” “QUALIFIED HEDGE AGREEMENTS – Master Ordinance Requirements,” “BONDHOLDERS’ REMEDIES,” “CONTINUING DISCLOSURE OF INFORMATION” (except for the information under the sub-caption “Compliance With Prior Undertakings,” as to which no opinion is expressed), and APPENDIX C and APPENDIX D and Co-Bond Counsel are each of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Master Ordinance and the Series 2024 Supplemental Ordinance; further, Co-Bond Counsel has reviewed the statements and information contained in the Official Statement under the captions and sub-captions “LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS,” “TAX MATTERS,” and “REGISTRATION, SALE AND DISTRIBUTION,” and Co-Bond Counsel are each of the opinion that the statements and information contained therein are correct as to matters of law.

Such firms may not have, 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 or the Combined Utility System for the purpose of passing upon the fairness, 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 fairness, accuracy or completeness of any of the information contained herein. The fees of Co-Bond Counsel for their services with respect to the Series 2024A Bonds are contingent upon the sale and delivery of the Series 2024A Bonds.

In connection with the issuance of the Series 2024A Bonds, certain legal matters will be passed upon for the City by its Co-Disclosure Counsel, McCall, Parkhurst & Horton L.L.P., Houston, Texas and West & Associates, L.L.P., Houston, Texas. Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Houston, Texas.

Greenberg Traurig LLP, The Chevalier Law Firm PLLC, McCall, Parkhurst & Horton L.L.P. and West & Associates, L.L.P. represent the Underwriters from time to time in matters unrelated to the issuance of the Series 2024A Bonds. Norton Rose Fulbright US LLP represents the City from time to time in matters unrelated to the issuance of the Series 2024A Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Series 2024A Bonds 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 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.

INDEPENDENT AUDITORS

The Financial Statements of the City of Houston, Texas, as of and for the year ended June 30, 2023, included in this Official Statement as APPENDIX A, have been audited by McConnell & Jones CPAs and Banks, Finley, White & Co., independent auditors, as stated in their report (which includes a reference to other auditors) appearing herein.

CO-FINANCIAL ADVISORS

Masterson Advisors LLC and TKG & Associates LLC (the “Co-Financial Advisors”) have been retained by the City as its independent financial advisors in connection with the issuance of the Series 2024A Bonds 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 Series 2024A Bonds are not contingent upon the sale and delivery of the Series 2024A Bonds.

Although the Co-Financial Advisors have read and participated in the preparation of this Official Statement, such firms have not independently verified any of the information set forth in this Official Statement. 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, and which may be subject to interpretation. No guarantee is made by the Co-Financial Advisors as to the accuracy or completeness of any information herein. No person, therefore, is permitted to rely upon the participation of the Co-Financial Advisors as an implicit or explicit expression of opinion as to such completeness and accuracy.

REGISTRATION, SALE AND DISTRIBUTION

The Series 2024A Bonds 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 Master Ordinance and the Series 2024 Supplemental Ordinance have not been qualified under the federal Trust Indenture Act of 1939, as amended (in reliance upon an exemption therefrom).

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SECURITIES OR PASSED UPON THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

UNDERWRITING

Jefferies, as representative and on behalf of the Underwriters, has agreed to purchase the Series 2024A Bonds, subject to certain conditions, and has agreed to pay (1) a price of ____________ for the Series 2024A Bonds

The Target Bonds are the subject of a tender offer under the terms of the Invitation with Jefferies acting as Dealer Manager. The Dealer Manager will be compensated separately for its services as Dealer Manager. For its services as Dealer Manager, the Dealer Manager will receive a customary fee for its services (the "Dealer Manager's Fee") and will be reimbursed for its reasonable expenses relating to the Invitation. The Dealer Manager's Fee is expected to be paid from proceeds of the Series 2024A Bonds.

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, 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 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 (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City. The Underwriters and their affiliates also may communicate independent investment recommendations, market advice or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and at any time may hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

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 2024A Bonds to retail investors 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. Please see APPENDIX I – UNDERWRITER DISTRIBUTION AGREEMENTS.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The Verification Agent will deliver to the City, on or before the settlement date of the Series 2024A Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Refunded Bonds Escrowed Securities to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds and (b) the purchase price of the Purchased Bonds and the sufficiency of cash deposited with the Purchased Bonds Paying Agent to pay the purchase price of the Purchased Bonds.

The Verification Agent has relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the City. In addition, The Verification Agent has relied on any information provided to it by the City's retained advisors, consultants or legal counsel.

CONTINUING DISCLOSURE OF INFORMATION

In the Series 2024 Supplemental Ordinance, the City has made the following agreement regarding the continuing disclosure of information for the benefit of the holders and Beneficial Owners of the Series 2024A Bonds. The City is required to observe such agreement for so long as it remains an "obligated person" with respect to the Series 2024A Bonds within the meaning of Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended from time to time (the "Rule"). Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the information repository described below.

Annual Reports

The Municipal Securities Rulemaking Board (the "MSRB") is the sole information repository, and all continuing disclosure documents are required to be provided solely 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.

The City agrees to provide annually to the MSRB, within six months after the end of each fiscal year beginning in 2024, financial information and operating data with respect to the City of the general type included in this Official Statement as follows: (1) the average daily wastewater flow through and the effective treatment capacity of the Sewer Facilities presented under "THE CITY AND THE SYSTEM – Sewer Facilities – General," (2) the number of "in-City" districts that the City has permitted to be created and the number of "in-City" districts that have been created as presented under "ANNEXATION PROGRAM AND 'IN-CITY' DISTRICTS – In-City Districts," (3) the number of active service connections of the System and the sources of System revenues presented under "SOURCES OF SYSTEM REVENUES – General," (4) the rates charged to various types of customers of the System presented under "RATES – Current Rates," (5) the financial statements presented in APPENDIX A, and (6) the schedules listed in APPENDIX F. Any financial statements so to be provided will be (1) prepared in accordance with generally accepted accounting principles currently in effect for governmental units as prescribed by the Government Accounting Standards Board, which principles are subject to change from time to time to comply with state law or regulation 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.

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.

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 that is available from the MSRB or filed with the SEC, or may be provided in any other manner consistent with the Rule.

Notices of Certain Events

The City also will provide, to the MSRB, timely notice, not in excess of ten (10) business days after the occurrence of the event, of any of the following events with respect to the Series 2024A Bonds: (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 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 Series 2024A Bonds, or other material events affecting the tax status of the Series 2024A Bonds; (7) modifications to rights of holders of the Series 2024A Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2024A Bonds, 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; (14) the appointment of a successor or additional trustee or the change in the name of the trustee, if material; (15) incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties.

For the purposes of the event numbered (12) above, 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 United States 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.

The City intends the words used in events numbered (15) and (16) and the definition of Financial Obligation to have the same meanings as when they are used in the Rule, as evidenced by SEC Release No. 34-83885, dated August 20, 2018.

In addition, the City will notify the MSRB, in a timely manner, of any failure by the City to provide financial statements, financial information or operating data in accordance with the Series 2024 Supplemental Ordinance by the time required by the Series 2024 Supplemental Ordinance.

Availability of Information

The City has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public without charge through EMMA at www.emma.msrb.org.

Limitations and Amendments

The City has agreed to update information and to provide notices of certain events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

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, but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby 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 either the holders of a majority in aggregate principal amount of the Outstanding Bonds consent or nationally recognized bond counsel determines that the amendment will not materially impair the interests of the Beneficial Owners of the Series 2024A Bonds. 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 circumstance or manner, but in either case only to the extent that its right to do so would not prevent an underwriter from purchasing the Series 2024A Bonds in the offering made hereby 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 Undertakings

On June 12, 2023, the City filed disclosures (the "Summarized Update") describing its compliance with its continuing disclosure undertakings during the previous five years, including certain filings with respect to the System Bonds, which disclosures are available by accessing the following link to EMMA (https://emma.msrb.org/P21750297.pdf) and locating the Summarized Update under the "Event-Based Disclosures" tab. The content of the Summarized Update is incorporated herein by reference.

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, budget or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date thereof, and the City assumes no obligation to update any such forward-looking statements. It is important to note that the actual results of the City and the System could differ materially from those in such forward-looking statements.

The forward-looking statements in this Official Statement 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 developments 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.

GENERAL INFORMATION

The descriptions in this Official Statement do not purport to be complete and all such descriptions or references are qualified in their entirety by reference to the complete form of the Master Ordinance, the Series 2024 Supplemental Ordinance or other documents or sources they summarize. Statements made in this Official Statement 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 the same and are made subject to all of the provisions thereof. Reference should be made to such original sources in all respects. The Series 2024A Bonds are payable solely from the Net Revenues as described herein, and such information is not intended to imply that any other revenues or monies of the City are pledged to pay the principal of and interest on the Series 2024A Bonds. References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

For additional information with respect to the financial condition of the City, see the City's Basic Financial Statements for the Fiscal Year ended June 30, 2023, and supplementary schedules for the City's Combined Utility System Fund attached hereto as APPENDIX A. A copy of the most recent Quarterly Investment Report is available upon request from the City Controller, P.O. Box 1562, Houston, Texas 77251-1562. Copies of the Master Ordinance and the Series 2024 Supplemental Ordinance may be obtained from Pat J. Daniel, City Secretary, City Hall Annex, 900 Bagby, Level P, Room P-101, Houston, Texas, or by mail at P.O. Box 1562, Houston, Texas 77251-1562.

This document was approved by the City Council.

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SCHEDULE I

SCHEDULE OF REFUNDED BONDS

City of Houston, Texas Combined Utility System First Lien Revenue Refunding Bonds, Series 2014C

SCHEDULE II

SCHEDULE OF TARGET AND PURCHASED BONDS*

City of Houston, Texas

Combined Utility System First Lien Revenue Refunding Bonds Series 2015D

Maturity Date (November 15)	Interest Rate	Original Principal Amount ($)	Purchased Amount ($)	Remaining Outstanding Amount ($)
2026	5.000%	11,050,000		
2027	5.000%	11,615,000		
2028	5.000%	12,210,000		
2029	5.000%	6,295,000		
2031	5.000%	2,460,000		
2032	5.000%	2,440,000		
2033	5.000%	2,420,000		
2034	5.000%	2,395,000		
2035	5.000%	2,375,000		

Combined Utility System First Lien Revenue and Refunding Bonds, Series 2016B

Maturity Date (November 15)	Interest Rate	Original Principal Amount ($)	Purchased Amount ($)	Remaining Outstanding Amount ($)
2030	5.000%	31,045,000		
2032	5.000%	38,405,000		
2033	5.000%	21,115,000		
2033	5.250%	20,000,000		
2034	5.000%	105,735,000		
2035	5.000%	111,065,000		
2036	5.000%	114,575,000		
2038	4.500%	43,500,000		

Combined Utility System First Lien Revenue Refunding Bonds, Series 2017B

Maturity Date (November 15)	Interest Rate	Original Principal Amount ($)	Purchased Amount ($)	Remaining Outstanding Amount ($)
2034	5.000%	8,160,000		
2035	5.000%	8,580,000		
2036	5.000%	9,015,000		
2037	5.000%	9,480,000		
2038	5.000%	9,965,000		

Combined Utility System First Lien Revenue Refunding Bonds, Series 2018D

Maturity Date (November 15)	Interest Rate	Original Principal Amount ($)	Purchased Amount ($)	Remaining Outstanding Amount ($)
2033	5.000%	14,990,000		
2034	5.000%	12,530,000		
2035	5.000%	13,170,000		
2036	5.000%	13,840,000		

* Preliminary, subject to change. The purchase of any of the Purchased Bonds is contingent upon the sale and delivery of the Series 2024A Bonds. The maturities and amounts of such obligations, if any, to be purchased will depend on market conditions when the Series 2024A Bonds are sold and could differ materially from the information shown. See "PURPOSE AND PLAN OF FINANCE – Purchased Bonds."

Combined Utility System First Lien Revenue Refunding Bonds,
Taxable Series 2018E

Maturity Date (November 15)	Interest Rate	Original Principal Amount ($)	Purchased Amount ($)	Remaining Outstanding Amount ($)
2025	3.455%	2,265,000		
2026	3.543%	2,810,000		
2027	3.643%	4,220,000		
2028	3.723%	34,030,000		
2029	3.823%	43,630,000		
2030	3.923%	44,790,000		
2031	3.973%	46,120,000		
2032	4.073%	1,240,000		
2033	4.123%	1,340,000		
2038	4.172%	14,550,000		

Combined Utility System First Lien Revenue Refunding Bonds,
Taxable Series 2019C

Maturity Date (November 15)	Interest Rate	Original Principal Amount ($)	Purchased Amount ($)	Remaining Outstanding Amount ($)
2025	1.949%	5,175,000		
2026	2.049%	5,285,000		
2027	2.155%	5,405,000		
2028	2.205%	27,065,000		
2029	2.255%	46,435,000		
2030	2.355%	53,615,000		
2031	2.455%	49,550,000		
2032	2.505%	49,425,000		
2033	2.555%	51,250,000		
2034	2.605%	21,285,000		
2035	2.655%	21,940,000		
2042	2.984%	151,765,000		

Combined Utility System First Lien Revenue Refunding Bonds,
Taxable Series 2020D

Maturity Date (November 15)	Interest Rate	Original Principal Amount ($)	Purchased Amount ($)	Remaining Outstanding Amount ($)
2025	0.976%	8,325,000		
2026	1.221%	3,935,000		
2027	1.371%	3,995,000		
2028	1.522%	4,065,000		
2029	1.572%	9,130,000		
2030	1.622%	9,285,000		
2031	1.722%	9,445,000		
2032	1.822%	9,620,000		
2033	1.872%	15,550,000		
2034	1.972%	15,855,000		
2035	2.022%	16,165,000		
2040	2.542%	32,045,000		
2043	2.642%	25,805,000		

Combined Utility System First Lien Revenue Refunding Bonds, Taxable Series 2021B

Maturity Date (November 15)	Interest Rate	Original Principal Amount ($)	Purchased Amount ($)	Remaining Outstanding Amount ($)
2025	0.811%	5,215,000		
2026	1.011%	9,265,000		
2027	1.366%	9,375,000		
2028	1.516%	9,515,000		
2029	1.709%	5,205,000		
2030	1.909%	730,000		
2031	1.929%	5,545,000		
2032	2.009%	5,650,000		
2033	2.209%	630,000		
2034	2.309%	645,000		
2035	2.409%	660,000		
2036	2.459%	12,840,000		
2037	2.509%	13,160,000		
2038	2.599%	7,205,000		

APPENDIX A

CITY OF HOUSTON BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2023, INCLUDING SUPPLEMENTARY SCHEDULES FOR THE CITY'S COMBINED UTILITY SYSTEM FUND

CITY OF HOUSTON, TEXAS
ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

CHRIS B. BROWN
CONTROLLER

OFFICE OF THE CITY CONTROLLER – 120 YEARS OF HOUSTON HISTORY

CITY OF HOUSTON, TEXAS

Annual Comprehensive Financial Report for the fiscal year ended June 30, 2023

Prepared by:

Chris B. Brown, City Controller

Beverly Riggans, Deputy City Controller

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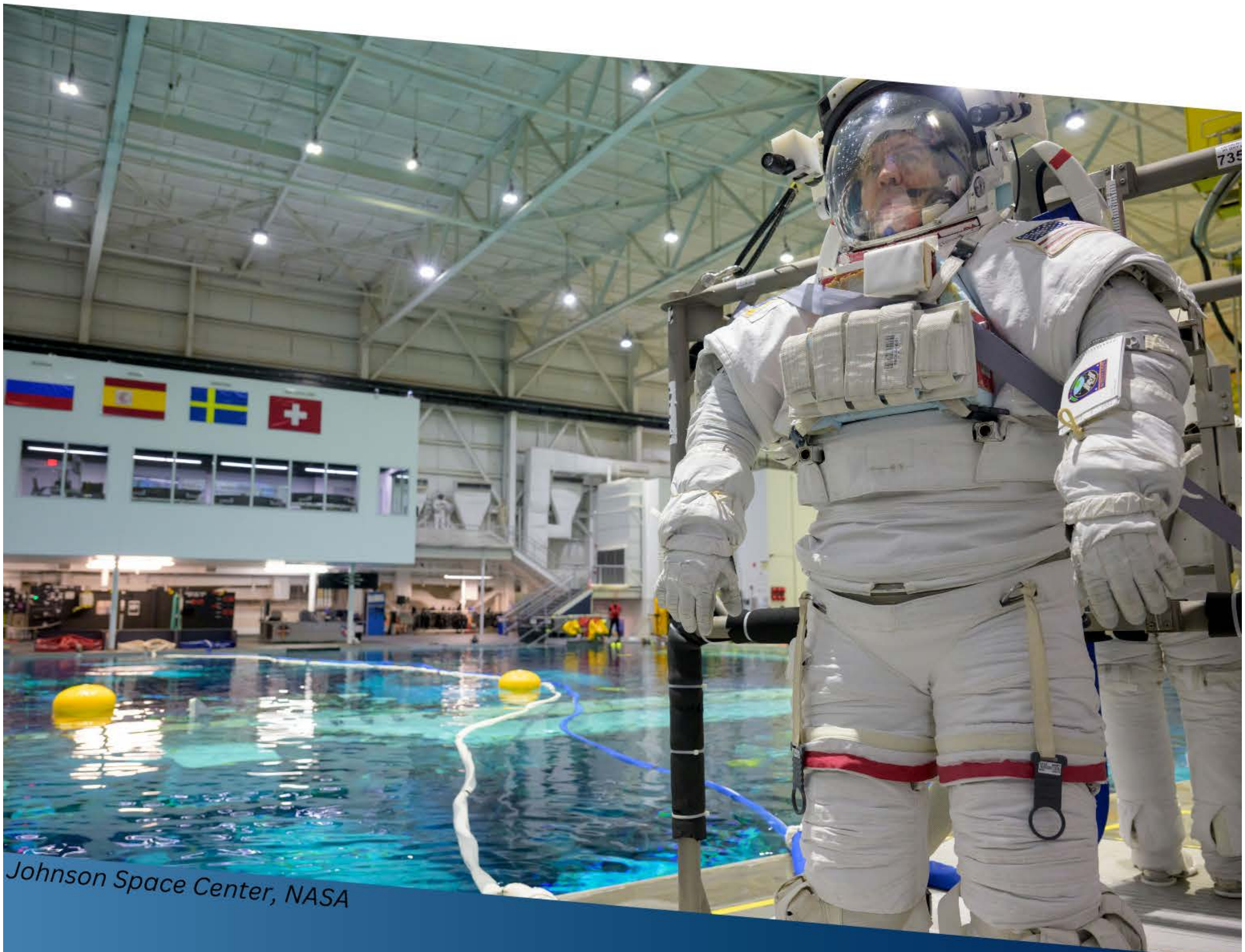
CITY OF HOUSTON, TEXAS



Johnson Space Center, NASA

PART I

INTRODUCTORY SECTION

Introductory Section:

NASA's Johnson Space Center has served as a hub of human spaceflight activity for more than half a century. It is home to the nation's astronaut corps, the International Space Station mission operations, the Orion Program, and a host of future space developments. The center plays a pivotal role in enhancing scientific and technological knowledge to benefit all of humankind.

OFFICE OF THE CITY CONTROLLER

Houston City Controller Chris B. Brown is the second highest elected official in the City of Houston Government (the "City") and its Chief Financial Officer. The Office of the City Controller superintends the fiscal affairs of the City. This includes conducting internal audits, managing investments and debt, preparing financial statements, and providing leadership on policy issues pertaining to the City's financial health. Controller Brown thus serves as an independently elected "financial watchdog" over the City's fiscal affairs.

The Treasury Division is responsible for managing the City's $5.66 billion investment portfolio in accordance with state law and the City's investment policy. Fitch has awarded the City's general investment portfolio/pool its highest rating, AAA. The Treasury Division is also responsible for overseeing a debt program of approximately $13.9 billion. The City has multiple general obligation commercial paper programs with a total authorization of $2.03 billion. The current issuance capacity of the commercial paper program is $550 million, which is supported by credit facilities or lines of credit. Additionally, the City has two appropriation facilities supported by a forward bond purchase agreement in the amount of $400 million. The City has four interest rate swaps with a total notional amount of $902.4 million. The City's general obligation debt is rated Aa3 by Moody's; AA by Standard and Poor's; and AA by Fitch Ratings.

The Audit Division adheres to recognized professional auditing standards (*Government Auditing Standards* and International Standards as issued by the Institute of Internal Auditors). During fiscal year 2023, the Audit Division engaged in 21 audits and special projects that produced seven audit reports and a risk assessment report, as posted on the Office of the City Controller's website. These audits and projects focused on risk assessment, contract compliance, performance and efficiency, process reviews, ongoing monitoring, consideration of fraud, waste or abuse, and quality assurance. These efforts resulted in policy and procedure changes, improved processes, and millions of dollars in potential recoveries. The Audit Division also provided updates to the City Controller regarding compliance efforts, fraud, waste or abuse reports, and quality assurance results. In the most recent peer review, the Association of Local Government Auditors concluded "the internal quality control system of the Office of the City Controller's Audit Division within the City of Houston was suitably designed and operating effectively to provide reasonable assurance of conformance with the Standards."

The Operations and Technical Services Division is responsible for funding certification for contracts, accounts payable, vendor payments and cash disbursement, travel advances, monthly bank account reconciliation, review and approval of City-wide personnel action requests, payroll payments processing, City-wide contract review, financial and accounting records retention and imaging retrieval, City-wide vendor liaison, and the Controller Office's information technology operations.

The Financial Reporting Division is ultimately responsible for the preparation of both the Monthly Financial and Operations Report and the Annual Comprehensive Financial Report ("ACFR"), although every division of the Office of the City Controller contributes to the ACFR effort. The ACFR is available on the City Controller's website: www.houstontx.gov/controller and on a USB drive upon request. The division also produces the annual Trends Report.

CITY CONTROLLER
CHRIS B. BROWN

Controller Chris B. Brown is a lifelong Houstonian who was sworn into office as the City Controller of the City of Houston (the “City”) in January 2016 and re-elected to a second term in 2019.

As the Controller of the nation’s fourth largest city, Chris oversees a $6.2 billion budget, manages the City’s $5.66 billion investment portfolio and superintends its $13.9 billion debt portfolio. Since first elected, Chris has identified approximately $10 million in savings via increased efficiencies through the office’s Audit Division and helped save City taxpayers more than $669 million in present value savings through refinancing the City’s existing debt.

In addition, Chris has led on the City’s most pressing financial issues, playing an instrumental role in solving the City’s pension crisis, addressing billions of dollars in unfunded other post-employment benefits liability, and championing the City’s pursuit of adopting a structurally balanced budget every fiscal year.

Chris’ career spans more than two decades across both the public and private sectors. Prior to being elected Controller in December 2015, Chris served as Chief Deputy City Controller in the Office of the City Controller, where he managed the day-to-day operations of the office and oversaw a staff of more than 65 employees. Before being appointed Chief Deputy City Controller in 2009, Chris worked as City Council Chief of Staff, spearheading community development initiatives and serving as a liaison to the Budget and Fiscal Affairs Committee.

Chris’ career began in the private sector, where he worked as a trader for Coastal Securities, an investment bank. After several years, Chris co-founded an equity trading firm where he worked as the head of operations. This work gave him first-hand experience with leadership, risk management, compliance, reporting, building operations, and negotiating complex agreements.

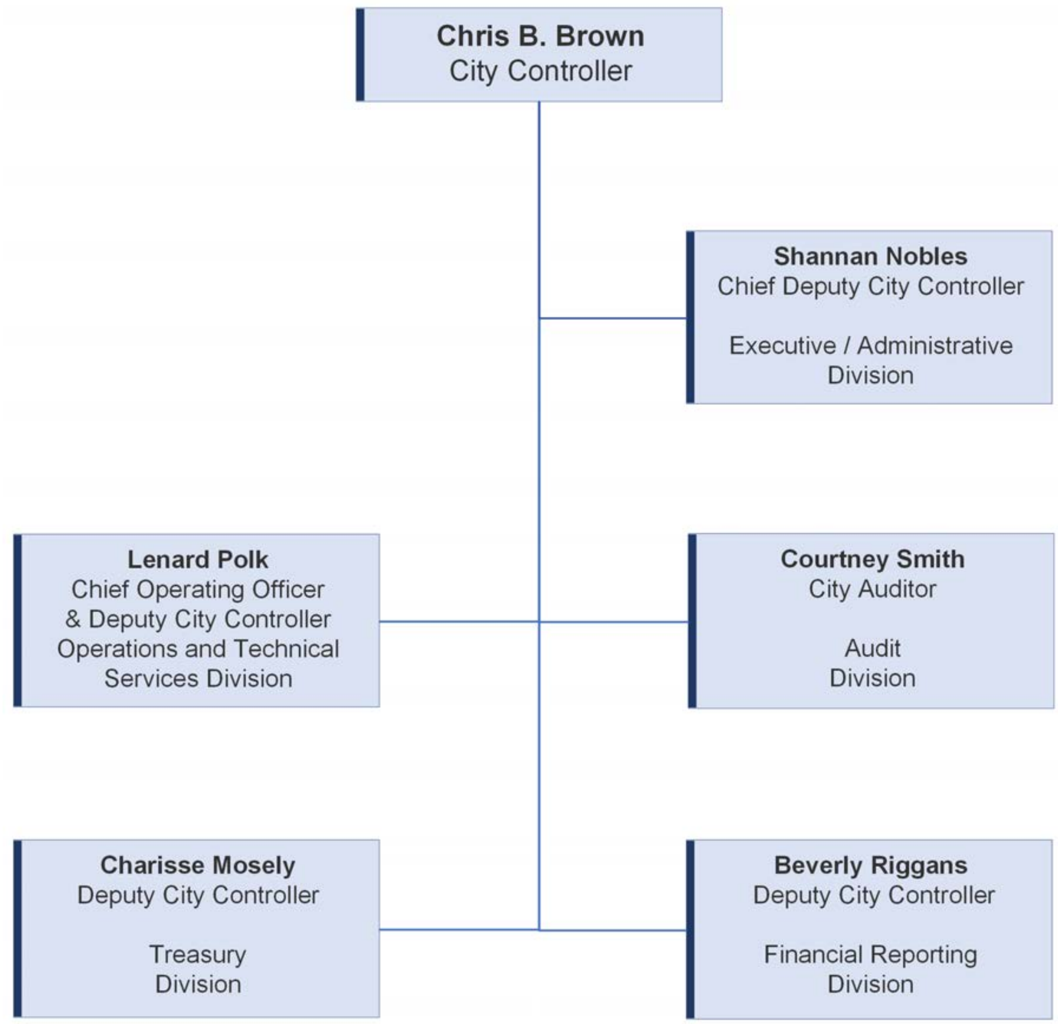
In addition to his professional experience, Chris is actively involved with several organizations in a leadership capacity.

Chris is the former Chair of the National League of Cities’ Finance, Administration & Intergovernmental Relations Committee (“FAIR Committee”), a role in which he played a key role in developing the organization’s policy positions on a range of issues for cities across the nation. Chris currently represents NLC on the Government Accounting Standards Board (GASB) Government Accounting Standards Advisory Council (GASAC) where he works to increase transparency of government finances by strengthening accounting and reporting standards.

Chris also serves on the board of the William A. Lawson Institute for Peace & Prosperity, the Asia Society of Texas Advisory Board, and the Texan-French Alliance for the Arts. In addition, he is a past board member of the Texas Christian University National Alumni Association and SEARCH Homeless Services.

As a fourth-generation Houstonian, Chris has deep roots across the community. He attended Texas Christian University, where he obtained a Bachelor of Business Administration in Finance, and later earned a Master's in Business Administration from the University of Houston. Chris and his wife, Divya, are involved in many philanthropic causes, and are proud parents to their daughter, Milana, and son, Britton.

ORGANIZATION CHART
OFFICE OF THE CITY CONTROLLER
AS OF JUNE 30, 2023



ELECTED OFFICIALS
AS OF JUNE 30, 2023

SYLVESTER TURNER
MAYOR

CHRIS BROWN
CONTROLLER

AMY PECK
DISTRICT A

TARSHA JACKSON
DISTRICT B

ABBIE KAMIN
DISTRICT C

CAROLYN EVANS-SHABAZZ
DISTRICT D

DAVE MARTIN
DISTRICT E

TIFFANY D. THOMAS
DISTRICT F

MARY NAN HUFFMAN
DISTRICT G

KARLA CISNEROS
DISTRICT H

ROBERT GALLEGOS
DISTRICT I

EDWARD POLLARD
DISTRICT J

MARTHA CASTEX-TATUM
DISTRICT K

MIKE KNOX
AT-LARGE POSITION 1

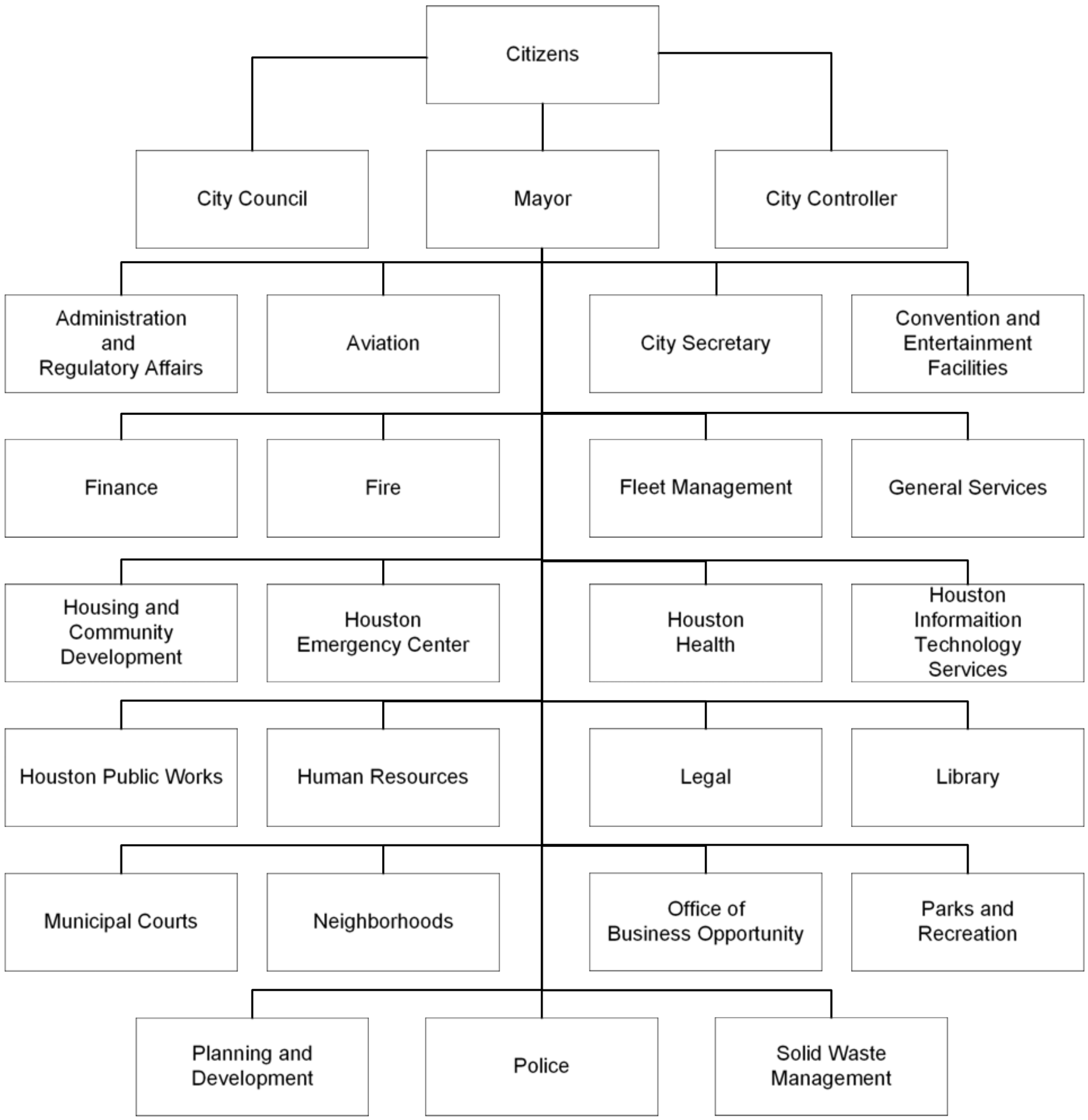
DAVID ROBINSON
AT-LARGE POSITION 2

MICHAEL KUBOSH
AT-LARGE POSITION 3

LETITIA PLUMMER
AT-LARGE POSITION 4

SALLIE ALCORN
AT-LARGE POSITION 5

ORGANIZATION CHART
CITY GOVERNMENT



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

CHRIS B. BROWN

TRANSMITTAL LETTER

November 17, 2023

Citizens of Houston, Honorable Mayor and City Council Members:

I am pleased to provide you with the Annual Comprehensive Financial Report ("ACFR") for the City of Houston, Texas, (the "City") for the fiscal year ended June 30, 2023, including the independent auditor's report, on pages 1 through 3, prepared by McConnell & Jones/Banks, Finley, White & Co. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering unmodified opinions on the City's basic financial statements as of and for the year ended June 30, 2023.

The ACFR was prepared by the City Controller's Office and satisfies my responsibilities under the City Charter and State law. Responsibility for both the accuracy of the data presented, as well as the completeness and fairness of the presentation, including all disclosures, rests with the City.

We believe the data, as presented, is accurate in all material respects and is organized in a manner which fairly sets forth the financial position and results of operations of the City as measured by the financial activity of its various funds.

The City's management is responsible for establishing and maintaining a system of internal controls designed to provide reasonable, but not absolute, assurance that the assets of the City are protected from loss, theft or misuse, and for the reliability of financial records for preparing financial statements and maintaining accountability of assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgments by management.

The ACFR is presented in three sections.

The Introductory Section includes this transmittal letter, a list of elected City officials, and organizational charts for both the Office of City Controller and for City government.

The Financial Section includes Management's Discussion and Analysis ("MD&A"), basic financial statements, combined and individual fund statements and schedules, as well as the independent auditor's report on the basic financial statements. MD&A immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

The Statistical Section includes selected financial, demographic, and other information generally presented on a multi-year basis.

The basic financial statements of the City include all government activities, organizations, and functions, including those legally separate organizations for which the City is financially accountable as defined by the Governmental Accounting Standards Board ("GASB"). These financial statements have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP") for local governments, as prescribed by GASB.

901 BAGBY, 6TH FLOOR • P.O. BOX 1562 • HOUSTON, TEXAS 77251-1562

The Reporting Entity and Its Services

The Mayor serves as the Chief Executive Officer of the City. The City Controller is the second-highest elected official within City Government and serves as the Chief Financial Officer. The legislative body of the City is the City Council, which consists of the Mayor, eleven district members, and five at-large members. In November 2015, voters approved a proposition changing the terms of Mayor, Controller, and Council members to four years, with a limit of two terms, which became effective in January 2016.

The City provides a full range of municipal government services including police and fire protection, emergency medical services, pretrial detention services, traffic and municipal courts, water production and distribution, solid waste collection, sanitary code enforcement, wastewater treatment, health and human services, building and maintenance, parks and recreation, library, convention and cultural activities; operation of three municipal airports, including George Bush Intercontinental Airport, William P. Hobby Airport, and Ellington Airport; as well as operation of the Houston Spaceport.

The City does not operate hospitals, schools, transportation, or higher education systems. Special districts and governmental entities with independent taxing authority administer these services.

History and Population

Houston was founded on August 30, 1836, by New York real estate brokers John Kirby Allen and Augustus Chapman Allen. The Allen brothers paid $9,428 for 6,642 acres of land at the headwaters of Buffalo Bayou. About a year later, General Sam Houston, the first president of the Republic of Texas, authorized Houston to incorporate. For the next four years Houston was the capital of the Republic. In the early years, cotton and the railroad were the key drivers of Houston's economy. That changed in 1901 with the discovery of oil at Spindletop in Beaumont, Texas. Energy is still prevalent, but the area's increasingly diverse economy is also supported by other economic engines such as Port Houston, the Texas Medical Center, NASA's Johnson Space Center, and a blossoming technology ecosystem bolstered by the region's startup space responsible for employing nearly a quarter-million of the region's residents. Houston is also home to several world-class colleges and universities.

At the time of the first census in Texas in 1850, Houston had a population of 2,397 and Galveston, a bustling port 45 miles south of Houston, was the state's largest city. Today, Houston is the largest city in Texas and the fourth largest city in the U.S. In the first decade of the new century, a quarter million people from other U.S. cities and towns relocated to Houston. Houston, with more than 2.30 million people as of July 1, 2022, is a melting pot of ethnicities and remains the nation's most diverse metro area. The City is the seat of a burgeoning metropolitan area encompassing nine counties with a total population surpassing 7.34 million.

Budgetary Information

In accordance with State law and the City Charter, Houston City Council shall, in collaboration with the Mayor and City departments, adopt balanced budgets each year for the General Fund, Debt Service Fund, Special Revenue Funds, Internal Service Funds, and Proprietary Funds. Exceptions are permitted for the Grant Revenue, Disaster Recovery, Health Special, and Housing Special Revenue Funds, for which City Council adopts separate operating or program budgets throughout the year. The City also does not budget capital projects and other capital expenditures from the General Fund. Instead, City Council authorizes these expenditures through individual appropriation ordinances. Proprietary Fund budgets, also called Enterprise Funds, exclude depreciation and amortization expenses. These Proprietary Fund budgets include debt service and capital equipment costs, but exclude buildings and improvements, with the exception of Aviation, which budgets its current year expenses for these projects. As with the General Fund capital projects, approval of each Proprietary Fund capital project is accomplished through individual appropriation ordinances. No City expenditures may be made without an appropriation. City Council can legally appropriate only those amounts of money that the City Controller has previously certified are, or will be, in the City treasury. Although the legal level of budgetary control is at the departmental level within a fund, the City maintains internal budgetary control at the expenditure category (i.e., Personnel Services, Supplies, Other Services and Capital Outlay). Budget control is primarily managed using an automated encumbrance and accounts payable system. The City is required to undergo an annual Single Audit in conformity with the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and the audit requirements of the Texas Grants Management Standards. These audits are conducted simultaneously with the City's annual financial statement audit. Information related to these Single Audits, including the schedules of expenditures of federal and state awards, findings and recommendations, and auditor's reports on the internal control structure and compliance with applicable laws and regulations is included in the separately issued Single Audit Report.

The Area's Economy

In the early 2010's, Houston joined other cities across the country in benefiting from strong economic growth as the nation recovered from the Great Recession. With rising energy prices as its catalyst, Houston's regional economy became one of the most rapidly growing in the nation, resulting in thousands of new jobs and robust population growth.

The Houston metro area's Gross Domestic Product (GDP) of $537.1 billion ranks Houston as the seventh largest metro economy in the United States. If the Houston Metropolitan Statistical Area ("MSA") were an independent nation, it would rank as the world's 26th largest economy, behind Norway ($546.8 billion) and ahead of Austria ($526.2 billion), per the International Monetary Fund's 2023 ranking. Despite the resiliency exhibited by the regional economy in the wake of COVID-19, due in large part to federal stimulus, the City of Houston's organizational financial health has the potential to incur added stress as the region continues to grow.

Employment

Comfort is found in the resilience shown by our region's workforce in the last decade, and in particular, the last two years. Houston's economic prowess is buoyed by a bustling port, a world-class medical complex, and a vast network of leading institutions of higher education.

Oil and gas employment in Houston peaked at 300,100 jobs in November 2014. In the years following, roughly 93,000 jobs, or close to 30 percent of the local industry workforce, were lost. Fortunately, an increase in exploration activity in late 2016 sparked a resurgence in hiring, but only in services and equipment manufacturing. In fiscal year 2023, the region's employment continues to be closely tied to energy.

As of June 30, 2023, the regional economy has added nearly 528,300 jobs, exceeding the roughly 349,300 lost to the COVID-19 pandemic.

Population growth

The Houston MSA has seen a loss of population only once in the past 40 years, in 1988 following the loss of 220,000 jobs. After several years of slowing growth, Houston's population estimates have decreased in recent years from 2.30 million residents estimated in 2020; to 2.28 million residents estimated in 2021; and to 2.30 million residents estimated in 2022, per the Census Bureau. It is incumbent on the region's leaders to increase affordable housing supply, address failing infrastructure, and enhance both the quality of life and service delivery demanded by a growing population. While these charges incur significant costs, failing to address these challenges has the potential to hamper future economic success.

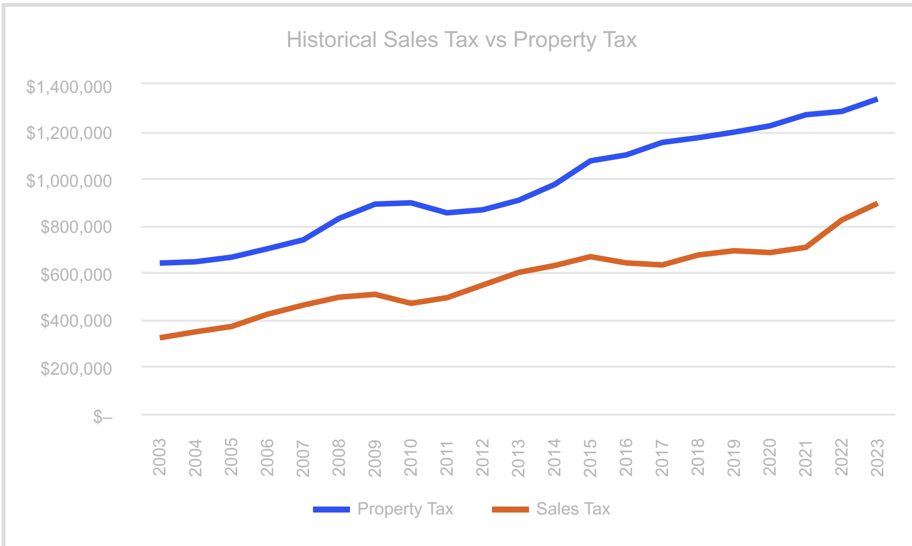
Housing and real estate

At the end of fiscal year 2023, the City's real estate market is indicating a strained recovery from the downturn resulting from the COVID-19 pandemic. . As of June 2023, single-family home sales fell 12.8 percent compared to the same period prior year with single-family home median sales prices falling to $345,000, well below the June 2022 median of $354,000. Houston's real estate market continues to exhibit volatility as we anticipate the potential for a changing interest rate environment and the heightened likelihood of a looming recession.

Since 2015, the Houston MSA continues to see a slow rise in the cost of living. While most of those costs remain below the national average – particularly as compared to other major metropolitan regions – that trend is expected to continue. With that, Houston is not as affordable as it once was. Per the Council for Community and Economic Research (C2ER), the cost of living in Houston was 12.3 percent below the national average in 2007 but only 5.8 percent below at the end of fiscal year 2023. How the region manages the demands of a growing population – and the rising costs associated with that – will play a key role in future growth.

Purchasing and income: The Houston Purchasing Managers Index (PMI), a short-term indicator for regional production, registered at 55.5 at the end of fiscal year 2022, but fell slightly to 50.7 at the end of fiscal year 2023. Despite the nominal decrease, this is an encouraging sign for the ongoing economic recovery, as readings above 50 signal economic expansion for the next three- to four-months.

The graph below illustrates a rebounding economy. Property tax revenue for the City, represented by the top line, has seen sustained growth following the recession of the late 2000s. More elastic to economic trends, sales tax, the lower line, experienced a slowdown during the downturn before experiencing positive growth following Hurricane Harvey in August 2017.



Property and Sales Taxes

Property tax is the City's single largest source of revenue. Fiscal year 2023 was the ninth year the City was affected by the Proposition One revenue cap, which resulted in the lowering of the property tax rate.

Historically, the City's sales tax receipts have been closely tied to the rising price of oil, but as we diversify our regional economy, our reliance on energy may become less prevalent. The short economic contraction caused by the COVID-19 pandemic and a struggling energy sector caused a significant drop in sales tax revenue in the later months of fiscal year 2019, punctuated by a slowing in consumer activity. Following the infusion of federal stimulus and receipt of COVID federal recovery funding, Houston, among other localities, benefited from robust sales tax receipts between fiscal year 2021 and fiscal year 2023. As revenues normalize, a changing interest rate environment sustains and discretionary household spending wanes, sales tax has the potential to show more volatility in following reporting periods.

Property Tax Abatements: The City has entered into several property tax abatement agreements with local businesses under the state Property Redevelopment and Tax Abatement Act, Chapter 312. The agreements have investment and employment requirements that must be met to have a portion of property taxes abated. The total amount abated for the year ended June 30, 2023, totaled approximately 1.2 million to eight businesses. Additional details on the agreements and projects are disclosed in the accompanying Notes to the Basic Financial Statements (Note 5 – Property Tax).

Financial Policies and Planning

The City has had formal financial and budgetary procedures in place since 1987. They require, among other things, a balanced budget, annual review of all fees and charges, funding of employee pensions and other benefits in a manner that systematically funds liabilities and maintenance of an Unassigned Fund Balance in its General Fund of a minimum of 7.5 percent of total expenses less debt service. Any funds in excess of 7.5 percent of total expenses less debt service are available for non-recurring expenses. A 1983 resolution adopted by City Council requires the Mayor to develop and submit annually to the City Council for approval a continuous five-year Capital Improvement Plan (CIP). Each year, the Mayor must review the CIP, revise it as necessary, and obtain approval and adoption by City Council. The 2024 – 2028 CIP calls for the appropriation of $8.18 billion over the five-year period for both enterprise and property tax supported projects. About $4.5 billion of this total will be paid for with income generated by the self-supporting enterprise funds. The City's financial policies further require that capital projects or equipment purchases funded through the issuance of bonds or other obligations will be financed for a period not to exceed the expected life of the project or equipment. Annual contributions for debt service from the General Fund are limited to 20 percent of total General Fund revenues, excluding state and federal grants. In addition, Texas law mandates that the City's total tax supported indebtedness shall not exceed 10 percent of the total assessed valuation of property in the City. As of June 30, 2023, the City's outstanding debt payable from taxes and other revenue sources totaled $14.2 billion. This is in compliance with all applicable financial policies and considered manageable. The City has investments totaling approximately $5.7 billion. The City adheres to an investment policy that emphasizes, in order of priority, safety, liquidity, and return on investment. The success of this deliberate approach is evident in the 'AAA' credit quality rating and "V1" volatility rating assigned to the City's general investment portfolio by Fitch Rating Services.

Long-term Financial Forecast and Major Initiatives

The most recent five-year planning scenario available from the City's Finance Department indicates anticipated cost increases are bound to continue straining the City's fiscal health. While some drivers of increased expenditures may be attributable to increased employee and retiree health costs, recent expenditures requiring subsequent recurring investment have the potential to bear added stress. Without increasing efficiencies or creating new revenue, few viable long-term options to address rising costs and a growing deficit remain except to drastically cut costs.

Structural Budget Deficit

Another critical goal the City must work toward is achieving a structurally balanced budget each fiscal year. A balanced budget is achieved when revenues equal expenditures while a structurally balanced budget avoids the use of one-time nonrecurring funding sources to fill budget shortfalls. Historically, the administration has used nonrecurring funding to address a recurring budget deficit ranging between $160 million and $200 million each year since fiscal year 2016. In recent years, federal COVID recovery grant funding – a nonrecurring funding source – has been used to address shortfalls seen in recent budgets.

As it relates to the City's budgeting process, net current activity is calculated by subtracting the City's total expenditures from its total revenue. Achieving structural budgetary balance is and must continue to be the foremost financial priority for the City.

Retiree & Other-Post Employment Benefits (OPEB)

The City provides certain health care benefits for its retired employees, their spouses, and survivors. Beginning with fiscal year 2018, the City is required by the GASB Statement No. 75 to recognize the full other post-employment benefits ("OPEB") liability on the City's balance sheet. The OPEB plan includes benefits such as health and life insurance for current and future retirees. Nearly all City employees become eligible for these benefits after they reach normal retirement age.

As of June 30, 2023, the City's total OPEB liability is in excess $1.76 billion. It has been the City's practice to fund the cost of OPEB on an annual pay-as-you-go (PAYGO) basis and account for OPEB costs as a current expenditures on the governmental fund financial statements in the fiscal year in which the OPEB cost is paid. This practice satisfies debt obligations but fails to structurally reduce the accruing liability.

For the fiscal year ended June 30, 2023, total OPEB liability decreased from approximately $2.34 billion as of June 30, 2022, to approximately $1.76 billion as of June 30, 2023, primarily due to the change in the discount rate used in the actuarial valuation from 2.16% for the fiscal year ended June 30, 2022, to 3.54% for the fiscal year ended June 30, 2023. The City is currently finalizing the plan set up a qualifying OPEB trust, with contributions from all City departments, during fiscal year 2024. By establishing a qualifying trust, total OPEB liability is expected to be further reduced. Without a solution to meaningfully address this growing unfunded liability, the City can expect to face serious constraints in the future.

Award

The Government Finance Officers Association of the United States and Canada (“GFOA”) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its ACFR for the fiscal year ended June 30, 2022. This was the 26th consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized ACFR. This report must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current ACFR continues to meet the Certificate of Achievement program’s requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this report on a timely basis could not have been accomplished without the dedicated services and hard work of a highly qualified staff. The City of Houston has such a staff in the City Controller's Office. Although much time and effort in preparation of this report lies in the Financial Reporting Division, there was support from the other divisions of the Office: Administration, Executive, Operations and Technical Services, and Treasury. I would like to express my appreciation to the entire staff of the City Controller's Office, and to the staffs of the Finance, Aviation, Houston First (formerly, Convention and Entertainment Facilities), and Houston Public Works departments who assisted and contributed to the preparation of this report. The City Controller’s Office also received invaluable assistance and support from many others outside its immediate organization. Within the City of Houston, the accounting staffs of the operating departments and the technical staff of the Information Services Division all played key roles in producing this report. McConnell & Jones/Banks, Finley, White & Co was not only our independent auditor, but also served as an invaluable source of information and ideas for improving the way City finances are reported.

Request for Information

This financial report is designed to provide a general overview of the City of Houston's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Controller, 901 Bagby Street, 8th Floor, Houston, Texas 77002. The Annual Comprehensive Financial Report is accessible on the City's web site and is also available in USB drive format.

Chris B. Brown
City Controller

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Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Houston
Texas

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2022

Christopher P. Morrill

Executive Director/CEO

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The Texas Medical Center

PART II

FINANCIAL SECTION

Financial Section:

Home to the world's largest children's hospital and world's largest cancer hospital, the Texas Medical Center delivers one baby every 20 minutes, resulting in more than 26,000 births per year, and begins one surgery every three minutes. Since 1925, TMC has attracted the brightest minds in medicine, rising to the forefront of advancing life sciences. With more than 10 million patient encounters per year, the TMC plays a key role in the region's economic success and continued future prosperity.

McConnell Jones BANKS, FINLEY, WHITE & CO. CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor, Members of City Council and
City Controller of the City of Houston, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Houston, Texas (the "City"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Houston Firefighters' Relief and Retirement Fund, Houston Municipal Employees' Pension Trust Fund and Houston Police Officers' Pension Trust Fund, fiduciary component units of the City, which represent 100% of the assets, net position, and additions/deductions of the pension trust funds, within the fiduciary funds as of and for the year ended June 30, 2023. We did not audit the financial statements of governmental and business-type discretely presented component units which represent 100% of the assets, net position (deficit)/fund balance, and revenues of the aggregate discretely presented component units. Those statements, except for the Houston Area Library Automated Network and Lamar Terrace Public Improvement District which were unaudited and represent less than .1% of the assets, net position and revenues of the governmental and business-type discretely presented component units, were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for such governmental and business-type discretely presented component units, are based solely on the reports of the other auditors. The financial statements of the Houston Firefighters' Relief and Retirement Fund were not audited in accordance with *Government Auditing Standards*. Additionally, except for the Houston Forensic Science Center, Houston Recovery Center LGC, and Memorial-Heights Redevelopment Authority, the governmental and business-type discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards)*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As described in Notes 1 and 7 to the financial statements, for the year ended June 30, 2023, the City adopted new accounting guidance, GASBS No. 96, *Subscription – Based Information Technology Arrangements*. Our opinions are not modified with respect to this matter.

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Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 5 through 15), Schedule of Budgeted and Actual Revenues and Expenditures of the General Operating Fund (pages 152 through 157), Pension System Supplementary Information (pages 158 through 161), and Other Post-Employment Benefits Supplementary Information (pages 162 through 164) be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers

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it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the combining and individual nonmajor fund financial are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2023, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

McConnell Jones LLP Banks, Finley, White & Co.

November 17, 2023

CITY OF HOUSTON, TEXAS

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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2023
(Unaudited)

As management of the City of Houston, Texas (the "City"), we offer readers of this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2023 ("FY2023"). Please read this information in conjunction with the transmittal letter that precedes this section and the basic financial statements that follow this section. The discussion and analysis include comparative data for the fiscal year ended June 30, 2022 ("FY2022").

Financial Highlights

Some of the City's financial highlights for the fiscal year ended June 30, 2023 include:

- Total assets and deferred outflows of resources of the City exceeded its total liabilities and deferred inflows of resources by $7.6 billion. This is a net increase from the prior year of $1.7 billion and is mainly attributable to an increase of approximately $802.6 million in total assets and a decrease in total liabilities of $919.5 million. Of the $802.6 million increase in total assets, approximately $906.4 million is due to increases in capital assets in both governmental and business-type activities, offset by a decrease of $103.9 million in current and other assets. Total liabilities decreased by $919.5 million in FY2023 mainly due to a decrease in total other post-employment benefit ("OPEB") liability of $576.6 million and a decrease of $407.8 million in total outstanding debt.
- The City's unrestricted net position is a deficit of $4.8 billion. This is an improvement of approximately $1.5 billion compared to FY2022. The deficit is mainly attributable to the outstanding net pension liabilities for the pension plans, pension obligation bonds, and total OPEB liabilities.
- The City's total expenses totaled $5.1 billion compared to $4.6 billion in FY2022. The increase was primarily due to an increase of $366.2 million in general government and public safety expenses and an increase of $236.3 million in business-type activities.

Impact of COVID-19 Pandemic (the "Pandemic")

Since the Pandemic began in early 2020, the Federal Government infused an unprecedented amount in economic stimulus into the economy in response to the Pandemic. As of June 30, 2022, the City has fully expended the entire $404.8 million Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") funds the City received in the fourth quarter of fiscal year 2020 from the Federal Government. The funds were used for direct response to the Pandemic.

On March 11, 2021, the American Rescue Plan Act ("ARPA") was signed into law. Under ARPA, the State and Local Fiscal Recovery Fund ("SLFRF") provided additional funding to state and local governments for response and recovery from the Pandemic. The City was awarded a total of $607.7 million, which was received in two separate payments of $303.8 million each in FY2021 and FY2022. As of June 30, 2023, the City has expended approximately $360.4 million on revenue replacement, public safety, and other programs.

Furthermore, the City's Airport System, (the "Airport System"), received a total of $200.2 million of CARES Act funds through the Federal Aviation Administration (the "FAA"). The Airport System also received funds under the Coronavirus Response and Relief Supplemental Appropriation Act ("CRRSA Act"), passed by the U.S. Congress on December 27, 2020. The Airport System and its airport concessions were awarded approximately $45.8 million and $6.2 million, respectively, of CRRSA Act funds through the FAA. All CARES Act and CRRSA Act funds have been expended as of June 30, 2023. Under ARPA, the Airport System and its concessions are eligible to receive approximately a total of $181.0 million and $24.8 million, respectively. As of June 30, 2023, approximately $50.9 million of the $181.0 million ARPA funds remain unexpended.

Adoption of New Accounting Standards - Subscription-Based Information Technology Arrangements

The City implemented Government Accounting Standards Board ("GASB") Statement No. 96, Subscription-Based Information Technology Arrangements ("SBITA"), for the fiscal year beginning July 1, 2022. Upon adoption of the new standard, the City recognized subscription right-of-use assets totaling $43.8 million and subscription liabilities totaling $43.8 million. See Notes 1, 7, and 9 for disclosures on significant accounting policies, summary description of SBITA, and information on estimated future subscription payments.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements ("GWFS"), (2) fund financial statements, and (3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. GWFS are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The GWFS distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, health, housing and community development, parks and recreation, and library. The business-type activities of the City include the Airport System, Combined Utility System (the "Combined Utility"), and Convention & Entertainment Facilities (the "Convention and Entertainment").

The GWFS include not only the City itself (known as the primary government), but also legally separate component units for which the City is financially accountable. Except for the three pension systems, financial information for the component units is reported separately from the financial information presented for the primary government itself. The pension systems, although also legally separate, function for all practical purposes as departments of the City, and therefore have been included as an integral part of the primary government.

Fund financial statements. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the GWFS. However, unlike the GWFS, fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of GWFS, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the GWFS. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The governmental fund balance sheet displays a reconciliation to facilitate this comparison between governmental funds. The reconciliation between the governmental fund statement of revenues, expenditures, and changes in fund balances and governmental activities is provided on a separate schedule.

The City maintains ten individual governmental funds for financial reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, the capital projects fund, the ARPA fiscal recovery fund and the grants fund, all of which are considered as major funds. Data from the other funds is combined in the column labeled "Nonmajor Governmental Funds" on both of these statements (see the separate tab labeled "Governmental Funds" for more information on these funds).

The City adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget in the Required Supplementary Information section of this report.

Proprietary funds. The City maintains two different types of proprietary funds: Enterprise funds (see separate tab of same name) and internal service funds (see separate tab of same name). Enterprise funds are used to report the same functions presented as business-type activities in the GWFS. The City uses enterprise funds to account for its Airport System, Combined Utility, and Convention and Entertainment. The City uses internal service funds to account for health benefits and long-term disability activities. Because both health benefits and long-term disability activities predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the GWFS.

Proprietary funds provide the same type of information as the GWFS, only in more detail. The proprietary fund financial statements provide separate information for the Airport System, Combined Utility, and Convention and Entertainment, all of which are major funds for the City. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

Fiduciary funds. Fiduciary funds (see separate tab of same name) are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the GWFS because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes (see separate tab of same name) provide additional information that is essential to a full understanding of the data provided in the GWFS and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning: General fund – budget vs. actual, the City's three defined benefit pension plans, and the two other post-employment benefits plans.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, on a government-wide basis, assets and deferred outflows were higher than liabilities and deferred inflows by $7.6 billion at June 30, 2023.

The largest portion of the City's net position is net investment in capital assets of approximately $9.8 billion (e.g., land, building, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Resources that are subject to external restrictions on how they may be used represents approximately $2.6 billion of the City's net position.

Net Position
June 30, 2023
(in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
Current and other assets	$ 3,057,388	$ 2,916,949	$ 5,183,868	$ 5,428,191	$ 8,241,256	$ 8,345,140
Capital assets	8,954,991	8,774,563	12,921,489	12,195,476	21,876,480	20,970,039
Total assets	12,012,379	11,691,512	18,105,357	17,623,667	30,117,736	29,315,179
Deferred outflows of resources	695,712	698,768	308,631	322,737	1,004,343	1,021,505
Long-term liabilities	7,194,469	7,861,945	11,621,135	12,157,090	18,815,604	20,019,035
Other liabilities	1,569,263	1,486,580	1,198,240	996,950	2,767,503	2,483,530
Total liabilities	8,763,732	9,348,525	12,819,375	13,154,040	21,583,107	22,502,565
Deferred inflows of resources	1,538,715	1,540,176	405,288	413,308	1,944,003	1,953,484
Net position						
Net investment in capital assets	6,891,601	6,755,792	2,890,574	2,135,190	9,782,175	8,890,982
Restricted	934,428	1,863,712	1,696,746	1,442,434	2,631,174	3,306,146
Unrestricted (deficit)	(5,420,385)	(7,117,925)	602,006	801,432	(4,818,379)	(6,316,493)
Total net position (deficit)	$ 2,405,644	$ 1,501,579	$ 5,189,326	$ 4,379,056	$ 7,594,970	$ 5,880,635

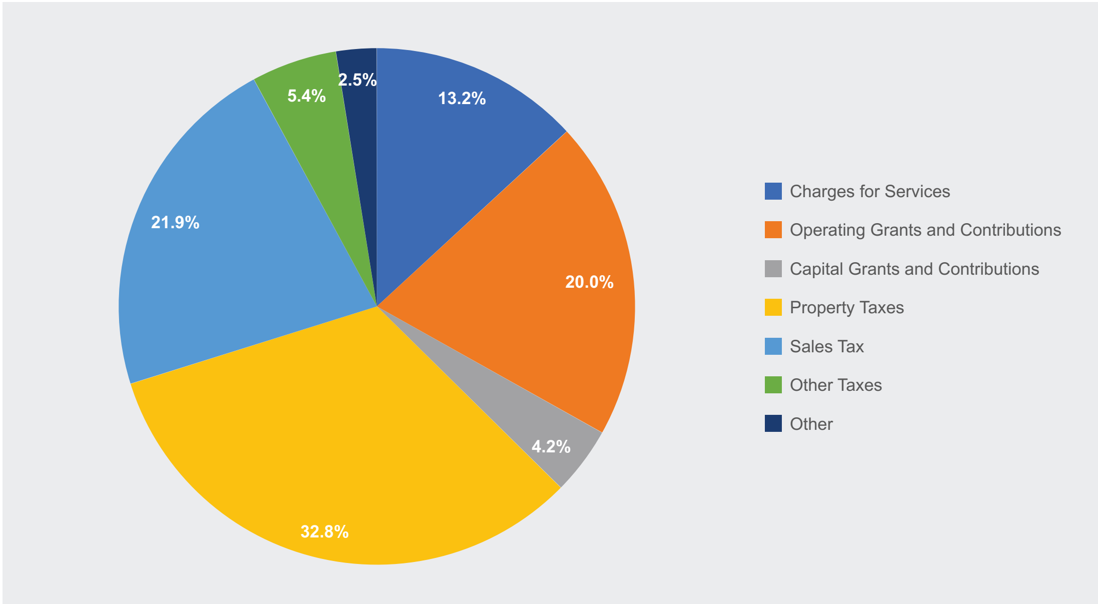
Change in Net Position
For the Fiscal Years Ended June 30, 2023 and 2022
(in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
Program Revenues:						
Charges for services	$ 536,334	$ 416,101	$ 2,199,456	$ 1,909,213	$ 2,735,790	$ 2,325,314
Operating grants and contributions	814,747	1,011,670	59,665	145,817	874,412	1,157,487
Capital grants and contributions	172,908	199,231	238,251	587,354	411,159	786,585
General revenues:						
Property taxes	1,337,128	1,283,942	—	—	1,337,128	1,283,942
Sales taxes	893,905	822,656	—	—	893,905	822,656
Other taxes	218,757	211,542	104,853	82,505	323,610	294,047
Other	105,785	35,479	173,873	59,570	279,658	95,049
Gain (loss) on sale of asset	(2,326)	3,630	(2,550)	(5,398)	(4,876)	(1,768)
Total revenues	4,077,238	3,984,251	2,773,548	2,779,061	6,850,786	6,763,312
Expenses:						
General government	431,174	314,357	—	—	431,174	314,357
Public safety	1,455,215	1,205,824	—	—	1,455,215	1,205,824
Public works	413,454	355,357	—	—	413,454	355,357
Health	246,163	225,312	—	—	246,163	225,312
Housing and community development	208,397	390,235	—	—	208,397	390,235
Parks and recreation	122,018	81,696	—	—	122,018	81,696
Library	54,954	33,753	—	—	54,954	33,753
Interest on Long-term Debt	118,251	108,938	—	—	118,251	108,938
Depreciation and amortization	179,465	180,676	—	—	179,465	180,676
Airport System	—	—	649,909	559,777	649,909	559,777
Convention & Entertainment Facilities	—	—	120,981	106,599	120,981	106,599
Combined Utility System	—	—	1,136,470	1,004,623	1,136,470	1,004,623
Total expenses	3,229,091	2,896,148	1,907,360	1,670,999	5,136,451	4,567,147
Change in net position before contributions, special items and transfers	848,147	1,088,103	866,188	1,108,062	1,714,335	2,196,165
Transfers	55,918	59,396	(55,918)	(59,396)	—	—
Change in net position	904,065	1,147,499	810,270	1,048,666	1,714,335	2,196,165
Net position, July 1 as previously reported	1,501,579	276,546	4,379,056	3,330,390	5,880,635	3,606,936
Prior period adjustment	—	77,534	—	—	—	77,534
Beginning net position, July 1	1,501,579	354,080	4,379,056	3,330,390	5,880,635	3,684,470
Net position, June 30	$ 2,405,644	$ 1,501,579	$ 5,189,326	$ 4,379,056	$ 7,594,970	$ 5,880,635

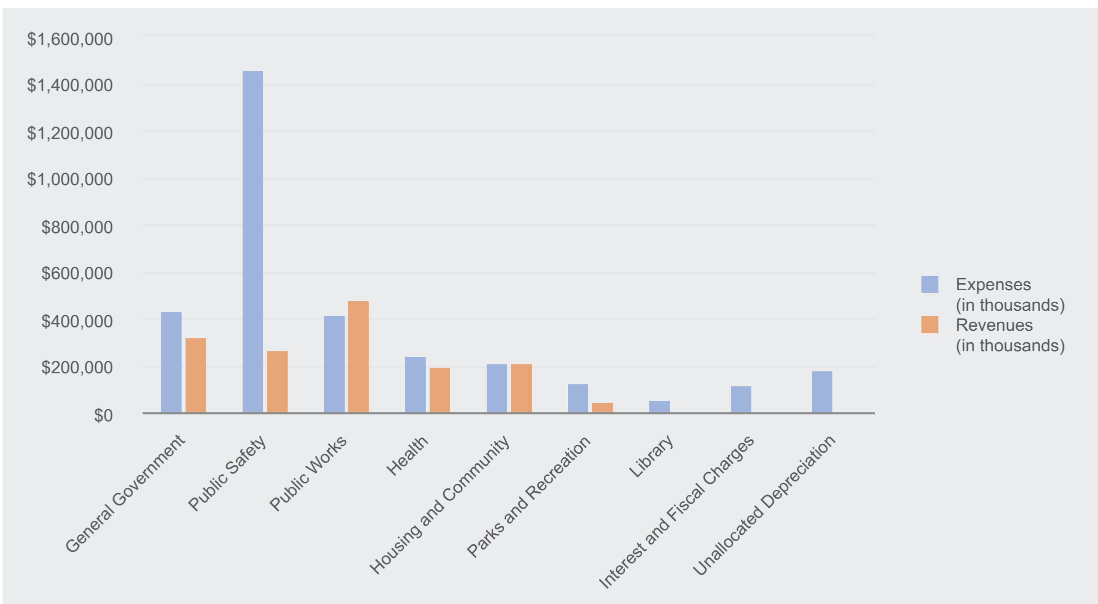
Governmental activities. Governmental activities increased the City's net position from FY2022 by approximately $904.1 million. The key elements of this change are as follows:

- Charges for services increased by approximately $120.2 million due to higher activities resulting in more fees collected.
- Operating grants and contributions decreased by approximately $196.9 million to $814.7 million in FY2023. The decrease was due to less federal award expenditures during FY2023 compared to FY2022.
- Sales tax revenue for FY2023 increased by approximately $71.2 million as both commercial and personal activities returned to pre-pandemic levels in the City. In addition, federal funds distributed to organizations and individuals contributed to the growing economy in the City.
- Total expenses increased by approximately $332.9 million due to increases in public safety and general government spending, offset by a decrease in housing and community development spending due to expiring grants.

FY2023 Governmental Activities – Revenue by Source

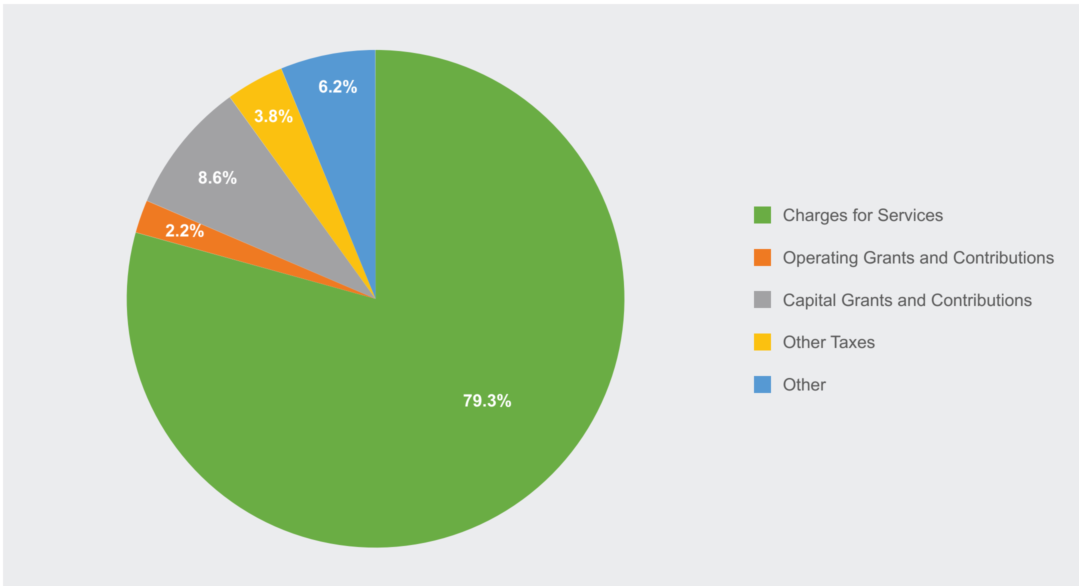


FY2023 Governmental Activities – Program Revenues and Expenses

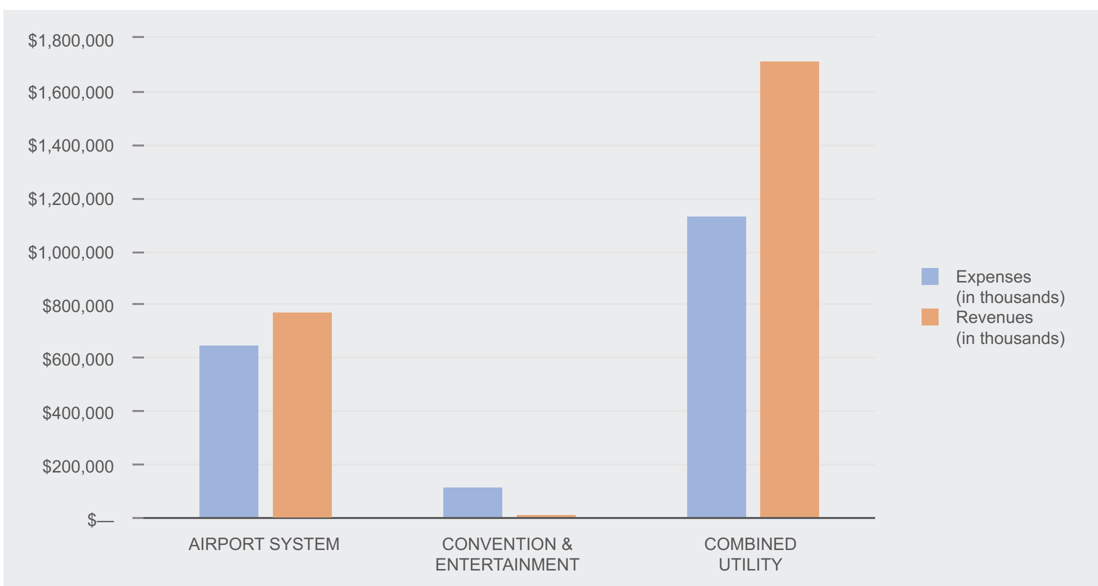


Business-type activities. Change in net position totaled $810.3 million for the City's business-type activities in FY2023. Total net position increased from $4.4 billion at the end of FY2022 to $5.2 billion at the end of FY2023. Of the $5.2 billion total net position, the Airport System accounted for approximately 37.9% or $2.0 billion, while the Combined Utility accounted for approximately 60.0% or $3.1 billion of the total, the remaining 2.1% of total net position is for the Convention & Entertainment.

FY2023 Business-Type Activities – Revenue by Source



FY2023 Business-Type Activities – Program Revenues & Expenses



Key elements of this change are as follows:

- The Airport System's operating revenues increased by approximately $79.1 million or 16.4% to $560.2 million in FY2023 mainly due to total number of passengers increasing from 52.0 million in FY2022 to 57.8 million in FY2023 as both business and leisure travel continue to recover since the Pandemic. Passenger Facility Charges earned also increased by $10.3 million or 10.5% to $108.8 million in FY2023. Operating expenses totaled approximately $571.9 million in FY2023. This is an increase of $89.1 million from $482.8 million in FY2022. $36.5 million of this increase was attributable to increases in personnel expenses - $12.4 million in salaries and benefits, $17.4 million in OPEB expenses, and $5.1 million in pension expenses. Services and other operating expenses increased by approximately $22.7 million and $24.5 million, respectively, primarily due to increased passenger volume and activities related to the IAH Terminal Redevelopment Program.
- The Convention & Entertainment's maintenance and operating expenses increased by $16.2 million or 19.8% as business and other activities increased in downtown Houston during FY2023 compared to FY2022. In addition, hotel occupancy tax revenue increased from $82.5 million in FY2022 to $104.9 million in FY2023, a $22.3 million or 27.1% increase, due to a 14.7% increase in average daily rate in FY2023 from $100.89/night to $115.75/night and a 9.7% increase in occupancy rate from 56.6% to 62.1%.
- The Combined Utility's operating revenues increased by approximately $196.5 million or 15.0% in FY2023 compared to FY2022. This increase was mainly due the rate increases implemented in April 2022 and April 2023 based on the rate study completed in fiscal year 2021. Operating expenses increased by approximately $121.2 million or 16.2% primarily attributable to an increase in materials and supplies along with an increase in repairs in Q4 of FY2023. Record-setting high temperatures and lack of rainfall during FY2023 contributed to dry soil conditions that caused significant ground shifting resulting in increased water leaks and subsequent repair costs. In addition, personnel expenses increase by approximately $8.2 million due to scheduled salary increase.
- Investment income (loss) for business-type activities increased by $177.8 million from a loss of $(89.8) million in FY2022 to an income of $87.9 million in FY2023. This is mainly due to higher interest income as a result of higher interest rates.

Financial Analysis of the Governmental Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds (see separate tab of same name). The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of FY2023, the City's governmental funds reported combined ending fund balances of approximately $1.7 billion. Approximately 29.6% of this total, or $509.9 million,constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is set aside to indicate that it is not available for new spending because it has already been assigned for capital expenditures, $140.3 million; restricted to pay debt service, $172.0 million; or a variety of other restricted purposes, $899.9 million.

The general fund is the chief operating fund of the City. At the end of FY2023, unassigned fund balance of the general fund was $509.9 million, while the total fund balance reached $550.3 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 21.3% of total general fund expenditures, while total fund balance represents 23.0% of that same amount. Revenues increased by approximately $160.5 million or 5.9% while expenditures increased by approximately $122.9 million or 5.4%.

Key differences in the general fund activity between FY2023 and FY2022 are as follows:

- Property tax revenue increased by approximately $50.8 million or 4.1% to $1,295.5 million for FY2023 due to increases in total market and appraised values compared to FY2022. In addition, the Proposition 1 cap on property tax, as described in Note 13, increased primarily due to increases in Consumer Price Index in 2021 and 2022.
- Sales tax revenue increased by $68.4 million or 8.3% due to more than $5 trillion in economic stimulus injected into the economy in response to the Pandemic and rapid recovery in Houston's economy resulting increased consumer spending.
- Charges for services increased by $7.5 million or 4.6% primarily due to an increase of $5.0 million in ambulance fees collected and an increase of $3.3 million of police services provided by the Houston Police Department to the Airport System during FY2023.

- Intergovernmental grants increased by $8.5 million or 4.2% mainly due to an increase of $23.1 million in ARPA grants expended for various governmental functions totaling $162.6 million in FY2023 compared to $139.4 million in FY2022. This increase is offset by decreases of $11.8 million and $3.8 million in ambulance supplemental reimbursements for the Fire Department and the Delivery System Reform Incentive Payment (DSRIP) program for the Health Department, respectively.
- Investment income (loss) increased by $15.4 million or 219.8% due to higher interest income earned on deposits and investments as well as lower fair value adjustments/loss on investments.
- Expenditures for Public Safety increased by approximately $36.2 million or 2.4% primarily due to increases in salaries and employee benefits totaling approximately $33.1 million. Of the $33.1 million, approximately $20.3 million was for the Police Department, while $12.8 million was for the Fire Department.
- Expenditures for Public Works increased by approximately $14.6 million or 6.6% due to higher maintenance and repair costs.
- Park and Recreation Department’s expenditures increased by approximately $11.9 million or 16.2% mainly due to a $4.4 million contribution made to a joint project between the City and the Houston Parks Board. In addition, building maintenance and structural work increased by approximately $2.3 million, and salaries and benefits increased by approximately $2.1 million.
- Capital Outlays increased by approximately $24.8 million or 68.2% mainly due to the adoption of GASB Statement No. 96, with a total addition of $36.6 million in SBITA, offset by a $6.5 million decrease in leases and $6.5 million in fleet purchases compared to FY2022.
- Debt service principal increased by approximately $18.0 million or 273.7% mainly due to principal payments related to SBITA.

Debt service expenditures (principal and interest) for the debt service fund remained relatively unchanged compared to FY2022. Proceeds from issuance of debt totaled $38.7 million in FY2023, all of which were from the general obligation commercial paper. No general obligation bonds were issued during FY2023.

The capital projects fund, which is used for the acquisition and/or construction of capital facilities by the City (except those financed by the three enterprise funds), has a fund balance of $165.3 million as compared to $132.2 million a year ago. Intergovernmental grants decreased by $16.2 million or 21.9% primarily due to decreases in funding from the Metropolitan Transit Authority of Harris County and other governments related to construction projects and purchases of land. Capital outlay decreased by $84.9 million or 27.1% primarily due to decreased construction activities in the Police Department, Fire Department, Parks Department, Health Department, and General Government totaling approximately $74.3 million, offset by an increase in construction work in the Public Works Department. In addition, fleet purchases decreased by approximately $16.2 million by the Police and Fire departments compared to FY2022.

The ARPA fiscal recovery fund is used to receive funds from the U.S. Department of the Treasury to be used for the response efforts relating to local fiscal recovery from the Pandemic pursuant to the ARPA. Cash and cash equivalents and unearned revenue decreased by $197.3 million or 43.2% and $206.6 million or 45.5%, respectively, due to additional federal awards expended during FY2023. See Note 13.G. to the basic financial statements for additional details on the ARPA funds received and expended.

The grants fund, which is used to account for grant resources received from various local, state, and federal agencies and organizations, has a fund balance of $191.5 million at June 30, 2023, a 0.5% increase from $190.6 million at the June 30, 2022. Significant amount of grants was received by the City during FY2022 in response to the Pandemic. In comparison, grant revenues decreased by $228.3 million or 34.1% to approximately $441.6 million in FY2023. This decrease was primarily due to many activities related to the Pandemic being ceased/completed. Expenditures totaled approximately $435.9 million, a decrease of $207.4 million or 32.2% compared to FY2022. Many governmental functions had lower expenditures in FY2023 compared to FY2022, with the most significant decrease, approximately $176.3 million, in the Housing and Community Development Department. Of the $176.3 million decrease, approximately $74.9 million was related to the Emergency Rental Assistance program, and approximately $84.9 million was related to various single family, multi-family, public services, and economic revitalization programs.

Tax revenues reported in Nonmajor Governmental Funds. In FY2023, two sub-funds of the Other Special Revenue Fund, reported collections of incremental property taxes, sales tax, and mixed beverage tax totaling approximately $46.4 million. These collections are considered as special revenues and are restricted for two of the Tax Increment Reinvestment Zones (“TIRZs”), which are to be set up as separate legal entities in the future similar to other TIRZs, which are discretely presented component units of the City. See Note 1 for a list of discretely presented component units and Note 5 regarding TIRZs.

Proprietary funds (see tabs labeled "Enterprise Funds" and "Internal Services Funds"). The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

At June 30, 2023, the Airport System, Convention and Entertainment, and Combined Utility had an unrestricted net position (deficit) of $(68.0) million, $22.2 million, and $647.8 million, respectively. Major factors concerning the finances and change in net position of these funds are addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Total revenues were above the final budget by approximately $115.5 million due to higher-than-expected collections in property tax and sales tax by $23.7 million and $82.1 million, respectively. The increase in property tax was attributable to increase in assessed property values, which rose significantly in FY2023 or tax year 2022. The increase in sales tax was attributable to overall economic environment in the City and the State of Texas post-Pandemic as well as inflation. Additionally, charges for services exceeded the budget by approximately $5.3 million primarily due to higher collections from ambulance services. The details of the more significant variances are summarized below:

- $23.7 million above budget in property tax
- $3.6 million above budget in industrial assessments
- $82.1 million above budget in sales taxes
- $2.9 million above budget in mixed beverage tax
- $5.4 million above budget in ambulance services
- $1.7 million above budget in interest income
- $3.1 million above budget in other income

Total expenditures for the general fund were $48.9 million below the final expenditure budget and was mainly due to savings in personnel, supplies, and services. Personnel costs were approximately $21.8 million under the budgeted amount, and other departmental expenditures were approximately $20.9 million under the budgeted amount. Lower personnel costs were mainly due to many open positions still to be filled at the end of FY2023. The details of the more significant variances are highlighted below:

- $16.6 million under budget in general government
- $15.3 million under budget in public safety
- $4.9 million under budget in parks and recreation
- $1.6 million under budget in library
- $4.1 million under budget in transfers out

Capital Assets and Debt Administration

Capital assets: The City's investment in capital assets, net of accumulated depreciation, for its governmental and business-type activities as of June 30, 2023 totaled approximately $21.9 billion. This investment in capital assets includes land, buildings and improvements, machinery, equipment, storm drainage, streets and bridges. The City's capital assets, net, increased by more than $906.4 million in FY2023.

Capital Assets
June 30, 2023
(in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
Land and right of way	$ 2,437,390	$ 2,400,123	$ 504,434	$ 493,093	$ 2,941,824	$ 2,893,216
Buildings, improvements and equipment	3,085,764	2,982,100	6,251,468	6,094,494	9,337,232	9,076,594
Construction in progress	903,864	860,871	3,319,330	2,781,536	4,223,194	3,642,407
Water rights	—	—	846,948	846,510	846,948	846,510
Garage rights	—	—	13,144	13,144	13,144	13,144
Intangibles	17,278	17,021	21,692	21,011	38,970	38,032
Infrastructure assets	8,495,242	8,319,747	12,909,599	12,525,609	21,404,841	20,845,356
Lease right-of-use assets	84,845	88,287	295	305	85,140	88,592
Subscription right-of-use assets	75,167	—	5,254	—	80,421	—
Less accumulated depreciation and amortization	(6,144,559)	(5,893,586)	(10,950,675)	(10,580,226)	(17,095,234)	(16,473,812)
Total	$ 8,954,991	$ 8,774,563	$ 12,921,489	$ 12,195,476	$ 21,876,480	$ 20,970,039

Major capital asset events during FY2023 included the following:

- Governmental fund activities recorded a total of $472.0 million additions to capital assets. Of the $472.0 million, more than $316.6 million was added to construction in progress for drainage, roads, and other projects. In addition, the City continued to work on various projects related to disaster recoveries during FY2023. Construction in progress, after placing a total of $273.6 million of assets in service, totaled approximately $903.9 million as of June 30, 2023. Furthermore, the City adopted GASB Statement No. 96 as of July 1, 2022, and SBITA, net of accumulated amortization, totaled approximately $56.2 million as of June 30, 2023.
- Business-type activities had approximately $1.2 billion of additions to capital assets during FY2023.
    - The Airport System added approximately $500.1 million of capital assets during FY2023, with $488.1 million to construction in progress. Majority of the additions to construction in progress is related to the Airport System's IAH Terminal Redevelopment Program. At June 30, 2023, the Airport System had approximately $869.1 million in construction in progress.
    - The Combined Utility added approximately $702.6 million of capital assets during FY2023. Construction in progress increased from $2.2 billion at the end of FY2022 to more than $2.5 billion at the end of FY2023. The increase was mainly due to expansion work at the Northeast Water Purification Plant, which accounted for approximately $255.7 million of the $679.9 million additions to construction in progress. In addition, various water and sewer projects were placed in service during the year, resulting transfers totaling $454.2 million from construction in progress to infrastructure and other capital assets.

More detailed information regarding capital assets can be found in Note 6 to the financial statements.

Long-term debt: The City's total debt remained stable in FY2023. At the end of FY2023, the City had total bonded debt of $14.3 billion outstanding. The two largest portions of this total consisted of approximately $2.0 billion debt backed by the full faith and credit of the government and $9.9 billion of revenue bonds payable from the three enterprise funds' revenues. The remainder of the City's debt represents various long-term contracts, leases, SBITA, and $1.4 billion in pension bonds.

New debt issued during FY2023 included borrowings from the general obligation commercial paper totaling $148.7 million and the Airport System commercial paper totaling $165.0 million. The proceeds were used for construction and various capital projects/purchases. The outstanding balances of the general obligation and Airport System commercial paper as of June 30, 2023, were fully refunded through the issuances of the Public Improvement and Refunding Bonds Series 2023A and the Airport System Subordinate Lien Revenue and Refunding Bonds Series 2023A. See Note 16 - Subsequent Events - to the financial statements for additional details.

Outstanding Debt
June 30, 2023
(in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
General obligation bonds and commercial paper	$ 2,009,950	$ 2,121,260	$ 350,000	$ 185,000	$ 2,359,950	$ 2,306,260
Pension bonds	1,348,318	1,375,473	90,103	93,938	1,438,421	1,469,411
Special facility bonds	—	—	52,515	60,680	52,515	60,680
Revenue bonds	—	—	9,904,513	10,362,665	9,904,513	10,362,665
Notes and long-term contracts payable	28,576	28,636	430,852	441,388	459,428	470,024
Lease and subscription liabilities	126,418	83,815	3,957	123	130,375	83,938
Total	$ 3,513,262	$ 3,609,184	$ 10,831,940	$ 11,143,794	$ 14,345,202	$ 14,752,978

Standard & Poor's, Moody's, Fitch's and Kroll's underlying ratings of the City's obligations as of June 30, 2023, are as follows:

	Standard & Poor's	Moody's	Fitch's	Kroll
General Obligation	AA	Aa3	AA	N/R
Water & Sewer System Junior Lien	AA+	Aa1	AA+	N/R
Combined Utility System First Lien	AA	Aa2	AA	N/R
Houston Airport System-Subordinate Lien	A+	A1	A+	AA-
Houston Airport System-CRCF Special Facility	A	A3	A-	N/R
Convention & Entertainment - Senior Lien	A	A2	N/R	N/R
Combined Utility System - CWA	AA	N/R	AA+	N/R

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total assessed valuation. At June 30, 2023, total assessed valuation is approximately $380.3 billion, and therefore, the City's debt limit is $38.0 billion. The City's outstanding general obligation debt of $3.2 billion as of June 30, 2023 is well below the current debt limitation.

More detailed information on long-term debt can be found in Note 8 to the financial statements.

Economic Factors and Next Year's Budget and Rates

The unemployment rate for the Houston-The Woodlands-Sugarland Metropolitan Statistical Area decreased to 4.5% as of June 2023 compared to 4.8% as of June 2022 according to the U.S. Bureau of Labor Statistics. As of September 2023, the unemployment rate remained stable at 4.4% compared to June 2023.

Highlights of the fiscal year 2024 budget are as follows:

- The property tax rate was decreased to 51.9190 cents per $100 of valuation in fiscal year 2024 ("FY2024") compared to 53.3640 cents for FY2023. While assessed property values increased for FY2024, due to the Proposition 1 restriction discussed in Note 13.A, property tax revenues cannot exceed the limit of $1,376,663 thousand.
- Budgeted sales tax revenue decreased to $865.6 million in FY2024. The budgeted amount for FY2024 is mainly based on the actual amount earned in FY2023 and assumes a 3% decrease from FY2023. Although inflation results higher sales tax revenue, rising interest rates have opposite effect to the revenue.
- Total expenditures and other uses increased by approximately $120.0 million to $2.77 billion in FY2024, primarily due to pay increases for all employee groups, including 3 percent for municipal employees, 3 percent for police, and 6 percent for fire.
- Public safety remains a top priority of the City representing $1.6 billion or 68.1% of the total general fund expenditures, excluding debt service and other pay-as-you-go expenditures.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Controller, Attention: Financial Reporting Division, 901 Bagby Street, Houston, Texas 77002.

STATEMENT OF NET POSITION
June 30, 2023
(amounts expressed in thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Governmental	Business-type
Assets					
Cash and cash equivalents (Note 3A)	$ 600,510	$ 405,100	$ 1,005,610	$ 212,605	$ 50,155
Investments (Note 3A)	1,503,933	1,606,086	3,110,019	389,877	57,662
Receivables, net of allowances					
Accounts receivable	150,340	299,297	449,637	42,949	9,261
Hotel occupancy tax receivable	—	32,511	32,511	—	—
Property taxes receivable	53,147	—	53,147	80,296	—
Sales taxes receivable	150,955	—	150,955	—	—
Mixed beverage taxes receivable	4,028	—	4,028	—	—
Franchise taxes receivable	9,531	—	9,531	—	—
Special assessments receivable	8,011	93	8,104	26	—
Accrued interest and other	—	—	—	2,444	1,268
Due from component units	—	23,724	23,724	—	—
Internal balances	34,303	(34,303)	—	—	—
Due from other governments	372,553	486,777	859,330	7,823	100
Inventory	24,853	21,556	46,409	—	—
Prepaid items	3,770	18,847	22,617	5,575	5,932
Notes receivable	104,864	—	104,864	—	—
Restricted:					
Cash and cash equivalents (Note 3A)	—	209,619	209,619	—	23,787
Investments (Note 3A)	—	1,575,749	1,575,749	21,575	62,945
Receivables and deposits	—	11,762	11,762	1,690	137,201
Due from component units	—	258,975	258,975	—	—
Property held for sale	—	—	—	34,340	—
Amounts held by other governments	—	14,851	14,851	—	
Lease receivable	36,590	253,224	289,814	—	56,176
Due from primary government	—	—	—	35,792	—
Capital assets:					
Land and right-of-way	2,437,390	504,434	2,941,824	156,366	46,677
Buildings	1,487,977	3,941,621	5,429,598	172,442	932,232
Improvements and equipment	1,597,787	2,309,847	3,907,634	—	—
Construction in progress	903,864	3,319,330	4,223,194	55,093	123,590
Water rights	—	846,948	846,948	—	—
Garage rights	—	13,144	13,144	—	—
Rights and intangibles	17,278	21,692	38,970	—	—
Infrastructure assets	8,495,242	12,909,599	21,404,841	—	—
Lease right-of-use assets	84,845	295	85,140	38,197	17,252
Subscription right-of-use assets	75,167	5,254	80,421	—	—
Less accumulated depreciation and amortization	(6,144,559)	(10,950,675)	(17,095,234)	(55,219)	(338,009)
Total assets	12,012,379	18,105,357	30,117,736	1,201,871	1,186,229
Deferred outflows of resources					
Deferred outflows of resources	695,712	308,631	1,004,343	1,695	16,812
Total deferred outflows of resources	$ 695,712	$ 308,631	$ 1,004,343	$ 1,695	$ 16,812

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

STATEMENT OF NET POSITION

June 30, 2023

(amounts expressed in thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Governmental	Business-type
Liabilities					
Accounts payable and accrued expenses	$ 446,733	$ 287,647	$ 734,380	$ 67,938	$ 31,272
Accrued payroll liabilities	47,008	6,029	53,037	202	2,227
Cost of issuance	—	515	515	—	—
Accrued interest payable	41,939	82,216	124,155	9,555	7,609
Due to other governments	31,283	5,236	36,519	23,591	—
Other liabilities	—	—	—	57	4,261
Advances and deposits	13,305	69,755	83,060	541	—
Unearned revenue	435,071	43,389	478,460	22,746	4,732
Due to component units	—	32,949	32,949	—	—
Due to primary government	—	—	—	—	18,377
Contracts and retainages payable	—	185,666	185,666	3,917	9,609
Contracts payable - debt current maturities	—	9,200	9,200	—	—
Non-current liabilities					
Due within one year					
Notes payable	472	1,217	1,689	12,578	26,904
Bonds payable	200,780	438,403	639,183	46,743	—
Commercial paper	94,000	—	94,000	—	—
Claims and judgments	64,772	2,282	67,054	—	—
Compensated absences	138,277	19,001	157,278	—	—
Lease liability	5,607	45	5,652	1,754	2,577
Subscription liability	20,187	1,303	21,490	—	—
Special facility bonds payable	—	8,870	8,870	—	—
Arbitrage rebate liability	—	395	395	—	—
Pension bonds payable	29,829	4,121	33,950	—	—
Due in more than one year					
Notes payable	28,104	13,583	41,687	111,304	485,309
Bonds payable	1,533,770	9,466,110	10,999,880	774,076	—
Claims and judgments	142,748	6,703	149,451	—	—
Compensated absences	435,199	17,614	452,813	1,359	—
Contracts payable	—	406,852	406,852	—	—
Special facility bonds payable	—	43,645	43,645	—	—
Commercial paper	181,400	350,000	531,400	—	—
Due to other governments	—	11,518	11,518	—	—
Unearned revenue	—	368,840	368,840	—	6,628
Lease liability	64,151	18	64,169	31,164	7,846
Subscription liability	36,473	2,591	39,064	—	—
Arbitrage rebate liability	23	471	494	—	—
Accrued interest payable	—	62,007	62,007	—	—
Other liabilities	—	—	—	11,486	17,256
SWAP liability	—	123,043	123,043	—	—
Pension obligation bonds payable	1,318,489	85,982	1,404,471	—	—
Other post employment benefits liability	1,578,305	195,661	1,773,966	—	—
Municipal net pension liability	1,133,680	466,497	1,600,177	—	11,069
Firefighter's net pension liability	58,411	—	58,411	—	—
Police officers' net pension liability	683,716	—	683,716	—	—
Total liabilities	8,763,732	12,819,375	21,583,107	1,119,011	635,676
Deferred inflows of resources					
Deferred inflows of resources	1,538,715	405,288	1,944,003	6,006	73,282
Total deferred inflows of resources	1,538,715	405,288	1,944,003	6,006	73,282
Net position					
Net investment in capital assets	6,891,601	2,890,574	9,782,175	256,356	357,454
Restricted net position					
Restricted for debt service	146,883	582,546	729,429	93,819	6,000
Restricted for renewal and replacement	—	10,000	10,000	—	—
Restricted for maintenance and operations	—	180,240	180,240	3,961	—
Restricted for others' capital improvement	—	55,143	55,143	—	—
Restricted for capital improvement	26,184	868,817	895,001	26,228	—
Other restricted	761,361	—	761,361	91,647	82,944
Unrestricted (deficit)	(5,420,385)	602,006	(4,818,379)	(393,462)	47,685
Total net position (deficit)	$ 2,405,644	$ 5,189,326	$ 7,594,970	$ 78,549	$ 494,083

* The notes to the basic financial statements are an integral part of this statement *

STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2023
(amounts expressed in thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government				
Governmental activities				
General government	$ 431,174	$ 77,817	$ 240,001	$ —
Public safety	1,455,215	181,793	86,652	—
Public works	413,454	239,223	97,265	138,253
Health	246,163	25,002	174,126	—
Housing and community development	208,397	—	212,454	—
Parks and recreation	122,018	11,278	2,403	34,655
Library	54,954	1,221	1,846	—
Interest and fiscal charges	118,251	—	—	—
Unallocated depreciation expense	179,465	—	—	—
Total governmental activities	3,229,091	536,334	814,747	172,908
Business-type activities				
Airport System	649,909	685,076	50,230	37,087
Convention & Entertainment Facilities	120,981	10,398	—	—
Combined Utility System	1,136,470	1,503,982	9,435	201,164
Total business-type activities	1,907,360	2,199,456	59,665	238,251
Total primary government	$ 5,136,451	$ 2,735,790	$ 874,412	$ 411,159
Component Units				
Governmental	$ 348,310	$ 37,821	$ 56,397	$ 22,163
Business-type	254,204	199,729	87,798	—
Total component units activities	$ 602,514	$ 237,550	$ 144,195	$ 22,163

General Revenues and Transfers:
Taxes:
Property taxes levied for general purposes/tax increments
Property taxes levied for debt service
Industrial assessments tax
Sales tax
Franchise tax
Mixed beverage tax
Hotel occupancy tax
Investment income (loss)
Other
Gain (loss) on disposal of asset
Transfers
Total general revenues and transfers
Change in net position
Net position beginning, as previously reported
Prior period adjustment
Net position, beginning, as restated
Net position, ending

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

Net (Expense) Revenue and Changes in Net Position				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Governmental	Business-type
$ (113,356)	$ —	$ (113,356)	$ —	$ —
(1,186,770)	—	(1,186,770)	—	—
61,287	—	61,287	—	—
(47,035)	—	(47,035)	—	—
4,057	—	4,057	—	—
(73,682)	—	(73,682)	—	—
(51,887)	—	(51,887)	—	—
(118,251)	—	(118,251)	—	—
(179,465)	—	(179,465)	—	—
(1,705,102)	—	(1,705,102)	—	—
—	122,484	122,484	—	—
—	(110,583)	(110,583)	—	—
—	578,111	578,111	—	—
—	590,012	590,012	—	—
(1,705,102)	590,012	(1,115,090)	—	—
—	—	—	(231,929)	—
—	—	—	—	33,323
—	—	—	(231,929)	33,323
1,001,878	—	1,001,878	245,569	—
335,250	—	335,250	—	—
28,021	—	28,021	—	—
893,905	—	893,905	—	—
148,605	—	148,605	—	—
24,013	—	24,013	—	—
18,118	104,853	122,971	19,386	—
33,999	87,945	121,944	16,430	(2,783)
71,786	85,928	157,714	17,395	16,561
(2,326)	(2,550)	(4,876)	—	—
55,918	(55,918)	—	—	—
2,609,167	220,258	2,829,425	298,780	13,778
904,065	810,270	1,714,335	66,851	47,101
1,501,579	4,379,056	5,880,635	7,537	447,044
—	—	—	4,161	(62)
1,501,579	4,379,056	5,880,635	11,698	446,982
$ 2,405,644	$ 5,189,326	$ 7,594,970	$ 78,549	$ 494,083

* The notes to the basic financial statements are an integral part of this statement *

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2023
(amounts expressed in thousands)

	General	Debt Service	Capital Projects
Assets			
Cash and cash equivalents	$ 143,417	$ 23,475	$ 54,866
Investments	438,257	148,717	333,739
Receivables, net of allowances			
Accounts receivable	124,270	—	1
Property taxes receivable	53,147	—	—
Sales taxes receivable	150,955	—	—
Mixed beverage taxes receivable	4,028	—	—
Franchise taxes receivable	9,531	—	—
Special assessments receivable	8,011	—	—
Lease receivable	36,590	—	—
Due from other funds	67,351	—	11,698
Due from other governments	26,051	—	22,784
Inventory	21,310	—	—
Prepaid items	2,874	—	896
Notes receivable	—	—	2,400
Total assets	$ 1,085,792	$ 172,192	$ 426,384
Liabilities and fund balance			
Liabilities			
Accounts payable	$ 271,580	$ 144	$ 77,676
Accrued payroll liabilities	42,161	—	—
Due to other funds	8,366	—	21,209
Due to other governments	12,935	—	1,373
Advances and deposits	7,354	—	—
Claims and judgments	2,274	—	—
Compensated absences	4,357	—	—
Unearned revenue	—	—	160,793
Total liabilities	349,027	144	261,051
Deferred inflows of resources			
Deferred inflows of resources	186,510	—	—
Total deferred inflows of resources	186,510	—	—
Fund balances			
Non-Spendable			
Prepaids	2,874	—	896
Inventory	21,310	—	—
Restricted	1,153	172,048	24,122
Committed	14,994	—	—
Assigned	—	—	140,315
Unassigned	509,924	—	—
Total fund balances	550,255	172,048	165,333
Total liabilities, deferred inflows of resources, and fund balances	$ 1,085,792	$ 172,192	$ 426,384

* The notes to the basic financial statements are an integral part of this statement *

ARPA Fiscal Recovery Fund	Grants	Nonmajor Governmental Funds	Total
$ 259,149	$ 18,222	$ 87,693	$ 586,822
—	—	502,944	1,423,657
—	1,608	24,458	150,337
—	—	—	53,147
—	—	—	150,955
—	—	—	4,028
—	—	—	9,531
—	—	—	8,011
—	—	—	36,590
11	281	652	79,993
—	251,965	71,739	372,539
—	752	2,791	24,853
—	—	—	3,770
—	98,518	3,946	104,864
$ 259,160	$ 371,346	$ 694,223	$ 3,009,097
$ 4,763	$ 65,830	$ 25,879	$ 445,872
355	1,776	2,658	46,950
—	6,676	5,773	42,024
—	15,224	1,751	31,283
—	290	5,661	13,305
—	—	—	2,274
—	—	148	4,505
247,417	24,069	—	432,279
252,535	113,865	41,870	1,018,492
—	66,018	15,928	268,456
—	66,018	15,928	268,456
—	—	—	3,770
—	752	2,791	24,853
6,625	190,711	549,223	943,882
—	—	84,411	99,405
—	—	—	140,315
—	—	—	509,924
6,625	191,463	636,425	1,722,149
$ 259,160	$ 371,346	$ 694,223	

Amounts reported in the Statement of Net Position are different because:

1. Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	8,954,991
2. Revenues earned but not available are not recognized as revenues on the fund financial statements	169,541
3. Deferred inflows and outflows related to pension and debt are not recognized on the fund financial statements	(744,088)
4. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position. Capital assets are included in number 1.	43,729
5. Liabilities, including bonds payable, not due and payable in the current period are not reported in the funds	(7,740,678)
Net position of governmental activities	$ 2,405,644

* The notes to the basic financial statements are an integral part of this statement *

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2023
(amounts expressed in thousands)

	General	Debt Service	Capital Projects
Revenues			
Taxes and assessments	$ 2,402,440	$ —	$ —
Licenses and permits	34,333	—	—
Charges for services	172,901	—	—
Intergovernmental - grants	209,228	—	57,867
Fines and forfeitures	20,689	—	—
Contributions	500	—	—
Investment income (loss)	8,373	3,044	3,028
Other	19,273	417	13,330
Total revenues	2,867,737	3,461	74,225
Expenditures			
Current			
General government	295,132	—	9,478
Public safety	1,572,391	—	13,756
Public works	235,064	—	5,718
Health	57,141	—	4,503
Housing and community development	1,070	—	152
Parks and recreation	85,184	—	5,675
Library	48,190	—	1,321
Retiree benefits	12,612	—	—
Capital outlay	61,135	—	228,941
Debt Service			
Debt service principal	24,570	270,745	—
Debt service interest	3,362	138,761	—
Debt service fiscal agent & fees	—	2,740	—
Total expenditures	2,395,851	412,246	269,544
Excess (deficiency) of revenues over (under) expenditures	471,886	(408,785)	(195,319)
Other financing sources (uses)			
Issuance of debt	25,000	38,700	85,000
Issuance of debt for leases and SBITA	36,891	—	—
Sale of capital assets	5,815	—	—
Transfers in	72,192	392,638	147,176
Transfers out	(482,188)	—	(3,738)
Total other financing sources (uses)	(342,290)	431,338	228,438
Changes in fund balance	129,596	22,553	33,119
Fund balances, July 1	420,659	149,495	132,214
Fund balances, June 30	$ 550,255	$ 172,048	$ 165,333

* The notes to the basic financial statements are an integral part of this statement *

ARPA Fiscal Recovery Fund	Grants	Nonmajor Governmental Funds	Total
$ —	$ —	$ 46,864	$ 2,449,304
—	—	84,074	118,407
—	—	184,436	357,337
44,035	441,648	119,824	872,602
—	—	10,256	30,945
—	—	—	500
6,151	(707)	12,670	32,559
—	3	37,218	70,241
50,186	440,944	495,342	3,931,895
3,530	17,092	82,040	407,272
23,461	31,166	51,649	1,692,423
3,735	8,316	158,830	411,663
—	145,025	37,149	243,818
—	205,612	13	206,847
444	1,346	10,472	103,121
1,782	136	—	51,429
—	—	—	12,612
11,083	26,471	29,912	357,542
—	60	—	295,375
—	646	—	142,769
—	—	520	3,260
44,035	435,870	370,585	3,928,131
6,151	5,074	124,757	3,764
—	—	—	148,700
—	—	—	36,891
—	—	21	5,836
—	399	93,553	705,958
—	(4,591)	(159,523)	(650,040)
—	(4,192)	(65,949)	247,345
6,151	882	58,808	251,109
474	190,581	577,617	1,471,040
$ 6,625	$ 191,463	$ 636,425	$ 1,722,149

* The notes to the basic financial statements are an integral part of this statement *

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2023
(amounts expressed in thousands)

Net change in fund balances - total governmental funds	$	251,109
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation of $335,303 and net disposal of assets of $8,194 was less than the increase in capital assets of $472,005 in the current period. For capital outlay, the Statement of Revenues, Expenditures and Changes in Fund Balance is $357,542 of which $36,967 is related to right of use assets which were offset by proceeds from financing related to leases and subscriptions. The City also recorded donated capital assets of $172,908 which is recorded as capital contributions in the Statement of Activities.		136,995
Revenue in the statement of activities that do not provide current financial resources are deferred as revenues in the funds.		169,541
Generally, governmental funds report revenue when cash is actually received, or is expected 60 days after the close of the fiscal year. Cash received during the period relates to prior periods.		(137,852)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report, as expenditures, the effect of premiums, discounts, and similar items when debt is first issued, where as these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		138,850
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Governmental funds report payments as expenditures in the period of disbursement. The liquidation of long-term liabilities previously accrued should not be reported in the statement of activities.		326,242
Internal service funds are used by management to charge the costs of certain activities, such as the cost of health benefits, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		19,180
Change in net position of governmental activities	$	904,065

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS

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PROPRIETARY FUNDS
Statement of Net Position
June 30, 2023
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds		
	Airport System	**Convention & Entertainment**	**Combined Utility**
Assets			
Current Assets			
Cash and cash equivalents	$ 119,296	$ 14,067	$ 271,737
Investments	71,589	49,503	1,484,994
Receivables, net of allowances			
Accounts receivable	10,745	13	288,539
Hotel occupancy tax receivable	—	32,511	—
Special assessments receivable	—	—	93
Due from component units	—	23,724	—
Due from other funds	559	—	9
Due from other governments	57,726	—	7,387
Inventory	2,428	—	19,128
Prepaid items	7,997	—	8,262
Lease receivable	12,235	1,456	—
Restricted assets			
Cash and cash equivalents	209,582	—	37
Restricted accounts receivable	11,762	—	—
Investments	93,507	—	—
Total current assets	597,426	121,274	2,080,186
Noncurrent Assets			
Investments	10,532	35,061	64,604
Due from component units	—	258,975	—
Prepaid items	150	—	2,438
Lease asset receivable	235,744	3,789	—
Due from other governments	—	—	421,664
Amounts held by other governments	—	—	14,851
Restricted assets			
Investments	1,372,045	—	—
Total noncurrent restricted assets	1,372,045	—	—
Capital assets			
Land	214,457	93,860	196,117
Buildings	3,173,385	566,148	202,088
Improvements and equipment	2,101,279	8,409	200,160
Infrastructure	563,260	334	12,346,005
Construction in progress	869,080	—	2,450,250
Intangibles	21,692	—	—
Water rights	—	—	846,948
Garage rights	—	13,144	—
Lease right-of-use assets	295	—	—
Subscription right-of-use assets	5,254	—	—
Less accumulated depreciation and amortization	(3,751,302)	(355,690)	(6,843,683)
Net capital assets	3,197,399	326,205	9,397,885
Total noncurrent assets	4,815,870	624,030	9,901,442
Total assets	5,413,296	745,304	11,981,628
Deferred outflows of resources			
Deferred outflows of resources	38,591	1,455	268,585
Total deferred outflows of resources	$ 38,591	$ 1,455	$ 268,585

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

Business-type Activities - Enterprise Funds	Governmental Activities
Total	Internal Service Funds
$ 405,100	$ 13,688
1,606,086	80,276
299,297	3
32,511	—
93	—
23,724	—
568	—
65,113	14
21,556	—
16,259	—
13,691	—
209,619	—
11,762	—
93,507	—
2,798,886	93,981
110,197	—
258,975	—
2,588	—
239,533	—
421,664	—
14,851	—
1,372,045	—
1,372,045	—
504,434	—
3,941,621	963
2,309,848	—
12,909,599	—
3,319,330	1,654
21,692	—
846,948	—
13,144	—
295	—
5,254	—
(10,950,675)	(707)
12,921,489	1,910
15,341,342	1,910
18,140,228	95,891
308,631	—
$ 308,631	$ —

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

PROPRIETARY FUNDS
Statement of Net Position
June 30, 2023
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds		
	Airport System	**Convention & Entertainment**	**Combined Utility**
Liabilities			
Current Liabilities			
Accounts payable	$ 18,623	$ 21	$ 269,003
Accrued payroll liabilities	2,299	—	3,730
Accrued interest payable	42,405	4,865	34,946
Notes payable	1,217	—	—
Contracts and retainages payable	185,666	—	—
Due to other funds	609	—	37,845
Due to component units	—	32,949	—
Due to other governments	1,843	—	3,393
Special facility bonds payable	8,870	—	—
Advances and deposits	2,824	—	66,931
Contracts payable - debt current maturities	—	—	9,200
Cost of issuance payable	—	515	—
Claims and judgments	1,064	—	1,218
Compensated absences	6,887	—	12,114
Arbitrage rebate	—	—	395
Pension obligation bonds payable	—	220	3,901
Other liabilities	—	—	—
Lease liabilities	45	—	—
Subscription liability	1,303	—	—
Revenue bonds payable	119,710	26,312	292,381
Unearned revenue	43,389	—	—
Total current liabilities	436,754	64,882	735,057
Noncurrent liabilities			
Accrued interest payable	—	—	62,007
Revenue bonds payable	2,113,786	540,530	6,811,794
Special facility bonds payable	43,645	—	—
Claims and judgments	1,890	—	4,813
Compensated absences	8,277	—	9,337
Contracts payable	—	—	406,852
Commercial paper	350,000	—	—
Arbitrage rebate liability	—	—	471
Due to other governments	—	—	11,518
Lease liabilities	18	—	—
Subscription liabilities	2,591	—	—
Municipal net pension liability	178,211	4,879	283,407
Other post employment benefits	54,384	7,404	133,873
Notes payable	13,583	—	—
SWAP liability	—	—	123,043
Unearned revenue	—	5,151	363,689
Pension obligation bonds payable	2,006	2,569	81,407
Total noncurrent liabilities	2,768,391	560,533	8,292,211
Total liabilities	3,205,145	625,415	9,027,268
Deferred inflows of resources			
Deferred inflows of resources	278,418	17,226	109,644
Total deferred inflows of resources	278,418	17,226	109,644
Net position			
Net investment in capital assets	591,494	27,475	2,271,605
Restricted net position			
Restricted for debt service	472,782	35,061	74,703
Restricted for renewal and replacement	10,000	—	—
Restricted for maintenance and operations	55,457	19,361	101,839
Restricted for others' capital improvement	55,143	—	—
Restricted for capital improvements	851,491	—	17,326
Unrestricted (deficit)	(68,043)	22,221	647,828
Total net position	$ 1,968,324	$ 104,118	$ 3,113,301

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds

Net position of business-type activities

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

Business-type Activities - Enterprise Funds	Governmental Activities
Total	Internal Service Funds
$ 287,647	$ 863
6,029	60
82,216	—
1,217	—
185,666	—
38,454	83
32,949	—
5,236	—
8,870	—
69,755	—
9,200	—
515	—
2,282	27,638
19,001	237
395	—
4,121	—
–	—
45	—
1,303	—
438,403	—
43,389	2,792
1,236,693	31,673
62,007	—
9,466,110	—
43,645	—
6,703	15,000
17,614	—
406,852	—
350,000	—
471	—
11,518	—
18	—
2,591	—
466,497	—
195,661	—
13,583	—
123,043	—
368,840	—
85,982	—
11,621,135	15,000
12,857,828	46,673
405,288	—
405,288	—
2,890,574	1,910
582,546	—
10,000	—
176,657	—
55,143	—
868,817	—
602,006	47,308
$ 5,185,743	$ 49,218
$ 3,583	
$ 5,189,326	

* The notes to the basic financial statements are an integral part of this statement *

PROPRIETARY FUNDS
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Fiscal Year Ended June 30, 2023
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds		
	Airport System	Convention & Entertainment	Combined Utility
Operating Revenues			
Landing area fees	$ 92,601	$ —	$ —
Terminal space rentals	234,751	—	—
Parking	117,460	8,877	—
Concession	107,691	—	—
Other	7,744	—	—
Rental	—	1,521	—
Water/Sewer billing	—	—	1,503,982
Health benefit premiums	—	—	—
Total operating revenue	560,247	10,398	1,503,982
Operating Expenses			
Administrative costs	—	—	—
Claims costs	—	—	—
Maintenance and operating	400,956	85,544	578,050
Depreciation and amortization	170,922	12,844	289,362
Total operating expenses	571,878	98,388	867,412
Operating income (loss)	(11,631)	(87,990)	636,570
Nonoperating revenues (expenses)			
Investment income (loss)	38,706	9,491	39,748
Hotel occupancy tax	—	104,853	—
Other revenue	9,911	307	75,709
Gain (loss) on disposal of assets	405	—	(2,955)
Interest expense	(78,655)	(22,706)	(269,535)
Cost of issuance	—	—	(550)
CARES grant	50,230	—	—
Passenger facility charges	108,754	—	—
Contributions	—	—	9,435
Customer facility charges	16,075	—	—
Special facility cost	(283)	—	—
Total nonoperating revenues (expenses)	145,143	91,945	(148,148)
Income (loss) before capital contributions and transfers	133,512	3,955	488,422
Capital contributions	37,087	—	201,164
Transfers out	—	(1,522)	(54,396)
Total transfers	—	(1,522)	(54,396)
Change in net position	170,599	2,433	635,190
Total net position, July 01,	1,797,725	101,685	2,478,111
Total net position, June 30,	$ 1,968,324	$ 104,118	$ 3,113,301

Change in net position
Internal service fund activity is reported with governmental activities.
The amount shown represents the net expense allocated to business-type activities.
Total change in net position business-type activities

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

Business-type Activities - Enterprise Funds	Governmental Activities
Total	Internal Service Funds
$ 92,601	$ —
234,751	—
126,337	—
107,691	—
7,744	914
1,521	—
1,503,982	—
—	408,989
2,074,627	409,903
—	7,815
—	382,299
1,064,550	—
473,128	33
1,537,678	390,147
536,949	19,756
87,945	1,440
104,853	—
85,927	—
(2,550)	31
(370,896)	—
(550)	—
50,230	—
108,754	—
9,435	—
16,075	—
(283)	—
88,940	1,471
625,889	21,227
238,251	—
(55,918)	—
(55,918)	—
808,222	21,227
4,377,521	27,991
$ 5,185,743	$ 49,218
$ 808,222	
2,048	
$ 810,270	

* The notes to the basic financial statements are an integral part of this statement *

PROPRIETARY FUNDS
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2023
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds		
	Airport System	Convention & Entertainment	Combined Utility
Cash flows from operating activities			
Receipts from customers	$ 561,055	$ 10,401	$ 1,538,751
Payments to employees	(280,257)	(251)	(218,635)
Payments to suppliers	(128,669)	(137)	(325,616)
Internal activity-payments (to) from other funds	(721)	—	(86,876)
Payments to Houston First Corporation	—	(83,183)	—
Claims paid	—	—	(2,072)
Due to(from) other governments	—	—	—
Other receipts	7,744	—	79,288
Other payments	—	—	—
Receipts from component units	—	38,467	—
Net cash provided by (used in) operating activities	159,152	(34,703)	984,840
Cash flows from investing activities			
Interest income on investments	36,188	9,676	34,826
Purchases of investments	(2,311,957)	(102,378)	(2,447,001)
Sales of investments	2,240,360	96,648	2,450,790
Net cash provided by (used in) investing activities	(35,409)	3,946	38,615
Cash flows from capital and related financing activities			
Retirement of revenue bonds	(77,700)	(33,670)	(266,695)
Lease liabilities	(48)	—	—
Subscription liabilities	3,894	—	—
Retirement of special facility bonds	(8,165)	—	—
Retirement of SECO Loans	(1,193)	—	—
Proceeds from issuance of revenue bonds	—	—	—
Retirement of subordinate lien bonds	—	—	(12,625)
Proceeds from issuance of commercial paper	165,000	—	—
Passenger facilities charges	107,285	—	—
Customer facilities charges	15,870	—	—
Retirement of Junior Lien bonds	—	—	(4,604)
Interest expense on debt	(96,256)	(30,499)	(280,369)
Proceeds from disposition of assets	—	—	2,077
Grant receipts	59,470	—	—
Retirement of contracts payable	—	—	(8,865)
Acquisition of property, plant and equipment	(405,436)	—	(645,696)
Capital contributions from other local governments	—	—	194,795
Cost of issuance on debt	—	—	(550)
Special facility cost	(283)	—	—
Net cash used in capital and related financing activities	$ (237,562)	$ (64,169)	$ (1,022,532)

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

Business-type Activities - Enterprise Funds	Governmental Activities
Total	Internal Service Funds
$ 2,110,207	$ 409,984
(499,143)	(4,439)
(454,422)	(1,959)
(87,597)	(1,508)
(83,183)	—
(2,072)	(386,877)
—	(3)
87,032	914
—	2
38,467	—
1,109,289	16,114
80,690	1,693
(4,861,336)	(114,033)
4,787,798	98,400
7,152	(13,940)
(378,065)	—
(48)	—
3,894	—
(8,165)	—
(1,193)	—
—	—
(12,625)	—
165,000	—
107,285	—
15,870	—
(4,604)	—
(407,124)	—
2,077	—
59,470	—
(8,865)	—
(1,051,132)	(834)
194,795	—
(550)	—
(283)	—
$ (1,324,263)	$ (834)

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

PROPRIETARY FUNDS
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2023
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds		
	Airport System	Convention & Entertainment	Combined Utility
Cash flows from noncapital financing activities			
Interest expense on pension obligation bonds	$ —	$ —	$ (4,569)
CARES Act/CRRSAA/ARPA grants	60,625	—	—
Retirement of pension bonds	—	(210)	(3,625)
Hotel occupancy tax revenue	—	94,773	—
Transfers to debt service fund	—	—	(4,898)
Transfers to other funds	—	(1,522)	(49,497)
Net cash provided by (used in) noncapital financing activities	60,625	93,041	(62,589)
Net increase (decrease) in cash and cash equivalents	(53,194)	(1,885)	(61,669)
Cash and cash equivalents, July 01,	382,072	15,952	333,443
Cash and cash equivalents, June 30,	$ 328,878	$ 14,067	$ 271,774
Cash and cash equivalents			
Pooled cash and cash equivalents (Note 3A)	$ 119,296	$ 14,067	$ 271,737
Current restricted cash and cash equivalents (Note 3A)	209,582	—	37
Total cash and cash equivalents, June 30,	$ 328,878	$ 14,067	$ 271,774
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	$ (11,631)	$ (87,990)	$ 636,570
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	170,922	12,844	289,362
Changes in assets and liabilities			
Accounts receivable	(5,904)	—	(38,899)
Other revenues (expenses)	—	—	79,288
Due from other funds	136	—	2,656
Due from/to component unit	—	39,600	—
Receipts from other governments	—	—	—
Inventory and prepaid items	(877)	—	(6,601)
Lease receivable	22,507	1,738	—
Accounts payable	6,895	(44)	(12,660)
Accrued payroll liabilities	(2,281)	—	(4,721)
Due to (from) other funds	(857)	—	6,642
Advances and deposits	34	—	7,492
Due from other governments	—	—	1,738
Claims and judgments-workers' compensation	730	—	(803)
Compensated absences	884	—	(109)
Other current liabilities	9,339	—	—
Other post employment benefits	(865)	1,292	(11,769)
Pension obligation payable	(11,128)	(408)	(26,094)
Unearned revenue	—	(291)	—
Deferred inflows - leases	(18,752)	(1,444)	—
Other long-term liabilities	—	—	62,748
Net cash provided by (used in) operating activities	$ 159,152	$ (34,703)	$ 984,840
Non cash transactions			
Capital additions included in liabilities	$ (185,666)	$ —	$ (45,327)
Amortization of premium and discount	(20,216)	(6,873)	(30,078)
Unrealized gain (loss) on investments	2,518	(185)	4,923
Donated capital	—	—	(23,249)
CAB accretion interest	—	—	7,462
Gain (loss) on disposal of assets	405	—	(2,955)

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

Business-type Activities - Enterprise Funds		Governmental Activities	
Total		Internal Service Funds	
$	(4,569)	$	—
	60,625		—
	(3,835)		—
	94,773		—
	(4,898)		—
	(51,019)		—
	91,077		—
	(116,748)		1,340
	731,467		12,348
$	614,719	$	13,688
$	405,100	$	13,688
	209,619		—
$	614,719	$	13,688
$	536,949	$	19,756
	473,128		33
	(44,803)		(2)
	79,288		—
	2,792		40
	39,600		—
	—		—
	(7,478)		2
	24,245		—
	(5,809)		(3,897)
	(7,002)		(141)
	5,785		(41)
	7,526		—
	1,738		(3)
	(73)		(681)
	775		50
	9,339		—
	(11,342)		—
	(37,630)		—
	(291)		998
	(20,196)		—
	62,748		—
$	1,109,289	$	16,114
$	(230,993)	$	—
	(57,167)		—
	5,143		(253)
	(23,249)		—
	7,462		—
	(2,550)		39

* The notes to the basic financial statements are an integral part of this statement *

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2023
(amounts expressed in thousands)

	Pension Trust Funds	Private-Purpose Trust Fund
Assets		
Cash and cash equivalents	$ 160,331	$ 336
Investments		
Investments held by trust	—	6,710
Other fixed income securities	2,775,039	—
Commingled equity funds	2,312,346	—
Common and preferred stock	3,706,824	—
Real estate, partnerships and alternatives	6,336,092	—
Short-term investment funds	1,057,548	—
Invested securities lending collateral	252,182	—
Receivables, net of allowances		
Accounts receivable	14,205	—
Contributions	11,257	—
Accrued interest and dividends	22,394	—
Other receivable	8,370	—
Other Assets	13,704	—
Land	5,805	—
Building	2,813	—
Lease right-of-use assets, net of accumulated amortization	2,534	—
Total assets	16,681,444	7,046
Liabilities		
Accounts payable	9,497	—
Security lending collateral	252,182	—
Foreign funds contracts payable	7,759	—
Lease liabilities	2,534	—
Other liabilities	10,094	—
Total liabilities	282,066	—
Net position		
Restricted net position for		
Pensions	16,399,378	—
Individuals and organizations	—	7,046
Total net position	$ 16,399,378	$ 7,046

* The notes to the basic financial statements are an integral part of this statement *

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2023
(amounts expressed in thousands)

	Pension Trust Funds	Private-Purpose Trust Fund
Additions		
Contributions:		
City of Houston	$ 437,285	$ —
Plan members	118,972	—
Total contributions	556,257	—
Investment earnings		
Interest and dividends	197,214	601
Net increase in the fair value of investments	778,505	66
Total investment income	975,719	667
Less investment expense	(28,402)	—
Net investment income	947,317	667
Total additions	1,503,574	667
Deductions		
Benefits	1,000,904	—
Refund of contributions	4,962	—
Administrative expense	15,503	—
Total deductions	1,021,369	—
Change in net position	482,205	667
Total net position restricted, July 01	15,917,173	6,379
Total net position restricted, June 30	$ 16,399,378	$ 7,046

* The notes to the basic financial statements are an integral part of this statement *

DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL
Combining Statement of Net Position
June 30, 2023
(amounts expressed in thousands)

	Houston Forensic Science, LGC	Houston Parks Board LGC, Inc.	Lake Houston Redevelopment Authority	Memorial Heights Redevelopment Authority	Midtown Redevelopment Authority
Assets					
Current Assets					
Cash	$ 2,773	$ 21,860	$ 27,389	$ 433	$ 20,858
Investments					
Equity in pooled cash and investments	—	—	27,329	47,567	22,189
Receivables, net of allowances					
Accounts receivable	—	1,188	—	—	—
Property taxes receivable, net	—	—	—	11,902	13,101
Special assessments receivable	—	—	—	—	—
Accrued interest and other	—	—	—	—	—
Due from primary government	1,085	1,202	7,339	—	—
Due from other governments	—	—	—	3,435	—
Property held for resale	—	—	—	—	34,340
Prepaid items	1,087	—	—	—	—
Restricted assets					
Investments	—	—	—	—	7,306
Other receivables	—	—	—	—	—
Total current assets	4,945	24,250	62,057	63,337	97,794
Noncurrent Assets					
Restricted assets					
Investments	—	—	—	—	—
Total noncurrent assets	—	—	—	—	—
Capital assets					
Land	—	15,916	—	—	13,948
Buildings, improvements and equipment	6,794	—	—	—	85,209
Construction in progress	1	40,518	—	—	—
Lease right-of-use assets	33,102	—	—	—	—
Less accumulated depreciation and amortization	(9,301)	—	—	—	(15,706)
Total capital assets	30,596	56,434	—	—	83,451
Total assets	35,541	80,684	62,057	63,337	181,245
Deferred outflows of resources					
Deferred outflows of resources	—	—	—	—	—
Total deferred outflows of resources	—	—	—	—	—
Liabilities					
Current Liabilities					
Accounts payable	1,177	7,802	591	4,330	4,246
Accrued payroll liabilities	—	—	—	—	—
Accrued interest payable	—	—	265	210	1,345
Contracts and retainages payable	—	—	—	—	158
Notes payable	—	—	—	—	2,759
Lease payable	841	—	—	—	—
Due to other governments	—	—	—	—	—
Advances and deposits	—	—	—	—	—
Unearned revenue	—	16,417	—	—	—
Current liabilities payable from restricted assets					
Bonds payable	—	—	—	880	3,985
Account held for others	—	—	—	—	—
Total current liabilities	2,018	24,219	856	5,420	12,493
Noncurrent liabilities					
Notes payable	—	—	20,632	22,099	8,326
Bonds payable	—	—	48,686	39,949	72,151
Lease payable	30,740	—	—	—	—
Other liabilities	—	—	—	—	—
Compensated absences	1,359	—	—	—	—
Total Noncurrent liabilities	32,099	—	69,318	62,048	80,477
Total liabilities	34,117	24,219	70,174	67,468	92,970
Deferred inflows of resources					
Deferred inflows of resources	—	—	—	—	6,006
Total deferred inflows of resources	—	—	—	—	6,006
Net position					
Net investment in capital assets	(985)	56,434	—	—	68,923
Restricted net position					
Restricted for debt service	—	—	2,501	1,929	13,128
Restricted for maintenance and operations	—	—	—	—	—
Restricted for capital improvements	—	—	—	—	5
Other restricted	—	—	—	—	44,580
Unrestricted (deficit)	2,409	31	(10,618)	(6,060)	(44,367)
Total net position (deficit)	$ 1,424	$ 56,465	$ (8,117)	$ (4,131)	$ 82,269

* The notes to the basic financial statements are an integral part of this statement *

Uptown Development Authority	Nonmajor Component Units	Total
$ 66,055	$ 73,237	$ 212,605
—	292,792	389,877
—	41,761	42,949
—	55,293	80,296
—	26	26
924	1,520	2,444
—	26,166	35,792
134	4,254	7,823
—	—	34,340
1,282	3,206	5,575
—	3,838	11,144
—	1,690	1,690
68,395	503,783	824,561
—	10,431	10,431
—	10,431	10,431
17,101	109,401	156,366
30,568	49,871	172,442
—	14,574	55,093
—	5,095	38,197
(9,221)	(20,991)	(55,219)
38,448	157,950	366,879
106,843	672,164	1,201,871
1,520	175	1,695
1,520	175	1,695
24,146	25,646	67,938
—	202	202
3,283	4,452	9,555
—	3,759	3,917
906	8,913	12,578
—	913	1,754
9,077	14,514	23,591
—	541	541
1,939	4,390	22,746
24,048	17,830	46,743
—	57	57
63,399	81,217	189,622
7,178	53,069	111,304
287,779	325,511	774,076
—	424	31,164
—	11,486	11,486
—	—	1,359
294,957	390,490	929,389
358,356	471,707	1,119,011
—	—	6,006
—	—	6,006
22,396	109,588	256,356
43,661	32,600	93,819
—	3,961	3,961
—	26,223	26,228
—	47,067	91,647
(316,050)	(18,807)	(393,462)
$ (249,993)	$ 200,632	$ 78,549

* The notes to the basic financial statements are an integral part of this statement *

DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL
Combining Statement of Activities
For the Year Ended June 30, 2023
(amounts expressed in thousands)

		Program Revenues			Net (Expense) Revenue and Change in Net Position
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Houston Forensic Science LGC, Inc.**
Component Units					
Houston Forensic Science LGC, Inc.	$ 30,943	$ —	$ 31,870	$ —	$ 927
Houston Park Board LGC, Inc.	20,544	26,693	—	7,039	—
Lake Houston Redevelopment Authority	18,533	—	—	—	—
Memorial Heights Redevelopment Authority	47,239	—	9,537	—	—
Midtown Redevelopment Authority	21,048	—	—	—	—
Uptown Development Authority	53,476	—	—	13,662	—
Nonmajor component units	156,527	11,128	14,990	1,462	—
Total component units	$ 348,310	$ 37,821	$ 56,397	$ 22,163	927

General Revenues:	
Taxes	
Property Taxes - general purposes / tax increments	—
Hotel occupancy tax	—
Unrestricted investment earnings (loss)	—
Other	227
Total general revenues and transfers	227
Change in net position	1,154
Net position (deficit), beginning	270
Prior period adjustments	—
Net position (deficit), ending	$ 1,424

* The notes to the basic financial statements are an integral part of this statement *

Net (Expense) Revenue and Change in Net Position						
Houston Park Board LGC, Inc.	Lake Houston Redevelopment Authority	Memorial Heights Redevelopment Authority	Midtown Redevelopment Authority	Uptown Development Authority	Nonmajor Component Units	Total
$ —	$ —	$ —	$ —	$ —	$ —	$ 927
13,188	—	—	—	—	—	13,188
—	(18,533)	—	—	—	—	(18,533)
—	—	(37,702)	—	—	—	(37,702)
—	—	—	(21,048)	—	—	(21,048)
—	—	—	—	(39,814)	—	(39,814)
—	—	—	—	—	(128,947)	(128,947)
13,188	(18,533)	(37,702)	(21,048)	(39,814)	(128,947)	(231,929)
—	21,435	12,528	28,494	47,551	135,561	245,569
—	—	—	—	—	19,386	19,386
—	1,803	1,801	1,146	1,024	10,656	16,430
—	9,460	—	1,566	—	6,142	17,395
—	32,698	14,329	31,206	48,575	171,745	298,780
13,188	14,165	(23,373)	10,158	8,761	42,798	66,851
43,277	(22,282)	19,242	72,111	(251,879)	146,798	7,537
—	—	—	—	(6,875)	11,036	4,161
$ 56,465	$ (8,117)	$ (4,131)	$ 82,269	$ (249,993)	$ 200,632	$ 78,549

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS

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DISCRETELY PRESENTED COMPONENT UNITS - BUSINESS-TYPE
Combining Statement of Net Position
June 30, 2023
(amounts expressed in thousands)

	Houston First Corporation	Houston Housing Finance Corp	Houston Zoo, Inc.	Total Component Units
ASSETS				
Cash	$ 25,771	$ 20,511	$ 3,873	$ 50,155
Investments	—	—	57,662	57,662
Receivables, net of allowances				
Accounts receivable	7,437	749	1,075	9,261
Accrued interest and other	—	1,268	—	1,268
Prepaid items	4,478	33	1,421	5,932
Lease receivable	2,042	—	—	2,042
Restricted assets				
Investments	32,822	—	—	32,822
Other receivables	14,231	127	50,946	65,304
Due from other governments - grants	—	100	—	100
Total current assets	86,781	22,788	114,977	224,546
Noncurrent Assets				
Restricted cash and cash equivalents	5,478	4,016	14,293	23,787
Investments	26,441	—	3,682	30,123
Receivable and deposits	59,738	12,159	—	71,897
Lease receivable	54,134	—	—	54,134
Total noncurrent assets	145,791	16,175	17,975	179,941
Capital Assets				
Land	14,824	31,853	—	46,677
Buildings, improvements and equipment	656,011	56,069	220,152	932,232
Construction in progress	22,214	13,045	88,331	123,590
Lease right-of-use assets	16,780	—	472	17,252
Less accumulated depreciation and amortization	(232,348)	(12,643)	(93,018)	(338,009)
Capital assets, net	477,481	88,324	215,937	781,742
Total assets	710,053	127,287	348,889	1,186,229
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources	16,812	—	—	16,812
Total deferred outflows of resources	16,812	—	—	16,812
LIABILITIES				
Current Liabilities				
Accounts payable	25,381	2,735	3,156	31,272
Accrued payroll liabilities	—	—	2,227	2,227
Accrued interest payable	7,609	—	—	7,609
Contracts and retainages payable	—	—	9,609	9,609
Due to primary government	18,377	—	—	18,377
Notes payable	18,925	1,359	6,620	26,904
Lease payable	2,372	—	205	2,577
Other liabilities - current	1,342	801	2,118	4,261
Unearned revenue	337	—	4,395	4,732
Total current liabilities	74,343	4,895	28,330	107,568
Long-term liabilities				
Notes payable	411,295	47,764	26,250	485,309
Lease payable	7,572	—	274	7,846
Unearned revenue	6,376	252	—	6,628
Net pension liability	11,069	—	—	11,069
Other liabilities - noncurrent	16,080	1,176	—	17,256
Total noncurrent liabilities	452,392	49,192	26,524	528,108
Total liabilities	526,735	54,087	54,854	635,676
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources	54,079	19,203	—	73,282
Total deferred inflows of resources	54,079	19,203	—	73,282
NET POSITION				
Investment in capital assets	136,840	38,026	182,588	357,454
Restricted net position				
Restricted for debt service	6,000	—	—	6,000
Other restricted	5,479	—	77,465	82,944
Unrestricted (deficit)	(2,268)	15,971	33,982	47,685
Total net position	146,051	53,997	294,035	494,083
Total liabilities, deferred inflows of resources, and net position	$ 726,865	$ 127,287	$ 348,889	$ 1,203,041

* The notes to the basic financial statements are an integral part of this statement *

DISCRETELY PRESENTED COMPONENT UNITS - BUSINESS-TYPE
Combining Statement of Activities
For the Year Ended June 30, 2023
(amounts expressed in thousands)

		Program Revenues	
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**
Component Units			
Houston First Corporation	$ 191,721	$ 145,792	$ 74,217
Houston Housing Finance Corp.	8,491	415	—
Houston Zoo, Inc.	53,992	53,522	13,581
Totals	$ 254,204	$ 199,729	$ 87,798

General Revenues:
Unrestricted investment earnings
Other
Total general revenues and transfers
Change in net position
Net position, beginning of year
Cumulative effect of change in accounting principle
Net position, end of year

* The notes to the basic financial statements are an integral part of this statement *

Net (Expense) Revenue and Change in Net Position							
Houston First Corporation		Houston Housing Finance Corp.		Houston Zoo, Inc.		Total	
$	28,288	$	—	$	—	$	28,288
	—		(8,076)		—		(8,076)
	—		—		13,111		13,111
	28,288		(8,076)		13,111		33,323
	2,877		1,648		(7,308)		(2,783)
	6,794		5,523		4,244		16,561
	9,671		7,171		(3,064)		13,778
	37,959		(905)		10,047		47,101
	108,092		54,902		284,050		447,044
	—		—		(62)		(62)
$	146,051	$	53,997	$	294,035	$	494,083

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS

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OFFICE OF THE CITY CONTROLLER

NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements:

In 1914, Houston-born oilman and philanthropist, George H. Hermann, gifted the City 278 acres of land for use as a park. Between 1922 and 1924, the City purchased an additional 122 acres, growing to what is now considered one of the nation's preeminent urban parks. With more than six million annual visitors, Hermann Park is home to the Houston Zoo, the Miller Outdoor Theatre and Hermann Park Golf Course, among other attractions.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Houston, Texas (the “City”) was incorporated under the laws of the Republic of Texas in 1837 and again under the laws of the State of Texas in 1905. The City operates under a Home Rule Charter with a Mayor-Council form of government and provides the following services as authorized or required by its charter: public safety (police and fire), highways and streets, sanitation, water, airports, health services, culture-recreation, storm drainage, solid waste disposal, planning and inspection, civil defense, public improvements, and general administrative services, including pension and other benefits for its employees.

The financial statements presented in this report conform to the reporting requirements of the Governmental Accounting Standards Board (“GASB”), which establishes combined statements at the required reporting level for governmental entities that present financial statements in accordance with generally accepted accounting principles in the United States of America (“GAAP”).

The significant accounting policies of the City are as follows:

A. Principles Used in Determining the Reporting Entity for Financial Reporting Purposes

The accompanying financial statements include the City and all of its component units, collectively referred to as “the financial reporting entity”. In accordance with GASB Statement No. 14 and GASB Statement No. 61, the component units have been included in the City’s reporting entity because of the significance of their operational and financial relationships with the City. Organizations are included if they are financially accountable to the City, or the nature and significance of their relationship with the City are such that exclusion would cause the financial statements to be misleading or incomplete. Inclusion is determined on the basis of the City’s ability to exercise significant influence. Significant influence or accountability is based primarily on its operational or financial relationship with the City (as distinct from legal relationship).

Component units are related organizations to the primary government. They are legally separate, independently audited, and are incorporated into the City’s Annual Comprehensive Financial Report (“ACFR”). Factors for determining if an entity should be treated as a component unit of a primary government are as follows:

- Fiscal dependency: does the primary government appoint a voting majority of the governing body
- Financial benefit or burden relationship or the ability for the primary government to impose its will
- Financial presentation: the potential that exclusion would result in misleading financial reporting

There are 2 classifications of component units: blended and discretely presented.

A blended component unit functions, for all practical purposes, as an integral part of the primary government, much like a department. The following criteria is utilized to determine if a component unit is blended:

- Substantively the same governing body and a financial benefit or burden relationship exists
- Substantively the same governing body and operational responsibility falls with the primary government
- (Almost) exclusive service or benefit to the primary government itself rather than its citizens
- Total debt of the component unit repayable (almost) entirely from resources of the primary government

If a component unit does not function as an integral part of the primary government, it is reported as a discretely presented component unit.

B. Basis of Presentation - Financial Reporting Entity

1. Component Units

Most component units of the City issue separately audited financial statements and are reported in this ACFR. Additional information is available by contacting the entities at the addresses shown herein.

All component units of the City have the same fiscal year end as the City, June 30, except the following component units, which have December 31 year end: Houston First Corporation, Houston Housing Finance Corporation, Houston Zoo Inc., Miller Theatre Advisory Board Inc., Greater Houston Convention and Visitors Bureau Inc., and Houston Arts Alliance.

The City has two blended component units, and they are incorporated into the financial statements of the City.

Blended Component Units	Brief Description of Activities, Relationship to the City and Key Inclusion Criteria
TechConnect Houston ***900 Bagby St.*** ***4th Floor*** ***Houston, TX 77002***	Created on June 13, 2022, TechConnect Houston (“TechConnect) has a four-member board of directors, appointed by the Mayor. This public, 501(c)(3) non-profit corporation, is organized and operated exclusively for charitable and education purposes, for the use and benefit of the City in its efforts to provide digital equity and technological opportunities for the underserved youth in the City. The programs are offered at various Houston Parks and Recreation centers. TechConnect received $1,050 private contributions for the fiscal year ended June 30, 2023, and the contributions received are reported in the Park Special Revenue Fund. **Reporting Fund**: Park Special Revenue Fund
Houston Spaceport Development Corporation ***16930 JFK Boulevard*** ***Houston, TX 77032***	Created on September 15, 2021, Houston Spaceport Development Corporation (“HSDC”) has a seven-member board of directors, including the Director of Aviation of Houston Airport System, which is appointed by the Mayor. This corporation is responsible for managing and promoting the development of Houston Spaceport as well as applying for funds under the Texas Spaceport Trust Fund. During the year ended June 30, 2023, HSDC did not have any financial activities and had no impact to the operating results of the Airport System Fund. **Reporting Fund**: Airport System Fund

Following are the City's fiduciary component units:

Fiduciary Component Units	Brief Description of Activities, Relationship to the City and Key Inclusion Criteria
Houston Firefighters' Relief and Retirement Fund ("HFRRF") ***4225 Interwood North Parkway*** ***Houston, TX 77032***	Responsible for administration, management, and operation of the pension system solely for active and retired City of Houston firefighters. One member of the Board is either the Mayor or an appointed representative, five members are elected by active firefighters, one member is elected by retired firefighters, two members are citizen representatives, and one member is the City Treasurer. There is a fiscal dependency on the City, and there is the potential that exclusion would result in misleading financial reporting. **Reporting Fund**: Houston Firefighters' Relief and Retirement Pension Trust Fund.
Houston Municipal Employees Pension System ("HMEPS") ***1201 Louisiana, Suite 900*** ***Houston, TX 77002***	Responsible for administration, management, and operation of the pension system solely for active and retired municipal (non-classified) employees of the City. One member of the Board is appointed by the Mayor, one member of the Board is appointed by the City Controller, four are elected by active employees, two are elected by retirees, one is appointed by the elected trustees and two are appointed by the governing body of the City. There is a fiscal dependency on the City, and there is the potential that exclusion would result in misleading financial reporting. **Reporting Fund**: Houston Municipal Employees' Pension Trust Fund.
Houston Police Officers' Pension System ("HPOPS") ***602 Sawyer, Suite 300*** ***Houston, TX 77007***	Responsible for administration, management, and operation of the pension system solely for active and retired police officers of the City. One member of the Board is appointed by the Mayor, three are elected by employees, two are elected by retirees, and one is the City Treasurer. There is a fiscal dependency on the City, and there is the potential that exclusion would result in misleading financial reporting. **Reporting Fund**: Houston Police Officers' Pension Trust Fund.

Discretely presented component units, both business-type and governmental, are reported in separate columns in the government-wide financial statements of the City. Discretely presented component units are classified as major and minor component units. Whether a given component unit is major depends on the nature and significance of its relationship to the primary government as follows:

- It is essential that financial statement users have separate information on the component unit because of the type of services it provides to citizens.
- The component unit is engaged in significant transactions with the primary government.
- There is a significant financial benefit or burden relationship with the primary government.

Major discretely presented component units, both business-type and governmental, are reported in detail within combining statements included as part of the basic financial statements. Non-major discretely presented component units are summarized in one column within said combining statements.

Following are the City's discretely presented business-type component units: (* indicates a major designation)

Discretely Presented Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
Houston First Corporation* *701 Avenida de las Americas* *Houston, TX 77010	On June 1, 2011, City of Houston City Council approved the consolidation of the City's Convention & Entertainment Facilities Department's operations into the Hotel Corporation ("Consolidation"), effective July 1, 2011, in order to bring various entities responsible for generating and spending City hotel occupancy tax (HOT) revenues under one governing body. In connection with the Consolidation, the Hotel Corporation reconstituted and renamed itself as Houston First Corporation ("HFC"), which assumed the primary roles and responsibilities of the Department. To accomplish this, the Hotel Corporation amended its bylaws and articles of incorporation to broaden its authority to accomplish its expanded duties and responsibilities. The City appoints a voting majority of HFC's board. There is a fiscal dependency on the City, as well as a financial burden on the City, and there is the potential that exclusion would result in misleading financial reporting.
Houston Housing Finance Corporation* *9545 Katy Freeway, Suite 105* *Houston, TX 77024	Non-profit corporation incorporated by the City in accordance with the Texas Housing Finance Corporation Act to finance residential mortgage loans to low or moderate-income persons through the sale of revenue bonds collateralized by the mortgage loans. The Board is nominated by the Mayor and confirmed by City Council. The City has financial accountability because it appoints a voting majority of the Board and a financial benefit/burden relationship exists, allowing the City to impose its will.
Houston Zoo, Inc* *1513 Cambridge Street* *Houston, TX 77030	Houston Zoo, Inc. ("HZI") is a 501(c)(3) non-profit corporation and has a contract with Houston Zoo Development Corporation to operate the Zoo. The Mayor may appoint up to 20% of the Board of Directors of HZI. Houston Zoo Development Corporation ("HZDC") is a local government corporation that leases the zoo from the City. The lease provides for the City to make payments in support of capital and operating expenses over the lease term, which it makes available to HZI. The City appoints a voting majority to the HZI board. There is a fiscal dependency on the City, as well as a financial burden on the City, and there is the potential that exclusion would result in misleading financial reporting.

Following are the City's discretely presented governmental component units: (* indicates a major designation)

Discretely Presented Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
City Park Redevelopment Authority ***c/o Hawes Hill and Assoc, LLP*** ***P.O. Box 22167*** ***Houston, TX 77227-2167***	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the City Park Tax Increment Reinvestment Zone Board in the redevelopment of a neighborhood northwest of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by the City Council and a financial benefit/burden relationship exists, allowing the City to impose its will. In addition, there is a fiscal dependence on the City.
East Downtown Redevelopment Authority ***711 Louisiana Street, Suite 2300*** ***Houston, TX 77002***	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the East Downtown Tax Increment Zone Board in the redevelopment of a blighted neighborhood east of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and a financial benefit/burden relationship exists, allowing the City to impose its will. In addition, there is a fiscal dependence on the City.
Fifth Ward Redevelopment Authority ***c/o Fifth Ward Community Redevelopment Corporation*** ***4300 Lyons Avenue, Suite 300*** ***Houston, TX 77020***	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Fifth Ward Tax Increment Reinvestment Zone Board in the redevelopment of a blighted neighborhood adjacent to Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and a financial benefit/burden relationship exists, allowing the City to impose its will. The City has investment authority for the Zone's assets.
Fourth Ward Redevelopment Authority ***410 Pierce Street, Suite 355*** ***Houston, TX 77002***	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Fourth Ward Tax Increment Reinvestment Zone Board in the redevelopment of a blighted neighborhood adjacent to Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and a financial benefit/burden relationship exists, allowing the City to impose its will. The City has investment authority for the Zone's assets.
Greater Greenspoint Redevelopment Authority ***12257 Kuykendahl*** ***Houston, TX 77067***	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Greater Greenspoint Tax Increment Reinvestment Zone Board in the redevelopment of the Greenspoint Mall and a blighted adjacent neighborhood in North Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and a financial benefit/burden relationship exists, allowing the City to impose its will.

Discretely Presented Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
Greater Houston Convention and Visitors Bureau ***701 Avenida De Las Americas*** ***Houston, TX 77010***	A non-profit organization established in 1963. Prior to July 1, 2014 the organization was funded by both private sector memberships and a portion of the hotel occupancy tax. Subsequent to July 1, 2014 it is funded by only private sector memberships. Their mission is to improve the economy of Greater Houston by attracting conventions, tourists and film projects to the area through sales and marketing efforts. The City has financial accountability because there is a fiscal dependence on the City and a financial benefit/burden relationship exists, allowing the City to impose its will.
Gulfgate Redevelopment Authority ***c/o Bracewell LLP*** ***711 Louisiana Street, Suite 2300*** ***Houston, TX 77002***	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Gulfgate Tax Increment Reinvestment Zone Board in the redevelopment of the Gulfgate Mall and a blighted adjacent neighborhood southeast of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and a financial benefit/burden relationship exists allowing the City to impose its will.
Harrisburg Redevelopment Authority ***c/o Hawes Hill & Associates, LLP*** ***9610 Long Point Rd., Suite 150*** ***Houston, TX 77055***	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Harrisburg Tax Increment Reinvestment Zone Board in the redevelopment of the East End area of Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and a financial benefit/burden relationship exists allowing the City to impose its will.
Hiram Clarke/Fort Bend Redevelopment Authority ***14083 South Main Street*** ***Houston, TX 77035***	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Hiram Clarke/Fort Bend Tax Increment Reinvestment Zone Board in the redevelopment of the Hiram Clarke area of Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and a financial benefit/burden relationship exists allowing the City to impose its will.
Houston Area Library Automated Network ***Houston Central Library*** ***500 McKinney Street*** ***Houston, TX 77002***	Provides review and guidance to the operation, funding and development of the Houston Area Library Automated Network, which provides library services to Houston and surrounding communities. Three members are appointed by City Council, two by the County, and one elected by the smaller libraries. The City does appoint a voting majority, and is financially accountable for this organization because HALAN is fiscally dependent on the City for revenues, allowing the City the ability to impose its will.
Houston Arts Alliance ***5280 Caroline Street*** ***Houston, TX 77004***	A 501(c)(3) non-profit corporation with a mission to enhance the city's quality of life through advancing and investing in the arts and diverse cultural programming. The Alliance awards grants, provides arts-related services and manages portions of the City's Civic Art Program. The City has financial accountability because it must approve the members of the board of directors and a financial benefit/burden relationship exists, allowing the City to impose its will. In addition, there is a fiscal dependence on the City for the revenues provided from a portion of hotel occupancy tax.

Discretely Presented Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
Houston BARC Foundation c/o City of Houston, Administration and Regulatory Affairs Department 611 Walker Street, 13th Floor Houston, TX 77002	A 501(c)(3) non-profit corporation with a mission to enhance the City's quality of life through advancing and investing in the care and humane treatment of animals. The Foundation solicits funds, gifts, and bequests for use at BARC. It promotes awareness to Houston area residents on responsible pet ownership, and the humane treatment of all animals. The City has financial accountability because it must approve the members of the board of directors and a financial benefit/ burden relationship exists, allowing the City to impose its will.
Houston Civic Events, Inc 901 Bagby Street, 1st Floor Houston, TX 77002	A 501(c)(3) non-profit, local government corporation and component unit created specifically to support the City's Civic Celebration Program. Under the existing structure, donations and sponsorship revenues received by the Mayor's Office of Special Events are currently housed with two component units, Houston Parks Board, Inc. and Central Houston Civic Improvement, Inc. Board members are appointed by the City and a financial benefit/burden relationship exists, allowing the City to impose its will. There is the potential that exclusion would result in misleading financial reporting.
Houston Downtown Park Corporation 1500 McKinney Street Houston, TX 77010	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to aid and act on behalf of the City to accomplish the City's governmental purpose of providing for the acquisition, development, operation, and maintenance of a new public park, open space and related amenities and facilities to provide recreational, educational and tourism opportunities within, and beautification of the Central Business District of the City. Additionally, the corporation maintains an enterprise fund to account for the activities of the Discovery Green Parking Garage. Board members are appointed by the City and a financial benefit/burden relationship exists, allowing the City to impose its will. There is the potential that exclusion would result in misleading financial reporting.
****Houston Forensic Science Center, Inc. 500 Jefferson Street, 13th Floor Houston, TX 77002***	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to provide forensic science services previously provided by the Houston Police Department. Board members are appointed by the City and a financial benefit/burden relationship exists, allowing the City to impose its will. There is the potential that exclusion would result in misleading financial reporting.
Houston Land Bank c/o City of Houston, Housing and Community Department 1919 Decatur Houston, TX 77007	The Houston Land Bank ("HLB") formerly known as Land Assemblage Redevelopment Authority is a 13-member board appointed by the Mayor, City Council, Harris County and the Houston Independent School District. The HLB is organized for the purpose of aiding, assisting and acting on behalf of the City in the performance of its governmental functions to promote the common good and general welfare of the City and in undertaking and completing one or more projects, as may be defined or determined by the City Council. The City has financial accountability because the voting majority of the board members are nominated by City Council, allowing the City to impose its will, and the operations provide financial benefits to the City.

Discretely Presented Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
Houston Media Source ***410 Roberts Street*** ***Houston, TX 77003***	A non-profit organization organized to coordinate and develop all public and educational cable access activities within the City of Houston. Funding is provided by Public and Educational, and Government Access (“PEG”) payments made to the City by cable operators under the City’s cable franchises with respect to the annual support of the PEG Channels for the support of public, educational, and governmental access programming. Board members are appointed by the City and a financial benefit/burden relationship exists, allowing the City to impose its will. There is the potential that exclusion would result in misleading financial reporting.
****Houston Parks Board LGC, Inc*** ***300 N. Post Oak Lane*** ***Houston, TX 77024***	Acquires land for and develops and improves new and existing public parks and open spaces and advises the Mayor and City Council on park acquisitions and improvements. These activities provide a direct benefit to the City. The Houston Parks Board administers and manages the LGC’s business operations and grants privately raised funds to the LGC in support of its purpose. LGC board members are nominated by the Mayor and confirmed by City Council, allowing the City to impose its will. Upon dissolution, the LGC’s assets revert to the City. There is a potential that exclusion of the LGC would result in misleading financial reporting.
Houston Public Library Foundation ***Houston Central Library*** ***550 McKinney Street*** ***Houston, TX 77002***	A 501(c)(3) non-profit corporation that solicits and manages funds raised privately for library improvements and advises the Mayor and City Council on additions and improvements to the library system that provide a direct benefit to the City. Board members are nominated by the Mayor and confirmed by City Council, allowing the City to impose its will. There is a potential that exclusion would result in misleading financial reporting.
Houston Recovery Center, LGC ***150 North Chenevert Street,*** ***Suite 100*** ***Houston, TX 77002***	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to provide management of the Houston Center for Sobriety. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial burden to the City, allowing the City to impose its will.
****Lake Houston Redevelopment Authority*** ***c/o TIFWorks, LLC*** ***P.O. Box 10330*** ***Houston, TX 77206***	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist Tax Increment Reinvestment Zone 10 Board in the redevelopment of the Lake Houston area. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.
Lamar Terrace Public Improvement District ***City of Houston*** ***P. O. Box 1562*** ***Houston, TX 77251***	Special tax district organized under state statute to redevelop a blighted neighborhood in Southwest Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City, allowing the City to impose its will.

Discretely Presented Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
Leland Woods Redevelopment Authority I c/o Bracewell, LLP 711 Louisiana Street, Suite 2300 Houston, TX 77002-2770	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act and Chapter 394 of the Texas Local Government Code to assist the City and Tax Increment Reinvestment Zone Number 22 in the redevelopment of a blighted neighborhood. The City has financial accountability because the voting majority of the board members are nominated by City Council and a financial benefit/burden relationship exists, allowing the City to impose its will.
Leland Woods Redevelopment Authority II c/o Bracewell, LLP 711 Louisiana, Suite 2300 Houston, TX 77002-2770	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act and Chapter 394 of the Texas Local Government Code to assist the City, Leland Woods Redevelopment Authority and Tax Increment Reinvestment Zone Number 22 in the redevelopment of a blighted neighborhood. The City has financial accountability because the voting majority of the board members are nominated by City Council and a financial benefit/ burden relationship exists, allowing the City to impose its will.
Main Street Market Square Redevelopment Authority 909 Fannin, Suite1650 Houston, TX 77010	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Main St./Market Square Tax Increment Reinvestment Zone Board in the redevelopment of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.
Memorial City Redevelopment Authority c/o Hawes Hill & Associates, LLP P.O. Box 22167 Houston, TX 77227-2167	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Memorial City Tax Increment Reinvestment Zone Board in the redevelopment of the Memorial City Mall and the Town & Country Mall areas west of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.
****Memorial-Heights Redevelopment Authority c/o John Kuhl, Attorney SKLaw 1980 Post Oak Boulevard, Suite 1380 Houston, TX 77056***	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Memorial Heights Tax Increment Reinvestment Zone Board in the redevelopment of a blighted neighborhood adjacent to Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.
****Midtown Redevelopment Authority 410 Pierce Street, Suite 355 Houston, TX 77002***	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Midtown Tax Increment Reinvestment Zone Board in the redevelopment of a blighted neighborhood south of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.

Discretely Presented Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
Miller Theatre Advisory Board, Inc 6000 Hermann Park Drive Houston, TX 77030-1702	A 501(c)(3) non-profit corporation with a mission to act as a steward of public and private funds to provide professional-caliber performances, free to the public, at the Miller Outdoor Theatre for the cultural enrichment of Houston's diverse communities and visitors to this great city. Miller Outdoor Theatre is owned by the City and the Board awards grants to various artistic and performing groups for performances at Miller Outdoor Theatre. The City has financial accountability because the directors are appointed by the Mayor and approved by City Council and a financial benefit/burden relationship exists, allowing the City to impose its will. In addition, there is a fiscal dependence on the City for the revenues provided from a portion of hotel occupancy tax.
Montrose Redevelopment Authority c/o Knudson, LP Zone Administrator 8588 Katy Freeway, Suite 441 Houston, TX 77024	Montrose Redevelopment Authority (“Montrose RA”) was set up as a local government corporation pursuant to provisions of Chapter 431 of the Texas Transportation Code and Chapter 394 of the Texas Local Government Code. Montrose RA is organized as a public non-profit corporation for the purpose of aiding, assisting, and acting on behalf of the City in the performance of its governmental function to promote the common good and general welfare of Reinvestment Zone Number Twenty-Seven and neighboring areas and to promote, develop, encourage and maintain housing, educational facilities, employment, commerce and economic development in the City. Montrose RA may issue bonds with consent of City Council. Montrose RA is managed by a board of directors consisting of seven members who are appointed by the Mayor with the approval of City Council.
Near Northside Redevelopment Authority c/o Bracewell LLP 711 Louisiana Street, Suite 2300 Houston, TX 77002-2770	A local government corporation established by the City of Houston in 2009 in accordance with Chapter 311 of the Texas Tax Code. The City has financial accountability because the voting majority of the board members are nominated by City Council and a financial benefit/burden relationship exists allowing the City to impose its will.
Old Sixth Ward Redevelopment Authority c/o City of Houston, Mayor’s Office of Economic Development 901 Bagby Street, 4th Floor Houston, TX 77002	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Old Sixth Ward Tax Increment Reinvestment Zone Board in the redevelopment of a neighborhood adjacent to Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council, the operations provide financial benefits to the City, and the City has investment authority for the Authority’s assets.
OST/Almeda Corridors Redevelopment Authority 3131 Emancipation Avenue Suite 225 Houston, TX 77004	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the OST/Almeda Corridors Tax Increment Reinvestment Zone Board in the redevelopment of a blighted neighborhood south of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.

Discretely Presented Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
Saint George Place Redevelopment Authority c/o Hawes Hill & Associates, LLP P.O. Box 22167 Houston, TX 77227-2167	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the St. George Place Tax Increment Reinvestment Zone Board in the redevelopment of a blighted neighborhood in southwest Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council. The operations provide financial benefits to the City and the City has investment authority for the Authority's assets.
South Post Oak Redevelopment Authority c/o City of Houston, Mayor's Office of Economic Development 901 Bagby Street, 4th Floor Houston, TX 77002	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the South Post Oak Tax Increment Reinvestment Zone Board in the development of an affordable housing project in Southwest Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council, and the operations provide financial benefits to the City.
Southwest Houston Redevelopment Authority c/o Hawes Hill & Associates, LLP P.O. Box 22167 Houston, TX 77227-2167	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Southwest Houston Tax Increment Reinvestment Zone Board (TIRZ 20) in the redevelopment of the Sharpstown Mall and adjacent neighborhoods southwest of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.
Sunnyside Redevelopment Authority 3200 Southwest Freeway Suite 2600 Houston, TX 77027	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Sunnyside Tax Increment Reinvestment Zone Board in the redevelopment of the neighborhood south of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.
Upper Kirby Redevelopment Authority 3120 Southwest Freeway, Suite 102 Houston, TX 77098	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Upper Kirby Tax Increment Reinvestment Zone Board in the redevelopment of a neighborhood west of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.
****Uptown Development Authority 1980 Post Oak Boulevard, Suite 1700 Houston, TX 77056***	Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to assist the Uptown Tax Increment Reinvestment Zone Board in the redevelopment of the Galleria Mall area, west of Downtown Houston. The City has financial accountability because the voting majority of the board members are nominated by City Council and the operations provide financial benefits to the City.

2. Related Organizations

The following entities are related organizations to which the City appoints board members but for which the City has no significant financial accountability. Some of these organizations are Access Houston Cable Corporation, Coastal Water Authority, Employees Deferred Compensation Plan, Harris County–Houston Sports Authority, Metropolitan Transit Authority of Harris County, Houston Clean City Commission, and the Miller Theatre Advisory Council. All transactions with these related organizations are conducted in the ordinary course of business. Further financial information is available from the respective organizations.

C. Basis of Presentation

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity between governmental funds has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable and is a financial burden/benefit.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment are offset by program revenues*. Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported instead as *general revenues*. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The accounts of the City are organized on the basis of funds, each of which is accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund balance/net position, revenues, and expenditures/expenses. Government resources are allocated to and accounted for in individual funds for the purpose of carrying on specific activities in accordance with special regulations, restrictions, or limitations. The type and purpose of funds are described below.

Fund Accounting

1. The City reports the following major governmental funds:

a. ***General Fund*** - is the principal operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund.

b. ***Debt Service Fund*** - is used to account for the accumulation of resources for, and the payment of principal, interest, and related costs of tax supported debt.

c. ***Capital Projects Fund*** - is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Such resources are derived principally from proceeds of public improvement bonds and from special assessments.

d. ***ARPA Fiscal Recovery Fund*** - The ARPA Fiscal Recovery Fund is used to receive funds from the U.S. Department of the Treasury to be used for the response efforts relating to local fiscal recovery from the COVID-19 pandemic pursuant to the American Rescue Plan Act of 2021. Based on management judgement, the ARPA Fiscal Recovery Fund is particularly important to financial statement users due to its significance; therefore, this fund is being reported as a major fund. Even though, this fund is a sub-fund of the Grants Fund.

e. ***Grants Fund*** - is used to account for grant resources received from various local, state and federal sources. The use of these resources is restricted to a particular function of the City by each grantor.

2. The City reports the following major enterprise funds:

a. ***Airport System Fund (the "Airport System")*** - is used to account for the operations of the City's Airport System. The system is comprised of George Bush Intercontinental Airport, William P. Hobby Airport, and Ellington Airport.

b. ***Convention and Entertainment Facilities Fund (the "Convention and Entertainment")*** - is used to account for the operations of the City's major entertainment facilities, outdoor venues, and parking garages and surface lots. These assets include, but are not limited to, the following: George R. Brown Convention Center, Gus S. Wortham Center, Jesse H. Jones Hall, Talento Bilingue de Houston, Jones Plaza, and Theater District parking garages.

c. ***Combined Utility System Fund (the "Combined Utility")*** – is used to account for the production and transmission of water and the treatment of wastewater for City residents and businesses as well as for other governmental entities located in the Houston area.

3. The City reports the following additional funds:

a. ***Nonmajor Special Revenue Funds*** - are used to account for the proceeds of specific revenue sources (other than identified major fund) that are legally restricted to expenditures for specific purposes.

b. ***Internal Service Funds*** - are used to account for the financing of goods or services provided by one department to other departments of the City on a cost-reimbursement basis.

c. ***Fiduciary Fund Types*** - are used to account for assets held by the City in a trustee capacity for individuals, private organizations, and other governmental units. These include the following:

(1) ***Pension Trust Funds*** - are used to account for the assets held in trust for the members and beneficiaries of the City's three defined benefit pension plans.

(2) ***Private-Purpose Trust Fund*** – is used to account for assets held in a trust of the Houston Foundation which is dedicated to providing benefits to recipients in accordance with the benefit terms. The Houston Foundation was created by City ordinance on March 22, 1915, as a general-purpose charity trust and is administered by an outside board of directors. The City's Finance Director serves as the treasurer of the board in accordance with the ordinance. Additions to the trust consist of individual donor contributions and investment income. Distributions from the fund, primarily to external/eligible 501(c)(3) organizations, may be made for humanitarian needs of the people of Houston.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements display information about the City as a whole. Government-wide statements exclude both fiduciary funds and fiduciary component units. The statement of net position and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with GASB Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions". Program revenues include (1) amounts received from those who purchase, use, or directly benefit from a program, (2) amounts received from parties outside the City of Houston's citizenry that are restricted to one or more specific programs, and (3) earnings on investments that are legally restricted for a specific program. Program revenue is divided into three categories: (1) charges for services, (2) operating grants and contributions, and (3) capital grants and contributions.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current period. Expenditures are recognized under the modified accrual basis of accounting in the accounting period in which the fund liability is incurred, if measurable. Claims, judgments, and compensated absences are recognized when matured.

The following types of revenues are susceptible to accrual under the modified accrual basis of accounting: property taxes, including delinquent property taxes (including penalty and interest); services billed to other funds; sales tax; mixed beverage tax; franchise fees; fines and forfeitures; ambulance receipts; and investment earnings. Intergovernmental revenue from reimbursable grants and capital projects is recognized when the related expenditure is incurred. See Note 5 for dates and additional disclosures related to property tax.

All governmental funds and certain component units are accounted for using the current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances (net current assets) are considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Non-current portions of certain long-term receivables, primarily property taxes and special assessments, are reported on the balance sheets of governmental funds in spite of their spending measurement focus. Special reporting treatments are used to indicate that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund revenues represented by noncurrent receivables is deferred until they become current receivables and are reported as deferred inflows of resources.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Proprietary funds, fiduciary funds of the primary government, and certain component units are accounted for on a cost of services or "economic resources" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their statements of net position.

All proprietary funds define operating revenues and expenses consistent with the precepts of GASB Statement No. 9, paragraphs 16 – 19 and 31: cash receipts from customers, cash receipts from interfund services provided and used with other funds and other operating cash receipts. All other revenues or expenses recognized are non-operating.

All proprietary and fiduciary funds use the full accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses and related liabilities, including claims, judgments, and compensated absences, are recognized when they are incurred.

When restricted and unrestricted resources are available to cover expenses, unrestricted resources are first applied. Administrative overhead charges are included in direct program expenses.

In accordance with GASB Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements”, paragraphs 114-123, the City utilizes the percentage-of-completion method for a long-term construction contract when estimates of costs to complete and extent of progress toward completion of long-term contracts are reasonably dependable.

E. Assets and Liabilities

1. Deposits and Investments

Substantially all cash, except for imprest accounts, is deposited with financial institutions in non-interest-bearing accounts. The City's deposit account is considered as a non-interest-bearing account. Instead of receiving interest on the accounts, the City receives the "Earnings Credit Rate". The majority of the City's cash and investments are administered using a pooled concept, which combines the monies of various funds for investment purposes. Interest earnings of the pool are apportioned to each fund, unless otherwise required by bond covenants, based on the fund's relative share of the investment pool. All cash and investments are displayed on the statement of net position as "Cash and cash equivalents" and "Investments" and in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

Investments are carried at fair value as defined in GASB Statement No. 72, "Fair Value Measurement and Application". Consistent with GASB Statement No. 72, the City categorizes its fair value measurements within the fair value hierarchy. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. A detail of the fair value hierarchy of investments held by the City are disclosed in Note 3 to the financial statements. Similar disclosure for debt held by the City at fair values is disclosed in Note 8.C.14 to the financial statements. The fiduciary and discretely presented component units separately invest their funds and report investments pursuant to their respective investment policies described in their separately audited financial statements.

"Cash and cash equivalents" and "Investments" are further split into current and non-current in accordance with GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements".

The City considers all highly liquid debt securities with a maturity date of three months or less to be cash equivalents.

Investments authorized by the City's investment policy, which is guided by state laws and city ordinances, generally include: obligations of the United States of America or its agencies and instrumentalities; fully-collateralized certificates of deposit from City Council-approved public depositories; direct obligations of the State of Texas or its agencies and instrumentalities; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; obligations of states, agencies, counties, cities, and other political subdivisions; no-load money market mutual funds registered and regulated by the Securities and Exchange Commission; corporate commercial paper; fully collateralized repurchase agreements; and reverse repurchase agreements within specific terms.

2. Inventories of Materials and Supplies

With the exception of fuel, inventories are carried at the average cost in government-wide, proprietary and governmental funds. Inventories are presented under the consumption method. These inventories include: automobile parts, chemical and medical supplies, uniforms and their accessories, vaccines and office supplies. Fuel is carried at the lower of market or replacement cost.

3. Capital Assets

a. Governmental Funds and Governmental Activities - Property, Plant, Equipment, and Infrastructure

Capital assets are defined by the general government as assets with an initial cost of $5,000 or more, and an estimated useful life in excess of one fiscal year. The costs of maintenance and repairs that do not significantly add to the utility of an asset, or materially extend its useful life beyond its initially estimated useful life are not capitalized.

Capital asset valuation is based on historical costs if purchased or constructed, or based on estimated historical costs if original costs are not available - such as for the costs of infrastructure acquired prior to fiscal year 1981. Donated capital assets are recorded at acquisition value on the dates of donation.

General governmental capital acquisition and construction charges for land; buildings and improvements; improvements other than buildings; machinery and equipment; construction in progress; and infrastructure (e.g., storm drainage, streets and bridges) are reflected as capital outlay expenditures in the governmental funds' Statement of Revenues, Expenditures and Changes in Fund Balances. Capitalizable expenditures are reported also as capital assets in the Governmental Activities column of the government-wide Statement of Net Position.

During any construction phase, capitalizable outlays are reported as construction-in-progress on the government-wide Statement of Net Position. There is no depreciation expense for this class of capital assets.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	**Useful Life**
Buildings and improvements	Range from 20 to 45 years
Improvements other than buildings	Range from 15 to 30 years
Machinery	Range from 5 to 20 years
Equipment	Range from 3 to 15 years
Storm drainage	Range from 40 to 50 years
Streets	Range from 6 to 50 years
Bridges	Range from 20 to 50 years

b. Enterprise Funds – Property, Plant, and Equipment

Property, plant, and equipment owned by the enterprise funds are stated at cost or estimated historical cost if original cost is not available. Construction costs (excluding land and equipment) are added to work-in-progress until the assets are substantially complete. At that point, the project is moved to the appropriate asset category and depreciation begins. Land and equipment costs are added to the capital asset base in the year of acquisition. Depreciation on equipment begins in the year of acquisition.

Depreciation is computed using the straight-line method on the composite asset base over the estimated useful lives as follows:

Assets	**Useful Life**
Airport System Facilities	Range from 3 to 50 years
Convention & Entertainment Facilities	Range from 5 to 45 years
Combined Utility Facilities	Range from 5 to 50 years

Water rights and conveyance system rights of the Combined Utility are not amortized. Garage rights of the Convention and Entertainment are amortized over the life of the related contracts. These rights are reported as capital assets. Land use and navigation easements of the Airport System are not amortized.

c. Leases

Leases are defined by the general government as the right to use an underlying asset. As a lessee, the City recognizes a lease liability and an intangible right-of-use lease asset at the beginning of a lease that have a term exceeding one year and the cumulative future payments on the contract exceeding $100,000, unless the lease is considered a short-term lease or transfers ownership of the underlying asset. Right-of-use lease assets are measured based on the net present value of the future lease payments at inception, using the incremental borrowing rate or the weighted average cost of capital, which approximate the incremental borrowing rate. Re-measurement of a lease liability occurs when there is a change in the lease term and/or other changes that are likely to have a significant impact on the lease liability.

The City calculates the amortization of the discount on the lease liability and report that amount as outflows of resources. Payments are allocated first to accrued interest liability and then to the lease liability. Variable lease payments based on the usage of the underlying assets are not included in the lease liability calculations but are recognized as outflows of resources in the period in which the obligation was incurred.

As a lessor, the City recognizes a lease receivable. The lease receivable is measured using the net present value of future lease payments to be received for the lease term and deferred inflows of resources at the beginning of the lease term. Periodic amortization of the discount on the receivable are reported as interest revenue for that period. Deferred inflows of resources are recognized as inflows on a straight-line basis over the term of the lease. This recognition does not apply to short-term leases, contracts that transfer ownership, leases of assets that are investments, or certain regulated leases. Any initial direct costs are reported as an outflow of resources for that period. Re-measurement of lease receivables occur when there are modifications, including but not limited to changes in the contract price, lease term, and adding or removing an underlying asset to the lease agreements. In the case of a partial or full lease termination, the carrying value of the lease receivable and the related deferred inflows of resources will be reduced and will include a gain or loss for the difference.

For lease contracts that are short-term, the City recognizes short-term lease payments as inflows of resources (revenues) based on the payment provisions of the lease contracts. Liabilities are only recognized if payments are received in advance, and receivables are only recognized if payments are received subsequent to the reporting period.

Leases between the Airport System and air carriers and other aeronautical users are subject to external laws and regulations. As permitted by GASB Statement No. 87, paragraph 43, the Airport System recognizes inflows of resources based on the payment provisions of the lease contract, and the accounting policies described above do not apply to regulated leases. Additional disclosures regarding regulated leases are in Note 9.

d. Subscription Based Information Technology Arrangements

SBITA assets are defined by the general government as the right to use vendor-provided information technology (“IT”) with access to vendors’ IT assets. The City recognizes a subscription liability and an intangible subscription right-of-use asset at the beginning of the subscription term that have a term exceeding one year and the cumulative future payments on the contract exceed $100,000 unless the contract is considered a short-term SBITA. A SBITA asset is measured based on the net present value of subscription payments expected to be made during the subscription term, using the incremental borrowing rate, and is amortized using the straight-line method over the shorter of the subscription term or the useful life of the underlying IT assets. Re-measurement of a subscription liability occurs when there is a change in the contract term and/or other changes that are likely to have a significant impact on the subscription liability.

4. Bond Premiums, Discounts and Issuance Costs

Bond premiums, discounts and prepaid bond insurance costs are amortized over the term of the bonds using the effective interest or straight-line amortization method. Gains or losses on refundings are reported as deferred inflows or outflows, respectively, and are amortized over the term of the lesser of the new bonds or the refunded bonds using the straight-line or effective interest method. Debt issuance costs are recognized as expenditures/expenses when incurred.

F. Deferred Outflows and Inflows of Resources

In accordance with GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," the City reports deferred outflows of resources in the Statement of Net Position in a separate section following assets. Similarly, the City reports deferred inflows of resources in the Statement of Net Position in a separate section following liabilities.

The components of the deferred outflows of resources and deferred inflows of resources are as follows (in thousands):

		Business Type Activities			
	Governmental Activities	Houston Airport System	Convention & Entertainment	Combined Utility System	Total
Deferred Outflows of Resources:					
Municipal pension activities	$ 11,829	$ 11,588	$ 51	$ 2,957	$ 26,425
Police pension activities	165,016	–	–	–	165,016
Firefighter's pension activities	216,283	–	–	–	216,283
Deferred outflows of resources for pensions	393,128	11,588	51	2,957	407,724
OPEB activities - long-term disability	2,317	232	–	407	2,956
OPEB activities - health benefits	270,666	9,276	1,261	22,747	303,950
Unamortized refunding costs/SWAP liability	29,601	17,495	143	242,474	289,713
Total Deferred Outflows of Resources	$ 695,712	$ 38,591	$ 1,455	$ 268,585	$ 1,004,343
Deferred Inflows of Resources:					
Municipal pension activities	$ (175,933)	$ (23,861)	$ (653)	$ (43,532)	$ (243,979)
Police pension activities	(188,856)	–	–	–	(188,856)
Firefighter's pension activities	(292,739)	–	–	–	(292,739)
Deferred inflows of resources for pensions	(657,528)	(23,861)	(653)	(43,532)	(725,574)
OPEB activities - health benefits	(777,893)	(26,446)	(3,675)	(65,483)	(873,497)
OPEB activities - long term disability	(3,577)	(358)	–	(629)	(4,564)
Property tax and other unavailable revenues	(65,091)	–	–	–	(65,091)
Unamortized cost on refunded debt	–	–	(7,839)	–	(7,839)
Leases (as lessor)	(34,626)	(227,753)	(5,059)	–	(267,438)
Total Deferred Inflows of Resources	$ (1,538,715)	$ (278,418)	$ (17,226)	$ (109,644)	$ (1,944,003)

In the fund financial statements, revenues that have met the eligibility criteria for future years except for the time availability have been reclassified from liabilities to deferred inflows of resources. In the government-wide financial statements, the unamortized loss on refunding has been reclassified from long-term debt to deferred outflows of resources.

G. Fund Balances and Budget Stabilization Arrangements

1. Fund Balance Descriptions

a. **Non-spendable** - indicates that portion of a fund balance that cannot be spent because they are either:

1) not in spendable form (such as inventories and prepaid amounts); or
2) legally or contractually required to be maintained intact.

b. **Restricted** - indicates that portion of a fund balance for which external constraints are placed on the use of resources that are either:

1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
2) imposed by law through constitutional provisions or enabling legislation.

c. **Committed** – refers to that portion of a fund balance that can only be used for specific purposes pursuant to constraints imposed by ordinance of the City Council. The same formal action is required to remove the limitation.

d. **Assigned** – indicates that portion of a fund balance that are intended to be used for specific purposes but do not meet the criteria to be classified as restricted or committed. City Council may assign fund balance through approval of budget appropriations.

e. **Unassigned** – residual net resources as a positive balance within the general fund only.

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2. Fund Balance Summary

A summary of the nature and purpose of governmental fund balances at June 30, 2023, is as follows (in thousands):

						Non-Major Special Revenue Funds						
	General	Debt Service	Capital Projects	Grants	ARPA	Public Safety	Public Works	Health & Housing	Parks	Other	Total Nonmajor	Total
Fund balances:												
Non-spendable:												
Inventory	$ 21,310	$ –	$ –	$ 752	$ –	$ –	$ 2,791	$ –	$ –	$ –	$ 2,791	$ 24,853
Prepaid items	2,874	–	896	–	–	–	–	–	–	–	–	3,770
Total non-spendable	24,184	–	896	752	–	–	2,791	–	–	–	2,791	28,623
Restricted for:												
Grants and other purposes	–	–	–	–	–	–	–	–	–	5,823	5,823	5,823
Police special purpose	453	–	–	–	–	8,339	–	–	–	–	8,339	8,792
Public transit operations	–	–	–	–	–	–	–	–	–	3,846	3,846	3,846
Affordable housing programs	–	–	–	–	–	–	–	134,358	–	–	134,358	134,358
Health services	700	–	–	190,711	6,625	–	–	–	–	49,005	49,005	247,041
Community development	–	–	–	–	–	–	–	–	162	51,756	51,918	51,918
Capital construction	–	–	24,122	–	–	–	279,047	–	–	16,887	295,934	320,056
Debt service	–	172,048	–	–	–	–	–	–	–	–	–	172,048
Total restricted	1,153	172,048	24,122	190,711	6,625	8,339	279,047	134,358	162	127,317	549,223	943,882
Committed to:												
Community development	1,292	–	–	–	–	6	–	–	1,569	471	2,046	3,338
Economic development	–	–	–	–	–	–	–	–	–	1,455	1,455	1,455
Court operations	–	–	–	–	–	1,287	–	–	–	–	1,287	1,287
Police special purpose	–	–	–	–	–	18,783	(5)	–	–	–	18,778	18,778
Emergency services	–	–	–	–	–	4,922	–	–	–	–	4,922	4,922
Capital construction	11,874	–	–	–	–	–	–	–	–	–	–	11,874
Public parks and preserves	1,828	–	–	–	–	–	1,913	–	5,705	–	7,618	9,446
Recycling programs	–	–	–	–	–	–	3,845	–	–	–	3,845	3,845
Development services	–	–	–	–	–	–	33,435	–	–	–	33,435	33,435
Health services	–	–	–	–	–	–	–	8,865	–	–	8,865	8,865
Affordable housing programs	–	–	–	–	–	–	–	–	–	98	98	98
Public transit operations	–	–	–	–	–	–	–	–	–	2,062	2,062	2,062
Total committed	14,994	–	–	–	–	24,998	39,188	8,865	7,274	4,086	84,411	99,405
Assigned:												
Capital construction	–	–	140,315	–	–	–	–	–	–	–	–	140,315
Total assigned	–	–	140,315	–	–	–	–	–	–	–	–	140,315
Unassigned:	509,924	–	–	–	–	–	–	–	–	–	–	509,924
Total	$ 550,255	$ 172,048	$ 165,333	$ 191,463	$ 6,625	$ 33,337	$ 321,026	$ 143,223	$ 7,436	$ 131,403	$ 636,425	$1,722,149

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the City's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the City's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications - committed and then assigned fund balances before using unassigned fund balances when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications are available.

3. Budget Stabilization Arrangements

In accordance with the City's Financial Policies (as amended by Ordinance 2018-390) (the "Financial Policies"), the City created a Budget Stabilization Fund in an amount not less than the greater of (a) 1% of Adopted Budget General Fund expenditures (excluding debt service payments and transfers for pay-as-you-go ("PAYGO") capital expenditures) or (b) $20 million, which may be used in accordance with the definition of the fund. Transfers necessary to meet this requirement shall occur by July 31 of each fiscal year. Any proposed use of the Budget Stabilization Fund shall be accompanied by a justification to City Council and shall require approval from two-thirds of the City Council present and voting. When an event causing use of the Budget Stabilization Fund has concluded, the City shall allocate sufficient funds by the end of the second subsequent full fiscal year to restore the Budget Stabilization Fund to at least minimum levels. Also, in accordance with the Financial Policies, the City will maintain fund balance as additional insurance against disasters, emergencies, and economic instability. The City's desired minimum unassigned fund balance for any given fiscal year is 7.5% of General Fund expenditures for that fiscal year, excluding debt service payments and transfers for PAYGO capital expenditures. These amounts are included in the General Fund's unassigned fund balance.

On February 24, 2021, Ordinance 2021-144 was passed authorizing the appropriation of $10 million from the Budget Stabilization Fund to the Disaster Recovery Fund for immediate relief during Winter Storm Uri. During fiscal year 2022, a total of $5 million was replenished to the Budget Stabilization Fund from Disaster Recovery Fund (Fund 5303) for Winter Storm Uri. The remaining $5 million from Winter Storm Uri has been fully replenished in fiscal year 2023.

H. Transfers, Revenues, Expenditures and Expenses

1. Interfund Transactions

A description of the four basic types of interfund transactions and the related accounting policies are as follows:

a. Loans are reported as receivables and payables as appropriate.

b. Charges for services are reported as revenues for the performing fund and expenditures of the requesting fund.

c. Transactions to reimburse a fund for expenditures made by it for the benefit of another fund are recorded as expenditures or expenses in the reimbursing fund and as a reduction of expenditures or expenses in the fund that is reimbursed.

d. All other interfund transfers, such as legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended, are transfers. Transfers are classified as other financing sources or uses (or transfers for proprietary funds) in the Statement of Revenues, Expenditures (or expenses) and Changes in Fund Balances (or net position). For reporting at the government-wide financial statements level, the City eliminates direct interfund charges for services and the balances created within the same fund categories (i.e. governmental vs. business-type). This process ensures neither business-type nor governmental funds report direct internal revenue/ expenditures. Interfund activity and balances resulting from transactions with the fiduciary funds are not eliminated. Instead, the fiduciary interfund activity and balances are treated as transactions with an external party. Interfund activity with discretely presented component units are handled in the same manner as fiduciary interfund activity balances. However, the discretely presented balances are reported on a separate line of the Statement of Net Position. The Internal Service Fund reports any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost reimbursement basis.

2. Compensated Absences

Full-time civilian employees of the City are eligible for 10 days of vacation leave per year. After four years, employees receive 15 days. The amount of vacation time gradually increases after that, reaching a maximum of 25 days per year after 18 years of service. Employees may accumulate up to 105 days of vacation leave or 60 days for employees with a computation date after December 31, 1999. However, upon termination or retirement, full-time civilian employees are paid a maximum of 90 days of unused vacation leave or 45 days for employees with a computation date after December 31, 1999, which is based on the average rate of pay during the employee's highest 60 days of employment. Part-time and temporary employees are not eligible for vacation or sick leave benefits. Firefighters accrue 15 to 22 days of vacation annually, based upon years of service. Police officers participate in a paid time off program that combines sick and vacation leave. Officers enter the program upon completion of their probationary period and then accrue 15 to 40 days annually, based upon years of service.

The majority of full-time civilian employees and firefighters are covered under the compensatory sick leave plan and receive a leave time allowance of 2.5 hours per payroll period (bi-weekly) up to a maximum of 65 hours per year. Employees who use fewer than 65 hours during the benefit year will receive a match equal to the number of hours accrued minus the number of hours used. Once an employee's balance has reached 1,040 hours, no additional match for unused hours is given. Upon termination, all unused sick leave time allowances in excess of 1,040 hours are payable to the employee at the employee's rate of pay at the time of termination. An employee who uses less than 16 hours of sick leave in any benefit year receives up to three days of personal leave in the next year. Personal leave may be used in place of vacation leave but will not accumulate and will not be paid out at termination. The balance of full-time civilian employees and firefighters are covered by a sick plan that was closed to employees in 1985. That plan accumulates a cash value for every sick day not used, which is payable upon resignation or retirement.

The City also has adopted policies of compensatory time to comply with the Fair Labor Standards Act as amended in 1985. These policies provide limits to the accumulation of compensatory time and provide that time not used will be paid in cash. Only classified employees and civilian employees in certain pay grades routinely earn compensatory time.

To the extent that the City's obligation is attributable to employees' services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, vacation and compensatory time benefits are accrued as liabilities (on a government-wide basis) as employees earn the benefits. On a fund financial statement basis for the governmental funds, only matured liabilities and liabilities expected to be liquidated with current assets are accrued. Sick leave benefits are accrued as a liability as employees earn the benefits, but only to the extent that it is probable that the City will compensate the employees through cash payments conditioned on the employees' termination or retirement. A compensated absence is liquidated in the fund where the employee's salary was paid at termination, with all compensated absences liquidated in the general fund that are associated with employees' salaries paid from governmental funds.

I. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements. This reclassification had no effect on previously reported change in net position.

K. Internal Service Funds

The Internal Service Funds' purpose is to measure the full cost of providing health benefits and long-term disability to City employees and dependents for the purpose of fully recovering that cost through fees or charges – employee payroll deductions and expenditures in departmental personnel budgets. Any profit (loss) during a period is credited (charged) back to participating programs. All assets and liabilities are reported in the governmental activities column of the Statement of Net Position.

L. New Accounting Pronouncements

In May 2019, the GASB issued Statement No. 91, "Conduit Debt Obligations". This statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2021. The City has implemented GASB Statement No. 91 in this annual report.

In March 2020, the GASB issued Statement No. 93, "Replacement of Interbank Offered Rates". This Statement establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this statement are effective for reporting periods ending after December 31, 2021. The City has identified two applicable hedging derivative instruments that utilize a London Interbank Offered Rate ("LIBOR"), and the agreements were amended as of July 2023 as the LIBOR tenor ceased to be published.

In March 2020, the GASB issued Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements". This Statement establishes standards of accounting and financial reporting for Public-Public Partnerships and Availability Payment Arrangements for governments. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The City has implemented GASB Statement No. 94 in this annual report. There was no material impact to the basic financial statements upon adoption.

In May 2020, the GASB issued Statement No. 96, "Subscription-Based Information Technology Arrangements". This Statement provides guidance on accounting and financial reporting for subscription-based information technology arrangements ("SBITA") for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The City has implemented GASB Statement No. 96 in this annual report.

In April 2022, the GASB issued Statement No. 99, "Omnibus 2022". The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. Certain provisions of Statement No. 99 are effective upon issuance, while other provisions of Statement No. 99 are effective for fiscal years beginning after June 15, 2022, or 2023. The City has implemented the provisions of Statement No. 99 that are effective upon issuance in fiscal year ended June 30, 2022, and the City has implemented the provisions of GASB Statement No. 99 that are effective as of July 1, 2022, in this annual report. The City is evaluating the effect of other provisions not yet effective.

In June 2022, the GASB issued Statement No. 100, “Accounting Changes and Error Corrections – Amendment of GASB Statement No. 62”. This Statement prescribes the accounting and financial reporting for (1) each type of accounting change, and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior period, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this statement are effective for financial statement for reporting period beginning after June 15, 2023. The City is evaluating the impact that adoption of this Statement will have on its financial statements.

In June 2022, the GASB issued Statement No. 101, “Compensated Absences”. This Statement clarifies the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. The requirements of this Statement are effective for financial statements for reporting periods beginning after December 15, 2023. The City is evaluating the impact that adoption of this Statement will have on its financial statements.

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NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Statement of Net Position

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities in the governmental fund statements. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current and long-term - are reported in the government-wide statement of net position. Also, during the year, the City had proceeds from its general obligation commercial paper. The amount borrowed is received in the governmental funds and increases fund balance.

Balances at June 30, 2023, were (in thousands):

Deferred outflows of resources	$	695,712
Deferred inflows of resources		(1,538,715)
	$	(843,003)
Internal Service Fund total assets	$	95,891
Internal Service Fund liabilities		(46,673)
Allocation to Proprietary Funds		(3,583)
	$	45,635
Bonds and notes payable	$	(3,386,844)
Arbitrage liability		(23)
Accrued interest		(41,939)
Compensated absences not reported at the fund level		(568,734)
Claims and judgments not reported at the fund level		(162,608)
Net pension liability		(1,875,807)
Lease liability		(69,758)
Subscription liability		(56,660)
Other post employment benefits obligation		(1,578,305)
	$	(7,740,678)

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

Proceeds from issuance of debt are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statement of net position, however, issuing debt increases long-term liabilities and does not affect the government-wide statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the government-wide statement of net position.

Balances at June 30, 2023, were (in thousands):

Debt issued:		
Commercial paper	$	148,700
		148,700
Repayments:		
Payment to escrow		(270,805)
		(270,805)
Amortization of:		
Premium		(16,745)
Net adjustment		(16,745)
Total	$	(138,850)

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the government-wide statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. The adjustment is a combination of the following items (in thousands):

Property taxes earned but not available	$	43,051
Ambulance fees earned but not available		82,980
Fines and forfeits earned but not available		2,855
Other (primarily storm water drainage fees) earned but not available		40,655
Total revenue not reported at fund level	$	169,541
Property taxes for prior periods	$	(42,565)
Ambulance fees for prior periods		(64,416)
Fines and forfeits for prior periods		(2,838)
Other (primarily storm water drainage fees) earned but not available		(28,033)
Total revenue for prior period transactions	$	(137,852)
Accrued interest	$	2,751
Municipal Employees pension		104,767
Police Officers' pension		134,670
Firefighters' pension		77,027
Claims and judgments		(1,728)
Compensated absences		(39,709)
Other post employment benefits		48,487
Arbitrage liability		(23)
Total differences in accrued expenses	$	326,242

NOTE 3: DEPOSITS AND INVESTMENTS

A. Deposits

The City's Investment Policy (the "Investment Policy") requires all deposits to be fully collateralized with depository insurance; obligations of the United States of America or its agencies and instrumentalities (excluding those mortgage-backed securities prohibited by the Public Funds Investment Act); or in any other manner and amount provided by law for the deposits of the City. At all times, such securities should have a fair value of not less than 102% of the amount of the deposits collateralized thereby, adjusted by the amount of applicable depository insurance. There were no deposits with custodial risk at year end.

Cash, Cash Equivalents, and Investments

The City maintains a cash and investment pool (the "Pool") that is available for use by all funds. On the Statement of Net Position, "Cash and Cash Equivalents" includes each fund's portion of the Pool and each fund's non-pooled cash; "Investments" represents each fund's portion of the Pool and non-pooled investment. Participation in the Pool is limited to normal operating activities of the fund and other funds that are restricted because of statutory or contractual considerations but does not include cash on hand (petty cash and change funds), which is included in non-pooled cash. Earnings from the Pool are allocated to the funds based upon each fund's average daily balance in the Pool. A summary of balances in pooled and non-pooled accounts as of June 30, 2023, is as follows (in thousands):

	Pooled Cash and Cash Equivalents	Pooled Investments	Total Pooled Cash and Investments	Non-Pooled Cash	Non-Pooled Investments	Total Cash and Investments
Governmental Funds:						
General	$ 143,327	$ 438,257	$ 581,584	$ 90	$ —	$ 581,674
Debt Service	23,423	141,103	164,525	53	7,614	172,192
Capital Projects	54,866	333,739	388,605	—	—	388,605
Grants	18,221	—	18,221	1	—	18,222
ARPA Fiscal Recovery	259,149	—	259,149	—	—	259,149
Non-major:						
Health and Housing	21,763	123,882	145,645	—	—	145,645
Parks and Recreation	1,257	6,954	8,211	5	—	8,215
Public Safety	5,504	29,255	34,759	—	—	34,759
Public Works	39,511	221,329	260,840	2	—	260,842
Other Special Revenue	19,652	121,524	141,176	—	—	141,176
Enterprise Funds:						
Airport System	275,113	1,547,673	1,822,787	53,764	—	1,876,551
Convention & Entertainment	14,067	84,564	98,631	—	—	98,631
Combined Utility	271,737	1,549,598	1,821,335	37	—	1,821,372
Internal Service:						
Health Benefits	12,404	72,826	85,230	—	—	85,230
Long-term Disability	1,284	7,450	8,734	—	—	8,734
Fiduciary:						
Private-purpose Trust	—	—	—	336	6,710	7,046
Total	$ 1,161,277	$ 4,678,154	$ 5,839,431	$ 54,288	$ 14,323	$ 5,908,042

B. Investments and Risk Disclosures

The following describes the investment positions of the City's operating funds as of June 30, 2023. The City held $5.7 billion in high grade, fixed income investments in three separate investment pools, each serving a specific purpose as described below. All investments are governed by state law and the Investment Policy, which dictates the following objectives, in order of priority:

1. Safety
2. Liquidity
3. Return on Investment
4. Legal Requirements

These funds are managed internally by City personnel. The investments listed in this section do not include the City's three pension funds, which are described separately in Note 3.C.

Fair Value Measurements

To the extent available, the City's investments are recorded at fair value. GASB Statement No. 72, “Fair Value Measurement and Application,” defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis.

The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access at the measurement date.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement determined using model- based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

1. General Investment Pool

The General Investment Pool consists of all working capital, construction, and debt service funds not subject to yield restriction under Internal Revenue Service ("IRS") arbitrage regulations. The funds of the City's enterprise systems, as well as the general fund, are commingled in this pool to gain operational efficiency. Approximately 98.7% of the City's total pooled investable funds are held in this portfolio.

Investments As Of June 30, 2023	Credit Quality Ratings [(1)(2)]	Fair Value (in thousands)	WAM* (years)
U.S. Treasury Securities	AAA	$ 2,824,414	1.5
Agency Discount Notes	AAA	247,277	0.2
Govt. Agency Securities [(3)]	AAA	1,034,987	1.4
Govt. Agency Securities (State of Israel Bond)	AA	9,978	0.1
Govt. Agency Securities [(3) (4)]	Not Rated	237,892	0.9
Govt. Mortgaged Backed Securities [(3) (4)]	Not Rated	160	0.6
MMF - TexSTAR Cash Reserves	AAA Short Term	268,853	—
Commercial Paper	A-1/P-1 Short Term	621,218	0.2
Municipal Securities	AAA Long Term	221,362	1.4
Municipal Securities	AA Long Term	203,713	1.6
Total Investments		$ 5,669,854	

*Weighted Average Maturity ("WAM") is computed using average life of mortgage-backed securities and effective maturity of callable securities.

(1) Fitch Ratings Inc. has assigned an AAA credit quality rating and S1 volatility rating to the City's General Investment Pool. The AAA signifies the highest level of credit protection, and the S1 rating signifies volatility consistent with a portfolio of government securities maturing from one to three years.

(2) All credit ratings shown are either actual Fitch ratings, or if a Fitch credit rating is not available, the equivalent Fitch credit rating is shown to represent the actual Moody's or Standard & Poor's credit rating.

(3) These are securities issued by government sponsored enterprises, including the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation ("Freddie Mac"), Federal National Mortgage Corporation ("Fannie Mae"), and Federal Farm Credit Bank ("Farmer Mac").

(4) These securities were issued by the Federal Home Loan Bank, Freddie Mac, Fannie Mae, and Farmer Mac. While these individual issues were not rated, senior lien debt of these entities is rated AAA.

Risk Disclosures:

Interest Rate Risk. In order to ensure the ability of the City to meet obligations and to minimize potential fair value losses arising from rising interest rate environments, the Investment Policy limits this investment portfolio's WAM to 2.5 years maximum. As of June 30, 2023, this investment portfolio's WAM was 1.343 years. Modified duration was 1.305 years. Modified duration can be used as a multiplier to determine the percent change in price of a bond portfolio for every 100 basis point (1%) change in yield. For example, a portfolio with a modified duration of 1.305 years would experience approximately a 1.305% change in market price for every 100 basis point change in yield.

Credit Risk – Investments. The U.S. Treasury Securities and Housing and Urban Development Securities are direct obligations of the United States government. Government Agency Securities and Mortgage-backed Securities were issued by government sponsored enterprises but are not direct obligations of the U.S. Government. The Money Market Mutual Funds were rated AAA. Municipal Securities were rated at least AA. The Investment Policy limits investments in the General Investment Pool to high quality securities with maximum maturity of five years for all U.S. Treasuries, Government Agency, and Municipal Securities except for Government Mortgaged-backed Securities which can have maximum maturity of 15 years. Certificates of Deposit maximum maturity is two years, and Commercial Paper maximum maturity is 365 days. The General Investment Pool maximum sector exposure are as follow: U.S. Treasuries up to 100%; Government Agency Securities up to 85% with maximum exposure to any one Agency issuer is 35%; Mortgage- backed Securities up to 20%; Municipal Securities up to 20% with a rating not less than A by a nationally recognized rating agency; Money Market Mutual Funds up to 25%; Certificates of Deposit up to 15%; and Commercial Paper up to 20%.

Credit Risk – Securities Lending. Under its securities lending program, the City receives 102% of fair value for its U.S. Treasury securities at the time the repurchase agreements are signed, and agreements are limited to 90 days by policy and have been less than 35 days by practice. At June 30, 2023, there were no securities lending agreements outstanding.

Custodial Credit Risk. The custodial credit risk for investments is the risk that in the event of failure of a counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the City, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. As of June 30, 2023, none of the City's investments in the General Investment Pool were subject to custodial credit risk.

Foreign Currency Risk. Foreign currency risk is the risk that investments will change value due to changes in exchange rates between time of purchase and reporting or sale. The City's General Investment Pool investments are limited by policy to U.S. dollar denominated investments and not subject to this risk.

A summary of the General Investment Pool’s investment under the requirements of the fair value hierarchy follows:

	Fair Value Measurements Using (in thousands)			
	June 30, 2023	Quoted prices (Level 1)	Other significant observable inputs (Level 2)	Significant observable inputs (Level 3)
Investments by fair value level				
U.S. Treasury Securities	$ 2,824,414	$ 2,824,414	$ —	$ —
Agency Discount Notes	247,277	247,277	—	—
Govt. Agency Securities	1,272,878	—	1,272,878	—
Govt. Agency Securities (State of Israel Bonds)	9,978	—	—	9,978
Govt. Mortgage Backed Securities	160	—	160	—
Municipal Securities	425,076	—	425,076	—
Commercial Paper	621,218	—	621,218	—
Total Investment by Fair Value Level	5,401,001	$ 3,071,691	$ 2,319,332	$ 9,978
Investments measured at net asset value (NAV)				
MMF - TexSTAR Cash Reserves	268,853			
Total investments measured at the net asset value (NAV)	268,853			
Total investments measured at fair value and NAV	$ 5,669,854			

TexSTAR uses the fair value method to determine the Net Asset Value ("NAV") per unit of the Cash Reserve Fund. Under the fair value method, fixed income securities are valued each day by independent or affiliated commercial pricing services or third-party broker-dealers. In instances where sufficient market activity exists, the pricing services or broker-dealers may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, the broker-dealers or pricing services also utilize proprietary valuation models which may consider market transactions in comparable securities and the various relationships between securities in determining value and/or market characteristics such as benchmark yield curves, option adjusted spreads, credit spreads, estimated default rates, coupon-rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair values.

TexSTAR Cash Reserve Fund has not been classified in the fair value hierarchy table. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the Statement of Net Position. For additional information regarding TexSTAR, visit: https://www.texstar.org/GetDocument.aspx?FileName=TexSTAR_InformationStatement.pdf.

2. Tax Exempt Pool

The Tax Exempt Pool consists of those funds which are subject to yield restrictions and arbitrage regulation under the 1986 Tax Reform Act. All these investments were held in a tax-exempt municipal bonds and cash.

Investments as of June 30, 2023	Credit Quality Ratings	Fair Value (in thousands)	WAM (Days)
Municipal Securities	AAA Long Term	$ 7,890	226

Risk Disclosures:

Interest Rate Risk. In order to ensure the ability of the City to meet obligations and to minimize potential fair value losses arising from rising interest rate environments, the Investment Policy limits this pool's WAM to 1.5 years. As of June 30, 2023, the pool's dollar- weighted average maturity was 226 days or 0.619 years. Modified duration was 0.829 years.

Credit Risk. The Investment Policy limits investments in the Tax-Exempt Pool to high quality securities with a maturity of less than three years and a minimum rating of AA.

Custodial Credit Risk. As of June 30, 2023, none of the City's investments in this pool were subject to custodial credit risk.

Foreign Currency Risk. The City's investments in this pool are all U.S. dollar denominated and not subject to foreign currency risk.

A summary of the Tax Exempt Pool's investment under the requirements of the fair value hierarchy follows:

	Fair Value Measurements Using (in thousands)			
	June 30, 2023	Quoted prices (Level 1)	Other significant observable inputs (Level 2)	Significant observable inputs (Level 3)
Investments by fair value level				
Municipal Securities	$ 7,890	$ —	$ 7,890	$ —
Total Investment by Fair Value Level	$ 7,890	$ —	$ 7,890	$ —

3. Housing Department Section 108 Pool

The Housing Department Pool was created to comply with rules of the U.S. Department of Housing and Urban Development ("HUD"), which requires that funds provided by HUD must be held in a separate custodial account for HUD's benefit. The primary goal of this fund is to meet the cash flow and investment needs of the City's Housing and Community Development HUD program.

Investments as of June 30, 2023	Credit Quality Ratings	Fair Value (in thousands)	WAM (Days)
U.S. Treasury Bills	F1+	$ 7,963	35

Risk Disclosures:

Interest Rate Risk. In order to ensure the ability of the City to meet obligations and to minimize potential fair value losses arising from rising interest rate environments, the Investment Policy limits this investment portfolio's dollar-weighted average stated maturity to six months maximum. As of June 30, 2023, this investment portfolio's dollar-weighted average stated maturity was 35 days. Modified duration was 0.096 years.

Credit Risk. HUD requires that investment of these funds must be in direct obligations of the U.S. Government.

Custodial Credit Risk. As of June 30, 2023, none of the City's investments in this pool were subject to custodial credit risk.

Foreign Currency Risk. The City's investments in this pool are all U.S. dollar denominated and not subject to foreign currency risk.

A summary of the Housing Department Section 108 Pool’s investment under the requirements of the fair value hierarchy follows:

	Fair Value Measurements Using (in thousands)			
	June 30, 2023	Quoted prices (Level 1)	Other significant observable inputs (Level 2)	Significant observable inputs (Level 3)
Investments by fair value level				
Debt Securities				
U.S. Treasury Bills	$ 7,963	$ 7,963	$ —	$ —
Total Investment by Fair Value Level	$ 7,963	$ 7,963	$ —	$ —

4. Miscellaneous Money Market Accounts

In addition to its investment pools, the City maintains several money market accounts for various purposes. These accounts are considered cash and cash equivalents on the Statements of Cash Flows because they maintain a weighted average maturity of less than three months. These accounts are described below:

Investments as of June 30, 2023	Credit Quality Ratings	Fair Value (in thousands)	WAM (Days)
BlackRock Institutional Temporary Liquidity Fund:	AAA	$ 53,749	24
Balances held for Consolidated Rental Car Facility operations, improvements, debt service			
First American US Treasury Money Market Fund:	AAA	105	32
Balances held for commercial paper debt service			
Total Miscellaneous Money Market Funds		$ 53,854	

Risk Disclosures:

Interest Rate Risk. These money market funds maintain an average maturity of less than 60 days and seek to maintain a stable net asset value of $1.00. These funds are redeemable on a same day notice.

Credit Risk. These funds hold only U.S. dollar denominated securities that present minimal credit risk. They have the highest credit ratings.

Custodial Credit Risk. As of June 30, 2023, none of the City's investments in this pool were subject to custodial credit risk.

Foreign Currency Risk. The City's investments in this pool are all U.S. dollar denominated and not subject to foreign currency risk.

A summary of the investment under the fair value hierarchy follows (in thousands):

	June 30, 2023
Investments measured at net asset value (NAV)	
BlackRock FedFund-Institutional	$ 53,749
First American U.S. Treasury MMF	105
Total investment measured at net asset value (NAV)	$ 53,854

5. Houston Foundation

The Houston Foundation (the "Foundation") consists of the Hill Trust. It is reported as a private-purpose trust fund (a fiduciary fund); its investments are laid out below. The Hill Trust was established by will in the early 1900's as a general purpose charity trust. The trust is administered by an outside trustee. The City's Administration and Regulatory Affairs Department provides administrative support to the foundation and its board.

Investments as of June 30, 2023	Credit Quality Ratings	Fair Value (in thousands)	WAM (years)
Cash and Equivalents	Not Rated	$ 73	N/A
Fixed Income	Not Rated	1,293	9.0
Equities	N/A	5,241	N/A
Tangible Assets	N/A	103	N/A
Total Assets		$ 6,710	

Risk Disclosures:

Interest Rate Risk. The cash and equivalents portions of this portfolio are invested in money market mutual funds. The fixed income portfolio is invested in bond mutual funds with WAM equal to or less than 8.14 years. The WAM for the fixed income portfolio is 9.0 years, and the weighted average duration is 5.4 years.

Credit Risk. The allocations of assets among various asset classes are set by the Foundation's board. The fixed income portfolio consists of unrated mutual funds. The equities portion of this portfolio is invested in common stocks.

Custodial Credit Risk. As of June 30, 2023, all of the Foundation's holdings were subject to custodial credit risk.

Foreign Currency Risk. Foreign currency risk is the risk that investments will change value due to changes in exchange rates between times of purchase, reporting or sale. The equity investments of the Foundation are subject to this risk to the extent that the Foundation held have not fully hedged their foreign currency dealings.

A summary of the Foundation's investment under the requirements of the fair value hierarchy follows follows:

	Fair Value Measurements Using (in thousands)			
	June 30, 2023	Quoted prices (Level 1)	Other significant observable inputs (Level 2)	Significant observable inputs (Level 3)
Investments by fair value level				
Cash and Equivalents	$ 73	$ 73	$ —	$ —
Fixed Income	1,293	945	348	—
Equities	5,241	5,239	2	—
Tangible Assets	103	—	—	103
Total Investment by Fair Value Level	$ 6,710	$ 6,257	$ 350	$ 103

C. Pension Systems Investments and Risk Disclosures

1. Houston Municipal Employees Pension System ("HMEPS")

HMEPS' Board, in accordance with the power and authority conferred under the Texas Statutes, engaged State Street Bank and Trust Company (the "Custodian") as custodian of the assets of HMEPS, and in said capacity, the Custodian is a fiduciary of HMEPS' assets with respect to its discretionary duties including safekeeping of HMEPS' assets.

The Custodian has established and maintains a custodial account to hold, or direct its agents to hold, for the account of HMEPS all assets that the Board shall from time-to-time deposit with the Custodian. All rights, title, and interest in and to HMEPS' assets shall at all times be vested in HMEPS.

HMEPS' Board shall manage the investment program of HMEPS in compliance with all applicable Federal and State statutes and regulations concerning the investment of pension assets. HMEPS' Board has adopted an investment policy statement to set forth the factors involved in the management of investment assets for HMEPS and which is made part of every investment management agreement. Representative guidelines by type of investment are disclosed in HMEPS' separately issued financial statements.

Fair Value Disclosures:

A summary of the fair value hierarchy is as follows (in thousands):

	Fair Value Measurements Using			
June 30, 2023	**Total**	**Level 1**	**Level 2**	**Level 3**
Investments by fair value level				
Global equity and inflation linked	$ 926,537	$ 920,850	$ —	$ 5,687
Fixed income	190,254	—	185,675	4,579
Short-term investment funds	115,072	—	115,072	—
Securities lending collateral arrangements	61,029	61,029	—	—
Total investment by fair value level	1,292,892	$ 981,879	$ 300,747	$ 10,266
Investments measured at NAV				
Collective trusts	840,792			
Hedge funds	133,374			
Limited partnerships	1,823,555			
Total investments measured at NAV	2,797,721			
Total investments	$ 4,090,613			

Details of investments measured at NAV at June 30, 2023, are as follows (in thousands):

	NAV	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global equity collective trusts	$ 579,079	$ —	Daily	< 1 month
Inflation linked collective trusts	89,018	—	Daily	< 1 month
Fixed income collective trusts	38,295	—	Daily	< 1 month
Real estate collective trust	134,399	—	Daily	< 1 month
Absolute return hedge funds	133,374	—	Monthly, Quarterly, Semi-annualy, or Annually	30-90 days
Inflation linked limited partnerships	247,494	145,629	N/A	N/A
Private equity limited partnerships	1,151,363	331,904	N/A	N/A
Private credit limited partnerships	152,324	238,216	N/A	N/A
Real estate limited partnerships	272,375	172,048	N/A	N/A
	$ 2,797,721	$ 887,797		

Risk Disclosures:

Custodial Credit Risk. Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of HMEPS and are held by either the counterparty or the counterparty's trust department or agent but not in the HMEPS' name.

Concentration Risk. The allocation of assets among various asset classes is set by HMEPS' Board. For major asset classes (e.g., global equity, fixed income, real estate, private equity, inflation-linked, absolute return and private credit), HMEPS will further diversify by employing managers with demonstrated skills in complementary areas of expertise. The managers retained will utilize varied investment approaches, but when combined will exhibit characteristics that are similar, but not identical, to the asset class proxy utilized in the strategic asset allocation plan. The investment portfolio as of June 30, 2023, contained no concentration of investments in any one entity that represented 5% or more of the total investment portfolio, excluding passive index funds.

Interest Rate Risk. Duration is the measure of a bond prices sensitivity to a 100-basis point change in interest rates. The duration of HMEPS' debt securities is managed by the active managers.

At June 30, 2023, the following table shows HMEPS' investments by type, fair value and the effective duration rate (in thousands):

	Effective Duration	Domestic	International	Total
Collateralized mortgage obligations	3.2	$ 2,788	$ —	$ 2,788
Convertible bonds	—	487	—	487
Corporate bonds	5.8	74,820	10,364	85,185
GNMA/FNMA/FHLMC	5.4	24,683	—	24,683
Municipal	8.7	201	—	201
Government issues	8.2	23,673	2,436	26,109
Misc. receivable (auto/credit card)	1.2	3,119	—	3,119
Other ABS	N/A	614	—	614
Bank loan	N/A	46,776	293	47,068
Commingled funds	N/A	38,295	—	38,295
Total		$ 215,456	$ 13,093	$ 228,549

Credit Risk. The quality ratings of investments in fixed income securities are set forth in HMEPS' Investment Policy Statement. All issues purchased by investment grade fixed income managers must be of investment grade quality, unless expressly authorized by HMEPS' Board. Fixed income investments should emphasize high-quality and reasonable diversification.

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at June 30, 2023, are as follows (in thousands):

Quality Rating	Fair Value	Percentage
AAA	$ 2,309	1.01 %
AA	2,046	0.90 %
A	6,583	2.88 %
BBB	19,620	8.58 %
BB	10,006	4.38 %
B	24,091	10.54 %
CCC	24,694	10.80 %
Commingled funds	33,724	14.76 %
Not available	105,476	46.15 %
Total	$ 228,549	100.00 %

Securities Lending. HMEPS is authorized under its Investment Policy Statement to participate in a securities lending program through its agent and Custodian. Under this program, for an agreed-upon fee, HMEPS-owned investment are loaned to a borrowing financial institution. During the year ended June 30, 2023, the Custodian lent HMEPS securities and received cash and securities issued or guaranteed by the U.S. government as collateral. The following table show the fair value measurement of the securities lent, cash collateral received, and the reinvested cash collateral at June 30, 2023 (in thousands):

	Fair Value of Underlying Securities Lent	Cash Collateral Received	Collateral Reinvestment Value
Domestic bond and equities	$ 59,773	$ 60,706	$ 60,706
International equities	323	323	323
Total	$ 60,096	$ 61,029	$ 61,029

Foreign Currency Risk. International securities investment managers are expected to maintain diversified portfolios by sector and by issuer using HMEPS' Investment Policy.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

HMEPS' has an indirect exposure to foreign currency fluctuation as of June 30, 2023, as follows (in thousands):

	Fair Value
Australian Dollar	$ 8,879
Brazilian Real	5,408
Canadian Dollar	30,363
Czech Koruna	191
Danish Krone	7,288
Euro Currency	143,101
Hong Kong Dollar	14,513
Hungarian Forint	335
Indonesian Rupiah	2,347
Israeli New Sheqel	315
Japanese Yen	43,374
Mexican Peso	2,157
New Taiwan Dollar	5,882
New Zealand dollar	139
Norwegian Krone	546
Philippine Peso	814
Pound Sterling	46,792
Singapore Dollar	2,760
South African Rand	995
South Korean Won	3,095
Swedish Krona	13,438
Swiss Franc	17,602
Turkish Lira	795
Total	$ 351,128

2. Houston Firefighters' Relief and Retirement Fund ("HFRRF")

Statutes of the State of Texas authorize HFRRF to invest surplus funds in the manner provided by the Government Code, Title 8, Subtitle A, Subchapter C. This subchapter provides for the investment of surplus assets as described in section 802.202 of the Government Code. HFRRF's Board seeks to produce a return on investments that is based on prudent and reasonable investment risk and the cash flow requirements of HFRRF given prevailing economic and capital market conditions. While HFRRF's Board recognizes the importance of the preservation of capital, it also adheres to the theory of capital market pricing which maintains that varying degrees of investment risk should be rewarded with incremental returns. Consequently, prudent risk-taking is justifiable.

HFRRF's Board manages the investment program of HFRRF in compliance with all applicable Federal and State statutes and regulations concerning the investment of pension assets. HFRRF has adopted an Investment Policy Statement to set forth the factors involved in the management of investment assets for HFRRF. HFRRF's Board has established an Investment Committee to act on all matters related to investments.

Fair Value Disclosures:

A summary of the fair value hierarchy is as follows (in thousands):

	Fair Value Measurements Using			
June 30, 2023	**Total**	**Level 1**	**Level 2**	**Level 3**
Investments by fair value level				
Short-term investment funds	$ 61,183	$ 61,183	$ —	$ —
Government securities	74,168	40,183	33,985	—
Corporate bonds	458,222	26,283	431,940	—
Convertible debt securities	3,133	—	3,133	—
Equity securities	7,582	7,582	—	—
Inflation hedge securities	84,104	84,104	—	—
Private debt	20,122	20,122	—	—
Private equity - energy	1,075	—	—	1,075
Real estate	1,170	—	—	1,170
Total investment by fair value level	710,759	$ 239,456	$ 469,057	$ 2,245
Investments measured at NAV				
Commingled investment funds	1,727,362			
Hedge funds	56,757			
Private debt funds	411,632			
Private equity funds	1,683,139			
Real estate funds	394,984			
Total investments measured at the NAV	4,273,874			
Total investments	$ 4,984,632			

Alternative Investments – As of June 30, 2023, HFRRF was invested in various private equity funds as detailed in the table below (in thousands).

Investment Type	**Fair Value**
Private Equity	
Buyout partnerships/funds	$ 731,364
Co-investments	240,891
Digital assets	12,457
Distressed debt partnerships/funds	83,310
Direct investments	1,075
Infrastructure partnerships/funds	101,104
Mixed strategies	74,878
Secondary partnerships/funds	190,950
Special situations investments	79,677
Venture capital partnerships/funds	168,509
Total	$ 1,684,214

Risk Disclosures:

Custodial Credit Risk. Portions of HFRRF's investments are classified as security investments. A security is a transferable financial instrument that evidences ownership or creditorship. Investments in companies, partnerships and real estate are investments that are evidenced by contracts rather than securities. At June 30, 2023, HFRRF's security investments (excluding cash) that were not subject to custodial credit risk were the investments not registered on an exchange.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributable to the magnitude of HFRRF's investment in a single issue. The allocation of assets among various asset classes is set by HFRRF's Board with the objective of optimizing the investment return of HFRRF within framework of acceptable risk and diversification. For major asset classes (e.g., domestic equities, international equities, fixed income, hedge funds, private equity and real estate), HFRRF further diversifies by employing investment managers who implement the strategies selected by the Investment Committee (IC). In addition, Exchange Traded Funds (ETFs) may be used.

Significant risk management asset allocation guidelines and actual allocations are disclosed in HFRRF's separately issued financial statements.

Interest Rate Risk. HFRRF invests in fixed income securities including, but not limited to, investments representing instruments with an obligated fixed rate of interest including public and private debentures, mortgages, investments in life insurance general accounts and guaranteed investment contracts, with maturities greater than one year, and options/futures. Instruments may have an investment grade or non-investment grade rating. Purchases and sales, investment selection and implementation of investment strategies are delegated to the discretion of external investment managers, subject to compliance with its investment management agreement and HFRRF's Investment Policy.

HFRRF does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates, but rather mandates such limits within the external manager's investment management agreement.

At June 30, 2023, the following table shows HFRRF's investments by type, with weighted average maturity and fair value (amounts in thousands):

	Weighted Average Maturity	Fair Value
Commingled Funds	4.4	$ 319,103
Non-U.S. Convertibles	0.8	2,719
Non-U.S. Corporate	3.1	69,168
Taxable Municipals	20.8	1,325
U.S. Agencies	29.0	32,660
U.S. Collateralized	10.4	536
U.S. Convertibles	0.6	414
U.S. Corporate	2.7	404,956
U.S. Treasuries	14.4	40,183
Total Fixed Income Securities		$ 871,063

Credit Risk. HFRRF does not have a formal policy limiting investment credit risk, but rather mandates such limits within the investment management agreement of each manager as may be appropriate to strategy.

HFRRF's exposure to investment credit risk in fixed income securities (which includes government securities, corporate bonds, convertibles) as of June 30, 2023, is as follows (in thousands):

Quality Rating		Fair Value	Percentage of Holdings
AGY	$	32,660	0.66%
AAA		1,831	0.04%
AA1		1,238	0.02%
AA2		—	0.00%
AA3		1,408	0.03%
A1		2,622	0.05%
A2		3,257	0.07%
A3		9,256	0.19%
BAA1		15,151	0.30%
BAA2		12,897	0.26%
BAA3		26,766	0.54%
BA1		30,522	0.61%
BA2		71,890	1.44%
BA3		90,329	1.81%
B1		77,353	1.55%
B2		48,493	0.97%
B3		18,799	0.38%
B		–	0.00%
CAA1		332,170	6.66%
CAA2		7,650	0.15%
CAA3		–	0.00%
CA		737	0.01%
Not rated		45,852	0.91%
Total credit risk debt securities*	$	830,880	16.65%

*Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and therefore, have not been included in this disclosure.

Foreign Currency Risk. HFRRF's policy allows external investment managers to decide what action to take regarding their respective portfolio's foreign currency exposures subject to compliance with its respective investment management agreement of each manager as may be appropriate to strategy.

HFRRF's exposure to foreign currency fluctuation as of June 30, 2023, is as follows (in thousands):

		Fair Value	Percentage of Holdings
Euro Currency Unit	$	218,849	4.39 %
Total securities subject to foreign currency risk	$	218,849	4.39 %

3. Houston Police Officers' Pension System ("HPOPS")

Statutes of the State of Texas authorize HPOPS to invest surplus funds in a manner provided by the Government Code, Title 8, Subtitle A, Subchapter C. These statutes stipulate that the governing body of HPOPS is responsible for the management and administration of the funds of HPOPS and shall determine the procedure it finds most efficient and beneficial for the management of the reserve fund of HPOPS. The governing body may directly manage the investments of HPOPS or may choose and contract for professional investment management services.

Fair Value Disclosures:

A summary of the fair value hierarchy is as follows (in thousands):

	Fair Value Measurements Using			
June 30, 2023	**Total**	**Level 1**	**Level 2**	**Level 3**
Investments by fair value level				
Short-term investment funds	$ 881,293	$ —	$ 881,293	$ —
Fixed income	451,823	—	451,823	—
Domestic equities	2,857	2,857	—	—
Private equity	1,431,023	—	—	1,431,023
Real estate	769,367	—	—	769,367
Private credit	511,339	—	—	511,339
Foreign currency contracts	2,067	2,067	—	—
Total investment by fair value level	4,049,769	$ 4,924	$ 1,333,116	$ 2,711,729
Investments measured at NAV				
Domestic equities commingled funds	1,268,013			
International equities commingled funds	1,036,550			
Fixed income commingled funds	409,085			
Hedge funds	412,282			
Total investments measured at the NAV	3,125,930			
Total investments measured at fair value	$ 7,175,699			

Alternative Investments – As of June 30, 2023, HPOPS was invested in various partnerships, separate accounts and commingled funds across various types of alternative investments as detailed in the table below (in thousands).

Investment Type	Fair Value
Private Equity	
Leveraged Buyouts	$ 1,019,930
Energy	135,593
Special Situations	151,041
Private Equity Secondaries	120,349
Venture Capital	4,110
Other Alternatives	
Real Estate	769,367
Private Credit	511,339
Hedge Funds	
Global macro hedge funds	119,535
Multi-strategy hedge funds	188,952
Long/short credit hedge funds	3,268
Long/short equity hedge funds	100,527
Total	$ 3,124,011

Risk Disclosures:

Custodial Credit Risk for Deposits and Investments. As of June 30, 2023, HPOPS had a balance of $152 thousand on deposit at a financial institution. The Federal Deposit Insurance Corporation ("FDIC") covered cash on deposit up to $250 thousand at this financial institution. Therefore, as of June 30, 2023, none of the $152 thousand of HPOPS' bank balance was exposed to custodial credit risk. At June 30, 2023, HPOPS did not have any other investments with other financial institutions subject to custodial credit risk.

Credit Risk. As of June 30, 2023, HPOPS' fixed income assets that are not U.S. government guaranteed represented 86.4% of HPOPS' fixed income plus short term investments portfolio. The tables below and on the following page summarize the HPOPS' fixed income portfolio and short term investment exposure levels and credit qualities as of June 30, 2023 (in thousands).

Average Credit Quality and Exposure Levels of Non-U.S. Government Guaranteed Securities

Fixed Income Security Type	Fair Value	Percent of Total	Weighted Average Credit Quality
Corporate Bonds	$ 415,783	23.8 %	BB
Corporate Convertible Bonds	36,040	2.1	BB
Mutual Bond Funds	409,085	23.5	Not Rated
Short Term Investment Funds	881,293	50.6	Not Rated
Total	$ 1,742,201	100.0 %	

Ratings Dispersion Detail

Credit Rating Level	Corporate Bonds	Corporate Convertible Bonds	Mutual Bond Funds	Short Term Investment Funds
BBB	$ 26,809	$ 466	$ —	$ —
BB	224,253	1,286	—	—
B	124,021	—	—	—
CCC	29,921	783	—	—
D	422	—	—	—
Not Rated	10,357	33,505	409,085	881,293
Total	$ 415,783	$ 36,040	$ 409,085	$ 881,293

HPOPS' investment policy allows investment managers full discretion in adopting investment strategies to deal with these risks. Specific guidelines governing risks and concentrations and portfolio quality are established in contracts with each manager and are monitored by HPOPS' staff.

Concentration of Credit Risk. HPOPS' investment policy does not provide for specific limits on investment in any one single security, as this is governed by contracts with individual managers. As of June 30, 2023, HPOPS did not have any single investment in any one organization which represented greater than 5% of plan net position.

Interest Rate Risk. HPOPS' investment policy delegates the management of interest rate risk to the individual investment managers in accordance with each manager's designated strategy. Investment managers have full discretion in adopting investment strategies to deal with these risks, and all of HPOPS' fixed income portfolios are managed in accordance with guidelines that are specific as to the degree of interest rate risk taken. The reporting of modified duration as of June 30, 2023, found in the tables below quantify the interest rate risk of HPOPS' fixed income and short-term investments.

Modified Duration by Security Type

Security Type	Fair Value	Percent of Total	Weighted Average Modified Duration (years)
Corporate Bonds	$ 415,783	23.8 %	3.1
Corporate Convertible Bonds	36,040	2.1	3.3
Mutual Bond Funds	409,085	23.5	4.5
Short Term Investment Funds	881,293	50.6	0.1
Total	$ 1,742,201	100.0 %	

Modified Duration Analysis by Security Type

Corporate Bonds	Fair Value	Average Modified Duration	Contribution to Modified Duration
Less than 1 year	$ 18,793	0.6	0.0
1 to 5 years maturities	317,543	2.7	2.0
5 to 10 years maturities	72,651	5.3	0.9
Greater than 10 years maturities	6,796	9.6	0.2
Total	$ 415,783		3.1
Corporate Convertible Bonds			
Less than 1 year	$ 2,989	0.7	0.1
1 to 5 years maturities	30,773	3.0	2.5
5 to 10 years maturities	1,354	5.3	0.2
Greater than 10 years maturities	924	18.2	0.5
Total	$ 36,040		3.3
Mutual Bond Funds			
Less than 1 year	$ 9,849	4.6	0.1
1 to 5 years maturities	196,144	4.6	2.2
5 to 10 years maturities	163,485	4.6	1.8
Greater than 10 years maturities	39,607	4.6	0.4
Total	$ 409,085		4.5
Short Term Investment Funds			
Less than 1 year	$ 844,221	0.1	0.1
1 to 5 years maturities	37,072	0.1	0.0
Total	$ 881,293		0.1

Foreign Currency Risk. The books and records of HPOPS are maintained in U.S. dollars. Foreign currencies and non-U.S. dollar denominated investments are translated into U.S. dollars at the bid prices of such currencies against U.S. dollars at each balance sheet date. Realized and unrealized gains and losses on investments which result from changes in foreign currency exchange rates have been included in the net appreciation in fair value of investments. Net realized foreign currency gains and losses resulting from changes in exchange rates include foreign currency gains and losses between trade date and settlement date of investment securities transactions, foreign currency transactions and the difference between the amounts of interest and dividends recorded on the books of HPOPS and the amount actually received. International and global managers have the permission to use currency forward and futures contracts to hedge currency against the U.S. dollar.

Currency forwards and futures used for the purpose of hedging currency shall be subject to the following guidelines: 1) net forward and futures sales of any currency may not exceed total fair value of the assets denominated in that currency (this limitation does not apply to global fixed income managers and currency overlay managers if provided for in their contracts), 2) foreign currency exchange contracts with a maturity exceeding 12 months are not permitted, 3) currency options may be entered into in lieu of or in conjunction with forwards sales of currencies with the same limitations as currency forwards and futures. Cross hedging, the selling of one foreign currency for another foreign currency, which may or may not be the base currency of the portfolio, is permitted.

HPOPS' exposure to foreign currency risk in U.S. dollars as of June 30, 2023, is shown in the table below (in thousands).

Foreign Currency Exposure by Asset Class

Currency	Short Term Investments	Fixed Income	Equities	Alternative Investments	Foreign Currency Contracts	Total
Euro	$ (78,017)	$ —	$ 310,909	$ 483	$ —	$ 233,375
Japanese yen	(102,032)	—	206,837	—	—	104,805
British pound sterling	(34,446)	—	135,851	—	—	101,405
Swiss franc	—	—	92,708	—	—	92,708
Chinese yuan renminbi	—	—	85,057	—	—	85,057
Canadian dollar	(10)	—	78,491	—	—	78,481
Australian dollar	—	—	67,776	6,762	—	74,538
New Taiwan dollar	—	—	44,863	—	—	44,863
Indian rupee	—	—	42,086	—	—	42,086
South korean won	—	—	35,379	—	—	35,379
HK offshore Chinese yuan renminbi	—	—	—	—	(33,239)	(33,239)
Swedish krona	—	—	30,031	—	—	30,031
Danish krone	—	—	28,217	—	—	28,217
Hong Kong dollar	—	—	22,986	—	—	22,986
Brazilian real	—	—	16,060	—	—	16,060
Singapore dollar	—	—	12,911	—	—	12,911
South African rand	—	—	8,907	—	—	8,907
Mexican peso	—	—	8,069	—	—	8,069
Norwegian krone	—	—	5,810	—	—	5,810
Indonesian rupiah	—	—	5,737	—	—	5,737
New Israeli shekel	—	—	5,726	—	—	5,726
Thai baht	—	—	5,562	—	—	5,562
Malaysian ringgit	—	—	3,826	—	—	3,826
United Arab Emirates dirham	—	—	3,733	—	—	3,733
Qatari riyal	—	—	2,575	—	—	2,575
Polish zloty	—	—	2,437	—	—	2,437
Kuwaiti dinar	—	—	2,384	—	—	2,384
New Zealand dollar	—	—	1,884	—	—	1,884
Philippine peso	—	—	1,860	—	—	1,860
Turkish lira	—	—	1,591	—	—	1,591
Chilean peso	—	—	1,565	—	—	1,565
Peruvian nuevo sol	—	—	760	—	—	760
Hungarian forint	—	—	682	—	—	682
Czech koruna	—	—	440	—	—	440
Colombian peso	—	—	288	—	—	288
Egyptian pound	—	—	231	—	—	231
	$ (214,505)	$ —	$ 1,274,229	$ 7,245	$ (33,239)	$ 1,033,730

Securities Lending Program. HPOPS' Board of Trustees' policies permit HPOPS to lend securities (domestic and international equities and fixed income) to securities firms on a temporary basis through its custodian bank. HPOPS receives fees for all loans and retains the right to all interest and dividend payments while the securities are on loan. Cash, letters of credit or various government securities having fair values equal to or exceeding 102% and 105% of the value of the loaned securities for domestic and international securities, respectively, collateralize all security loan agreements. Whenever the fair value of the securities on loan changes, the borrower must adjust the collateral accordingly. HPOPS' bank pools all collateral received from securities lending transactions and invests any cash collateral. HPOPS holds an undivided share of the collateral provided by the borrowers of the securities. At June 30, 2023, the weighted-average maturity of the collateral pool was 13 days. The relationship between the maturities of the collateral pool and HPOPS' loans has not been determined. Cash collateral invested in the custodian bank collateral pool at June 30, 2023, was $158.5 million. HPOPS also had non-cash collateral at June 30, 2023, of $22.1 million consisting of U.S. Treasury securities and letters of credit. HPOPS cannot sell or pledge the collateral unless the borrower fails to return the securities borrowed.

The fair value of securities on loan at June 30, 2023, was $177.1 million. At June 30, 2023, HPOPS had no credit risk exposure to borrowers because the amounts HPOPS owes the borrowers, $180.5 million, exceeds the amounts the borrowers owe HPOPS, $177.1 million.

Derivatives. HPOPS' investment managers may invest in derivatives if permitted by the guidelines established by HPOPS' Board of Trustees. HPOPS' staff monitors guidelines and compliance. From time to time HPOPS' investment managers will invest in equity, fixed income and short term futures contracts along with foreign currency forward contracts. No derivatives are purchased with borrowed funds. These investments derivatives are primarily classified in Level 1 of the fair value hierarchy as futures contracts are price base on market quotes.

The fair value balance of posted margin and collateral and notional amounts of derivative instruments outstanding at June 30, 2023, classified by type, and the changes in fair value of such derivative instruments for the year then ended is shown in the table below (in thousands).

	Fair Value				
	Changes in Fair Value	**Posted Margin**	**Collateral Held at Custodian Bank**	**Collateral Held at Broker**	**Notional Value**
Equity Futures	$ 119,219	$ 28,059	$ 994,455	$ —	$ 1,007,486
Currency Futures	6,205	(911)	106,117	—	(214,518)
Currency Forwards	2,957	—	—	—	(33,238)
Commodity Futures	(503)	—	65	—	—
Equity Options	(11,744)	—	38,250	—	897,250

Futures are used to obtain market exposure and to take advantage of mis-pricing opportunities. When a position is taken in a futures contract, a margin is posted and the contract is subject to daily mark-to-market adjustments. For options, no margin is posted. Instead, options are purchased at a premium, which is either forfeited or recouped, depending on the gain or loss on the contract. Foreign currency contracts are used to hedge against the currency risk in the System's investments in foreign equity and fixed income securities. To liquidate the contract prior to expiration an offsetting position in the same contract must be taken.

These derivative instruments are subject to the following risks:

- *Custodial Credit Risk* – Consistent with HPOPS' investment policy, HPOPS' derivative instruments were held by the counterparty that was acting as HPOPS' agent.
- *Credit Risk* – HPOPS' investment policy allows investment managers full discretion in adopting investment strategies to deal with this risk. HPOPS' investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures.

- *Interest Rate Risk* – Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the HPOPS' derivative instruments.
- *Foreign Currency Risk* – HPOPS' exposure to foreign currency risk derives from its positions in foreign currency denominated international equity and fixed income investments as outlined in the following schedule. HPOPS has a currency hedging program in place that hedges fifty percent of the exposure to the Euro, Pound, and Yen exposure in these investment programs. This hedging program is disclosed elsewhere in this footnote.

HPOPS' derivative instruments exposure to foreign currency risk in U.S. dollars as of June 30, 2023, is shown in the table below (in thousands).

Foreign Currency Exposure for Derivatives

Currency	Equity Derivatives	Currency Derivatives	Total
Japanese yen	$ 56,626	$ (102,032)	$ (45,406)
HK offshore Chinese Yuan Renminbi	—	(33,239)	(33,239)
Swiss franc	25,381	—	25,381
Australian dollar	18,555	—	18,555
Swedish krona	8,222	—	8,222
Danish krone	7,725	—	7,725
Euro	84,762	(78,040)	6,722
Hong Kong dollar	6,293	—	6,293
Singapore dollar	3,535	—	3,535
British pound sterling	37,192	(34,446)	2,746
Norwegian krone	1,591	—	1,591
New Israeli shekel	1,568	—	1,568
New Zealand dollar	516	—	516
Total	$ 251,966	$ (247,757)	$ 4,209

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NOTE 4: ACCOUNTS RECEIVABLE AND NOTES RECEIVABLE

Accounts and Other Receivables

Accounts and other receivables by fund as of June 30, 2023, are as follows (in thousands):

Governmental Activities

	General	Capital Projects	Nonmajor	Grants	Internal Service Fund	Total Governmental Activities
Receivables:						
Accounts	$ 940,100	$ 923	$ 223,479	$ 1,608	$ 80	$ 1,166,190
Property tax	83,804	—	—	—	—	83,804
Sales tax	150,955	—	—	—	—	150,955
Mixed beverage	4,028	—	—	—	—	4,028
Franchise	9,531	—	—	—	—	9,531
Special assessment	8,011	—	—	—	—	8,011
Due from other governments	26,051	22,784	71,739	251,965	14	372,553
Gross receivables	1,222,480	23,707	295,218	253,573	94	1,795,072
Less: allowance for doubtful accounts	(846,487)	(922)	(199,021)	—	(77)	(1,046,507)
Receivables, net	$ 375,993	$ 22,785	$ 96,197	$ 253,573	$ 17	$ 748,565

Business-type Activities

	Airport System	Convention and Entertainment	Combined Utility	Total Business-type Activities
Receivables:				
Accounts	$ 14,572	$ 531	$ 582,361	$ 597,464
Hotel occupancy tax	—	32,511	—	32,511
Special assessment	—	—	93	93
Due from other governments (current)	57,726	—	7,387	65,113
Due from other governments (non-current)	—	—	421,664	421,664
Gross receivables	72,298	33,042	1,011,505	1,116,845
Less allowance for doubtful accounts	(3,827)	(518)	(293,822)	(298,167)
Receivables, net	$ 68,471	$ 32,524	$ 717,683	$ 818,678

Notes Receivable

The City entered into various loan agreements with various third parties related to Hurricane Harvey projects and its affordable housing and community development programs. Of the $104.9 million recorded in notes receivable, approximately $100.7 million is not expected to be collected within one year. Included in the $104.9 million is a loans receivable totaling $34.9 million for loans to Houston First Corporation, a component unit of the City, associated with Hurricane Harvey project costs. These loans have maturity date from 2024 to 2030, with interest rates ranging from 1.30% to 2.134%. The remaining $70.0 million note and loans receivables are related to Grants Fund and Special Revenue Funds totaling $184.3 million, net of allowance for doubtful accounts of $114.3 million. Those loans have maturity date from 2025 to 2059, with interest rates ranging from 0% to 7%. The $70.0 million of notes and loans have corresponding deferred inflows of resources balance recorded within the governmental funds.

In addition, the City entered into loan agreements with various third parties and organizations for the purpose of financing housing and redevelopment projects. These projects include a mix of affordable housing and market rate units. Principal and interest of these loans may be forgiven by the City upon meeting certain requirements, such as affordability period of the housing project. Payments on these loans may be required to be made from the project's surplus cash flows. Due to the uncertainty of payment, the City is not recognizing a receivable in the financial statements and will record all payments as revenue at the time of receipt. The total amount of these notes outstanding is $595.1 million as of June 30, 2023.

NOTE 5: PROPERTY TAX

The City's annual ad valorem property tax is required to be levied by October 1, or as soon thereafter as practicable, on the assessed value listed as of the prior January 1 for all real and certain personal property. Taxes are due on January 31 of the year following the year of the levy. A tax lien attaches to all property on January 1 of each year to secure the payment of all taxes, penalties and interest that is ultimately imposed on the property. The tax rate established by the City Council for the 2022 tax year was $0.533640 per $100 of assessed value with $0.385127 for operations and $0.148513 for debt service.

In 2004, Houston voters approved Proposition 1, which limits increases in ad valorem tax revenues collected by the City. In each fiscal year, Proposition 1 limits increases in ad valorem tax revenues collected by the City by limiting such annual ad valorem collections to the lesser of (i) the actual ad valorem tax revenues collected in the preceding fiscal year, plus 4.5%, or (ii) actual ad valorem revenues received in fiscal year 2005, adjusted for the cumulative combined rates of inflation and the City’s population growth (as determined by the U.S. Census). The Texas Property Tax Code (the "Code"), with certain exceptions, exempts intangible personal property, household goods, and family-owned automobiles from taxation. In addition, the Code provides for countywide appraisal districts.

Tax Increment Reinvestment Zones

The City has 27 active Tax Increment Reinvestment Zones (“TIRZs”) as of June 30, 2023.

TIRZ #	TIRZ Name	TIRZ #	TIRZ Name	TIRZ #	TIRZ Name
1	St. George Place	11	Greenspoint	20	Southwest
2	Midtown	12	City Park	21	Near Northside
3	Main St/Market Square	13	Old Sixth Ward	22	Leland Woods
5	Memorial Heights	14	Fourth Ward	23	Harrisburg
6	**Eastside	15	East Downtown	24	**Greater Houston
7	OST/Almeda	16	Uptown	25	Hiram Clarke/Fort Bend County
8	Gulfgate	17	Memorial City	26	Sunnyside
9	South Post Oak	18	Fifth Ward	27	Montrose
10	Lake Houston	19	Upper Kirby	28	**Medical Center Area

The TIRZs were created pursuant to Chapter 311 of the Code to aid in financing the development or redevelopment of unproductive, underdeveloped or blighted areas.

The City, through its agreement with each individual TIRZ, contributes tax increment dollars to finance capital projects such as streets, drainage, water, parks and public facilities, streetscape (sidewalks, lighting, landscaping), parking facilities, and affordable housing to enhance economic growth. The amount of tax increment contributed by the City is based on the incremental taxable value generated by each individual TIRZ above its taxable value at creation.

Each TIRZ is required by Chapter 311 of the Code to create a project plan and reinvestment zone financing plan that reflects the TIRZ’s goals and priorities for its term. The plan is subsequently approved by City Council for implementation. Annually, the City Council reviews and approves each TIRZ budget for implementation of capital projects.

During the year ended June 30, 2023, the City contributed $186 million in tax increments to the City-led TIRZs. A summary of taxing units that participate in various TIRZs through interlocal agreements are listed below. These taxing units contributed a combined $50.3 million to the TIRZs.

City of Houston TIRZ Interlocal Participation Agreements	
Taxing Jurisdiction	**TIRZ Number**
Harris County[1,2]	1, 2, 3, 5, 7, 8, 9, 10, 11, 13, 15, 24
Harris County Flood Control District[1]	3
Harris County Hospital District[1]	3
Harris County Port of Houston Authority[1]	3
Houston Community College District	2
Houston Independent School District	1, 2, 3, 4, 5, 7, 8, 9, 12, 13, 14, 15, 16, 18, 19
Humble Independent School District	10
Aldine and Spring Independent School Districts, Lone Star College District	11

1 Included in the Harris County Interlocal Agreement

2 Harris County no longer participates in TIRZ No. 1, 2, 5, 7, 8, 9, 10, 11 and 13

3 Harris County Hospital District and Harris County Flood Control no longer participates in TIRZ No. 2 and 3

4 Houston Independent School District no longer participates in TIRZ No. 5 and 19

** These TIRZs are not a legally separated entity from the City or a component unit of the City. Activities of this TIRZ are accounted for in the City's special revenue funds.

Tax Abatements

The City also enters into property tax abatement agreements with local businesses under the state Property Redevelopment and Tax Abatement Act, Chapter 312. These have investment and employment requirements that must be met to have a portion of their property taxes abated. The total amount abated was $1,219,042, to eight businesses.

Company Name	Abatement Project Information	Investment Requirement	City's Abatement Commitments	Amount Eligible for Abatement (HCAD Value)	Tax abatement for Tax Year 2022 (COH tax rate - 0.53364%)
BVSW Garden Oaks	To renovate, develop, upgrade, and expand the existing 136 units of deteriorated, vacant apartment property into 166 units of upscale multi-family housing accommodations.	$ 8,000,000	City agrees to grant the Owner a fifty percent (50%) of the ad valorem taxes levied on the Improvements in the Zone.	$ 10,000,305	$ 53,366
Brittmoore Founders District	Development of a multi-use facility including office space, co-working space, retail, regional community events center, 250+ units of multi-family apartments, athletic facilities and park amenities; the use of the facility is to create a 32 acre mixed-use entrepreneurial hub for startups, technology firms, and other high-growth businesses.	$ 150,000,000	City agrees to grant the Owner a ninety percent (90%) of the ad valorem taxes levied on the Improvements in the Zone.	$ 17,747,389	$ 94,707
UPS	The facility will be approximately 400,000 to 500,000 square feet comprising package handling and distribution center and ancillary office facilities.	$ 59,000,000	City agrees to grant the Owner a seventy-five percent (75%) of the ad valorem taxes levied on the Improvements in the Zone.	$ 79,225,520	$ 422,779
CyrusOne	CyrusOne will invest a minimum of $10,000,000.00 in constructing and installing the improvements in the Zone by Effective date of Abatement and $90,000,000.00 by the end of 2017. If, at the end of 2017, CyrusOne has not invested at least 70% of the $90,000,000 investment commitment or $63,000,000 the City will reduce the tax abatement percentage to 40%.	$ 90,000,000	City agrees to grant CyrusOne a fifty percent (50%) abatement of the ad valorem taxes on the Improvements in the Zone during the abatement period. The tax abatement will apply to the appraised value up to $72,000,000.00 and is capped at that value. Any value in excess of $72,000,000.00 will not be subject to the abatement.	$ 24,384,379	$ 130,125

(Continued)

Halliburton	The Owner represents that it will complete construction of the Facility on the Real Property no later than December 31,2015. The Owner represents and warrants that it will invest a minimum of $145,000,000 in designing, construction, and installing the Improvements by the Effective Date of Abatement.	$ 145,000,000	City agrees to grant Halliburton a fifty percent (50%) abatement of the ad valorem taxes on the Improvements in the Zone during the abatement period. Maximum abatement amount is $1,500,000.	$ 13,651,094	$ 72,848
Kroger	The Company represents and warrants that it will invest approx. $24M related to an upgrade of the Facility and approx. $17M related to the expansion of the Facility in the Zone by the Effective Date of Abatement.	$ 10,097,947	City agrees to grant Kroger a Seventy five percent (75%) abatement of the ad valorem taxes on the Improvements in the Zone during the abatement period. The real property improvements subjects to tax abatement are $17M.	$ 11,880,133	$ 63,397
Cullen SH Apartments	The Company represents and warrants that it will invest a minimum of $22M in acquiring the Real Property and constructing and installing the Improvements in the Zone by the Effective Date of Abatement.	$ 22,000,000	City agrees to grant Cullen SH Apartments 90% abatement of the improvements.	$ 24,855,444	$ 132,639
Converge Midstream Services (formerly Fairway Energy)	The Company represents and warrants that it will invest a minimum of $218M in capital improvements to the Facility by the Effective Date of Abatement and has provided a pro forma of projected annual Net Operating Income.	$ 218,000,000	City agrees to grant a 50% abatement of the ad valorem taxes on the Improvements in the Zone during the Abatement Period.	$ 46,694,522	$ 249,181

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NOTE 6: CAPITAL ASSETS

A. Governmental Activities

A summary of changes in capital assets for the year ended June 30, 2023, is as follows (in thousands):

	Balance July 01, 2022	Additions	Retirements	Transfers	Balance June 30, 2023
Governmental Activities					
Capital assets not being depreciated:					
Land	$ 557,345	$ 8,089	$ (289)	$ 7,216	$ 572,361
Right of way	1,842,778	2,400	(22)	19,873	1,865,029
Construction work in progress	860,871	316,600	—	(273,607)	903,864
Total capital assets not being depreciated	3,260,994	327,089	(311)	(246,518)	3,341,254
Depreciable capital assets:					
Buildings	1,412,125	948	(104)	75,008	1,487,977
Rights & intangibles - amortizable	17,021	257	—	—	17,278
Improvements and equipment	1,569,975	39,559	(42,411)	30,665	1,597,788
Infrastructure	8,319,747	67,261	(32,611)	140,845	8,495,242
Total other capital assets	11,318,868	108,025	(75,126)	246,518	11,598,285
Less accumulated depreciation for:					
Buildings	(623,295)	(38,881)	81	—	(662,095)
Rights and intangibles	(15,365)	(1,534)	—	—	(16,899)
Improvements and equipment	(1,106,168)	(74,837)	39,915	—	(1,141,090)
Infrastructure	(4,135,425)	(180,454)	29,435	—	(4,286,444)
Total accumulated depreciation	(5,880,253)	(295,706)	69,431	—	(6,106,528)
Depreciable capital assets, net	5,438,615	(187,681)	(5,695)	246,518	5,491,757
Lease right-of-use assets:					
Land	168	—	—	—	168
Buildings	75,303	311	(3,348)	—	72,266
Equipment	12,816	—	(405)	—	12,411
Total lease right-of-use assets	88,287	311	(3,753)	—	84,845
Less accumulated amortization for:					
Land	(34)	(17)	—	—	(51)
Buildings	(9,954)	(5,558)	1,160	—	(14,352)
Equipment	(3,345)	(1,695)	405	—	(4,635)
Total accumulated amortization	(13,333)	(7,270)	1,565	—	(19,038)
Lease-right-of-use assets, net	74,954	(6,959)	(2,188)	—	65,807
Subscription right-of-use assets	38,587	36,580	—	—	75,167
Less accumulated amortization for:					
Subscription right-of-use assets	—	(18,994)	—	—	(18,994)
Subscription right-of-use assets, net	38,587	17,586	—	—	56,173
Governmental Activities capital assets, net	$ 8,813,150	$ 150,035	$ (8,194)	$ —	$ 8,954,991

B. Business-type Activities

A summary of changes in capital assets for the year ended June 30, 2023, is as follows (in thousands):

	Balance July 01, 2022	Additions	Retirements	Transfers	Balance June 30, 2023
Business-type Activities					
Capital assets not being depreciated:					
Land	$ 491,901	$ 1,527	$ (1,758)	$ 11,569	$ 503,239
Right of way	1,192	—	—	3	1,195
Rights and intangible - non-amortizable	865,773	—	—	682	866,455
Construction work in progress	2,781,536	1,167,971	—	(630,177)	3,319,330
Total capital assets not being depreciated	4,140,402	1,169,498	(1,758)	(617,923)	4,690,219
Depreciable capital assets:					
Buildings	3,865,904	3,721	(1,594)	73,590	3,941,621
Rights & intangibles - amortizable	14,891	438	—	—	15,329
Improvements and equipment	2,228,590	14,726	(42,573)	109,104	2,309,847
Infrastructure	12,525,609	14,299	(65,538)	435,229	12,909,599
Total other capital assets	18,634,994	33,184	(109,705)	617,923	19,176,396
Less accumulated depreciation for:					
Buildings	(2,179,083)	(111,732)	202	—	(2,290,613)
Rights and intangibles - amortizable	(7,504)	(634)	—	—	(8,138)
Improvements and equipment	(1,646,424)	(74,001)	41,695	—	(1,678,730)
Infrastructure	(6,747,029)	(285,241)	60,739	—	(6,971,531)
Total accumulated depreciation	(10,580,040)	(471,608)	102,636	—	(10,949,012)
Depreciable capital assets, net	8,054,954	(438,424)	(7,069)	617,923	8,227,384
Lease right-of-use assets:					
Buildings	192	—	—	—	192
Equipment	113	32	(42)	—	103
Total lease right-of-use assets	305	32	(42)	—	295
Less accumulated amortization for:					
Buildings	(110)	(55)	—	—	(165)
Equipment	(76)	(35)	42	—	(69)
Total accumulated amortization	(186)	(90)	42	—	(234)
Lease-right-of-use assets, net	119	(58)	—	—	61
Subscription right-of-use assets	5,254	—	—	—	5,254
Less accumulated amortization for:					
Subscription right-of-use assets	—	(1,429)	—	—	(1,429)
Subscription right-of-use assets, net	5,254	(1,429)	—	—	3,825
Business-type activities capital assets, net	$ 12,200,729	$ 729,587	$ (8,827)	$ —	$ 12,921,489

C. Depreciation and Amortization Expense

Depreciation expense was charged to functions programs of the primary government as follows (in thousands):

Governmental activities		
General government	$	22,787
Public safety		38,702
Public works		14,276
Health		6,803
Housing		1,498
Parks and recreation		25,088
Library		7,087
Infrastructure		179,465
Total depreciation expense - governmental activities	$	295,706
Business-type activities		
Airport System		169,414
Convention & Entertainment Facilities		12,844
Combined Utility System		289,350
Total depreciation expense - business-type activities	$	471,608

Amortization expense for leases and subscription right-of-use assets was charged to functions programs of the primary government as follows (in thousands):

Governmental activities		
General government	$	14,039
Public safety		7,081
Public works		2,603
Health		886
Housing		1,655
Total amortization expense - governmental activities	$	26,264
Business-type activities		
Airport System	$	1,507
Combined Utility System		12
Total amortization expense - business-type activities	$	1,519

See Note 9 for further details and disclosures on leases, including regulated leases, and subscription-based information technology arrangements, as well as lease and subscription liabilities.

NOTE 7: CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 2022, the City adopted GASBS No. 96, “Subscription-Based Information Technology Arrangements”, using the facts and circumstances that existed at the beginning of the period of implementation. There was no impact to the City’s beginning net position upon adoption of the new accounting standard.

At July 1, 2022, the City recognized the following balances for subscription right-of-use assets and subscription liabilities (in thousands):

Governmental activities		
Subscription right-of-use assets	$	38,587
Subscription liability		38,587
Business-type activities		
Subscription right-of-use assets	$	5,254
Subscription liability		5,254

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NOTE 8: LONG-TERM LIABILITIES

A. General Long-Term Liabilities

Changes in general long-term liabilities for the year ended June 30, 2023, are summarized as follows (in thousands):

	Balance July 01, 2022	Additions	Retirements/ Transfers	Balance June 30, 2023	Amounts Due within One Year
Governmental Activities					
Bonds and notes payable:					
General tax obligation debt	$ 3,237,858	$ 148,700	$ (270,745)	$ 3,115,813	$ 324,609
HUD Section 108 Loans	28,636	—	(60)	28,576	472
Plus premium (discount) on bonds	258,875	—	(16,420)	242,455	—
Total bonds and notes payable	3,525,369	148,700	(287,225)	3,386,844	325,081
Other liabilities:					
Claims and judgments	206,361	340,871	(339,712)	207,520	64,772
Compensated absences	534,401	108,765	(69,690)	573,476	138,277
Arbitrage rebate	—	23	—	23	—
Lease liability	83,815	311	(14,368)	69,758	5,607
Subscription liability	38,587	36,580	(18,507)	56,660	20,187
Total OPEB liability	2,087,138	180,171	(689,004)	1,578,305	—
Net pension liability	1,867,331	384,166	(375,690)	1,875,807	—
Total other liabilities	4,817,633	1,050,887	(1,506,971)	4,361,549	228,843
Governmental Activities Long-Term Liabilities	$ 8,343,002	$ 1,199,587	$ (1,794,196)	$ 7,748,393	$ 553,924
Discretely Presented Component Units:					
Notes payable	$ 702,331	$ 40,090	$ (106,326)	$ 636,095	$ 39,482
Bonds payable	823,368	62,476	(65,025)	820,819	46,743
Net pension liability (Note 10.C)	—	11,069	—	11,069	—
Discretely Presented Component Units Long-Term Liabilities	$ 1,525,699	$ 113,635	$ (171,351)	$ 1,467,983	$ 86,225

Within governmental funds, contributions toward the other post-employment benefit obligations and liquidation of the net pension liability are made from the general fund.

	Balance July 01, 2022	Additions	Retirements/ Transfers	Balance June 30, 2023	Amounts Due within One Year
Business-type activities					
Bonds and notes payable:					
Airport System debt	$ 2,397,344	$ 165,000	$ (87,058)	$ 2,475,286	$ 129,797
Convention and Entertainment debt	413,306	—	(33,890)	379,416	26,532
Combined Utility System debt	6,897,045	—	(287,549)	6,609,496	296,282
Long-term contracts - Combined Utility	422,026	—	(8,865)	413,161	9,200
Premiums, discounts amount	1,022,554	—	(71,930)	950,624	—
Total bonds and notes payable	11,152,274	165,000	(489,291)	10,827,983	461,811
Other liabilities:					
Claims and judgments	9,058	1,097	(1,170)	8,985	2,282
Compensated absences	35,840	21,273	(20,498)	36,615	19,001
Arbitrage rebate liability	926	319	(379)	866	395
Lease liability	123	—	(60)	63	45
Subscription liability	5,254	—	(1,360)	3,894	1,303
Total OPEB liability	263,457	22,396	(90,192)	195,661	—
Net pension liability	455,141	69,432	(58,076)	466,497	—
Total other liabilities	769,799	114,517	(171,735)	712,581	23,026
Business-type activities Long-Term Liabilities	$ 11,922,073	$ 279,517	$ (661,026)	$ 11,540,564	$ 484,837
Total Reporting Entity Long-Term Liabilities	$ 21,790,774	$ 1,592,739	$ (2,626,573)	$ 20,756,940	$ 1,124,986

B. Schedule of Changes in Bonds and Long-Term contracts (amounts expressed in thousands):

	Stated Interest Rate Range, %	Face Value Outstanding 07/01/2022	FY23 Issued/ Increased
General Tax Obligation Debt			
Public improvement bonds	0.25 to 6.32	$ 1,682,020	$ —
Pension obligations bonds	5.31 to 6.29	1,375,473	—
Commercial paper	0.12 to 10.00	168,000	148,700
Tax and revenue certificates of obligation	4.00 to 5.00	12,365	—
Total General Tax Obligation Debt		$ 3,237,858	$ 148,700
HUD Section 108 Loans		$ 28,636	$ —
Revenue Bonded Debt			
Airport System			
Subordinate lien revenue and refunding bonds	0.883 to 5.70	$ 2,133,665	$ —
Special facility bonds	0.40 to 6.88	60,680	—
Pension obligations bonds	5.31	2,006	—
State Energy Conservation (SECO) Loans	2.00	15,993	—
Commercial paper	0.11 to 1.4	185,000	165,000
		2,397,344	165,000
Convention and Entertainment Facilities			
Senior lien hotel occupancy tax/parking facilities	1.12 to 5.75	410,307	—
Pension obligations bonds	5.31 to 6.29	2,999	—
		413,306	—
Combined Utility System			
Combined Utility System first lien bonds	0.02 to 6.00	6,324,050	—
Water and Sewer System junior lien revenue bonds	1.25 to 6.90	38,946	—
Combined Utility System commercial paper	0.12 to 10.00	–	—
Combined Utility System subordinate lien bonds	0.22 to 3.42	445,116	—
Pension obligations bonds	5.31 to 6.29	88,933	—
		6,897,045	—
Long-Term Contracts-Water and Sewer System			
Coastal Water Authority	2.00 to 7.50	48,870	—
Other long-term contracts	3.22 to 5.85	373,156	—
		422,026	—
Total Revenue Bonded Debt and Long-Term Contracts, Primary Government		$ 10,129,720	$ 165,000
Total Bonds and Long-Term Contracts Payable,Primary Government		$ 13,396,214	$ 313,700

(Continued)

(1) Adjustments consist of unamortized bond premiums, discounts, and capital appreciation bond accretions.

(2) Amount of refunding general tax obligation debt paid to escrow agent included payment of premiums and accrued interest on refunded bonds. Loss on refunding is reported as deferred outflow of resources.

FY23 Redeemed/ Refunded (2)	Face Value Outstanding 06/30/2023	Adjustments (1)	Net Outstanding 06/30/2023
$ 200,910	$ 1,481,110	$ 242,251	$ 1,723,361
27,155	1,348,318	—	1,348,318
41,300	275,400	—	275,400
1,380	10,985	204	11,189
$ 270,745	$ 3,115,813	$ 242,455	$ 3,358,268
$ 60	$ 28,576	$ –	$ 28,576
$ 77,700	$ 2,055,965	$ 177,531	$ 2,233,496
8,165	52,515	—	52,515
—	2,006	—	2,006
1,193	14,800	—	14,800
—	350,000	—	350,000
87,058	2,475,286	177,531	2,652,817
33,680	376,627	190,215	566,842
210	2,789	—	2,789
33,890	379,416	190,215	569,631
266,695	6,057,355	480,526	6,537,881
4,604	34,342	99,461	133,803
—	—	—	—
12,625	432,491	—	432,491
3,625	85,308	—	85,308
287,549	6,609,496	579,987	7,189,483
4,300	44,570	2,891	47,461
4,565	368,591	—	368,591
8,865	413,161	2,891	416,052
$ 417,361	$ 9,877,359	$ 950,624	$ 10,827,983
$ 688,166	$ 13,021,748	$ 1,193,079	$ 14,214,827

C. Terms of Long-Term Debt

1. Public Improvement Bonds

The City has issued Public Improvement Bonds on numerous occasions. The bonds are payable from ad valorem tax revenues. The proceeds are used for street and bridge improvements, traffic signals, municipal buildings, parks, and other capital improvements. Interest is payable semi-annually; principal is payable in various amounts annually through March 1, 2043. At June 30, 2023, the public improvement bonds have an outstanding balance totaling $1,481.1 million.

2. Pension Obligation Bonds

The City has issued several series of General Obligation Taxable Pension Bonds. The proceeds were used to reduce the unfunded actuarial accrued liability of the Houston Municipal Employees Pension System and the Houston Police Officers Pension System. Interest is payable semi-annually, and principal is payable in varying amounts through 2047. Although these obligations have an ad valorem tax pledge, a portion of the liabilities is recorded in the enterprise funds because the liabilities are directly related and expected to be paid from those funds based on percentages of payroll. At June 30, 2023, the pension obligation bonds have an outstanding balance totaling $1,438.4 million.

3. General Obligation Commercial Paper

The City currently multiple General Obligation Commercial Paper Programs (“GO Commercial Paper”) with total authorization of $975 million. The programs’ current issuance capacity is $925 million, of which $625 million is supported by credit facilities: GO Commercial Paper, $200 million Series E Program, $200 million Series G Program, $100 million Series H-2 Program, $125 million Series J. The GO Commercial Paper may be issued for a period not to exceed 270 days and will bear interest based upon the specified term of the GO Commercial Paper, but not to exceed 10%. Principal on the GO Commercial Paper is payable from ad valorem tax revenue, the issuance of new commercial paper, bond proceeds and other funds provided under credit lines. Interest is payable from ad valorem tax revenue collected by the City. Proceeds from the GO Commercial Paper are used to finance various capital projects and public improvements for authorized City purposes. Upon maturity, the GO Commercial Paper will be remarketed by the commercial paper dealers or extinguished with long-term debt. At June 30, 2023, $275.4 million (par amt) of GO Commercial Paper was outstanding. The City’s outstanding notes from credit agreements contain a two – three-year repayment provision in the event of default or material adverse change.

The City has two unused programs, $200 million Series K-1 and $100 million Series K-2 that are Forward Bond Purchase Agreements.

During fiscal year 2023, the average interest rate for the outstanding GO Commercial Paper was 1.166%. This does not include Series K-1, K-2 and G-1 which was established mainly for appropriation purposes; therefore, there were no draws during fiscal year 2023. The average fees related to Series K-1 was 0.13%, K-2 is 0.13% and G-1 is 0.22% without any notes outstanding during fiscal year 2022. The Credit Agreements expire on the following dates: Series E-1 on July 10, 2026, Series E-2 on April 22, 2025, Series G-1 on April 11, 2024, Series G-2 on November 19, 2025, Series H-2 on November 8, 2023, Series J on May 20, 2023, Series K-1 on February 2, 2026, and Series K-2 on February 2, 2026.

4. Certificates of Obligation

Since 1988, the City has issued Certificates of Obligation each year to provide for the purchase of equipment utilized in general City operations including, without limitation, police vehicles, maintenance vehicles and equipment, computer equipment, and costs associated with demolishing dangerous structures. Each year the City is obligated to levy, assess, and collect ad valorem taxes sufficient to pay principal and interest on the certificates payable semi-annually until maturity. At June 30, 2023, the certificates of obligation bonds have an outstanding balance totaling $11.0 million.

5. HUD Section 108 Loan

The City has borrowed money from the United States Department of Housing and Urban Development ("HUD") and loaned it to the Houston Business Development Initiative ("HBDI") and three hotels in the downtown business district. HBDI in turn makes small business loans to under-served areas of the community. The City has pledged only certain grant revenues and its receipts from the loans to repay HUD.

6. Airport System Revenue Bonds

At June 30, 2023, the Airport System has no senior lien revenue bonds outstanding. Any bonds issued on the senior lien would require net revenues, as defined by the Master Bond Ordinance for the Airport System, totaling 125% of the debt service requirements for such fiscal year. The Airport System has issued subordinate lien revenue bonds which are paid solely from a lien on the Airport System's net revenues, which must total 110% of the debt service requirements for subordinate lien revenue bonds for such fiscal year. At June 30, 2023, the subordinate lien revenue bonds have an outstanding balance totaling $2,056.0 million with a final maturity in 2048.

7. Airport System Inferior Lien Contract

On October 21, 2015, the City authorized up to $450.0 million in Airport System Inferior Lien Revenue Bonds, in one or more series. On November 5, 2015 the City authorized execution of a forward delivery purchase agreement with the Royal Bank of Canada ("RBC"), to expire February 5, 2027, for the issuance of $450.0 million in Inferior Lien Revenue Bonds. City Council must reauthorize this liquidity arrangement annually. For the year ended June 30, 2023, no Inferior Lien Revenue Bonds have been issued and outstanding.

8. Airport System Special Facility Bonds

The Airport System Special Facilities Taxable Revenue Bonds, (CRCF Project), Series 2001, original par value $130.3 million, financed the design and construction of a common car customer service building, a parking structure, maintenance, storage and administrative facilities for each car rental company lessee, a common bus fleet and maintenance facility, and related infrastructure at Intercontinental. The City holds legal title to the completed CRCF, as it was constructed on airport property, but the facility is operated and maintained by IAH RACS, LLC, a limited liability company formed by various car rental companies. The bonds are payable from Customer Facility Charges ("CFC") collected by the car rental companies from their customers and remitted to a trustee for payment of debt service and other uses allowable by a trust indenture. As of June 30, 2023, the daily usage charge per customer is set at $4.00. The trust indenture determines when and how the City is responsible for changing the rate, which under the Bond covenants must be set to provide a debt service coverage ratio of at least 125%. The bonds are limited special obligations of the City, payable solely from and secured by pledged CFC. There is no pledge of car rental company revenues or any general revenue of the City.

At June 30, 2023, special facilities revenue and refunding bonds (CRCF) outstanding totaled $52.5 million.

9. Airport System Commercial Paper Notes

During the year ended June 30, 2013, the City authorized up to $150 million in Airport System Commercial Paper Notes ("Airport Commercial Paper"). On November 20, 2013, the City re-authorized and amended the Series A and B Airport Commercial Paper. A new direct pay letter of credit was issued on December 18, 2013, covering $150 million in face value of Series A and B Airport Commercial Paper, plus $11.1 million in respect of 270 days accrued interest computed at 10%. This letter of credit expired on December 16, 2016 and was replaced by a letter of credit for the same amount issued by Sumitomo Mitsui Banking Corporation ("SMBC"), which expires on December 15, 2025. Any advances made under the letter of credit and not repaid within 90 days will be converted to term loans payable in twenty quarterly installments, subject to the greater of several options for interest rates. The maximum interest rate permitted under the ordinance is 15%.

On April 1, 2020, the agreement with SMBC was expanded to $350 million, plus interest. At June 30, 2023, the outstanding balance of Commercial Paper was $350.0 million, with an average interest rate of 3.679%, and there was no available limit for additional borrowings.

10. Airport System Direct Borrowing Loans

During the year ended June 30, 2020, the Airport System began to borrow and incur interest on two loans obtained from the State Energy Conservation Office ("SECO"), a segment within the State of Texas Comptroller. The SECO program affords low-rate 2% loans for borrowers approved to build or acquire energy efficient equipment or other assets.

The Airport System entered into two reimbursement loan agreements with SECO, each with a SECO-approved list of projects, which have been completed during fiscal year 2022, and the initial repayment to commenced shortly thereafter.

Loan No. 1 has a maximum amount of $8.0 million is to be repaid over approximately ten years. Loan No. 2 has a maximum amount of $7.5 million, and similar terms to Loan No. 1. The replacement projects were completed during the fiscal year ended June 30, 2022. At June 30, 2023, the Airport System has a total of $14.8 million loan balance outstanding.

There are no unique default provisions, payment provisions, or collateral pledged to either of these loans. In the event of default, such as failing to make timely payments in accordance with the agreements, the outstanding balances, including accrued interest, may become due immediately. As of June 30, 2023, the Airport System is in compliance with terms and conditions of these loan agreements.

11. Convention and Entertainment Facilities Bonds

These bonds are special limited obligations of the City that are paid from a lien on the pledged receipts of the Hotel Occupancy Tax ("HOT"), and revenues collected from certain City-owned parking facilities. The pledged HOT receipts are equal to 5.65% of the cost of substantially all hotel room rentals in the City, plus related penalties and interest for delinquent payments. As long as any of the Senior Lien Bonds remain outstanding, the City is required to levy HOT at a rate not less than 7%. The City currently levies HOT at the rate of 7%. Final maturity of the bonds is September 1, 2044.

Flexible Rate Notes from direct borrowings are paid from a lien on the pledged receipts of the HOT, as of June 30, 2023, Flexible Rate Notes totaled $20 million and contain a provision that in an event of default, outstanding amounts are due immediately.

The City has obtained a debt service reserve insurance policy for the Senior Lien Hotel Occupancy Tax Revenue Bonds. The surety policy expires upon final maturity of the outstanding Bonds that are due through September 1, 2033.

12. Water and Sewer System Junior Lien Revenue Bonds

The City's Water and Sewer System Junior Lien Revenue Bonds are all bonds outstanding under the Previous Ordinance, prior to the Master Ordinance for the Combined Utility (the "Utility Master Ordinance"). The Utility Master Ordinance defines "Previous Ordinance" as, collectively, the City's ordinances that authorized the issuance of outstanding "Previous Ordinance Bonds." "Previous Ordinance Bonds" are defined as, on any date, all of the City's Water and Sewer System Junior Lien Revenue Bonds that are outstanding under the Previous Ordinance.

On September 3, 2003, City Council authorized creation of the Combined Utility, which currently consist of the City's Water and Sewer System. On June 10, 2004, as part of the restructuring to the new Combined Utility, the City refunded a substantial portion of its outstanding junior lien bonds and reissued bonds as Combined Utility System bonds. The only Previous Ordinance Bonds that are currently outstanding are the Series 1998A Bonds. Debt service payments on remaining Water and Sewer Junior Lien Revenue Bonds ("WS Junior Lien Bonds") will be made after payment of operating expenses and prior to any "other" debt service payments on the Combined Utility System bonds. The final maturity date for the remaining WS Junior Lien Bonds is December 1, 2028. No additional WS Junior Lien Bonds may be issued. As of June 30, 2023, the current principal balance outstanding is $34.3 million.

13. Combined Utility System First Lien Revenue Bonds

On April 21, 2024, the City council approved the Utility Master Ordinance for issuance of City of Houston, Combined Utility System Revenue obligations. The Utility Master Ordinance includes covenants and agreements relating to the operation and management of the Combined Utility. The Combined Utility's First Lien Revenue Bonds are special obligations of the City, payable from and secured by a lien on Net Revenues of the Combined Utility, after payment of all required payments, including and not limited to, those defined as maintenance and operation expenses under Previous Ordinance, and debt service on WS Junior Lien Bonds. Therefore, the lien on Net Revenues securing these bonds is subordinate to the lien securing WS Junior Lien Bonds. So long as any Bonds remain outstanding, the Utility Master Ordinance requires the Combined Utility to generate Net Revenues in each fiscal year at least equal to the greater of 120% of the combined debt service on all Previous Ordinance and First Lien Revenue Bonds outstanding, or 110% of the combined debt service on all Previous Ordinance, First Lien and Second Lien Revenue Bonds outstanding, in such fiscal year. At June 30, 2023, the Combined Utility System First Lien Revenue Bonds have an outstanding balance totaling $6,057.4 million.

In June 2004, the Combined Utility issued First Lien Revenue Refunding Bonds, Series 2004B and 2004C (Taxable) bonds as auction rate securities, each consisting of various sub-series, i.e., Series 2004B-1 through 2004B-6 and Series 2004C-1 through 2004C-5. In 2008, as a result of the credit/liquidity crisis, the series 2004B bonds were converted to variable rate demand bonds. In 2012, the Series 2004B-1 bonds were refunded by SIFMA Index Floating Rate Bonds, consisting of $125 million and $100 million of First Lien Revenue Refunding Bonds, Series 2012A and 2012B, respectively. In June 2018, the Series 2012B bonds were remarketed as variable rate demand bonds ("VRDB") and continue to remain outstanding as VRDBs. In 2020, the Series 2012A were remarketed as VRDBs and continue to remain outstanding as such. The remaining Series 2004B-2, B-3, B-4, B-5, and B-6 remain outstanding as VRDBs.

With respect to the Series 2004C bonds, in May 2008, these bonds were refunded by $249.08 million of First Lien Revenue Refunding Bonds, Series 2008A and $205.3 million first Lien Revenue Refunding Bonds, Series 2008D Bonds (Taxable), both of which were issued as adjustable rate bonds in multiple subseries. The Series 2008D-1, D-2, and D-3 sub-series have since been refunded with fixed rate bonds. In 2010, the Series 2008A-1 and A-2 bonds were refunded by the Series 2010B bonds, which were direct purchase adjustable rate bonds issued in the Indexed Floating Rate mode, with a mandatory tender date ("MDT") of March 22, 2013. In 2012, the Series 2010B bonds were refunded by the Series 2012C bonds, which were publicly offered Securities Industry and Financial Markets Association ("SIFMA") Index Floating Rate Bonds with a MDT of August 1, 2016. In 2016, the Series 2012C bonds were refunded by the Series 2016C bonds, which were a direct purchase by Bank of America Merrill Lynch. The 2016C bonds were issued as adjustable rate bonds with a MDT of August 1, 2019. In 2018, as a direct result of tax reform and the decrease in the corporate tax rate, the 2016C were refunded by the Series 2018C bonds, which as of July 30, 2023 are VRDBs.

Combined Utility System Direct Placement First Lien Revenue Bonds

On December 21, 2021, the City issued $130.0 million of Combined Utility System, First Lien Revenue Bonds, Series 2021C, as a direct placement with Texas Water Development Board ("TWDB"), with coupons ranging from 0.600% – 1.610%. Proceeds will be used to pay for projects, a debt service reserve fund and to pay costs of issuance of the bonds. The bonds mature in varying amounts from 2023 to 2041.

There are no unique default provisions, payment provisions, or collateral pledged to either of these loans. In the event of default, such as failing to make timely payments in accordance with the agreements, the outstanding balances, including accrued interest, may become due immediately. As of June 30, 2023, the Combined Utility is in compliance with terms and conditions of these loan agreements.

14. Combined Utility System SWAP Agreements

In accordance with the GASB Statement No. 72, “Fair Value Measurement and Application”, the City has determined the swap liability to be a level 2 measurement. The fair value below includes consideration of the City’s credit rating and an adjustment for nonperformance risk. The City has determined that the swaps are effective hedges and the change in the fair values are reported as deferred inflows/outflows on the statement of net position (GASB 53, para.75). A summary of the total fair value is as follows:

Notional Amount		Change in Fair Value		Fair Value at June 30, 2023
$	902,400,000	$	(49,610,475)	$	123,043,331
			(Deferred Outflows)		(SWAP Liability)

General Terms:

Objective (GASB 53, para. 71): To manage interest rate exposure and to reduce the cost of capital related to the City’s Combined Utility System First Lien Revenue Refunding Bonds, Series 2004B (the “Series 2004B Bonds”), the City entered into several interest rate swap agreements (the “Series 2004B Swaps”). Additionally, to manage interest rate exposure and to reduce the cost of capital related to the City’s Combined Utility System First Lien Revenue Refunding Bonds, Series 2018C (the “Series 2018C Bonds”), the City entered into an interest rate swap agreement (the “Series 2018C Swap”). The Series 2004B Swaps and Series 2018C Swap are collectively referred to herein as the “Swaps”. Moreover, the Series 2004B Bonds and the Series 2018C Bonds are collectively referred to herein as the “Bonds”.

Hedging Relationship (GASB 53): Hedge accounting can be applied for derivative instruments that are found to be effective hedges under GASB 53. The City has determined that the swaps are effective hedges and the changes in fair values are reported as deferred inflows/outflows on the statement of net assets.

Non-Performance Adjustments (GASB 72, para. 62): GASB 72 requires a government to consider nonperformance risk when measuring the fair value of a liability. The fair values include consideration of the City’s credit rating and an adjustment for nonperformance risk.

Credit risk (GASB 53, para. 73(a)): As of June 30, 2023, the City was not exposed to credit risk because the Swaps had a negative fair value. However, should interest rates change and the fair value of the Swaps become positive, then the City will be exposed to credit risk in the amount of the fair value of the Swaps. In accordance with the City’s swap policy and as established the Swaps, if a counterparty’s credit rating falls below AA, collateral must be posted in varying amounts, depending on the credit rating and the fair value of the Swaps. No collateral has been required to date.

Basis risk (GASB 53, para. 73(c)): Basis risk is measured by the difference between variable receipts on the Swaps and variable payments on the Bonds. In the case of the Series 2004B Bonds, the basis is the difference between the 1-Week SIFMA and 10-Year Constant Maturity Swap Rate (“10-Year CMS”). In the case of the Series 2018C Bonds, the basis is the difference between 1-Month London Interbank Offered Rate (“LIBOR”) and 10-Year CMS.

As of July 1, 2023, the ICE Benchmark Administration ceased publishing any LIBOR setting using the methodology in place as of December 31, 2021. As a result, as of July 1, 2023, LIBOR is no longer an appropriate benchmark interest rate for a derivative instrument that hedges the interest rate risk of taxable debt for purposes of GASB Statement No. 53. The agreements have been amended in July 2023 to reflect this change.

Termination risk (GASB 53, para. 73(d)): The City retains the right to terminate the Swaps at any time and for any reason. If the City terminates any of the Swaps, then a termination payment reflecting the “then-current” market value of the Swaps will be payable to or receivable by the City. By comparison, the City’s counterparties may only terminate the Swaps in the event that the City fails to perform under the terms of the swap agreement, e.g., the City defaults on any swap payments.

Hedged Debt (GASB 53, para. 74): As of June 30, 2023, debt service requirements for the swap agreements are reported in Note 8D as if the swap was in effect, assuming current interest rates remain the same. As rates vary, variable rate bond interest payments and net swap payments will vary. Expected debt service payments on the associated bonds are included with other Combined Utility System Bonds on Note 8.D.

a. Combined Utility System Synthetic Fixed Rate Swap Agreements

Combined Utility System Synthetic Fixed Rate Swaps. On June 10, 2004, the City entered into three identical pay-fixed, receive variable rate swap agreements. The City pre-qualified six firms to submit competitive bids on the swap. The bidding took place on June 7, 2004. The three firms selected all matched the lowest fixed rate bid of 3.7784%. On November 15, 2018, the City amended the swap by changing the floating rate index from one-month LIBOR to 10-year constant maturity swap rate (CMS).

Terms. The notional amount totals $653.3 million, the principal amount of the associated 2004B Bonds. The City's swap agreements contain scheduled reductions to outstanding notional amounts that follow anticipated payments of principal of the 2004B Bonds in varying amounts during the years 2028 to 2034.

Under the terms of the swaps, the City will pay a fixed rate of 3.7784% and receive a floating rate equal to 57.6% of One-Month U.S. Dollar LIBOR plus 37 basis points. All agreements were effective June 10, 2004, the date of issuance of the 2004B Bonds, and will terminate on May 15, 2034.

However, effective November 15, 2018, as per the amended terms, the City will now receive variable payments based on 58.55% of 10-year CMS.

At June 30, 2023, the effective rate on the 2004B Bonds associated with the swap was computed as follows:

	Amended Terms	Rate (%) Received (Paid)
Variable rate payment from counterparties	10Y CMS x 58.55%	2.0439
Swap Receipt		2.0439
Fixed rate paid to counterparties		(3.7784)
Net rate (paid)/received for swap		(1.7345)
Year-end variable rate on 2004B bonds, year-end		(2.4735)
Plus: dealer and credit fees on 2004B bonds		(0.5356)
Effective rate of the 2004B bonds		(4.7436)

In contrast, the fixed rate the City paid on its Combined Utility System Series 2004A fixed rate bonds, which have a comparable maturity, was 5.08%.

Fair Value. Because long-term interest rates have changed since inception of the swaps, the swaps had a negative fair value of $95.4 million on June 30, 2023. This value was calculated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. The fair value is recorded on the balance sheet of the Combined Utility in the SWAP liability. These net payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Counterparty	Notional Amount	GAAP Fair Value	Counterparty Rating (Moody's /S&P/Fitch)
Goldman Sachs	$ 353,325,000	$ (51,623,495)	A1/A+/A+
JP Morgan Chase	$ 150,000,000	$ (21,916,151)	Aa2/A+/AA
Wells Fargo	$ 150,000,000	$ (21,903,764)	Aa2/A+/AA-
Total	$ 653,325,000	$ (95,443,410)	

b. Combined Utility System Forward Interest Rate Swap

Combined Utility System Forward Starting Swap. On November 1, 2005, the City entered into a forward interest rate swap transaction with RBC. The City pre-qualified eight firms to submit competitive bids on the swap. RBC submitted the lowest fixed rate bid of 3.761% and was selected. On September 1, 2015, the swap agreement was novated to Wells Fargo.

On November 15, 2018, the City amended the swap by changing the floating rate index from one-month LIBOR to 10-year constant maturity swap rate (CMS). The transaction was conducted through a competitive bid process.

Terms. Under the terms of the initial contract, the City will pay a fixed rate of 3.761% on a par value of $249.1 million, and it will receive variable payments based on 70% of One-Month U.S. Dollar LIBOR. The City's scheduled net swap payments are insured by Ambac Assurance Corporation.

However, effective November 15, 2018, as per the amended terms, the City will now receive variable payments based on 58.55% of 10- year CMS.

At June 30, 2023, the effective rate on the 2018C Bonds associated with the swap was computed as follows:

	Initial Terms	Amended Terms	RATE (%) Received (Paid)
Variable rate payment from counterparties		10Y CMS x 58.55%	2.0439
Swap Receipt			2.0439
Fixed rate paid to counterparties	Fixed		(3.7610)
Net rate (paid)/received for swap			0.3268
Year-end variable rate on 2018C bonds			(2.5431)
Effective rate of 2018C bonds			(2.2163)

Fair value. The swap had a reported negative fair value of $27.6 million on June 30, 2023. The fair value is recorded on the balance sheet of the Combined Utility in the SWAP liability. This value was calculated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These net payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Counterparty	Notional Amount	GAAP Fair Value	Counterparty Rating (Moody's /S&P/Fitch)
Wells Fargo	$ 249,075,000	$ (27,599,921)	Aa2/A+/AA-

15. Combined Utility System Commercial Paper

Effective December 17, 2009, the City established a $700 million Series B Commercial Paper Note program (the “Utility Commercial Paper”) that provides for the issuance of Utility Commercial Paper notes to finance costs of eligible projects, including acquisition, construction, improvements and additions or extension for the Combined Utility, and pay costs of issuance. The program is structured as a revolving commercial paper note program, whereby the Utility Commercial Paper may be issued for a period that does not exceed 270 days and the maximum interest rate may not exceed 10%. The Utility Commercial Paper are issued as third lien obligations and are payable from and secured by a lien on Net Revenues of the Combined Utility which is subordinate to the lien securing payment of First Lien Bonds. The Combined Utility’s outstanding notes from credit agreements contain a two – four-year repayment provision in the event of default or material adverse change. Effective May 17, 2023, the City amended and restated the Series B Ordinance authorizing for issuance $1 billion of Utility Commercial Paper notes.

A portion of the Utility Commercial Paper, in the amount of $475 million, is secured by credit facilities from Bank of America (Series B-1 and Series B-6) with an expiration date of August 19, 2027, SMBC, acting through its New York Branch (Series B-3) with an expiration date of January 10, 2025, PNC Bank, N.A (Series B-4) with an expiration date of July 12, 2025, and JPMorgan (Series B-7) with an expiration date of May 30, 2025. The Series B-7 ($100 million of principal) was established within the amended and restated ordinance of May 2023. As of June 30, 2023, the Combined Utility has no outstanding in Series B commercial paper notes.

In addition, the City has established an Extendable Commercial Paper (“ECP”) Note program in the amounts of $75 million and $250 million, that provide for the issuance of Series B-2 and Series B-5 ECP Notes as third lien obligations. During FY23, the City amended and restated the Supplemental Ordinance authorizing the issuance of Series B-2 ECP notes in the aggregate principal amount not to exceed $275 million outstanding at any time and provide for the issuance of Series B-2 notes through December 15, 2039. The Series B-2 ECP Notes and Series B-5 ECP Notes may each be issued for a period not to exceed 90 days (which may be extended, but in no event later than 270 days following the date of issuance) and bear interest at an annual rate not to exceed 9%. The Series B-2 and Series B-5 ECP Notes are (1) separately offered and remarketed by Morgan Stanley & Co. LLC, (2) issued as Third Lien Obligations, and (3) are separately payable from and secured by a lien on Net Revenues of the Combined Utility, which is subordinate to the lien securing payment of First Lien Bonds. Proceeds of Series B-2 and B-5 ECP Notes may each be used to finance various capital projects of the Combined Utility.

16. Combined Utility Subordinate Liens

In December 2015 and December 2016, the City closed on a TWDB subordinate lien State Water Implementation Fund for Texas (“SWIFT”) Loans of $25,915,000 and $63,020,000, respectively. These loans were issued to fund the Northeast Plant Expansion and Northeast Transmission Line. Annual debt service is payable from the Combined Utility, General Purpose Fund. The annual debt service payments began in May 2016 and May 2017, respectively. As of June 30, 2023, $4,570,000 and $10,130,000 of the principal has been paid for the 2015 loan and 2016 loan, respectively. These bonds mature on November 15, 2045, and November 15, 2046, respectively. Two new SWIFT loans were issued in November 2017 (2017C) and June 2018 (2018B) for $83,170,000 and $106,910,000, respectively. The annual debt service payments began in May 2018 and November 2018, respectively, and the bonds mature in fiscal year 2047. As of June 30, 2023, $10,775,000 of principal has been paid for 2017C and $10,825,000 of principal has been made paid for 2018B. A new SWIFT loan was issued in November 2018 (2018F) for $170,265,000. As of June 30, 2023, $16,250,000 of principal was paid for this bond. This bond matures in fiscal year 2049. A new SWIFT loan was issued in November 2020 (2020E) for $38,000,000. As of June 30, 2023, $2,240,000 of principal was paid for this bond. This bond matures in fiscal year 2050. The outstanding debt for Subordinate Lien as of June 30, 2023 is $432.5 million.

17. Coastal Water Authority ("CWA")

The contract payable relating to CWA represents the outstanding balance of $44.6 million at June 30, 2023, for Series 2010 and Series 2014 (both refunding) issued by CWA, a governmental agency of the State of Texas, to finance the construction of a water conveyance system. Pursuant to a series of exchange agreements with CWA, the City issued the Certificate and endorsed the bonds and is unconditionally obligated to pay from the gross revenues of the Combined Utility all debt service payments on these Certificates and Bonds, as well as amounts necessary to restore deficiencies in funds required to be accumulated under the CWA bond resolutions. The outstanding bonds mature on December 15, 2025, and December 15, 2034, respectively.

Luce Bayou

In January 2009, the City entered into a contract with CWA for the project design, property acquisition, construction and financing of the Luce Bayou Interbasin Transfer Project. This would include the construction of infrastructure sized to transfer approximately 450,000 acre feet per year of the City's permitted surface water from Trinity River to Lake Houston. The funding for this project is to be financed and paid through the TWDB financing program. The Water Infrastructure Fund ("WIF") Bonds are secured by the City's pledged revenues to pay debt service. The current contract payable out of the General Purpose Fund relating to Luce Bayou as of June 30, 2023, represents $28,754,000 of State Participation Loan (maturing in 2047), $28,000,000 of Series 2009 WIF Loan (maturing in 2029, outstanding principal balance of $17,650,000 as of June 30, 2023) and $5,115,000 of Series 2010 WIF Loan (maturing in 2030, outstanding principal balance of $3,410,000 as of June 30, 2023). The annual debt service payments for the State Participation Loan started in fiscal year 2015, Series 2009 started in fiscal year 2019 and Series 2010 WIF Loan started in fiscal year 2020.

In fiscal year 2017, two new State Water Implementation Revenue Fund for Texas ("SWIRFT") bonds were issued in relation to Luce Bayou on November 2015 and December 2016 for $66,565,000 and $136,460,000, respectively. The annual debt service payments for these bonds started in fiscal year 2019 and their maturity is in 2050 and 2051, respectively. Additionally in fiscal year 2018, two new SWIRFT bonds were issued in relation to Luce Bayou on November 2017 for $72,795,000 and $24,180,000, respectively. The annual debt service payments for the $72.795 million bond started in fiscal year 2019. This bond matures in 2052. The annual debt service payments for the $24.1 million bond started in fiscal year 2018, with a current outstanding principal balance of $20,435,000 as of June 30, 2023. This bond matures in 2047.

Luce Bayou-Land & Mitigation Costs-ROW

Land and Mitigation Costs associated with the Luce Bayou Project relate to acquisition of land and costs of environmental mitigation. CWA advanced funds to pay for the City's share of Land and Mitigation costs from available CWA revenues in lump sums ($6.4 million in 2009, $3.2 million in 2010, $3.2 million in 2012) for a total of $12.8 million. Repayment of the loan started in FY 2019 with the accrued interest during 2009-2020 rolled into principal to be amortized over the next 20 years. As of June 30, 2023, the current principal balance is $14.6 million.

18. Other Contracts

U.S. Army Corps of Engineers

Payments on the following contracts will be made only after the Combined Utility has funded all maintenance and operation costs and debt service payments for the Combined Utility, including required reserves.

On June 20, 1967, the City, TRA, and Chambers-Liberty Counties Navigation District contracted with the United States of America to have the U.S. Army Corps of Engineers build a salinity control barrier and recreation facilities at Wallisville Lake. Because of legal actions, construction was blocked for a long period, and the project was not completed until April 2003. The City's share of the project cost was $10,580,707, which will be paid to the U.S. government over 50 years at 3.222% interest with final payment due January 1, 2053. Current principal balance outstanding as of June 30, 2023, is $7.9 million.

D. Schedule for Debt Service Requirements to Maturity:

Aggregate future debt service payments to maturity as of June 30, 2023, are as follows (in thousands):

1. General Long-Term Tax Obligation Debt:

	Public Improvement Bonds		Pension Obligation Bonds	
Year Ending June 30	Principal	Interest	Principal	Interest
2024	$ 192,390	$ 62,318	$ 29,829	$ 61,352
2025	160,385	54,650	32,670	59,764
2026	146,040	47,865	35,697	58,034
2027	157,790	41,022	38,903	56,151
2028	156,380	33,982	42,311	54,109
2029-2033	380,430	92,673	312,876	227,015
2034-2038	191,245	34,680	279,105	152,683
2039-2043	66,410	10,358	285,258	93,461
2044-2048	23,570	3,440	291,669	29,866
2049-2052	6,470	184	—	—
Total	$ 1,481,110	$ 381,172	$ 1,348,318	$ 792,435

	General Obligation Commercial Paper		Tax and Revenue Certificates of Obligation	
Year Ending June 30	Principal	Interest	Principal	Interest
2024	$ 94,000	$ 7,300	$ 8,390	$ 311
2025	5,000	6,227	2,595	130
2026	94,000	4,115	—	—
2027	82,400	78	—	—
2028	—	—	—	—
2029-2033	—	—	—	—
2034-2038	—	—	—	—
2039-2043	—	—	—	—
2044-2048	—	—	—	—
2049-2052	—	—	—	—
Total	$ 275,400	$ 17,720	$ 10,985	$ 441

	Total Future Requirements		
Year Ending June 30	Principal	Interest	Total Future Requirements
2024	$ 324,609	$ 131,281	$ 455,890
2025	200,650	120,771	321,421
2026	275,737	110,014	385,751
2027	279,093	97,251	376,344
2028	198,691	88,091	286,782
2029-2033	693,306	319,688	1,012,994
2034-2038	470,350	187,363	657,713
2039-2043	351,668	103,819	455,487
2044-2048	315,239	33,306	348,545
2049-2052	6,470	184	6,654
Total	$ 3,115,813	$ 1,191,768	$ 4,307,581

2. HUD Section 108 Loans:

	HUD Section 108 Loans		
Year Ending June 30	Principal	Interest	Total Future Requirements
2024	$ 472	$ 1,507	$ 1,979
2025	280	1,496	1,776
2026	290	1,485	1,775
2027	300	1,474	1,774
2028	23,011	489	23,500
2029-2033	1,725	632	2,357
2034-2038	2,385	130	2,515
2039-2043	113	2	115
Total	$ 28,576	$ 7,215	$ 35,791

3. Enterprise Funds:

	Convention and Entertainment Facilities Revenue Bonds		Convention and Entertainment Pension Obligations		Convention and Entertainment Total Future Requirements	
Year Ending June 30	Principal	Interest	Principal	Interest	Principal	Interest
2024	$ 26,312	$ 31,044	$ 220	$ 174	$ 26,532	$ 31,218
2025	46,323	31,067	235	160	46,558	31,227
2026	26,177	30,256	250	145	26,427	30,401
2027	26,166	30,321	270	129	26,436	30,450
2028	26,135	30,339	285	112	26,420	30,451
2029-2033	130,429	151,920	1,493	251	131,922	152,171
2034-2038	63,560	37,257	36	2	63,596	37,259
2039-2043	23,035	3,998	—	—	23,035	3,998
2044-2048	8,490	343	—	—	8,490	343
Total	$ 376,627	$ 346,545	$ 2,789	$ 973	$ 379,416	$ 347,518

	Airport System Senior Lien Commercial Paper				Airport System Subordinate Lien Revenue Bonds			
Year Ending June 30	Principal		Interest		Principal		Interest	
2024	$	—	$	14,067	$	119,710	$	78,193
2025		350,000		10,557		122,925		74,809
2026		—		—		126,350		71,218
2027		—		—		131,635		67,096
2028		—		—		136,260		62,337
2029-2033		—		—		792,035		221,308
2034-2038		—		—		246,815		112,103
2039-2043		—		—		209,090		54,255
2044-2048		—		—		147,685		20,527
2049-2050		—		—		23,460		487
Total	$	350,000	$	24,624	$	2,055,965	$	762,333

	Airport System Pension Obligations				Airport System Special Facility Bonds-Rental Car Facility			
Year Ending June 30	Principal		Interest		Principal		Interest	
2024	$	—	$	107	$	8,870	$	3,613
2025		—		107		9,630		3,003
2026		—		107		10,445		2,340
2027		—		107		11,315		1,622
2028		—		107		12,255		843
2029-2033		1,627		369		—		—
2034-2038		379		40		—		—
2039-2043		—		—		—		—
2044-2048		—		—		—		—
2049-2050		—		—		—		—
Total	$	2,006	$	944	$	52,515	$	11,421

	SECO Direct Borrowing				Airport System Total Future Requirements					
Year Ending June 30	Principal		Interest		Principal		Interest		Total	
2024	$	1,217	$	287	$	129,797	$	96,267	$	226,064
2025		1,241		262		483,796		88,738		572,534
2026		1,267		237		138,062		73,902		211,964
2027		1,292		212		144,242		69,037		213,279
2028		1,318		186		149,833		63,473		213,306
2029-2033		6,136		526		799,798		222,203		1,022,001
2034-2038		2,329		94		249,523		112,237		361,760
2039-2043		—		—		209,090		54,255		263,345
2044-2048		—		—		147,685		20,527		168,212
2049-2050		—		—		23,460		487		23,947
Total	$	14,800	$	1,804	$	2,475,286	$	801,126	$	3,276,412

Year Ending June 30	Water and Sewer Jr. Lien Revenue Bonds		Combined Utility System Revenue Bonds		Combined Utility System Swap Agreement
	Principal	Interest	Principal	Interest	Net Swap Payment
2024	$ 4,766	$ 14,239	$ 274,820	$ 244,152	$ 16,005
2025	4,274	13,716	285,975	233,374	15,988
2026	4,085	14,070	292,200	221,777	16,005
2027	6,567	24,248	296,460	209,559	16,005
2028	6,219	24,591	309,005	197,014	16,018
2029-2033	8,431	35,664	1,843,460	121,173	55,151
2034-2038	—	—	1,418,050	51,983	2,900
2039-2043	—	—	732,360	24,954	—
2044-2048	—	—	466,880	6,528	—
2049-2053	—	—	138,145	6,816	—
Total	$ 34,342	$ 126,528	$ 6,057,355	$ 1,317,330	$ 138,072

Year Ending June 30	Combined Utility System Subordinate Lien		Combined Utility System Pension Obligations	
	Principal	Interest	Principal	Interest
2024	$ 12,795	$ 11,405	$ 3,901	$ 4,353
2025	12,975	11,211	4,195	4,121
2026	13,180	11,001	4,503	3,872
2027	13,395	10,775	4,837	3,605
2028	13,630	10,532	5,184	3,319
2029-2033	72,555	48,171	28,694	11,266
2034-2038	82,340	38,310	8,720	6,092
2039-2043	95,030	25,587	12,031	4,124
2044-2048	104,760	9,982	13,243	1,357
2049-2053	11,831	229	—	—
Total	$ 432,491	$ 177,203	$ 85,308	$ 42,109

Year Ending June 30	Combined Utility System Total Future Requirements			
	Principal	Interest	Net Swap Payment	Total Future Requirements
2024	$ 296,282	$ 274,149	$ 16,005	$ 586,436
2025	307,419	262,422	15,988	585,829
2026	313,968	250,720	16,005	580,693
2027	321,259	248,187	16,005	585,451
2028	334,038	235,456	16,018	585,512
2029-2033	1,953,140	216,274	55,151	2,224,565
2034-2038	1,509,110	96,385	2,900	1,608,395
2039-2043	839,421	54,665	—	894,086
2044-2048	584,883	17,867	—	602,750
2049-2053	149,976	7,045	—	157,021
Total	$ 6,609,496	$ 1,663,170	$ 138,072	$ 8,410,738

4. Long-Term Contracts-Water and Sewer System:

Year Ending June 30	Maintenance and Operation Lien Principal	Maintenance and Operation Lien Interest	U.S. Army Corps of Engineers Principal	U.S. Army Corps of Engineers Interest	CWA Luce Bayou Principal	CWA Luce Bayou Interest
2024	$ 4,515	$ 1,835	$ 160	$ 255	$ 3,200	$ 1,878
2025	4,735	1,604	166	250	3,280	2,325
2026	9,535	1,247	171	244	3,375	2,768
2027	2,430	948	176	239	3,460	2,675
2028	2,555	823	182	233	3,560	2,577
2029-2033	14,305	2,663	1,002	1,074	5,560	10,462
2034-2038	6,495	262	1,175	902	7,860	5,502
2039-2043	—	—	1,376	700	9,845	3,464
2044-2048	—	—	1,613	464	9,674	934
2049-2053	—	—	1,892	187	—	—
Total	$ 44,570	$ 9,382	$ 7,913	$ 4,548	$ 49,814	$ 32,585

Year Ending June 30	CWA Luce Bayou ROW Principal	CWA Luce Bayou ROW Interest	CWA Luce Bayou SWIRFT Principal	CWA Luce Bayou SWIRFT Interest	Other Contracts Total Future Requirements Principal	Other Contracts Total Future Requirements Interest
2024	$ 670	$ 570	$ 655	$ 6,815	$ 9,200	$ 11,353
2025	697	542	660	8,367	9,538	13,088
2026	724	514	670	9,918	14,475	14,691
2027	753	484	680	10,694	7,499	15,040
2028	783	454	695	10,889	7,775	14,976
2029-2033	4,412	1,763	3,695	89,999	28,974	105,961
2034-2038	5,365	792	32,310	79,738	53,205	87,196
2039-2043	1,205	24	85,865	42,199	98,291	46,387
2044-2048	—	—	102,410	24,542	113,697	25,940
2049-2053	—	—	68,615	5,390	70,507	5,577
Total	$ 14,609	$ 5,143	$ 296,255	$ 288,551	$ 413,161	$ 340,209

E. Debt Issuances and Refundings

Refunding Debt

For the year ended June 30, 2023, there were no refunding transactions.

Prior Year Defeased Debt

In August 2021, the City issued Public Improvement Refunding Bonds, Series 2021B to defease $106,670,000 of Bonds by placing a portion of new bond proceeds in an escrow to provide for the future debt payments on the defeased bonds. Accordingly, the escrowed assets and the liability for the defeased bonds are not included in the accompanying financial statements. As of June 30, 2023, $95,720,000 of defeased bonds are still outstanding.

In fiscal year 2021, the City issued Combined Utility System First Lien Revenue and Refunding Bonds Series 2020C and Combined Utility System First Lien Revenue Refunding Bonds Series 2020D to defease $208,885,000 of Bonds by placing new bond proceeds in an escrow to provide for the future debt payments on the defeased bonds. Accordingly, the escrowed assets and the liability for the defeased bonds are not included in the accompanying financial statements. As of June 30, 2023, $91,175,000 of defeased bonds are still outstanding.

In fiscal year 2021, the City issued Combined Utility System First Lien Revenue Refunding Bonds Series 2021B to defease $92,070,000 of Series 2012D and 2013B Bonds, by placing new bond proceeds in an escrow to provide for the future debt payments on the defeased bonds. Accordingly, the escrowed assets and the liability for the defeased bonds are not included in the accompanying financial statements. As of June 30, 2023, $41,565,000 of defeased bonds are still outstanding.

F. Bond Compliance Requirements

The revenue bond ordinances require that, during the period in which the bonds are outstanding, the City must create and maintain certain accounts or funds to receive the proceeds from the sale of the revenue bonds and to account for the revenues (as defined), which are pledged for payment of the bonds. The assets can be used only in accordance with the terms of the bond ordinance and for the specific purpose(s) designated therein.

The City is generally required to make a monthly transfer to debt service funds equal to one-sixth of the next interest payment and one-twelfth of the next principal payment. Certain bond ordinances have additional requirements for the establishment of rates and the accumulation of principal and interest repayment amounts from surplus operating funds. Generally, the bonds may be redeemed prior to their maturities in accordance with the bond ordinances and at various premiums equal to or less than 2%. As of and for the year ended June 30, 2023, the City has complied with the requirements of all revenue bond ordinances and related bond restrictions.

G. Voter Authorized Obligations

On November 4, 2001, voters of the City authorized the issuance of $776,000,000 of Public Improvement Bonds. Since June 2002, the City Council has authorized issuance of the entire amount as General Obligation Commercial Paper Series G, H-1 and H-2.

On November 7, 2006, voters of the City authorized the issuance of $625,000,000 of Public Improvement Bonds. The City Council has authorized issuance of $524,950,000 as General Obligation Commercial Paper Series G, H-1, H-2 and J.

On November 2012, voters authorized an additional $410,000,000 of Public Improvement Bonds. The City Council has authorized issuance of $400,308,000 as General Obligation Commercial Paper Series G1, G2, H-2 and J.

On November 2017, voters authorized an additional $495,000,000 of Public Improvement Bonds. The City Council has authorized issuance of $97,966,000 as General Obligation Commercial Paper Series G, H-2 and J.

On November 2022, voters authorized an additional $478,000,000 of Public Improvement Bonds.

H. Legal Debt Margin

At June 30, 2023, the City’s legal debt limit was 10% of assessed property valuation totaling $380,273,903 thousand. The City’s legal debt margin less applicable outstanding debt was $34,821,474 thousand.

I. Arbitrage Rebate

Arbitrage rebate rules, under the Internal Revenue Code Section 148 and related Treasury Regulations, require generally that a tax-exempt bond issuer forward to the federal government any profits made from investing bond proceeds at a yield above the bond yield, when investing in a taxable market. Payments based on cumulative profits earned by bonds are due, in general, every five years. At June 30, 2023, a yield restriction/arbitrage rebate of $23 thousand and $866 thousand was accrued for governmental and business-type activities, respectively.

NOTE 9: LEASES AND SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

A. LEASES

1. City as Lessee

The City has obtained office space, data processing, machinery, and other equipment through long-term leases. The terms and conditions for these leases varies. Some leases are fixed, periodic payments over the lease term, which ranges between 1-50 years. See Note 6 for changes in lease right-of-use assets for the year ended June 30, 2023.

Principal and interest requirements to maturity for the lease liability as of June 30, 2023, are as follows (in thousands):

	General Government			Airport System		
Year ending June 30	Principal	Interest	Total	Principal	Interest	Total
2024	$ 5,607	$ 1,130	$ 6,737	$ 45	$ 1	$ 46
2025	5,741	1,050	6,791	10	—	10
2026	5,850	968	6,818	4	—	4
2027	5,989	884	6,873	4	—	4
2028	5,957	799	6,756	—	—	—
2029-2033	13,452	3,105	16,557	—	—	—
2034-2038	6,311	2,396	8,707	—	—	—
2039-2043	9,053	1,643	10,696	—	—	—
2044-2048	10,340	662	11,002	—	—	—
2049-2050	1,458	8	1,466	—	—	—
Total	$ 69,758	$ 12,645	$ 82,403	$ 63	$ 2	$ 65

	Combined Utility System			Total Primary Government		
Year ending June 30	Principal	Interest	Total	Principal	Interest	Total
2024	$ —	$ —	$ —	$ 5,652	$ 1,131	$ 6,783
2025	—	—	—	5,751	1,050	6,802
2026	—	—	—	5,854	968	6,822
2027	—	—	—	5,993	884	6,877
2028	—	—	—	5,957	799	6,756
2029-2033	—	—	—	13,452	3,105	16,557
2034-2038	—	—	—	6,311	2,396	8,707
2039-2043	—	—	—	9,053	1,643	10,696
2044-2048	—	—	—	10,340	662	11,002
2049-2050	—	—	—	1,458	8	1,466
Total	$ —	$ —	$ —	$ 69,821	$ 12,647	$ 82,468

2. City as Lessor

The Convention and Entertainment leases all of its capital assets to Houston First Corporation, a discretely presented component unit. The agreement is a cancellable lease that is subject to termination in 2026. The capital assets include the George R. Brown Convention Center and the Convention Center Parking Garage, Wortham Theater Center, Jones Hall for the Performing Arts, Theater District Parking Garages, Miller Outdoor Theater, and Talento Bilingue De Houston, among others.

The Airport System leases terminal space (except for regulated leases), aircraft maintenance and overhaul facilities, cargo facilities, hangars, and other structures to air carriers and other tenants under various leases, a majority of which is non-cancellable and terminate no later than July 2058. Certain provisions of the leases provide for fixed and variable rental payments, and all are generally designed to allow the Airport System to meet its debt service requirements and recover certain operating and maintenance costs. In addition, certain of the agreements under which the Airport System receives revenue from the operation of concessions at Intercontinental and Hobby airports provide for the payment of a fee based on the greater of an aggregated percentage of gross receipts or a guaranteed minimum.

For the year ended June 30, 2023, the total amount of inflows of resources recognized are as follows (in thousands):

Governmental

	Fixed Payments
Rentals, bldgs	$ 1,422
	$ 1,422

Enterprise

	Airport System		Convention & Entertainment	
	Fixed Payments	Variable Payments	Fixed Payments	Total
Rentals, bldgs	$ 18,643	$ —	$ 1,444	$ 20,087
Concessions	1,608	30,429	—	32,036
Interest revenue	9,253	—	—	9,253
	$ 29,504	$ 30,429	$ 1,444	$ 61,376

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Principal and interest to maturity for the lease receivable as of June 30, 2023, are as follows (in thousands):

	General Government			Airport System		
Year ending June 30	Principal	Interest	Total	Principal	Interest	Total
2024	$ 801	$ 721	$ 1,522	$ 12,235	$ 8,807	$ 21,042
2025	819	721	1,524	11,548	8,371	19,918
2026	754	690	1,444	11,062	7,968	19,030
2027	764	675	1,439	11,447	7,556	19,003
2028	779	659	1,438	8,584	7,175	15,759
2029-2033	5,510	2,996	8,506	35,988	31,840	67,828
2034-2038	6,311	2,397	8,708	34,317	25,618	59,935
2039-2043	9,053	1,643	10,696	41,194	18,613	59,807
2044-2048	10,340	662	11,002	35,821	11,754	47,575
2049-2053	1,459	8	1,467	37,042	4,628	41,669
2054-2058	—	—	—	8,690	478	9,168
2059-2060	—	—	—	51	—	51
Total	$ 36,590	$ 11,156	$ 47,746	$ 247,979	$ 132,808	$ 380,787

	Convention & Entertainment			Total Primary Government		
Year ending June 30	Principal	Interest	Total	Principal	Interest	Total
2024	$ 1,456	$ 65	$ 1,521	$ 14,492	$ 9,593	$ 24,085
2025	1,482	40	1,522	13,849	9,132	22,965
2026	1,508	14	1,522	13,324	8,672	21,996
2027	799	—	799	13,010	8,231	21,241
2028	—	—	—	9,363	7,834	17,197
2029-2033	—	—	—	41,498	34,836	76,334
2034-2038	—	—	—	40,628	28,015	68,643
2039-2043	—	—	—	50,247	20,256	70,503
2044-2048	—	—	—	46,161	12,416	58,577
2049-2053	—	—	—	38,501	4,636	43,137
2054-2058	—	—	—	8,690	478	9,168
2059-2060	—	—	—	51	—	51
Total	$ 5,245	$ 119	$ 5,364	$ 289,814	$ 144,083	$ 433,897

3. Regulated Leases

The City and United Airlines (“United”), Southwest Airlines (“Southwest”), Delta Air Lines, American Airlines, Spirit Airlines, and Air Canada (collectively, the “Signatory Airlines”) entered into Airport Use and Lease agreements (“Regulated Leases”), for usage of Intercontinental and Hobby Airport facilities for the purpose of conducting business as air transportation businesses. These agreements are non-cancellable and terminate no later than 2042, with options to extend, or month-to-month and cancellable with 30 days’ notice. Under the terms of these agreements, Signatory Airlines pay the Airport System monthly based on the annual rental rate/fee schedule. Rate calculations are based on total estimates of costs and expenses, estimates of passengers and total landed weight, and other factors. Final settlements are made each year after the audit of Airport System Fund’s ACFR. Other airlines operating at Intercontinental and Hobby airports are billed at rates established by the City ordinances.

Under the agreements with United, United has exclusive and preferential use of certain space and facilities of terminals A, B, C, and E at Intercontinental Airport and preferential use of certain apron areas. And under these agreements, all or part of the concession revenues and related costs generated from terminals B, C, and E of Intercontinental Airport are excluded from the Airport System Fund’s concession revenues and operating expenses on the statements of revenues, expenses, and changes in net position, as United operates, retains revenues, and pay related costs of operations for those concessions in accordance with the agreements. In addition, one of the agreements with Southwest grants Southwest preferential use of West Terminal/West Concourse, boarding gates, and other areas at Hobby Airport. Another agreement grants Southwest exclusive and preferential use of certain terminal areas of terminal A at Intercontinental Airport. No other airlines have exclusive or preferential use of more than ten (10) percent of terminal space or other areas of the Airport System as of June 30, 2023.

Exclusive and preferential use of space, as of June 30, 2023, are summarized as follows:

George Bush Intercontinental Airport (IAH)

	United	Southwest	Total IAH
Terminal areas - leasable airline space (in thousands)	2,380 sq. ft.	10 sq. ft.	3,824 sq. ft.
Apron - leasable airline space (in thousands)	2,728 sq. ft.	95 sq. ft.	3,878 sq. ft.
Number of gates and remote stands	96	3	134

William P. Hobby Airport (HOU)

	Southwest	Total HOU
Terminal areas - leasable airline space (in thousands)	381 sq. ft.	468 sq. ft.
Apron - leasable airline space (in thousands)	516 sq. ft.	815 sq. ft.
Number of gates and remote stands	24	30

	(in thousands)	
	Fixed Payments	Variable Payments
United	$ 110,514	$ 42,582
Southwest	$ 38,472	$ 22,039
Other Signatory Airlines	$ 15,441	$ 8,528

Expected future minimum lease payments from Regulated Leases at June 30, 2023, are as follows, projected by management of the Airport System using the following assumptions: 1) revenues earned from the Signatory Airlines during the year ended June 30, 2023, 2) through the expiration of the agreements with the Signatory Airlines or the next five (5) years, whichever is longer, 3) compounded at three (3) percent per annum, and 4) without considering future expansion and changes in operations by the Airport System or the Signatory Airlines (in thousands):

Year ending June 30	Total
2024	$ 242,469
2025	249,743
2026	257,235
2027	235,621
2028	242,689
2029-2033	1,327,125
2034-2038	1,538,501
2039-2043	1,211,046
Total	$ 5,304,429

The Airport System' senior lien and subordinate lien revenue refunding bonds are secured by net revenues earned from the airlines.

B. Subscription-Based Information Technology Arrangements

The City has entered into SBITA involving data center, various desktop and server software, electronic workflows and document management software, public safety radio communication system, public safety detection software, public safety case and records management, solid waste fleet management system, airport operations management systems, airport passenger information and public Wi-Fi systems, and airport parking management system. As of June 30, 2023, all SBITA have fixed, periodic, payments over the subscription periods, which range from 1 to 15 years and expire no later than fiscal year 2038. In addition, certain of these agreements are cancellable with a 30 or 60-day notice. There are no commitments or outflows of resources related to SBITA that are not yet effective. See Note 6 for changes in subscription right-of-use assets for the year ended June 30, 2023.

Future subscription payments as of June 30, 2023, are as follows (in thousands):

	General Government			Airport System		
Year ending June 30	Principal	Interest	Total	Principal	Interest	Total
2024	$ 20,187	$ 1,458	$ 21,645	$ 1,303	$ 94	$ 1,397
2025	19,292	793	20,085	1,325	54	1,378
2026	5,398	483	5,881	88	38	126
2027	4,885	296	5,181	90	35	125
2028	3,383	149	3,532	93	33	126
2029-2033	3,515	18	3,533	516	114	630
2034-2038	—	—	—	478	25	503
Total	$ 56,660	$ 3,197	$ 59,857	$ 3,894	$ 391	$ 4,285

	Total Primary Government		
Year ending June 30	Principal	Interest	Total
2024	$ 21,490	$ 1,552	$ 23,042
2025	20,617	847	21,463
2026	5,486	521	6,007
2027	4,975	331	5,306
2028	3,476	182	3,658
2029-2033	4,031	132	4,163
2034-2038	478	25	503
Total	$ 60,554	$ 3,588	$ 64,142

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NOTE 10: PENSION PLANS

A. General Information

Plan Descriptions

The City has three single employer defined benefit pension plans, which provides pension benefits for substantially all of its full-time employees. These pension plans were established under the authority of Texas statutes (Vernon's Texas Civil Statutes, Articles 6243.e2 (1), 6243h, and 6243g-4), which establish the various benefit provisions. Independent Boards of Trustees administer each plan. The fiscal year of each pension fund ends June 30. The most recent available stand-alone financial statements of the pension funds are for the year ended June 30, 2023. The specific summary plan description for each plan and the financial statements are available at the plan offices (see Note 1.B.1).

Benefits Provided

Houston Firefighters' Relief and Retirement Fund ("HFRRF"): Prior to July 1, 2017, retirement benefits for firefighters with 20 or more years of service are entitled to 50% of average salary (defined as the monthly average of their highest individual 78 pay periods) for a total monthly pension not to exceed 80% of the average monthly salary for the highest 78 pay periods. After July 1, 2017, benefits accrue at 2.75% per year prior to 20 years of service and 2% thereafter for those hired prior to July 1, 2017. For those hired after that date, 2.25% is accrued per year, up to 20 years of service and 2% thereafter, subject to a maximum of 80%. Benefits are adjusted annually for a cost-of-living adjustment between 0% and 4% for eligible members. A DROP is available to eligible members with 20 or more years of service that were hired prior to July 1, 2017.

Houston Municipal Employees' Pension System ("HMEPS"): The plan includes three contributory groups and provides for service-connected disability and death benefits to eligible members and surviving spouse and/or dependents, with no age or service eligibility requirements. Pension benefits are based on a participant's average monthly salary and years of debited service, as defined in the Pension Statute. Pension benefits are adjusted annually for a cost-of-living adjustment of between 0% and 2%, depending on investment returns. The maximum pension benefit is 90% of the participant's average monthly salary. A Deferred Retirement Option Plan ("DROP") is available to eligible members.

In March 2022, employees of Houston First Corporation ("HFC"), a component unit of the City, were determined to be eligible to participate in HMEPS based on a settlement agreement between the City and HMEPS. Per the settlement agreement, HFC made a lump-sum contribution of $16.0 million to HMEPS and started making employer contributions in accordance with the plan provisions effective January 1, 2022.

Houston Police Officers' Pension System ("HPOPS"): Retirement benefits for police officers are equal to 2.75% of the member's pensionable pay for each of the member's first 20 years of service plus 2% of pensionable pay for each year more than 20 years with no maximum percentage. Members hired or rehired after October 9, 2004 accrue benefits equal to 2.25% of the member's pensionable pay for the first 20 years plus 2% of the member's pensionable pay for each year in excess of 20 years, subject to a maximum of 80%. Pension benefits are adjusted annually for a cost-of-living adjustment between 0% and 4%. A DROP is available, generally, to members hired before October 9, 2004, for eligible members with at least 20 years of service.

Contributions

Employer and employee obligations to contribute, as well as employee contribution rates, are included in the enabling pension statutes. Additionally, these laws provide that employer funding be based on annual actuarial valuations. There are three contributory pension plans. All pension plans provide service, disability, death, and survivor benefits. In addition, each pension plan recognizes participant and employer contributions as revenues in the period in which they are due pursuant to formal commitments and recognizes benefits and refunds when they are due and payable in accordance with the terms of the pension statutes.

As of the most recent measurement date of the net pension liability, membership data for the pension plans are as follows:

	HFRRF	HMEPS	HPOPS
Inactive members or beneficiaries currently receiving benefits	3,490	11,776	5,082
Inactive members entitled to but not yet receiving benefits	144	8,301	78
Active members	3,029	11,402	5,198
DROP members	631	–	–
Total plan members	7,294	31,479	10,358

B. Net Pension Liability (Asset)

The Net Pension Liability ("NPL") or Net Pension Asset ("NPA") is the difference between the Total Pension Liability ("TPL") and the plan's Fiduciary Net Position ("FNP"). The TPL is the present value of pension benefits that are allocated to current members due to past service by entry age normal actuarial cost method. The TPL includes benefits related to projected salary and service, and automatic cost of living adjustments ("COLAs"). In addition, ad hoc COLAs are also included in the TPL to the extent they are substantively automatic. The FNP is determined on the same basis used by the pension plans. The City's TPL, NPL, and certain sensitivity information are based on an actuarial valuation performed as of July 1, 2022, or 2023. See actuarial assumptions in Note 10.H. The total pension liability was rolled forward from the valuation date to the measurement date of June 30, 2023, as applicable, using generally accepted actuarial principles.

Net pension liability (in thousands)	HFRRF	HMEPS	HPOPS
Measurement date	June 30, 2023	June 30, 2023	June 30, 2023
Total pension liability	$ 5,167,589	$ 5,698,777	$ 7,892,171
Less: Fiduciary net position	(5,109,178)	(4,072,345)	(7,208,455)
Net pension liability (asset)	$ 58,411	$ 1,626,432	$ 683,716

A schedule of Net Pension Liability (Asset), in addition to the information above and multi-year trend information, is presented in the Required Supplementary Information section on pages 158 through 161.

C. HMEPS - Allocation between the Primary Government and Component Unit and Explanation on the Amounts Reported on the Government-Wide Financial Statements

Effective January 1, 2022, employees of HFC became members of HMEPS. As of June 30, 2023, net pension liability, related amounts of deferred outflows and inflows of resources, and pension expense, allocated based on each's proportional share of employer contributions, for the primary government and its component unit are as follows (in thousands):

	HMEPS as of June 30, 2023 Measurement Date			
	Primary Government		Component Unit (1)	
	Governmental Activities	Business-Type Activities	Business-Type Activities	Total
Net pension liability	$ 1,133,680	$ 466,497	$ 26,255	$ 1,626,432
Deferred outflows of resources	11,829	14,596	20,273	46,698
Deferred inflows of resources	175,933	68,046	3,515	247,494
Pension expense	38,670	20,447	10,102	69,219

(1) Amounts for HFC, which has a calendar year-end, will be reported in the separately issued financial statements of HFC as of and for the year ending December 31, 2023.

	HMEPS as of June 30, 2023 Reporting Date			
	Primary Government		Component Unit (2)	
	Governmental Activities	Business-Type Activities	Business-Type Activities	Total
Net pension liability	$ 1,133,680	$ 466,497	$ 11,069	$ 1,611,246
Deferred outflows of resources	11,829	14,596	13,350	39,775
Deferred inflows of resources	175,933	68,046	2,562	246,541
Pension expense	38,670	20,447	8,291	67,408

(2) Due to the difference in the year-end dates, amounts for HFC, included in the City's government-wide financial statements as of and for the year ended June 30, 2023, are as of and for the year ended December 31, 2022. Amounts reported by HFC as of and for the year ended December 31, 2022, were measured as of June 30, 2022.

D. Schedule of Changes in Net Pension Liability (Asset)

Changes in the City's NPL/NPA presented below are calculated on the same basis as each of the plans. The Changes in NPL/NPA for HFRRF, HMEPS, and HPOPS for the ended June 30, 2023, are as follows:

HFRRF

Changes in Net Pension Liability (Asset) (in thousands)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Service Cost	$ 55,961	$ –	$ 55,961
Interest on the Total Pension Liability	353,824	–	353,824
Difference between Expected and Actual Experience	77,461	–	77,461
Employer Contributions	–	72,475	(72,475)
Employee Contributions	–	31,973	(31,973)
Net Investment Income	–	199,670	(199,670)
Benefit Payments	(283,095)	(283,095)	–
Administrative Expense	–	(4,482)	4,482
Other	–	(1,099)	1,099
Net Change	204,151	15,442	188,709
Net Pension Liability (Asset) Beginning	4,963,438	5,093,736	(130,298)
Net Pension Liability (Asset) Ending	$ 5,167,589	$ 5,109,178	$ 58,411

HMEPS

Change in Net Pension Liability (in thousands)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Service Cost	$ 85,184	$ –	$ 85,184
Interest on the Total Pension Liability	381,016	–	381,016
Difference between Expected and Actual Experience	6,279	–	6,279
Employer Contributions	–	204,895	(204,895)
Employee Contributions	–	34,600	(34,600)
Net Investment Income	–	221,364	(221,364)
Assumptions Changes	–	–	–
Benefit Payments	(334,859)	(334,859)	–
Refunds	(989)	(989)	–
Administrative Expense	–	(5,636)	5,636
Other	–	619	(619)
Net Change	136,631	119,994	16,637
Net Pension Liability Beginning	5,562,146	3,952,351	1,609,795
Net Pension Liability Ending	$ 5,698,777	$ 4,072,345	$ 1,626,432

HPOPS

Change in Net Pension Liability (in thousands)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Service Cost	$ 78,356	$ –	$ 78,356
Interest on the Total Pension Liability	520,211	–	520,211
Difference between Expected and Actual Experience	94,532	–	94,532
Employer Contributions	–	159,915	(159,915)
Employee Contributions	–	52,399	(52,399)
Net Investment Income	–	525,053	(525,053)
Assumptions Changes	–	–	–
Benefit Payments	(384,367)	(384,367)	–
Refunds	(2,295)	(2,295)	–
Administrative Expense	–	(4,238)	4,238
Net Change	306,437	346,467	(40,030)
Net Pension Liability Beginning	7,585,734	6,861,988	723,746
Net Pension Liability Ending	$ 7,892,171	$ 7,208,455	$ 683,716

E. Pension Expense (Benefit)

For the year ended June 30, 2023, the City recognized pension expense (benefit) totaling $89.9 million. Pension expense (benefit) recognized by each plan is as follows (in thousands):

Amounts Recognized in Pension Expense (Benefit)	HFRRF	HMEPS	HPOPS
Service Cost	$ 55,961	$ 85,184	$ 78,356
Interest	353,824	381,016	520,211
Difference between Expected and Actual Experience	(14,724)	(1,966)	41,298
Changes of Assumptions	33,289	(7,828)	2,026
Differences between Projected and Actual Earnings	(43,776)	(84,487)	(94,396)
Member Contributions	(31,973)	(34,600)	(52,399)
Projected Earnings on Plan Investments	(362,734)	(273,117)	(474,089)
Administrative Expense	4,482	5,636	4,238
Other	1,099	(619)	—
Total Pension Expense (Benefit)	$ (4,552)	$ 69,219	$ 25,245

F. Schedule of Deferred Outflows and Inflows of Resources

Deferred outflows of resources and deferred inflows of resources by source reported by the City on June 30, 2023, for each plan are as follows (in thousands):

	HFRRF		HMEPS		HPOPS		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	$ 127,705	$ (163,817)	$ 16,971	$ (3,173)	$ 165,016	$ (11,476)	$ 309,692	$ (178,466)
Changes in Assumptions	88,578	(108,363)	–	(13,860)	–	(5,103)	88,578	(127,326)
Net Difference between Projected and Actual Earnings	–	(20,559)	–	(200,734)	–	(172,277)	–	(393,570)
Change in Proportion	–	–	29,727	(29,727)	–	–	29,727	(29,727)
Total	$ 216,283	$ (292,739)	$ 46,698	$ (247,494)	$ 165,016	$ (188,856)	$ 427,997	$ (729,089)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2023, will be recognized in pension expense as follows (in thousands):

Year Ending June 30:	HFRRF	HMEPS	HPOPS	Total
2024	$ (32,957)	$ (87,864)	$ (72,241)	$ (193,062)
2025	(110,906)	(150,225)	(135,866)	(396,997)
2026	72,539	26,942	143,458	242,939
2027	(7,772)	10,351	17,720	20,299
2028	(5,040)	–	17,719	12,679
Thereafter	7,680	–	5,370	13,050
Total	$ (76,456)	$ (200,796)	$ (23,840)	$ (301,092)

A single discount rate of 7.00% was used to measure the TPL for the HMEPS and the HPOPS. This single discount rate was based on the expected rate of return on the respective pension plan's investments of 7.00% and the current municipal bond rate was not applicable. The projection of cash flows used to determine this single discount rate assumed that respective plan member contributions will be made at the current contribution rate and that City contributions will be made at the rate determined actuarially in the annual Risk Sharing Valuation Study which would become effective in the fiscal year beginning one year after the study date. Based on these assumptions, the respective pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, a single discount rate of 7.00% was applied to all periods of projected benefit payments to determine the total pension liability. For the June 30, 2023, measurement date, the single discount rate used was 7.00% for each of the plans.

The discount rate used to measure HFRRF's TPL was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions to the plan will continue to follow the current funding policy. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members for all future years. Therefore, a single discount rate of 7.25% was applied to all periods of projected benefit payments to determine the total pension liability. For the June 30, 2023, measurement date, the single discount rate of 7.25% was used.

G. Sensitivity of the net pension liability to changes in the discount rate

The following presents the NPL/NPA for each of the City's plans as of June 30, 2023, calculated using the discount rate, as well as what the City's NPL would have been if it were calculated using a discount rate that is 1-percent-point lower and 1-percent-point higher than the current rate (in thousands):

	Net Pension Liability (Asset)		
	1% Decrease	Current Discount Rate	1% Increase
	6.25 %	7.25 %	8.25 %
HFRRF - Net Pension Liability (Asset)	$ 582,690	$ 58,411	$ (375,010)
	6.00 %	7.00 %	8.00 %
HMEPS - Net Pension Liability	$ 2,202,979	$ 1,626,432	$ 1,141,455
	6.00 %	7.00 %	8.00 %
HPOPS - Net Pension Liability	$ 1,494,498	$ 683,716	$ 17,628

H. Actuarial Assumptions

Schedule of Assumptions	HFRRF	HMEPS	HPOPS
Inflation	3.00%	2.25%	2.30%
Salary Changes	3%	3.25% to 5.50%	0% to 30%, plus a 3.25% inflation and productivity component
Investment Rate of Return	7.25%	7.00%	7.00%
Valuation Date	7/1/2022	7/1/2022	7/1/2023
Actuarial Cost Method	Entry Age Normal Cost	Entry Age Normal Cost	Ultimate Entry Age Normal Cost
Amortization Method	Level Percent of Payroll	Level Percent of Payroll, Open	Level Percent of Payroll, 30 year closed laddered bases
Amortization Period	30 Years	25 Years	24 Years
Asset Valuation Method	Market value	5 Year smoothed market, direct offset of deferred gains and losses	Market value of assets less a five-year phase in of the excess (shortfall) between expected investment return and actual income.
Cost-of-Living Adjustments	2.5%	3% – 6%	2.0%
Mortality Assumption	Mortality Improvement Scale MP-2019	PUB-2010 table, amount weighted, below-median income, with a 2-year set forward. The rates are then projected on a fully generational basis by the long-term rates of improvement of scale MP-2020.	RP-2020 Table combined healthy mortality tables with blue collar adjustment for males and no collar adjustment for females
Experience Study	6/30/2019	6/30/2020	6/30/2017

The long-term expected rate of return on the investments was supported using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2023, are summarized in the following table:

	HFRRF		HMEPS		HPOPS	
Asset Class	**Target Allocation**	**Long-term Expected Rate of Return**	**Target Allocation**	**Long-term Expected Rate of Return**	**Target Allocation**	**Long-term Expected Rate of Return**
Cash & Short-term	2.00 %	3.31 %	— %	3.65 %	(9.75)%	0.70 %
Domestic Equity	19.00	8.99	28.00	6.75	28.80	6.30
International Equity	19.00	9.44	—	—	19.20	3.70
Fixed Income	—	—	10.00	5.10	10.20	1.80
Aggregate Bonds	5.00	4.45	—	—	—	—
Inflation Linked	—	—	20.00	7.73	—	—
Intermediate Credit	3.00	4.93	—	—	5.80	5.20
Intermediate High Yield	5.00	8.66	—	—	—	—
Hedge Funds	2.00	6.55	—	—	7.75	4.30
Private Equity	25.00	14.39	17.00	9.60	21.50	11.70
Private Debt	10.00	8.09	12.50	8.20	6.50	6.90
Real Estate	10.00	7.72	12.50	7.95	10.00	6.00
	100.00 %		100.00 %		100.00 %	

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NOTE 11: OTHER EMPLOYEE BENEFITS

The City's Other Post-Employment Benefit ("OPEB") plans consist of a health benefit plan and a long-term disability plan. As of and for the year June 30, 2023, total balances of OPEB related assets, deferred outflows of resources, liabilities, deferred inflows of resources, and expenses are as follows (in thousands):

Plan	Total OPEB Liabilities	Deferred Outflows of Resources	Deferred Inflows of Resources	Expenses
Health Benefit (Note 11.A)	$ 1,759,895	$ 303,950	$ 873,497	$ 2,626
Long-term Disability (Note 11.C)	14,071	2,956	4,564	2,019
Total	$ 1,773,966	$ 306,906	$ 878,061	$ 4,645

A. Post-Employment Health Insurance Benefits Plan

The City's OPEB Health Benefit plan is a single-employer plan, and calculations are based on the OPEB benefits provided under the terms of the plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point.

The City provides certain health care benefits for retired employees as approved during the annual budget process. Substantially all the City's employees become eligible for these benefits if they reach normal retirement age while working for the City. The City is not required by law or contractual agreement to provide funding for OPEB other than pay-as-you-go amounts necessary to provide current benefits to retirees, eligible dependent, and beneficiaries. The plan is not accounted for as a trust, and an irrevocable trust that meets the criteria of GASB codification P22.101 or P52.101 to pay related benefits has not been established for this OPEB plan. The cost of retiree health care premiums incurred by the City (employer and subscriber) amounted to approximately $56.5 million for the year ended June 30, 2023.

1. Membership

   Membership data is updated every two years by the Actuary. As of the most recent actuarial valuation of the total OPEB liability, membership data is as follows:

Retirees and beneficiaries currently receiving	10,175
Active members	20,954
Total participants	31,129

2. Total and Net OPEB Liability

   The total OPEB liability was measured as of June 30, 2022. The total OPEB liability was determined from an actuarial valuation as of June 30, 2022. The net OPEB liability is the total OPEB liability less the plan fiduciary net position. The total OPEB liability is the present value of all future benefit payments for current retirees and active employees, considering assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions (in thousands).

Measurement Date:	June 30, 2022
Reporting Date:	June 30, 2023
Total OPEB Liability	$ 1,759,895
Less: Fiduciary Net Position	–
Net OPEB Liability	$ 1,759,895

A schedule of Total OPEB Liability, in addition to the information above, includes multi-year trend information, is presented in the Required Supplementary Information section on page 162 through 164.

3. Schedule of Changes in Total OPEB Liability

Changes of assumption reflects a change in discount rate from 2.16% in 2021 to 3.54% in 2022. In addition, per capita health costs and future trend on such costs, as well as actuarial spread factors used to estimate individual retiree and spouse costs by age and by gender, have been updated. Changes in total OPEB liability for the year ended June 30, 2023, are as follows (in thousands):

Change in Total OPEB Liability	
Service cost	$ 124,690
Interest	52,553
Change of benefit terms	—
Difference between expected and actual experience	23,213
Changes of assumptions	(720,476)
Benefit payments	(56,511)
Net change in total OPEB liability	(576,531)
Beginning total OPEB liability	2,336,426
Ending total OPEB liability	$ 1,759,895

4. OPEB Expense

For the year ended June 30, 2023, the City recognized OPEB expense of $2.6 million. OPEB expense recognized is as follows (in thousands):

Components of OPEB Expense (Benefit)	
Service cost	$ 124,690
Interest	52,553
Current-period benefit changes	—
Difference between expected and actual experience	3,316
Changes of assumptions	(102,925)
Amortization of beginning of year deferred amounts	(75,008)
OPEB expense (benefit)	$ 2,626

5. Schedule of Deferred Outflows and Inflows of Resources

Deferred outflows and inflows of resources related to OPEB reported by the City at June 30, 2023, is as follows (in thousands):

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Changes of assumptions	$ 220,498	$ (796,552)
Difference between expected and actual experience in the total OPEB liability	19,896	(76,945)
Contributions subsequent to the measurement date	63,556	—
Total	$ 303,950	$ (873,497)

$63.6 million reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2024.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to total OPEB liability at June 30, 2023, will be recognized in OPEB expense (benefit) as follows (in thousands):

Year Ending June 30		
2024	$	(174,617)
2025		(128,023)
2026		(81,835)
2027		(55,785)
2028		(93,234)
Thereafter		(99,609)
Total	$	(633,103)

6. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rate

The following presents the total OPEB liability, calculated using the discount rate and the healthcare cost trend rate, as well as what the City's total OPEB liability would have been if it were calculated using a discount rate or healthcare cost trend rate that is 1-percent-point lower and 1-percent-point higher than the current rate (in thousands):

1% Decrease 2.54%	Current Discount Rate 3.54%	1% Increase 4.54%
$ 2,057,272	$ 1,759,895	$ 1,524,711

1% Decrease in Health Care Cost Trend Rates	Current Health Care Cost Trend Rates	1% Decrease in Health Care Cost Trend Rates
$ 1,490,595	$ 1,759,895	$ 2,111,265

7. Schedule of Assumptions

The total OPEB liability is based on an actuarial valuation as of June 30, 2022, using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Experience study	July 1, 2018
Inflation	2.25%
Salary increases	2.75% to 22.75%, varies by job classification, service and age
Discount rate	3.54% and 2.16% for June 30, 2022 and 2021 reporting, respectively
Measurement date	June 30, 2022
Healthcare costs trends rates	
Medical	7.00% grading down to 4.5% by 0.25% per annum
Prescription drug	8.00% grading down to 4.5% by 0.25% per annum
Medicare Advantage	1.80% grading down to 4.5% by 0.25% per annum
Administrative costs	2.00%
Healthy mortality rates	Rates that vary by job classification and employee status. The rates are consistent with the pension plans valuation assumptions for the same employees.

B. Health Benefits Internal Service Fund

On May 1, 2019, the City awarded CIGNA a five-year contract with two (2) one-year renewal options for 3 new health plans. All have an emphasis on a wellness component and include: 1) a limited network HMO-type plan, 2) an open access PPO-type plan with out-of-network coverage, and 3) a consumer driven high deductible health plan, partnered with a health reimbursement account.

Premiums paid (employer and subscriber) for current employees to third party administrators including claim liability totaled $304.2 million for the year ended June 30, 2023.

CIGNA
Schedule of Changes in Liability
(in thousands)

	June 30, 2023	June 30, 2022
Beginning actuarial estimate of claims liability reserve, July 1	$ 28,316	$ 27,483
Catastrophic claims reserve, July 1	15,000	15,000
Incurred claims for fiscal year	320,999	336,357
Payments on claims - net of RX rebates and refunds	(321,681)	(335,524)
Ending actuarial estimate of claims liability including catastrophic claims liability, June 30	$ 42,634	$ 43,316

C. Long-Term Disability Plan

The long-term disability (“LTD”) plan, with related contributions and benefit payments accounted for as an internal service fund, is a part of the City’s Compensable Sick Leave Plan (“CSL”) and is provided at no cost to City employees who are members of CSL. Coverage is effective the later of September 1, 1985, or upon completion of one year of continuous service. When an employee cannot work because of injury or illness, the plan provides income equal to 50% of base pay plus longevity or 70% of base plus longevity when combined with income benefits available from other sources. Plan benefits may be payable after all CSL scheduled sick leave benefits, including frozen sick leave days, have been used, however, not before six months absence from work. The plan is administered by Reed Group, which is reimbursed from the internal service fund for claims as they are paid along with a fee for administrative services. For the year ended June 30, 2023, claims paid totaled approximately $0.9 million. Effective September 1, 2001, the Meet and Confer Agreement establishes Paid Time Off for classified police officers. This replaces those police officers’ participation in the LTD plan. No assets are accumulated in a trust that meets the criteria of GASB codification P22.101 or P52.101 to pay related benefits for this OPEB plan.

1. Changes in Total OPEB Liability (in thousands)

	Total OPEB Liability
Balance at 06/30/2022	$ 14,170
Changes for the year	
Service cost	1,571
Interest	541
Experience	(965)
Assumption changes	(326)
Benefit payments	(920)
Net change	(99)
Balance at 06/30/2023	$ 14,071

Total OPEB liability at June 30, 2023, was measured as of June 30, 2023. And total OPEB liability of $14.1 million includes $8.2 million for active employees and $5.9 million for disabled employees. Changes of assumption reflects a change in discount rate from 3.54% in 2022 to 4.13% in 2023.

2. OPEB expense for the year ended June 30, 2023, is $2.0 million. Components of OPEB expense for the year ended June 30, 2023, are as follows (in thousands):

Service cost	$	1,571
Interest		541
Differences between expected and actual experience		(340)
Changes in assumptions		247
Total OPEB expense	$	2,019

3. Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2023, the City reports deferred outflows of resources and deferred inflows of resources related to the LTD plan from the following sources (in thousands):

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual experience	$	692	$	(3,610)
Changes in assumptions		2,264		(954)
	$	2,956	$	(4,564)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

Year Ending June 30		
2024	$	(92)
2025		(92)
2026		(92)
2027		(92)
2028		(81)
Thereafter		(1,159)
	$	(1,608)

4. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate (in thousands)

The following presents the total OPEB liability, calculated using the discount rate of 4.13%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1 percentage-point higher than the current rate:

	1% Decrease 3.13%		Current Discount Rate of 4.13%		1% Increase 5.13%	
Total OPEB Liability	$	14,622	$	14,071	$	13,517

The last experience study for the LTD plan was performed as of July 1, 2018.

D. Deferred Compensation Plan

The City offers its employees a deferred compensation plan (the “DCP”), created in accordance with Internal Revenue Code Section 457 as a separately administered trust. The DCP, available to all City employees, permits employees to defer a portion of their salary until future years. The City does not make any matching or discretionary contributions to the DCP. The DCP is considered as an other employee benefit plan in accordance with paragraph 6 of GASBS No. 97. And the DCP is not considered as a fiduciary activity of the City under the provisions of GASBS No. 84. The deferred compensation funds are not available until termination, retirement, death, or unforeseeable emergency. However, the Plan now offers loans to participant employees. The maximum loan amount is the lesser of $50,000 or 50% of the total account balance, less any outstanding loans. The minimum loan amount is $1,000. The DCP’s assets are not subject to the City’s general creditors and are not included in the accompanying financial statements.

E. Workers' Compensation Self-Insurance Plan

The City has established a Workers' Compensation Self-Insurance Plan, accounted for within the various operating funds. This plan is administered by TriStar Insurance Group, Inc. Funds are wire transferred to TriStar as needed to pay claims.

As of June 30, 2023, the City has an accumulated liability in the amount of approximately $146.2 million, covering estimates for approved but unpaid claims and incurred but not reported claims (calculated on an actuarial basis), recorded in the accompanying Statement of Net Position.

Schedule of Changes in Liability (in thousands)

	June 30, 2023	June 30, 2022
Beginning actuarial estimate of claims liability, July 1	$ 148,698	$ 135,520
Incurred claims for fiscal year	24,704	45,743
Payments on claims	(19,200)	(32,400)
Actuarial adjustment	(8,000)	(165)
Ending actuarial estimate of claims liability, June 30	$ 146,202	$ 148,698

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NOTE 12: INTERFUND TRANSACTIONS

A. Transfers

Transfers during the year ended June 30, 2023, were as follows (in thousands):

	Transferred to:					
Transferred from:	General Fund	Debt Service Fund	Capital Projects Fund	Grants Fund	Nonmajor Governmental Funds	Total Transfers Out
General Fund	$ —	$ 380,019	$ 10,426	$ —	$ 91,743	$ 482,188
Capital Projects Fund	—	2,599	—	399	740	3,738
Grants Fund	1,694	530	2,277	—	90	4,591
Nonmajor Funds	19,829	4,591	134,473	—	630	159,523
Convention and Entertainment	1,522	—	—	—	—	1,522
Combined Utility System	49,147	4,899	—	—	350	54,396
Total transfers in	$ 72,192	$ 392,638	$ 147,176	$ 399	$ 93,553	$ 705,958

Transfers are used to (1) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (3) use unrestricted revenues in the Combined Utility and non-major revenue fund to finance general fund programs.

B. Schedule of Amounts Due To and Due From Other Funds

The interfund balances are primarily due to charges for services between funds during the fiscal year and settled shortly after year-end. The composition of interfund balances as of June 30, 2023, is as follows (in thousands):

	Payable fund:							
Receivable fund:	General Fund	Capital Projects	Grants	Nonmajor	Airport System	Combined Utility	Internal Service	Total
General	$ —	$ 21,209	$ 2,306	$ 5,395	$ 608	$ 37,750	$ 83	$ 67,351
Capital Projects	7,488	—	4,210	—	—	—	—	11,698
ARPA	11	—	—	—	—	—	—	11
Grants	278	—	—	3	—	—	—	281
Nonmajor	343	—	160	53	1	95	—	652
Airport System	245	—	—	314	—	—	—	559
Combined Utility	1	—	—	8	—	—	—	9
Internal Service	—	—	—	—	—	—	—	—
Total	$ 8,366	$ 21,209	$ 6,676	$ 5,773	$ 609	$ 37,845	$ 83	$ 80,561

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NOTE 13: COMMITMENTS AND CONTINGENCIES

A. Litigation and Claims

Claims and judgments at June 30, 2023, consist of the following (in thousands):

	Governmental Activities	Business-Type Activities	Total
Health benefits (Note 11.B)	$ 42,634	$ –	$ 42,634
Workers' compensation (Note 11.F)	137,218	8,984	146,202
Other workers' compensation	2,274	–	2,274
Litigation and claims	7,163	–	7,163
Environmental liabilities	18,231	–	18,231
Total claims and judgments	$ 207,520	$ 8,984	$ 216,504

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its governmental and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits and claims alleging that the City caused personal injuries and/or wrongful deaths; class actions and other lawsuits and claims alleging discriminatory hiring and promotional practices and certain civil rights violations arising under the Federal Voting Rights Act; various claims from contractors for additional amounts under construction contracts; and claims involving property 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. There is other threatened litigation for which an amount cannot be determined. The City typically utilizes the General Fund to liquidate claims and judgments.

Propositions

In 2004, Houston voters approved two ballot propositions limiting City revenue growth. Proposition 1 generally limits annual growth in property tax revenues to the lesser of the actual revenues collected in the preceding fiscal year, plus 4.5 percent, or the allowable property tax revenues in the previous fiscal year, plus the cumulative combined rates of inflation and the City’s population growth. With the exception of grant monies, revenue received from other governmental entities and interfund transfers, Proposition 2 caps growth in all City revenues, including the General Fund, Special Revenue Funds and Enterprise Funds (combined revenues). Proposition 2 would require a 60 percent vote at a regular election before the City could increase combined revenues over the combined revenues for the preceding fiscal year as adjusted for rates of change in the consumer price index and population growth. Any combined revenues collected by the City in excess of the Proposition 2 restriction would be placed in a taxpayer relief fund. Although both propositions received a majority of votes in the 2004 election, the City declared that Proposition 2 was not effective because Proposition 1 received the higher number of favorable votes.

Supporters of Proposition 2 filed a lawsuit to declare Proposition 2 effective. After protracted litigation, on August 26, 2011, the Texas Supreme Court vacated the judgment of the trial court (for lack of ripeness) without reference to the merits and dismissed the case for want of jurisdiction. In April 2014, the suit was refiled. The court granted the City Defendant’s Motion for Summary Judgment on September 16, 2019, and denied plaintiffs’ Motion for Summary Judgment. On October 4, 2019, the trial court held a bench trial on the remaining issues. On October 29, 2019, the trial court held for the City Defendants, ordering that the plaintiffs take nothing. The parties cross appealed and the case has been fully briefed. Oral arguments were held on June 2, 2021. On October 12, 2021, the court of appeals issued a 2-1 decision affirming the trial court’s ruling. The remaining plaintiff filed a petition for review. The Supreme Court asked for briefing, which has been filed by all parties. The parties await a final decision from the Supreme Court granting or denying review.

In 2007, Houston voters approved several ballot propositions including Proposition G, which eliminated some of the most serious concerns created by the potential application of Proposition 2 by revising how the City's revenues limited by the Charter would be calculated (including the removal of the revenues of the City's Enterprise Funds from the revenues limited by the City Charter), and Proposition H, which allowed the City to raise revenues for police, fire, and emergency services in excess of the revenues allowed under any revenue limitations contained in the City Charter.

Wastewater Treatment and Collection System

In 2013, the City commenced formal negotiations with the U.S. Environmental Protection Agency ("EPA") and the U.S. Department of Justice ("DOJ") (collectively, the "United States") on a draft Clean Water Act consent decree relating to the City's Wastewater Treatment and Collection System (the "Collection System") that would contain specific remedial measures to address sanitary sewer overflows ("SSOs") and wastewater treatment plant permit exceedances and mitigate against future occurrences. The State of Texas (the "State") later joined in the negotiations and resolution of this matter. Before the EPA, DOJ, State and the City could complete the consent decree negotiations, a citizen group called Bayou City Waterkeeper ("BCW") notified the City in July 2018 of BCW's Notice of Intent to Sue ("NOI") the City on the same matters being addressed in the consent decree negotiations with the United States and the State. In response to the threatened citizen suit, the United States and the State filed a suit against the City first in the United States District Court for the Southern District of Texas (Civil Action No. 4:18-cv-03368) – on September 20, 2018 – which the City believed precluded BCW under federal law from filing a separate suit on the same matters. The United States also requested that the Court stay the United States' and State's proceeding to allow the parties to complete the settlement negotiations, and the Court granted the motion to stay. BCW also ultimately intervened in the United States' September 20, 2018, lawsuit as allowed by the Clean Water Act. In addition, and notwithstanding the United States' suit, BCW filed a separate action (also in the United States District Court for the Southern District of Texas; Civil Action No. 4:18-cv- 03369) on the next day – September 21, 2018 – which was ultimately dismissed with prejudice.

Following filing of the lawsuit on September 20, 2018, the United States, State and City continued settlement negotiations, which resulted in an agreement between those parties on a proposed consent decree (the "Consent Decree"). On July 24, 2019, City Council, by ordinance, approved the Consent Decree and payment of $4.4 million in penalties to the State and United States, and $200,000 in attorney fees to the State to resolve all civil claims of the federal government and the State against the City for alleged wastewater violations since 2005. The City signed the Consent Decree on July 26, 2019, and after execution by federal and state officials, the Consent Decree was lodged with the federal District Court on August 27, 2019. Notice of the lodging of the Consent Decree was published in the Federal Register on September 3, 2019, which opened a 30-day period (until October 14, 2019) for the submission of public comments to the United States on the Consent Decree; on October 9, 2019, however, the United States extended the public comment period on the Consent Decree until November 8, 2019. Notice of the Consent Decree was published in the Texas Register on September 13, 2019, which opened a 30-day period (until October 14, 2019) for the submission of public comments to the State of Texas on the Consent Decree. The public comment periods for the State and United States closed on October 14, 2019, and November 8, 2019, respectively. On August 7, 2020, the United States and the State filed a motion to enter the Consent Decree with the Court, including the response to comments that were submitted concerning the Consent Decree. After reviewing the motion, comments, and any other pleadings in support of or opposing entry of the Consent Decree, the Court signed an Order on March 31, 2021 approving the Consent Decree as lodged on August 27, 2019, and entered the Consent Decree as a final judgment on April 1, 2021. The City has posted a copy of the Consent Decree and related documents on its website at https://www.houstonpublicworks.org/wastewater-cd.

While the total amount of the investment to be made in the wastewater system will not be known until the City completes the assessment work to identify the condition and remedial measures needed, it is estimated that the City may be required to invest an additional $2 billion over 15 years to upgrade the wastewater system pursuant to the Consent Decree.

In fiscal year 2019, the City engaged a utility rate consultant to review the water and wastewater cost of service and rate design, and water and wastewater impact fee update, which among other things, took into account the additional investment requirements in the then-proposed Consent Decree. The City sought court validation of the water and wastewater rates excluding contract rates and on October 4, 2021, a final judgment was entered by a Travis County District Court validating the water and wastewater rates for which the City sought validation.

Other than the costs identified above that have been paid for resolution of all civil claims of the federal government and the State against the City for alleged wastewater violations since 2005, the City cannot predict the total financial impact on current and future long-term operations, annual maintenance and/or capital improvements costs that may be required, which could be substantial.

The Consent Decree terms cause stipulated penalties to accrue in certain situations; the City has paid to the United States and Texas $1,442,600 in stipulated penalties for SSOs and wastewater treatment plant permit exceedances that occurred during the seven (7) quarters since the operation under the Consent Decree, which was expected as it takes time to correct the defects in the City's wastewater system. It is unclear at this time the total amount of stipulated penalty monies that may be demanded from the City over the life of the Consent Decree. The City continues to manage the its wastewater system, including Consent Decree commitments, through capital investments, maintenance, and assessment activities. These activities include enhanced sewer cleaning; renewal, rehabilitation, and consolidation of lift stations; restaurant inspections; lift station and wastewater treatment plant inspections and investigations; SSO response; and public outreach and education.

Drainage Utility Fee

In 2011, City Council passed an ordinance that imposed an assessment upon benefited properties that receive drainage services (the "Drainage Utility Fee") to assist with the provision, maintenance and improvement of the City's drainage and street drainage systems. Certain properties are exempt from the Drainage Utility Fee, including State government agency facilities, public and private institutions of higher education, and churches existing at the time of passage. Exempt properties comprise approximately 2.55% of the drainage service area.

The Drainage Utility Fee is deposited into a segregated drainage account in the "Dedicated Pay-As-You-Go Fund for Drainage and Streets" (the "Pay-As-You-Go Fund"), which also includes ad valorem tax revenue, certain grants, and a developer impact fee. All funding in the Pay-As-You-Go Fund that is not derived from ad valorem taxes is excluded from the revenue limitations in the City Charter.

Jones v. Turner. On October 21, 2019, taxpayers filed suit in state district court alleging miscalculation by the City of required ad valorem tax contributions to Pay-As-You-Go-Fund resulting in alleged underpayments into the fund. The plaintiffs seek declaratory relief, an injunction, mandamus relief, attorneys' fees, and any other relief to which they may be entitled. The trial court denied the City's plea to the jurisdiction in December 2019, and the Fourteenth Texas Court of Appeals reversed in the City's favor and rendered a decision dismissing Jones' claim. The Texas Supreme Court reversed the Court of Appeals decision and remanded the case to the trial court for further proceedings.

Drainage Utility Fee Litigation. In 2012, the owners of three apartment complexes filed a lawsuit against the City and the Director of Houston Public Works in their official capacity, challenging the validity of the Drainage Utility Fee and alleging ultra vires actions by the Director. The City filed a plea to the jurisdiction seeking dismissal of the suit. The City's plea was granted in part and denied in part. The apartment complexes' remaining ultra vires claims, declaratory judgment claims, and constitutional challenges to the ordinance remain pending in the district court. The apartment complexes appealed, the court of appeals affirmed the trial court's decision and the Supreme Court denied review. The case was abated pending the resolution of another case challenging the drainage fee ordinance.

A small business filed a lawsuit contending that the City and Mayor Sylvester Turner and the Director of Houston Public Works in their official capacities have illegally assessed, collected and spent hundreds of millions of dollars for drainage and street repairs from Houston taxpayers and landowners for the past seven years, pursuant to a void Charter Amendment and/or a void City Ordinance. The case was abated pending the resolution of a similar case challenging the drainage fee ordinance.

An additional lawsuit has been filed against the City seeking a declaratory judgment that the Drainage Utility Fee is illegal and asking that the City reimburse residents who have paid the fee in prior years. The lawsuit seeks to certify such residents as a class. The trial court dismissed the case; the plaintiff has appealed and the dismissal of the case was affirmed on appeal. The Texas Supreme Court. granted review, received briefing and heard oral argument. On June 10, 2022, the Texas Supreme Court confirmed the City's ability to charge a drainage fee and remanded the case to the trial court to allow repleading on any remaining claims. The plaintiff has moved for a re-hearing before the Texas Supreme Court.

B. Environmental Liabilities

The City is aware of various sites contaminated by asbestos or other hazardous materials. As of June 30, 2023, the City has recorded accrued liabilities of $18.2 million, to be used for: assessment and remediation of asbestos, lead and mold; Phase I and II environmental site assessments and remediation; and remediation of radioactive material.

C. Commitments for Capital Facilities

At June 30, 2023, the City had appropriated but not yet spent from the Capital Projects and Enterprise Funds approximately $2.7 billion for capital projects.

D. Risk Management

The City purchases fidelity coverage to comply with City ordinance, boiler and machinery insurance with a per occurrence loss limit of $125.0 million and commercial property insurance with a per occurrence loss limit of $200.0 million. The commercial property insurance sub-limit for flood is $200.0 million. The commercial property insurance provides deductibles as follows: $2.0 million per occurrence for all perils, except (1) 3% of the damaged insured value for windstorm or hail from a named storm, subject to a $2.5 million minimum and a $20.0 million maximum deductible and (2) 3% of the damaged insured value for flood, subject to a $2.5 million minimum and a $20.0 million maximum deductible. Should a named storm event occur that involves both perils of windstorm and flood, the maximum deductible is $20.0 million. The City's property insurance retention is 10% of the $50.0 million primary limits, not to exceed the $5.0 million retention limit.

Self-insured claims are reported as liabilities in the accompanying financial statements when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. This determination is based on reported pending claims, estimates of claims incurred but not yet reported, actuarial reports and historical analysis. All claims are accounted for in the accompanying Government-wide Statement of Net Position.

Claims that are expected to be paid with expendable, available financial resources are accounted for in the General Fund and the appropriate Enterprise Funds.

E. Purchase Commitments for Electricity

On July 1, 2020, the City entered into an electricity supply agreement with Reliant Energy Retail Services, Inc. for a 5-year term with two 1-year options, with locked rates for the duration of the contract terms. The total committed price is approximately $634.0 million for expected usage of the potentially 7-year contract. As of June 30, 2023, the remaining commitment is approximately $322.9 million.

On November 13, 2015, the City entered into a solar energy supply agreement with ENGIE to supply solar power to the City from a facility located in Alpine, Texas, for a 20-year term starting in April 2017. The contract value is approximately $124.7 million. As of June 30, 2023, the remaining commitment is approximately $86.4 million.

F. Federal and State

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, could be a liability of the City. The amount of liability, if any, cannot be determined at this time. City management believes any such claims would be immaterial to the City's financial position at June 30, 2023.

G. Risk and Uncertainties Related to COVID-19 Pandemic

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the “Pandemic”) in March 2020 by the World Health Organization and continues to affect many parts of the world, including the United States and Texas. Many of the federal and State actions and policies had significant effect to the operation of businesses and directly impacts the national, State, and local economies.

The American Rescue Plan Act (“ARPA”) was signed in to law on March 11, 2021. Under ARPA, the State and Local Fiscal Recovery Fund (“SLFRF”) provides additional funding to state and local governments for response and recovery from the Pandemic. The City’s allocation of SLFRF funds totals $607.7 million, which was received in two separate payments of $303.8 million each. The first was in May 2021 and the second in June 2022. The City allocated and used these funds towards eligible costs such as COVID-19 public health related expenditures and for revenue replacement for the provision of government services. SLFRF allows localities to spend the funds for revenue replacement to the extent of the reduction of revenue due to the Pandemic. Further information on the City’s ARPA program can be found at the City’s official ARPA SLFRF website (https://www.houstontx.gov/arpa/).

H. Chapter 380 Program and Commitment

Chapter 380 of the Local Government Code authorizes municipalities to offer incentives designed to promote economic development such as commercial and retail projects. In 1999, the City created the Chapter 380 Program (the “380 Program”) by City Ordinance 1999-74, to incentivize job creation and stimulate business and commercial activity in Houston. Under the 380 Program, private businesses and developers fund public improvements in advance and assume the risks related to those public improvements during the construction period. If the improvements are completed as planned, these businesses or developers are reimbursed over time by the City from incremental property tax, sales tax, or beverage tax. At June 30, 2023, the City has a number of 380 Program agreements as follows:

		(in thousands)		
Type of Agreement	**Number of Active Agreements**	**Gross Commitment**	**Reimbursed to-Date**	**Remaining Commitment**
Agreed-up on maximum commitment	9	$ 62,103	$ 37,744	$ 24,359
Actual cost reimbursement	7	$ —	$ 160,538	Costs subject to the City's review and approval

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NOTE 14: RELATED ORGANIZATION TRANSACTIONS

A. Metropolitan Transit Authority (“METRO”)

The City and METRO have an inter-local agreement governing the distribution and usage of a portion of incremental sales tax collected within the METRO service area for Eligible Transportation Projects (“General Mobility Program”, “Program”). The City uses funds allocated through the Program to perform street maintenance/ construction, traffic control, and other eligible transportation projects. During the fiscal year ended June 30, 2023, the City received $141.7 million from METRO under this contract. The breakout was $71.0 million to Capital Projects and $70.7 million to Special Revenues. $0 of payments were for the prior contract year. In addition, the City did not make any payments to METRO for services performed through the Program.

Consistent with provisions under Chapter 451 of the Texas Transportation Code, the City currently appoints five (5) of the nine (9) members of the METRO Board of Directors; however, the City has no financial accountability for the Authority and the entity is separate from the operating activities of the City.

B. Trinity River Authority (“TRA”)

As described in Note 8.C, the City and TRA have a long-term contract under which the City is obligated to pay debt service for certain bonds as well as certain maintenance and operating expenses for a TRA dam and reservoir. During the year ended June 30, 2008, all outstanding long-term debt had been paid off. During the year ended June 30, 2023, the City paid $4.5 million for maintenance and operating expenses under the terms of the contract.

In December 2016, the City and the TRA entered into a Raw Water Supply Contract. This contract referred to prior agreements with TRA regarding the construction of Lake Livingston and the Wallisville salinity control barrier of which the City paid for all the construction costs. The 2016 agreement established a receivable due from TRA for their 30% share of the project costs. The receivable will be offset by the charges due from the City to TRA as established by the Raw Water Supply contract. It is estimated the receivable will be dismissed by 2040. The balance as of June 30, 2023, is $60.1 million. The current portion of this receivable is $3.5 million with the remaining $56.6 million reflected as non-current.

C. Coastal Water Authority (“CWA”)

The City has a long-term contract with CWA for water conveyance. During the year ended June 30, 2023, the City paid CWA $6.4 million for debt services and $32.0 million for maintenance and operating expenses.

D. Jointly Governed Organizations

The City is a participant in jointly governed organizations. Six of thirteen board members of the Harris County Houston Sports Authority with the chairman appointed jointly by the City and Harris County. Three of twelve board members of the Gulf Coast Rail District with the chairman appointed jointly by the City and Harris County.

NOTE 15: CONDUIT DEBT OBLIGATIONS

The City has authorized various issues of Special Facilities Bonds to enable United Airlines, Inc. ("United") (formerly known as Continental Airlines, Inc.), a publicly traded company, to construct facilities at the George Bush Intercontinental Airport ("Special Facilities") that were deemed to be in the public interest. These bonds are limited special obligations of the City, payable solely from and secured by a pledge of revenues generated from lease agreements with United. Collected pledged revenues are remitted directly to a trustee by United. In addition, no commitments beyond the payments from United and maintenance of the tax-exempt status of the conduit debt obligation were extended by the City. At June 30, 2023, the bonds have an aggregate outstanding principal amount payable of approximately $1.1 billion.

Under the terms of the related lease agreements, United operates, maintains, and insures the terminals, and manages and retains revenues from all concessions operated in the Terminal B and E Special Facilities. The City operates, maintains, insures, and manages and retains revenues from all concessions operated in all other terminal facilities.

The City holds legal title to the completed facilities, as they are constructed on airport property, but the constructed facilities are operated and controlled by United through long-term leases, and the City and the Airport System will enjoy no direct financial benefit from these facilities for the term of the lease agreements. Accordingly, the City accounts for the Special Facilities Bonds shown in the following table as conduit debt, and neither the debt nor the related assets have been recorded in the accompanying financial statements.

	(in thousands) June 30, 2023
Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Terminal Improvement Projects), Series 2011 (AMT), $113,305,000 original principal, matures in 2038	$ 113,305
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal E Project), Series 2014 (AMT), $308,660,000 original principal, matures in 2029	227,370
Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2015B-1 (AMT), $176,650,000 principal, matures in 2035	176,650
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Technical Operations Center), Series 2018 (AMT), 90,650,000 original principal, matures in 2028	90,650
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2018C (AMT), $46,425,000 original principal, matures in 2028	46,425
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2020A (AMT), $34,165,000 original principal, matures in 2027)	34,165
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2020B-2 (AMT), $47,470,000 original principal, matures in 2027	47,470
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2020C (AMT), $66,890,000 principal, matures in 2027	66,890
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2021A (AMT), $70,175,000 original principal, matures in 2041	70,175
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2021B-1 (AMT), $219,320,000 original principal, matures in 2041	219,320
Total Conduit Debt Outstanding	$ 1,092,420

On August 25, 2021, the City issued $70.2 million and $219.3 million in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Terminal E Project and Terminal Improvement Projects), Series 2021A and 2021B-1, respectively, on behalf of United, for the purpose of 1) financing the costs of development, construction, and acquisition of a new multi-terminal baggage handling system and other infrastructure improvements at George Bush Intercontinental Airport and 2) paying related costs of issuance. Interest rate for both series is 4% per annum. Maturity dates are July 1, 2041, and July 15, 2041, for Series 2021A and 2021B-1, respectively.

On June 29, 2020, the City issued $34.2 million in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2020A (AMT) on behalf of United, to refund certain outstanding Special Facilities Revenue Bonds, and to pay the Series 2020A costs of issuance. The bonds were issued as a 5% Term Bond due July 1, 2027, with a yield of 4.375%.

On June 29, 2020, the City issued $47.5 million in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2020B-2 (AMT) on behalf of United, to refund certain outstanding Special Facilities Revenue Bonds, and to pay the Series 2020B-2 costs of issuance. The bonds were issued as a 5% Term Bond due July 15, 2027, with a yield of 4.375%.

On June 29, 2020, the City issued $66.9 million in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2020C (AMT) on behalf of United, to refund certain outstanding Special Facilities Revenue Bonds, and to pay the Series 2020C costs of issuance. The bonds were issued as a 5% Term Bond due July 15, 2027, with a yield of 4.625%.

On February 20, 2018, the City issued $90.7 million in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Technical Operations Center Project), Series 2018 (AMT) on behalf of United, to finance the construction of a technical operations center and related facilities at IAH. The bonds were issued as a 5% Term Bond due July 15, 2028, with a yield of 3.60%.

On February 20, 2018, the City issued $46.4 million in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2018C (AMT) on behalf of United, to finance the improvement, renovation, expansion and repair of certain special facilities at IAH, including improvements to an existing aircraft maintenance hangar facility, construction of an aircraft shops facility, and renovation of a maintenance and parts storage facility. The bonds were issued as a 5% Term Bond due July 15, 2028, with a yield of 3.60%.

On March 16, 2015, the City issued $176.7 million in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2015B-1 (AMT) on behalf of United, to finance the construction of a new North Concourse building at Terminal B with jet bridge loading, and to make improvements to related facilities. The bonds were issued with a coupon rate of 5.00%, and a yield of 4.75%, to mature in varying amounts from 2026 to 2035.

On May 8, 2014, the City issued $308.7 million in Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal E Project) Series 2014 on behalf of United, at coupon rates ranging from 4.50% to 5.00%. The bonds mature in varying amounts from 2020 to 2029. Proceeds of the bonds were used to refund a portion of the City's outstanding Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Terminal E project) Series 2001 and to pay costs of issuance.

On November 17, 2011, the City issued $113.3 million in Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Terminal Improvement Projects), Series 2011 (AMT), at coupon rates ranging from 6.50% to 6.625%, to finance the replacement of two flight stations at Terminal B, with a new South Concourse building to serve United Airlines' regional jet operations.

NOTE 16: SUBSEQUENT EVENTS

Management has evaluated subsequent event through the date that the financial statements were available to be issued, November 17, 2023, and determined that the following items require disclosure. No events occurring after this date have been evaluated for inclusion in these financial statements.

Public Improvement Bonds

On October 25, 2023, the City issued $271.3 million of Public Improvement and Refunding Bonds Series 2023A (“PIB 2023A Bonds”), with an average coupon rate of 5.15% and the last maturity date of March 1, 2043. The PIB 2023A Bonds were issued to refund the general government outstanding commercial paper and fund certain voter authorized public improvements.

Houston Airport System

On July 19, 2023, the City issued $647.9 million and $108.2 million of Airport System Subordinate Lien Revenue and Refunding Bonds Series 2023A and 2023B (“Series 2023 Bonds”), respectively, with interest rate of the bonds ranges from 4.25% to 5.25%. The Series 2023 Bonds mature on July 1, 2053. The Series 2023 Bonds were issued for the purpose of providing funds to: (a) refund and redeem all the outstanding principal amount of the Refunded Notes and Bonds; and (b) pay certain costs of issuance with respect to the Series 2023 Bonds. By issuing the Series 2023 Bonds, the City obtained an estimated economic gain of approximately $19.0 million and obtained a net present value of savings of approximately $12.9 million.

CITY OF HOUSTON, TEXAS

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Required Supplementary Information - (unaudited)

GENERAL OPERATING FUND

Schedule of Budgeted and Actual Revenues and Expenditures

For the Year Ended June 30, 2023

(amounts expressed in thousands)

(unaudited)

	Budgeted Amounts			
	Original	Final	Actual Budget Basis	Variance with Final Budget
Revenues				
Taxes and assessments				
Property Taxes	$ 1,271,768	$ 1,271,768	$ 1,295,496	$ 23,728
Industrial Assessments	24,393	24,393	28,021	3,628
Sales Tax	806,920	806,920	889,039	82,119
Franchise Tax	147,977	147,977	148,160	183
Mixed Beverage Tax	20,743	20,743	23,606	2,863
Total taxes and assessments	2,271,801	2,271,801	2,384,322	112,521
Licenses and permits				
General	25,208	25,208	25,591	383
Health Permits	7,843	7,843	8,082	239
Total licenses and permits	33,051	33,051	33,673	622
Charges for services				
Ambulance service	53,130	53,130	58,530	5,400
Library fees	4	4	4	—
Parking	153	153	180	27
Services performed for other funds				
Direct	65,855	65,855	65,845	(10)
Indirect	22,718	22,718	22,801	83
Rents and royalties	1,480	1,480	1,598	118
Others	20,647	16,147	15,855	(292)
Total charges for services	163,987	159,487	164,813	5,326
Intergovernmental - grants	217,823	217,823	208,176	(9,647)
Fines and forfeits				
Municipal Courts	15,664	15,664	17,318	1,654
Others	3,207	3,207	3,371	164
Total fines and forfeits	18,871	18,871	20,689	1,818
Interest	4,704	4,704	6,421	1,717
Other				
Sale of Property	225	225	316	91
Other	12,530	12,530	15,597	3,067
Total Other	12,755	12,755	15,913	3,158
Total revenues	2,722,992	2,718,492	2,834,007	115,515
Other financing sources (uses)				
Transfers in	10,585	10,585	10,044	(541)
Sale of capital assets	3,304	3,304	2,772	(532)
Total other financing sources (uses)	13,889	13,889	12,816	(1,073)
Total revenues and other financing sources	$ 2,736,881	$ 2,732,381	$ 2,846,823	$ 114,442

* See Notes to Required Supplementary Information *

GENERAL OPERATING FUND
Schedule of Budgeted and Actual Revenues and Expenditures
For the Year Ended June 30, 2023
(amounts expressed in thousands)
(unaudited)

	Budgeted Amounts			
	Original	**Final**	**Actual Budget Basis**	**Variance with Final Budget**
Expenditures				
General government				
Legislative and executive				
Legislative - Council				
Personnel services	$ 7,809	$ 7,636	$ 7,828	$ (192)
Other current expenditures	6,173	6,742	2,675	4,067
Equipment acquisition	3	866	852	14
Total legislative - council	13,985	15,244	11,355	3,889
Legislative - Mayor's Office				
Personnel services	5,290	5,255	5,046	209
Other current expenditures	904	922	933	(11)
Total executive - mayor's office	6,194	6,177	5,979	198
Total legislative and executive	20,179	21,421	17,334	4,087
Office of Business Opportunity				
Personnel services	4,489	4,177	3,125	1,052
Other current expenditures	993	1,233	1,273	(40)
Equipment acquisition	–	13	13	—
Total office of business opportunity	5,482	5,423	4,411	1,012
Municipal Courts Administration				
Municipal Courts				
Personnel services	23,832	23,973	22,139	1,834
Other current expenditures	5,982	6,335	5,604	731
Equipment acquisition	14	9	—	9
Total municipal courts	29,828	30,317	27,743	2,574
Elections	–	2,500	2,496	2
Finance administration				
Controller				
Personnel services	7,549	7,522	6,937	585
Other current expenditures	1,406	1,286	927	359
Total controller	8,955	8,808	7,864	944
Finance				
Personnel services	15,792	15,425	13,337	2,088
Other current expenditures	5,043	5,826	4,833	993
Equipment acquisition	–	210	59	151
Total finance	20,835	21,461	18,229	3,232
Administrative and Regulatory Affairs				
Personnel services	17,301	17,256	15,919	1,337
Other current expenditures	4,045	4,162	3,657	505
Equipment acquisition	6	7	6	1
Total administrative and regulatory affairs	21,352	21,425	19,582	1,843
Bond and Legal	1,585	1,485	1,580	204
Total finance administration	52,727	53,179	47,255	6,223

(Continued)

* See Notes to Required Supplementary Information *

GENERAL OPERATING FUND
Schedule of Budgeted and Actual Revenues and Expenditures
For the Year Ended June 30, 2023
(amounts expressed in thousands)
(unaudited)

	Budgeted Amounts			
	Original	**Final**	**Actual Budget Basis**	**Variance with Final Budget**
Legal				
Personnel services	$ 18,295	$ 17,237	$ 16,182	$ 1,055
Other current expenditures	1,686	1,987	1,938	49
Equipment acquisition	–	19	–	19
Total legal	19,981	19,243	18,120	1,123
City Secretary				
Personnel services	811	813	698	115
Other current expenditures	104	111	111	–
Total city secretary	915	924	809	115
Planning and Development				
Personnel services	3,038	3,152	2,393	759
Other current expenditures	887	1,005	867	138
Total planning and development	3,925	4,157	3,260	897
Human Resources				
Personnel services	1,469	1,339	819	520
Other current expenditures	31	161	140	21
Equipment acquisition	–	–	–	–
Total human resources	1,500	1,500	959	541
Total general government	134,537	138,664	122,387	16,574
Public safety				
Police				
Personnel services	899,926	888,323	882,004	6,319
Other current expenditures	88,492	97,999	93,929	4,070
Equipment acquisition	340	1,930	916	1,014
Total police	988,758	988,252	976,849	11,403
Fire				
Personnel services	489,604	489,571	489,598	(27)
Other current expenditures	69,465	68,463	64,582	3,881
Equipment acquisition	–	12	10	2
Total fire	559,069	558,046	554,190	3,856
Total public safety	1,547,827	1,546,298	1,531,039	15,259
Public Works				
Administration				
Personnel services	927	919	849	70
Other current expenditures	21,798	24,852	22,432	2,420
Total administration	22,725	25,771	23,281	2,490
General Services				
Personnel services	13,814	13,122	12,612	510
Other current expenditures	26,071	29,746	28,618	1,128
Equipment acquisition	–	30	28	2
Total general services	39,885	42,898	41,258	1,640

(Continued)

* See Notes to Required Supplementary Information *

GENERAL OPERATING FUND
Schedule of Budgeted and Actual Revenues and Expenditures
For the Year Ended June 30, 2023
(amounts expressed in thousands)
(unaudited)

	Budgeted Amounts			
	Original	Final	Actual Budget Basis	Variance with Final Budget
Solid Waste				
Personnel services	$ 39,670	$ 38,945	$ 40,704	$ (1,759)
Other current expenditures	49,433	57,071	56,212	859
Equipment acquisition	2,526	448	298	150
Total solid waste	91,629	96,464	97,214	(750)
Total public works	154,239	165,133	161,753	3,380
Department of Neighborhoods				
Personnel services	8,565	8,600	8,071	529
Other current expenditures	4,046	4,030	3,722	308
Total department of neighborhoods	12,611	12,630	11,793	837
Health				
Personnel services	39,431	39,319	37,190	2,129
Other current expenditures	23,949	20,663	20,700	(37)
Equipment acquisition	215	264	103	161
Total health	63,595	60,246	57,993	2,253
Housing				
Personnel services	136	356	351	5
Other current expenditures	276	521	775	(254)
Total housing	412	877	1,126	(249)
Parks and Recreation				
Personnel services	46,626	44,016	40,986	3,030
Other current expenditures	38,934	44,388	42,693	1,695
Equipment acquisition	5	184	34	150
Total parks and recreation	85,565	88,588	83,713	4,875
Library				
Personnel services	36,465	34,723	33,086	1,637
Other current expenditures	6,792	6,409	6,413	(4)
Equipment acquisition	6,335	8,464	8,462	2
Total library	49,592	49,596	47,961	1,635
Retiree Benefits				
Hospital and life insurance	13,374	12,849	12,612	237
Total retiree benefits	13,374	12,849	9,105	237
Other current expenditures				
Tax appraisal fees	11,065	10,725	10,725	–
Limited-purpose Annexation Districts	73,816	81,600	79,440	2,160
Capital outlay	–	5,281	5,279	2
Membership dues	453	453	404	49
Advertising and promotion	261	550	534	16
Consultants	3,341	1,510	1,109	401
Miscellaneous support services	89,455	88,238	90,918	(2,680)
Total other current expenditures	178,391	188,357	188,409	(52)
Debt service				
Debt service interest	1,478	–	–	–
Total debt service	1,478	–	–	–
Total expenditures	2,241,621	2,263,238	2,215,279	44,749
Other financing sources (uses)				
Transfers out	501,926	509,917	505,811	4,106
Total other financing sources (uses)	501,926	509,917	505,811	4,106
Total expenditures and other financing uses	$ 2,743,547	$ 2,773,155	$ 2,721,090	$ 48,855

(Concluded)

* See Notes to Required Supplementary Information *

REQUIRED RECONCILIATION FOR GENERAL FUND
BUDGET vs. GAAP PRESENTATION
For the Year Ended June 30, 2023
(amounts expressed in thousands)
(unaudited)

Revenues		
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules	$	2,834,007
Revenues of non-budgeted funds		
Equipment Acquisition		7,218
Revolving Funds		2,615
Building Security		646
Grant Matching Fund		1,051
Storm Water		(90)
Bureau of Animal Regulation and Care		1,405
Forensic Transition		319
Civic Events		18,158
Renewal and Replacement		500
Health and Environmental		55
Total revenues of non-budgeted funds		31,877
Interest on pooled investments from non-budgeted revenues		1,853
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances	$	2,867,737
Expenditures		
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedules	$	2,215,279
Expenditures of non-budgeted funds		
Equipment Acquisition		63,917
Revolving Funds		2,615
Building Security		444
Grant Matching Fund		1,103
Storm Water		41,966
Bureau of Animal Regulation and Care		13,414
Fleet Maintenance		261
Forensic Transition		319
Civic Events		21,677
Renewal and Replacement		34,804
Health and Environmental		52
Total expenditures of non-budgeted funds		180,572
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances	$	2,395,851
Other financing sources (uses)		
Actual amounts (budgetary basis) “other financing sources and uses” from the budgetary comparison schedules	$	(492,995)
Proceeds from issuance of debt		25,000
Lease financing principal		36,891
Sale of assets		3,044
Transfers of non-budgeted funds		85,770
Total other financing sources and uses as reported on the statement of revenues, expenditures, and changes in fund balances-government funds	$	(342,290)

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2023
(Unaudited)

1. General Budget Policies

During January of each year, the Mayor, with City Council input, establishes budget guidelines. All departments of the City submit requests for appropriations to the Mayor and the City's Department of Finance so that a budget may be prepared. Typically during June, the City Controller certifies that funds are available for a continuing appropriation and the budget is proposed to City Council. City Council holds public hearings and a final budget is normally adopted by June 30th. A final appropriation ordinance is adopted later in the fiscal year and may include budget revisions or amendments.

The legal level of budgetary control is the departmental level within each fund, even though the budget is prepared by fund, department, and expenditure category. The Mayor is authorized to transfer unlimited budgeted amounts within departments and amounts between departments, provided such transfers do not exceed 5% of an expenditure category. Expenditure categories are personnel services, other current expenditures and capital outlay. Appropriations related to funds with annual budgets lapse at year- end except for Capital Outlay appropriations, which cover multiple years.

On April 27, 2023, City Council approved the fiscal year 2023 general appropriation ordinance in the amount of $2.8 billion for the General Fund.

Annual operating budgets are adopted for the General Operating Fund, the Debt Service Fund, the Special Revenue Funds (except for the Grants Revenue Fund, Disaster Recovery, Health Special Fund and the Housing Special Fund), and the Proprietary Funds. The budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Budgets for proprietary funds are prepared on the accrual basis, but focus on expenses relating to maintenance and operations, and equipment purchases and, accordingly, exclude depreciation and other allocations related to income determination.

The following provides actual fiscal year 2023 results for both budgeted and non-budgeted Special Revenue Funds (in thousands):

	Revenues	Expenditures	Other Sources (Uses)
Budgeted Special Revenue Funds	$ 429,403	$ 291,984	$ (67,219)
Non-budgeted Grants Revenue Fund	421,426	435,869	(4,192)
Non-budgeted Health and Housing	1,233	934	328
Non-budgeted Other Funds	12,671	26	400
Total Special Revenue Funds - Actual	$ 864,733	$ 728,813	$ (70,683)

2. General Fund Budgetary Highlights

Revenues were $114.4 million above budget. This increase was mainly evident in taxes and assessments of $112.5 million. Additionally, increases in licenses and permits of $0.6 million, charges for services of $5.3 million, fines and forfeits of $1.8 million, interest of $1.7 million, and other income of $3.1 million were offset by decreases in intergovernmental-grant of $9.6 million, and other financing sources (uses) of $1 million.

Significant differences between budgeted and actual taxes and assessments include:

- $23.7 million increase in property taxes
- $3.6 million increase in industrial assessments
- $82.1 million increase in sales tax
- $2.9 million increase in mixed beverage tax

REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2023
(unaudited)

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
Last 9 Fiscal Years
(in thousands)

	Houston Firefighters' Relief and Retirement Fund								
	2023	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Total Pension Liability									
Service cost	$ 55,961	$ 54,129	$ 55,596	$ 57,743	$ 55,532	$ 52,579	$ 80,002	$ 76,407	$ 68,145
Interest	353,824	354,304	362,472	349,760	343,416	332,357	389,938	369,708	353,405
Changes of benefit terms	–	–	–	–	–	–	(645,971)	–	–
Differences between expected and actual experience	77,461	(140,156)	(94,948)	78,724	34,668	62,117	(65,194)	(63,047)	(28,536)
Changes of assumptions	–	–	(155,659)	–	(47,463)	(16,572)	534,646	2,918	2,801
Benefit payments including refunds of employee contributions	(283,095)	(270,599)	(286,414)	(330,323)	(272,398)	(289,108)	(249,394)	(211,673)	(196,362)
Refunds	–	–	–	–	–	–	–	–	–
Net change in total pension liability	204,151	(2,322)	(118,953)	155,904	113,755	141,373	44,027	174,313	199,453
Total pension liability - beginning	4,963,438	4,965,760	5,084,713	4,928,809	4,815,054	4,673,681	4,629,654	4,455,341	4,255,888
Total pension liability - ending (a)	5,167,589	4,963,438	4,965,760	5,084,713	4,928,809	4,815,054	4,673,681	4,629,654	4,455,341
Plan fiduciary net position									
Contributions-employer	72,475	81,351	77,495	83,837	89,897	83,010	93,658	94,279	92,610
Contributions-employee	31,973	30,942	29,873	33,441	34,281	35,622	25,404	25,511	25,092
Net investment income	199,670	523	1,338,230	84,115	221,775	322,306	432,948	(47,437)	51,801
Benefit payments	(283,095)	(270,599)	(286,414)	(330,323)	(272,398)	(289,108)	(249,394)	(211,673)	(196,362)
Administrative expense	(4,482)	(4,161)	(4,213)	(4,516)	(4,952)	(4,890)	(4,898)	(6,771)	(6,640)
Refunds	–	–	–	–	–	–	–	–	–
Other	(1,099)	(1,083)	(1,140)	(1,314)	(1,265)	(1,676)	(2,298)	(1,890)	(1,676)
Net change in plan fiduciary net position	15,442	(163,027)	1,153,831	(134,760)	67,338	145,264	295,420	(147,981)	(35,175)
Plan fiduciary net position-beginning	5,093,736	5,256,763	4,102,932	4,237,692	4,170,354	4,025,090	3,729,670	3,877,651	3,912,826
Plan fiduciary net position-ending (b)	5,109,178	5,093,736	5,256,763	4,102,932	4,237,692	4,170,354	4,025,090	3,729,670	3,877,651
Net pension liability (asset) - ending (a)-(b)	$ 58,411	$ (130,298)	$ (291,003)	$ 981,781	$ 691,117	$ 644,700	$ 648,591	$ 899,984	$ 577,690
Plan fiduciary net position as percentage of total pension liability	98.87 %	102.63 %	105.86 %	80.69 %	85.98 %	86.61 %	86.12 %	80.56 %	87.03 %
Covered payroll	$ 269,091	$ 255,100	$ 243,045	$ 259,235	$ 272,498	$ 260,345	$ 289,947	$ 280,436	$ 277,745
Net pension liability (asset) as a percentage of covered payroll	21.71 %	-51.08 %	-119.73 %	378.72 %	253.62 %	247.63 %	223.69 %	320.92 %	207.99 %

Notes to Schedule:

1. The schedule is intended to show information for ten years. The additional years' information will be displayed as it becomes available.

2. Benefit changes in fiscal year ended June 30, 2017:
   a. Standard service pension benefit changed for retirements on or after November 1, 1997, to the following: for retirement on or after November 1, 1997, and applicable for service accrued prior to July 1, 2017, 50% of monthly salary; plus 3% of average monthly salary per year of service in excess of 20 years. For service accrued after July 1, 2017, 2.75% of average monthly salary per year of service for the member's first 20 years of service; plus 2% of average monthly salary per year of service in excess of 20 years.

3. Changes of assumptions:
   a. Discount rate was changed from 8.50% to 7.25% for the year ended June 30, 2017.
   b. For the year ended June 30, 2018, mortality rates for active participants and non-disabled pensioners were based on the RP-2014 Mortality Tables with Blue Collar Adjustment and generational improvement using Scale MP-2017. Projected longevity improvements were applied by adjusting the RP-2014 tables back to 2006 using Scale MP-2014, and then applying generational projection from 2006 forward using Scale MP-2017.
   c. For the year ended June 30, 2021, the assumptions used in the actuary report are based on recommendations made and approved by the HFRRF Board as part of an experience study covering fiscal year ended June 30, 2015 through fiscal year ended June 30, 2019.

REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2023
(unaudited)

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
Last 9 Fiscal Years
(in thousands)

	Houston Municipal Employees Pension System								
	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability									
Service cost	$ 85,184	$ 82,080	$ 78,564	$ 77,819	$ 77,175	$ 78,149	$ 75,961	$ 68,968	$ 65,810
Interest	381,016	371,952	363,611	356,430	349,592	341,276	331,166	379,781	361,007
Changes of benefit terms	–	–	–	–	–	–	(724,683)	–	–
Differences between expected and actual experience	6,279	26,473	(20,427)	(28,865)	(11,538)	19,158	(38,387)	(16,194)	(23,380)
Changes of assumptions	–	(29,515)	–	–	–	–	562,237	91,248	–
Benefit payments including refunds of employee contributions	(334,859)	(327,772)	(314,150)	(308,002)	(291,060)	(283,928)	(280,456)	(253,178)	(234,955)
Refunds	(989)	(1,133)	(402)	(650)	(1,394)	(807)	(718)	(1,105)	(1,549)
Net change in total pension liability	136,631	122,085	107,196	96,732	122,775	153,848	(74,880)	269,520	166,933
Total pension liability - beginning	5,562,146	5,440,061	5,332,865	5,236,133	5,113,358	4,959,510	5,034,390	4,764,870	4,597,937
Total pension liability - ending (a)	5,698,777	5,562,146	5,440,061	5,332,865	5,236,133	5,113,358	4,959,510	5,034,390	4,764,870
Plan fiduciary net position									
Contributions-employer	204,895	197,341	184,762	176,430	176,261	421,562	182,558	159,958	145,007
Contributions-employee	34,600	32,655	33,325	32,582	32,536	27,905	15,902	15,874	16,198
Net investment income	221,364	189,390	1,084,388	(115,165)	200,445	231,815	290,911	27,639	73,370
Benefit payments	(334,859)	(327,772)	(314,150)	(308,002)	(291,060)	(283,928)	(280,456)	(253,178)	(234,955)
Administrative expense	(5,636)	(5,681)	(3,111)	(4,891)	(5,363)	(6,442)	(6,827)	(7,360)	(7,007)
Refunds	(989)	(1,133)	(402)	(650)	(1,394)	(807)	(718)	(1,105)	(1,549)
Other	619	466	485	484	710	(3,905)	1,272	1,651	1,041
Net change in plan fiduciary net position	119,994	85,266	985,297	(219,212)	112,135	386,200	202,642	(56,521)	(7,895)
Plan fiduciary net position-beginning	3,952,351	3,867,085	2,881,788	3,101,000	2,988,865	2,602,665	2,400,023	2,456,544	2,464,439
Plan fiduciary net position-ending (b)	4,072,345	3,952,351	3,867,085	2,881,788	3,101,000	2,988,865	2,602,665	2,400,023	2,456,544
Net pension liability - ending (a)-(b)	$1,626,432	$1,609,795	$1,572,976	$2,451,077	$2,135,133	$2,124,493	$2,356,845	$2,634,367	$2,308,326
Plan fiduciary net position as percentage of total pension liability	71.46 %	71.06 %	71.09 %	54.04 %	59.22 %	58.45 %	52.48 %	47.67 %	51.56 %
Covered payroll	$ 710,462	$ 678,350	$ 642,917	$ 625,056	$ 614,451	$ 611,493	$ 604,895	$ 640,529	$ 624,205
Net pension liability as a percentage of covered payroll	228.93 %	237.31 %	244.66 %	392.14 %	347.49 %	347.43 %	389.63 %	411.28 %	369.80 %

Notes to Schedule:

1. The schedule is intended to show information for ten years. The additional years' information will be displayed as it becomes available.

2. Changes of assumptions:
   a. Discount rate was changed from 8.50% to 8.00% as of July 1, 2015, and subsequently lowered to 7.00% as of July 1, 2017.
   b. The actuarially determined contribution includes the Legacy Liability payment as specified by the January 1, 2017 Risk Sharing Valuation and a calculated employer rate equal to the normal cost and the amortization of any new unfunded liabilities over a closed 30-year period from the valuation date the liability base was created.
   c. Salary increases were changed as of July 1, 2016, from 3.25%-6.00%, including inflation, to 3.25%-5.50%, including inflation.

3. Covered payroll for 2022 is reported fiscal year pay, except for Houston First Corporation ("HFC") employees. For HFC, annualized pay was used.

REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2023
(unaudited)

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
Last 9 Fiscal Years
(in thousands)

	Houston Police Officers' Pension System								
	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability									
Service cost	$ 78,356	$ 74,350	$ 73,040	$ 70,081	$ 66,750	$ 63,633	$ 60,930	$ 66,098	$ 56,062
Interest	520,211	503,548	484,527	474,376	462,691	445,113	433,598	488,223	473,065
Changes of benefit terms	–	–	–	–	–	–	(1,006,000)	–	–
Differences between expected and actual experience	94,532	46,309	99,635	(23,461)	(16,454)	69,534	80,023	10,390	26,705
Changes of assumptions	—	(7,383)	–	–	—	21,399	778,710	(676,151)	664,974
Benefit payments including refunds of employee contributions	(384,367)	(372,282)	(394,893)	(355,373)	(335,600)	(361,033)	(458,733)	(259,076)	(225,656)
Refunds	(2,295)	(2,645)	(2,433)	(2,209)	(2,278)	(1,329)	(1,696)	(978)	(945)
Net change in total pension liability	306,437	241,897	259,876	163,414	175,109	237,317	(113,168)	(371,494)	994,205
Total pension liability - beginning	7,585,734	7,343,837	7,083,961	6,920,547	6,745,438	6,508,121	6,621,289	6,992,783	5,998,578
Total pension liability - ending (a)	7,892,171	7,585,734	7,343,837	7,083,961	6,920,547	6,745,438	6,508,121	6,621,289	6,992,783
Plan fiduciary net position									
Contributions-employer	159,915	152,375	151,094	149,078	142,429	887,143	133,805	137,392	113,665
Contributions-employee	52,399	50,028	49,749	49,062	46,896	45,254	40,104	39,017	37,719
Net investment income	525,053	(98,537)	1,764,927	61,193	340,167	463,079	667,476	(135,833)	35,341
Benefit payments	(384,367)	(372,282)	(394,893)	(355,373)	(335,600)	(361,033)	(458,733)	(259,076)	(225,656)
Administrative expense	(4,238)	(4,202)	(3,669)	(3,922)	(3,580)	(3,679)	(4,238)	(4,585)	(3,478)
Refunds	(2,295)	(2,645)	(2,433)	(2,209)	(2,278)	(1,329)	(1,696)	(978)	(945)
Other	–	–	–	–	–	–	–	–	–
Net change in plan fiduciary net position	346,467	(275,263)	1,564,775	(102,171)	188,034	1,029,435	376,718	(224,063)	(43,354)
Plan fiduciary net position-beginning	6,861,988	7,137,251	5,572,476	5,674,647	5,486,613	4,457,178	4,080,460	4,304,523	4,347,877
Plan fiduciary net position-ending (b)	7,208,455	6,861,988	7,137,251	5,572,476	5,674,647	5,486,613	4,457,178	4,080,460	4,304,523
Net pension liability-ending (a)-(b)	$ 683,716	$ 723,746	$ 206,586	$1,511,485	$1,245,900	$1,258,825	$2,050,943	$2,540,829	$2,688,260
Plan fiduciary net position as percentage of total pension liability	91.34 %	90.46 %	97.19 %	78.66 %	82.00 %	81.34 %	68.49 %	61.63 %	61.56 %
Covered payroll	$ 499,041	$ 476,453	$ 473,801	$ 464,301	$ 444,871	$ 412,786	$ 424,300	$ 407,058	$ 395,360
Net pension liability as a percentage of covered payroll	137.01 %	151.90 %	43.60 %	325.54 %	280.06 %	304.96 %	483.37 %	624.19 %	679.95 %

Notes to Schedule:

1. The schedule is intended to show information for ten years. The additional years' information will be displayed as it becomes available.

2. The benefit changes in fiscal year 2017 are detailed in the “Final Risk Sharing Valuation Study as of June 30, 2016” dated September 25, 2017, as a result of the amendment of the Governing Statute on July 1, 2017, which included changes to normal retirement eligibility, normal retirement benefit, and post-retirement Cost of Living Adjustments (COLA).

3. Changes of assumptions:
   a. Discount rate was changed from 8.00% to 7.00% for the year ended June 30, 2017.
   b. A new set of assumptions were adopted in the July 1, 2018, actuarial valuation and are first reflected in the contribution rate determined for the fiscal year ending 2020.

REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2023
(unaudited)

SCHEDULE OF CITY CONTRIBUTIONS FOR PENSION PLANS
Last 9 Fiscal Years
(in thousands)

Houston Firefighters' Relief and Retirement Fund

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	$ 72,358	$ 78,571	$ 88,104	$ 96,332	$ 99,676	$ 96,530	$ 88,745	$ 87,464	N/A
Contributions in relation to the actuarially determined contribution	72,475	81,351	77,495	83,837	89,897	83,010	93,658	94,279	92,610
Contribution deficiency (excess)	$ (117)	$ (2,780)	$ 10,609	$ 12,495	$ 9,779	$ 13,520	$ (4,913)	$ 94,279	$ 92,610
Covered payroll	$ 269,091	$ 255,100	$ 243,045	$ 259,235	$ 272,498	$ 260,345	$ 289,947	$ 280,436	$ 277,745
Contributions as a percentage of covered payroll	26.9 %	31.9 %	31.9 %	32.3 %	33.00 %	31.9 %	32.3 %	33.6 %	33.3 %

Houston Municipal Employees Pension System

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	$ 202,012	$ 195,296	$ 188,294	$ 182,950	$ 178,256	$ 423,989	$ 184,733	$ 162,230	$ 155,299
Contributions in relation to the actuarially determined contribution	204,895	197,341	184,762	176,430	176,261	421,562	182,558	159,958	145,007
Contribution deficiency (excess)	$ (2,883)	$ (2,045)	$ 3,532	$ 6,520	$ 1,995	$ 2,427	$ 2,175	$ 2,272	$ 10,292
Covered payroll	$ 710,462	$ 678,350	$ 642,917	$ 625,056	$ 614,451	$ 611,493	$ 604,895	$ 640,529	$ 624,205
Contributions as a percentage of covered payroll	28.80 %	29.10 %	28.70 %	28.20 %	28.70 %	68.90 %	30.20 %	25.00 %	23.20 %

Houston Police Officers' Pension System

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	$ 134,841	$ 139,220	$ 140,292	$ 146,626	$ 141,202	$ 131,142	$ 167,980	$ 161,154	$ 150,949
Contributions in relation to the actuarially determined contribution	159,915	152,375	151,094	149,078	142,429	887,143	133,805	137,392	113,665
Contribution deficiency (excess)	$ (25,074)	$ (13,155)	$ (10,802)	$ (2,452)	$ (1,227)	$(756,001)	$ 34,175	$ 23,762	$ 37,284
Covered payroll	$ 499,041	$ 476,453	$ 473,801	$ 464,301	$ 444,871	$ 412,786	$ 424,300	$ 407,058	$ 395,360
Contributions as a percentage of covered payroll	32.0 %	32.0 %	31.9 %	32.1 %	32.0 %	214.9 %	31.5 %	33.8 %	28.7 %

Notes to Schedule:

1. The schedule is intended to show information for ten years. The additional years' information will be displayed as it becomes available.

Separately issued / audited financial statements for each of the pension plans can be obtained by contacting the pension boards or via the links below:

1. Houston Firefighter's Relief and Retirement Fund: 4225 Interwood North Parkway, Houston, TX 77032. (https://www.hfrrf.org/prb)
2. Houston Municipal Employees Pension System: 1201 Louisiana, Suite 900, Houston, TX 77002. (http://www.hmeps.org/publications.html)
3. Houston Police Officers' Pension System: 602 Sawyer, Suite 300, Houston, TX 77007. (https://www.hpops.org/publications/acfr/)

REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2023
(unaudited)

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
(in thousands)

	Health Benefits					
Report Date: June 30,	2023	2022	2021	2020	2019	2018
Measurement Date: June 30,	2022	2021	2020	2019	2018	2017
Total OPEB Liability						
Service Cost	$ 124,690	$ 140,185	$ 115,672	$ 118,901	$ 110,793	$ 139,332
Interest	52,553	60,194	80,598	90,952	90,245	73,306
Changes of benefit terms	—	(461,192)	–	(17,819)	(5,007)	—
Differences between expected and actual experience	23,213	(2,523)	(64,790)	(17,603)	(99,153)	(15,727)
Changes of assumptions	(720,476)	47,150	326,935	(164,752)	(224,161)	(310,431)
Benefit payments including refunds of employee contributions	(56,511)	(61,487)	(62,373)	(45,811)	(57,100)	(39,820)
Net change in total OPEB liability	(576,531)	(277,673)	396,042	(36,132)	(184,383)	(153,340)
Total OPEB liability - beginning	2,336,426	2,614,099	2,218,057	2,254,189	2,438,572	$ 2,591,912
Total OPEB liability - ending	$ 1,759,895	$ 2,336,426	$ 2,614,099	$ 2,218,057	$ 2,254,189	$ 2,438,572
Plan fiduciary net position as percentage of the total OPEB liability	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Covered-employee payroll	$ 1,362,737	$ 1,344,442	$ 1,308,459	$ 1,332,000	$ 1,285,000	$ 1,235,000
Total OPEB liability as a percentage of covered-employee payroll	129.14 %	173.78 %	199.78 %	166.52 %	175.42 %	197.46 %

Notes to Schedule:

1. The schedule is intended to show information for ten years. The additional years' information will be displayed as it becomes available.

2. There are no assets in a trust compliant with GASB codification P22.101 or P52.101 to pay related benefits.

3. Benefit changes: Reflected for the June 30, 2021 measurement date - Texas Plus, Cigna Health Spring, and UHC Plan F plans have all been terminated as of December 31, 2020, and a new plan, Aetna PO1 PPO Basic, was added as of January 1, 2021.

4. Changes of assumptions:
   a. Discount rate reflected for the June 30 measurement date: 2022 - 3.54%; 2021 - 2.16%; 2020 - 2.21%; 2019 - 3.50%; 2018 - 3.87%; 2017 - 3.58%.
   b. Reflected for the June 30, 2021, measurement date, the demographic assumptions (mortality, turnover, disability and retirement) for the Fire department were updated to be consistent with the Houston Firefighter's Relief and Retirement Fund actuarial certification as of July 1, 2020, dated September 16, 2021, completed by Buck Consulting.
   c. Reflected for the June 30, 2020, measurement date, life insurance to be fully retiree paid and is no longer being valued.

REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2023
(unaudited)

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
(in thousands)

	Long-Term Disability					
Report Date: June 30,	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**
Measurement Date: June 30,	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**
Total OPEB Liability						
Service Cost	$ 1,571	$ 1,705	$ 1,436	$ 719	$ 776	$ 730
Interest	541	363	365	461	409	379
Changes of benefit terms	–	–	—	(1,079)	1,379	(14)
Differences between expected and actual experience	(965)	(1,800)	(914)	3,476	255	(158)
Changes of assumptions	(326)	(743)				—
Benefit payments including refunds of employee contributions	(920)	(901)	(942)	(901)	(957)	(975)
Net change in total OPEB liability	(99)	(1,376)	(22)	2,676	1,862	(38)
Total OPEB liability - beginning	14,170	15,546	15,568	12,892	11,030	11,068
Total OPEB liability - ending	$ 14,071	$ 14,170	$ 15,546	$ 15,568	$ 12,892	$ 11,030
Plan fiduciary net position as percentage of the total OPEB liability	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Covered-employee payroll	$ 954,100	$ 895,800	$ 794,600	$ 777,400	$ 833,500	$ 788,500
Total OPEB liability as a percentage of covered-employee payroll	1.47 %	1.58 %	1.96 %	2.00 %	1.55 %	1.40 %

Notes to Schedule:

1. The schedule is intended to show information for ten years. The additional years' information will be displayed as it becomes available.

2. There are no assets in a trust compliant with GASB codification P22.101 or P52.101 to pay related benefits.

3. Changes of assumptions:
   a. Discount rate reflected for the June 30 measurement date: 2023 - 4.13%; 2022 - 3.54%; 2021 - 2.16%; 2020 - 2.21%; 2019 - 3.50%; 2018 - 3.87%; 2017 - 3.58%.

4. Employees covered: Houston Fire Department is covered by this long-term disability plan in addition to all municipal employees. Houston Police Department is not covered by this plan.

REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2023
(unaudited)

Schedule of OPEB Contributions
(in thousands)

	Health Benefits					
	2023	**2022**	**2021**	**2020**	**2019**	**2018**
Actuarially Determined Contribution	$ 198,923	$ 312,311	$ 204,586	$ 133,961	$ 194,236	$ 188,579
Contributions in relation to the actuarially determined contribution	(56,511)	(61,487)	(62,373)	(45,811)	(57,100)	(39,820)
Contribution deficiency (excess)	$ 142,412	$ 250,824	$ 142,213	$ 88,150	$ 137,136	$ 148,759
Covered-employee payroll	$ 1,362,737	$ 1,344,442	$ 1,308,459	$ 1,332,000	$ 1,285,000	$ 1,235,000
Contribution as a percentage of covered-employee payroll	4.15 %	4.57 %	4.77 %	3.44 %	4.44 %	3.22 %

Notes to Schedule:

1. The schedule is intended to show information for ten years. The additional years' information will be displayed as it becomes available.

2. There are no assets in a trust compliant with GASB codification P22.101 or P52.101 to pay related benefits.

	Long-Term Disability					
	2023	**2022**	**2021**	**2020**	**2019**	**2018**
Actuarially Determined Contribution	$ 5,917	$ 5,843	$ 7,101	$ 7,248	$ 6,720	$ 5,990
Contributions in relation to the actuarially determined contribution	(920)	(901)	(942)	(901)	(957)	(975)
Contribution deficiency (excess)	$ 4,997	$ 4,942	$ 6,159	$ 6,347	$ 5,763	$ 5,015
Covered-employee payroll	$ 954,100	$ 895,800	$ 794,600	$ 777,400	$ 833,500	$ 788,500
Contribution as a percentage of covered-employee payroll	0.10 %	0.10 %	0.12 %	0.12 %	0.11 %	0.12 %

Notes to Schedule:

1. The schedule is intended to show information for ten years. The additional years' information will be displayed as it becomes available.

2. There are no assets in a trust compliant with GASB codification P22.101 or P52.101 to pay related benefits.

OFFICE OF THE CITY CONTROLLER

Discovery Green

GOVERNMENTAL FUNDS

Governmental Funds:

Boasting 12 acres in the heart of Downtown Houston, Discovery Green has been a popular destination for residents and visitors since its opening in spring 2008. Since then, Discovery Green has welcomed more than 20 million visitors and hosts hundreds of events a year. With its close proximity to other popular destinations, Discovery Green offers downtown residents, workers and visitors alike a calming escape.

Governmental Funds

General Fund – The General Fund is used to account for sources and uses of financial resources applicable to the general government operation of the City. All general operating revenues and expenditures that are not restricted and, therefore, accounted for in another fund, are recorded in the General Fund.

Debt Service Fund – The Debt Service Fund is used to account for the payment of interest and principal on all general long-term debt other than debt issued for and serviced by Enterprise Funds.

Capital Projects Fund – The Capital Projects Fund accounts for all resources used for the acquisition and/or construction of capital facilities by the City, except those financed by Enterprise Funds.

ARPA Fiscal Recovery Fund – The ARPA Fiscal Recovery Fund is used to receive funds from the U.S. Department of Treasury to be used for the response efforts relating to local fiscal recovery from the COVID-19 pandemic pursuant to the American Rescue Plan Act of 2021.

Grants Fund – The Grants Fund is used to account for grant resources received from various local, state, federal, and national agencies and organizations. The use of these resources is restricted to a particular function of the City by the grantor.

Nonmajor Funds – Nonmajor Funds did not meet the established criteria for major fund status. They are used to account for the proceeds of specific revenue sources (other than capital projects) that are restricted to expenditures for special purposes. All Nonmajor Funds have been presented; however, only certain sub-funds have legally adopted budgets. Nonmajor funds are:

- Public Safety Special Fund
  - Budgeted: Asset Forfeiture, Auto Dealers, Child Safety, Houston Emergency Center, Local Truancy Prevention & Diversion, Municipal Courts Technology Fee, and Police Special Services
  - Not budgeted: Helmets for Bicycle Safety, Nuisance Abatement, and FTA Special
- Public Works Special Fund
  - Budgeted: Building Inspection, Dedicated Drainage and Street Renewal, Historic Preservation, Planning and Development Special, and Recycling Revenue
  - Not budgeted: Mobility Response Team
- Health and Housing Special Fund
  - Budgeted: Essential Public Health Services, Health Special, Laboratory Services, Special Waste, and Swimming Pool Safety
  - Not budgeted: Housing Special, and HJTPC Self Insurance
- Parks and Recreation Special Fund
  - Budgeted: Bayou Greenway 2020, Parks Golf Special, and Parks Special
  - Not budgeted: MacGregor Parks Endowment, and Planting Tree
- Other Special Revenue Fund
  - Budgeted: Cable Television, Contractor Responsibility, Houston TranStar, and Park Houston
  - Not budgeted: MNC Memorial City Way, W.A.T.E.R., John Battaglia Trust, Inc. Fund, and Houston Foundation

GENERAL FUND
Balance Sheet
June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	2023	2022
Assets		
Cash and cash equivalents	$ 143,417	$ 23,865
Investments	438,257	306,458
Receivables, net of allowances		
Accounts receivable	124,270	111,306
Property taxes receivable, net	53,147	42,815
Sales taxes receivable	150,955	145,815
Mixed beverage taxes receivable	4,028	3,819
Franchise taxes receivable	9,531	9,691
Special assessments receivable	8,011	7,811
Lease receivable	36,590	37,373
Due from other funds	67,351	85,397
Due from other governments	26,051	26,005
Inventory	21,310	22,965
Prepaid items	2,874	2,712
Total assets	$ 1,085,792	$ 826,032
Liabilities and fund balance		
Liabilities		
Accounts payable	$ 271,580	$ 96,421
Accrued payroll liabilities	42,161	92,687
Due to other funds	8,366	26,336
Due to other governments	12,935	24,131
Advances and deposits	7,354	192
Claims and judgments	2,274	2,162
Compensated absences	4,357	5,085
Total liabilities	349,027	247,014
Deferred inflows of resources	186,510	158,359
Total deferred inflows of resources	186,510	158,359
Fund balance		
Non-Spendable		
Prepaids	2,874	2,712
Inventory	21,310	22,965
Restricted	1,153	983
Committed	14,994	14,292
Unassigned	509,924	379,707
Total fund balance	550,255	420,659
Total liabilities and fund balance	$ 1,085,792	$ 826,032

GENERAL FUND
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	2023	2022
Revenues		
Taxes and assessments		
Property Taxes	$ 1,295,496	$ 1,244,722
Industrial Assessments	28,021	24,086
Sales Tax	889,039	820,622
Franchise Tax	148,160	149,519
Mixed Beverage Tax	23,606	21,585
Hotel Occupancy Tax	18,118	15,588
Licenses and permits	34,333	33,694
Charges for services	172,901	165,372
Intergovernmental - grants	209,228	200,762
Fines and forfeits	20,689	20,186
Contributions	500	—
Investment income (loss)	8,373	(6,991)
Other	19,273	18,051
Total revenues	2,867,737	2,707,196
Expenditures		
Current		
General government	295,132	286,030
Public safety	1,572,391	1,536,217
Public works	235,064	220,501
Health	57,141	59,636
Housing and community development	1,070	276
Parks and recreation	85,184	73,301
Library	48,190	40,607
Retiree benefits	12,612	11,837
Capital outlay	61,135	36,352
Debt Service		
Debt service principal	24,570	6,574
Debt service interest	3,362	1,632
Total expenditures	2,395,851	2,272,963
Other financing sources (uses)		
Proceeds from issuance of debt	25,000	31,000
Issuance of debt for leases and SBITA	36,891	6,833
Sale of capital assets	5,815	6,998
Transfers in	72,192	70,037
Transfers out	(482,188)	(477,968)
Total other financing sources (uses)	(342,290)	(363,100)
Change in fund balance	129,596	71,133
Fund balance, July 1	420,659	349,526
Fund balance, June 30	$ 550,255	$ 420,659

DEBT SERVICE FUND
Balance Sheet
June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	2023	2022
Assets		
Cash and cash equivalents	$ 23,475	$ 36,721
Investments	148,717	112,672
Receivables, net of allowances		
Accounts receivable	—	246
Total assets	$ 172,192	$ 149,639
Liabilities and fund balance		
Liabilities		
Accounts payable	$ 144	$ 144
Total liabilities	144	144
Fund balance		
Restricted	172,048	149,495
Total fund balance	172,048	149,495
Total liabilities and fund balance	$ 172,192	$ 149,639

DEBT SERVICE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance: Budget vs. Actual
For the Year Ended June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	2023			Variance with Final Budget- Pos (Neg)	2022 Actual
	Budget Amounts				
	Original	Final	Actual		
Revenues					
Investment income (loss)	$ 4,437	$ 4,437	$ 3,044	$ (1,393)	$ (4,347)
Other	28,850	28,850	417	(28,433)	639
Total revenues	33,287	33,287	3,461	(29,826)	(3,708)
Expenditures					
Debt service principal	269,445	269,445	270,745	(1,300)	264,844
Debt service interest	138,592	138,592	138,761	(169)	142,932
Debt service fiscal agent & fees	6,138	5,850	2,740	3,110	4,528
Total expenditures	414,175	413,887	412,246	1,641	412,304
Other financing sources (uses)					
Proceeds from issuance of debt	—	—	38,700	38,700	305,861
Premium on refunding debt	—	—	—	—	35,170
Transfers in	400,026	400,026	392,638	(7,388)	414,131
Payment to escrow agent for refunded bonds	—	—	—	—	(338,940)
Total other financing sources (uses)	400,026	400,026	431,338	31,312	416,222
Change in fund balance	19,138	19,426	22,553	3,127	210
Fund balance, July 1	149,285	149,285	149,495	210	149,285
Fund balance, June 30	$ 168,423	$ 168,711	$ 172,048	$ 3,337	$ 149,495

CAPITAL PROJECTS FUND
Balance Sheet
June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	2023	2022
Assets		
Cash and cash equivalents	$ 54,866	$ 44,017
Investments	333,739	241,901
Receivables, net of allowances		
Accounts receivable	1	1
Due from other funds	11,698	9,180
Due from other governments	22,784	26,970
Prepaid items - Construction materials	896	2,048
Notes receivable	2,400	5,000
Total assets	$ 426,384	$ 329,117
Liabilities and fund balance		
Liabilities		
Accounts payable	77,676	62,856
Due to other funds	21,209	24,244
Unearned revenue	160,793	98,025
Due to other governments	1,373	11,778
Total liabilities	261,051	196,903
Fund balance		
Prepaids	896	2,048
Restricted	24,122	19,725
Assigned	140,315	110,441
Total fund balance	165,333	132,214
Total liabilities and fund balance	$ 426,384	$ 329,117

CAPITAL PROJECTS FUND
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	2023	2022
Revenues		
Intergovernmental - grants	$ 57,867	$ 74,057
Investment income (loss)	3,028	(8,239)
Other	13,330	12,164
Total revenues	74,225	77,982
Expenditures		
Current		
General government	9,478	398
Public safety	13,756	3,324
Public works	5,718	4,262
Health	4,503	—
Housing and community development	152	6,077
Parks and recreation	5,675	123
Library	1,321	78
Capital outlay	228,941	313,868
Total expenditures	269,544	328,130
Other financing sources (uses)		
Proceeds from issuance of debt	85,000	138,487
Transfers in	147,176	160,444
Transfers out	(3,738)	(58,440)
Total other financing sources (uses)	228,438	240,491
Change in fund balance	33,119	(9,657)
Fund balance, July 1	132,214	141,871
Fund balance, June 30	$ 165,333	$ 132,214

ARPA Fiscal Recovery Fund
Balance Sheet
June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	2023	2022
Assets		
Cash and cash equivalents	$ 259,149	$ 456,434
Due from other funds	11	—
Total assets	$ 259,160	$ 456,434
Liabilities and fund balance		
Liabilities		
Accounts payable	$ 4,763	$ 802
Accrued payroll liabilities	355	1,128
Due to other funds	—	2
Unearned revenue	247,417	454,028
Total liabilities	252,535	455,960
Fund balance		
Restricted	6,625	474
Total fund balance	6,625	474
Total liabilities and fund balance	$ 259,160	$ 456,434

ARPA Fiscal Recovery Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	2023	2022
Revenues		
Intergovernmental - grants	$ 44,035	$ 14,305
Investment income	6,151	471
Total revenues	50,186	14,776
Expenditures		
General government	3,530	440
Public safety	23,461	10,776
Health	—	3,090
Library	1,782	—
Parks	444	—
Public Works	3,735	—
Capital outlay	11,083	—
Total expenditures	44,035	14,306
Change in fund balance	6,151	470
Fund balance, July 1	474	4
Fund balance, June 30	$ 6,625	$ 474

GRANTS FUND
Balance Sheet
June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	2023	2022
Assets		
Cash and cash equivalents	$ 18,222	$ 26,517
Receivables, net of allowances		
Accounts receivable	1,608	29,439
Due from other funds	281	592
Due from other governments	251,965	224,954
Inventory	752	707
Notes receivable	98,518	98,559
Total assets	$ 371,346	$ 380,768
Liabilities and fund balance		
Liabilities		
Accounts payable	$ 65,830	$ 97,395
Accrued payroll liabilities	1,776	4,918
Due to other funds	6,676	6,519
Due to other governments	15,224	717
Advances and deposits	290	289
Unearned revenue	24,069	14,290
Total liabilities	113,865	124,128
Deferred inflows of resources		
Deferred inflow of resources	66,018	66,059
Total deferred inflows of resources	66,018	66,059
Fund balance		
Non-Spendable		
Inventory	752	707
Restricted	190,711	189,874
Total fund balance	191,463	190,581
Total liabilities and fund balance	$ 371,346	$ 380,768

GRANTS FUND
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	2023	2022
Revenues		
Intergovernmental - grants	$ 441,648	$ 669,914
Investment income (loss)	(707)	822
Other	3	19
Total revenues	440,944	670,755
Expenditures		
Current		
General government	17,092	26,994
Public safety	31,166	28,625
Public works	8,316	30,364
Health	145,025	150,473
Housing and community development	205,612	381,916
Parks and recreation	1,346	848
Library	136	68
Capital outlay	26,471	23,531
Debt service principal	60	253
Debt service interest	646	208
Total expenditures	435,870	643,280
Other financing sources (uses)		
Transfers in	399	590
Transfers out	(4,591)	(413)
Total other financing sources (uses)	(4,192)	177
Change in fund balance	882	27,652
Fund balance, July 1	190,581	162,929
Fund balance, June 30	$ 191,463	$ 190,581

NONMAJOR GOVERNMENTAL FUNDS
Combining Balance Sheet
June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	Nonmajor Funds		
	Public Safety Special Fund	**Public Works Special Fund**	**Health & Housing Special Fund**
Assets			
Cash and cash equivalents	$ 5,504	$ 39,513	$ 21,763
Investments	29,255	221,329	123,882
Receivables, net of allowances			
Accounts receivable	2,510	11,352	99
Due from other funds	234	102	315
Due from other governments	1,057	70,682	—
Inventory	—	2,791	—
Notes receivable	—	—	1,219
Total assets	$ 38,560	$ 345,769	$ 147,278
Liabilities and fund balance			
Liabilities			
Accounts payable	$ 1,429	$ 10,041	$ 2,497
Accrued payroll liabilities	620	1,593	242
Due to other funds	78	655	30
Due to other governments	1	—	—
Advances and deposits	2,871	1,436	8
Compensated absences	2	138	8
Total liabilities	5,001	13,863	2,785
Deferred inflows of resources			
Deferred inflow of resources	222	10,880	1,270
Total deferred inflows of resources	222	10,880	1,270
Fund balance			
Non-Spendable			
Inventory	—	2,791	—
Restricted	8,339	279,047	134,358
Committed	24,998	39,188	8,865
Total fund balance	33,337	321,026	143,223
Total liabilities and fund balance	$ 38,560	$ 345,769	$ 147,278

(Continued)

Nonmajor Funds			
Parks & Recreation Special Fund	**Other Special Revenue Fund**	**2023**	**2022**
$ 1,261	$ 19,652	$ 87,693	$ 100,074
6,954	121,524	502,944	489,048
666	9,831	24,458	16,904
–	1	652	25,507
–	–	71,739	23,318
–	–	2,791	3,304
–	2,727	3,946	2,150
$ 8,881	$ 153,735	$ 694,223	$ 660,305
$ 351	$ 11,561	$ 25,879	$ 19,353
80	123	2,658	7,136
—	5,010	5,773	34,182
20	1,730	1,751	1,555
887	459	5,661	4,820
—	—	148	102
1,338	18,883	41,870	67,148
107	3,449	15,928	15,540
107	3,449	15,928	15,540
–	–	2,791	3,304
162	127,317	549,223	504,289
7,274	4,086	84,411	70,024
7,436	131,403	636,425	577,617
$ 8,881	$ 153,735	$ 694,223	$ 660,305

NONMAJOR GOVERNMENTAL FUNDS
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	Nonmajor Funds		
	Public Safety Special Fund	**Public Works Special Fund**	**Health & Housing Special Fund**
Revenues			
Franchise Tax	$ —	$ 445	$ —
Mixed Beverage Tax	—	—	—
Property Taxes	—	—	—
Sales Tax	—	—	—
Licenses and permits	3,074	75,598	4,983
Charges for services	6,078	153,669	3,589
Intergovernmental - grants	17,605	70,682	17,251
Fines and forfeits	1,310	11	—
Investment (loss) income	597	6,263	2,854
Other	18,715	2,663	11,126
Total revenues	47,379	309,331	39,803
Expenditures			
Current			
General government	—	—	—
Public safety	51,649	—	—
Public works	—	158,830	—
Health	—	—	37,149
Housing and community development	—	—	13
Parks and recreation	—	—	—
Capital outlay	82	29,515	36
Debt service fiscal agent & fees	—	520	—
Total expenditures	51,731	188,865	37,198
Other financing sources (uses)			
Sale of capital assets	—	24	—
Transfers in	11,280	76,965	4,108
Transfers out	(1,900)	(150,634)	—
Total other financing sources (uses)	9,380	(73,645)	4,108
Change in fund balance	5,028	46,821	6,713
Fund balance, July 1	28,309	274,205	136,510
Fund balance, June 30	$ 33,337	$ 321,026	$ 143,223

(Continued)

Nonmajor Funds			
Parks & Recreation Special Fund	Other Special Revenue Fund	2023	2022
$ —	$ —	$ 445	$ 459
—	407	407	305
—	41,146	41,146	47,373
—	4,866	4,866	2,034
163	256	84,074	79,650
10,948	10,152	184,436	170,200
—	14,286	119,824	126,432
—	8,935	10,256	10,666
109	2,847	12,670	(14,973)
1,080	3,634	37,218	31,613
12,300	86,529	495,342	453,759
—	82,040	82,040	73,089
—	—	51,649	50,603
—	—	158,830	141,191
—	—	37,149	26,198
—	—	13	5,137
10,472	—	10,472	9,849
22	257	29,912	41,130
—	—	520	468
10,494	82,297	370,585	347,665
—	(3)	21	—
—	1,200	93,553	107,212
—	(6,989)	(159,523)	(156,197)
—	(5,792)	(65,949)	(48,985)
1,806	(1,560)	58,808	57,109
5,630	132,963	577,617	520,508
$ 7,436	$ 131,403	$ 636,425	$ 577,617

PUBLIC SAFETY SPECIAL FUND - ASSET FORFEITURE

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2023

(With comparative totals for 2022)

(amounts expressed in thousands)

	2023			Variance with Final Budget- Pos (Neg)	2022 Actual
	Budget Amounts				
	Original	Final	Actual		
Revenues					
Confiscations	$ 2,036	$ 2,036	$ 4,762	$ 2,726	$ 3,723
Investment income (loss)	6	6	107	101	(164)
Total revenues	2,042	2,042	4,869	2,827	3,559
Expenditures					
Current					
Public safety	5,568	6,450	3,507	2,943	1,785
Capital outlay	—	121	57	64	124
Total expenditures	5,568	6,571	3,564	3,007	1,909
Change in fund balance	(3,526)	(4,529)	1,305	5,834	1,650
Fund balance, July 1	5,453	5,453	5,453	—	3,803
Fund balance, June 30	$ 1,927	$ 924	$ 6,758	$ 5,834	$ 5,453

PUBLIC SAFETY SPECIAL FUND - AUTO DEALERS
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023			Variance with Final Budget- Pos (Neg)	2022 Actual
	Budget Amounts				
	Original	Final	Actual		
Revenues					
Licenses and permits	$ 2,640	$ 2,640	$ 2,837	$ 197	$ 2,702
Charges for services	883	883	847	(36)	897
Investment income (loss)	50	50	132	82	(231)
Other	5,000	5,000	8,246	3,246	9,958
Total revenues	8,573	8,573	12,062	3,489	13,326
Expenditures					
Current					
Public safety	7,443	7,443	6,987	456	6,417
Capital outlay	400	400	14	386	95
Total expenditures	7,843	7,843	7,001	842	6,512
Other financing sources (uses)					
Transfers out	(1,900)	(1,900)	(1,900)	—	(1,750)
Total other financing sources (uses)	(1,900)	(1,900)	(1,900)	—	(1,750)
Change in fund balance	(1,170)	(1,170)	3,161	4,331	5,064
Fund balance, July 1	6,738	6,738	6,738	—	1,674
Fund balance, June 30	$ 5,568	$ 5,568	$ 9,899	$ 4,331	$ 6,738

PUBLIC SAFETY SPECIAL FUND - CHILD SAFETY
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023			Variance with Final Budget- Pos (Neg)	2022 Actual
	Budget Amounts				
	Original	Final	Actual		
Revenues					
Fines and forfeits	$ 700	$ 700	$ 682	$ (18)	$ 694
Investment income (loss)	11	11	36	25	(35)
Other	2,650	2,650	2,533	(117)	2,566
Total revenues	3,361	3,361	3,251	(110)	3,225
Expenditures					
Current					
Public safety	3,361	3,189	3,180	9	3,794
Total expenditures	3,361	3,189	3,180	9	3,794
Change in fund balance	—	172	71	(101)	(569)
Fund balance, July 1	(40)	(40)	(40)	—	529
Fund balance, June 30	$ (40)	$ 132	$ 31	$ (101)	$ (40)

PUBLIC SAFETY SPECIAL FUND - HOUSTON EMERGENCY CENTER
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023			Variance with Final Budget-Pos (Neg)	2022 Actual
	Budget Amounts				
	Original	Final	Actual		
Revenues					
Charges for services	$ 280	$ 280	$ 285	$ 5	$ 282
Intergovernmental - grants	19,002	19,002	17,330	(1,672)	15,327
Investment income (loss)	—	—	53	53	(93)
Total revenues	19,282	19,282	17,668	(1,614)	15,516
Expenditures					
Current					
Public safety	32,161	32,161	27,131	5,030	26,005
Capital outlay	—	—	(14)	14	—
Total expenditures	32,161	32,161	27,117	5,044	26,005
Other financing sources (uses)					
Transfers in	9,820	9,820	10,070	250	9,794
Total other financing sources (uses)	9,820	9,820	10,070	250	9,794
Change in fund balance	(3,059)	(3,059)	621	3,680	(695)
Fund balance, July 1	4,301	4,301	4,301	—	4,996
Fund balance, June 30	$ 1,242	$ 1,242	$ 4,922	$ 3,680	$ 4,301

PUBLIC SAFETY SPECIAL FUND - LOCAL TRUANCY PREVENTION AND DIVERSION
(formerly JUVENILE CASE MANAGER FEE FUND)
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023			Variance with Final Budget- Pos (Neg)	2022 Actual
	Budget Amounts				
	Original	Final	Actual		
Revenues					
Charges for services	$ 97	$ 97	$ 73	$ (24)	$ 96
Fines and forfeits	492	492	615	123	537
Investment income (loss)	7	7	13	6	(21)
Total revenues	596	596	701	105	612
Expenditures					
Current					
Public safety	990	990	234	756	608
Total expenditures	990	990	234	756	608
Change in fund balance	(394)	(394)	467	861	4
Fund balance, July 1	784	784	784	—	780
Fund balance, June 30	$ 390	$ 390	$ 1,251	$ 861	$ 784

PUBLIC SAFETY SPECIAL FUND - MUNICIPAL COURTS TECHNOLOGY FEE
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023			Variance with Final Budget- Pos (Neg)	
	Budget Amounts				
	Original	Final	Actual		2022 Actual
Revenues					
Investment income (loss)	$ 14	$ 14	$ 42	$ 28	$ (50)
Other	781	781	749	(32)	803
Total revenues	795	795	791	(4)	753
Expenditures					
Current					
Public safety	1,172	1,172	978	194	876
Capital outlay	115	115	—	115	—
Total expenditures	1,287	1,287	978	309	876
Change in fund balance	(492)	(492)	(187)	305	(123)
Fund balance, July 1	1,739	1,739	1,739	—	1,862
Fund balance, June 30	$ 1,247	$ 1,247	$ 1,552	$ 305	$ 1,739

PUBLIC SAFETY SPECIAL FUND - POLICE SPECIAL SERVICES
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023			Variance with Final Budget- Pos (Neg)	2022 Actual
	Budget Amounts				
	Original	Final	Actual		
Revenues					
Licenses and permits	$ 215	$ 215	$ 237	$ 22	$ 222
Charges for services	4,299	4,299	4,528	229	3,796
Intergovernmental - grants	275	275	274	(1)	275
Investment income (loss)	100	100	192	92	(205)
Other	1,828	1,828	2,425	597	3,044
Total revenues	6,717	6,717	7,656	939	7,132
Expenditures					
Current					
Public safety	10,843	10,843	9,531	1,312	11,032
Capital outlay	90	90	22	68	25
Total expenditures	10,933	10,933	9,553	1,380	11,057
Other financing sources (uses)					
Transfers in	1,210	1,210	1,210	—	1,210
Total other financing sources (uses)	1,210	1,210	1,210	—	1,210
Change in fund balance	(3,006)	(3,006)	(687)	2,319	(2,715)
Fund balance, July 1	7,958	7,958	7,958	—	10,673
Fund balance, June 30	$ 4,952	$ 4,952	$ 7,271	$ 2,319	$ 7,958

PUBLIC WORKS SPECIAL FUND - BUILDING INSPECTION
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023 Budget Amounts Original	2023 Budget Amounts Final	2023 Actual	2023 Variance with Final Budget- Pos (Neg)	2022 Actual
Revenues					
Taxes and assessments					
Franchise Tax	$ 480	$ 480	$ 445	$ (35)	$ 459
Licenses and permits	67,126	67,126	75,040	7,914	69,175
Charges for services	23,121	23,121	22,971	(150)	21,889
Fines and forfeits	7	7	11	4	11
Investment income (loss)	250	250	448	198	(686)
Other	465	465	552	87	474
Total revenues	91,449	91,449	99,467	8,018	91,322
Expenditures					
Current					
Public works	94,561	94,470	89,863	4,607	80,800
Capital outlay	1,005	1,286	92	1,194	4,948
Total expenditures	95,566	95,756	89,955	5,801	85,748
Other financing sources (uses)					
Sale of capital assets	68	68	(56)	(124)	—
Transfers in	—	—	2	2	—
Transfers out	(7,424)	(7,234)	(7,234)	—	(10,694)
Total other financing sources (uses)	(7,356)	(7,166)	(7,288)	(122)	(10,694)
Change in fund balance	(11,473)	(11,473)	2,224	13,697	(5,120)
Fund balance, July 1	17,798	17,798	17,798	—	22,918
Fund balance, June 30	$ 6,325	$ 6,325	$ 20,022	$ 13,697	$ 17,798

PUBLIC WORKS SPECIAL FUND - DDSRF- DRAINAGE CHARGE
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023				
	Budget Amounts				
	Original	Final	Actual	Variance with Final Budget- Pos (Neg)	2022 Actual
Revenues					
Charges for services	$ 112,495	$ 112,495	$ 114,903	$ 2,408	$ 106,754
Miscellaneous/Other	2	2	—	(2)	84
Investment income (loss)	920	920	2,633	1,713	(3,790)
Total revenues	113,417	113,417	117,536	4,119	103,048
Expenditures					
Current					
Public works	8,231	8,231	3,703	4,528	2,407
Capital outlay	—	174	—	174	(248)
Debt service fiscal agent & fees	450	450	520	(70)	468
Total expenditures	8,681	8,855	4,223	4,632	2,627
Other financing sources (uses)					
Transfers in	—	—	740	740	14,925
Transfers out	(104,032)	(103,858)	(65,857)	38,001	(79,093)
Total other financing sources (uses)	(104,032)	(103,858)	(65,117)	38,741	(64,168)
Change in fund balance	704	704	48,196	47,492	36,253
Fund balance, July 1	145,320	145,320	145,320	—	109,067
Fund balance, June 30	$ 146,024	$ 146,024	$ 193,516	$ 47,492	$ 145,320

PUBLIC WORKS SPECIAL FUND - DDSRF - AD VALOREM
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023				
	Budget Amounts				
	Original	Final	Actual	Variance with Final Budget-Pos (Neg)	2022 Actual
Revenues					
Investment income (loss)	$ 900	$ 900	$ 3,375	$ 2,475	$ (2,484)
Total revenues	900	900	3,375	2,475	(2,484)
Expenditures					
Current					
Public works	—	130	5,012	(4,882)	2,944
Capital outlay	14,980	19,256	6,142	13,114	5,091
Total expenditures	14,980	19,386	11,154	8,232	8,035
Other financing sources (uses)					
Sale of capital assets	—	—	100	100	—
Transfers in	76,179	76,179	76,215	36	74,995
Transfers out	(102,032)	(97,626)	(75,975)	(21,651)	(54,883)
Total other financing sources (uses)	(25,853)	(21,447)	340	(21,515)	20,112
Change in fund balance	(39,933)	(39,933)	(7,439)	32,494	9,593
Fund balance, July 1	92,384	92,384	92,384	—	82,791
Fund balance, June 30	$ 52,451	$ 52,451	$ 84,945	$ 32,494	$ 92,384

PUBLIC WORKS SPECIAL FUND - DDSRF - METRO ET AL
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023				
	Budget Amounts				
	Original	Final	Actual	Variance with Final Budget-Pos (Neg)	2022 Actual
Revenues					
Charges for services	$ 660	$ 660	$ 369	$ (291)	$ 379
Licenses & Permits	2,003	2,003	—	(2,003)	1,417
Intergovernmental Revenue	81,839	81,839	70,682	(11,157)	73,059
Miscellaneous/Other	477	477	847	370	577
Investment income (loss)	—	—	(459)	(459)	590
Total revenues	84,979	84,979	71,439	(13,540)	76,022
Expenditures					
Current					
Public works	84,114	78,484	47,229	31,255	44,719
Capital outlay	592	269	23,248	(22,979)	30,796
Total expenditures	84,706	78,753	70,477	8,276	75,515
Other financing sources (uses)					
Sale of capital assets	—	—	(23)	(23)	—
Transfers out	(1,763)	(1,763)	—	(1,763)	—
Total other financing sources (uses)	(1,763)	(1,763)	(23)	(1,786)	—
Change in fund balance	(1,490)	4,463	939	(3,524)	507
Fund balance, July 1	2,437	2,437	2,437	—	1,930
Fund balance, June 30	$ 947	$ 6,900	$ 3,376	$ (3,524)	$ 2,437

PUBLIC WORKS SPECIAL FUND - HISTORIC PRESERVATION
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023				
	Budget Amounts				
	Original	Final	Actual	Variance with Final Budget-Pos (Neg)	2022 Actual
Revenues					
Charges for services	$ 200	$ 200	$ 216	$ 16	$ 193
Investment income (loss)	10	10	37	27	(47)
Total revenues	210	210	253	43	146
Expenditures					
Current					
Public Works	475	475	134	341	124
Total expenditures	475	475	134	341	124
Change in fund balance	(265)	(265)	119	384	22
Fund balance, July 1	1,794	1,794	1,794	—	1,772
Fund balance, June 30	$ 1,529	$ 1,529	$ 1,913	$ 384	$ 1,794

PUBLIC WORKS SPECIAL FUND - PLANNING & DEVELOPMENT SPECIAL
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023				
	Budget Amounts				
	Original	Final	Actual	Variance with Final Budget-Pos (Neg)	2022 Actual
Revenues					
Licenses and permits	$ 491	$ 491	$ 472	$ (19)	$ 499
Charges for services	10,075	10,075	9,348	(727)	10,643
Investment income (loss)	90	90	158	68	(225)
Other	45	45	49	4	49
Total revenues	10,701	10,701	10,027	(674)	10,966
Expenditures					
Current					
Public works	11,882	11,882	8,383	3,499	9,585
Total expenditures	11,882	11,882	8,383	3,499	9,585
Change in fund balance	(1,181)	(1,181)	1,644	2,825	1,381
Fund balance, July 1	8,433	8,433	8,433	—	7,052
Fund balance, June 30	$ 7,252	$ 7,252	$ 10,077	$ 2,825	$ 8,433

PUBLIC WORKS SPECIAL FUND - RECYCLING REVENUE
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023				
	Budget Amounts				
	Original	Final	Actual	Variance with Final Budget-Pos (Neg)	2022 Actual
Revenues					
Licenses and permits	$ 130	$ 130	$ 86	$ (44)	$ 66
Investment income (loss)	20	20	130	110	(152)
Other	263	263	1,214	951	2,560
Total revenues	413	413	1,430	1,017	2,474
Expenditures					
Current					
Capital outlay	—	—	35	(35)	—
Parks and recreation	2,600	2,600	1,422	1,178	611
Total expenditures	2,600	2,600	1,457	1,143	611
Other financing sources (uses)					
Sale of capital assets	95	95	3	(92)	–
Transfers in	3,863	3,863	8	(3,855)	3,863
Transfers out	(1,568)	(1,568)	(1,568)	—	(1,568)
Total other financing sources (uses)	2,390	2,390	(1,557)	(3,947)	2,295
Change in fund balance	203	203	(1,584)	(1,787)	4,158
Fund balance, July 1	5,429	5,429	5,429	—	1,271
Fund balance, June 30	$ 5,632	$ 5,632	$ 3,845	$ (1,787)	$ 5,429

HEALTH & HOUSING SPECIAL FUND - ESSENTIAL PUBLIC HEALTH SERVICES
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023				
	Budget Amounts				
	Original	Final	Actual	Variance with Final Budget-Pos (Neg)	2022 Actual
Revenues					
Charges for services	$ 13	$ 13	$ 9	$ (4)	$ 27
Intergovernmental - grants	20,298	20,298	15,245	(5,053)	23,898
Investment income (loss)	271	271	526	255	(789)
Other	—	—	10,278	10,278	—
Total revenues	20,582	20,582	26,058	5,476	23,136
Expenditures					
Current					
Health	18,903	18,933	11,561	7,372	12,121
Capital outlay	30	—	—	—	40
Total expenditures	18,933	18,933	11,561	7,372	12,161
Change in fund balance	1,649	1,649	14,497	12,848	10,975
Fund balance, July 1	32,342	32,342	32,342	—	21,367
Fund balance, June 30	$ 33,991	$ 33,991	$ 46,839	$ 12,848	$ 32,342

HEALTH & HOUSING SPECIAL FUND - HEALTH SPECIAL
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023				
	Budget Amounts				
	Original	Final	Actual	Variance with Final Budget- Pos (Neg)	2022 Actual
Revenues					
Licenses and permits	$ 464	$ 464	$ 426	$ (38)	$ 500
Charges for services	1,116	1,116	1,155	39	1,198
Intergovernmental - grants	3,682	3,682	2,006	(1,676)	3,006
Investment income (loss)	40	40	91	51	(108)
Other	76	76	94	18	58
Total revenues	5,378	5,378	3,772	(1,606)	4,654
Expenditures					
Current					
Health	9,460	9,486	4,865	4,621	5,973
Capital outlay	111	85	10	75	2
Total expenditures	9,571	9,571	4,875	4,696	5,975
Other financing sources (uses)					
Transfers in	2,430	2,430	3,430	1,000	400
Total other financing sources (uses)	2,430	2,430	3,430	1,000	400
Change in fund balance	(1,763)	(1,763)	2,327	4,090	(921)
Fund balance, July 1	3,874	3,874	3,874	—	4,795
Fund balance, June 30	$ 2,111	$ 2,111	$ 6,201	$ 4,090	$ 3,874

HEALTH & HOUSING SPECIAL FUND - LABORATORY SERVICES
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023				
	Budget Amounts				
	Original	Final	Actual	Variance with Final Budget-Pos (Neg)	2022 Actual
Revenues					
Charges for services	$ 486	$ 486	$ 389	$ (97)	$ 399
Investment income (loss)	5	5	4	(1)	(8)
Other	60	60	48	(12)	60
Total revenues	551	551	441	(110)	451
Expenditures					
Current					
Health	567	567	326	241	455
Total expenditures	567	567	326	241	455
Change in fund balance	(16)	(16)	115	131	(4)
Fund balance, July 1	276	276	276	—	280
Fund balance, June 30	$ 260	$ 260	$ 391	$ 131	$ 276

HEALTH & HOUSING SPECIAL FUND - SPECIAL WASTE TRANSPORTATION & INSPECTION FUND
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023				
	Budget Amounts				
	Original	Final	Actual	Variance with Final Budget-Pos (Neg)	2022 Actual
Revenues					
Licenses and permits	$ 3,039	$ 3,039	$ 3,191	$ 152	$ 3,042
Charges for services	1,200	1,200	929	(271)	1,200
Investment income (loss)	40	40	20	(20)	(42)
Total revenues	4,279	4,279	4,140	(139)	4,200
Expenditures					
Current					
Health	5,351	5,135	3,500	1,635	5,151
Capital outlay	—	216	—	216	—
Total expenditures	5,351	5,351	3,500	1,851	5,151
Other financing sources (uses)					
Transfers in	350	350	350	—	350
Total other financing sources (uses)	350	350	350	—	350
Change in fund balance	(722)	(722)	990	1,712	(601)
Fund balance, July 1	1,243	1,243	1,243	—	1,844
Fund balance, June 30	$ 521	$ 521	$ 2,233	$ 1,712	$ 1,243

HEALTH & HOUSING SPECIAL FUND - SWIMMING POOL SAFETY
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023				
	Budget Amounts				
	Original	Final	Actual	Variance with Final Budget-Pos (Neg)	2022 Actual
Revenues					
Licenses and permits	$ 1,478	$ 1,478	$ 1,367	$ (111)	$ 1,479
Investment income (loss)	16	16	30	14	(35)
Total revenues	1,494	1,494	1,397	(97)	1,444
Expenditures					
Current					
Health	2,298	2,298	1,525	773	1,231
Capital outlay	216	216	—	216	65
Total expenditures	2,514	2,514	1,525	989	1,296
Change in fund balance	(1,020)	(1,020)	(128)	892	148
Fund balance, July 1	1,309	1,309	1,309	—	1,161
Fund balance, June 30	$ 289	$ 289	$ 1,181	$ 892	$ 1,309

PARKS & RECREATION SPECIAL FUND - BAYOU GREENWAY 2020
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023				
	Budget Amounts				
	Original	Final	Actual	Variance with Final Budget-Pos (Neg)	2022 Actual
Revenues					
Charges for services	$ 1,345	$ 1,345	$ 1,034	$ (311)	1022
Investment income (loss)	12	12	29	17	(38)
Total revenues	1,357	1,357	1,063	(294)	984
Expenditures					
Current					
Parks and recreation	1,241	1,241	981	260	879
Total expenditures	1,241	1,241	981	260	879
Change in fund balance	116	116	82	(34)	105
Fund balance, July 1	1,446	1,446	1,446	—	1,341
Fund balance, June 30	$ 1,562	$ 1,562	$ 1,528	$ (34)	$ 1,446

PARKS & RECREATION SPECIAL FUND - PARKS GOLF

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023				
	Budget Amounts			Variance with Final Budget-	2022
	Original	Final	Actual	Pos (Neg)	Actual
Revenues					
Charges for services	$ 7,784	$ 7,784	$ 7,859	$ 75	$ 7,441
Investment income (loss)	15	15	28	13	(45)
Other	—	—	—	—	—
Total revenues	7,799	7,799	7,887	88	7,396
Expenditures					
Current					
Parks and recreation	7,833	7,833	7,498	335	6,887
Total expenditures	7,833	7,833	7,498	335	6,887
Other financing sources (uses)					
Transfers out	(200)	(200)	(200)	—	(200)
Total other financing sources (uses)	(200)	(200)	(200)	—	(200)
Change in fund balance	(234)	(234)	189	423	309
Fund balance, July 1	1,726	1,726	1,726	—	1,417
Fund balance, June 30	$ 1,492	$ 1,492	$ 1,915	$ 423	$ 1,726

PARKS & RECREATION SPECIAL FUND - PARKS SPECIAL
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023				
	Budget Amounts			Variance with Final Budget-Pos (Neg)	2022 Actual
	Original	Final	Actual		
Revenues					
Licenses and permits	$ 143	$ 143	$ 162	$ 19	$ 176
Charges for services	2,033	2,033	2,054	21	1,794
Investment income (loss)	18	18	48	30	(88)
Other	625	625	1,080	455	898
Total revenues	2,819	2,819	3,344	525	2,780
Expenditures					
Current					
Parks and recreation	3,240	3,202	1,993	1,209	2,083
Capital outlay	60	98	22	76	—
Total expenditures	3,300	3,300	2,015	1,285	2,083
Other financing sources (uses)					
Transfers in	200	200	200	—	200
Transfers out	—	—	—	—	(57)
Total other financing sources (uses)	200	200	200	—	143
Change in fund balance	(281)	(281)	1,529	1,810	840
Fund balance, July 1	2,297	2,297	2,297	—	1,457
Fund balance, June 30	$ 2,016	$ 2,016	$ 3,826	$ 1,810	$ 2,297

OTHER SPECIAL REVENUE FUND - CABLE TELEVISION
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023				
	Budget Amounts			Variance with Final Budget-	2022
	Original	Final	Actual	Pos (Neg)	Actual
Revenues					
Charges for services	$ —	$ —	$ —	$ —	$ 213
Investment income (loss)	65	65	122	57	(147)
Other	3,341	3,341	2,966	(375)	3,358
Total revenues	3,406	3,406	3,088	(318)	3,424
Expenditures					
Current					
General government	3,904	4,774	3,496	1,278	3,638
Capital outlay	2,500	1,630	319	1,311	44
Total expenditures	6,404	6,404	3,815	2,589	3,682
Other financing sources (uses)					
Transfers in	1,039	1,039	800	(239)	800
Total other financing sources (uses)	1,039	1,039	800	(239)	800
Change in fund balance	(1,959)	(1,959)	73	2,032	542
Fund balance, July 1	5,758	5,758	5,758	—	5,216
Fund balance, June 30	$ 3,799	$ 3,799	$ 5,831	$ 2,032	$ 5,758

OTHER SPECIAL REVENUE FUND - CONTRACTORS RESPONSIBILITY
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023				
	Budget Amounts			Variance with Final Budget- Pos (Neg)	2022
	Original	Final	Actual		Actual
Revenues					
Investment income (loss)	$ 14	$ 14	$ 22	$ 8	$ (38)
Other	761	761	1,094	333	962
Total revenues	775	775	1,116	341	924
Expenditures					
Current					
General government	575	575	407	168	364
Total expenditures	575	575	407	168	364
Other financing sources (uses)					
Transfers out	(630)	(630)	(630)	—	(1,130)
Total other financing sources (uses)	(630)	(630)	(630)	—	(1,130)
Change in fund balance	(430)	(430)	79	509	(570)
Fund balance, July 1	1,376	1,376	1,376	—	1,946
Fund balance, June 30	$ 946	$ 946	$ 1,455	$ 509	$ 1,376

OTHER SPECIAL REVENUE FUND - HOUSTON TRANSTAR
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023				
	Budget Amounts			Variance with Final Budget-	2022
	Original	Final	Actual	Pos (Neg)	Actual
Revenues					
Charges for services	$ 937	$ 937	$ 937	$ —	$ 899
Intergovernmental - grants	1,597	1,597	2,267	670	1,584
Investment income (loss)	25	25	88	63	(103)
Other	—	—	—	—	2
Total revenues	2,559	2,559	3,292	733	2,382
Expenditures					
Current					
General government	3,427	3,427	3,380	47	2,299
Capital outlay	—	—	1	(1)	91
Total expenditures	3,427	3,427	3,381	46	2,390
Other financing sources (uses)					
Sale of capital assets	—	—	(3)	(3)	—
Total other financing sources (uses)	—	—	(3)	(3)	—
Change in fund balance	(868)	(868)	(92)	776	(8)
Fund balance, July 1	3,844	3,844	3,844	—	3,852
Fund balance, June 30	$ 2,976	$ 2,976	$ 3,752	$ 776	$ 3,844

OTHER SPECIAL REVENUE FUND - PARK HOUSTON
(formerly PARKING MANAGEMENT SPECIAL REVENUE FUND)
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023				
	Budget Amounts			Variance with Final Budget-	2022
	Original	Final	Actual	Pos (Neg)	Actual
Revenues					
Taxes and assessments					
Parking Violations	$ 9,963	$ 9,963	$ 8,935	$ (1,028)	$ 9,413
Parking Fees	9,544	9,544	9,197	(347)	8,491
Permit Fees	268	268	256	(12)	244
Investment income (loss)	42	42	116	74	(205)
Other	22	22	61	39	34
Total revenues	19,839	19,839	18,565	(1,274)	17,977
Expenditures					
Current					
General government	13,793	13,785	12,131	1,654	11,744
Capital outlay	240	54	(3)	57	—
Total expenditures	14,033	13,839	12,128	1,711	11,744
Other financing sources (uses)					
Transfers out	(6,705)	(6,899)	(6,359)	(540)	(6,395)
Total other financing sources (uses)	(6,705)	(6,899)	(6,359)	(540)	(6,395)
Change in fund balance	(899)	(899)	78	977	(162)
Fund balance, July 1	1,984	1,984	1,984	—	2,146
Fund balance, June 30	$ 1,085	$ 1,085	$ 2,062	$ 977	$ 1,984

CITY OF HOUSTON, TEXAS

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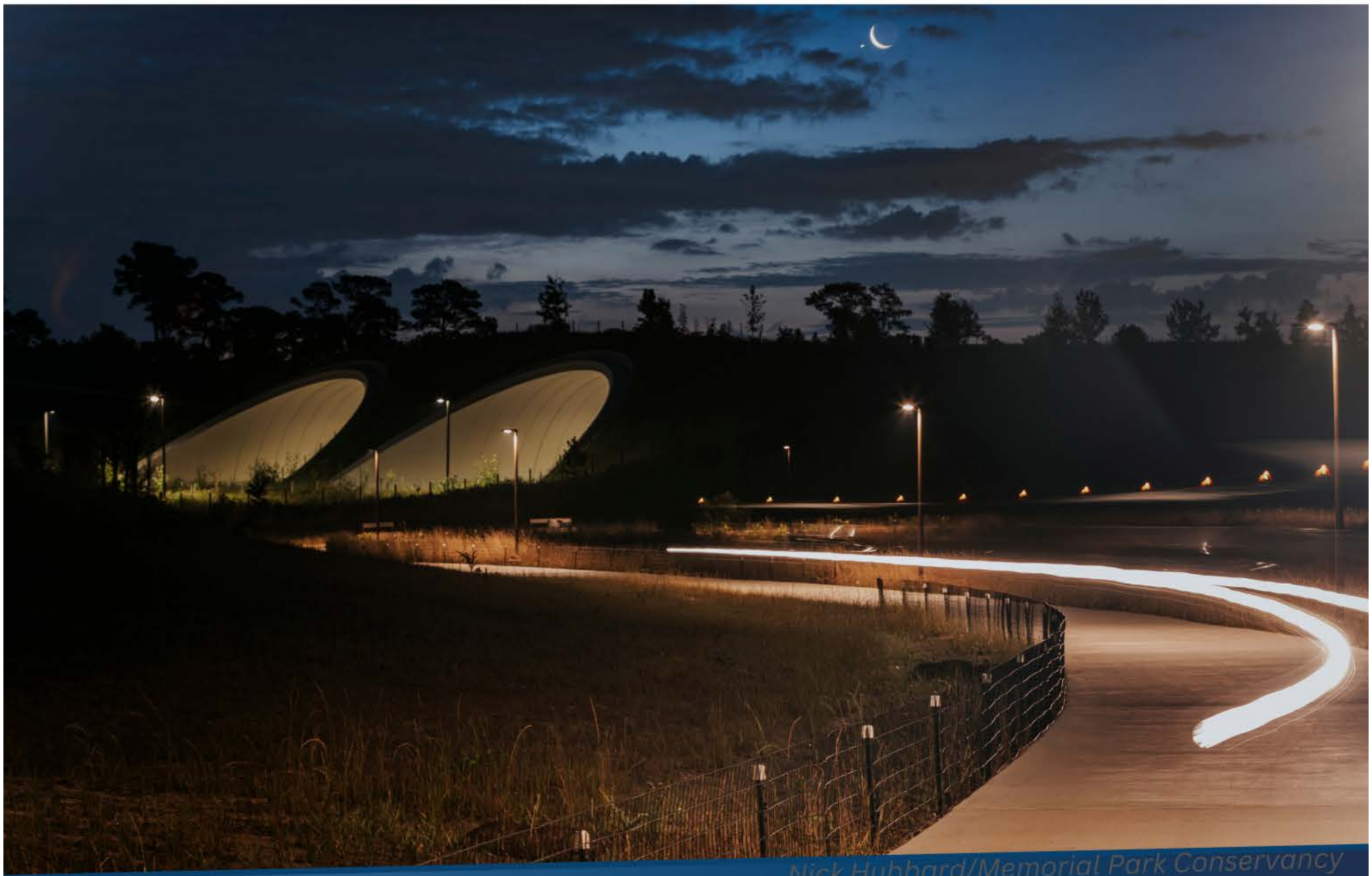

Nick Hubbard/Memorial Park Conservancy

ENTERPRISE FUNDS

Enterprise Funds:

Named to honor the soldiers who fought in World War I and trained in the site, formerly known as Camp Logan, Memorial Park is one of the largest urban parks in the United States spanning more than 1,500 acres. In early 2023, the Memorial Park Conservancy unveiled the park's Land Bridge and Prairie Project, a key step to restoring more than 45 acres of Gulf Coast Prairie, an endangered ecosystem. Featuring a renowned public golf course, scenic drives, running and walking trails, and other outdoor amenities, Memorial Park serves as a key destination for all.

Photo: Nick Hubbard, courtesy of Memorial Park Conservancy

Enterprise Funds

Enterprise funds are established to account for City operations that are financed and operated in a manner similar to private business enterprises where the cost of providing goods or services to the general public is financed primarily through user charges.

Airport System — This fund is used to account for the operations of the City’s Airport System. The system is comprised of George Bush Intercontinental Airport, William P. Hobby Airport and Ellington Airport.

Convention and Entertainment Facilities — This fund is used to account for the managements of the City’s major convention and entertainment centers, as well as parking facilities and selected downtown parks. These centers include George R. Brown Convention Center, Jones Hall, Wortham Theater Center, Bayou Places, Hobby Center, Talento Bilingue de Houston, and Miller Outdoor Theater. The parking facilities include the Theater District Parking Garage, the Convention District Garages and various surface lots. Downtown parks include Sesquicentennial Park, Jones Plaza, Root Memorial Square, and Sabine Promenade.

Combined Utility System — This fund is used to account for the production and transmission of water and the treatment of wastewater for City residents and businesses as well as for other governmental entities located in the Houston area.

AIRPORT SYSTEM
Statements of Net Position
June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	2023	2022
Assets		
Current assets		
Cash and cash equivalents	$ 119,296	$ 206,842
Investments	71,589	142,190
Receivables, net of allowances		
Accounts receivable	10,745	4,841
Due from other funds	559	695
Due from other governments	57,726	90,504
Inventory	2,428	2,563
Prepaid items	7,997	6,975
Lease receivable	12,235	13,859
Restricted assets		
Cash and cash equivalents	209,582	175,229
Investments	93,507	86,238
Restricted accounts receivable	11,762	10,089
Total current assets	597,426	740,025
Noncurrent assets		
Investments	10,532	6,645
Prepaid items	150	160
Lease receivable	235,744	246,716
Restricted assets		
Investments	1,372,045	1,238,485
Total noncurrent assets	1,618,471	1,492,005
Capital assets		
Land	214,457	216,039
Buildings	3,173,385	3,109,559
Improvements and equipment	2,101,279	2,023,100
Construction in progress	869,080	556,914
Intangibles	21,692	21,010
Infrastructure	563,260	558,286
Lease right-of-use assets	295	263
Subscription right-of-use assets	5,254	—
Less accumulated depreciation and amortization	(3,751,302)	(3,618,425)
Net capital assets	3,197,399	2,866,747
Total noncurrent assets	4,815,870	4,358,753
Total assets	5,413,296	5,098,778
Deferred outflows of resources		
Unamortized costs on refunded debt	17,495	21,823
Deferred outflows on pension liability	11,588	2,083
Deferred outflows on OPEB liability	9,508	10,159
Total deferred outflows of resources	$ 38,591	$ 34,065

AIRPORT SYSTEM
Statements of Net Position
June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	2023	2022
Liabilities		
Current Liabilities		
Accounts payable	$ 18,623	$ 11,728
Accrued payroll liabilities	2,299	4,580
Accrued interest payable	42,405	44,118
Contracts and retainages payable	185,666	89,933
Due to other funds	609	1,466
Due to other governments	1,843	1,846
Notes payable	1,217	1,193
Advances and deposits	2,824	2,790
Lease liabilities	45	77
Subscription liabilities	1,303	—
Claims and judgments	1,064	1,181
Compensated absences	6,887	6,820
Special facility bonds payable	8,870	8,165
Other liabilities	—	1,328
Revenue bonds payable	119,710	77,700
Unearned revenue	43,389	32,719
Total current liabilities	436,754	285,644
Noncurrent liabilities		
Revenue bonds payable, net	2,113,786	2,253,712
Special facility bonds payable	43,645	52,515
Claims and judgments	1,890	1,043
Compensated absences	8,277	7,460
Commercial paper	350,000	185,000
Lease liabilities	18	34
Subscription liabilities	2,591	—
Net pension liability	178,211	165,413
Notes payable	13,583	14,800
Other post employment benefits	54,384	70,922
Pension obligation bonds payable	2,006	2,006
Total noncurrent liabilities	2,768,391	2,752,905
Total liabilities	3,205,145	3,038,549
Deferred inflows of resources		
Deferred inflows on pension liability	23,861	38,282
Deferred inflows on OPEB liability	26,804	11,782
Deferred inflows from leases	227,753	246,505
Total deferred inflows of resources	278,418	296,569
Net position		
Net investment in capital assets	591,494	507,167
Restricted net position		
Restricted for debt service	472,782	412,293
Restricted for renewal and replacement	10,000	10,000
Restricted for maintenance and operations	55,457	55,332
Restricted for special facility	55,143	50,953
Restricted for capital improvements	851,491	681,093
Unrestricted (deficit)	(68,043)	80,887
Total net position	$ 1,968,324	$ 1,797,725

AIRPORT SYSTEM
Statements of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	2023	2022
Operating Revenues		
Landing area fees	$ 92,601	$ 94,253
Rentals, building and ground areas	234,751	192,029
Parking	117,460	98,418
Concession	107,691	88,817
Other	7,744	7,657
Total operating revenue	560,247	481,174
Operating Expenses		
Maintenance and operating	400,956	316,001
Depreciation and amortization	170,922	166,792
Total operating expenses	571,878	482,793
Operating income (loss)	(11,631)	(1,619)
Nonoperating revenues (expenses)		
Investment (loss) income	38,706	(47,109)
Customer facility charges	16,075	13,723
Special facility cost	(283)	(128)
Other revenues (expenses)	9,911	10,660
Gain / Loss on disposal of assets	405	(8,594)
Passenger facility charges	108,754	98,446
Interest expense	(78,655)	(76,705)
CARES Act/CRRSAA/ARPA grants	50,230	134,621
Total Nonoperating revenues (expenses)	145,143	124,914
Income before contributions and transfers	133,512	123,295
Capital contributions	37,087	41,047
Change in net position	170,599	164,342
Total net position, July 1	1,797,725	1,633,383
Total net position, June 30	$ 1,968,324	$ 1,797,725

AIRPORT SYSTEM
Statements of Cash Flows
June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	2023	2022
Cash flows from operating activities		
Receipts from customers	$ 561,055	$ 552,383
Payments to employees	(280,257)	(113,985)
Payments to suppliers	(128,669)	(165,416)
Internal activity-payments to other funds	(721)	(69,895)
Other receipts	7,744	7,657
Net cash provided by operating activities	159,152	210,744
Cash flows from investing activities		
Interest income on investments	36,188	12,625
Purchase of investments	(2,311,957)	(3,029,491)
Sales of investments	2,240,360	2,696,088
Net cash used in investing activities	(35,409)	(320,778)
Cash flows from noncapital financing activities		
CARES Act/CRRSAA/ARPA grants	60,625	120,965
Net cash provided by noncapital financing activities	60,625	120,965
Cash flows from capital and related financing activities		
Retirement of revenue bonds	(77,700)	(75,580)
Lease liabilities	(48)	(128)
Subscription liabilities	3,894	—
Retirement of special facility bonds	(8,165)	(7,505)
Proceeds from SECO Loans	—	1,572
Retirement of SECO Loans	(1,193)	—
Proceeds from issuance of commercial paper	165,000	165,000
Interest expense on debt	(96,256)	(88,539)
Passenger facilities charges	107,285	103,851
Customer facilities charges	15,870	13,645
Grant receipts	59,470	(2,983)
Special facility cost	(283)	(128)
Acquisition of property, plant and equipment	(405,436)	(273,909)
Net cash used in capital and related financing activities	(237,562)	(164,704)
Net decrease in cash and cash equivalents	(53,194)	(153,773)
Cash and cash equivalents, July 1	382,072	535,845
Cash and cash equivalents, June 30	$ 328,878	$ 382,072
Cash and cash equivalents		
Pooled cash and cash equivalents (Note 3A)	$ 119,296	$ 206,842
Current restricted cash and cash equivalents (Note 3A)	209,582	175,229
Total cash and cash equivalents, June 30	$ 328,878	$ 382,071

AIRPORT SYSTEM
Statements of Cash Flows
June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	2023	2022
		(Continued)
Reconciliation of operating income (loss) to net cash provided (used in) operating activities		
Operating income (loss)	$ (11,631)	$ (1,619)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	170,922	166,792
Changes in assets and liabilities		
Accounts receivable	(5,904)	50,868
Due from other funds	136	828
Inventory and prepaid insurance	(877)	(1,745)
Lease receivable	22,507	25,463
Accounts payable	6,895	1,345
Accrued payroll liabilities	(2,281)	419
Due to other funds	(857)	1,367
Advances and deposits	34	470
Claims and judgments - workers' compensation	730	(852)
Compensated absences	884	261
Other current liabilities	9,339	23,820
Other post employment benefits	(865)	(18,037)
Pension Obligation payable	(11,128)	(16,261)
Deferred inflow - leases	(18,752)	(22,375)
Net cash provided by operating activities	$ 159,152	$ 210,744
Non cash transactions		
Bond amortization expense	$ (20,216)	$ (15,014)
Capital additions included in liabilities	(185,666)	(51,712)
Unrealized gain and (loss) on investments	2,518	(59,734)
Loss on disposal of assets	405	(8,594)
Total non cash transactions	$ (202,959)	$ (135,054)

CITY OF HOUSTON, TEXAS

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CONVENTION & ENTERTAINMENT
Statement of Net Position
June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	$ 14,067	$ 15,952
Investments	49,503	44,031
Receivables, net of allowances		
Accounts receivable	13	13
Hotel occupancy tax receivable	32,511	22,431
Due from component units	23,724	35,327
Lease asset receivable	1,456	1,431
Total current assets	121,274	119,185
Noncurrent Assets		
Investments	35,061	34,988
Due from component units	258,975	285,839
Lease receivable	3,789	5,245
Total noncurrent restricted assets	297,825	326,072
Capital assets		
Land	93,860	93,860
Buildings	566,148	566,148
Improvements and equipment	8,409	8,409
Infrastructure	334	334
Garage rights	13,144	13,144
Less accumulated depreciation and amortization	(355,690)	(342,846)
Net capital assets	326,205	339,049
Total noncurrent assets	624,030	665,121
Total assets	745,304	784,306
Deferred Outflows of Resources		
Deferred outflows on pension liability	51	58
Deferred outflows on OPEB liability	1,261	1,219
Deferred outflows for unamortized cost on refunded debt	143	155
Total deferred outflows of resources	$ 1,455	$ 1,432

CONVENTION & ENTERTAINMENT
Statement of Net Position
June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	2023	2022
Liabilities		
Current Liabilities		
Accounts payable	$ 21	$ 65
Accrued interest payable	4,865	5,032
Due to component units	32,949	31,816
Cost of issuance payable	515	515
Pension obligation bonds payable	220	210
Revenue bonds payable	26,312	26,461
Total current liabilities	64,882	64,099
Noncurrent liabilities		
Revenue bonds payable	540,530	580,924
Net pension liability	4,879	4,829
Other post employment benefits	7,404	8,368
Unearned revenue	5,151	5,442
Pension obligation bonds payable	2,569	2,789
Total noncurrent liabilities	560,533	602,352
Total liabilities	625,415	666,451
Deferred Inflows of Resources		
Deferred inflows on pension liability	653	1,118
Deferred inflows for unamortized cost on refunded debt	7,839	8,604
Deferred inflows on OPEB liability	3,675	1,377
Deferred inflows for leases	5,059	6,503
Total deferred inflows of resources	17,226	17,602
Net Position		
Net investment in capital assets	27,475	26,281
Restricted net position		
Restricted for debt service	35,061	34,988
Restricted for maintenance and operations	19,361	17,333
Unrestricted	22,221	23,083
Total net position	$ 104,118	$ 101,685

CONVENTION & ENTERTAINMENT
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	2023	2022
Operating Revenues		
Parking	$ 8,877	$ 6,836
Rental	1,521	1,521
Total operating revenue	10,398	8,357
Operating Expenses		
Maintenance and operating	85,544	69,298
Depreciation and amortization	12,844	12,848
Total operating expenses	98,388	82,146
Operating loss	(87,990)	(73,789)
Nonoperating revenues (expenses)		
Investment income	9,491	7,979
Hotel occupancy tax	104,853	82,505
Other revenue	307	324
Interest on long-term debt	(22,706)	(24,063)
Cost of issuance for debt	–	(356)
Total nonoperating revenues (expenses)	91,945	66,389
Income before contributions and transfers	3,955	(7,400)
Transfers out	(1,522)	(1,521)
Total transfers	(1,522)	(1,521)
Change in net position	2,433	(8,921)
Total net position, July 1	101,685	110,606
Total net position, June 30	$ 104,118	$ 101,685

CONVENTION & ENTERTAINMENT
Statement of Cash Flows
For the Year Ended June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	2023	2022
Cash flows from operating activities		
Receipts from customers	$ 10,401	$ 8,357
Payments to employees	(251)	(1,428)
Payments to suppliers	(137)	(55)
Payments to Houston First (Component Units)	(83,183)	(69,687)
Other revenues	—	1,191
Receipts from component units	38,467	30,223
Net cash used in operating activities	(34,703)	(31,399)
Cash flows from investing activities		
Interest income on investments	9,676	11,102
Purchase of investments	(102,378)	(125,280)
Proceeds from sale of investments	96,648	110,328
Net cash provided by (used in) investing activities	3,946	(3,850)
Cash flows from capital and related financing activities		
Retirement of revenue bonds	(33,670)	(53,892)
Proceeds from issuance of revenue bonds	—	37,284
Cost of issuance on debt	—	80
Interest expense on debt	(30,499)	(32,371)
Net cash used in capital and related financing activities	(64,169)	(48,899)
Cash flows from noncapital financing activities		
Retirement of pension bonds	(210)	(195)
Transfers	(1,522)	(1,521)
Hotel occupancy tax revenue	94,773	77,558
Net cash provided by noncapital financing activities	93,041	75,842
Net decrease in cash and cash equivalents	(1,885)	(8,306)
Cash and cash equivalents, July 1	15,952	24,258
Cash and cash equivalents, June 30	$ 14,067	$ 15,952
Cash and cash equivalents		
Pooled cash and cash equivalents (Note 3A)	$ 14,067	$ 15,952
Non-pooled cash and cash equivalents (Note 3A)	—	—
Total cash and cash equivalents, June 30	$ 14,067	$ 15,952
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (87,990)	$ (73,789)
Adjustments to reconcile operating income to net cash used in operating activities		
Depreciation and amortization	12,844	12,848
Changes in assets and liabilities		
Due from component unit	38,467	30,223
Accounts payable	(44)	62
Lease receivable	1,738	1,730
Due to component unit	1,133	1,162
Unearned revenue	(291)	(286)
Pension related payable and deferred amounts	(408)	(476)
Other post employment benefits and deferred amounts	1,292	(1,428)
Deferred inflow - leases	(1,444)	(1,445)
Net cash used in operating activities	$ (34,703)	$ (31,399)
Non cash transactions		
Unrealized loss on investments	$ (185)	$ (3,123)
Amortization of premium and discount	(6,873)	(10,455)

COMBINED UTILITY SYSTEM
Statement of Net Position
June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023	2022
Assets		
Current assets		
Cash and cash equivalents	$ 271,737	$ 333,406
Investments	1,484,994	1,485,175
Receivables, net of allowances		
Accounts receivable	288,539	252,749
Special assessments receivable	93	93
Due from other funds	9	2,665
Due from other governments	7,387	7,242
Inventory	19,128	14,028
Prepaid items	8,262	6,761
Restricted assets		
Cash and cash equivalents	37	37
Total current assets	2,080,186	2,102,156
Noncurrent Assets		
Investments	64,604	63,289
Prepaids	2,438	2,557
Due from other governments	421,664	600,972
Amounts held by other governments	14,851	13,064
Total noncurrent assets	503,557	679,882
Capital assets		
Land	196,117	183,194
Buildings	202,088	190,197
Improvements and equipment	200,160	197,080
Infrastructure	12,346,005	11,966,989
Construction in progress	2,450,250	2,224,622
Rights and intangibles	846,948	846,510
Lease right-of-use assets	—	42
Less accumulated depreciation and amortization	(6,843,683)	(6,618,955)
Net capital assets	9,397,885	8,989,679
Total noncurrent assets	9,901,442	9,669,561
Total assets	11,981,628	11,771,717
Deferred outflows of resources		
Deferred outflows on pension liability	2,957	3,443
Deferred outflows on OPEB liability	23,154	26,083
SWAP liability/unamortized cost on refunded debt	242,474	257,714
Total deferred outflows of resources	$ 268,585	$ 287,240

COMBINED UTILITY SYSTEM
Statement of Net Position
June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	2023	2022
Liabilities		
Current Liabilities		
Accounts payable	$ 269,003	$ 233,321
Accrued payroll liabilities	3,730	8,451
Accrued interest payable	34,946	33,400
Contracts payable	9,200	8,866
Due to other funds	37,845	31,203
Due to other governments	3,393	3,295
Advances and deposits	66,931	59,439
Pension obligation bonds payable ST	3,901	3,625
Claims and judgments	1,218	1,818
Compensated absences	12,114	12,145
Arbitrage rebate	395	378
Bonds payable	292,381	283,924
Lease liability	—	12
Total current liabilities	735,057	679,877
Noncurrent liabilities		
Accrued interest payable	62,007	56,402
Bonds payable	6,811,794	7,139,944
Claims and judgments	4,813	5,016
Compensated absences	9,337	9,415
Contracts payable	406,852	416,529
Due to other governments	11,518	9,369
Arbitrage rebate	471	548
Net pension liability	283,407	284,899
Other post employment benefits	133,873	184,167
SWAP liability	123,043	124,651
Unearned revenue	363,689	485,585
Pension obligation bonds payable	81,407	85,308
Total noncurrent liabilities	8,292,211	8,801,833
Total liabilities	9,027,268	9,481,710
Deferred inflows of resources		
Deferred inflows on pension liability	43,532	68,619
Deferred inflows on OPEB liability	66,112	30,517
Total deferred inflows of resources	109,644	99,136
Net Position		
Net investment in capital assets	2,271,605	1,601,742
Restricted net position		
Restricted for maintenance and operations	101,839	91,281
Restricted for debt service	74,703	71,968
Restricted for capital improvements	17,326	15,658
Unrestricted	647,828	697,462
Total net position	$ 3,113,301	$ 2,478,111

COMBINED UTILITY SYSTEM
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	2023	2022
Operating Revenues		
Water/Sewer billing	$ 1,503,982	$ 1,307,513
Total operating revenue	1,503,982	1,307,513
Operating Expenses		
Maintenance and operating	578,050	463,364
Depreciation and amortization	289,362	282,839
Total operating expenses	867,412	746,203
Operating income	636,570	561,310
Nonoperating revenue (expenses)		
Investment (loss) income	39,748	(50,712)
Other revenue	75,709	138,428
Gain (loss) on disposal of assets	(2,955)	3,196
Interest expense	(269,535)	(254,149)
Cost of issuance of debt	(550)	(3,758)
Contributions in	9,435	11,196
Total nonoperating revenues (expenses)	(148,148)	(155,799)
Income before contributions and transfers	488,422	405,511
Capital contributions	201,164	546,307
Transfers out	(54,396)	(57,875)
Total transfers	(54,396)	(57,875)
Change in net position	635,190	893,943
Beginning position, July 1	2,478,111	1,584,168
Total net position, June 30	$ 3,113,301	$ 2,478,111

COMBINED UTILITY SYSTEM
Statement of Cash Flows
For the Year Ended June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	2023	2022
Cash flows from operating activities		
Receipts from customers	$ 1,538,751	$ 1,233,077
Payments to employees	(218,635)	(201,778)
Payments to suppliers	(325,616)	(230,103)
Internal activity-payments to other funds	(86,876)	(89,015)
Claims paid	(2,072)	43,188
Other receipts	79,288	86,651
Receipts from other governments	—	1,934
Net cash provided by operating activities	984,840	843,954
Cash flows from investing activities		
Interest income on investments	34,826	13,274
Purchases of investments	(2,447,001)	(3,239,326)
Sales of investments	2,450,790	3,031,117
Net cash (used in) provided by investing activities	38,615	(194,935)
Cash flows from capital and related financing activities		
Retirement of revenue bonds	(266,695)	(247,845)
Retirement of contracts payable	(8,865)	(8,580)
Proceeds from issuance of revenue bonds	—	130,000
Retirement of junior lien bonds	(4,604)	(15,480)
Interest expense on debt	(280,369)	(258,985)
Cost of issuance for debt	(550)	(3,758)
Proceeds from disposition of assets	2,077	5,824
Retirement of subordinate lien bonds	(12,625)	(12,475)
Capital contributions from other local governments	194,795	308,797
Acquisition of property, plant and equipment	(645,696)	(745,564)
Net cash used for capital and related financing activities	(1,022,532)	(848,066)
Cash flows from noncapital financing activities		
Interest expense on pension obligation bonds	(4,569)	(4,771)
Retirement of pension bonds	(3,625)	(3,369)
Transfers to debt service fund	(4,898)	(4,899)
Transfers to other funds	(49,497)	(52,977)
Net cash used in noncapital financing activities	(62,589)	(66,016)
Net (decrease) increase in cash and cash equivalents	(61,669)	(265,063)
Cash and cash equivalents, July 1	333,443	598,506
Cash and cash equivalents, June 30	$ 271,774	$ 333,443
Cash and cash equivalents:		
Pooled cash and cash equivalents (Note 3A)	$ 271,737	$ 333,406
Non-pooled cash and cash equivalents (Note 3A)	37	37
Total cash and cash equivalents, June 30	$ 271,774	$ 333,443

(Continued)

COMBINED UTILITY SYSTEM
Statement of Cash Flows
For the Year Ended June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	2023	2022
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 636,570	$ 561,310
Depreciation and amortization	289,362	282,839
Changes in assets and liabilities		
Accounts receivable	(38,899)	(81,780)
Due from other funds	2,656	(2,297)
Due from other governments	1,738	(1,167)
Inventory & prepaid insurance	(6,601)	(1,835)
Accounts payable	(12,660)	17,811
Accrued payroll liabilities	(4,721)	933
Due to other funds	6,642	(5,448)
Advances and deposits	7,492	5,789
Claims and judgments-workers' compensation	(803)	2,640
Compensated absences	(109)	777
Other post employment benefits	(11,769)	(43,685)
Other revenues and expense	79,288	132,642
Receipts from other governments	—	1,934
Pension obligation payable	(26,094)	(29,029)
Other long-term liabilities	62,748	2,520
Net cash provided by operating activities	$ 984,840	$ 843,954
Non cash transactions		
Unrealized gain (loss) on investments	$ 4,923	$ (63,985)
Amortization expense	(30,078)	(18,680)
Capital additions included in liabilities	(45,327)	(32,725)
CAB accretion interest	7,462	7,940
Donated capital	(23,249)	(7,431)
Gain (loss) on disposal of assets	(2,955)	3,196
Total non cash transactions	$ (89,224)	$ (111,685)

H-Town Family Palooza

INTERNAL SERVICE FUNDS

Internal Service Funds:

Hosted in conjunction with other local government partners, *H-Town Family Palooza* is a family-friendly event filled with music, games, activities and more. Located in Downtown Houston in 2022, *H-Town Family Palooza* is one of the many public programs intended to exhibit Houston's quality of life and serves as a positive interaction between residents and local government.

Internal Service Funds

Internal service funds are used to account for the financing of goods or services provided by one City department to other City departments on a cost reimbursement basis.

Health Benefits — This fund is used to account for the costs incurred to provide City employees' health care and life insurance benefits.

Long-Term Disability — This fund is used to account for the costs incurred to provide City employees' long-term disability coverage.

INTERNAL SERVICE FUNDS
Combining Statement of Net Position
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	Health Benefits	Long-term Disability	2023	2022
Assets				
Current assets				
Cash and cash equivalents	$ 12,404	$ 1,284	$ 13,688	$ 12,348
Investments	72,826	7,450	80,276	64,896
Receivables, net of allowances				
Accounts receivable	3	—	3	1
Due from other funds	—	—	—	40
Due from other governments	14	—	14	11
Prepaid items	—	—	—	2
Total current assets	85,247	8,734	93,981	77,298
Noncurrent Assets				
Capital assets				
Buildings, improvements and equipment	963	—	963	963
Construction in progress	1,654	—	1,654	820
Lease right-of-use asset	—	—	—	2,574
Total capital assets	2,617	—	2,617	4,357
Less accumulated depreciation and amortization	(707)	—	(707)	(1,060)
Net capital assets	1,910	—	1,910	3,297
Total noncurrent assets	1,910	—	1,910	3,297
Total Assets	87,157	8,734	95,891	80,595
Liabilities				
Current Liabilities				
Accounts payable	805	58	863	4,760
Accrued payroll liabilities	60	—	60	201
Due to other funds	83	—	83	124
Claims and judgments	27,638	—	27,638	28,319
Compensated absences	237	—	237	187
Unearned revenue	2,792	—	2,792	1,794
Total current liabilities	31,615	58	31,673	35,385
Noncurrent liabilities				
Lease liabilities	—	—	—	2,219
Claims and judgments	15,000	—	15,000	15,000
Total noncurrent liabilities	15,000	—	15,000	17,219
Total liabilities	46,615	58	46,673	52,604
Net Position				
Net investment in capital assets	1,910	—	1,910	1,078
Unrestricted	38,632	8,676	47,308	26,913
Total net position	$ 40,542	$ 8,676	$ 49,218	$ 27,991

INTERNAL SERVICE FUNDS

Combining Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended June 30, 2023

(With comparative totals for 2022)

(amounts expressed in thousands)

	Health Benefits	Long-term Disability	2023	2022
Operating Revenues				
Other	$ 912	$ 2	$ 914	$ 691
Health benefit premiums	407,750	1,239	408,989	401,164
Total operating revenues	408,662	1,241	409,903	401,855
Operating Expenses				
Administrative costs	7,790	25	7,815	6,673
Claims costs	381,277	1,022	382,299	388,456
Depreciation and amortization	33	—	33	422
Total operating expenses	389,100	1,047	390,147	395,551
Operating income	19,562	194	19,756	6,304
Nonoperating revenues (expenses)				
Investment income (loss)	1,270	170	1,440	(2,148)
Gain on disposal of assets	31	—	—	—
Total nonoperating revenues (expenses)	1,301	170	1,471	(2,148)
Income before contributions and transfers	20,863	364	21,227	4,156
Change in net position	20,863	364	21,227	4,156
Total net position, July 1	19,679	8,312	27,991	23,835
Total net position, June 30	$ 40,542	$ 8,676	$ 49,218	$ 27,991

INTERNAL SERVICE FUNDS
Combining Statement of Cash Flows
For the Year Ended June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	Health Benefits	Long-term Disability	2023	2022
Cash flows from operating activities				
Receipts from customers	$ 408,745	$ 1,239	$ 409,984	$ 400,035
Payments to employees	(4,439)	—	(4,439)	(4,571)
Payments to suppliers	(1,934)	(25)	(1,959)	(557)
Internal activity-payments to other funds	(1,508)	—	(1,508)	(1,624)
Claims paid	(385,869)	(1,008)	(386,877)	(391,595)
Due from (to) other governments	(3)	—	(3)	19
Other receipts	912	2	914	691
Other payments	2	—	2	(2)
Net cash provided by operating activities	15,906	208	16,114	2,396
Cash flows from investing activities				
Interest income on investments	1,531	162	1,693	(2,148)
Purchase of investments	(103,013)	(11,020)	(114,033)	(122,557)
Proceeds from sale of investments	87,948	10,452	98,400	110,445
Net cash (used in) provided by investing activities	(13,534)	(406)	(13,940)	(14,260)
Cash flows from capital and related financing activities				
Lease liabilities	—	—	—	2,219
Acquisition of property, plant, and equipment	(834)	—	(834)	(3,387)
Net cash used in capital and related financing activities	(834)	—	(834)	(1,168)
Net increase (decrease) in cash and cash equivalents	1,538	(198)	1,340	(13,032)
Cash and cash equivalents, July 1	10,866	1,482	12,348	25,380
Cash and cash equivalents, June 30	$ 12,404	$ 1,284	$ 13,688	$ 12,348
Cash and cash equivalents				
Pooled cash and cash equivalents (Note 3A)	$ 12,404	$ 1,284	$ 13,688	$ 12,348
Total cash and cash equivalents, June 30	$ 12,404	$ 1,284	$ 13,688	$ 12,348
Reconciliation of operating income to net cash provided by operating activities				
Operating income	$ 19,562	$ 194	$ 19,756	$ 6,304
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization	33	—	33	422
Accounts receivable	(2)	—	(2)	2
Prepaid Items	2	—	2	(2)
Due from other funds	40	—	40	39
Accounts payable	(3,911)	14	(3,897)	3,129
Accrued payroll liabilities	(141)	—	(141)	35
Due to other funds	(41)	—	(41)	85
Due from other governments	(3)	—	(3)	19
Claims and judgments	(681)	—	(681)	(6,268)
Compensated absences	50	—	50	(114)
Unearned revenue	998	—	998	(1,255)
Net cash provided by (used in) operating activities	$ 15,906	$ 208	$ 16,114	$ 2,396
Non cash transactions				
Gain on disposal of assets	$ 31	$ —	$ 39	$ —
Unrealized gain and (loss) on investments	(261)	8	(253)	2,661

FIDUCIARY FUNDS

Fiduciary Funds:

In 1914, Houston-born oilman and philanthropist, George H. Hermann, gifted the City 278 acres of land for use as a park. Between 1922 and 1924, the City purchased an additional 122 acres, growing to what is now considered one of the nation's preeminent urban parks. With more than six million annual visitors, Hermann Park is home to the Houston Zoo, the Miller Outdoor Theatre and Hermann Park Golf Course, among other attractions.

Fiduciary Funds

Funds are used to account for assets held by a government unit as trustee or agent, for individuals, private organizations, and/or other governmental units.

Pension trust funds are used to account for the operation of the employee pension retirement programs. The funds include: Houston Firefighters' Relief and Retirement, Houston Municipal Employees', and Police Officers' pension trust funds.

Private-purpose trust fund is used to account for assets held in a trust of the Houston Foundation which is dedicated to providing benefits to recipients in accordance with the benefit terms. The Houston Foundation was created by City ordinance on March 22, 1915, as a general-purpose charity trust and is administered by an outside board of directors. The City's Finance Director serves as the treasurer of the board in accordance with the ordinance. Additions to the trust consist of individual donor contributions and investment income. Distributions from the fund, primarily to external/eligible 501(c)(3) organizations, may be made for humanitarian needs of the people of Houston.

PENSION TRUST FUNDS
Combining Statement of Plan Net Position
June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	Firefighters' Relief and Retirement Pension Trust Fund	Municipal Employees' Pension Trust Fund	Police Officers' Pension Trust Fund	2023	2022
Assets					
Cash and cash equivalents	$ 114,070	$ 46,109	$ 152	$ 160,331	$ 75,906
Investments					
Other fixed income securities	871,063	1,043,068	860,908	2,775,039	2,487,361
Commingled equity funds	—	2,312,346	—	2,312,346	2,263,020
Common and preferred stock	1,399,404	—	2,307,420	3,706,824	3,935,550
Real estate, partnerships and alternatives	2,652,983	559,098	3,124,011	6,336,092	5,882,968
Short-term investment funds	61,183	115,072	881,293	1,057,548	1,111,677
Invested securities lending collateral	32,693	61,029	158,460	252,182	311,839
Receivables, net of allowances					
Due from broker	—	3,860	10,345	14,205	7,725
Contributions	3,905	5,464	1,888	11,257	25,344
Accrued interest and dividends	7,131	—	15,263	22,394	13,061
Other receivable	1,081	5,096	2,193	8,370	121,578
Other assets	633	7,294	5,777	13,704	16,185
Land	483	—	5,322	5,805	5,805
Building	2,813	—	—	2,813	3,109
Lease right-of-use assets, net of accumulated amortization	—	—	2,534	2,534	438
Total assets	5,147,442	4,158,436	7,375,566	16,681,444	16,261,566
Liabilities and plan net position					
Liabilities					
Accounts payable	5,556	—	3,941	9,497	11,575
Securities lending collateral	32,693	61,029	158,460	252,182	311,839
Foreign funds contracts payable	—	7,759	—	7,759	12,413
Lease liabilities	—	—	2,534	2,534	438
Other liabilities	15	7,903	2,176	10,094	8,128
Total liabilities	38,264	76,691	167,111	282,066	344,393
Net position					
Restricted net position for Pension	5,109,178	4,081,745	7,208,455	16,399,378	15,917,173
Total net position	$ 5,109,178	$ 4,081,745	$ 7,208,455	$ 16,399,378	$ 15,917,173

PENSION TRUST FUNDS
Combining Statement of Changes in Plan Net Position
June 30, 2023
(With comparative totals for 2022)
(amounts expressed in thousands)

	Firefighters' Relief and Retirement Pension Trust Fund	Municipal Employees' Pension Trust Fund	Police Officers' Pension Trust Fund	2023	2022
Additions:					
Contributions					
City of Houston	$ 72,475	$ 204,895	$ 159,915	$ 437,285	$ 431,066
Members	31,973	34,600	52,399	118,972	113,625
Total contributions	104,448	239,495	212,314	556,257	544,691
Investment income					
Interest	24,168	14,861	69,329	108,358	46,610
Net appreciation (depreciation) in fair value of investments	181,588	173,304	423,613	778,505	(2,306)
Dividends	1,544	33,364	39,823	74,731	74,665
Income on securities lending	114	1,759	—	1,873	364
Earnings from real estate, limited partnerships real estate investments, and other investments	1,080	10,238	—	11,318	5,243
Other income	231	620	83	934	566
Total investment and other income (loss)	208,725	234,146	532,848	975,719	125,142
Less - investment expense	(9,055)	(9,972)	(7,989)	(27,016)	(34,755)
Less - cost of securities lending	—	(1,580)	194	(1,386)	266
Total additions	304,118	462,089	737,367	1,503,574	635,344
Deductions:					
Benefits paid to members	281,418	335,119	384,367	1,000,904	968,660
Refunds to members	1,677	990	2,295	4,962	6,006
Other	5,581	5,684	4,238	15,503	15,182
Total deductions	288,676	341,793	390,900	1,021,369	989,848
Net increase (decrease)	15,442	120,296	346,467	482,205	(354,504)
Net position restricted for pensions, beginning of year	5,093,736	3,961,449	6,861,988	15,917,173	16,271,677
Net position restricted for pensions, end of year	$ 5,109,178	$ 4,081,745	$ 7,208,455	$ 16,399,378	$ 15,917,173

PRIVATE-PURPOSE TRUST FUND
Statement of Fiduciary Net Position
June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	Houston Foundation	
	2023	**2022**
Assets		
Cash and cash equivalents	$ 336	$ 270
Investments held by trust	6,710	6,109
Total assets	7,046	6,379
Net position		
Restricted for individuals and organizations	7,046	6,379
Total net position	$ 7,046	$ 6,379

PRIVATE-PURPOSE TRUST FUND
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2023
(With comparative amounts for 2022)
(amounts expressed in thousands)

	Houston Foundation	
	2023	**2022**
Additions:		
Investment earnings:		
Net increase (decrease) in fair value of investments	$ 66	$ (1,302)
Interest, dividends, and other	601	24
Net investment earnings (loss)	667	(1,278)
Total additions	667	(1,278)
Net increase (decrease) in fiduciary net position	667	(1,278)
Net position, July 1	6,379	7,657
Net position, June 30	$ 7,046	$ 6,379

CITY OF HOUSTON, TEXAS

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OFFICE OF THE CITY CONTROLLER

Ion Houston, Shannon O'Hara

COMPONENT UNITS

Component Funds:

Located in the heart of the Ion District, the Ion building serves as a headquarters for Houston's burgeoning innovation community and ecosystem. Through the cultivation of a culture for people, places, ideas and experiences, the Ion District is well positioned to spur innovation throughout region for decades to come.

Discretely Presented Component Units (Governmental-type)

Discretely Presented Component Units are legally separate organizations that the City of Houston must include as a part of its financial reporting entity for fair presentation. The City has thirty-three (33) governmental nonmajor component units which are divided into five (5) categories.

Redevelopment – Local government corporations created by the City to redevelop blighted neighborhoods adjacent to Downtown Houston and other areas of the City.

Arts & Cultural – Non-profit organizations with a mission to enhance the city's quality of life through advancing and investing in the arts, diverse cultural programming, library service, tourist and film projects.

Educational & Research – Non-profit organizations with a mission to coordinate and develop public and educational cable access activities within the City of Houston.

Houston BARC Foundation – A 501(c)(3) non-profit corporation with a mission to enhance the city's quality of life through advancing and investing in the care and humane treatment of animals.

Houston Recovery Center LGC, Inc. – Local government corporation created by the City in accordance with Chapter 431 of the Texas Transportation Corporation Act to provide management of the Houston Center for Sobriety.

DISCRETELY PRESENTED NON MAJOR COMPONENT UNITS - GOVERNMENTAL
Combining Statement of Net Position
June 30, 2023
(amounts expressed in thousands)

	Redevelopment Authorities	Arts & Cultural Authorities	Educational & Research Authorities	BARC Foundation	Recovery Center, LGC	Nonmajor Component Units
Assets						
Current Assets						
Cash	$ 50,523	$ 20,370	$ 1,621	$ 369	$ 354	$ 73,237
Investments	271,824	3,028	17,940	—	—	292,792
Receivables, net of allowances						
Accounts receivable	18,956	22,804	—	1	—	41,761
Property taxes receivable, net	55,293	—	—	—	—	55,293
Special assessments receivable	26	—	—	—	—	26
Accrued interest and other	276	—	1,244	—	—	1,520
Due from primary government	25,440	726	—	—	—	26,166
Due from other governments	3,683	—	—	—	571	4,254
Prepaid items	1,908	1,252	—	—	46	3,206
Restricted assets						
Investments	—	3,838	—	—	—	3,838
Other receivables	1,552	128	—	—	10	1,690
Total current assets	429,481	52,146	20,805	370	981	503,783
Noncurrent Assets						
Restricted assets						
Investments	10,326	105	—	—	—	10,431
Total noncurrent assets	10,326	105	—	—	—	10,431
Capital assets						
Land	52,415	56,986	—	—	—	109,401
Buildings, improvements and equipment	42,822	6,850	—	—	199	49,871
Construction in progress	14,574	—	—	—	—	14,574
Lease right-of-use assets	2,829	1,503	—	—	763	5,095
Less accumulated depreciation and amortization	(15,296)	(5,401)	—	—	(294)	(20,991)
Total capital assets	97,344	59,938	—	—	668	157,950
Total assets	537,151	112,189	20,805	370	1,649	672,164
Deferred outflows of resources						
Deferred outflows of resources	175	—	—	—	—	175
Total deferred outflows of resources	$ 175	$ —	$ —	$ —	$ —	$ 175

(Continued)

DISCRETELY PRESENTED NON MAJOR COMPONENT UNITS - GOVERNMENTAL
Combining Statement of Net Position
June 30, 2023
(amounts expressed in thousands)

	Redevelopment Authorities	Arts & Cultural Authorities	Educational & Research Authorities	BARC Foundation	Recovery Center, LGC	Nonmajor Component Units
Liabilities						
Current Liabilities						
Accounts payable	$ 24,803	$ 801	$ 3	$ —	$ 39	$ 25,646
Accrued payroll liabilities	—	—	—	—	202	202
Accrued interest payable	4,452	—	—	—	—	4,452
Contracts and retainages payable	3,712	47	—	—	—	3,759
Notes payable	8,913	—	—	—	—	8,913
Lease payable - current	550	195	—	—	168	913
Due to other governments	487	14,027	—	—	—	14,514
Advances and deposits	33	—	508	—	—	541
Unearned revenue	38	4,352	—	—	—	4,390
Current liabilities payable from restricted assets						
Bonds payable	17,830	—	—	—	—	17,830
Account held for others	—	57	—	—	—	57
Total current liabilities	60,818	19,479	511	—	409	81,217
Noncurrent liabilities						
Notes payable	53,069	—	—	—	—	53,069
Bonds payable	325,511	—	—	—	—	325,511
Other long-term liabilities	10,582	904	—	—	424	11,910
Total Noncurrent liabilities	389,162	904	—	—	424	390,490
Total liabilities	449,980	20,383	511	—	833	471,707
Deferred outflows of resources						
Deferred outflows of resources	—	—	—	—	—	—
Total deferred outflows of resources	—	—	—	—	—	—
Net position						
Net investment in capital assets	51,743	57,770	—	—	75	109,588
Restricted net position						
Restricted for debt service	32,600	—	—	—	—	32,600
Restricted for maintenance and operations	—	3,961	—	—	—	3,961
Restricted for capital improvements	26,223	—	—	—	—	26,223
Other restricted	12,215	18,667	16,174	—	11	47,067
Unrestricted (deficit)	(35,435)	11,408	4,120	370	730	(18,807)
Total net position (deficit)	$ 87,346	$ 91,806	$ 20,294	$ 370	$ 816	$ 200,632

DISCRETELY PRESENTED NONMAJOR COMPONENT UNITS - GOVERNMENTAL

Combining Statement of Activities

For the Year Ended June 30, 2023

(amounts expressed in thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Redevelopment Authorities	$ 116,217	$ 1,326	$ 4,527	$ —
Arts & Cultural Authorities	33,416	9,808	4,364	1,462
Educational & Research Authorities	1,982	—	1,283	—
Houston BARC Foundation	152	(6)	150	—
Houston Recovery Center LGC, Inc.	4,760	—	4,666	—
Total nonmajor component units	$ 156,527	$ 11,128	$ 14,990	$ 1,462

General Revenues:

Taxes

Property taxes - general purposes / tax increments

Hotel occupancy tax

Unrestricted investment earnings (loss)

Other

Total general revenues and transfers

Change in net position

Net position, beginning

Prior period adjustment

Net position, ending

DISCRETELY PRESENTED NONMAJOR COMPONENT UNITS - GOVERNMENTAL

Combining Statement of Activities

For the Year Ended June 30, 2023

(amounts expressed in thousands)

Net (Expense) Revenue and Change in Net Position					
Redevelopment Authorities	Arts & Cultural Authorities	Educational & Research Authorities	Houston BARC Foundation	Houston Recovery Center LGC	Total Nonmajor Component Units
$ (110,364)	$ —	$ —	$ —	$ —	$ (110,364)
—	(17,782)	—	—	—	(17,782)
—	—	(699)	—	—	(699)
—	—	—	(8)	—	(8)
—	—	—	—	(94)	(94)
(110,364)	(17,782)	(699)	(8)	(94)	(128,947)
135,561	—	—	—	—	135,561
—	19,386	—	—	—	19,386
9,606	27	1,023	—	—	10,656
6,000	29	83	—	30	6,142
151,167	19,442	1,106	—	30	171,745
40,803	1,660	407	(8)	(64)	42,798
35,373	90,280	19,887	378	880	146,798
11,170	(134)	—	—	—	11,036
$ 87,346	$ 91,806	$ 20,294	$ 370	$ 816	$ 200,632

CITY OF HOUSTON, TEXAS

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OFFICE OF THE CITY CONTROLLER

Museum of Fine Arts Houston

PART III

STATISTICAL SECTION

Statistical Section:

Located in the heart of Houston's Museum District, the Museum of Fine Arts, Houston (MFAH) is a dynamic cultural complex comprising three gallery buildings, a sculpture garden, visitors center, gift shop, library, restaurants, two art schools, two movie theaters, and two house museums. Attracting more than 450,000 visitors per year, MFAH is a prominent destination for both visitors and residents.

Photo: Shannon O'Hara

Statistical Section

(Unaudited)

This part of the City's Statistical annual comprehensive financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Content **Page**

NET POSITION BY COMPONENT
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)
(unaudited)

	2014	2015	2016	2017
Governmental Activities				
Net investment in capital assets	$ 4,102,861	$ 4,250,590	$ 4,434,420	$ 4,593,229
Restricted	174,158	192,129	42,240	43,419
Unrestricted (deficit)	(2,651,151)	(5,487,349)	(5,910,541)	(4,433,681)
Total governmental activities net position	$ 1,625,868	$ (1,044,630)	$ (1,433,881)	$ 202,967
Business-type activities				
Net investment in capital assets	$ 240,888	$ 546,551	$ 629,382	$ 742,298
Restricted	1,024,548	1,131,835	1,129,659	1,264,135
Unrestricted (deficit)	280,879	(488,671)	(420,196)	(354,001)
Total business-type activities net position	$ 1,546,315	$ 1,189,715	$ 1,338,845	$ 1,652,432
Primary government				
Net investment in capital assets	$ 4,343,749	$ 4,797,141	$ 5,063,802	$ 5,335,527
Restricted	1,198,706	1,323,964	1,171,899	1,307,554
Unrestricted (deficit)	(2,370,272)	(5,976,020)	(6,330,737)	(4,787,682)
Total primary government net position	$ 3,172,183	$ 145,085	$ (95,036)	$ 1,855,399

Source: Annual Comprehensive Financial Report

2018	2019	2020	2021	2022	2023
$ 4,865,143	$ 5,138,847	$ 5,992,469	$ 6,333,063	$ 6,755,792	$ 6,891,601
186,774	367,538	412,184	1,712,541	1,863,712	934,428
(5,966,761)	(6,504,244)	(7,004,794)	(7,769,058)	(7,117,925)	(5,420,385)
$ (914,844)	$ (997,859)	$ (600,141)	$ 276,546	$ 1,501,579	$ 2,405,644
$ 823,404	$ 754,981	$ 1,111,081	$ 1,521,493	$ 2,135,190	$ 2,890,574
1,370,336	1,415,795	1,440,243	1,356,397	1,442,434	1,696,746
(486,875)	(200,570)	(396,468)	452,500	801,432	602,006
$ 1,706,865	$ 1,970,206	$ 2,154,856	$ 3,330,390	$ 4,379,056	$ 5,189,326
$ 5,688,547	$ 5,893,828	$ 7,103,550	$ 7,854,556	$ 8,890,982	$ 9,782,175
1,557,110	1,783,333	1,852,427	3,068,938	3,306,146	2,631,174
(6,453,636)	(6,704,814)	(7,401,262)	(7,316,558)	(6,316,493)	(4,818,379)
$ 792,021	$ 972,347	$ 1,554,715	$ 3,606,936	$ 5,880,635	$ 7,594,970

CHANGES IN NET POSITION
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)
(unaudited)

	2014	2015	2016	2017
Expenses				
Governmental activities:				
General government	$ 247,481	$ 359,640	$ 425,707	$ 297,716
Public safety	1,598,854	1,858,766	1,993,340	229,891
Public works	318,888	336,311	343,657	341,257
Health	133,159	150,931	158,896	148,995
Housing and community development	51,626	65,275	61,707	61,608
Parks and recreation	93,637	112,844	98,994	89,457
Library	48,724	49,374	48,691	34,966
Interest in long-term debt	143,231	158,212	191,025	142,469
Depreciation and amortization	132,817	138,016	143,028	150,196
Total governmental activities expenses	2,768,417	3,229,369	3,465,045	1,496,555
Business-type activities:				
Airport System	561,443	556,844	581,022	526,662
Convention & Entertainment Facilities	113,316	123,371	117,906	110,765
Combined Utility System	919,547	924,793	942,176	850,363
Total business-type activities expenses	1,594,306	1,605,008	1,641,104	1,487,790
Total primary government expenses	$ 4,362,723	$ 4,834,377	$ 5,106,149	$ 2,984,345
Program Revenues				
Governmental activities:				
Charges for services:				
General government	$ 63,338	$ 70,322	$ 68,093	$ 74,887
Public safety	188,521	171,996	181,888	142,052
Public works	266,422	215,038	222,236	215,824
Health	17,710	17,665	18,349	17,491
Parks and recreation	7,475	8,676	8,820	8,902
Library	1,681	1,637	1,966	2,040
Operating grants and contributions	277,700	305,363	323,686	346,243
Capital grants and contributions	–	67,533	53,860	99,487
Total governmental activities program revenues	822,847	858,230	878,898	906,926
Business-type activities:				
Charges for services:				
Airport System	452,107	476,282	609,544	609,780
Convention & Entertainment Facilities	11,124	12,390	12,431	12,283
Combined Utility System	953,408	927,424	1,002,582	1,025,795
Operating grants and contributions	10,692	10,768	13,348	20,187
Capital grants and contributions	50,382	46,415	32,906	52,773
Total business-type activities program revenues	1,477,713	1,473,279	1,670,811	1,720,818
Total primary government program revenues	$ 2,300,560	$ 2,331,509	$ 2,549,709	$ 2,627,744
Net (expense)/revenue				
Governmental activities	$ (1,945,570)	$ (2,371,139)	$ (2,586,147)	$ (589,629)
Business-type activities	(116,593)	(131,729)	29,707	233,028
Total primary government net expense	$ (2,062,163)	$ (2,502,868)	$ (2,556,440)	$ (356,601)

Source: Annual Comprehensive Financial Report

2018	2019	2020	2021	2022	2023
$ 420,663	$ 412,427	$ 519,746	$ 446,806	$ 314,357	$ 431,174
2,137,632	2,034,121	2,057,684	1,298,153	1,205,824	1,455,215
423,137	402,857	407,569	396,938	355,357	413,454
171,802	164,550	171,950	289,922	225,311	246,163
53,965	91,997	137,035	372,492	390,235	208,397
126,416	107,788	112,225	96,721	81,696	122,018
51,312	50,007	54,956	43,135	33,753	54,954
160,247	165,573	142,711	134,277	108,939	118,251
153,092	156,412	163,454	179,046	180,676	179,465
3,698,266	3,585,732	3,767,330	3,257,490	2,896,148	3,229,091
605,653	596,069	631,435	585,528	559,777	649,909
115,255	96,486	89,737	75,561	106,599	120,981
991,167	1,042,141	1,032,629	1,052,061	1,004,623	1,136,470
1,712,075	1,734,696	1,753,801	1,713,150	1,670,999	1,907,360
$ 5,410,341	5,320,428	$ 5,521,131	$ 4,970,640	$ 4,567,147	$ 5,136,451
$ 63,994	$ 58,537	$ 64,160	$ 57,546	$ 63,704	$ 77,817
120,104	152,061	153,159	120,269	154,258	181,793
212,743	232,423	232,059	231,258	162,141	239,223
19,037	20,614	21,062	21,463	23,967	25,002
9,033	7,483	6,210	9,372	10,599	11,278
1,867	2,035	1,421	295	1,303	1,221
380,094	488,757	592,484	1,138,524	1,011,670	814,747
83,727	217,280	208,212	245,921	199,231	172,908
890,599	1,179,190	1,278,767	1,824,648	1,627,002	1,523,989
637,259	627,058	563,650	389,865	593,343	685,076
7,883	10,655	9,486	6,100	8,357	10,398
1,052,549	1,042,442	1,100,092	1,092,740	1,307,513	1,503,982
19,346	26,731	24,810	221,928	145,817	59,665
23,408	28,929	35,675	433,101	587,354	238,251
1,740,445	1,735,815	1,733,713	2,143,734	2,642,384	2,497,372
$ 2,631,044	$ 2,915,005	$ 3,012,480	$ 3,968,382	$ 4,269,386	$ 4,021,361
$ (2,807,667)	$ (2,406,542)	$ (2,488,563)	$ (1,432,842)	$ (1,269,146)	$ (1,705,102)
28,370	1,119	(20,088)	430,584	971,385	590,012
$ (2,779,297)	$ (2,405,423)	$ (2,508,651)	$ (1,002,258)	$ (297,761)	$ (1,115,090)

CHANGES IN NET POSITION
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)
(unaudited)

	2014	2015	2016	2017
General Revenues and Other Changes in Net Position				
Governmental Activities:				
Taxes				
Property taxes	$ 973,902	$ 1,074,070	$ 1,099,411	$ 1,152,420
Industrial assessments tax	16,534	16,736	19,238	19,291
Sales taxes	629,441	667,061	640,476	631,993
Franchise taxes	190,368	190,245	191,584	191,025
Mixed beverage taxes	13,869	15,784	16,064	16,662
Bingo taxes	187	209	207	234
Hotel occupancy tax	—	—	—	—
Investment earnings	9,737	7,639	11,925	6,181
Insurance proceeds	—	—	—	—
Other	83,677	74,585	99,567	95,848
Contributions	17,364	30,525	73,412	—
Gain (loss) on disposal of assets	—	32,525	—	1,752
Transfers	41,968	49,105	51,139	62,885
Total governmental activities	1,977,047	2,158,484	2,203,023	2,178,291
Business-type activities:				
Hotel occupancy taxes	90,119	90,711	88,632	82,882
Investment earnings	31,491	20,114	38,620	16,448
Other	158,577	170,555	62,682	59,183
Special Items - gain (loss) on sale of assets	—	—	—	1,614
Transfers	(41,968)	(49,105)	(51,139)	(62,885)
Total business-type activities	238,219	232,275	138,795	97,242
Total primary government	$ 2,215,266	$ 2,390,759	$ 2,341,818	$ 2,275,533
Change in Net Position				
Governmental activities	$ 46,279	$ (192,559)	$ (363,751)	$ 1,605,345
Business-type activities	106,824	80,431	149,130	313,587
Total primary government	$ 153,103	$ (112,128)	$ (214,621)	$ 1,918,932

2018	2019	2020	2021	2022	2023
$ 1,172,313	$ 1,195,949	$ 1,222,846	$ 1,269,935	$ 1,283,942	$ 1,337,128
18,278	19,755	24,797	25,435	24,086	28,021
674,279	692,271	684,425	706,829	822,656	893,905
186,206	182,870	169,725	154,093	149,978	148,605
17,296	18,026	15,379	14,561	21,890	24,013
73	222	—	—	—	—
17,196	17,180	16,922	7,444	15,588	18,118
12,004	47,825	48,795	2,463	(35,405)	33,999
93,778	2,061	—	—	—	—
116,814	79,349	57,019	64,537	70,884	71,786
—	(4,165)	—	—	—	—
—	12,904	15,753	799	3,630	(2,326)
64,507	59,280	52,370	63,433	59,396	55,918
2,372,744	2,323,527	2,308,031	2,309,529	2,416,645	2,609,167
72,221	68,898	67,348	47,449	82,505	104,853
26,388	113,797	113,944	13,916	(89,842)	87,945
61,474	65,043	58,128	63,371	149,412	85,928
11,533	(5,664)	—	—	(5,398)	(2,550)
(64,507)	(59,280)	(52,370)	(63,433)	(59,396)	(55,918)
107,109	182,794	187,050	61,303	77,281	220,258
$ 2,479,853	$ 2,506,321	$ 2,495,081	$ 2,370,832	$ 2,493,926	$ 2,829,425
$ (434,923)	$ (83,015)	$ (180,532)	$ 876,687	$ 1,147,499	$ 904,065
135,479	183,913	166,962	491,887	1,048,666	810,270
$ (299,444)	$ 100,898	$ (13,570)	$ 1,368,574	$ 2,196,165	$ 1,714,335

FUND BALANCES - GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)
(unaudited)

	2014	2015	2016	2017
General fund				
Non-spendable	$ 14,016	$ 16,450	$ 15,493	$ 20,242
Restricted	44,120	27,096	1,232	1,188
Committed	3,407	6,111	10,922	18,701
Unassigned	200,731	301,231	235,405	311,754
Total general fund	$ 262,274	$ 350,888	$ 263,052	$ 351,885
All other governmental funds				
Unreserved, reported in:				
Non-spendable	$ 5,290	$ 2,436	$ 2,395	$ 2,495
Restricted	327,576	266,501	339,991	350,868
Committed	71,969	87,040	77,709	82,599
Assigned	106,607	125,061	109,131	78,898
Total all other governmental funds	$ 511,442	$ 481,038	$ 529,226	$ 514,860

Source: Annual Comprehensive Financial Report

2018	2019	2020	2021	2022	2023
$ 18,881	$ 20,387	$ 22,667	$ 23,627	$ 25,677	$ 24,184
1,164	1,092	1,044	1,072	14,292	1,153
16,901	17,942	18,792	12,615	983	14,994
375,529	349,176	316,227	312,212	379,707	509,924
$ 412,475	$ 388,597	$ 358,730	$ 349,526	$ 420,659	$ 550,255
$ 3,138	$ 15,784	$ 3,306	$ 3,422	$ 6,059	$ 4,439
362,082	463,700	492,621	732,555	863,857	942,729
78,705	77,580	74,219	68,760	70,024	84,411
80,647	71,822	111,041	92,326	110,441	140,315
$ 524,572	$ 628,886	$ 681,187	$ 897,063	$ 1,050,381	$ 1,171,894

GENERAL FUND BUDGET FOR FISCAL YEAR 2024
(amounts expressed in thousands)
(unaudited)

Budgeted Resources	
Revenues:	
Ad Valorem Taxes (current and delinquent)	$ 1,376,668
Sales and Use Tax	865,593
Franchise Fees	149,179
Municipal Courts Fines and Forfeits	16,134
Miscellaneous	479,226
Total Current Revenues	2,886,800
Beginning Fund Balance as of July 01, 2023[1]	420,482
Sale of Capital Assets	2,755
Transfers from Other Funds	10,722
Total Budgeted Resources	$ 3,320,759
Budgeted Expenditures	
Administrative Services	$ 86,177
Public Safety	1,646,141
Development and Maintenance Services	175,696
Human and Cultural Services	216,222
Elected Officials and General Government	317,083
Debt Service and PAYGO Capital Projects	475,304
Total Budgeted Expenditures	2,916,623
Budgeted Ending Fund Balance as of June 30, 2024	404,136
Total Budgeted Expenditures and Reserves	$ 3,320,759

(1) This amount represents an estimate of the beginning fund balance which was used in preparing the Fiscal Year 2024 Budget.

CONTINUING DEBT DISCLOSURE INFORMATION
June 30, 2023
(amounts expressed in thousands)
(unaudited)

Capital Improvement Plan

The 2023 - 2027 CIP consists of the projects and facilities described in the following chart. (The 2023-2027 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 table below).

	Amount
Streets, Bridges and Traffic Control	$ 1,104
Storm Sewers and Drainage	899
Parks and Recreation	106
Police Department	89
Fire Department	74
General Government	188
Public Library	53
Public Health	37
Solid Waste Management	9
Homeless and Housing	4
Technology	48
Fleet	190
Total	$ 2,802 (*)

(*) The tax-supported component of the 2023-2027 CIP addresses a full range of capital facility and infrastructure improvements. The voter authorized improvements are expected to be initially financed with Commercial Paper Notes. 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.

General Fund Indirect Charges to Other City Funds

A charge is made by the General Fund to the Water and Sewer System, Airport System, and to certain grant and special revenue funds for indirect charges incurred by the General Fund on behalf of such funds.

Fiscal Year	Amount
2023	$ 22,801
2022	25,235
2021	24,688
2020	27,789
2019	26,603
2018	28,910
2017	27,399
2016	26,611
2015	25,328
2014	18,558

CONTINUING DEBT DISCLOSURE INFORMATION
June 30, 2023
(amounts expressed in thousands)
(unaudited)

Long Term Disability and Compensated Absence Liability

Long-Term Disability Fund	Amount
Assets Available for Future Long-Term Disability Obligations	$ 8,734
Claims Payable on Long-Term Disability Obligations	(58)
Unrestricted Net Assets	$ 8,676

Compensated Absence Liability	Amount
Governmental Short-Term Liability	$ 138,277
Enterprise Funds Liability	36,615
Governmental Funds Long-Term Liability	435,199
Total	$ 610,091

General Fund Specific Charges to Other City Funds

An additional charge made by the General Fund to the Combined Utility System, Airport, the Capital Projects Fund and certain other funds of the City for specific services provided to such funds by the General Fund.

Fiscal Year	Total Direct Charges for Specific Services
2023	$ 65,845
2022	60,475
2021	59,308
2020	59,174
2019	62,214
2018	54,449
2017	53,523
2016	53,934
2015	47,851
2014	43,257

TAX REVENUE BY SOURCE - GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)
(unaudited)

Fiscal Year	Property Tax	Sales Tax	Franchise Tax	Industrial Assessments	Mixed Beverage Tax	Bingo Tax [1]	Occupancy Hotel Tax [2]	Total Tax Collections
2014	$ 973,902	$ 629,441	$ 190,368	$ 16,534	$ 13,869	$ 187	$ —	$ 1,824,301
2015	1,074,070	667,061	190,245	16,736	15,784	209	—	1,964,105
2016	1,099,411	640,476	191,584	19,238	16,064	207	—	1,966,980
2017	1,152,420	631,993	191,025	19,291	16,662	234	—	2,011,625
2018	1,172,313	674,279	186,206	18,278	17,296	73	17,196	2,085,641
2019	1,195,949	692,271	182,870	19,755	18,026	222	17,180	2,126,273
2020	1,222,846	684,425	168,556	24,797	15,379	—	16,922	2,132,925
2021	1,269,935	706,829	154,093	25,435	14,561	—	7,444	2,178,297
2022	1,283,942	822,656	149,978	24,086	21,890	—	15,588	2,318,140
2023	1,337,128	893,905	148,605	28,021	24,013	—	18,118	2,449,790

[1] Beginning in Fiscal Year 2018, the City began reflecting the 19.3% of the hotel occupancy tax that was designated to the General Fund in the General Fund as opposed to the Convention and Entertainment Fund. The amount here represents the 81% available to cover bond covenants.

[2] Beginning in Fiscal Year 2020, Bingo revenue was no longer considered a tax. It is now considered a fee and reported in Other Miscellaneous Revenues.

TAXABLE VALUE OF PROPERTY
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)
(unaudited)

Fiscal Year	Residential Property	Commercial Property	Industrial Property	Personal Property	Total Taxable Assessed Value	Total Direct Tax Rate
2014	$ 76,750,000	$ 60,835,000	$ 4,127,000	$ 25,749,000	$ 167,461,000	6.38750
2015	87,461,000	68,223,000	4,509,000	27,003,000	187,196,000	6.31080
2016	97,070,000	73,598,000	4,947,000	28,362,000	203,977,000	6.01120
2017	106,995,000	80,515,000	5,050,000	28,133,000	220,693,000	5.86420
2018	113,401,000	81,423,000	5,457,000	27,238,000	227,519,000	5.84210
2019	116,204,000	81,425,000	5,455,000	26,546,000	229,630,000	5.88310
2020	126,456,000	84,519,000	5,661,000	27,655,000	244,291,000	5.67920
2021	136,018,000	88,843,000	5,881,000	27,438,000	258,180,000	5.61840
2022	142,582,000	88,769,592	5,653,203	25,695,528	262,700,000	5.50830
2023	155,007,115	95,429,665	6,175,901	28,654,307	285,266,988	5.19190

The tax rates are based on a 100% assessment ratio. Tax rates are stated per $1,000 assessed value.

The taxable value of property is the appraised value less exemptions and is received from Harris, Fort Bend, and Montgomery County.

CHANGES IN FUND BALANCES IN GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)
(unaudited)

	2014	2015	2016	2017
Revenues				
Taxes	$ 1,826,639	$ 1,964,470	$ 1,966,483	$ 2,013,196
Licenses and permits	111,577	121,636	126,020	118,899
Intergovernmental	333,832	373,006	377,546	404,276
Charges for services	267,635	296,694	304,438	299,748
Fines	46,647	41,350	42,472	37,407
Investment earnings	9,737	7,639	11,925	6,034
Contributions	—	—	—	—
Other	98,189	95,129	117,442	112,245
Total revenues	2,694,256	2,899,924	2,946,326	2,991,805
Expenditures				
General Government	233,216	295,439	319,160	297,501
Public safety	1,355,369	1,374,859	1,418,763	1,446,775
Public Works	304,346	314,313	329,572	348,229
Health	122,446	139,016	145,976	157,968
Housing and Community Development	51,252	71,167	62,539	60,656
Parks and recreation	77,557	101,718	85,252	89,654
Library	38,421	38,170	39,271	39,932
Retiree benefits	10,920	11,059	11,390	11,521
*Capital Outlay	289,026	358,969	334,555	338,946
Debt Service				
Principal	176,205	191,355	290,805	192,656
Interest	154,327	153,972	151,260	144,068
Fiscal agent and fees	4,528	5,289	6,785	3,343
Total expenditures	2,817,613	3,055,326	3,195,328	3,131,249
Excess of revenues over (under) expenditures	(123,357)	(155,402)	(249,002)	(139,444)
Other financing sources (uses)				
Transfers in	549,184	587,207	622,988	553,680
Transfers out	(507,217)	(538,102)	(571,849)	(490,795)
Proceeds from issuance of debt	119,000	117,740	65,000	140,000
Proceeds from refunded debt	—	—	557,615	—
Payment to escrow agent	(519)	(1,404)	(550,600)	—
Sale of land	2,464	48,171	8,792	11,026
Bond premium (discount)	—	—	102,908	—
Contributions out	—	—	—	—
Insurance proceeds	—	—	—	—
Total other financing sources (uses)	162,912	213,612	234,854	213,911
Net change in fund balances	$ 39,555	$ 58,210	$ (14,148)	$ 74,467
Debt service as a percentage of noncapital expenditures	13.3 %	13.0 %	15.7 %	12.2 %

Source: Annual Comprehensive Financial Report

*Capital outlay does not agree to amount of capital additions per the reconciliation because of items below the capitalization threshold and because capital expenditures were found in other functional expenditures.

2018	2019	2020	2021	2022	2023
$ 2,068,675	$ 2,120,567	$ 2,133,402	$ 2,162,378	$ 2,317,905	$ 2,449,304
113,918	123,255	119,354	112,795	113,344	118,407
443,441	537,402	656,699	1,183,307	1,085,470	872,602
304,625	311,587	310,695	319,012	335,572	357,337
34,734	36,407	29,664	28,341	30,852	30,945
11,579	45,008	45,567	2,709	(33,257)	32,559
—	—	—	—	—	500
133,510	79,036	56,394	62,672	70,879	70,241
3,110,482	3,253,262	3,351,775	3,871,214	3,920,765	3,931,895
357,661	353,912	446,217	430,689	393,107	407,272
2,248,951	1,502,334	1,546,820	1,580,922	1,626,241	1,692,423
401,641	383,018	377,394	399,629	392,056	411,663
160,519	154,884	156,884	289,724	239,397	243,818
53,249	90,398	135,419	369,216	387,329	206,847
102,237	84,539	83,058	77,574	83,998	103,121
40,065	39,839	40,435	41,062	40,675	51,429
167,372	11,123	14,196	13,290	11,837	12,612
358,387	358,973	339,363	396,816	429,148	357,542
489,510	219,764	228,668	213,148	265,097	295,375
148,754	177,804	164,793	151,787	144,772	142,769
11,574	4,540	5,760	3,738	4,996	3,260
4,539,920	3,381,128	3,539,007	3,967,595	4,018,653	3,928,131
(1,429,438)	(127,866)	(187,232)	(96,381)	(97,888)	3,764
605,254	654,394	660,650	659,617	752,414	705,958
(540,747)	(595,114)	(608,280)	(596,184)	(693,018)	(650,040)
1,577,352	139,065	624,690	123,724	482,181	185,591
—	—	—	—	—	—
(336,191)	—	(552,367)	—	(338,940)	—
5,958	30,061	22,306	3,786	7	5,836
76,336	—	61,685	—	35,170	—
—	(4,165)	—	—	—	—
93,778	2,061	982	—	—	—
1,481,740	226,302	209,666	190,943	237,814	247,345
$ 52,302	$ 98,436	$ 22,434	$ 94,562	$ 139,926	$ 251,109
15.5 %	13.3 %	12.5 %	10.3 %	11.6 %	12.4 %

DIRECT AND OVERLAPPING PROPERTY TAX RATES
Last Ten Fiscal Years
(unaudited)

Purpose	2023	2022	2021	2020
City				
General Purposes	3.85127	4.02470	4.23094	4.04129
Debt Service	1.48513	1.48360	1.38746	1.63791
City of Houston (1)	5.33640	5.50830	5.61840	5.67920
County				
Fort Bend County	4.5120	4.5280	4.5321	4.6000
Harris County (2)	3.4373	4.1042	4.2258	4.3505
Montgomery County	3.7420	4.0830	4.3120	4.4750
School District				
Aldine I.S.D.	12.2170	12.6690	12.7440	13.4712
Alief I.S.D.	12.0480	12.0480	12.0480	12.4410
Clear Creek I.S.D.	11.1460	11.7970	12.6590	13.1000
Conroe I.S.D.	11.1460	11.7600	12.1250	12.3000
Crosby I.S.D.	14.2290	14.4030	14.4030	15.4835
Cypress-Fairbanks I.S.D.	13.5550	13.3920	13.5550	13.7000
Deer Park I.S.D.	12.8220	13.4960	13.4960	14.1510
Fort Bend I. S. D.	11.3460	12.1010	12.4000	12.7000
Galena Park I.S.D.	13.5418	14.6510	14.5810	14.5810
Goose Creek I.S.D.	10.8250	12.8170	13.6860	13.4110
Houston I.S.D.	10.3720	10.9440	11.3310	11.3700
Huffman I.S.D.	11.4930	11.4930	13.4210	13.4210
Humble I.S.D.	13.3890	10.3405	14.1835	14.1835
Katy I.S.D.	13.5170	13.8880	14.4310	15.1660
Klein I.S.D.	12.3000	13.0000	13.4000	13.6000
New Caney I.S.D.	14.4300	14.6030	14.6030	15.6840
Pasadena I.S.D.	13.3530	13.8120	13.8300	13.7840
Sheldon I.S.D.	14.1500	15.0160	15.0160	15.2840
Spring I.S.D.	12.5460	13.1280	13.8430	14.3000
Spring Branch I.S.D.	12.6880	12.6880	13.0730	13.2100
Municipal Utility District				
Harris County MUD # 355	0.0560	0.0600	0.0600	0.0600
Harris County MUD # 359	1.1000	1.2000	1.4500	1.4500
Harris County MUD # 366	1.6000	1.4000	1.6000	1.6000
Harris County MUD # 372	1.6240	1.6750	1.6750	1.6000
Harris County MUD # 381	4.8000	5.2000	5.6000	6.0000
Harris County MUD # 390	5.7250	7.0000	6.9650	7.0000
Harris County MUD # 393	4.9000	6.0000	6.4000	6.8000
Harris County MUD # 404	7.7900	8.6125	8.6125	8.6125
Harris County MUD # 410	5.4000	5.6000	5.6000	5.6000
Harris County MUD # 411	5.3000	5.7000	5.8000	6.0000
Harris County MUD # 415	7.7000	8.0000	8.0000	8.0000
Harris County MUD # 450	5.3000	5.7000	5.8500	6.3000
Harris County MUD # 451	9.0000	9.0000	9.0000	9.0000
Harris County MUD # 460	7.4000	7.4000	7.4000	7.4000
Harris County MUD # 499	8.2000	8.7000	8.8000	9.1000
Harris County MUD # 529	6.1000	6.7000	7.0000	7.5000
Harris County MUD # 537	5.0000	5.0000	5.0000	5.0000
Northwood MUD #1	9.0000	10.0000	10.0000	12.5000
Other Jurisdictions				
Clear Lake City Water Authority	2.6000	2.6000	2.7000	2.7000
Fort Bend Parkway Road (3)				
Harris County Dept. of Education	0.0049	0.0499	0.0499	0.0519
Harris County Hospital District	1.4831	1.6221	1.6671	1.7904
Houston Community College	1.6377	1.7752	0.2106	1.0026
Lee College District	2.3010	2.3010	2.3010	2.5010
Lone Star College System	1.0780	1.0780	1.0780	1.0780
Port of Houston Authority	0.0799	0.0872	0.0991	0.1074
San Jacinto College District	1.5560	1.6797	1.6936	1.7812

(1) The tax rates are based on a 100% assessment ratio. Tax rates are stated per $1,000 assessed value.

(2) Harris County includes the Harris County Flood Control District and the Harris County Toll Road. The Toll Road rate is zero.

(3) Debt has been paid off.

2019	2018	2017	2016	2015	2014
4.19242	4.20227	4.54458	4.42194	4.74635	4.77085
1.69068	1.63983	1.31962	1.58926	1.56445	1.61665
5.88310	5.84210	5.86420	6.01120	6.31080	6.38750
4.6400	4.6900	4.7400	4.8600	4.9476	4.9976
4.4735	4.4485	4.4485	4.4656	4.4467	4.4300
4.6670	4.6670	4.6670	4.7670	4.7670	4.8380
13.4712	13.7339	13.2338	12.8590	13.0590	13.0580
13.3000	13.3000	13.0500	12.8000	12.8000	12.9000
13.1000	14.0000	14.0000	14.0000	14.0000	14.0000
12.8000	12.8000	12.8000	12.8000	12.8000	12.9000
16.5000	16.7000	16.7000	16.7000	16.7000	16.7000
14.4000	14.4000	14.4000	14.4000	14.4000	14.5000
15.3870	15.5670	15.5670	15.5670	15.5670	15.5670
13.2000	13.4000	13.4000	13.4000	13.4000	13.4000
14.7165	15.6330	15.6330	15.1340	15.1340	15.1340
13.5428	14.3190	14.3190	14.3189	14.3189	13.3213
12.0670	12.0670	12.0670	11.9670	11.9670	11.5670
14.0000	14.0000	14.0000	14.0000	14.0000	14.2000
15.2000	15.2000	15.2000	15.2000	15.2000	15.2000
15.1660	15.1660	15.1660	15.2660	15.2660	15.2660
14.3000	14.1000	14.3000	13.9000	13.9000	14.3000
15.6840	16.7000	16.7000	16.7000	16.7000	15.4000
14.8000	14.8000	13.5000	13.5000	13.5000	13.5000
14.4840	14.7000	14.1000	14.1000	14.1000	14.3000
15.1000	15.1000	14.6996	14.7000	15.1000	15.7000
13.2098	13.9450	13.9450	13.9450	13.9450	13.9450
0.0600	0.0900	0.0900	1.2000	1.2000	2.0000
1.5000	1.6000	1.9000	2.6000	2.7000	3.0000
1.6000	1.6000	1.8000	2.0000	2.0000	2.5000
1.6000	1.6000	1.1100	1.6500	1.7500	1.9000
6.2000	6.3000	6.3000	7.4000		
7.0000	7.0000	7.0000	7.0000	7.0000	7.0000
7.0000	7.3000	7.5000	9.1000		
8.4125	8.6125	8.6125	8.6125		
5.6000	5.9000	5.9000	6.9000		
6.6000	7.0000	7.5000	9.0000		
8.0000	8.0000			7.6892	7.6125
6.3000	7.8500	8.1358	7.9888		
9.1000	9.1579	9.1358	8.8000		
7.4000	7.4000	7.4000			
9.1000	15.4000				
7.5000	7.5000				
5.0000	5.0000				
12.5000	12.5000	12.5000	12.5000	12.5000	12.5000
2.7000	2.7000	2.7000	2.7000	2.8000	2.8000
0.0519	0.0520	0.0520	0.0600	0.0600	0.0636
1.7108					
0.2351	1.0264	0.0250	0.2631	0.2984	0.2012
2.5010	2.5040	2.1320	2.1570	2.2070	2.6070
1.0780	1.0780	1.0780	1.0790	1.0810	1.1600
0.1155	0.1256	0.1334	0.1342	0.1531	0.1716
1.6797	1.8333	1.8238	1.7578	1.8560	1.8560

PRINCIPAL PROPERTY TAXPAYERS
June 30, 2023
Current Year and Nine Years Ago
(amounts expressed in thousands)
(unaudited)

	2023			2014		
Taxpayer	**Total Assessed Value**	**Rank**	**Percentage of Total Taxable Assessed Value**	**Total Assessed Value**	**Rank**	**Percentage of Total Taxable Assessed Value**
Centerpoint Energy, Inc.	$ 2,858,136	**1**	1.00 %	$ 1,654,700	**1**	0.99 %
Chevron Chemical Company	912,570	**2**	0.32 %	1,013,970	**2**	0.60 %
BSREP 1HC-4HC	693,725	**3**	0.24 %			
One Two Three Allen Center	691,832	**4**	0.24 %			
GWP (Greenway Plaza)	688,799	**5**	0.24 %			
Four Five Oaks Place	648,035	**6**	0.23 %			
HG Galleria I II III, LP	628,132	**7**	0.22 %	475,504	**10**	0.28 %
Shell Oil Co	606,519	**8**	0.21 %	770,380	**4**	0.46 %
Camden REIT	531,832	**9**	0.19 %			
Flint Hills Resources	517,241	**10**	0.18 %			
Crescent HC Investors LP (Cresent Real Estate)				776,216	**3**	0.46 %
United Airlines, Inc				714,957	**5**	0.43 %
Busycon Property				536,990	**6**	0.32 %
1000 Lousiana LP				504,064	**7**	0.30 %
Texas Tower Ltd				499,469	**8**	0.30 %
Amoco Chemical Company				497,306	**9**	0.30 %
Total	$ 8,776,821,000		3.07 %	$ 7,443,556,000		4.44 %

TAX SUPPORTED DEBT SERVICE FUNDS
(amounts expressed in thousands)
(unaudited)

Tax Bond Debt Service Fund for Fiscal Year 2024

Budgeted Resources	**Amount**
Beginning Fund Balance Estimate as of July 01, 2023	$ 162,366
Transfers in from:	
General Fund	358,711
Combined Utility System Operating Fund	19,660
Other sources	21,655
Third Party Reimbursements	4,437
Other	28,850
Total Budgeted Resources	595,679
Budgeted Expenditures	
Debt Service Requirements	
Tax Bonds	415,030
Total Budgeted Expenditures	415,030
Budgeted Ending Fund Balance as of June 30, 2024	180,649
Total Budgeted Expenditures and Reserves	$ 595,679

[(1)] This fund includes the debt service for the City's Tax Bonds, Pension Obligations, Commercial Paper Notes and Tax Certificates.

RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years
(amounts expressed in thousands, except per capita amount)
(unaudited)

Governmental Activities

Fiscal Year	Public Improvement Bonds	Pension Obligations	Commercial Paper	Tax and Revenue Certificates	Notes Payable	Other Borrowings
2014	$ 2,422,445	$ 535,353	$ 257,350	$ 18,660	$ 11,629	$ 5,813
2015	2,658,664	529,603	141,900	17,671	—	5,154
2016	2,603,712	523,443	99,900	17,479	—	4,495
2017	2,401,047	516,858	239,900	16,682	—	3,836
2018	2,455,354	1,444,890	70,000	15,446	—	8,226
2019	2,275,465	1,434,480	165,000	14,156	—	5,062
2020	2,165,078	1,422,407	131,900	12,806	—	19,355
2021	1,959,806	1,400,128	244,600	11,396	—	28,889
2022	1,940,414	1,375,473	168,000	12,846	—	28,636
2023	1,723,361	1,348,318	275,400	11,189	—	28,576

Business-type Activities

Fiscal Year	Combined Utility System Revenue Bonds	Houston Airport System Revenue Bonds	Convention & Entertainment Revenue Bonds	Long-Term Contracts	Total Primary Government	Per Capita [1] (in dollars)
2014	$ 6,041,391	$ 2,232,051	$ 482,974	$ 130,986	$ 12,138,652	$ 5,777
2015	6,545,540	2,393,951	681,585	198,217	13,172,285	5,882
2016	6,703,987	2,468,672	666,280	209,300	13,297,268	5,791
2017	6,782,294	2,371,252	649,112	469,253	13,450,234	5,839
2018	6,865,875	2,334,124	703,234	750,193	14,647,342	6,333
2019	6,891,460	2,245,566	725,803	910,375	14,667,367	6,308
2020	6,975,458	2,227,419	656,266	890,120	14,500,809	6,262
2021	6,984,887	2,422,006	634,448	449,846	14,136,006	6,146
2022	6,835,066	2,328,356	611,365	425,395	13,725,551	5,998
2023	6,537,881	2,233,496	566,842	416,052	13,141,115	5,706

Note: Details regarding the City's outstanding debt can be found in Note 8 of the accompanying financial statements.

(1) See the Schedule of Demographic and Economic Statistics for personal income and population data.

RATIOS OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years
(amounts expressed in thousands, except per capita amount)
(unaudited)

Fiscal Year	General Tax Obligation Debt [(1)]	Less: Amounts Available in Debt Service	Net General Tax obligation Debt	Net General Tax Obligation Debt as a Percentage of Estimated Taxable Value of Property[(2)]	Per Capita [(3)]
2014	$ 3,251,250	$ 97,655	$ 3,153,595	1.88 %	$ 1,436
2015	3,140,357	82,422	3,057,935	1.63	1,366
2016	3,244,534	8,770	3,235,764	1.59	1,417
2017	3,174,487	7,933	3,166,554	1.43	1,373
2018	3,985,690	82,868	3,902,822	1.72	1,687
2019	3,889,101	85,186	3,803,915	1.66	1,644
2020	3,732,191	116,395	3,615,796	1.48	1,561
2021	3,615,930	107,530	3,508,400	1.36	1,525
2022	3,496,733	117,305	3,379,428	1.29	1,477
2023	3,358,268	146,883	3,211,385	1.13	1,395

Note: Details regarding the City's outstanding debt can be found in Note 8 of the accompanying financial statements.

(1) General tax obligation debt repaid from property taxes.
(2) See the schedule of Assessed Value and Estimated Actual Value of Taxable Property for property value data.
(3) Population data can be found in the Schedule of Demographic and Economic Statistics .

COMPUTATION OF DIRECT AND OVERLAPPING DEBT
June 30, 2023
(amounts expressed in thousands)
(unaudited)

	Net Direct Debt [(1)]		% of Debt Applicable to Houston [(2)]	City of Houston Share of Debt
	Amount	As of		
City				
City of Houston - direct	$ 3,386,844	6/30/2023	100.00 %	$ 3,386,844
County				
Fort Bend County	871,922	6/30/2023	1.61	14,038
Harris County (including Toll Road Bonds)	1,631,194	6/30/2023	51.23	835,661
Harris County Flood Control	1,167,953	6/30/2023	51.23	598,342
Montgomery County	419,508	6/30/2023	1.66	6,964
School District				
Aldine I.S.D.	1,416,206	6/30/2023	39.82	563,933
Alief I.S.D.	357,776	8/31/2022	78.51	280,890
Clear Creek I.S.D.	934,989	6/30/2023	21.86	204,389
Conroe I.S.D.	2,307,912	8/31/2022	0.00	–
Crosby I.S.D.	193,845	6/30/2023	0.05	97
Cypress-Fairbanks I.S.D.	3,779,259	6/30/2023	9.85	372,257
Deer Park I.S.D.	310,051	6/30/2023	0.83	2,573
Fort Bend I.S.D.	1,616,683	6/30/2023	3.52	56,907
Galena Park I.S.D.	310,906	6/30/2023	9.00	27,982
Goose Creek I.S.D	614,254	6/30/2023	0.00	–
Houston I.S.D.	2,797,359	6/30/2023	100.00	2,797,359
Huffman I.S.D.	84,043	6/30/2023	29.18	24,524
Humble I.S.D.	882,268	6/30/2022	33.32	293,972
Katy I.S.D.	2,319,476	8/31/2022	12.94	300,140
Klein I.S.D.	1,042,753	6/30/2023	1.04	10,845
New Caney I.S.D.	892,076	6/30/2023	15.12	134,882
Pasadena I.S.D.	710,589	8/31/2022	41.31	293,544
Sheldon I.S.D.	429,306	6/30/2023	0.32	1,374
Spring I.S.D.	1,262,746	6/30/2023	1.41	17,805
Spring Branch I.S.D.	1,150,991	6/30/2023	73.60	847,129
Municipal Utility District				
Harris County MUD 355	3,720	6/30/2023	100.00	3,720
Harris County MUD 359	3,603	6/30/2023	100.00	3,603
Harris County MUD 372	821	6/30/2023	100.00	821
Harris County MUD 381	15,008	6/30/2023	100.00	15,008
Harris County MUD 390	49,977	6/30/2023	100.00	49,977
Harris County MUD 393	7,507	6/30/2023	100.00	7,507
Harris County MUD 404	7,793	6/30/2023	100.00	7,793
Harris County MUD 410	17,715	6/30/2023	100.00	17,715
Harris County MUD 411	7,662	6/30/2023	100.00	7,662
Harris County MUD 415	4,792	6/30/2023	100.00	4,792
Harris County MUD 450	13,643	6/30/2023	100.00	13,643
Harris County MUD 451	4,820	6/30/2023	100.00	4,820
Harris County MUD 460	45,223	6/30/2023	100.00	45,223
Harris County MUD 499	11,226	6/30/2023	100.00	11,226
Harris County MUD 529	9,725	6/30/2023	100.00	9,725
Harris County MUD 537	14,839	6/30/2023	100.00	14,839
Northwood MUD # 1	1,635	6/30/2023	100.00	1,635
Other Jurisdictions				
Clear Lake City Water Authority	87,069	6/30/2023	65.83	57,318
Harris County Hospital District	70,970	6/30/2023	52.10	36,975
Houston Community College	446,665	6/30/2023	90.86	405,840
Lee College District	51,276	8/31/2022	0.00	–
Lone Star College System	568,305	6/30/2023	10.37	58,933
Port of Houston Authority	615,967	6/30/2023	52.10	320,919
San Jacinto College District	841,239	6/30/2023	15.44	129,887
Total overlapping debt	30,405,265			8,915,188
Total direct and overlapping debt	$ 33,792,109			$ 12,302,032

(1) The net direct debt amounts above, except for that which relates to the City of Houston, were provided by the individual government entities or the Municipal Advisory Council of Texas (MACTx). The percentage of debt applicable to the City was provided by MACTx. Net Direct Debt is equal to the outstanding principal amount less sinking fund balances.

(2) The percentage of overlapping debt applicable is estimated using (market or taxable) assessed property values. Applicable percentages were estimated by determining the portion of the overlapping government's (market or taxable) assessed value that is within the overlapping jurisdiction's boundaries and dividing it by the overlapping jurisdiction's total (market or taxable) assessed value.

AD VALOREM TAX LEVIES AND COLLECTIONS
June 30, 2023
(amounts expressed in thousands)
(unaudited)

Fiscal Year	Tax Rate[1] General Purposes	Debt Service	Total	Net Current Year Tax Levy[2] [4] (in thousands)	Current Collections Prior to End of Fiscal Year[3] [4] [5] (in thousands)	Prior Years' Delinquent Collections[5] (in thousands)	Total Collection[3][4][5] (in thousands)	Total Collections Percentage of Net Levy[4]
2015	0.47464	0.15644	0.63108	$ 1,183,204	$ 1,156,298	$ 23,578	$ 1,179,876	99.7 %
2016	0.44219	0.15893	0.60112	1,228,563	1,206,449	9,000	1,215,449	98.9
2017	0.45446	0.13196	0.58642	1,299,973	1,276,573	16,500	1,293,073	99.5
2018	0.42023	0.16398	0.58421	1,329,129	1,307,863	4,941	1,312,804	98.8
2019	0.41924	0.16907	0.58831	1,347,166	1,326,810	10,187	1,336,997	99.2
2020	0.40413	0.16379	0.56792	1,367,460	1,345,580	16,082	1,361,662	99.6
2021	0.42309	0.13875	0.56184	1,450,559	1,414,585	14,399	1,428,984	98.5
2022	0.40247	0.14484	0.54731	1,447,043	1,409,911	9,488	1,419,399	98.1
2023	0.38513	0.14851	0.53364	1,531,815	1,485,861	1,687	1,487,548	97.1
2024	0.38888	0.13031	0.51919	1,654,971	1,605,322	6,494	1,611,816	97.4

(1) 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; however, for a discussion of the more restrictive City Charter Limitations, see “PROPERTY TAXES – City Charter Tax and Revenue Limitations.”

(2) The figures represent net adjusted levies, including the late certification and correction rolls from the Appraisal District, through June 30 of each Fiscal Year, except for fiscal year 2024, which is as of August 18, 2023.

(3) These amounts do not include revenues from various types of Industrial District Contracts entered into by the City with industrial property owners outside of the City’s corporate limits. Such Industrial District Contracts have a term of fifteen 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.

(4) Includes all ad valorem tax receipts received by the City, including tax increment revenues that are deposited into special funds designated for various tax increment reinvestment 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 are not debt of the City. In Fiscal Year 2024, the City has budgeted approximately $261.1 million of tax increments to be transferred to special funds for such zones, as required by State law, of which approximately $41.5 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.

(5) The City’s fiscal year 2024 Budget includes a property tax levy in compliance with Proposition 1. Upon receipt of the Certified Initial Roll a proposed tax rate is calculated to comply with the tax revenue restrictions.

AD VALOREM TAX OBLIGATION PERCENTAGES
June 30, 2023
(amounts expressed in thousands, except per capita amount)
(unaudited)

Tax Year	Fiscal Year	Tax-Supported Debt at December 31 (in thousands)(6)	Tax Roll(1) (in thousands)	Tax-Supported Debt as a Percentage of Tax Roll	Tax-Supported Per Capita Debt(2)	Debt Service Requirement Payable from Taxes(3)(4) (in thousands)	Tax Levy for Debt Service (in thousands)(5)
2013	2014	$ 3,392,510	$ 167,460,662	2.03 %	$ 1,545	$ 304,267	$ 243,813
2014	2015	3,329,635	187,196,033	1.78	1,487	337,756	264,500
2015	2016	3,225,240	204,300,968	1.58	1,412	340,345	295,954
2016	2017	3,079,240	220,692,709	1.40	1,335	339,639	258,415
2017	2018	3,978,830	227,519,681	1.75	1,720	384,968	333,784
2018	2019	3,887,020	229,630,283	1.69	1,679	427,761	342,205
2019	2020	3,918,035	244,291,904	1.60	1,692	403,043	352,100
2020	2021	3,603,895	258,180,081	1.40	1,567	382,854	311,353
2021	2022	3,510,903	262,700,434	1.34	1,534	398,565	339,739
2022	2023	3,205,915	285,266,988	1.12	1,392	415,030	358,711

(1) With the exception of Tax Year 2022, 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. The Tax Year 2022 amount represents the Appraisal Districts' estimate of certified taxable property values.

(2) Per capita figures are based on population estimates according to the U.S. Census Bureau.

(3) These amounts have not been reduced by the combined ending fund balances in the General Debt Service Fund.

(4) These amounts include principal and interest payments for Tax Obligations, except it only includes interest for Commercial Paper Notes at an assumed rate appropriate for each Fiscal Year.

(5) Sources of funds for the general obligation debt service requirement include the tax levy and transfers from Enterprise and Special Revenue Funds.

(6) Information as reported in the City's Monthly Operations and Financial Report dated as of December 31 of each Fiscal Year.

PRINCIPAL AND INTEREST PAYABLE FROM AD VALOREM TAXES (EXCLUDING COMMERCIAL PAPER NOTES) (unaudited)

The following schedule presents the City's debt service requirements for fiscal years 2024 through 2051 for the outstanding Tax Bonds, Pension Obligations, and Tax Certificates. Debt service on commercial paper notes is not reflected in the schedule below.

Fiscal Year Ended June 30	Tax Bonds[1]	Pension Obligations[2]	Tax Certificates[3]	Total Debt Service[4]
2024	$ 254,708,204	$ 91,181,179	$ 8,701,000	$ 354,590,383
2025	215,034,936	92,433,949	2,725,000	310,193,885
2026	193,905,043	93,730,709	—	287,635,752
2027	198,812,426	95,054,021	—	293,866,447
2028	190,362,542	96,419,190	—	286,781,732
2029	144,463,926	105,342,434	—	249,806,360
2030	107,497,422	106,794,257	—	214,291,679
2031	85,860,483	119,692,994	—	205,553,477
2032	71,977,645	121,218,257	—	193,195,902
2033	63,303,451	86,843,783	—	150,147,234
2034	60,578,334	65,230,035	—	125,808,369
2035	48,909,621	110,207,538	—	159,117,159
2036	47,539,557	101,573,226	—	149,112,783
2037	44,136,307	88,346,491	—	132,482,798
2038	24,761,107	66,433,106	—	91,194,213
2039	21,803,777	68,238,405	—	90,042,182
2040	18,484,842	70,088,291	—	88,573,133
2041	18,487,821	92,244,696	—	110,732,517
2042	9,434,693	73,069,195	—	82,503,888
2043	8,556,591	75,079,120	—	83,635,711
2044	5,402,800	77,145,038	—	82,547,838
2045	5,401,600	79,262,831	—	84,664,431
2046	5,404,400	81,442,535	—	86,846,935
2047	5,400,800	83,683,867	—	89,084,667
2048	5,400,800	—	—	5,400,800
2049	5,404,000	—	—	5,404,000
2050	620,000	—	—	620,000
2051	630,000	—	—	630,000
	$ 1,862,283,128	$ 2,140,755,147	$ 11,426,000	$ 4,014,464,275

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.

(1) 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.

(2) GO portion only.

(3) Adjusted to reflect the sinking fund payments for the Tax and Revenue Certificates of Obligation (QECB - Direct Pay to Issuer), Series 2013Q (the "Series 2013Q Certificates"). Excludes the federal subsidy payment expected to be received by the City in connection with the Series 2013Q Certificates.

(4) Totals may reflect a variance due to rounding.

COMPUTATION OF LEGAL DEBT MARGIN
Last Ten Fiscal Years
(amounts expressed in thousands)
(unaudited)

LEGAL DEBT MARGIN CALCULATION AT JUNE 30, 2023

Assessed Value (1)	$ 380,273,903
Debt Limit (10% of assessed value)	$ 38,027,390
Debt applicable to limit:	
Public Improvement Bonds	1,481,110
Pension Obligations	1,438,421
Commercial Paper - General Obligation	275,400
Tax and Revenue Certificates of Obligation	10,985
Total net debt applicable to limit	$ 3,205,916
Legal debt margin	$ 34,821,474

HISTORICAL LEGAL DEBT LIMITATION

	2014	2015	2016
Legal debt limitation, 10% of assessed value(2)	$ 21,962,278	$ 24,401,203	$ 26,857,750
Total net debt applicable to margin	3,233,808	3,135,203	3,244,534
Legal debt margin	$ 18,728,470	$ 21,266,000	$ 23,613,216
Total net debt applicable to the limit as a percentage of debt limit	14.7 %	12.8 %	12.1 %

(1) Assessed Value for the 2018 tax year (fiscal year 2019) is based on the appraised value of property prior to any deductions for exemptions. The Assessed Value is derived from the certified valuations provided by the Harris County Appraisal District as of July 2019.

(2) See Texas Government Code, Chapter 1331.051 (b).

2017	2018	2019	2020	2021	2022	2023
$ 28,781,940	$ 29,222,567	$ 30,143,366	$ 32,030,547	$ 33,848,534	$ 34,546,666	$ 38,027,390
3,174,499	3,985,690	3,889,101	3,732,189	3,615,930	3,331,796	3,205,916
$ 25,607,441	$ 25,236,877	$ 26,254,265	$ 28,298,358	$ 30,232,604	$ 31,214,870	$ 34,821,474
11.0 %	13.6 %	12.9 %	11.7 %	10.7 %	9.6 %	8.4 %

PLEDGED - REVENUE COVERAGE
Last Ten Fiscal Years
(amounts expressed in thousands)
(unaudited)

Airport System Bonds[1]

Fiscal Year	Operating & Non-Operating Revenues[2]	Less: Operating Expenses	Net Pledged Revenue	Debt Service Principal	Debt Service Interest[3]	Less Grants Available for Debt Service	Less PFC revenue Available for Debt Service	Coverage
2014	$ 460,768	$ 268,745	$ 192,023	$ 60,419	$ 96,005	$ 22,942	$ 35,614	1.96
2015	489,822	283,557	206,265	71,999	91,320	16,399	38,054	1.89
2016	495,831	314,715	181,116	79,093	84,811	13,888	42,320	1.68
2017	510,524	254,506	256,018	82,707	92,316	—	54,673	2.13
2018	522,407	326,889 [4]	195,518	81,137	93,319	—	50,642	1.58
2019	518,192	315,153	203,039	80,110	96,202	—	60,646	1.76
2020	491,537	314,034	177,503	89,090	91,641	14,169	55,040	1.59
2021	329,110	251,830	77,280	75,580	69,769	88,984	56,365	(*) not calculated
2022	488,806	255,377	233,429	77,700	85,803	103,684	59,819	(*) not calculated
2023	582,231	315,487	266,744	119,710	88,441	50,000	68,744	2.98

(1) Including Sr. Lien Commercial Paper, Subordinate Lien Bonds, and Inferior Lien Obligations.
(2) Income and revenue derived from the operation of the Airport System with limited exclusions.
(3) Debt service is net of amounts paid by grant fund, capitalized interest and passenger facility charges revenue.
(4) The decrease in net pension liability recorded as negative expense in FY2017 was $67.4 million.
(*) Calculations not performed for the year ended 6/30/2022 as HAS paid all debt service in fiscal year 2022 from PFC's and CARES Act proceeds.

Combined Utility System Bonds[1]

Fiscal Year	Operating & Non-Operating Revenues[2]	Less: Total Expenses	Net Pledged Revenue	Debt Service Principal	Debt Service Interest	Coverage
2014	$ 1,029,562	$ 406,273	$ 623,289	$ 134,030	$ 273,484	1.53
2015	973,289	424,683	548,606	140,685	266,636	1.35
2016	1,053,648	436,845	616,803	160,450	261,489	1.46
2017	1,075,788	438,330	637,458	184,570	259,941	1.43
2018	1,126,569	438,551	688,018	200,505	261,978	1.49
2019	1,123,606	468,244	655,362	213,810	257,760	1.39
2020	1,184,353	465,791	718,562	207,110	268,749	1.51
2021	1,154,660	505,931	648,729	228,641	262,231	1.32
2022	1,407,715	510,072	896,643	254,501	250,694	1.77
2023	1,667,322	585,195	1,082,127	271,299	257,069	2.05

(1) Including Water and Sewer System Bonds, Combined Utility System Bonds, and Commercial Paper interest.
(2) Income and revenues derived from the operation of the Combined Utility System with limited exclusions.

Convention and Entertainment Center Bonds[1]

Fiscal Year	Pledged Hotel Occupancy Tax & Other Revenue[2]	Debt Service Principal	Debt Service Interest	Coverage
2014	$ 78,892	$ 27,530	$ 14,123	1.89
2015	89,145	26,215	10,743	2.41
2016	83,027	25,835	11,377	2.23
2017	82,116	24,524	18,307	1.92
2018	76,491	19,790	24,333	1.73
2019	77,460	21,815	24,797	1.66
2020	77,483	21,779	26,388	1.61
2021	61,196	56,842	28,561	0.72
2022	41,749	23,222	33,154	0.74
2023	84,632	23,892	31,162	1.54

(1) Including Revenue Bonds and Commercial Paper.
(2) Includes the 5.65%/7% of collected hotel occupancy tax, certain parking revenues, and certain tax rebates.

DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years
(unaudited)

Fiscal Year	Population (1) (2)	Personal Income (amount in thousands) (3)	Per Capita Income (3)	Median Age (4)	Education Level in Years of Formal Schooling (4)	School Enrollment (4)	Average Unemployment Rate (percentage) (5)
2014	2,196,367	$ 360,298	$ 55,436	32.3	13.0	1,790,150	5.4%
2015	2,238,653	366,978	55,013	32.4	13.0	1,829,867	4.8%
2016	2,283,616	351,012	51,572	32.6	13.0	1,849,065	5.6%
2017	2,306,360	377,978	54,788	32.6	13.1	1,874,344	5.2%
2018	2,313,079	403,674	57,875	32.7	13.2	1,893,312	4.7%
2019	2,314,478	415,920	58,884	32.9	13.2	1,932,292	4.0%
2020	2,315,720	428,501	59,893	32.9	13.4	1,915,864	11.6%
2021	2,300,027	467,267	64,837	33.4	13.4	1,920,741	7.4%
2022	2,288,250	Not available	Not available	35.3	13.4	1,911,456	4.8%
2023	2,302,878	Not available	Not available	35.4	Not available	1,943,808	4.5%

(1) Source: U.S. Census Bureau - City and Town Populations, Subcounty Resident Population Estimates: April 1, 2013, to July 1, 2019.

(2) Source: U.S. Census Bureau - Annual Estimates of the Resident Population for Incorporated Places of 50,000 or More: estimate as of July 1, 2021, and July 1, 2022, for fiscal years 2022 and 2023, respectively.

(3) Source: U.S. Department of Commerce, Bureau of Economic Analysis. Amounts as of year ended December 31 for the nine-county Metropolitan Statistical Area (MSA). Information for the years ended December 31, 2023 and 2022, are not yet available.

(4) Source: U.S. Census Bureau - ACS Demographic and Housing Estimates for or the nine-county Metropolitan Statistical Area.

(5) Source: U.S. Bureau of Labor Statistics. Information as of June each year for the nine-county Metropolitan Statistical Area.

PRINCIPAL EMPLOYERS (1)
Last Ten Fiscal Years
Employer (Listed Alphabetically)
(unaudited)

2023	2022	2021
Amazon	CHI St. Luke's Health	ExxonMobil
CHI St. Luke's Health	ExxonMobil	HEB
ExxonMobil	HCA Houston Healthcare	HCA Houston Healthcare
HCA Houston Healthcare	HEB	Houston Methodist
HEB	Houston Methodist	Kroger
Houston Methodist	Kroger	Memorial Hermann Health System
Kroger	Memorial Hermann Health System	Schlumberger
Memorial Hermann Health System	Schlumberger	UT MD Anderson Cancer Center
Schlumberger	UT MD Anderson Cancer Center	United Airlines
Walmart	Walmart	Walmart

2020	2019	2018
ExxonMobil	HEB	Exxon Mobil
HEB	Houston Methodist	HEB
HCA Houston Healthcare	Kroger	Houston Methodist
Houston Methodist	McDonald's Corp	Kroger Company
Kroger	Memorial Hermann Health System	McDonald's Corp
Memorial Hermann Health System	Schlumberger	Memorial Hermann Health System
Shell Oil Company	Shell Oil Company	Texas Children Hospital
UT MD Anderson Cancer Center	UT MD Anderson Cancer Center	UT MD Anderson Cancer Center
United Airlines	United Airlines	United Airlines
Walmart	Walmart	Walmart

2017	2016	2015
HEB	ExxonMobil	Cameron International
Houston Methodist	Houston Methodist Hospital System	ExxonMobil
Kroger Company	Kroger Company	HEB
McDonald's Corp	Memorial Hermann Health System	Houston Methodist
Memorial Hermann Health System	National Oilwell Varco	Kroger
UT MD Anderson Cancer Center	Schlumberger Limited	Memorial Hermann Health System
United Airlines	Shell Oil Company	National Oilwell Varco
Schlumberger Limited	UTMB Health	Shell Oil Company
Shell Oil Company	UT MD Anderson Cancer Center	UT MD Anderson Cancer Center
Walmart	United Airlines	United Airlines

2014
B.P. America, Inc.
ExxonMobil
Houston Methodist
Kroger
Memorial Hermann Health System
National Oilwell Varco
Schlumberger Limited
Shell Oil Company
UT MD Anderson Cancer Center
United Airlines

Source: Greater Houston Partnership Research

(1) Starting fiscal year 2022, information such as the number of employees or the employers' percentage of total employment is not available for disclosure. Prior year information has been modified to the format consistent with current fiscal year for presentation purposes.

CITY OF HOUSTON, TEXAS

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EMPLOYMENT STATISTICS
June 30, 2023
(unaudited)

Employment

The following table indicates the Houston PMSA estimated annual average labor force for the years 2013 through 2022 according to the Texas Employment Commission:

Houston PMSA Labor Force Estimates
(Employees in thousands)

	2013	2014
Civilian Labor Force [1]	3,180	3,244
Employed	3,009	3,098
Unemployed	171	146
Percent unemployed	5.40 %	4.50 %
Nonfarm Payroll Employment [2]	2,895	2,991
Manufacturing	261	250
Mining	115	109
Contract construction	197	205
Transp/Trade/Pub Utils/Communications [3]	616	645
Finance/Insurance/Real Estate	146	146
Services & Miscellaneous	1,800	1,261
Government	379	381

(1) Includes resident wage and salary workers, self-employed, unpaid family workers and domestics in private households, agricultural workers, and workers involved in labor-management disputes.

(2) Includes the non-agricultural wage and salary jobs estimated to exist in Houston PMSA without reference to place of residence of workers.

(3) Trade has been included with Transportation, Public Utilities and Communications.

2015	2016	2017	2018	2019	2020	2021	2022
3,287	3,323	3,412	3,444	3,381	3,418	3,523	3,625
3,106	3,147	3,255	3,313	3,053	3,165	3,353	3,451
180	176	157	131	328	253	170	174
5.50 %	5.30 %	4.60 %	3.80 %	9.70 %	7.40 %	4.80 %	4.80 %
3,002	3,061	3,132	3,185	2,980	3,047	3,266	3,345
232	234	228	241	220	207	226	234
87	86	80	88	62	69	69	70
216	215	237	230	219	204	238	222
647	635	661	661	637	666	701	729
155	156	164	167	165	163	172	187
1,282	1,321	1,353	1,382	1,281	1,005	1,428	1,481
388	414	410	418	399	411	432	422

CITY OF HOUSTON EMPLOYMENT INFORMATION
Last Ten Years
(unaudited)

Full-time Equivalent Employees as of June 30, 2023

Fund/Department	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
GENERAL FUND										
Public Safety										
Fire/Civilian	117.1	107.2	111.9	109.6	108.3	105.2	95.3	85.3	97.5	95.5
Fire/Classified	3,981.2	4,119.9	4,235.4	4,231.6	4,219.3	4,100.0	4,098.6	4,055.6	4,101.1	4,150.6
Fire/Cadets	123.0	139.1	107.1	94.6	41.4	80.2	49.7	98.4	123.7	113.7
Municipal Courts	291.6	299.2	290.7	280.0	268.4	257.8	252.4	241.2	236.6	226.1
Police/Civilian	1,157.8	1,133.2	1,134.7	1,141.7	1,099.8	986.8	874.9	851.3	853.3	862.4
Police/Classified	5,290.4	5,350.7	5,353.4	5,357.3	5,559.8	5,351.0	5,592.7	5,293.0	5,422.0	5,289.4
Police/Cadets	88.1	91.2	140.5	176.2	134.1	139.5	139.7	140.3	173.9	126.8
Total Public Safety	11,049.2	11,240.5	11,373.7	11,391.0	11,431.1	11,020.5	11,103.3	10,765.1	11,008.1	10,864.5
Development & Maintenance Services										
General Services (Formerly Building Services)	201.1	140.7	137.7	135.1	133.7	144.3	142.6	136.0	139.0	146.3
Planning & Development	76.1	71.9	59.8	32.3	28.0	25.9	21.3	23.8	21.5	19.0
Public Works & Engineering (PW&E)	13.6	14.6	12.5	13.8	13.0	7.3	6.6	8.4	7.7	8.4
Solid Waste Management	458.9	475.9	507.7	526.0	527.7	542.1	530.2	534.3	508.6	485.1
Total Development & Maintenance	749.7	703.1	717.7	707.2	702.4	719.6	700.7	702.5	676.8	658.8
Human & Cultural Services										
Health & Human Services	565.0	563.5	447.7	447.6	431.7	409.4	391.4	374.9	359.4	323.9
Housing & Community Development	2.0	1.3	0.7	0.7	2.5	0.4	0.5	0.3	0.3	0.3
Library	474.1	469.8	466.0	466.1	471.7	455.7	440.0	415.6	407.1	426.6
Neighborhoods	103.5	107.5	107.6	103.9	102.9	95.4	87.8	86.5	78.1	78.2
Parks & Recreation	670.3	663.7	657.9	693.5	689.0	648.0	595.5	523.1	545.6	549.4
Total Human & Cultural Services	1,814.9	1,805.8	1,679.9	1,711.8	1,697.8	1,608.9	1,515.2	1,400.4	1,390.5	1,378.4
Administrative Services										
Administration & Regulatory Affairs	201.5	202.1	205.6	209.1	191.7	184.8	172.2	170.8	167.5	166.1
City Secretary	10.7	10.3	9.2	8.9	9.9	9.8	9.4	7.6	8.2	7.8
Controller's Office	65.3	62.1	60.3	57.8	60.3	51.1	48.3	50.0	49.9	46.5
Council Office	74.6	76.5	77.6	76.2	73.2	71.8	70.2	72.8	71.2	67.6
Finance Department	107.8	111.4	106.8	102.2	103.1	101.1	97.9	99.4	98.4	98.4
Human Resources	31.1	32.0	33.2	29.0	26.7	23.4	19.3	16.5	36.5	25.7
Information Technology	156.3	161.8	156.8	145.3	107.1	93.8	28.8	–	–	–
Legal	119.7	121.6	120.0	114.0	107.2	106.6	113.5	97.6	96.5	100.3
Mayor's Office	58.5	48.6	49.5	49.1	45.5	43.4	43.1	39.5	36.3	35.8
Office of Business Opportunity (Formerly Affirm. Action)	26.4	28.1	28.2	27.7	27.7	26.7	30.0	34.0	28.4	28.5
Total Administrative Services	851.9	854.5	847.2	819.3	752.4	712.5	632.7	588.2	592.9	576.7
Total General Fund	14,465.7	14,603.9	14,618.5	14,629.3	14,583.7	14,061.5	13,951.9	13,456.2	13,668.3	13,478.4
ENTERPRISE FUNDS										
Aviation	1,368.7	1,292.0	1,245.2	1,211.5	1,190.0	1,156.3	1,145.2	1,163.2	1,172.9	1,231.9
Convention & Entertainment Facilities	22.7	–	–	–	–	–	–	–	–	–
Combined Utility System	2,220.8	2,166.2	2,179.6	2,254.8	2,266.6	2,245.0	2,239.5	2,289.0	2,245.2	2,257.0
Total Enterprise Funds	3,612.2	3,458.2	3,424.8	3,466.3	3,456.6	3,401.3	3,384.7	3,452.2	3,418.1	3,488.9

(Continued)

(Continued)

Fund/Department	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
SPECIAL REVENUE FUNDS										
Administration & Regulatory Affair	159.9	168.8	175.9	179.6	171.6	173.1	181.8	179.8	177.6	171.3
Finance	15.5	42.8	39.2	41.2	49.2	49.4	50.2	59.3	55.7	53.0
Fleet Management (Formerly PW&E - Fleet Management)	325.9	369.7	371.2	399.7	406.9	400.8	389.3	392.9	373.0	360.4
General Services (Formerly Building Services)	61.3	137.5	130.1	126.1	134.6	129.6	117.6	113.9	102.9	104.5
Health & Human Services	592.1	661.0	656.3	686.1	782.9	807.5	764.2	966.9	1,007.4	1,052.0
Housing & Community Development	161.8	163.4	158.3	146.1	142.9	189.1	278.1	307.0	286.1	265.4
Houston Emergency Center	243.8	242.5	247.5	243.2	246.1	248.0	241.9	242.9	227.5	214.5
Houston Information Technology	–	–	–	–	–	–	–	–	181.5	180.7
Houston Public Works	–	–	–	–	–	–	–	–	1,779.4	1,735.8
Human Resources	–	–	–	–	–	–	–	–	253.1	257.5
Legal	35.2	–	–	53.6	52.7	50.1	52.4	52.5	55.4	57.4
Library	23.4	17.1	13.6	7.9	5.7	6.0	9.8	11.4	8.6	6.6
Mayor's Office	26.9	43.5	50.0	51.0	54.9	56.9	56.1	69.8	70.4	71.8
Municipal Courts - (Administration) Department	18.1	20.0	18.8	21.0	16.0	10.5	10.2	10.5	7.6	4.1
Neighborhoods	48.8	46.7	43.4	40.2	37.5	33.2	29.8	30.4	35.4	33.4
Office of Business Opportunity (Formerly Affirm. Action)	2.0	2.0	2.0	2.0	1.6	1.1	1.9	2.0	1.5	1.8
Parks Special Revenue	93.2	103.4	108.3	116.4	115.5	100.1	93.4	95.8	102.4	105.9
Planning & Development	11.6	8.2	21.9	49.9	51.6	51.1	52.7	61.7	61.7	59.0
Police - Auto Dealers/Civilian	8.0	39.7	7.1	7.7	8.0	8.7	8.2	8.7	–	–
Police - Auto Dealers/Classified	32.0	21.9	–	–	–	–	–	–	–	–
Police - Cadet	–	–	16.7	40.9	1.0	23.0	–	–	–	39.5
Police - Special Services/Civilian	35.7	24.0	2.2	2.2	1.7	2.0	1.9	2.0	45.0	41.2
Police - Special Services/Classified	139.3	45.8	–	–	–	–	–	–	44.3	107.0
Police - Federal Government/Civilian	–	–	27.4	27.1	27.4	29.4	40.7	46.0	–	–
Police - Federal Government/Classified	–	–	16.6	36.4	35.5	33.5	32.4	24.1	–	–
Police - Forensic Transition Special Service/ Civilian	–	58.4	38.2	27.7	24.1	8.9	7.0	7.0	–	–
Police - Forensic Transition Special Service/ Classified	–	51.1	43.5	31.6	27.4	23.0	23.9	23.7	–	–
PW&E - Building Inspection	571.5	560.6	577.1	616.1	604.2	581.4	627.4	638.7	–	–
PW&E - Project Recovery Fund	–	–	329.5	309.0	299.1	286.1	301.0	308.3	–	–
PW&E - Stormwater Utility	377.7	337.3	329.9	347.9	373.0	304.7	342.1	322.0	–	–
PW&E - Houston TransStar	8.0	7.9	7.8	8.1	7.1	7.3	8.1	8.5	–	–
PW&E - Drainage and Street Renewal	505.2	485.0	487.4	464.5	511.6	458.9	492.2	508.9	–	–
Solid Waste Management	2.1	2.5	2.4	4.0	3.3	4.4	2.4	2.7	3.7	7.6
Total Special Revenue Funds	3,499.0	3,660.8	3,922.3	4,087.2	4,193.1	4,077.8	4,216.7	4,497.4	4,880.2	4,930.4
Total General, Enterprise and Special Funds	21,576.9	21,722.9	21,965.6	22,182.8	22,233.4	21,540.6	21,553.3	21,405.8	21,966.6	21,897.7
INTERNAL SERVICE/REVOLVING FUND										
Human Resources - Health Benefits	46.7	47.6	57.0	47.7	42.5	42.7	45.1	39.8	–	–
General Services - Central Svc Revolving	31.8	–	–	–	–	–	–	–	–	–
Human Resources - Central Svc Revolving	138.7	142.6	155.6	150.4	142.6	170.9	167.4	168.8	–	–
Information Technology - Central Svc Revolving	53.7	51.8	54.9	50.0	83.5	82.6	95.3	126.8	–	–
General Services - In House Reconstruction	28.5	–	–	–	–	–	–	–	–	–
PW&E - CIP Salary Recovery	308.9	328.9	–	–	–	–	–	–	–	–
Admin. and Regulatory Affairs - Property and Casualty	5.0	–	–	–	–	–	–	–	–	–
Legal - Property and Casualty	52.2	52.7	58.5	51.6	49.9	47.5	48.4	45.8	–	–
Human Resources - Workers Compensation	29.5	31.5	32.6	30.0	32.1	45.8	51.5	47.0	–	–
Legal - Workers Compensation	2.0	2.0	2.0	2.0	2.0	2.0	1.8	1.6	–	–
Total Internal Service/ Revolving Funds	697.0	657.1	360.6	331.7	352.6	391.5	409.5	429.8	–	–
Total Full-time Equivalent Employees	22,273.9	22,380.0	22,326.2	22,514.5	22,586.0	21,932.1	21,962.8	21,835.6	21,966.6	21,897.7

(Concluded)

OPERATING INDICATORS BY FUNCTION
June 30, 2023
(unaudited)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Function										
Police										
Physical arrests	138,007	54,490	61,749	51,910	51,288	58,401	51,054	41,351	43,377	46,591
Parking violations	195,822	188,570	203,941	194,595	187,047	201,142	169,439	187,482	197,997	193,471
Traffic violations filed	557,609	472,553	437,138	395,461	379,266	392,454	280,399	235,349	230,403	280,075
Fire										
Number of calls dispatched	308,264	327,417	336,170	335,693	346,023	337,613	347,409	363,767	382,971	390,547
Inspections (1)	85,945	88,367	74,906	11,000	25,742	30,579	34,582	36,160	27,731	26,910
Highways and streets										
Streets resurfaced (miles)	104	194	152	186	142	153	158	136	143	126
Tons of asphalt for pothole repair and skin patches	15,292	15,972	13,130	13,328	13,058	11,507	15,026	11,379	10,573	10,414
Parks and recreation										
Athletic field permits issued	2,344	2,312	2,270	2,423	2,300	2,342	1,715	608	1,890	2,377
Community center admissions (thousands)	5,703	5,813	5,547	5,838	5,470	5,810	4,521	1,637	2,976	3,582
Sanitation										
Refuse collected (tons)	686,334	681,675	695,613	725,819	732,015	718,506	753,879	773,596	716,584	687,408
Recyclables collected (tons) (2)	115,143	116,575	127,421	120,324	76,024	99,697	127,160	124,075	90,714	64,724
Water										
New connections (4)	6,796	6,349	4,559	4,530	4,612	4,524	3,083	3,805	4,009	3,956
Water main breaks (3)	11,935	10,572	11,122	9,638	8,355	11,067	8,178	9,427	8,539	11,119
Average daily pumpage (millions of gallons)	455	428	445	458	461	454	455	447	458	476
Wastewater										
Wastewater line repairs	2,210	2,186	2,252	2,322	2,452	2,222	1,893	2,152	2,067	1,987
Average daily sewage treatment (millions of gallons)	225	257	256	253	252	270	245	264	251	242

(1) The Fire Department now has a better system to record inspections. For example, a ten-building apartment complex is now counted as ten inspections, not one.

(2) The Solid Waste Department started the tree recycling program in January 2009, which greatly increased the tons of recyclables collected.

(3) A dry year caused a higher than usual number of breaks.

(4) New connections represents all water connection types as meters (physical connections) to the water supply, not the regulatory definition of a connection.

CAPITAL ASSET STATISTICS BY FUNCTION
June 30, 2023
(unaudited)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Function										
Public safety										
Police										
Stations	17	17	16	17	17	17	17	17	17	17
Patrol units	903	1,282	1,338	1,416	1,448	1,470	1,326	1,427	1,616	1,808
Fire										
Stations	92	93	93	93	93	93	93	93	93	93
Highways and streets										
Streets (lane miles)	15,397	15,404	14,656	14,656	14,764	13,852	13,852	15,991	15,991	15,991
Streetlights	174,373	174,075	175,172	176,440	177,056	177,056	177,056	177,056	178,837	179,138
Traffic signals	2,467	2,467	2,491	2,495	2,491	2,491	2,491	2,534	2,520	2,520
Parks and recreation										
Parks acreage	37,851	37,859	37,856	35,733	37,942	39,501	39,501	39,501	39,501	35,992
Parks	528	533	537	542	545	546	547	547	548	556
Swimming pools	57	56	56	57	58	59	59	59	59	59
Tennis Centers	3	3	3	3	3	3	3	3	3	3
Community centers	60	61	61	60	60	60	60	60	60	60
Sanitation										
Collection trucks	323	343	351	360	350	371	413	323	327	450
Water										
Water mains (miles)	7,198	7,128	7,128	7,128	7,144	7,210	7,174	7,640	7,639	7,660
Fire hydrants	58,984	N/A	N/A	60,420	60,543	61,524	61,876	61,991	62,103	62,509
Maximum daily capacity (millions of gallons)	885	803	808	799	782	795	790	764	713	693
Sewer										
Sanitary sewers (miles) [1]	6,950	6,950	6,950	6,950	6,192	6,200	6,300	6,396	6,186	6,192
Storm sewers (miles)	3,838	3,838	3,894	3,946	3,987	3,987	3,987	3,987	3,987	3,987
Maximum daily treatment permitted (millions of gallons)	565	563	563	563	564	564	564	564	564	587

(1) The sanitary sewers (miles) for the fiscal years ended June 30, 2013 to June 30, 2018 were adjusted to reflect updated information received from Water Operations Branch.

Source: Departments of the City of Houston, Texas.

June 30, 2023
VOTER-AUTHORIZED OBLIGATIONS
(amounts expressed in thousands)
(unaudited)

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"), November 2012 (the "2012 Election"), and November 2017 (the "2017 Election"), the amount of each such authorization approved by City Council for issuance as Commercial Paper Notes, the amount of commercial paper issued as of year-end, and the amount of commercial paper approved but unissued.

The City has issued all bonds authorized at the election held in November 1997.

Purposes	Voter Authorized	Approved by City Council for Issuance as Commercial Paper Notes	Commercial Paper Issued [1]	Commercial Paper Notes Approved by City Council but Unissued	All Voter Authorized but Unissued
November 2001 Election					
Streets, Bridges, Traffic Control	$ 474,000	$ 474,000	$ 471,300	$ 2,700	$ 2,700
Parks and Recreation	80,000	80,000	80,000	—	—
Police and Fire Departments	82,000	82,000	82,000	—	—
Permanent and General Improvements [2]	80,000	80,000	80,000	—	—
Public Libraries	40,000	40,000	40,000	—	—
Low Income Housing	20,000	20,000	20,000	—	—
Total	$ 776,000	$ 776,000	$ 773,300	$ 2,700	$ 2,700
November 2006 Election					
Streets, Bridges, Traffic Control	$ 320,000	$ 219,950	$ 97,248	$ 122,702	$ 222,752
Parks and Recreation	55,000	55,000	55,000	—	—
Public Safety	135,000	135,000	135,000	—	—
Permanent and General Improvements [2]	60,000	60,000	60,000	—	—
Public Libraries	37,000	37,000	37,000	—	—
Low Income Housing	18,000	18,000	10,731	7,269	7,269
Total	$ 625,000	$ 524,950	$ 394,979	$ 129,971	$ 230,021
November 2012 Election					
Streets, Bridges, Traffic Control	$ —	$ —	$ —	$ —	$ —
Parks and Recreation	166,000	166,000	149,532	16,468	16,468
Public Safety	144,000	144,000	144,000	—	—
Permanent and General Improvements [2]	57,000	57,000	53,078	3,922	3,922
Public Libraries	28,000	28,000	28,000	—	—
Low Income Housing	15,000	10,188	5,248	4,940	9,752
Total	$ 410,000	$ 405,188	$ 379,858	$ 25,330	$ 30,142
November 2017 Election					
Streets, Bridges, Traffic Control	$ —	$ —	$ —	$ —	$ —
Parks and Recreation	104,000	53,918	15,000	38,918	89,000
Public Safety	159,000	159,000	42,105	116,895	116,895
Permanent and General Improvements [2]	109,000	92,634	55,794	36,840	53,206
Public Libraries	123,000	52,799	34,934	17,865	88,066
Low Income Housing	—	—	—	—	—
Total	$ 495,000	$ 358,351	$ 147,833	$ 210,518	$ 347,167
Combined Total (2001, 2006, 2012 & 2017 Elections)	$ 2,306,000	$ 2,064,489	$ 1,695,970	$ 368,519	$ 610,030

(1) As of June 30, 2023.

(2) Includes Public Health and Solid Waste Management.

CITY OF HOUSTON, TEXAS

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CONVENTION AND ENTERTAINMENT FACILITIES FUND REVENUES AND EXPENSES
Last Ten Fiscal Years
(amounts expressed in thousands)
(unaudited)

Total Annual Revenues Last Ten Fiscal Years	2014	2015	2016
Operating Revenues			
Fees charged to users, net	$ 11,124	$ 12,390	$ 12,431
Total Operating Revenues	11,124	12,390	12,431
Nonoperating Revenues			
Interest	9,637	4,933	12,708
Hotel occupancy tax (includes penalty and interest)	90,119	90,711	88,632
Other income	292	818	—
Total Nonoperating Revenues	100,048	96,462	101,340
Total Revenues	$ 111,172	$ 108,852	$ 113,771

Total Annual Expenses Last Ten Fiscal Years	2014	2015	2016
Operating Expenses			
Maintenance and operating	$ 1,199	$ 1,380	$ 76,466
Depreciation	14,219	14,375	13,720
Total Operating Expenses	15,418	15,755	90,186
Nonoperating Expenses			
Interest on long-term debt	25,791	29,684	27,299
Gain (loss) on disposal of assets	—	—	—
Other expenses and transfer out	73,371	79,312	421
Total Nonoperating Expenses	99,162	108,996	27,720
Total Expenses	$ 114,580	$ 124,751	$ 117,906

(*) Beginning in Fiscal Year 2018, the City began reflecting the 19.3% of the hotel occupancy tax that was designated to the General Fund in the General Fund as opposed to the Convention and Entertainment Fund. The amount here represents the 81% available to cover bond covenants.

2017	2018	2019	2020	2021	2022	2023
$ 12,283	$ 7,883	$ 10,655	$ 9,486	$ 6,100	$ 8,357	$ 10,398
12,283	7,883	10,655	9,486	6,100	8,357	10,398
9,091	9,723	13,560	12,000	9,083	7,979	9,491
82,882	89,417	86,078	67,348	47,449	82,505	104,853
291	989	2,083	292	431	324	307
92,264	100,129	101,721	79,640	56,963	90,808	114,651
$ 104,547	$ 108,012	$ 112,376	$ 89,126	$ 63,063	$ 99,165	$ 125,049

2017	2018	2019	2020	2021	2022	2023
$ 69,756	$ 73,725	$ 70,470	$ 48,935	$ 30,441	$ 69,298	$ 85,544
13,654	13,599	13,508	13,480	13,418	12,848	12,844
83,410	87,324	83,978	62,415	43,859	82,146	98,388
27,170	27,945	29,747	27,322	25,475	24,419	22,706
—	—	—	—	5,753	—	—
177	251	—	—	1,449	1,521	1,522
27,347	28,196	29,747	27,322	32,677	25,940	24,228
$ 110,757	$ 115,520	$ 113,725	$ 89,737	$ 76,536	$ 108,086	$ 122,616

CONVENTION AND ENTERTAINMENT FACILITIES STATISTICS
Last Ten Fiscal Years
(unaudited)

HISTORICAL PLEDGED REVENUES
(amounts expressed in thousands)

Fiscal Year	Pledged HOT (1)	% Change	Pledged Parking Revenues (2)	% Change	Tax Rebates (3)	% Change	Total (4)
2014	$ 72,739	18.1 %	$ 8,644	9.5 %	$ 7,762	(17.4)%	$ 89,145
2015	73,217	0.7 %	9,810	13.5 %	—	(100.0)%	83,027
2016	72,265	(1.3)%	9,851	0.4 %	—	— %	82,116
2017	66,898	(7.4)%	9,593	(2.6)%	—	— %	76,491
2018	72,172	7.9 %	5,234	(45.4)%	—	— %	77,406
2019	69,477	(3.7)%	8,006	53.0 %	—	— %	77,483
2020	54,359	(21.8)%	6,837	(14.6)%	—	— %	61,196
2021	38,298	(29.5)%	3,451	(49.5)%	—	— %	41,749
2022	66,593	73.9 %	5,636	63.3 %	—	— %	72,229
2023	84,632	27.1 %	7,678	36.2 %	—	— %	92,310

(1) The Pledged Hotel Occupancy Tax (HOT) revenues are revenues (including penalties, interest and delinquencies, if any) collected due to an occupancy tax of 5.65% applied to the cost of substantially all hotel room rentals in the City other than the Hilton Americas Hotel during the first ten years of its operation. The total HOT imposed by the City is 7%.

(2) The City's pledge of parking revenues for debt service is subordinate to the City's pledge of the first $1,200,000 of such gross revenues, charges and tolls to the payment of its annual obligation under the Music Hall Lease, unless such obligation is paid, defeased, matures or is otherwise restructured. These annual payments totaled $1,000,000 for fiscal years 2001-2005, $1,050,000 for fiscal year 2006, and $1,100,000 for fiscal years 2007 and beyond.

(3) The Tax Rebates consist of rebates of hotel occupancy taxes, sales taxes, and mixed beverage taxes derived from the Hilton Americas Hotel and parking garage during the first ten years of operation. They ended December 31, 2013, so there are no rebates to report in FY2023.

(4) Amounts shown do not include investment earnings on pledged revenues, which are also pledged.

CITY OF HOUSTON, TEXAS

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CONVENTION AND ENTERTAINMENT FACILITIES STATISTICS
Last Ten Fiscal Years
(unaudited)

Schedule of Hotel Occupancy Tax and Occupancy Rates

Fiscal Year	Occupancy % Rate [1]	Average Daily Rate [1]	Tax % Rate	Gross Hotel Occupancy Tax Revenues (in thousands)
2014	70.5 %	$ 108.80	7.00 %	$ 90,345
2015	70.3	111.17	7.00	90,711
2016	64.2	105.55	7.00	88,632
2017	61.5	105.47	7.00	82,961
2018	65.0	108.18	7.00	89,417
2019	64.6	104.16	7.00	86,078
2020	39.8	86.48	7.00	67,348
2021	52.4	84.93	7.00	47,449
2022	56.6	100.89	7.00	82,505
2023	62.1	115.75	7.00	104,853

[1] Source: STR, Inc.

CONVENTION AND ENTERTAINMENT FACILITIES STATISTICS
June 30, 2023
(unaudited)

Schedule of Hotel Occupancy Tax Collections

The Ten Largest Taxpayers	Gross Hotel Occupancy Tax Collections (in thousands)
Airbnb, Inc.	$ 8,113
Houston Marriott Marquis	4,520
Hilton Americas-Houston	3,955
The Post Oak Hotel	2,578
Four Seasons Hotel Houston #0619	2,451
Hyatt Regency Hotel	2,065
JW Marriott Houston Downtown #1291	1,692
Marriott Hotel IAH	1,650
Westin Galleria #0533	1,550
JW Marriott Galleria	1,439
Total	$ 30,013

CONVENTION AND ENTERTAINMENT FACILITIES STATISTICS
June 30, 2023
(unaudited)

Parking Facilities Rates

Facility	City Employee Monthly Contract[1]	Other Monthly Contract[2]	Daily Transient[2]	Event Rate[2]
Theater District Garage	$ 106.4	$ 120.0 [3]	$10.0 - 1st hour	$ 15
		$ 195.0 [4]	$14 - 2nd hour	
		$ 205.0 [5]	$17 - 3rd hour	
		$ 150.0 [6]	$20 - daily maximum	
		$ 163.9 [7]		
Reserved parking	N/A	$ 300.0 [8]	$20 - daily maximum	N/A
		$ 330.0 [9]		
City Hall Annex Parking Garage	$ 51.8	N/A	N/A	$ 15
Lots C and H	$ 70.1	$ 70.0	N/A	$ 20

(1) Does not include sales and use tax of 8.25%.
(2) Includes sales and use tax of 8.25%.
(3) Current TC Energy employee flex rate.
(4) Current Monday through Friday monthly unreserved rate.
(5) Current 24/7 monthly unreserved rate.
(6) Rates paid by Convention & Entertainment Facilities departmental contractors.
(7) Bulk contract parking agreement.
(8) Current monthly reserved rate.
(9) Current monthly reserved with electric vehicle charger access included in the rate.

Source: www.houstonfirsttheaters.com/parking

CONVENTION AND ENTERTAINMENT FACILITIES STATISTICS
Debt Service Schedule
(unaudited)

The following table sets forth the Debt Service Requirements on all Convention & Entertainment Revenue Bonds Outstanding assuming scheduled mandatory redemption of any term bonds.

Fiscal Year Ending June 30	Series 2001 Bonds	Series 2014 Bonds	Series 2015 Bonds	Regions Notes (1)	Series 2017 Bonds	Series 2019 Bonds	Series 2021 Bonds	Total Debt Service
2024	$ 24,220	$ 4,393	$ 11,714	$ 1,000	$ 1,360	$ 11,409	$ 3,261	$ 57,356
2025	24,930	4,397	11,892	21,000	1,395	10,529	3,246	77,390
2026	25,850	4,393	12,015	—	1,419	9,518	3,239	56,433
2027	26,610	8,253	9,007	—	854	8,198	3,566	56,487
2028	27,355	7,992	9,336	—	914	7,349	3,528	56,475
2029	28,305	8,287	8,500	—	756	7,005	3,615	56,466
2030	29,065	8,041	8,578	—	773	6,526	3,497	56,481
2031	29,950	8,183	8,377	—	736	6,255	2,977	56,478
2032	30,530	8,074	8,376	—	739	5,965	2,782	56,466
2033	30,560	8,149	8,532	—	765	5,711	2,741	56,458
2034	30,550	9,530	7,807	—	628	5,281	2,609	56,404
2035	—	2,481	4,416	—	—	5,980	—	12,877
2036	—	2,479	4,417	—	—	5,991	—	12,887
2037	—	2,483	4,415	—	—	4,855	—	11,753
2038	—	2,481	4,416	—	—	—	—	6,897
2039	—	2,479	4,414	—	—	—	—	6,893
2040	—	2,481	4,414	—	—	—	—	6,894
2041	—	—	4,415	—	—	—	—	4,415
2042	—	—	4,416	—	—	—	—	4,416
2043	—	—	4,415	—	—	—	—	4,415
2044	—	—	4,416	—	—	—	—	4,416
2045	—	—	4,417	—	—	—	—	4,417
Total	$ 307,925	$ 94,573	$ 152,704	$ 22,000	$ 10,340	$ 100,571	$ 35,060	$ 723,172

(1) Assumes an interest rate of 5.0% for the Regions Notes.

CONVENTION AND ENTERTAINMENT FACILITIES STATISTICS
(amounts expressed in thousands)
(unaudited)

Convention & Entertainment Budget for Fiscal Year 2023

Budgeted Resources	
Operating Revenues	
Facility Rentals	$ 1,521
Parking	8,275
Total Operating Revenues	9,796
Operating Expenses	
Personnel	257
Services	107
Total Operating Expenses	364
Operating Income	9,432
Nonoperating Revenues (Expenses)	
Hotel Occupancy Tax	
Current	87,016
Delinquent	3,922
Net Hotel Occupancy Tax	90,938
Investment Income	275
Other Interest	–
Other	291
Total nonoperating Rev (Exp)	91,504
Income Before Operating Transfers	100,936
Transfers	
Transfers to Interest	19,327
Transfers to Principal	9,847
Transfers to Debt Service	210
Transfers to Component Unit	78,722
Transfers to General Fund	1,521
Total Transfers	109,627
Net Loss Operating Fund	$ (8,691)

COMBINED UTILITY SYSTEM FUND REVENUES AND EXPENSES
Last Ten Fiscal Years
(amounts expressed in thousands)
(unaudited)

Fiscal Years	2014	2015	2016	2017	2018
Operating Revenues					
Water sales	$ 499,912	$ 486,517	$ 529,879	$ 547,054	$ 559,010
Waste water system user charges	441,300	434,305	462,786	475,392	479,978
Penalties and Other services and charges	12,195	6,602	9,917	3,349	13,561
Total Operating Revenues	953,407	927,424	1,002,582	1,025,795	1,052,549
Nonoperating Revenues					
Investment income	10,688	7,685	12,652	3,954	8,074
Other income	80,062	49,632	55,306	58,414	74,595
Total Nonoperating Revenues	90,750	57,317	67,958	62,368	82,669
Total Revenues	$ 1,044,157	$ 984,741	$ 1,070,540	$ 1,088,163	$ 1,135,218

Fiscal Years	2014 (1)	2015 (2)	2016	2017	2018 (3)
Operating Expenses					
Maintenance and operating	$ 399,647	$ 428,732	$ 451,342	$ 354,396	$ 492,391
Depreciation and Amortization	223,381	231,048	236,841	246,218	252,093
Total Operating Expenses	623,028	659,780	688,183	600,614	744,484
Nonoperating Expenses					
Interest on long-term debt	291,122	265,013	252,116	248,920	248,284
Other expenses	5,397	—	1,877	—	—
Total Nonoperating Expenses	296,519	265,013	253,993	248,920	248,284
Total Expenses	$ 919,547	$ 924,793	$ 942,176	$ 849,534	$ 992,768

(1) In 2014, GASB No. 65 "Items Previously Reported as Assets and liabilities" was implemented causing a restatement to beginning net assets of ($60,080). Certain bond issuance cost were expensed.

(2) In 2015, GASB No. 68 "Accounting and Financial Reporting for Pensions" was implemented causing a restatement to beginning net assets of ($273,806) from the recognition of additional pension expense.

(3) In 2018, GASB No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)" was implemented causing a restatement to beginning net assets of ($61,602).

(4) In 2019, a prior period adjustment was recorded causing a restatement to beginning net assets of $79,429.

(5) In 2020, a prior period adjustment was recorded causing a restatement to beginning net assets of $383,966.

2019	2020	2021	2022	2023
$ 554,294	$ 591,611	$ 584,594	$ 698,263	$ 802,915
485,183	509,315	510,832	607,343	713,004
2,965	(834)	(2,686)	1,907	(11,937)
1,042,442	1,100,092	1,092,740	1,307,513	1,503,982
55,170	54,988	3,310	(50,712)	39,748
83,688	70,546	84,451	152,820	85,144
138,858	125,534	87,761	102,108	124,892
$ 1,181,300	$ 1,225,626	$ 1,180,501	$ 1,409,621	$ 1,628,874

2019 (4)	2020 (5)	2021	2022	2023
$ 516,503	$ 518,591	$ 529,971	$ 463,364	$ 578,050
257,430	265,306	273,747	282,839	289,362
773,933	783,897	803,718	746,203	867,412
268,708	247,440	242,569	257,907	270,085
—	—	—	—	2,955
268,708	247,440	242,569	257,907	273,040
$ 1,042,641	$ 1,031,337	$ 1,046,287	$ 1,004,110	$ 1,140,452

COMBINED UTILITY SYSTEM REVENUE BOND COVERAGE
(amounts expressed in thousands)
(unaudited)

	Fiscal Year 2023	Fiscal Year 2022
OPERATING REVENUES		
Sales of water	$ 802,915	$ 698,263
Sewer system user charges	713,004	607,343
Penalties, other services and charges	(11,937)	1,907
Total Operating Revenues	1,503,982	1,307,513
NON-OPERATING REVENUES		
Investment Earnings under Previous Ordinance	28,285	8,935
Investment Earnings under Master Ordinance	6,541	3,757
Contributions from Water Authorities	54,339	—
Other Non-Operating revenues	23,478	37,568
Total non-operating revenues	112,643	50,260
TOTAL GROSS REVENUES:	1,616,625	1,357,773
EXPENSES		
Contract Revenue Bonds Payments(1)		
Coastal Water Authority Debt Service	6,356	6,376
Total Contract Revenue Bonds Payments	6,356	6,376
Maintenance and Operating Expenses	578,839	503,696
Total Expenses	585,195	510,072
RESTRICTED RECEIPTS UNDER MASTER ORDINANCE	50,697	48,942
NET REVENUES UNDER MASTER ORDINANCE	$ 1,082,127	$ 896,643
BOND DEBT SERVICE:		
Previously Issued Bonds	17,345	15,480
First Lien Bonds	511,023	489,715
Total Debt Service	$ 528,368	$ 505,195
BOND DEBT SERVICE COVERAGE:		
Junior Lien Bond Coverage under Previous Ordinance(2)	59.09	54.52
First Lien Bond Coverage under Master Ordinance(3)	2.08	1.80
TOTAL COVERAGE(4)	2.05	1.77

(1) These are "Required Payments Under Previous Ordinance."

(2) Coverage of debt service on Previous Ordinance Bonds by Net Revenues as calculated under Previous Ordinance, which does not include as revenues Investment Earnings under Master Ordinance and Restricted Revenues.

(3) Coverage of Debt Service on First Lien Bonds by Net Revenues, less debt service on Junior Lien Bonds under Previous Ordinance.

(4) Coverage of total Debt Service on Junior Lien Bonds under Previous Ordinance and First Lien Bonds under Master Ordinance by Net Revenues.

COMBINED UTILITY SYSTEM STATISTICS
June 30, 2023
(unaudited)

Water Right Permit

	Rights in MGD
Surface Water	
Trinity River Basin	914
Water Reuse	259
San Jacinto River Basin	258
Bayous	116
Brazos River Basin	91
Total Surface Water Rights	1,638
Ground Water Production Capacity (1)	146
Total Water Available	1,784

(1) Pursuant to rules of the Harris - Galveston Coastal Subsidence District.

COMBINED UTILITY SYSTEM STATISTICS
(unaudited)

Previous Ordinance and First Lien Bonds

The following calculation shows coverage by Net Revenues of Maximum Annual Debt Service on the Previous Ordinance and First Lien Bonds.

		FY 2023
Maximum Annual Debt Service Requirements on Previous Ordinance Bonds (2029) (1)	$	44,095,000
Maximum Annual Debt Service Requirements on First Lien Bonds (2030)(1) (2)	$	550,744,741
Combined Maximum Annual Principal and Interest Requirements on Previous Ordinance	$	553,982,122
Net Revenues under Previous Ordinance for Fiscal Year ended June 30, 2023[3]	$	1,031,430,320
Net Revenues under Master Ordinance for Fiscal Year ended June 30, 2023[4]	$	1,082,127,044
Total Funds available for Debt Service Coverage at July 01, 2023[5]	$	1,105,615,300
Coverage of Maximum Annual Debt Service Requirements on Previous Ordinance Bonds		23.39
Coverage of Maximum Annual Debt Service Requirements on First Lien Bonds		3.97
Coverage of Maximum Annual Debt Service Requirements on Previous Ordinance Bonds and First Lien Bonds		3.95

(1) Does not include debt service on CWA Bonds, which are payable from Gross Revenues as a Maintenance and Operating Expense of the Combined Utility System.

(2) First Lien Debt Service largest payment requirement.

(3) Excludes Restricted Receipts under Master Ordinance.

(4) Net Revenues as calculated under the Master Ordinance, which includes as revenues restricted receipts and earnings under the Master Ordinance.

(5) Available cash from Operating and General Purpose Fund net of encumbrances.

The Combined Utility System - Water & Sewer Facilities General

The City of Houston Drinking Water Operations (“DWO”) System covers over 580 square miles, providing drinking water to four counties: Harris, Fort Bend, Montgomery, and Galveston. There are 496,945 active water service accounts. 85% of source water is pulled from the San Jacinto and Trinity rivers while the remaining 15% originates from groundwater wells. In total, DWO has 861 million gallons per day (“MGD”) combined design production capacity of groundwater and surface water. More specifically, the water production and storage system include 3 surface water plants, 55 groundwater plants, 146 groundwater wells, 7 surface water re-pressurization plants, and 157 water storage tanks and towers. Average water purification and production is 476 MGD, which is enough to fill the Astrodome almost twice per day. The water distribution network consists of 7,660 linear miles of piping, 62,509 fire hydrants, and over 171,188 valves that are managed and maintained to the highest standards.

The City of Houston Wastewater Operations System receives and processes wastewater generated by residential, commercial, and industrial customers throughout the service area. The service area covers approximately 650 square miles within the City of Houston and serves a population of about 2.3 million people. The Wastewater System consists of over 6,192 miles of both gravity and force main lines, 600 miles of service lines within public right of way, 39 wastewater treatment plants, and over 377 lift/pumping stations and a centralized laboratory. The general condition of the collection lines varies depending on age, location and type of construction. The average daily wastewater flow through the Wastewater Treatment Facilities for Fiscal Year 2023 was 242 MGD. The permitted treatment capacity of the wastewater treatment facilities, as reflected by State permits, is 587 MGD.

The Combined Utility System - Annexation Program - In - City Districts

The City has created reinvestment zones and public improvement districts in which infrastructure improvements, including water and wastewater facilities, will be financed by the respective district or zone through bonds supported by assessments within the districts and by a tax increment fund into which will be deposited the amount of ad valorem taxes collected in the reinvestment zones in excess of the amount calculated on the basis of the property tax appraisals in effect at the time of creation of the particular reinvestment zone. Under State law, the City can create a public improvement district both within the corporate limits of the City and within its extraterritorial jurisdiction.

COMBINED UTILITY SYSTEM STATISTICS
(unaudited)

Funding of Proposed System Improvements

It is anticipated that the system improvements contemplated in the Combined Utility System's Fiscal Year 2024-2028 CIP will be financed approximately as follows:

Proposed Source of Funding	Amount (in thousands)
System Revenue Bonds (Net Proceeds and Interest Earnings) [(1)]	$ 3,499,689
System Revenue	1,250,000
Swift Loan (Subordinate Lien)	—
Contributed Capital	97,801
	$ 4,847,490

(1) The Combined Utility System's fiscal year 2024-2028 CIP anticipates the periodic issuance of additional First Lien Bonds and Subordinate Lien Commercial Paper. City Council must approve each issuance of bonds, but not each issuance of Commercial Paper Notes.

Obligations Payable from Combined Utility System Revenues

The following sets forth the total outstanding principal amount of the Combined Utility System obligations payable from revenues of the Combined Utility System as of June 30, 2023:

Contract Revenue Bonds Payable from System Gross Revenues	Amount (in thousands)
CWA Bonds [(1)]	$ 44,570
Total - Contract Revenue Bonds	$ 44,570
System Revenue Bonds Payable from System Net Revenues	
Previous Ordinance Bonds	$ 34,342
First Lien Bonds	6,057,355
Third Lien Obligations	–
Total - System Revenue Bonds	$ 6,091,697
Total - All Bonds Payable from System Revenues	$ 6,136,267

(1) Under a 1968 agreement, as amended and superseded in part, and a 1995 agreement, CWA agreed to construct the CWA conveyance system and certain other projects and the City agreed to pay, as a maintenance and operation expense of the System, amounts calculated to be sufficient to cover maintenance and operation expenses of the CWA Conveyance System plus debt service of the CWA Bonds.

COMBINED UTILITY SYSTEM STATISTICS
TREATED WATER & WASTE WATER CONSUMPTION
(NOT INCLUDING WHOLESALE NOR RAW WATER)
Last Ten Fiscal Years
(unaudited)

Fiscal Years	2014	2015	2016	2017
Water Consumption (in Thousand Gallons)				
Residential	25,263,997	23,265,022	24,744,815	25,911,974
Multi-Family	25,131,767	25,370,691	25,676,282	26,323,185
Commercial	21,728,794	21,591,973	21,825,149	23,764,306
Government	4,688,639	3,149,624	3,558,515	6,174,766
Other Accts	6,339,166	5,099,403	5,903,309	3,072,484
Total	83,152,363	78,476,713	81,708,070	85,246,715

Fiscal Years	2014	2015	2016	2017
Waste Water Consumption (in Thousand Gallons)				
Residential	25,171,385	23,176,519	24,545,897	24,729,939
Multi-Family	25,072,775	25,290,180	25,520,422	25,669,642
Commercial	22,234,061	22,165,594	22,375,995	19,777,267
Government	521,190	428,287	400,109	3,799,206
Total	72,999,411	71,060,580	72,842,423	73,976,054

2018	2019	2020	2021	2022	2023
26,498,295	24,144,424	25,495,741	26,166,947	23,640,857	24,058,354
29,640,195	26,521,613	27,766,727	29,532,580	27,836,619	27,363,147
24,188,333	25,778,408	29,590,893	21,200,453	20,818,858	22,411,325
8,670,358	5,982,549	5,566,938	5,347,518	5,715,351	6,054,926
2,777,547	3,092,248	3,270,522	2,528,725	2,195,120	2,887,063
91,774,728	85,519,242	91,690,821	84,776,223	80,206,805	82,774,815

2018	2019	2020	2021	2022	2023
25,368,705	23,107,362	24,305,681	25,058,608	22,652,739	22,912,312
29,017,348	25,860,847	27,100,348	28,918,302	27,264,817	26,640,463
20,008,565	22,373,928	20,236,691	17,472,601	17,901,146	18,597,125
6,865,830	4,030,345	3,402,662	3,251,174	3,541,662	3,503,413
81,260,448	75,372,482	75,045,382	74,700,685	71,360,364	71,653,313

COMBINED UTILITY SYSTEM STATISTICS
June 30, 2023
(unaudited)

Largest Sewer Customers

The following schedule presents information concerning the ten largest customers of the Sewer Facilities for the twelve month period ended June 30, 2023. The total charges to such customers represent approximately 2.01% of the Combined Utility System Gross Revenue and 4.67% of Sewer Facilities gross charges during such period.

Customers	Gross Charges	
1. Anheuser-Busch, Inc	$	7,316,994
2. City of Houston		6,224,753
3. Houston Independent School District		5,801,005
4. Harris County		4,145,608
5. University of Houston		3,521,650
6. Memorial Hermann		2,588,863
7. Rice University		1,839,059
8. MD Anderson		1,119,935
9. Houston Baptist Church		406,049
10. Methodist Hospital		366,373
	$	33,330,289

COMBINED UTILITY SYSTEM STATISTICS
June 30, 2023
(unaudited)

Water and Sewer Rate Adjustments

In recent years, the water and sewer rates have been adjusted on the average as follows:

	Average Percent Rate Increase (Decrease)	
Date of Change	Water	Sewer
April 2014	1.2 %	1.2 %
April 2015	4.4 %	4.4 %
April 2016	1.4 %	1.4 %
April 2017	3.4 %	3.4 %
April 2018	2.8 %	2.8 %
April 2019	2.8 %	2.8 %
April 2020	3.5 %	3.5 %
April 2021	1.5 %	1.5 %
September 2021*	9.0 %	20.0 %
April 2022*	7.5 %	11.0 %
April 2022	5.6 %	5.6 %
April 2023	9.2 %	9.2 %
April 2023*	6.0 %	6.0 %

1. Current water rates are based on customer class. Customer classes include single-family, commercial, industrial, contract and agricultural. The amount of the bill is the sum of the fixed charge based on meter size and an additional charge based on the volume of water consumed. For example, for single-family customers, water rates can vary from $9.48 for the first thousand gallons to $94.69 for ten thousand gallons.

2. Wastewater rates also include a fixed charge based on meter size and an additional charge based on the volume of the water usage. For example, for single-family customers, wastewater rates can vary from $19.87 for the first thousand gallons to $123.66 for ten thousand gallons. Additionally, industrial customers may be subject to a sewer surcharge based on the quality of their wastewater discharge.

3. The bill for a typical single family residential customer using 7,000 gallons per month would be $147.19 for both water and wastewater services. However, total water and sewer charges may range from $29.35 for 1,000 gallons to $102.74 for 5,000 gallons per month for single-family residential customers.

4. *Determined from Water and Wastewater Cost of Service Study Rate formally approved by City Council in 2021. Refer to City of Houston, Texas, Ordinance No. 2021-15 for further information.

COMBINED UTILITY SYSTEM STATISTICS
June 30, 2023
Water Supply
(unaudited)

Capacity, Production, and Sales

The following schedule sets forth information concerning Water Facilities capacity, production and sales for Fiscal Year 2023 (million gallons per day):

	Available Capacity	Production Planned	Actual Production
Ground	153	71	71
Surface	540	401	405
Total	693	472	476

	Total Sales
Treated	416
Untreated	227
	643

Sources of Combined Utility System Revenues - General

As of June 30, 2023, the Water Facilities and the Sewer Facilities served approximately 496,945 and 470,877 active service connections, respectively. During Fiscal Year 2023 approximately 48.66% of Combined Utility System Gross Revenues were derived from the sale of water, (90.50% from treated water and 9.50% from untreated water), approximately 43.22% from providing wastewater treatment services 1.39% from interest income and the remaining 6.73% from various other sources. Of the treated water sales, 93.27% of revenues were from retail customers and 6.73% from bulk sales to other governmental entities.

COMBINED UTILITY SYSTEM STATISTICS
June 30, 2023
Water Supply
(unaudited)

Largest Treated Water Customers

The following schedule presents information concerning the ten largest treated water customers of the Combined Utility System for the twelve month period ended June 30, 2023. The total charges to such customers during such period represent approximately 3.80% of the Combined Utility System Gross Revenues and 7.81% of total water sales revenues for such period.

Customers	Charges
1. North Harris Co. Regional Water Authority	$ 13,718,755
2. North Channel Water Authority	10,563,562
3. West Harris Co. Regional Water Authority	6,667,163
4. City of Pasadena	6,582,812
5. North Fort Bend County Water Authority	5,978,393
6. Gulf Coast Water Authority (Galveston)	5,354,654
7. Anheuser-Busch, Inc	3,873,550
8. Clear Lake City	3,396,367
9. City of Bellaire	3,368,729
10. Memorial Villages Water Authority	3,191,210
	$ 62,695,195

Largest Untreated Water Customers

The following schedule presents information concerning the ten largest untreated water customers of the Combined Utility System for a twelve month period ended June 30, 2023. The total of the contract payments by these ten customers during such period represents approximately 3.04% of the Combined Utility System Gross Revenue and 6.24% of total water sales revenues for such period.

Customers	Gross Charges
1. Equistar Chemicals LP	$ 9,828,146
2. Deer Park Refining Partnership LP	6,135,281
3. Air Liquide America Corp.	5,366,551
4. Chevron Phillips Chemical Co.	5,057,509
5. Battleground Water Company	4,983,430
6. Houston Refining, LP	4,755,563
7. Hoescht Celanese	2,959,630
8. Occidental Chemical	2,856,201
9. TPC Group	2,699,411
10. Deer Park Energy Center	2,621,358
	$ 47,263,080

COMBINED UTILITY SYSTEM STATISTICS
Debt Service Schedule
(unaudited)

The following schedule sets forth the principal and interest requirements on all outstanding bonds payable from revenues of the Combined Utility System for each of the City's fiscal years ending June 30 as shown below, based on footnoted assumptions. The following schedule also does not include Discretionary Debt Service Payments or interest on Commercial Paper notes issued as Third Lien Obligations under the Master Ordinance.

		Payable From System Net Revenues			
Fiscal Year Ending June 30	Total Payable From System Gross Revenues[(1)]	Previous Ordinance Bonds	First Lien Bonds[(2)]	Total Payable From System Net Revenues	Total Debt Service
2024	$ 6,350,206	$ 19,005,000	$ 534,977,122	$ 553,982,122	$ 560,332,328
2025	6,338,956	17,990,000	535,336,302	553,326,302	559,665,258
2026	10,782,206	18,155,000	529,981,995	548,136,995	558,919,201
2027	3,378,081	30,815,000	522,023,951	552,838,951	556,217,032
2028	3,378,456	30,810,000	522,036,759	552,846,759	556,225,215
2029	3,404,306	44,095,000	508,203,850	552,298,850	555,703,156
2030	3,400,828	—	550,744,741	550,744,741	554,145,569
2031	3,396,313	—	544,420,911	544,420,911	547,817,224
2032	3,386,100	—	538,600,309	538,600,309	541,986,409
2033	3,381,000	—	523,879,004	523,879,004	527,260,004
2034	3,376,200	—	518,863,488	518,863,488	522,239,688
2035	3,381,300	—	350,427,387	350,427,387	353,808,687
2036	—	—	347,810,560	347,810,560	347,810,560
2037	—	—	326,747,030	326,747,030	326,747,030
2038	—	—	249,857,759	249,857,759	249,857,759
2039	—	—	245,105,629	245,105,629	245,105,629
2040	—	—	184,589,098	184,589,098	184,589,098
2041	—	—	184,210,158	184,210,158	184,210,158
2042	—	—	148,729,577	148,729,577	148,729,577
2043	—	—	141,548,971	141,548,971	141,548,971
2044	—	—	133,731,614	133,731,614	133,731,614
2045	—	—	121,795,379	121,795,379	121,795,379
2046	—	—	104,692,783	104,692,783	104,692,783
2047	—	—	87,342,893	87,342,893	87,342,893
2048	—	—	84,573,459	84,573,459	84,573,459
2049	—	—	66,592,080	66,592,080	66,592,080
2050	—	—	48,927,417	48,927,417	48,927,417
2051	—	—	14,722,719	14,722,719	14,722,719
2052	—	—	14,718,700	14,718,700	14,718,700
Total	$ 53,953,952	$ 160,870,000	$ 8,685,191,645	$ 8,846,061,645	$ 8,900,015,597

(1) Includes CWA Maintenance and Operating lien.

(2) $249,075,000 of the Series 2012C variable rate bond debt service is calculated at the rate of 5.061% through March 2013 and thereafter at the fixed rate payor swap rate of 3.761%. This was refunded in 2016 & again in 2018 to Series 2016C and Series 2018C respectively. Series 2004B debt service is adjusted to take into account expected payments under the Series 2004B Qualified Hedge Agreements.

COMBINED UTILITY SYSTEM STATISTICS
(unaudited)

Discretionary Debt Service Paid by the System

The total amount of Discretionary Debt Service paid from Net Revenues of the Combined Utility System for the past nine fiscal years and the amount budgeted for fiscal year 2024 is set forth below:

Fiscal Year		Discretionary Debt Service (in millions)	
2024	(budgeted)	$	2.8
2023			4.9
2022			4.9
2021			5.0
2020			5.6
2019			7.8
2018			9.1
2017			9.2
2016			9.9
2015			12.0

Combined Utility System General Purpose Fund Transfers for Drainage

The Combined Utility System transfers from its General Purpose Fund to the Storm Water Fund for the past nine fiscal years and the amount budgeted for fiscal year 2024 are reflected below:

Fiscal Year		General Purpose Fund Transfers (in millions)	
2024	(budgeted)	$	49.7
2023			51.4
2022			57.1
2021			66.5
2020			58.8
2019			55.4
2018			54.0
2017			52.8
2016			42.2
2015			35.2

Indirect Charges Paid by the System

Fiscal Year		Indirect Charges (in thousands)	
2024	(budgeted)	$	8,418
2023			7,333
2022			8,824
2021			9,503
2020			11,069
2019			10,404
2018			10,877
2017			9,988
2016			9,810
2015			9,776

COMBINED UTILITY SYSTEM STATISTICS
Last Ten Fiscal Years
(amounts expressed in thousands)
(unaudited)

Revenues and Expenses of the Water and Sewer System

The following schedule sets forth the revenues and expenses (exclusive of certain non-cash transactions, primarily depreciation and amortization) of the "Water and Sewer System," as defined in the Coastal Water Authority Official Statements.

	2014	2015	2016	2017	2018
OPERATING REVENUES					
Sales of Water	$ 499,912	$ 486,517	$ 529,879	$ 547,054	$ 559,010
Sewer system user charges	441,300	434,305	462,786	475,392	479,978
Penalties and Other services and charges	12,195	6,602	9,917	3,349	13,561
Total Operating Revenues	953,407	927,424	1,002,582	1,025,795	1,052,549
NON-OPERATING REVENUES	76,155	45,865	51,066	49,993	74,020
TOTAL GROSS REVENUES(A)	1,029,562	973,289	1,053,648	1,075,788	1,126,569
OPERATING EXPENSES					
Maintenance and Operating Expenses	387,398	406,619	419,161	431,126	432,152
Contractual Maintenance and Operating Expenses					
CWA Debt Service	18,875	18,064	17,684	7,204	6,399
Total Contractual	18,875	18,064	17,684	7,204	6,399
TOTAL OPERATING EXPENSES(B)	406,273	424,683	436,845	438,330	438,551
NET REVENUES	$ 623,289	$ 548,606	$ 616,803	$ 637,458	$ 688,018
GROSS REVENUES (A) DIVIDED BY TOTAL OPERATING EXPENSES (B)	2.53	2.29	2.41	2.45	2.57

2019	2020	2021	2022	2023
$ 554,294	$ 591,611	$ 584,594	$ 698,263	$ 802,915
485,183	509,315	510,832	607,343	713,004
2,965	(834)	(2,686)	1,907	(11,937)
1,042,442	1,100,092	1,092,740	1,307,513	1,503,982
81,164	84,261	61,914	99,202	163,340
1,123,606	1,184,353	1,154,654	1,406,715	1,667,322
461,859	459,410	499,533	503,696	578,839
6,385	6,381	6,398	6,376	6,356
6,385	6,381	6,398	6,376	6,356
468,244	465,791	505,931	510,072	585,195
$ 655,362	$ 718,562	$ 648,723	$ 896,643	$ 1,082,127
2.40	2.54	2.28	2.76	2.85

AIRPORT SYSTEM FUND REVENUES AND EXPENSES
Last Ten Fiscal Years
(amounts expressed in thousands)
(unaudited)

Total Annual Revenues Last Ten Fiscal Years	**2014**	**2015**	**2016**	**2017**	**2018**
Operating Revenues					
Landing area fees	$ 88,342	$ 93,575	$ 86,870	$ 88,046	$ 95,779
Building and ground area fees	186,505	197,039	216,018	221,181	220,214
Parking, concession and other revenues	177,260	185,668	186,009	184,814	194,871
Total Operating Revenues	452,107	476,282	488,897	494,041	510,864
Nonoperating Revenues					
Interest income (loss)	11,170	7,496	13,260	3,403	8,591
Passenger facility charges	62,602	85,392	104,230	101,539	109,021
Customer facility charges	17,152	17,535	16,417	14,200	17,374
Other nonoperating revenues	3,225	7,969	124	5,596	(1,420)
Total Nonoperating Revenues	94,149	118,392	134,031	124,738	133,566
Total Revenues	$ 546,256	$ 594,674	$ 622,928	$ 618,779	$ 644,430

Total Annual Expenses Last Ten Fiscal Years	**2014**	**2015**	**2016**	**2017**	**2018**
Operating Expenses					
Maintenance and operating	$ 285,212	$ 286,529	$ 315,419	$ 254,459	$ 335,104
Depreciation	174,825	177,512	179,398	184,203	176,053
Total Operating Expenses	460,037	464,041	494,817	438,662	511,157
Nonoperating Expenses					
Interest expense and others	112,350	92,803	86,259	87,574	94,061
Restatement	—	—	—	—	—
Total Nonoperating Expenses	112,350	92,803	86,259	87,574	94,061
Total Expenses	572,387	556,844	581,076	526,236	605,218
Contributions	44,614	36,432	22,542	35,513	13,784
Total Change in Net Position	$ 18,483	$ 74,262	$ 64,394	$ 128,056	$ 52,996

Net Position at Year End	**2014**	**2015**	**2016**	**2017**	**2018**
Net investment in capital assets	$ 469,971	$ 466,196	$ 537,172	$ 542,363	$ 531,232
Restricted net assets					
Restricted for debt service	242,558	303,371	333,635	287,858	357,588
Restricted for maintenance and operations	49,736	53,912	54,942	54,805	56,891
Restricted for special facility	30,986	25,732	26,944	29,369	36,049
Restricted for renewal and replacement	10,000	10,000	10,000	10,000	10,000
Restricted for capital improvements	581,857	600,159	561,071	676,360	657,050
Unrestricted (deficit)	—	(178,003)	(178,003)	(126,938)	(143,297)
Total Net Position	$ 1,385,108	$ 1,281,367	$ 1,345,761	$ 1,473,817	$ 1,505,513

2019	2020	2021	2022	2023
$ 87,767	$ 95,862	$ 70,578	$ 94,253	$ 92,601
211,323	223,301	155,598	192,029	234,751
199,374	152,749	92,379	194,892	232,895
498,464	471,912	318,555	481,174	560,247
45,067	43,701	1,523	(47,109)	38,706
111,155	78,418	62,541	98,446	108,754
17,439	13,320	8,769	13,723	16,075
340	18,877	198,447	145,281	60,141
174,001	154,316	271,280	210,341	223,676
$ 672,465	$ 626,228	$ 589,835	$ 691,515	$ 783,923

2019	2020	2021	2022	2023
$ 337,477	$ 370,430	$ 318,568	$ 316,001	$ 400,956
174,266	175,573	170,820	166,792	170,922
511,743	546,003	489,388	482,793	571,878
84,578	85,426	85,803	85,428	78,533
—	—	—	—	—
84,578	85,426	95,803	85,427	78,533
596,321	631,429	585,191	568,220	650,411
16,599	10,927	24,757	41,047	37,087
$ 92,743	$ 5,726	$ 29,401	$ 164,342	$ 170,599

2019	2020	2021	2022	2023
$ 542,125	$ 514,164	$ 495,497	$ 507,167	$ 591,494
428,856	464,280	384,267	412,293	472,782
60,525	54,807	54,232	55,332	55,457
43,442	55,105	52,362	50,953	55,143
10,000	10,000	10,000	10,000	10,000
651,664	619,884	627,464	681,093	851,491
(138,356)	(114,258)	9,561	80,887	(68,043)
$ 1,598,256	$ 1,603,982	$ 1,633,383	$ 1,797,725	$ 1,968,324

AIRPORT SYSTEM STATISTICS

Passenger Statistics

Last Ten Fiscal Years

(unaudited)

	Domestic Passengers							
	Bush Intercontinental		Hobby		Ellington Airport		Total	
Fiscal Year	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change
2014	30,832	— %	11,609	8.6 %	—	—	42,441	2.2 %
2015	31,967	3.7	11,837	2.0	—	—	43,804	3.2
2016	31,959	—	12,209	3.1	—	—	44,168	0.8
2017	30,809	(3.6)	12,423	1.8	—	—	43,232	(2.1)
2018	31,102	1.0	12,864	3.5	—	—	43,966	1.7
2019	33,972	9.2	13,629	5.9	—	—	47,601	8.3
2020	25,068	(26.2)	9,998	(26.6)	—	—	35,066	(26.3)
2021	17,645	(29.6)	7,738	(22.6)	—	—	25,383	(27.6)
2022	31,046	75.9	11,656	50.6	—	—	42,702	68.2
2023	33,449	7.7	12,656	8.6	—	—	46,105	8.0

International Passengers						Total Passengers	
Bush Intercontinental		Hobby		Total			
Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change
9,470	7.7 %	–	0.0 %	9,470	7.7 %	51,911	3.2 %
10,018	5.8	4	0.0	10,022	5.8 %	53,826	3.7
10,904	8.8	519	12,875.0	11,423	14.0 %	55,591	3.3
10,662	(2.2)	860	65.7	11,522	0.9 %	54,754	(1.5)
10,404	(2.4)	957	11.3	11,361	(1.4)%	55,327	1.0
10,939	5.1	965	0.8	11,904	4.8 %	59,505	7.6
7,969	(27.2)	591	(38.8)	8,560	(28.1)%	43,626	(26.7)
3,892	(51.2)	421	(28.8)	4,313	(49.6)%	29,696	(31.9)
8,436	116.8	843	100.2	9,279	115.1 %	51,981	75.0
10,687	26.7	976	15.8	11,663	25.7 %	57,768	11.1

AIRPORT SYSTEM STATISTICS
AIRLINE MARKET SHARES
Last Ten Fiscal Years
(unaudited)

MAJOR AIRLINE MARKET SHARE

CARRIER	FY2023	%	FY2022	%	FY2021	%	FY2020	%	FY2019	%
United Airlines	31,959,131	55.3 %	29,357,278	56.5 %	15,894,776	53.5 %	25,081,324	57.5 %	34,793,301	58.5 %
Southwest	13,915,118	24.1	12,787,950	24.6	7,829,259	26.4	9,994,165	22.9	13,674,536	23.0
American Airlines	2,388,344	4.1	2,392,419	4.6	1,511,037	5.1	2,090,353	4.8	2,774,961	4.7
Spirit Airlines	2,948,481	5.1	2,477,109	4.8	1,869,558	6.3	1,948,341	4.5	2,426,727	4.1
Delta Air Lines	2,196,412	3.8	1,993,556	3.8	1,050,260	3.5	1,567,170	3.6	2,024,867	3.4
Frontier Airlines	654,869	1.1	347,903	0.7	314,269	1.1	297,303	0.7	192,057	0.3
Air Canada	250,713	0.4	134,785	0.3	12,833	—	231,407	0.5	329,540	0.6
Lufthansa	198,582	0.3	150,884	0.3	52,200	0.2	186,610	0.4	290,560	0.5
AeroMexico	233,693	0.4	285,925	0.6	160,195	0.5	116,243	0.3	142,906	0.2
British Airways	189,010	0.3	84,184	0.2	12,858	—	160,264	0.4	239,024	0.4
Other Airlines	2,833,968	5.1	1,968,740	3.6	988,348	3.4	1,953,160	4.4	2,616,615	4.3
	57,768,321	100.0 %	51,980,733	100.0 %	29,695,593	100.0 %	43,626,340	100.0 %	59,505,094	100.0 %

CARRIER	FY2018	%	FY2017	%	FY2016	%	FY2015	%	FY2014	%
United Airlines	32,094,388	58.0 %	32,130,930	58.7 %	33,251,479	59.8 %	33,603,263	62.0 %	32,963,901	63.5 %
Southwest	12,893,987	23.3	12,344,834	22.5	11,791,308	21.2	10,886,616	20.0	10,720,872	20.7
American Airlines	2,592,345	4.7	2,542,485	4.6	2,951,244	5.3	3,057,991	6.0	2,898,507	5.6
Spirit Airlines	2,144,740	3.9	1,889,818	3.5	1,896,577	3.4	1,192,125	2.0	675,458	1.3
Delta Air Lines	1,963,878	3.5	1,922,778	3.5	1,889,715	3.4	1,897,776	4.0	1,772,122	3.4
Frontier Airlines	285,337	0.5	421,754	0.8	494,804	0.9	307,506	1.0	236,060	0.5
Air Canada	349,571	0.6	353,721	0.6	293,193	0.5	278,194	1.0	251,713	0.5
Lufthansa	279,421	0.5	291,713	0.5	278,409	0.5	281,261	1.0	300,824	0.6
AeroMexico	155,258	0.3	255,782	0.5	255,215	0.5	274,145	1.0	219,483	0.4
British Airways	226,636	0.4	240,874	0.4	243,464	0.4	264,830	1.0	281,057	0.5
Other Airlines	2,341,769	4.3	2,359,309	4.4	2,245,588	4.1	1,782,746	3.0	1,591,348	3.0
	55,327,330	100.0 %	54,753,998	100.0 %	55,590,996	100.0 %	53,826,453	100.0 %	51,911,345	100.0 %

Information presented is based on the most current statistical data available; numbers from prior years are subject to change.

AIRPORT SYSTEM STATISTICS
AIRLINE MARKET SHARES
June 30, 2023
(unaudited)

CARRIERS by AIRPORT

IAH			HOU		
Mainline Carriers	**Regional Carriers**	**Cargo Carriers**	**Mainline Carriers**	**Regional Carriers**	**Cargo Carriers**
Aeromexico	Commute Air	Air Transport International	Allegiant Air	Envoy Air	
Air Canada	Envoy Air	Atlas Air	American Airlines	Mesa Airlines	
Air France	Jazz Air	Airlines	Delta Airlines	Skywest Airlines	
Air New Zealand	Mesa Airlines	Cargolux	Frontier Airlines		
Alaska Airlines	Republic Airlines	Cathay Pacific Cargo	Southwest Airlines		
All Nippon Airways	Skywest Airlines	DHL			
American Airlines		Emirates Sky Cargo			
AVIANCA S.A.		Federal Express			
British Airways		Lufthansa Cargo			
Delta Airlines		National Airlines			
Emirates		Qatar Airways Cargo			
EVA Air		Silk Way West Airlines			
Frontier Airlines					
JetBlue Airways					
KLM Royal Dutch Airlines					
Lufthansa					
Qatar Airways					
Singapore Airlines					
Southwest Airlines					
Spirit Airlines					
Sun Country					
Turkish Airlines					
United Airlines					
VivaAerobus					
Volaris					
Volaris El Salvador					
WestJet					

AIRPORT SYSTEM STATISTICS
Selected Financial Information
Operating Fund Only
Last Ten Fiscal Years
(amounts expressed in thousands)
(unaudited)

Operating Revenues	**2014**	**2015**	**2016**
Landing Area Fees:			
Landing Fees	$ 88,392	$ 94,748	$ 89,505
Carrier Incentive Program	(4,294)	(5,322)	(6,802)
Aviation Fuel	1,529	1,521	1,527
Aircraft Parking	2,715	2,628	2,640
Subtotal	88,342	93,575	86,870
Building and Ground Area Revenues:			
Building Space	6,174	6,252	6,808
Terminal Space	163,297	173,392	191,321
Cargo Building	2,432	2,506	2,484
Hangar Rental	6,605	6,355	6,577
Ground Rental	7,997	8,534	8,828
Subtotal	186,505	197,039	216,018
Parking, Concession and other Revenues:			
Terminal Concessions	41,434	41,830	35,189
Auto Parking	90,173	97,515	101,650
Auto Rental	32,783	31,991	30,737
Ground Transportation	8,301	9,323	10,083
Special Events	10	25	26
Vending Machine	—	—	—
Other Operating Income	4,559	4,984	8,324
Subtotal	177,260	185,668	186,009
Total Operating Revenues	$ 452,107	$ 476,282	$ 488,897
Nonoperating Revenues			
Interest on Investments	$ 5,499	$ 6,014	$ 6,986
Other	3,162	7,526	(52)
Subtotal	8,661	13,540	6,934
Total Gross Revenues	$ 460,768	$ 489,822	$ 495,831
Operation and Maintenance Expenses			
Personnel and Other Current Expenses	$ 268,745	$ 283,557	$ 314,715
Total Operating and Maintenance Expenses	268,745	283,557	314,715
Net Revenue	$ 192,023	$ 206,265	$ 181,116
Total Debt Service	$ 156,424	$ 163,319	$ 163,904
Less: PFC available for debt service	(35,614)	(38,054)	(42,320)
Less: grant revenue available for debt service	(22,942)	(16,399)	(13,888)
Debt Service Requirement (per Bond Ordinance)	$ 97,868	$ 108,866	$ 107,696
Coverage of Debt Service	1.96	1.89	1.68

2017	2018	2019	2020	2021	2022	2023
$ 86,966	$ 92,586	$ 84,357	$ 92,045	$ 67,169	$ 91,139	$ 88,038
(2,930)	(1,328)	(1,039)	(774)	(1,619)	(2,381)	(709)
1,350	1,679	1,554	1,249	1,302	1,705	1,594
2,660	2,842	2,895	3,343	3,726	3,790	3,679
88,046	95,779	87,767	95,863	70,578	94,253	92,601
6,453	6,460	6,454	6,574	6,256	6,332	5,901
196,162	195,198	185,943	196,844	129,527	166,442	208,855
2,448	2,390	2,391	2,378	2,164	2,078	2,009
6,813	6,691	6,530	6,821	6,338	5,921	5,878
9,305	9,475	10,005	10,684	11,312	11,254	12,107
221,181	220,214	211,323	223,301	155,597	192,027	234,750
39,969	41,231	41,491	32,265	14,460	39,433	48,828
99,752	103,961	110,136	81,172	43,815	98,418	117,460
28,735	28,767	28,949	23,400	20,596	34,056	37,301
10,402	11,062	12,645	10,072	6,913	15,192	21,428
20	14	15	10	106	109	103
10	—	15	18	18	28	30
5,926	9,836	6,123	5,811	6,471	7,657	7,744
184,814	194,871	199,374	152,748	92,378	194,893	232,894
$ 494,041	$ 510,864	$ 498,464	$ 471,912	$ 318,555	$ 481,173	$ 560,246
$ 9,306	$ 13,348	$ 19,681	$ 19,503	$ 10,403	$ 7,556	$ 21,820
7,177	(1,805)	47	122	152	77	165
16,483	11,543	19,728	19,625	10,555	7,633	21,985
$ 510,524	$ 522,407	$ 518,192	$ 491,537	$ 329,110	$ 488,806	$ 582,231
$ 254,506	$ 326,889	$ 315,153	$ 314,034	$ 251,830	$ 255,377	$ 315,487
254,506	326,889	315,153	314,034	251,830	255,377	315,487
$ 256,018	$ 195,518	$ 203,039	$ 177,503	$ 77,280	$ 233,429	$ 266,744
$ 175,023	$ 174,456	$ 176,312	$ 180,731	$ 145,349	$ 163,503	$ 208,151
(54,673)	(50,642)	(60,646)	(55,040)	(56,365)	(59,819)	(68,744)
–	–	–	(14,169)	(88,984)	(103,684)	(50,000)
$ 120,350	$ 123,814	$ 115,666	$ 111,522	$ —	$ —	$ 89,407
2.13	1.58	1.76	1.59	N/A	N/A	2.98

AIRPORT SYSTEM STATISTICS
Total Aircraft Operations, Landing Weight and Cargo Activity
(unaudited)

	Aircraft Operations (in thousand)			Aircraft Landed Weight (in million pounds)		
Fiscal Year	Total	Increase (Decrease)	Percentage Change	Total	Increase (Decrease)	Percentage Change
2014	811	12	1.50 %	33,881	837	2.53 %
2015	816	5	0.62	34,969	1,088	3.21
2016	787	(29)	(3.55)	35,519	550	1.57
2017	760	(27)	(3.43)	34,648	(871)	(2.45)
2018	735	(25)	(3.29)	34,828	180	0.52
2019	752	17	2.31	37,256	2,428	6.97
2020	624	(128)	(17.02)	30,345	(6,911)	(18.55)
2021	512	(112)	(17.95)	23,454	(6,891)	(22.71)
2022	691	179	34.96	33,863	10,409	44.38
2023	690	(1)	(0.14)	35,888	2,025	5.98

		Cargo Activity (in metric tons)			
Fiscal Year	Domestic Freight	International Freight	Mail	Total Cargo	Year - over Year Change
2014	193,776	225,400	27,333	446,509	(0.1)%
2015	192,331	252,876	30,026	475,233	6.4
2016	195,644	205,361	25,713	426,718	(10.2)
2017	209,343	224,226	24,983	458,552	7.5
2018	231,670	234,384	23,790	489,844	6.8
2019	267,631	243,594	23,413	534,638	9.1
2020	285,122	199,241	19,857	504,220	(5.7)
2021	309,270	153,552	21,197	484,019	(4.0)
2022	321,056	212,883	26,760	560,699	15.8
2023	322,816	196,701	19,446	538,963	(3.9)

AIRPORT SYSTEM STATISTICS
System Debt Service Schedule
(unaudited)

The following table sets forth the Debt Service Requirements on all Airport Revenue Bonds Outstanding, assuming scheduled mandatory redemption of any term bonds and using rates in effect at year-end for auction rate securities and variable rate demand obligations. The amounts do not include the Airport System's Senior Lien Commercial Paper Notes.

Fiscal Year (ending June 30)	Subordinate Lien Bonds Debt Service	Total Bonds Debt Service
2024	$ 197,903,471	$ 197,903,471
2025	197,733,979	197,733,979
2026	197,568,457	197,568,457
2027	198,730,631	198,730,631
2028	198,597,232	198,597,232
2029	198,398,919	198,398,919
2030	203,504,371	203,504,371
2031	203,350,489	203,350,489
2032	204,346,880	204,346,880
2033	203,742,634	203,742,634
2034	71,841,075	71,841,075
2035	71,786,825	71,786,825
2036	71,816,825	71,816,825
2037	71,768,250	71,768,250
2038	71,704,800	71,704,800
2039	71,646,400	71,646,400
2040	71,592,225	71,592,225
2041	43,212,575	43,212,575
2042	43,182,925	43,182,925
2043	33,711,125	33,711,125
2044	33,686,500	33,686,500
2045	33,671,550	33,671,550
2046	33,644,425	33,644,425
2047	33,623,275	33,623,275
2048	33,586,225	33,586,225
2049	23,947,400	23,947,400
	$ 2,818,299,463	$ 2,818,299,463

AIRPORT SYSTEM STATISTICS
Summary of Certain Fees and Charges
(unaudited)

	Bush Intercontinental		Hobby	
	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2022	Fiscal Year 2023
Landing Rates(1)(3)	$2.4	$2.5	$3.0	$2.6
Terminal Space Rentals(2)(3)	$18.2 – $64.5	$21.4 – $73.0	$59.0 – $77.3	$71.7 – $89.6
Apron Rentals(2)(3)	$1.9 – $2.0	$2.2 – $2.3	– $2.7	– $2.6
Aircraft Parking (per day)	$100 – $400	$100 – $400	$100 – $400	$100 – $400
Cargo (per day)	$200 – $600	$200 – $600	$200 – $600	$200 – $600
Parking Rates(4)				
Ecopark Uncovered(5)	$7.0	$7.0	n/a	n/a
Ecopark Covered(5)	$9.0	$9.0	n/a	n/a
Ecopark2 Covered(5)	$8.0	$8.0	n/a	n/a
Ecopark(8)	n/a	n/a	n/a	n/a
Ecopark 2(9)	n/a	n/a	$10.0	$10.0
Structured(6)	$24.0	$25.0	$24.0	$24.0
Valet(8)(10)	$28.0 - 30.0	$30.0	$28.0	$28.0

(1) Per 1,000 pounds of landing weight
(2) Range per square foot
(3) 2014-2022 actual rates provided; 2023 budgeted rates provided
(4) Maximum per day
(5) New rates effective January 15, 2022
(6) New rates of $20.00/Day and $24.00/Day effective on July 29, 2021 and October 1, 2021 (respectively)
(7) New rates effective February 4, 2019
(8) New rates effective May 5, 2014
(9) New rates for Terminal C effective May 1, 2022; New rates for IAH Garages & Valet effective February 1, 2023

SALARIES OF ELECTED OFFICIALS
June 30, 2023
(unaudited)

Name and Title of Official	Authorized Annual Base Salary
Sylvester Turner, Mayor	$ 236,189
Chris Brown, City Controller	157,459
Amy Peck, Council Member - District A	62,983
Tarsha Jackson, Council Member - District B	62,983
Abbie Kamin, Council Member - District C	62,983
Carolyn Evans-Shabazz, Council Member - District D	62,983
David P. Martin, Council Member - District E	62,983
Tiffany D Thomas, Council Member - District F	62,983
Mary Nan Huffman, Council Member - District G	62,983
Karla G. Cisneros, Council Member - District H	62,983
Robert Gallegos, Council Member - District I	62,983
Edward Pollard, Council Member - District J	62,983
Martha Castex Tatum, Council Member - District K	62,983
William M. Knox, Council Member - At Large Position 1	62,983
David W. Robinson, Council Member - At Large Position 2	62,983
Michael Kubosh, Council Member - At Large Position 3	62,983
Letitia Plummer, Council Member - At Large Position 4	62,983
Sallie Alcorn, Council Member - At Large Position 5	62,983

SURETY BOND AND INSURANCE COVERAGE
June 30, 2023
(amounts expressed in thousands)
(unaudited)

Policy Number	Insurer	Term of Policy
LSM1348999	Western Surety Company	01-02-2023 to 01-02-2024
LSM1348998	Western Surety Company	01-02-2023 to 01-02-2024
61BSBHJ1564	Hartford Casualty Insurance Company	01-02-2023 to 01-02-2024
106360496	Travelers Casualty Insurance Company	08-04-2023 to 08-04-2024
61BSBAR6948	Hartford Casualty Insurance Company	02-27-2023 to 02-27-2024
LSM1676035	Hartford Casualty Insurance Company	09.28-2022 to 08-28-2023
61BSNHO1810	Hartford Casualty Insurance Company	09-19-2022 to 09-19-2023
D37362797015	Illinois Union Insurance Company	04-01-2023 to 04-01-2024
NIA3PP000005300	Princeton Excess & Surplus Lines Insurance Company	04-01-2023 to 04-01-2024
NOMY49832023	Lloyd's - Various	04-01-2023 to 04-01-2024
ESP30000289306	Endurance American Specialty Insurance Company	04-01-2023 to 04-01-2024
42PRP31447703	National Fire & Marine Insurance Company	04-01-2023 to 04-01-2024
W31DCA230201	Lloyd's London Syndicate 2623	04-01-2023 to 04-01-2024
W31DCA230201	Lloyd's London Syndicate 623	04-01-2023 to 04-01-2024
R80886230CSP	Starstone Specialty Insurance Company	04-01-2023 to 04-01-2024
NOMY49831023	Lloyd's London(Various)	04-01-2023 to 04-01-2024
NOMY49833023	Lloyd's London(Various)	04-01-2023 to 04-01-2024
CUS30000037	Lloyd's London Syndicare 4444	04-01-2023 to 04-01-2024
NOMY49836023	Lloyd's London (Various)	04-01-2023 to 04-01-2024
NOMY49835023	Lloyd's London (Various)	04-01-2023 to 04-01-2024
NOMY49834023	Lloyd's London (Various)	04-01-2023 to 04-01-2024
1000389033-04	Ironshore Specialty Insurance Corporation	04-01-2023 to 04-01-2024
ESP200393204	Swiss Re Corporation Solutions Capacity Ins Co	04-01-2023 to 04-01-2024
EAF65228823	AXIS Surplus Ins. Co	04-01-2023 to 04-01-2024
BRPSLPTTX01110008013901	Texas Insurance Company	04-01-2023 to 04-01-2024
LCP648143100	Tokio Marine America Insurance Company	04-01-2023 to 04-01-2024
NZA094Q23A000	Nautilus Insurance Company	04-01-2023 to 04-01-2024
SLSTPTY11764423	Starr Surplus Lines Insurance Company	04-01-2023 to 04-01-2024
ESP730205808	Arch Specialty Insurance Company	04-01-2023 to 04-01-2024
PX00LCM23	Aspen Specialty Insurance Company	04-01-2023 to 04-01-2024
SLSTPTY11764423	Starr Surplus Lines Ins. Co.	04-01-2023 to 04-01-2024
DF00001691	National Fire & Marine Ins. Co	04-01-2023 to 04-01-2024
62502968	Lexington Insurance Co	04-01-2023 to 04-01-2024
NHD931222	RSUI Indemnity Company	04-01-2023 to 04-01-2024
MKLVIXPR000574	Evanston Insurance Company	04-01-2023 to 04-01-2024
SLSTPTY11764423	Starr Surplus lines Insurance Company	04-01-2023 to 04-01-2024
XAR00004V901	Westfield Specialty Insurance Company	04-01-2023 to 04-01-2024
NQU202310020	United Specialty Insurance Company	04-01-2023 to 04-01-2024
23ALC665670A	Alcor Consortium 4612	04-01-2023 to 04-01-2024
NOMY49857023	Lloyd's of London	04-01-2023 to 04-01-2024
NOMY49857023	Lloyd's of London	04-01-2023 to 04-01-2024
BM6076028407	National Fire Insurance of Hartford	03-18-2023 to 03-18-2024
6610	Texas Municipal League	07-01-2023 to 07-01-2024
	Philadelphia Indemnity Insurance Company	06-26-2023 to 06-26-2024
CA00001556813	Admiral Insurance Company	02-26-2023 to 02-26-2024
73652M238ALI	Starstone Specialty Insurance Company	02-26-2023 to 02-26-2024
105324683	Travelers Casualty & Surety	12-30-2022 to 12-30-2023
6610	Texas Municipal League	05-15-2023 to 05-15-2024
	Texas Municipal League	05-15-2023 to 05-15-2024
6610	Texas Municipal League	05-15-2023 to 05-15-2024
MKLM11M0000676	Markel American Insurance Company	10-20-2022 to 10-20-2023
Various (approximately 1,500+)	Western Surety Company	Four Year Term per Bond
Various (approximately 10)	CNA	Various
MKLV4PSM000803	Evanston Insurance Company	10-03-2022 to 10-03-2023
6610	Texas Municipal League	07-01-2023 to 07-01-2024
MKP0000500890200	Markel Insurance Company	07-01-2023 to 07-01-2024
08-333-05-98	National Union Fire Insurance Company of Pittsburgh, PA	05-29-2023 to 05-29-2024
61BDDHT0320	Hartford Casualty Insurance Company	10-29-2022 to 10-29-2023
61BDDHO5613	Hartford Casualty Insurance Company	02-11-2023 to 02-11-2024
PR00275604	Old Republic insurance Company through Old Republic Aerospace	03-15-2023 to 03-15-2024

Property at Risk	Type of Coverage		(in thousands) Coverage
Mayor	Public Official Bond	$	50
City Controller	Public Official Bond		50
Deputy Controller	Public Official Bond		25
Municipal Courts	Public Official Bond		25
Tax Collector	Public Official Bond		25
Treasurer	Public Official Bond		25
HMEPS Treasurer	Public Official Bond		250
City of Houston	Property Insurance *		3,300
City of Houston	Property Insurance *		1,000
City of Houston	Property Insurance *		1,500
City of Houston	Property Insurance *		2,500
City of Houston	Property Insurance *		10,000
City of Houston	Property Insurance *		2,055
City of Houston	Property Insurance *		445
City of Houston	Property Insurance *		1,937
City of Houston	Property Insurance *		23,543
City of Houston	Property Insurance *		3,300
City of Houston	Property Insurance *		5,000
City of Houston	Property Insurance *		7,750
City of Houston	Property Insurance *		22,752
City of Houston	Property Insurance *		16,668
City of Houston	Property Insurance *		3,750
City of Houston	Property Insurance *		2,500
City of Houston	Property Insurance *		2,500
City of Houston	Property Insurance *		5,000
City of Houston	Property Insurance *		2,250
City of Houston	Property Insurance *		3,000
City of Houston	Property Insurance *		4,000
City of Houston	Property Insurance *		5,000
City of Houston	Property Insurance *		1,500
City of Houston	Property Insurance *		11,500
City of Houston	Property Insurance *		5,000
City of Houston	Property Insurance *		15,000
City of Houston	Property Insurance *		17,500
City of Houston	Property Insurance *		5,000
City of Houston	Property Insurance *		2,500
City of Houston	Property Insurance *		3,750
City of Houston	Property Insurance *		2,500
City of Houston	Property Insurance *		1,000
City of Houston	Terrorism		100,000
City of Houston	Terrorism		150,000
City of Houston	Boiler & Machinery		125,000
City of Houston	HITS Property, Radio Equipment and Towers		114,977
City of Houston Library	Business Electronic Eq., Valuable Papers, Fine Arts		13,533
Holcombe Health Lab	Commercial General Liability		1,000
Holcombe Health Lab	Excess Liability		5,000
City of Houston	Pole Attachment Bond, Centerpoint		250
City of Houston	Automobile Liability		500
City of Houston	Automobile Physical Damage		450
City of Houston	Automobile Catastrophe		885
HALAN	Electonic Equipment-Hardware/Software		881
Various City of Houston Notaries	Notary Public Bonds		3
Various City of Houston	Dentist Professional Liabilty		1,000
City of Houston	Medical Professional Liability		1,000
City of Houston	Special Event Mobile Equipment		300
City of Houston	Special Events Liability, Including Terroism		1,000
City of Houston	Public Employee Dishonesty/Crime Insurance		2,000
City of Houston	Public Employee Dishonesty, Parks Board		10,000
City of Houston	Public Employee Dishonesty,Library Board		10,000
City of Houston HAS Ellington Field Fuel Resale	Airport Liability		500

* The property insurance is provided by insurance carriers that underwrite varying pro-rata shares of coverage that total to the policy loss limit.

Schedule of Credits
(unaudited)

Annual Comprehensive Financial Report:

Controller's Office

Executive/Administrative Divisions — **Design Oversight and Writing**

Chris B. Brown, City Controller
Shannan Nobles, Chief Deputy City Controller
John Seydler, Director of Communication & Public Affairs

Financial Reporting Division — **Preparation and Coordination**

Beverly Riggans, Deputy City Controller
Alicia Cai, Assistant City Controller
Camille Jones, Assistant City Controller
I-Li (Conrad) Lin, Deputy Director
Sharon Liu, Assistant City Controller
Sylvia Nguyen, Assistant City Controller
Chris Okeagu, Assistant City Controller
Maria G. Perez, Administrative Specialist
Suong (Su) Vu, Assistant City Controller
Bonita Wright, Assistant City Controller

Operations and Technical Services Division — **Consulting and General Support**

Lenard Polk, Chief Operating Officer & Deputy City Controller
Monika De Los Santos, Assistant City Controller
Sheldon Holder, Administration Manager
Paul Lord, Administrative Supervisor
Daniel Schein, System Support Analyst

Treasury Division — **Debt and Investment Management Disclosures**

Charisse Moseley, Deputy City Controller
Vernon Lewis, Acting Deputy City Controller
Han Au, Deputy Director
Ashlee Brown, Senior Treasury Analyst
Lillie Nobles, Management Analyst
Linjie Zhu, Senior Treasury Analyst

Finance Department — **Preparation, Coordination, Analysis and Documentation**

William Jones, Director
Veda Aaron, Division Manager
Kiran Chandu, Deputy Assistant Director
Clint Joines, Division Manager
Robert Martinez, Deputy Assistant Director
Beverly McFarlin, Division Manager
Sherry Mose, Division Manager
Vivien Nguyen, Staff Analyst
Bobby Qasim, Division Manager
Arif Rasheed, Deputy Director
Mohsin Raza, Division Manager
Adela Rice, Division Manager
Fazal Syed, Deputy Assistant Director
Alma Tamborello, Division Manager

Schedule of Credits - Continued
(unaudited)

Administration & Regulatory Affairs Department	**Analysis and Supporting Documentation**
Tina Paez, Director	
Valerie Berry, Deputy Director	
Chia-Hsuan Chiou, Division Manager	
Vijay Govind, Financial Analyst	
Hannah Hoang, Senior Accountant	
Maria Irshad, Deputy Director	
Bethany Li, Division Manager	
Chris Lutz, Senior Division Manager	
Carlos Medel, Administrative Supervisor	
Tina Paquet, Deputy Director	
Rosalinda Salazar, Division Manager	
Sreng Ung, Senior Division Manager	
Karen Davidson, Assistant Director	
Houston Information Technology Services Department	**SAP/ ERP Consulting, Support & Development**
Lisa Kent, Director	
Professional Consultants	**Project Management and Design**
Bayside Printing	
Sherri Tyndall, Lead Customer Service Representative	
McConnell & Jones LLP/Banks, Finley, White & Co.	**Independent Auditors**

This schedule by no means gives credit to all of the individuals who have some part in the development and production of this Annual Comprehensive Financial Report. However, we have included the major participants who made the issuance of this document possible.

CITY OF HOUSTON, TEXAS

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CITY OF HOUSTON
CITY CONTROLLER

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 WHICH FAR EXCEED THE POPULATION AND AREA OF THE CITY, SO THAT THE FOLLOWING DATA MAY SET FORTH STATISTICS AND TRENDS WHICH 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.

HOUSTON - THE WOODLANDS - SUGAR LAND MSA
POPULATION ESTIMATES[(a)]

Calendar Year	Population Estimates[(b)] (In Thousands)	Annual % Change
2022	7,340.1	1.7%
2021	7,215.8	1.1
2020	7,140.7	1.2
2019	7,066.1	1.3
2018	6,976.1	1.1

(a) In 2010, the U.S. Census Bureau changed the MSA to include The Woodlands instead of Baytown. Information for 2023 is not yet available.
(b) Figures are as of July of each year.
Source: Population Division, U.S. Census Bureau.

HOUSTON POPULATION ESTIMATES
(WITHIN THE CITY LIMITS)[(a)]

Year	Population Estimates[(a)] (In Thousands)	Annual % Change
2022	2,302.9	0.48%
2021	2,291.7	-0.35
2020	2,299.9	-0.90
2019	2,320.7	0.09
2018	2,318.6	0.06

(a) Figures are as of July of each year.
Source: Population Division, U.S. Census Bureau.

HOUSTON-THE WOODLANDS-SUGAR LAND
CONSUMER PRICE INDEX
ALL URBAN CONSUMERS[(a)]

Calendar Year	Average Index	Annual % Change
2023	270.1	4.5%
2022	258.7	8.2%
2021	239.0	4.3
2020	229.2	0.2
2019	228.8	1.3

Source: U.S. Bureau of Labor Statistics, Consumer Price Index.

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HOUSTON-THE WOODLANDS-SUGAR LAND MSA
NONFARM PAYROLL

Calendar Year	Annual Average (in thousands)	Percent Change
2023	3,354.8*	0.6%
2022	3,335.8	4.4
2021	3,190.1	5.3
2020	3,018.0	-6.1
2019	3,201.9	2.2

Source: U.S. Bureau of Labor Statistics.
*Preliminary

HOUSTON-THE WOODLANDS-SUGAR LAND MSA
UNEMPLOYMENT RATE
(NOT SEASONALLY ADJUSTED)
% UNEMPLOYED

Calendar Year	Annual Average %
2023*	4.4%
2022	4.2
2021	6.3
2020	8.7
2019	3.8
2018	4.4

Source: U.S. Department of Labor Bureau of Labor Statistics
*Preliminary

PORT OF HOUSTON TONNAGE
TOTAL CARGO

Calendar Year	Short Tons
2022	256,767,000[(1)]
2021	266,524,394
2020	275,940,289
2019	284,936,668
2018	268,930,047
2017	259,893,776

Source: Estimates; US Army Corps of Engineers Institute for Water Resources Website.
[(1)] Information as reported in the Port Houston 2022 Economic Impact of Houston Ship Channel Activity.

GREATER HOUSTON AREA
APARTMENT OCCUPANCY RATES[(a)]

Calendar Year	Occupancy Rate
2023[(b)]	89.9%
2022	88.1
2021	90.7
2020	88.7
2019	89.8

(a) Physical occupancy based on calendar year.
(b) As of fourth quarter 2023.
Source: Apartment Data Services, fourth quarter 2023.

HOUSTON HOTEL OCCUPANCY RATES

Calendar Year	Average Occupancy Rate
2023	62.1%
2022	56.6
2021	52.4
2020	39.8
2019	64.6

Source: STR, Inc. City of Houston Annual Comprehensive Financial Report, FY2023.

CITY OF HOUSTON BUILDING PERMITS
NEW NON-RESIDENTIAL[(a)]

Calendar Year	Number of Permits Issued	Dollar Value (In Thousands)
2023[(b)]	1,472	$1,226,932
2022	1,512	1,839,632
2021	1,314	1,254,143
2020	1,290	1,285,496
2019	1,457	1,713,808

(a) Privately Owned.
(b) As of December 31, 2023.
Source: City of Houston, Public Works and Engineering.
Compiled by Planning and Development Dept. as of December 31, 2023.

CITY OF HOUSTON BUILDING PERMITS
RESIDENTIAL[(a)]

	Single Family	Multi-Family
Calendar Year	Number of Permits Issued	Number of Permits Issued
2023[(b)]	8,196	940
2022	8,274	1,349
2021	8,476	1,088
2020	6,905	1,075
2019	6,477	1,218

(a) Privately Owned.
(b) As of December 31, 2023.
Source: City of Houston, Public Works and Engineering.
Compiled by Planning and Development Dept. as of December 31, 2023.

HOUSTON PMSA
GENERAL PURPOSE OFFICE SPACE ACTIVITY[(a)]

Calendar Year	Net Rentable Area (msf)	Net Absorption[(b)] (msf)	Annual Vacancy Rate	Average Rents (Per Square Foot)[(c)]
2023[(d)]	236.9	1.0	22.5%	$30.11
2022	237.66	1.0	23.30	30.01
2021	239.01	1.9	23.10	29.38
2020	232.10	-1.0	22.10	31.02
2019	229.20	1.7	19.30	29.82

(a) Based on buildings greater than 20,000 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.
(d) As of December 31, 2023.
Source: Collier International, fourth Quarter 2023.

CITY OF HOUSTON
AVIATION PASSENGER STATISTICS

The following table presents total passenger arrivals and departures for George Bush Intercontinental Airport, William P. Hobby Airport, and Ellington Airport for the years indicated.

Calendar Year	Passenger Domestic (thousands)	Percentage Change	Passenger International (thousands)	Percentage Change	Passenger Domestic and International (thousands)	Percentage Change
2023	46,105	8.0%	11,663	25.7%	57,768	11.1%
2022	42,715	68.3	9,266	115.2	51,981	75.1
2021	25,386	-27.6	4,306	-49.7	29,692	-31.9
2020	35,066	-26.3	8,560	-28.1	43,626	-26.7
2019	47,601	8.3	11,904	4.8	59,505	7.6

Source: Houston Airport System Fiscal Year 2023 Annual Comprehensive Financial Report.

APPENDIX C

DEFINITIONS

APPENDIX C

DEFINITIONS

As used in this Official Statement, the following terms shall have the following meanings as defined in the Master Ordinance or the Series 2024 Supplemental Ordinance, unless the context clearly indicates otherwise:

"Additional Bonds Test" means the terms of the Master Ordinance relating to the issuance of Additional First Lien Bonds and Additional Second Lien Bonds as described in the section captioned "ADDITIONAL BONDS – Additional First and Second Lien Obligations."

"Additional First Lien Bonds" means the additional first lien revenue bonds permitted to be issued by the City pursuant the Master Ordinance. See "ADDITIONAL BONDS."

"Additional Second Lien Bonds" means the additional second lien revenue bonds permitted to be issued by the City pursuant to the Master Ordinance. See "ADDITIONAL BONDS."

"Adjustable Rate Obligations" shall mean any Bonds or other Obligations that initially bear interest at an adjustable or variable rate of interest, including Adjustable Rate Obligations which may be converted to bear a rate of interest fixed to maturity.

"Average Annual Debt Service Requirements" means the average of the annual Debt Service Requirements (taking into account all mandatory principal redemption requirements) scheduled to occur in the current Fiscal Year and future Fiscal Years for the particular System Obligations (First Lien Bonds, Second Lien Bonds, or otherwise) for which such calculation is made.

"Board Bonds" shall mean the Water and Sewer System Junior Lien Revenue Bonds purchased or to be purchased by the Texas Water Development Board on a parity with the Previous Ordinance Bonds Outstanding under the terms of the Previous Ordinance.

"Bondholder" whenever used herein, means the person in whose name such Bond is registered.

"Bond Reserve Fund Requirement" means an amount equal to 50% of the Maximum Annual Debt Service Requirements on (i) all First Lien Bonds issued through the date of this Supplemental Ordinance that are Reserve Fund Participants, and (ii) all subsequent issues of First Lien Bonds which the City elects as Reserve Fund Participants.

"Business Day" means a day other than (i) a Saturday or Sunday, (ii) a day on which the Paying Agent/Registrar, the Bond Insurer, if any, or banks and trust companies in New York, New York are authorized or required to remain closed, or (iii) a day on which the New York Stock Exchange is closed.

"City" means the City of Houston, Texas, and, where appropriate, the City Council thereof and any successor to the City as owner of the System.

"Closing Date" means when used with respect to the Bonds of a Series, means the date on which such Bonds are first issued, sold and delivered.

"Combined Utility System" means all properties, facilities, improvements, equipment, interests, rights and powers constituting the combined water and sewer system of the City, and all future extensions, replacements, betterments, additions, improvements, enlargements, acquisitions, purchases and repairs to the Combined Utility System, including without limitation, all those heretofore or hereafter acquired as a result of the annexation and dissolution of water districts or the acquisition of the properties or assets of any other public, private or non-profit entities. The Combined Utility System shall not include any Special Project. The Combined Utility System shall include other utility systems provided for in Chapter 1502 of the Texas Government Code which the City may from time to time elect to combine with the Combined Utility System so long as the revenues of such other utility systems are included in Gross Revenues under the Master Ordinance.

"Credit Agreement" means any agreement between the City and a third party institution pursuant to which such third party institution issues a letter of credit, municipal bond insurance policy, line of credit, standby purchase agreement, surety policy, surety bond or other guarantee for the purpose of enhancing the creditworthiness or liquidity of any of the City's obligations pursuant to any System Bonds or Qualified Hedge Agreements and in consideration for which the City may agree to pay, but solely from Net Revenues as provided in the Master Ordinance, (i) periodic payments for the availability of such Credit Agreement and/or (ii) reimbursements or repayments of any amounts advanced under such Credit Agreement, together with interest and other stipulated costs and charges related to such amounts advanced. Obligations of the City pursuant to a Credit Agreement shalt be deemed to be, and shall be included within, the Debt Service Requirements for the series of System Bonds to which the Credit Agreement relates. Further, obligations of the City to make payments under a Credit Agreement as reimbursements or repayments of amounts paid or advanced under such Credit Agreement for interest on or principal of any System Bonds (including interest and other stipulated costs and charges related to such amounts advanced) shall be deemed to be payments of interest on or principal of such System Bonds. Each Credit Agreement shall be deemed to be a part of the bonds of the series to which it relates for the purpose of securing its payment or repayment by the pledge of Net Revenues as provided in the Master Ordinance. Unless specifically provided for in a Supplemental Ordinance, issuers of Credit Agreements shall not be treated as Owners of System Bonds for purposes of any voting rights to approve amendments or to direct the exercise of any remedies under the Master Ordinance; provided that a Supplemental Ordinance may provide that, so long as an institution that issues a municipal bond insurance policy insuring a series of System Bonds is not in default of its payment obligations under such policy, such institution may, under the terms of the Supplemental Ordinance, at all times be deemed to be the exclusive owner of such series of System Bonds for the purpose of all approvals, consents, waivers, or exercise of any action and the direction of all remedies. For purposes of the Master Ordinance, Credit Agreements shall not include a Reserve Fund Surety Policy.

"Crossover Refunding Bonds" shall mean any Bonds the proceeds of which: (1) are deposited in an escrow account established for such purpose with a Paying Agent/Registrar, (ii) cannot be applied to the purpose for which such Crossover Refunding Bonds are to be issued until the Crossover Refunding Bonds Break Date, (iii) must be sufficient, together with the investment income thereon, after the payment of bond issuance costs, if any, to pay the Debt Service Requirements on such series on and prior to such Crossover Refunding Bonds Break Date, and (iv) other than paying or providing for the payment of bond issuance costs, if any, cannot be used for any purpose other than the payment of Debt Service Requirements on such Crossover Refunding Bonds on and prior to the Crossover Refunding Bonds Break Date.

"Crossover Refunding Bonds Break Date" shall mean the date specified in the Supplemental Ordinance authorizing a Series of Crossover Refunding Bonds as the date upon which the proceeds of such Crossover Refunding Bonds can be applied to the purpose of which such Crossover Refunding Bonds are to be issued upon the satisfaction of certain conditions, which conditions shall be set forth in such Supplemental Ordinance.

"CWA" means the Coastal Water Authority. See "REQUIRED PAYMENTS UNDER PREVIOUS ORDINANCE."

"Debt Service Requirements" means, as of any period of time for which such calculation applies, an amount equal to the sum of the following for any such period and with respect to all or any portion of the System Bonds:

A. Current interest scheduled to be paid during such period on such System Bonds, except to the extent that provision for the payment of such interest has been made by (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest either from proceeds of System Bonds, from interest earned or to be earned thereon, from other System funds other than Net Revenues, or from any combination of such sources and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a fund or account for capitalized interest, the proceeds of which are required to be transferred as needed into the First Lien Bond Interest and Sinking Fund or the Second Lien Bond Interest and Sinking Fund, as the case may be, plus

B. That portion of the principal of, or compounded interest on, such System Bonds scheduled to be payable during such period (either at maturity or by reason of scheduled mandatory redemptions, but after taking into account all prior optional and mandatory Bond redemptions);

provided, however, that the following rules shall apply to the computation of Debt Service Requirements on any series of System Bonds that are Short Term Obligations, Adjustable Rate Obligations and Refundable Obligations:

(i) For any series of System Bonds issued as Short Term Obligations under the Master Ordinance pursuant to a program designated by the City as a commercial paper or similar program, Debt Service Requirements shall be computed on the assumption that the principal amount shall continuously be refinanced under such program and remain outstanding until the first Fiscal Year for which interest on such Short Term Obligations has not been capitalized or otherwise funded or provided for, at which time (which shall not be beyond the term of such program) it shall be assumed that the outstanding principal amount thereof shall be refinanced with a series of System Bonds of the same lien which shall be assumed to be amortized over a remaining period not to exceed 30 years from the original issue date of such Short Term Obligations and shall be assumed to be amortized in such a manner that the Debt Service Requirements in any 12-month period are substantially equal to the Debt Service Requirements for any other 12-month period, and shall be assumed to bear interest at a fixed interest rate estimated by the City's financial advisor in a written certificate delivered to the City at the time of such calculation to be the interest rate such series of System Bonds would bear if issued on such terms on the date of such estimate;

(ii) For any series of System Bonds issued as Adjustable Rate Bonds, it shall be assumed that such System Bonds will bear interest at a rate calculated as follows: (a) with respect to compliance with the Rate Covenant, for any such series of System Bonds then Outstanding, at the actual interest rate derived from such variable or adjustable interest rate formula or computation, or the actual interest rate payable on such series of System Bonds, on the date of such calculation, and (b) with respect to compliance with the Reserve Fund Requirements and compliance with the Additional Bonds Test, for any such System Bonds then Outstanding or proposed to be issued, at an interest rate estimated by the City's financial advisor in a written certificate delivered to the City at the time of such calculation to be the average rate of interest such System Bonds would bear if issued as long-term bonds, in the same principal amount and with the same priority of lien, bearing interest at fixed rates based on the average life of the Adjustable Rate Obligations;

(iii) For the purpose of calculating the Debt Service Requirements on any series of System Bonds issued as Refundable Obligations, such System Bonds shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period not to exceed 30 years from the original issue date of such series of System Bonds at an interest rate estimated by the City's financial advisor in a written certificate delivered to the City at the time of such calculation to be the average rate of interest such series of System Bonds would bear if issued as long-term bonds in the same principal amount with the same priority of lien, bearing interest at fixed rates to be amortized over 30 years;

(iv) With respect to Crossover Refunding Bonds, the aggregate Debt Service Requirements thereon until the Crossover Refunding Bonds Break Date shall be disregarded; and

(v) With respect to System Bonds to be redeemed with the proceeds of Crossover Refunding Bonds, Debt Service Requirements thereon after the Crossover Refunding Bonds Break Date shall be disregarded.

Debt Service Requirements shall be calculated on the assumption that no System Bonds Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of scheduled principal maturities or scheduled mandatory redemptions of such System Bonds, except as provided above for Short Term Obligations.

Credit Agreements shall cause Debt Service Requirements to be increased only to the extent of scheduled payments and charges for the availability of the Credit Agreement without regard to any repayment or reimbursement obligations or interest thereon or other stipulated costs or charges related thereto.

Debt Service Requirements shall include debt service requirements on Previous Ordinance Bonds, including without limitation, Outstanding Board Bonds at the time of such calculation.

Qualified Hedge Agreements shall cause Debt Service Requirements to be (i) increased by the amount of any scheduled payments and charges for the availability of the Qualified Hedge Agreement, (ii) decreased by the amount of any scheduled interest payments on the related Bonds which the City's financial advisor certifies in a written certificate delivered to the City to be modified pursuant to the Qualified Hedge Agreement, and (iii) increased by the gross payments of the City under the Qualified Hedge Agreement (without regard to netting); provided, however, that the Debt Service Requirements for any variable or adjustable payment obligation of the City under the Qualified Hedge Agreement shall be calculated in accordance with the provisions contained in paragraph (ii) above of the definition of Debt Service Requirements, as certified by the City's financial advisor in a written certificate delivered to the City; and provided further, that any obligation of the City to make termination payments or deliver collateral under a Qualified Hedge Agreement shall be paid as a Third Lien Obligation or an obligation inferior and subordinate to Third Lien Obligations.

"Designated Index" means the United States Consumer Price Index for all Urban Consumers (also known as the CPI-U) for the Houston-Galveston-Brazoria, Texas Metropolitan Area (1982-1984=100), as published by the Bureau of Labor Statistics, U.S. Department of Labor (but if such is subject to adjustment later, then the later adjusted index, together with any correlation factor necessary to relate the later adjusted index to the earlier index, as published by the entity publishing the index, shall be used), or if such publication is discontinued, the Designated Index shall then refer to comparable statistics on changes in the cost of living for urban consumers as the same may be computed and published (on the most frequent basis available) by an agency of the United States or by a responsible financial periodical of recognized authority, which agency or periodical shall be selected by the City.

"Discretionary Debt Service" shall have the meaning given to such term in the section captioned "SYSTEM DEBT AND CHARGES – Discretionary Debt Service."

"DTC" means The Depository Trust Company of New York, New York or any successor securities company.

"DTC Participant" shall mean securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations on whose behalf DTC was created to hold securities and to facilitate the clearance and settlement of securities transactions among DTC Participants through electronic book-entry changes in the accounts of the DTC Participants, thereby eliminating the need for physical movement of definitive certificates.

"First Lien Bonds" means each series of First Lien Bonds from time to time hereafter issued, but only to the extent such First Lien Bonds remain Outstanding within the meaning of the Master Ordinance.

"Fiscal Year" means the City's fiscal year, which currently runs from July 1 to June 30, but which may be changed from time to time by the City.

"Fitch" means Fitch Ratings, Inc.

"Fourth Lien Obligations" means System Obligations authorized by the Master Ordinance that are payable after First Lien Bonds, Second Lien Bonds and Third Lien Obligations.

"Gross Revenues" means all revenues and income of every nature now or hereafter derived or received by the City from the operation and ownership of the components of the System; the interest income from the investment or deposit of money in the funds created pursuant to the Master Ordinance and the Previous Ordinance; and any other revenues hereafter pledged to the payment of System Obligations issued pursuant to the Master Ordinance. Gross Revenues shall not include Restricted Receipts. The term "Gross Revenues" shall also include all payments received by the City, except for termination payments and receipts of collateral, pursuant to Qualified Hedge Agreements.

"Junior Lien Bonds" means City of Houston, Texas Junior Lien Revenue Bonds issued under the Previous Ordinance. See also the definition for "PREVIOUS ORDINANCE BONDS."

"Maintenance and Operation Expenses" means the reasonable and necessary expenses of operation and maintenance of the System, including all salaries, wages, pension fund contributions, interest, labor, materials, repairs and extensions necessary to render efficient service (but only such repairs and extensions as, in the judgment of the governing body of the City, are necessary to keep the System in operation and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or conditions which would otherwise impair the System Bonds or other System Obligations), and all payments (including payments of amounts equal to all or a part of the debt service on bonds issued by other political subdivisions and authorities of the State of Texas) under contracts which are now or hereafter defined for a system such as the System as operating expenses by the Legislature of Texas. Depreciation shall never be considered as a Maintenance and Operation Expense. Maintenance and Operation Expenses shall include, without limitation, all payments under contracts for the impoundment, conveyance or treatment of water or otherwise which are now or hereafter treated as operating expenses under the laws of the State of Texas and the treatment of such payments as Maintenance and Operation Expenses shall not be affected in any way if, subsequent to the entering into such contracts, the City acquires as a part of the System title to any properties or facilities used to impound, convey or treat water under such contracts, or if the City contracts to acquire title to such properties or facilities as a part of the System upon the final payment of debt service on the bonds issued to finance such properties or facilities.

"Maintenance and Operation Expenses under the Previous Ordinance" means Maintenance and Operation Expenses of the Water and Sewer System required to be paid under the Previous Ordinance.

"Master Ordinance" means the Master Bond Ordinance adopted by City Council on April 21, 2004, and all amendments thereof and supplements thereto.

"Maximum Annual Debt Service Requirements" means the greatest combined Debt Service Requirements (taking into account all mandatory principal redemption requirements) scheduled to occur in any particular future Fiscal Year or in the then current Fiscal Year for the particular System Bonds (First Lien Bonds, Second Lien Bonds, Previous Ordinance Bonds, or any combination of the foregoing) for which such calculation is made.

"mgd" means million gallons per day.

"Moody's" means Moody's Investors Service, Inc.

"Net Revenues" means (i) all Gross Revenues remaining after deducting Maintenance and Operation Expenses, plus (ii) any Restricted Receipts deposited to the Revenue Fund that may be used to pay Debt Service Requirements on System Obligations.

"NHCRWA" means the North Harris County Regional Water Authority. See "RESPONSE TO SUBSIDENCE DISTRICT REGULATION."

"Ordinance" means, collectively, the Master Ordinance, Supplemental Ordinance No. 2004-299, and all amendments thereof and supplements thereto, including specifically the Supplemental Ordinance.

"Outstanding," when used with reference to the Previous Ordinance Bonds, First Lien Bonds, Second Lien Bonds, Third Lien Obligations or Fourth Lien Obligations, as the case may be, means, as of a particular date, all such System Obligations theretofore delivered except: (a) any such obligation canceled by or on behalf of the City at or before said date; (b) any such obligation defeased pursuant to the defeasance provisions of the Previous Ordinance or a supplemental ordinance authorizing its issuance, or otherwise defeased as permitted by applicable law; and (c) any such obligation in lieu of or in substitution for which another obligation shall have been delivered pursuant to the ordinance authorizing the issuance of such obligation.

"Owner" or **"Registered Owner,"** when used with respect to any System Obligation, means the person or entity (including any entity acting as an underwriter of System Bonds) in whose name such System Obligation is registered in the Register. Any reference to a particular percentage or proportion of the Owners of the System Obligations of a particular class or series of System Bonds means the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all System Bonds or the System Obligations of such class or series then Outstanding.

"Paying Agent/Registrar" or **"Paying Agent"** for the Bonds means The Bank of New York Mellon Trust Company, N.A., and its successors in that capacity.

"Previous Ordinance" means, collectively, the City's ordinances, as amended, heretofore or hereafter adopted, that authorized the issuance of the Previous Ordinance Bonds.

"Previous Ordinance Bonds" means on any date all of the City's Water and Sewer System Junior Lien Revenue Bonds, if any, that remain Outstanding under the Previous Ordinance, including Outstanding Board Bonds.

"Previously Issued Contract Revenue Bonds" has the meaning given to such term in the section captioned "REQUIRED PAYMENTS UNDER PREVIOUS ORDINANCE."

"Qualified Hedge Agreement" means, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement, or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors, collars, or caps, options, puts, or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate, or other financial risk; and (v) any other type of contract or arrangement that the City determines is to be used, or is intended to be used, to manage or reduce the cost of any System Bonds, to convert any element of any System Bonds from one form to another, to maximize or increase investment return, to minimize investment return risk, or to protect against any type of financial risk or uncertainty (in the case of clauses (i) through (v), whether from or initiated at the option of the City or the counterparty). A Qualified Hedge Agreement may only be entered into with an institution that has long term credit ratings, or the obligations of which are unconditionally guaranteed by a financial institution with long term credit ratings, in one of the two highest generic rating categories by at least one Rating Agency then rating the System Bonds. Any obligations of the City to make scheduled payments under a Qualified Hedge Agreement shall be included within the definition of Debt Service Requirements for the series of System Bonds to which the Qualified Hedge Agreement relates. Further, obligations of the City to make payments under a Qualified Hedge Agreement derived from or resulting from a fluctuation in hedged interest rates or in the value of any index of payment shall be deemed to be payments of interest on the bonds to which the Qualified Hedge Agreement relates, and each Qualified Hedge Agreement shall be deemed to be a part of the System Bonds of the series to which it relates for the purpose of securing its payment by the pledge of Net Revenues as provided in the Master Ordinance, except that any obligation of the City to make termination payments that are not payable in installments over the remaining term of the relevant transaction or to deliver collateral shall be paid as a Third Lien Obligation or an obligation inferior and subordinate to Third Lien Obligations. However, issuers of and counterparties to Qualified Hedge Agreements shall not be treated as Owners of System Bonds for purposes of any voting rights to approve amendments under the Master Ordinance.

"Rate Covenant" has the meaning given to such term in the section captioned "SECURITY FOR THE BONDS – Rate Covenant."

"Rating Agency" means Fitch Ratings, Moody's Investors Service, Standard & Poor's, or any other nationally recognized rating agency.

"Refundable Obligations" means any series of System Obligations 25% or more of the original principal amount of which is due on any date; provided that, in calculating the principal amount of such System Obligations due or required to be redeemed, prepaid or otherwise paid on any date, such principal amount shall be reduced to the extent that all or any portion of such amount is required to be redeemed or amortized on any date.

"Register" means the registration books maintained by a Paying Agent/Registrar for System Obligations issued under a Supplemental Ordinance.

"Required Payments" means any payments required to be made under the Previous Ordinance, including without limitation (i) all payments required to be made by the City as Maintenance and Operation Expenses under the Previous Ordinance, including without limitation under outstanding contracts on the effective date of this Master

Ordinance for the impoundment, conveyance, or treatment of water or otherwise which are treated as operating expenses under the laws of the State of Texas, and (ii) all payments required to be made by the City to pay debt service requirements on Previous Ordinance Bonds in accordance with the terms of the Previous Ordinance and to comply with the reserve fund requirements of the Previous Ordinance.

"Reserve Fund Participants" means those First Lien Bonds which the City elects to fund a shared Bond Reserve Fund. Excluding the Non-Reserve Fund Participants, the City has previously elected all other outstanding First Lien Bonds are Reserve Fund Participants in the shared First Lien Bond Reserve Fund.

"Reserve Fund Requirements" means the amount required by a supplemental ordinance to be deposited, accumulated and reaccumulated and maintained in the First Lien Bond Reserve Fund, the Second Lien Bond Reserve Fund and any reserve funds created for Third Lien Obligations or Fourth Lien Obligations.

"Reserve Fund Surety Policy" means any surety bond or any insurance policy which has liquidity features equivalent to an irrevocable and unconditional letter of credit, or any irrevocable and unconditional letter of credit, deposited in a reserve fund created pursuant to the Master Ordinance in lieu of or in partial substitution for monies on deposit therein, which is rated at the time of deposit of such Reserve Fund Surety Policy in the highest rating category by each Rating Agency rating the Outstanding System Bonds to which such Reserve Fund Surety Policy relates at the time of deposit of such Reserve Fund Surety Policy.

"Restricted Receipts" means (i) revenues related to the System received by the City that pursuant to law or contractual agreements that may not be used to pay Maintenance and Operation Expenses and (ii) any interest earnings on the revenues described in clause (i) above.

"S&P" means S&P Global Ratings, a division of S&P Global Inc.

"Second Lien Bonds" means each series of Second Lien Bonds from time to time hereafter issued, but only to the extent such Second Lien Bonds remain Outstanding within the meaning of the Master Ordinance.

"Series 2024 Supplemental Ordinance" means the supplemental ordinance adopted by the City Council of the City on March 27, 2024.

"Short Term Obligations" means each series of bonds, notes and other obligations issued pursuant to a commercial paper or other similar financing program under the Master Ordinance, the payment of principal of which is scheduled to be payable within one year from the date of issuance and is contemplated to be refinanced through the issuance of additional System Obligations.

"Special Project" means, to the extent permitted by law, any existing or future utility system property, improvement or facility declared by the City not to be part of the System, for which the costs of acquisition, construction, and installation are paid from proceeds of a financing transaction other than the issuance of bonds payable from ad valorem taxes or revenues of the System and for which all maintenance and operation expenses are payable from sources other than ad valorem taxes or revenues of the System, but only to the extent that and for so long as all or any part of the revenues or proceeds of which are or will be pledged to secure the payment or repayment of such costs of acquisition, construction, and installation under such financing transaction.

"Supplemental Ordinance" means any ordinance supplementing the Master Ordinance to provide for the issuance of Bonds or other obligations authorized by the Master Ordinance.

"Surety" means a third party financial institution that provides a Reserve Fund Surety Policy.

"System" See definition for the term "Combined Utility System."

"System Bonds" means any or all of the System Obligations issued as First Lien Bonds or Second Lien Bonds, or both, as the context may indicate.

"System Obligations" means Previous Ordinance Bonds and obligations authorized pursuant to the Master Ordinance, including, without limitation, First Lien Bonds, Second Lien Bonds, Third Lien Obligations, Fourth Lien Obligations, Credit Agreements and Qualified Hedge Agreements.

"TCEQ" means the Texas Commission on Environmental Quality and any successor thereto.

"Third Lien Obligations" means System Obligations authorized by the Master Ordinance that are payable after First Lien Bonds and Second Lien Bonds.

"TRA" means the Trinity River Authority. See "REQUIRED PAYMENTS UNDER PREVIOUS ORDINANCE."

"Water and Sewer System" means all properties, facilities, improvements, equipment, interests, rights and powers constituting the water and sewer system of the City. See also the section captioned "THE CITY AND THE SYSTEM – General and the definition for "Combined Utility System."

"WHCRWA" means the West Harris County Regional Water Authority. See "RESPONSE TO SUBSIDENCE DISTRICT REGULATION."

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APPENDIX D

EXCERPTS FROM THE MASTER ORDINANCE

APPENDIX D

EXCERPTS FROM THE MASTER ORDINANCE

The following are selected provisions of the Master Ordinance. These excerpts should be qualified by reference to other portions of the Master Ordinance referred to elsewhere in this Official Statement, and all amended and restated references and summaries pertaining to the Master Ordinance in this Official Statement are separately and in whole, qualified by reference to the exact terms of the Master Ordinance, a copy of which may be obtained from the City of Houston. Unless otherwise indicated, any references to sections listed below are to sections contained in the Master Ordinance, and Section and Article headings contained in the following excerpts are to Sections and Articles contained in the Master Ordinance. As used in this APPENDIX D, the Master Ordinance is referred to herein as "this Ordinance," "System Bonds" are referred to as the "Bonds" and "System Obligations" are referred to as the "Obligations." Other defined terms used in this APPENDIX D shall have the meanings given such terms in APPENDIX C to this Official Statement, unless the context of the use of such term herein indicates otherwise.

ARTICLE III

TERMS OF THE BONDS

Section 3.1 Name.

The name, amount, purpose, and legal authorization for each series of Bonds shall be specified in the Supplemental Ordinance authorizing such series.

Section 3.2 Numbers; Date, and Denomination.

Each series of Bonds shall be numbered and dated and shall be in principal denominations as specified in the authorizing Supplemental Ordinance.

Section 3.3 Terms.

Each Series of Bonds shall bear interest from the dates and at the rates per annum and shall mature on the date or dates to be set forth in the authorizing Supplemental Ordinance. Bonds may bear interest at a fixed, variable, auction, term or commercial paper rate or any other rate provided for in the authorizing Supplemental Ordinance.

Section 3.4 Redemption Prior to Maturity.

Each Series of Bonds may be subject to redemption in the manner provided in the authorizing Supplemental Ordinance.

Section 3.5 Manner of Payment, Characteristics, Execution, and Authentication.

Each authorizing Supplemental Ordinance shall designate a Paying Agent/Registrar for such series of Bonds. The Bonds shall be payable, shall have the characteristics, shall be signed and executed, shall be sealed, and shall be authenticated, all as provided and in the manner indicated in the authorizing Supplemental Ordinance. To the extent required by Texas law, Bonds initially delivered shall also have attached or affixed thereto the registration certificate of the Comptroller of Public Accounts of the State of Texas. If any officer of the City whose manual or facsimile signature shall appear on the Bonds, as provided in the authorizing Supplemental Ordinance, shall cease to be such officer 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 officer had remained in such office.

Any portion of the text of any Bonds may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Bond. The definitive Bonds shall be printed, lithographed, engraved, or typewritten or produced by any combination of these methods, or produced in any other manner, all as determined by the officers executing such Bonds as evidenced by their execution thereof, but the initial Bonds submitted to the Attorney General of Texas may be typewritten, photocopied, or otherwise reproduced.

The approving legal opinion of Bond Counsel for the Bonds, may be printed on the back of the Bonds over the certification of the City Secretary of the City which may be executed in facsimile. CUSIP numbers and a statement of insurance, if any, also may be printed on applicable Bonds, but errors or omissions in the printing of the opinion, the numbers, or the statement of insurance shall have no effect on the validity of the Bonds.

ARTICLE IV

FORM OF BONDS

Each series of Bonds shall be in substantially the form set out in the Supplemental Ordinance, with such omissions, insertions and variations as may be permitted or required pursuant to the terms of such ordinance for each series of the Bonds (including appropriate variations required for any Bonds issued as capital appreciation bonds).

ARTICLE V

SECURITY AND SOURCE OF PAYMENT FOR ALL BONDS

Section 5.1 Pledge Securing Bonds.

The City hereby covenants and agrees that Gross Revenues of the System shall, as collected and received by the City, be deposited and paid into the special funds hereinafter established, after satisfying any requirements of the Previous Ordinance. For so long as the Previous Ordinance Bonds remain Outstanding, the City hereby covenants and agrees that gross revenues (as defined under the Previous Ordinance) shall be applied in the manner set forth in the Previous Ordinance to provide for the payment of all Required Payments, and then Gross Revenues shall be applied in the manner hereinafter set forth in order to provide for the payment of all remaining Maintenance and Operation Expenses that have not been paid as Required Payments. Net Revenues shall be applied to provide for the payment of principal of, interest on and any redemption premiums on the First Lien Bonds, any parity Obligations under Qualified Hedge Agreements and Credit Agreements, and all expenses of paying same; to provide for the payment of principal of, interest on and any redemption premiums on the Second Lien Bonds, any parity Obligations under Qualified Hedge Agreements and Credit Agreements, and all expenses of paying same; and to provide for the disposition of the remaining Net Revenues in accordance with this Ordinance. The First Lien Bonds shall constitute special obligations of the City that shall be payable solely from and shall be equally and ratably secured by a lien on the Net Revenues as collected and received by the City from the operation and ownership of the System, which Net Revenues shall, in the manner herein provided, be set aside in the First Lien Bond Interest and Sinking Fund and the First Lien Bond Reserve Fund for and pledged to the payment of the First Lien Bonds as hereinafter provided, and the First Lien Bonds shall be, in all respects, on a parity with and of equal dignity with one another. The Second Lien Bonds shall constitute special obligations of the City that shall be payable solely from and, subject only to the senior and superior lien on Net Revenue pledged to the payment of the First Lien Bonds and other obligations payable from the First Lien Bond Interest and Sinking Fund, shall be equally and ratably secured by a lien on the Net Revenues, as collected and received by the City from the operation and ownership of the System, which Net Revenues shall, in the manner herein provided, be set aside in the Second Lien Bond Interest and Sinking Fund and the Second Lien Bond Reserve Fund for and pledged to the payment of the Second Lien Bonds as hereinafter provided, and the Second Lien Bonds shall be in all respects on a parity with and of equal dignity with one another. The Owners of the First Lien Bonds and the Second Lien Bonds shall never have the right to demand payment of either the principal of, interest on or any redemption premium on the First Lien Bonds or the Second Lien Bonds out of any funds raised or to be raised by taxation. Chapter 1208, Texas Government Code, applies to the issuance and delivery of the First Lien Bonds and the Second Lien Bonds and the pledge of the Net Revenues granted under this Ordinance, and such pledge is therefore valid, effective, and perfected.

Section 5.2 Rates and Charges.

So long as any Bonds remain Outstanding, the City shall fix, charge, and collect rates and charges for the use and services of the System which are calculated to be fully sufficient to produce Net Revenues in each Fiscal Year at least equal to the greater of:

(a) 120% of the combined Debt Service Requirements scheduled to occur in such Fiscal Year on all Previous Ordinance Bonds and First Lien Bonds then Outstanding, or

(b) 110% of the combined Debt Service Requirements scheduled to occur in such Fiscal Year on all Previous Ordinance Bonds, First Lien Bonds, and Second Lien Bonds then Outstanding,

plus an amount equal to the sum of all deposits required to be made to the First Lien Bond Reserve Fund and to the Second Lien Bond Reserve Fund in such Fiscal Year; provided that in calculating the Net Revenues required by paragraphs (a) and (b) above all or any portion of such Net Revenues that exceed 100% of the combined Debt Service Requirements may be attributed to amounts on deposit in the CUS General Purpose Fund that are available to pay Debt Service Requirements pursuant to Section 5.9(c) of this Ordinance, and provided further that in no event shall Net Revenues ever be less than the amount required to establish and maintain the First Lien Bond Interest and Sinking Fund and the First Lien Bond Reserve Fund as hereinafter provided, to establish and maintain the Second Lien Bond Interest and Sinking Fund and the Second Lien Bond Reserve Fund as hereinafter provided and, to the extent that funds for such purpose are not otherwise available, to pay all other Outstanding Obligations payable from the Net Revenues of the System, including all amounts owed as a repayment obligation by the City pursuant to a Reserve Fund Surety Policy or a Credit Agreement, as and when the same become due.

Effective for monthly billing cycles for the System commencing on April 1, 2005 and on April 1 of each year thereafter and subject to the terms of existing contracts, the requirements of the immediately preceding paragraph of this Section 5.2, applicable Texas law and the authority of the City Council of the City to adopt other rates and charges, rates and charges for the use and services of the System shall be adjusted based on the percentage change (if any) in the Designated Index or other appropriate index for the preceding calendar year. The calculation required by this Section 5.2 shall be made annually at the time City's Annual Budget for the System is adopted and shall be included in the Annual Budget for the System.

Section 5.3 Special Funds.

The following special Funds shall be established, maintained and accounted for on the books of the City as hereinafter provided so long as any of the Bonds or other Obligations remain Outstanding:

(a) Revenue Fund;

(b) First Lien Bond Interest and Sinking Fund;

(c) First Lien Bond Reserve Fund;

(d) Second Lien Bond Interest and Sinking Fund;

(e) Second Lien Bond Reserve Fund;

(f) Third Lien Obligation Interest and Sinking Fund;

(g) Third Lien Obligation Reserve Fund (if and when required);

(h) Fourth Lien Obligation Interest and Sinking Fund (if and when required);

(i) Fourth Lien Obligation Reserve Fund (if and when required);

(j) Interest and Sinking Funds and Reserve Funds for any additional Obligations that will be junior and subordinate to Fourth Lien Obligations (if and when required); and

(k) CUS General Purpose Fund.

All of such Funds shall be maintained as separate accounts on the books of the City. The First Lien Bond Interest and Sinking Fund and the First Lien Bond Reserve Fund shall constitute trust funds which shall be held in trust for the Owners of the First Lien Bonds (and parity Obligations, if any, under Qualified Hedge Agreements and Credit Agreements) and the proceeds of which (except for interest income, which shall be transferred to the Revenue Fund) shall be pledged to the payment of the First Lien Bonds and such parity Obligations. The Second Lien Bond Interest and Sinking Fund and the Second Lien Bond Reserve Fund shall constitute trust funds which shall be held in trust for the benefit of the Owners of the Second Lien Bonds (and parity Obligations, if any, under Qualified Hedge Agreements and Credit Agreements) and the proceeds of which (except for interest income, which shall be transferred to the Revenue Fund) shall be and are hereby pledged to the payment of the Second Lien Bonds and such parity Obligations. All of the Funds named above shall be used solely as herein provided so long as any First Lien Bonds or Second Lien Bonds or such parity Obligations remain Outstanding. The City reserves the right to establish, maintain, and account for on the books of the City such additional funds and accounts as may be necessary or desirable in the efficient administration of the System and flow of funds governing all Outstanding Obligations.

Section 5.4 Flow of Funds.

After making any Required Payments in accordance with the terms of the Previous Ordinance, Gross Revenues of the System shall be deposited as collected into the Revenue Fund and shall be applied (i) to pay Maintenance and Operation Expenses, to the extent not already paid, and (ii) to establish and maintain an operating reserve equal to two month's budgeted Maintenance and Operation Expenses. The remaining balance, together with Restricted Receipts, shall be applied in the following manner and in the following order of priority:

(a) First, to make all deposits into the First Lien Bond Interest and Sinking Fund required by Section 5.5 hereof or any Supplemental Ordinance authorizing the issuance of First Lien Bonds;

(b) Second, to make all deposits into the First Lien Bond Reserve Fund required by Section 5.6 hereof or any Supplemental Ordinance authorizing the issuance of First Lien Bonds;

(c) Third, to make all deposits into the Second Lien Bond Interest and Sinking Fund required by Section 5.7 hereof or any Supplemental Ordinance authorizing the issuance of Second Lien Bonds;

(d) Fourth, to make all deposits into the Second Lien Bond Reserve Fund required by Section 5.8 hereof or any Supplemental Ordinance authorizing the issuance of Second Lien Bonds;

(e) Fifth, to make all payments and deliveries, as may be required by any Supplemental Ordinance of the City authorizing the issuance of certain Third Lien Obligations authorized by Section 6.3 hereof, in order to provide for the payment of and security for such Third Lien Obligations;

(f) Sixth, to make all payments and deliveries, as may be required by any Supplemental Ordinance of the City authorizing the issuance of certain Fourth Lien Obligations described in Section 6.3 hereof, in order to provide for the payment of and security for such Fourth Lien Obligations; and

(g) Seventh, to deposit any remaining Net Revenues into the CUS General Purpose Fund.

Section 5.5 First Lien Bond Interest and Sinking Fund.

On or before the last Business Day immediately preceding (i) an Interest Payment Date so long as any First Lien Bonds remain Outstanding, and (ii) any date when any payments are due and payable under a Qualified Hedge Agreement relating to First Lien Bonds, there shall be transferred into the First Lien Bond Interest and Sinking Fund from the Revenue Fund the following amounts:

(a) Such amounts as will be sufficient to pay the amount of interest scheduled to become due on the First Lien Bonds on such Interest Payment Date; plus

(b) Such amounts, if any, as will be sufficient to pay the amount of principal of the First Lien Bonds due on such Interest Payment Date, including the principal amounts of, and any redemption premiums on, any First Lien Bonds payable as a result of the operation or exercise of any mandatory or optional redemption provision contained in any Supplemental Ordinance authorizing the issuance of First Lien Bonds; plus

(c) Such amounts, if any, as shall be necessary to pay fees, charges, and other amounts payable to any and all of the Paying Agent/Registrar, and any auction agent, market agent, broker/dealer, remarketing agent, Credit Agreement provider, or Qualified Hedge Agreement provider which, by the terms of their agreements with the City, are payable from the First Lien Bond Interest and Sinking Fund.

Moneys credited to the First Lien Bond Interest and Sinking Fund shall be used solely for the purpose of paying interest on, principal (at maturity or prior redemption or to purchase First Lien Bonds issued as term bonds in the open market to be credited against mandatory redemption requirements) of and redemption premiums on the First Lien Bonds, plus all fees, charges, and other amounts payable to any and all of the Paying Agent/Registrar, and any auction agent, market agent, broker/dealer, remarketing agent, Credit Agreement provider, or Qualified Hedge Agreement provider which, by the terms of their agreements with the City, are payable from the First Lien Bond Interest and Sinking Fund. On or before each date principal becomes due and/or Interest Payment Date on the First Lien Bonds, the City shall transfer from the First Lien Bond Interest and Sinking Fund to the Paying Agent/Registrar in immediately available funds an amount equal to the principal and interest payable on the First Lien Bonds on such date.

Section 5.6 First Lien Bond Reserve Fund.

On or before the last Business Day of each month so long as any First Lien Bonds that are Reserve Fund Participants remain Outstanding, there shall be transferred into the First Lien Bond Reserve Fund from the Revenue Fund amounts equal to one-sixtieth (1/60th) of the Reserve Fund Requirements for the First Lien Bonds unless or until there has been accumulated in the First Lien Bond Reserve Fund money and investments in an aggregate amount at least equal to the Reserve Fund Requirements for the First Lien Bonds; provided that additional deposits into the First Lien Bond Reserve Fund sufficient to provide for the increased Reserve Fund Requirement resulting from the issuance of any Additional First Lien Bonds that are Reserve Fund Participants shall be made by not later than 60 months from the date of issuance of such Additional First Lien Bonds. After such amount has accumulated in the First Lien Bond Reserve Fund and so long thereafter as such Fund contains such amount, no further deposits shall be required to be made into the First Lien Bond Reserve Fund, and any excess amounts in such Fund may be transferred to the Revenue Fund. But if and whenever the balance in the First Lien Bond Reserve Fund is reduced below such amount, monthly deposits into such Fund shall be resumed and continued in amounts at least equal to one-sixtieth (l/60th) of the Reserve Fund Requirements on the First Lien Bonds until the First Lien Bond Reserve Fund has been restored to such amount. The First Lien Bond Reserve Fund shall be used to pay the principal of and interest on the First Lien Bonds that are Reserve Fund Participants (and parity Obligations, if any, under Qualified Hedge Agreements and Credit Agreements) at any time when there is not sufficient money available in the First Lien Bond Interest and Sinking Fund for such purpose and it may be used finally to pay and retire the last First Lien Bonds that are Reserve Fund Participants to mature or be redeemed.

The requirements of the immediately preceding paragraph of this Section notwithstanding, the City may provide a Reserve Fund Surety Policy issued in amounts equal to all or part of the Reserve Fund Requirements on the First Lien Bonds that are Reserve Fund Participants in lieu of depositing cash into the First Lien Bond Reserve Fund. In the event a Reserve Fund Surety Policy issued to satisfy all or a part of the City's obligation with respect to the First Lien Bond Reserve Fund causes the amount then on deposit in the First Lien Bond Reserve Fund to exceed the Reserve Fund Requirements on all First Lien Bonds, the City may transfer such excess amount to any fund or funds established for the payment of or security for First Lien Bonds, the Second Lien Bonds, or any Third Lien Obligations or Fourth Lien Obligations (including any escrow established for the final payment of any such Obligations preceding an Interest Payment Date pursuant to Chapter 1207, Texas Government Code), or to the CUS General Purpose Fund.

Section 5.7 Second Lien Bond Interest and Sinking Fund.

On or before the last business day immediately preceding (i) an Interest Payment Date, so long as any Second Lien Bonds remain Outstanding, and (ii) on any date when any payment is due and payable under a Qualified Hedge Agreement relating to Second Lien Bonds, there shall be transferred into the Second Lien Bond Interest and Sinking Fund from the Revenue Fund the following amounts:

(a) such amounts as will be sufficient to pay the amount required to pay the amount of interest scheduled to become due on the Second Lien Bonds on such Interest Payment Date; plus

(b) such amounts, if any, as will be sufficient to pay the amount of the next maturing principal of the Second Lien Bonds due on such Interest Payment Date, including the principal amounts of, and any redemption premiums on, any Second Lien Bonds payable as a result of the operation or exercise of any mandatory or optional redemption provision contained in any Supplemental Ordinance authorizing the issuance of Additional Second Lien Bonds; plus

(c) such amounts, if any, shall be necessary to pay fees, charges, and other amounts payable to any and all of the Paying Agent/Registrar, and any auction agent, market agent, broker/dealer, remarketing agent, Credit Agreement provider, or Qualified Hedge Agreement provider which, by the terms of their agreements with the City, are payable from the Second Lien Bond Interest and Sinking Fund.

Moneys credited to the Second Lien Bond Interest and Sinking Fund shall be used solely for the purpose of paying interest on, principal (at maturity or prior redemption or to purchase Second Lien Bonds issued as term bonds in the open market to be credited against mandatory redemption requirements) of and redemption premiums on the Second Lien Bonds, plus all fees, charges, and other amounts payable to any and all of the Paying Agent/Registrar, and any auction agent, market agent, broker/dealer, remarketing agent, Credit Agreement provider, or Qualified Hedge Agreement provider which, by the terms of their agreements with the City, are payable from the Second Lien Bond Interest and Sinking Fund. On or before each principal becomes due and/or Interest Payment Date on the Second Lien Bonds, the City shall transfer from the Second Lien Bond Interest and Sinking Fund to the Paying Agent/Registrar in immediately available funds an amount equal to the principal and interest payable on the Second Lien Bonds on such date.

The Paying Agent/Registrar shall totally destroy all paid Second Lien Bonds and shall provide the City with an appropriate certificate of destruction.

Section 5.8 Second Lien Bond Reserve Fund.

On or before the last Business Day of each month so long as any Second Lien Bonds that are Reserve Fund Participants remain Outstanding, there shall be transferred into the Second Lien Bond Reserve Fund from the Revenue Fund amounts equal to at least one-sixtieth (1/60th) of the Reserve Fund Requirements for the Second Lien Bonds unless or until there has been accumulated in the Second Lien Bond Reserve Fund money and investments in an aggregate amount at least equal to the Reserve Fund Requirements for the Second Lien Bonds; provided that additional deposits into the Second Lien Bond Reserve Fund sufficient to provide for the increased Reserve Fund Requirements resulting from the issuance of any Additional Second Lien Bonds that are Reserve Fund Participants shall be made by not later than 60 months from the date of issuance of such Additional Second Lien Bonds. After such amount has accumulated in the Second Lien Bond Reserve Fund and so long thereafter as such Fund contains such amount, no further deposits shall be required to be made into the Second Lien Bond Reserve Fund, and any excess amounts in the Fund may be transferred to the Revenue Fund. But if and whenever the balance in the Second Lien Bond Reserve Fund is reduced below such amount, monthly deposits into such Fund shall be resumed and continued in amounts at least equal to one-sixtieth (1/60th) of the Reserve Fund Requirements on the Second Lien Bonds until the Second Lien Bond Reserve Fund has been restored to such amount. The Second Lien Bond Reserve Fund shall be used to pay the principal of and interest on the Second Lien Bonds that are Reserve Fund Participants (and parity Obligations, if any, under Qualified Hedge Agreements and Credit Agreements) at any time when there is not sufficient money available in the Second Lien Bond Interest and Sinking Fund for such purpose and it may be used finally to pay and retire the last Second Lien Bonds that are Reserve Fund Participants to mature or be redeemed.

The requirements of the immediately preceding paragraph of this Section notwithstanding, the City may provide a Reserve Fund Surety Policy issued in amounts equal to all or part of the Reserve Fund Requirements on the Second Lien Bonds that are Reserve Fund Participants in lieu of depositing cash into the Second Lien Bond Reserve Fund. In the event a Reserve Fund Surety Policy issued to satisfy all or a part of the City's obligation with respect to the Second Lien Bond Reserve Fund causes the amount then on deposit in the Second Lien Bond Reserve Fund to exceed the Reserve Fund Requirements on all Second Lien Bonds, the City may transfer such excess amount to any fund established for the payment of or security for First Lien Bonds, the Second Lien Bonds, or any Third Lien Obligations or Fourth Lien Obligations (including any escrow established for the final payment of any such obligations pursuant to Chapter 1207, Texas Government Code), or to the CUS General Purpose Fund.

Section 5.9 CUS General Purpose Fund.

Subject to the payment to the provider of a Reserve Fund Surety Policy of any interest on amounts advanced and any expenses incurred under the Reserve Fund Surety Policy required to be paid pursuant to an agreement between the City and the provider of such Reserve Fund Surety Policy, and subject to the provisions of Sections 5.5, 5.6, 5.7, and 5.8 hereinabove in this Article, from any moneys remaining in the Revenue Fund, at least annually within 90 days following the end of each Fiscal Year, there shall be set aside and credited to the CUS General Purpose Fund, the remaining revenues in the Revenue Fund. Moneys accounted for in the CUS General Purpose Fund, subject to any limitations herein or in any other contract pertaining to such account, may be withdrawn in any priority for any one, all, or any combination of the following:

(a) Capital Costs. To pay the costs of constructing or otherwise acquiring any betterments of, enlargement of, extensions of, or any other improvements to the System, or any part thereof, and any equipment therefor, authorized by law;

(b) Major Maintenance Costs. To pay the costs of extraordinary and major repairs, renewals, replacements, or maintenance items pertaining to any properties of the System of a type not recurring annually or at shorter intervals and not paid as Maintenance and Operation Expenses;

(c) Debt Service Requirements. To pay any Bonds or other Obligations or securities pertaining to the System and payable from Net Revenues (regardless of whether such securities are secured by a lien thereon), as to Debt Service Requirements and any other appurtenant charge pertaining to such Debt Service Requirements on any Interest Payment Date, or any redemption date or redemption dates, or by purchase in the open market, or by creating an escrow to provide for the payment of or to defease such Bonds, other Obligations or securities or otherwise;

(d) Legal Obligations. To pay any obligations pertaining to the System and arising from a judgment against the City or any officer, employee, or other agent of the City acting within the scope of his official duties, rights, or privileges, or the scope of his employment, as the case may be, in any suit, action, or special proceedings in equity or at law, in any court of competent jurisdiction, or a settlement by the City of any claim to avoid or to settle such a suit, action, or special proceedings, except to the extent revenues are otherwise available to defray such an obligation, including, without limitation, insurance proceeds, or to pay any penalties, fines, settlements or other amounts required to be paid by the City as a result of federal or state administrative proceedings relating to the System;

(e) Assumed and Other Obligations. To pay any bonds or other obligations assumed by the City which were issued or incurred by water districts annexed and dissolved by the City, which bonds or other obligations are by their own terms secured in whole or in part by a pledge of water or sewer revenues which did not terminate upon the annexation and dissolution of such water districts, and other bonds or obligations issued or assumed by the City for combined utility system purposes which are payable from ad valorem taxes or sources other than the First Lien Bond Interest and Sinking Fund, the First Lien Bond Reserve Fund, the Second Lien Bond Interest and Sinking Fund, or the Second Lien Bond Reserve Fund;

(f) Lawful System Purposes. For any other lawful purpose of the System as the City may determine; and

(g) Drainage Purposes. For planning, design, construction, regulation, improvement, repair, maintenance, and operation of facilities and programs relating to the system or network of storm water management facilities including, but not limited to, inlets, conduits, manholes, channels, ditches, drainage easements, retention and detention basin, infiltration facilities, and other components, including, without limitation, the costs of developing, implementing, and enforcing a storm water management program to reduce the discharge of pollutants from the City's storm sewer system and protect water quality, and the costs related to obtaining, renewing, or maintaining any required permits related to the operation of the storm sewer system, and also including payment of debt service on bonds, notes, or other obligations issued for the purposes listed in this paragraph (g); provided that the aggregate amount withdrawn from the CUS General Purpose Fund pursuant to this paragraph (g) during any Fiscal Year shall not exceed 8% of the Gross Revenues of the System for the immediately preceding Fiscal Year.

Section 5.10 Application of CUS General Purpose Fund.

Moneys shall be withdrawn from the CUS General Purpose Fund for any one, all, or other combination of such purposes designated in Section 5.9 hereof in the same manner that other claims against the System are presented and paid. Amounts in the CUS General Purpose Fund at the beginning of a Fiscal Year which are deposited into the Revenue Fund in that Fiscal Year are Gross Revenues for the Fiscal Year in which such amounts are deposited into the Revenue Fund.

Section 5.11 Investment of Funds; Transfer of Investment Income.

(a) Money in the Revenue Fund, the First Lien Bond Interest and Sinking Fund, the First Lien Bond Reserve Fund, the Second Lien Bond Interest and Sinking Fund, the Second Lien Bond Reserve Fund, and the CUS General Purpose Fund may, at the option of the City, be invested in investments as permitted by state law, consistent with the City's investment policy; provided that all such deposits and investments shall be made in such manner that the money required to be expended from any Fund will be available at the proper time or times, and provided further that in no event shall such deposits or investments of moneys in the First Lien Bond Reserve Fund or the Second Lien Bond Reserve Fund mature later than the final maturity date of the First Lien Bonds or the Second Lien Bonds, as the case may be. All such investments shall be valued in terms of current market value no less frequently than the last Business Day of the City's Fiscal Year, except that any direct obligations of the United States of America - State and Local Government Series may be continuously valued at their par value or principal face amount. Any obligation in which money is so invested shall be kept and held in an official depository of the City, except as hereinafter provided. For purposes of maximizing investment returns, money in such funds may be invested, together with money in other funds or with other money of the City, in common investments of the kind described above, or in a common pool of such investments which shall be kept and held at an official depository of the City, which shall not be deemed to be or constitute a commingling of such money or funds provided that safekeeping receipts or certificates of participation clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such fund are held by or on behalf of each such fund. If necessary, such investments shall be promptly sold to prevent any default.

(b) All interest and income derived from such deposits and investments shall be credited to the Revenue Fund monthly, and shall constitute Gross Revenues of the System.

Section 5.12 Security for Uninvested Funds.

So long as any Bonds remain Outstanding, all uninvested moneys on deposit in, or credited to, the Revenue Fund, the First Lien Bond Interest and Sinking Fund, the First Lien Bond Reserve Fund, the Second Lien Bond Interest and Sinking Fund, the Second Lien Bond Reserve Fund, and the CUS General Purpose Fund shall be secured by the pledge of security as provided by law for cities in the State of Texas.

Section 5.13 <u>Reservation of Right to Issue Board Bonds on a Parity with Previous Ordinance Bonds</u>.

The City reserves the right to issue Board Bonds at any time and from time to time to the Texas Water Development Board on a parity with the Previous Ordinance Bonds, anything in this Ordinance or any Supplemental Ordinance to the contrary notwithstanding. Except for the right to issue the Board Bonds, the City hereby covenants and agrees not to issue any bonds or other obligations under the terms of the Previous Ordinance.

ARTICLE VI

ADDITIONAL BONDS AND OTHER OBLIGATIONS

Section 6.1 <u>Additional First Lien Bonds and Additional Second Lien Bonds</u>.

The City reserves the right to issue, for any lawful System purpose, including the refunding of any previously issued First Lien Bonds, Second Lien Bonds, Previous Ordinance Bonds, or any other bonds or obligations of the City issued in connection with the System or payable from Net Revenues, or to pay obligations incurred under or pursuant to any Credit Agreement or Qualified Hedge Agreement, one or more series of (i) Additional First Lien Bonds on a parity with the Outstanding First Lien Bonds payable from, and secured by a first lien on, the Net Revenues of the System senior and superior to the lien securing the Second Lien Bonds; and (ii) Additional Second Lien Bonds on a parity with the Outstanding Second Lien Bonds; provided, however, that no Additional First Lien Bonds or Additional Second Lien Bonds may be issued unless:

(a) The First Lien Bond Reserve Fund (and, for the issuance of Additional Second Lien Bonds, the Second Lien Bond Reserve Fund) each contains the amount of money then required to be on deposit therein;

(b) For either the preceding Fiscal Year or any consecutive 12-month period out of the 18-month period immediately preceding the month in which the Supplemental Ordinance authorizing such Additional First Lien Bonds or Additional Second Lien Bonds, as the case may be, is adopted (the "Base Period") either:

(1) Net Revenues are certified by the City Controller of the City to have been equal to not less than the greater of (A) 120% of the combined Maximum Annual Debt Service Requirements on all First Lien Bonds and any Previous Ordinance Bonds or (B) 110% of the combined Maximum Annual Debt Service Requirements on all First Lien Bonds, Second Lien Bonds, and any Previous Ordinance Bonds, after giving effect to the issuance of the Additional First Lien Bonds or Additional Second Lien Bonds to be issued; or

(2) Net Revenues, adjusted to give effect to any rate increase, new customers, or annexation of territory placed into effect or consummated prior to the adoption of the ordinance authorizing the Additional First Lien Bonds or Additional Second Lien Bonds, as the case may be, to the same extent as if such rate increase, new customers, or annexation had been placed into effect or consummated prior to the commencement of the Base Period, would have been equal to at least the greater of (A) or (B) in paragraph (1) above, as certified by an independent consulting engineer or independent firm of consulting engineers;

provided that all or any portion of the Net Revenues required by clauses (1) and (2) of paragraph (b) above that exceed 100% of the Maximum Annual Debt Service Requirements may be attributed to amounts on deposit in the CUS General Purpose Fund that are available to pay Debt Service Requirements pursuant to Section 5.9(c) of this Ordinance; provided, further, that this requirement shall not apply to the issuance of any series of Additional Second Lien Bonds for the purpose of refunding Outstanding First Lien Bonds, or to the issuance of any series of Additional First Lien Bonds or Additional Second Lien Bonds for refunding purposes, that will not have the result of increasing the Average Annual Debt Service Requirements on the First Lien Bonds or the Second Lien Bonds; and

(c) Provision is made in the Supplemental Ordinance authorizing the Additional First Lien Bonds or Additional Second Lien Bonds then proposed to be issued for (1) additional payments into the First Lien Bond Interest and Sinking Fund or Second Lien Bond Interest and Sinking Fund, as the case may be, sufficient to provide for the payment of the increased principal of and interest on the First Lien Bonds or Second Lien Bonds resulting from the issuance of such Additional First Lien Bonds or Additional Second Lien Bonds, and (2) additional payments into the First Lien Bond Reserve Fund or Second Lien Bond Reserve Fund, as the case may be, sufficient to provide for the accumulation therein of the increased Reserve Fund Requirements resulting from the issuance of such Additional First Lien Bonds or Additional Second Lien Bonds, by not later than 60 months from the date of issuance of such Additional First Lien Bonds or Additional Second Lien Bonds.

(d) Special Provisions for Refunding Short Term Obligations. The provisions of paragraph (b) above shall not apply to the issuance of Additional First Lien Bonds for the purpose of refunding Short Term Obligations issued as First Lien Bonds or the issuance of Additional Second Lien Bonds for the purpose of refunding Short Term Obligations issued as First Lien Bonds or Second Lien Bonds.

(e) Special Provisions for Credit Agreements. The City may enter into Credit Agreements with respect to any Bonds or Qualified Hedge Agreements if:

(i) prior to entering into such Credit Agreement, the City, to the extent required by law, shall cause the proceedings authorizing the Credit Agreement and any contracts or reimbursement agreements relating thereto to be submitted to and approved by the Attorney General of Texas; and

(ii) for any Credit Agreement that obligates the City to make any future payments for the availability of such Credit Agreement, the City's financial advisor must certify in a written certificate delivered to the City that the inclusion of such payments within the Debt Service Requirements on the Bonds or Qualified Hedge Agreement to which the Credit Agreement relates will not cause such Bonds or Qualified Hedge Agreement to fail to comply with the applicable coverage requirements for their issuance or incurrence; and

The issuer of any Credit Agreement shall be entitled to be subrogated to the rights of the Owners of the Bonds or the counterparty to the Qualified Hedge Agreement secured by such Credit Agreement, and the City's reimbursement and repayment obligations to the issuer of the Credit Agreement shall be secured by Net Revenues as herein provided.

(f) Special Provisions for Qualified Hedge Agreements. The City may enter into Qualified Hedge Agreements in connection with any Bonds for any purpose authorized by law if the following requirements are satisfied:

(i) the proceedings authorizing the Qualified Hedge Agreement and any contracts or reimbursement agreements relating thereto shall, to the extent required by law, be submitted to and approved by the Attorney General of Texas; and

(ii) the City's financial advisor shall certify in a written certificate delivered to the City that the Bonds to which the Qualified Hedge Agreement relates could have been issued in satisfaction of all of the coverage requirements of this Article Six if the Debt Service Requirements with respect to such Bonds are recalculated (as provided in the definition of Debt Service Requirements) to take into account the Qualified Hedge Agreement.

Section 6.2 Short Term Obligations.

The City reserves the right to issue, from time to time, one or more series of Additional First Lien Bonds and/or Additional Second Lien Bonds in accordance with Section 6.1 hereof as Short Term Obligations.

Section 6.3 Third Lien Obligations and Fourth Lien Obligations.

The City reserves the right to issue, for any lawful purpose, Third Lien Obligations secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the liens on Net Revenues securing payment of the First Lien Bonds and the Second Lien Bonds. The City also reserves the right to issue Fourth Lien Obligations secured in whole or in part by liens on Net Revenues that are junior and subordinate to the liens on Net Revenues securing payment of First Lien Bonds, Second Lien Bonds, and Third Lien Obligations.

Section 6.4 Supplemental Ordinance.

Bonds payable from Net Revenues shall be issued only after authorization thereof by a Supplemental Ordinance stating the purpose or purposes of the issuance of such additional Bonds, directing the application of the proceeds thereof to such purpose or purposes, directing the execution and authentication thereof, and fixing and determining the date, principal amount, maturity or maturities, designation, and numbers thereof, the maximum rate or the rate or rates of interest to be borne thereby, any prior redemption privileges of the City with respect thereto, and other provisions thereof. Upon such authorization such additional Bonds may at one time or from time to time be executed by and on behalf of the City and authenticated and delivered by the City or upon its order. All additional Bonds shall bear such date, shall bear such numbers and series designation, letters, or symbols prefixed to their numbers distinguishing them from each other security, shall be payable at such place or places, may be subject to redemption prior to maturity on such terms and conditions, and shall bear interest at such rate or at such different or varying rates per annum, as may be fixed by ordinance or other document of the City. Third Lien Obligations, Fourth Lien Obligations, Qualified Hedge Agreements, and Credit Agreements shall be issued pursuant to Supplemental Ordinances or pursuant to separate ordinances that shall provide for the timing of transfer from the Revenue Fund to the debt service funds and reserve funds, if any, established for such Obligations consistent with the order of priority set forth in Section 5.4 hereof.

Section 6.5 Special Project Obligations.

The City reserves the right to issue other obligations secured by liens on and pledges of revenues and proceeds derived from Special Projects.

ARTICLE VII

COVENANTS AND PROVISIONS RELATING TO BONDS AND OTHER OBLIGATIONS

Section 7.1 Punctual Payment of Bonds and Other Obligations.

The City covenants that it will punctually pay or cause to be paid the interest on and principal of all Bonds and other Obligations according to the terms thereof and will faithfully do and perform, and at all times fully observe, any and all covenants, undertakings, stipulations and provisions contained in this Ordinance and in any Supplemental Ordinance authorizing the issuance of such Bonds and other Obligations.

Section 7.2 Power to Own and Operate System; Ratemaking Power.

The City covenants that it currently owns the System and has all necessary power and authority to own and operate the System as herein described and provided and that it possesses, and shall exercise, all necessary power and authority to establish, fix, increase, impose and collect rates and charges for the use and services of the System in the amounts required to comply with the covenants and provisions contained herein.

Section 7.3 Maintenance of System.

So long as any Bonds or other Obligations remain Outstanding, the City covenants that it will at all times maintain the System, or within the limits of its authority cause the same to be maintained, in good condition and working order and will operate the same, or cause the same to be operated, in an efficient and economical manner at a reasonable cost and in accordance with sound business principles. In operating and maintaining the System, the City will comply with all contractual provisions and agreements entered into by it and with all valid rules, regulations, directions or orders of any governmental, administrative or judicial body promulgating same, noncompliance with which would materially and adversely affect the operation of the System.

Section 7.4 Sale or Encumbrance of System.

So long as any Bonds remain Outstanding, the City covenants that it will not sell, dispose of or, except as permitted in Article VI, further encumber the System; provided, however, that this provision shall not prevent the City from disposing of any portion of the System which is being replaced or is deemed by the City to be obsolete, worn out, surplus or no longer needed for the proper operation of the System. Net proceeds from any such disposition may be deposited in the CUS General Purpose Fund. Any agreement pursuant to which the City contracts with a person, corporation, municipal corporation, political subdivision or other entity to operate the System or to lease and/or operate or to lease and lease back to the City all or part of the System shall not be considered as an encumbrance of the System.

Section 7.5 Insurance.

The City covenants that it will keep the System insured with insurers of good standing against risks, accidents or casualties against which and to the extent customarily insured against by political subdivisions of the State of Texas operating similar properties, to the extent that such insurance is available. All net proceeds of such insurance may be applied to repair or replace the insured property that is damaged or destroyed, or may be deposited in the CUS General Purpose Fund. The cost of all such insurance, together with any additional insurance, shall be a part of the Maintenance and Operation Expenses.

Section 7.6 Accounts, Records, and Audits.

So long as any Bonds or other Obligations remain Outstanding, the City covenants that it will maintain a proper and complete system of records and accounts pertaining to the operation of the System in which full, true and proper entries will be made of all dealings, transactions, business and affairs which in any way affect or pertain to the System or the Gross Revenues or the Net Revenues thereof. The City shall after the close of each Fiscal Year prepare financial statements of the System, and have those financial statements audited by an independent certified public accountant or independent firm of certified public accountants. After the audit, the City shall furnish a copy of these audited financial statements, together with the independent certified public accountant's report thereon, without cost, to the Municipal Advisory Council of Texas, each Rating Agency then rating the Bonds, the Texas Water Development Board, and any Owners of Bonds who shall request the same. All expenses incurred in preparing such audits shall be Maintenance and Operation Expenses.

Section 7.7 Competition.

To the extent it legally may, the City covenants that it will not grant any franchise or permit for the acquisition, construction or operation of any competing facilities which might be used as a substitute for the System and will prohibit the operation of any such competing facilities to the extent that such competing facilities would impair the City's ability to pay principal of or interest on the Bonds or other Obligations.

Section 7.8 Pledge and Encumbrance of Net Revenues.

The City covenants that it has the lawful power to create a lien on and to pledge the Net Revenues to secure the payment of the Obligations, and has lawfully exercised such power under the Constitution and laws of the State of Texas. The City further covenants that, other than to the payment of the Obligations, the Net Revenues are not and will not be made subject to any other lien, pledge or encumbrance to secure the payment of any debt or obligation of the City, unless such lien, pledge or encumbrance is junior and subordinate to the lien and pledge securing payment of the Obligations.

Section 7.9 Covenants with Respect to Certain Assumed Water District Bonds.

So long as any Bonds or other Obligations remain Outstanding, the City covenants as follows:

(a) To the extent it legally may, the City will impose, and strictly enforce, the requirement upon all water districts located within the City's extraterritorial jurisdiction that any bonds or obligations issued or incurred by such water districts which are secured in whole or in part by pledges of or liens on water or sewer revenues shall provide that all such pledges of and liens on water or sewer revenues shall automatically terminate upon the annexation and dissolution of the district by the City;

(b) The City shall use its best efforts to redeem, refund, or defease all annexed water district bonds assumed by the City which by their own terms are secured in whole or in part by pledges of or liens on water or sewer revenues which do not terminate upon annexation and dissolution by the City of such water district, or otherwise to provide for the discharge of such pledges or liens on water or sewer revenues; and

(c) Pursuant to Section 43.075, Texas Local Government Code, the City shall, unless it has theretofore made adequate provision for the payment thereof, annually levy and cause to be collected taxes upon all taxable property of the City sufficient to pay principal of and interest, as they respectively become due and payable, on all assumed bonds, warrants and other obligations that were issued by water districts that have been annexed to, and dissolved by, the City, and which are by their own terms secured in whole or in part by a lien on or pledge of water or sewer revenues which did not terminate upon the annexation and dissolution by the City of such water district.

Section 7.10 Bondholders Rights and Remedies.

This Ordinance shall constitute a contract between the City and the Owners of the Bonds from time to time Outstanding and this Ordinance shall be and remain irrepealable until the Bonds and the interest thereon shall be fully paid or discharged or provision therefor shall have been made as provided herein. In the event of a default in the payment of the principal of or interest on any of the Bonds or a default in the performance of any duty or covenant provided by law or in this Ordinance, the Owner or Owners of any of the Bonds may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any Owner of any of the Bonds may at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance of all duties required to be performed by the City under this Ordinance, including the making and collection of reasonable and sufficient rates and charges for the use and services of the System, the deposit of the revenues thereof into the special funds herein provided, and the application of such revenues in the manner required in this Ordinance. A Supplemental Ordinance may provide that, so long as an issuer of a municipal bond insurance policy shall not have defaulted in its payment obligations under such policy with the City insuring a portion of the Bonds, such issuer shall, under the terms of this Ordinance, at all times be deemed to be the exclusive owner of such Bonds for the purpose of all approvals, consents, waivers or institutions of any action and the direction of all remedies.

Section 7.11 Defeasance.

The City may defease the provisions of this Ordinance and discharge its obligation to the Owners of any or all of the Bonds or other Obligations to pay principal, interest and redemption premium, if any, thereon in any manner permitted by law, including by depositing with the Paying Agent/Registrar, or if authorized by Texas law with any national or state bank having trust powers and having combined capital and surplus of at least $50 million or with the Comptroller of Public Accounts of the State of Texas (or any successor office) either: (a) cash in an amount equal to the principal amount and redemption premium, if any, of such Bonds or other Obligations plus interest thereon to the date of maturity or redemption, or (b) pursuant to an escrow or trust agreement, cash and/or securities authorized by § 1207.062 of the Texas Government Code, as amended at the time of issuance of such series of Bonds or Obligations. Such deposits may be invested only in obligations described above that are in principal amounts and maturities and bear interest at rates sufficient to provide for the timely payment of the principal amount and redemption premium, if any, of such Bonds or other Obligations plus interest thereon to the date of maturity or redemption. Upon such deposit and upon receipt of an opinion of nationally recognized bond counsel to the effect that such Bonds or Obligations are deemed to be fully paid and are no longer outstanding, such Bonds or other Obligations shall no longer be regarded to be Outstanding or unpaid. Any surplus amounts not required to accomplish such defeasance shall be returned to the System after the Obligations are retired. Payments of principal of and interest on any Bonds or other Obligations made by a provider of a Credit Agreement insuring a portion of the Bonds or other Obligations shall not be deemed to have been paid hereunder and such Bonds or other Obligations shall continue to be Outstanding until paid by the City.

Section 7.12 Amendment of Ordinance Without Consent.

The City may, without the consent of or notice to any of the Owners, amend this Ordinance and any Supplemental Ordinance for any one or more of the following purposes:

(a) to cure any ambiguity, defect, omission or inconsistent provision in this Ordinance or in the Bonds; or to comply with any applicable provision of law or regulation of federal agencies; provided, however, that such action shall not adversely affect the interests of the Owners of the Bonds;

(b) to grant to or confer upon the Owners of the Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Bonds;

(c) to add to the covenants and agreements of the City contained in this Ordinance other covenants and agreements of, or conditions or restrictions upon, the City or to surrender or eliminate any right or power reserved to or conferred upon the City in this Ordinance;

(d) to subject additional revenues to the lien and pledge of this Ordinance;

(e) to provide for the issuance of Adjustable Rate Obligations, Short Term Obligations, or Refundable Obligations;

(f) to authorize Credit Agreements and Qualified Hedge Agreements with respect to Outstanding Bonds;

(g) to provide for the continued tax exemption for any Outstanding Bonds;

(h) to provide for the continued exemption from registration of any Outstanding Bonds under the federal securities laws; or

(i) to permit other utility systems provided for in Chapter 1502 of the Texas Government Code, as amended, to be combined with the System.

Section 7.13 Amendment to Ordinance Requiring Consent.

The City may, with the consent of Owners holding a majority in aggregate principal amount of the Bonds then Outstanding affected thereby, amend, add to, or rescind any of the provisions of this Ordinance; provided that, without the consent of all Owners of Outstanding Bonds, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, or reduce the principal amount thereof, the redemption price therefor, or the rate of interest thereon, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by Owners for consent to any such amendment, addition, or rescission. For the purposes of this Section 7.15, the Owners of the Bonds shall include the initial Owners regardless of whether such Bonds are being held for subsequent resale.

Section 7.14 No Free Service.

The City will not grant or permit any free service from the System, except for public buildings and institutions operated by the City and properties permitted to be exempt by state law. In addition, the City will not grant or permit any free service from the System permitted by the previous sentence if to do so would violate any condition or covenant to which the City is bound in connection with any federal grant agreement or otherwise.

APPENDIX E

PROPOSED FORM OF CO-BOND COUNSEL OPINION AND TAX COUNSEL OPINION

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PROPOSED FORM OF CO-BOND COUNSEL OPINION AND TAX COUNSEL OPINION

_________, 2024

We have acted as Co-Bond Counsel for the City of Houston, Texas, a political subdivision and municipal corporation of the State of Texas (the "City") in connection with the authorization of its City of Houston, Texas, Combined Utility System First Lien Revenue Refunding Bonds, Series 2024A (the "Bonds"), in accordance with the provisions of the Ordinance (the "Ordinance") adopted by the City Council authorizing their issuance.

In such connection, we have reviewed the Ordinance; the tax certificate of the City dated the date hereof (the "Tax Certificate"); other certificates of the City; certificates of others; transcripts of certain certified proceedings pertaining to (1) the issuance of the Bonds, (2) a portion of the City's Outstanding Combined Utility System First Lien Revenue Refunding Bonds, Series 2014C (the "Refunded Bonds"), and a portion of the City's Outstanding Combined Utility System Commercial Paper Notes (the "Refunded Notes") that are being refunded with the proceeds of the Bonds; certified copies of certain proceedings of the City, U.S. Bank Trust Company, National Association (the "Refunded Notes Paying Agent") and The Bank of New York Mellon National Association (the "Refunded Bonds Paying Agent"); and/or a sufficiency certificate from each of the Refunded Notes Paying Agent and the Refunded Bonds Paying Agent, each of which verifies the sufficiency of the respective deposits made with the Refunded Notes Paying Agent for the defeasance of the Refunded Notes and the deposits made with the Refunded Bonds Paying Agent for the defeasance and redemption of the Refunded Bonds; and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted, or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures provided to us and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Ordinance and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Ordinance and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice.

Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding obligations of the City.

2. The deposit with the Refunded Notes Paying Agent constitutes the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Notes; in reliance upon the sufficiency certificate of the Refunded Notes Paying Agent, the Refunded Notes, having been discharged and paid, are no longer outstanding and the lien on and pledge of Net Revenues as set forth in the ordinance authorizing their issuance will be appropriately and legally defeased; the holders of the Refunded Notes may obtain payment of the principal of, redemption premium, if any, and interest in the Refunded Notes only out of the funds provided therefor by the deposit with the Refunded Notes Paying Agent; and therefore the Refunded Notes are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from such deposit.

3. The deposit with the Refunded Bonds Paying Agent constitutes the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds; in reliance upon the sufficiency certificate of the Refunded Bonds Paying Agent, the Refunded Bonds, having been discharged and paid, are no longer outstanding and the lien on and pledge of Net Revenues as set forth in the ordinance authorizing their issuance will be appropriately and legally defeased; the holders of the Refunded Bonds may obtain payment of the principal of, redemption premium, if any, and interest in the Refunded Bonds only out of the funds provided therefor by the deposit with the Refunded Bonds Paying Agent; and therefore the Refunded Bonds are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from such deposit

4. The Bonds are payable, both as to principal and interest, from and secured by a first lien on the Net Revenues received and collected by the City from the operation and ownership of the System after making all Required Payments pursuant to the Previous Ordinance, all as defined in and provided by the Ordinance.

5. Under existing statutes, regulations, rulings and court decisions, assuming the accuracy of certain certifications of the City made at the time of issuance of the Bonds and continuing compliance with the covenants described below, interest on the Bonds will be excludable from the gross income of the owners thereof for federal income tax purposes; and, furthermore, interest on the Bonds will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. In the case of the alternative minimum tax imposed by Section 55(b)(2) of the Internal Revenue Code of 1986, as amended (the "Code"), on applicable corporations (as defined in Section 59(k) of the Code), interest on the Bonds will not be excluded from the determination of adjusted financial statement income. In rendering the opinions set forth in this paragraph, we have assumed continuing compliance with the requirements of the Code that must be met after the issuance of the Bonds in order that interest on the Bonds not be included in gross income for federal income tax purposes. The City's failure to meet such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City has covenanted in the Ordinance to comply with such requirements. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Very truly yours,

APPENDIX F

CONTINUING DISCLOSURE SCHEDULES

APPENDIX F

CONTINUING DISCLOSURE SCHEDULES

Schedule 1:	Net Revenues of the System and Debt Service Coverage
Schedule 2:	Coverage of Maximum Annual Debt Service by Net Revenues
Schedule 3:	Employees
Schedule 4:	System Budget
Schedule 5A:	Water Rights Permits
Schedule 5B:	Water Capacity, Production and Sales
Schedule 6:	Ten Largest Treated Water Customers
Schedule 7:	Ten Largest Untreated Water Customers
Schedule 8:	Ten Largest Sewer Customers
Schedule 9:	Rate Adjustments
Schedule 10:	Funding of Planned System Improvements
Schedule 11:	Obligations Payable from System Revenues
Schedule 12:	Discretionary Debt Service Paid by the System
Schedule 13A:	Indirect Charges Paid by the System
Schedule 13B:	CUS General Purpose Fund Transfers-Storm Water Fund
Schedule 14:	System Debt Service Schedule
Schedule 15*:	Actuarially Determined Contribution Amounts and Changes in Pension Plan Assets
Schedule 15A*:	Municipal System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability
Schedule 15B*:	Police System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability
Schedule 15C*:	Firefighter Fund Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability

* The City agrees to update Schedules 15, 15A, 15B, and 15C only to the extent that the City receives updated actuarial reports from the boards of the pension systems. While required by State law, 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 15, 15A, 15B, and 15C may not be available in every annual continuing disclosure filing.

APPENDIX G

SECURITIES DEPOSITORY

APPENDIX G

SECURITIES DEPOSITORY

The information in this APPENDIX G describes the securities clearance procedures of The Depository Trust Company ("DTC") in the United States. The information in this APPENDIX concerning DTC has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy of such information.

None of the City, the Co-Financial Advisors or the Underwriters will have any responsibility for the performance by DTC or its direct or indirect participations or account holders of their respective obligations, including the timely transfer of funds to pay interest on and principal of the Bonds when due, under the rules and procedures governing their operations or the arrangements referred to below.

Introduction

DTC will act as the initial securities depository for the Bonds. The information set forth below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC currently in effect and the City expressly disclaims any responsibility to update this Official Statement to reflect any such changes. The City will have no responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Bonds held through the facilities of DTC or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. The Beneficial Owners should confirm the following information with DTC or the DTC Participants.

So long as Cede & Co. is the registered holder of the Bonds, as nominee of DTC, references in this Official Statement, including the Appendices hereto, to the Owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds.

THE CITY SHALL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR ANY BENEFICIAL OWNER, WITH RESPECT TO: (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL AND INTEREST DUE ON THE BONDS; (III) THE DELIVERY OF ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE HOLDERS OF THE BONDS UNDER THE RESOLUTION; (IV) THE SELECTION BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER OF THE BONDS; OR (VI) ANY OTHER MATTER.

THE PAYING AGENT/REGISTRAR, AS LONG AS THE BOOK-ENTRY-ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION AND ANY OTHER NOTICES ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

The Depository Trust Company

The Bonds 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 Bonds, in the aggregate principal amount of such maturity, 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 rating of AA+ from S&P Global Ratings. 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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 Bonds 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds 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 Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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.

Redemption notices shall be sent to DTC. If less than all of the Bonds 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 Bonds 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds 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 securities 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 principal and interest 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 disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds 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, Bonds 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, Bonds 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.

Euroclear and Clearstream Banking

Euroclear and Clearstream Banking have advised the City as follows:

Euroclear and Clearstream Banking each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream Banking provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream Banking also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream Banking have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream Banking customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream Banking is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system, either directly or indirectly.

Clearing and Settlement Procedures. Any Bonds sold in offshore transactions will be initially issued to investors through the book-entry facilities of DTC, for the account of its participants, including but not limited to Euroclear and Clearstream Banking. If the investors are participants in Clearstream Banking and Euroclear in Europe, or indirectly through organizations that are participants in the Clearing Systems, Clearstream Banking and Euroclear will hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream Banking's and Euroclear's names on the books of their respective depositories. In all cases, the record holder of the Bonds will be DTC's nominee and not Euroclear or Clearstream Banking. The depositories, in turn, will hold positions in customers' securities accounts in the depositories' names on the books of DTC. Because of time zone differences, the securities account of a Clearstream Banking or Euroclear participant as a result of a transaction with a participant, other than a depository holding on behalf of Clearstream Banking or Euroclear, will be credited during the securities settlement processing day, which must be a business day for Clearstream Banking or Euroclear, as the case may be, immediately following the DTC settlement date. These credits or any transactions in the securities settled during the processing will be reported to the relevant Euroclear participant or Clearstream Banking participant on that business day. Cash received in Clearstream Banking or Euroclear as a result of sales of securities by or through a Clearstream Banking participant or Euroclear participant to a DTC Participant, other than the depository for Clearstream Banking or Euroclear, will be received with value on the DTC settlement date but will be available in the relevant Clearstream Banking or Euroclear cash account only as of the business day following settlement in DTC.

Transfers between participants will occur in accordance with DTC rules. Transfers between Clearstream Banking participants or Euroclear participants will occur in accordance with their respective rules and operating procedures. Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream Banking participants or Euroclear participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the relevant depositories; however, cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in the system in accordance with its rules and procedures and within its established deadlines in European time. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Clearstream Banking participants or Euroclear participants may not deliver instructions directly to the depositories.

The City will not impose any fees in respect of holding the Bonds; however, holders of book-entry interests in the Bonds may incur fees normally payable in respect of the maintenance and operation of accounts in the Clearing Systems.

Initial Settlement. Interests in the Bonds will be in uncertificated book-entry form. Purchasers electing to hold book-entry interests in the Bonds through Euroclear and Clearstream Banking accounts will follow the settlement procedures applicable thereto and applicable to DTC. Book-entry interests in the Bonds will be credited by DTC to Euroclear and Clearstream Banking participants' securities clearance accounts on the business day following the date of delivery of the Bonds against payment (value as on the date of delivery of the Bonds). DTC participants acting on behalf of purchasers electing to hold book-entry interests in the Bonds through DTC will follow the delivery practices applicable to securities eligible for DTC's Same Day Funds Settlement system. DTC participants' securities accounts will be credited with book-entry interests in the Bonds following confirmation of receipt of payment to the City on the date of delivery of the Bonds.

Secondary Market Trading. Secondary market trades in the Bonds will be settled by transfer of title to book-entry interests in the Clearing Systems. Title to such book-entry interests will pass by registration of the transfer within the records of Euroclear, Clearstream Banking or DTC, as the case may be, in accordance with their respective procedures. Book-entry interests in the Bonds may be transferred within Euroclear and within Clearstream Banking and between Euroclear and Clearstream Banking in accordance with procedures established for these purposes by Euroclear and Clearstream Banking. Book-entry interests in the Bonds may be transferred within DTC in accordance with procedures established for this purpose by DTC. Transfer of book-entry interests in the Bonds between Euroclear or Clearstream Banking and DTC shall be effected in accordance with procedures established for this purpose by Euroclear, Clearstream Banking and DTC.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the DTC Participant acquires an interest in any Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Resolution will be given only to DTC.

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued by DTC or the City, the following provisions will be applicable to the Bonds: The Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar in Houston, Texas (the "Designated Trust Office") and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bond being transferred or exchanged, at the principal office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or the designee thereof. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer.

APPENDIX H

DESCRIPTION OF RESERVE FUND SURETY POLICY

APPENDIX H

DESCRIPTION OF RESERVE FUND SURETY POLICY

THE FOLLOWING INFORMATION HAS BEEN OBTAINED FROM THE SURETY PROVIDER AND ITS (OR ITS AFFILIATE'S) WEBSITE FOR USE IN THIS OFFICIAL STATEMENT. NONE OF THE CITY, THE CO-FINANCIAL ADVISORS OR THE UNDERWRITERS MAKE ANY REPRESENTATION AS TO THE COMPLETENESS OR ACCURACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION

The Debt Service Reserve Fund Surety Bond

The following information has been furnished by National Public Finance Guarantee Corporation ("National") for use in this Official Statement.

National does not accept any responsibility for the accuracy or completeness of any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding National and the Financial Guaranty Insurance Policy issued by National (the "Policy"). Additionally, National makes no representation regarding the Bonds or the advisability of investing in the Bonds.

National does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the MBIA Reserve Fund Surety Policy (as defined below) and National set forth in this Appendix H. Additionally, National makes no representation regarding the Bonds or the advisability of investing in the Bonds.

In order to satisfy the Reserve Fund Requirement in connection with the Series 2004 Bonds the City obtained from MBIA Insurance Corporation ("MBIA Corp.") a surety bond (the "MBIA Reserve Fund Surety Policy"). The MBIA Reserve Fund Surety Bond provides that upon notice from the Paying Agent to MBIA Corp. to the effect that insufficient amounts are on deposit in the First Lien Bond Interest and Sinking Fund to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the First Lien Bonds, MBIA Corp. will promptly deposit with the Paying Agent an amount sufficient to pay the principal of and interest on the First Lien Bonds or the available amount of the MBIA Reserve Fund Surety Bond, whichever is less. Upon the later of: (i) three (3) days after receipt by MBIA Corp. of a Demand for Payment in the form attached to the MBIA Reserve Fund Surety Bond, duly executed by the Paying Agent; or (ii) the payment date of the First Lien Bonds as specified in the Demand for Payment presented by the Paying Agent to MBIA Corp., MBIA Corp. will make a deposit of funds in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment to the Paying Agent, of amounts which are then due to the Paying Agent (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

The available amount of the MBIA Reserve Fund Surety Policy is the initial face amount of the MBIA Reserve Fund Surety Policy less the amount of any previous deposits by MBIA Corp. with the Paying Agent which have not been reimbursed by the City. The City and MBIA Corp. have entered into a Financial Guaranty Agreement dated as of May 15, 2004 (the "MBIA Financial Guaranty Agreement"). Pursuant to the MBIA Financial Guaranty Agreement, the City is required to reimburse MBIA Corp., within one year of any deposit, the amount of such deposit made by MBIA Corp. with the Paying Agent under the MBIA Reserve Fund Surety Policy. Such reimbursement shall be made only after all required deposits to pay Maintenance and Operation Expenses and required deposits into the First Lien Bond Interest and Sinking Fund and other Master Ordinance required deposits have been made.

Under the terms of the MBIA Financial Guaranty Agreement, the Paying Agent is required to reimburse MBIA, with interest, until the face amount of the MBIA Reserve Fund Surety Policy is reinstated before any deposit is made to the CUS General Purpose Fund. No optional redemption of Bonds may be made until the MBIA Reserve Fund Surety Bond is reinstated. The MBIA Reserve Fund Surety Bond is held by the Paying Agent in the First Lien

Bond Reserve Fund and is provided as an alternative to the City depositing funds equal to the Reserve Fund Requirement for outstanding First Lien Bonds.

On February 18, 2009, MBIA Inc., the parent holding company of MBIA Corp., announced that it had established a new U.S. public finance financial guarantee insurance company within the MBIA Inc. group by restructuring MBIA Corp. and its subsidiaries through a series of transactions (the "Transactions"). As part of the Transactions, (i) the stock of MBIA Insurance Corp. of Illinois (which, effective March 19, 2009 was renamed National Public Finance Guarantee Corporation), an existing public finance financial guarantee insurance subsidiary of MBIA Corp., was transferred to a newly established intermediate holding company, National Public Finance Guarantee Holdings, Inc. ("National Holdings"), also a subsidiary of MBIA Inc.; and (ii) effective January 1, 2009, MBIA Corp. ceded to National all of MBIA Corp.'s U.S. public finance business, including the MBIA Reserve Fund Surety Policy, pursuant to that certain Amended and Restated Quota Share Reinsurance Agreement between MBIA Corp. and National (the "Reinsurance Agreement"). Pursuant to the Reinsurance Agreement, MBIA Corp. paid to National approximately $2.89 billion (which equals the net unearned premium, loss and loss adjustment expense reserves, net of the 22 percent ceding commission that MBIA Corp. received) as a premium to reinsure the policies covered under the Reinsurance Agreement (each a "Covered Policy"). The MBIA Reserve Fund Surety Policy is a Covered Policy. National was further capitalized with $2.09 billion from funds distributed by MBIA Corp. to MBIA Inc. as a dividend and return of capital, which was ultimately contributed to National through National Holdings. The Reinsurance Agreement provides a cut-through provision enabling the holder of a Covered Policy to make a claim for payment directly against National. In addition, National has also issued second-to-pay policies for the benefit of the holder of a Covered Policy, granting such policyholder the right to make a claim directly against National if MBIA Corp. did not honor such claim.

National Public Finance Guarantee Corporation ("National")

National is an operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against National. National is domiciled in the State of New York and is licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Territory of Guam and the U.S. Virgin Islands.

The principal executive offices of National are located at 1 Manhattanville Road, Suite 301, Purchase, New York 10577 and the main telephone number at that address is (914) 765-3333.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, National is also subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for National, limits the classes and concentrations of investments that are made by National and requires the approval of policy rates and forms that are employed by National. State law also regulates the amount of both the aggregate and individual risks that may be insured by National, the payment of dividends by National, changes in control with respect to National and transactions among National and its affiliates.

The National Insurance Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Recent Litigation

In the normal course of operating its business, National may be involved in various legal proceedings. Additionally, MBIA Inc. may be involved in various legal proceedings that directly or indirectly impact National. For additional information concerning material litigation involving National and MBIA Inc., see MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2019, which is hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof, as well as the information posted on MBIA Inc.'s web site at http://www.mbia.com.

National Financial Information

For financial information concerning National, see the financial statements of MBIA Inc. and its subsidiaries as of December 31, 2019 included in the Annual Report on Form 10-K of MBIA Inc. for the year ended December 31, 2019 which is hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Incorporation of Certain Documents by Reference

The following document filed by MBIA Inc. with the Securities and Exchange Commission (the "SEC") is incorporated by reference into this Official Statement: MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2019.

Any documents, including any financial statements of National that are included therein or attached as exhibits thereto, or any Form 8-K, filed by MBIA Inc. pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of MBIA Inc.'s most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the issuance of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

MBIA Inc., files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of MBIA Inc.'s SEC filings are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at MBIA Inc.'s web site at http://www.mbia.com; and (iv) at no cost, upon request to National at its principal executive offices.

APPENDIX I

UNDERWRITER DISTRIBUTION AGREEMENTS

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the Series 2024A Bonds, has entered into negotiated dealer agreements (each, a “JPM Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each JPM Dealer Agreement, each of CS&Co. and LPL may purchase the Series 2024A Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2024A Bonds that such firm sells.

PNC Capital Markets LLC, one of the Underwriters of the Series 2024A Bonds, may offer to sell to its affiliate, PNC Investments, LLC ("PNCI"), securities in PNC Capital Markets LLC's inventory for resale to PNCI's customers, including securities such as the Series 2024A Bonds. Additionally, PNC Capital Markets LLC and PNC Bank, National Association are both wholly-owned subsidiaries of PNC Financial Services Group, Inc. PNC Capital Markets LLC is not a bank, and is a distinct legal entity from PNC Bank, National Association. PNC Bank, National Association has other banking and financial relationships, including credit relationships, with the Issuer.

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CITY OF HOUSTON, TEXAS • COMBINED UTILITY SYSTEM FIRST LIEN REVENUE REFUNDING BONDS, SERIES 2024A

Mixed Sources
Product group from well managed forests, controlled sources and recycled wood or fiber.

Printed by: ImageMaster, LLC
www.imagemaster.com

APPENDIX B

FORM OF PRICING NOTICE

PRICING NOTICE

RELATING TO THE
INVITATION TO TENDER BONDS DATED APRIL 5, 2024
made by
CITY OF HOUSTON, TEXAS
to the Bondowners described herein of
all or any portion of the maturities listed herein of

Combined Utility System First Lien Revenue Refunding Bonds, Series 2015D	**Combined Utility System First Lien Revenue and Refunding Bonds, Series 2016B**	**Combined Utility System First Lien Revenue Refunding Bonds, Series 2017B**
Combined Utility System First Lien Revenue Refunding Bonds, Series 2018D	**Combined Utility System First Lien Revenue Refunding Bonds, Taxable Series 2018E**	**Combined Utility System First Lien Revenue Refunding Bonds, Taxable Series 2019C**
Combined Utility System First Lien Revenue Refunding Bonds, Taxable Series 2020D	**Combined Utility System First Lien Revenue Refunding Bonds, Taxable Series 2021B**	

*The purpose of this Pricing Notice dated _________, 2024 (the "**Pricing Notice**") is to set forth the Offer Purchase Prices for the Tax-Exempt Target Bonds and the Fixed Spreads for the Taxable Target Bonds. All terms relating to the Invitation (hereinafter defined) remain unchanged.*

Pursuant to the Invitation to Tender Bonds dated April 5, 2024 (as it may be amended or supplemented, the "**Invitation**"), the City of Houston, Texas (the "**City**"), invited Bondowners to tender Tax-Exempt Target Bonds for cash at the applicable Offer Purchase Prices set forth in this Pricing Notice and to tender Taxable Target Bonds for cash at the applicable Offer Purchase Prices based on the Fixed Spreads set forth in this Pricing Notice to be added to the yields on certain benchmark United States Treasury Securities also as set forth in this Pricing Notice, plus Accrued Interest on the Target Bonds tendered for purchase to but not including the Settlement Date. See Section 2, "Information to Bondowners - Tender Consideration - Determination of Offer Purchase Prices for the Tax-Exempt Bonds" and "Information to Bondowners – Tender Consideration – Determination of Offer Purchase Prices for Taxable Target Bonds" in the Invitation. All terms used herein and not otherwise defined are used as defined in the Invitation.

As set forth in the Invitation, the City retains the right to extend the Tender Offer or amend the terms of the Tender Offer (including a waiver of any term) in any material respect, provided, that the City shall provide notice thereof at such time and in such manner to allow reasonable time for dissemination to Bondowners and for Bondowners to respond. In such event, any offers submitted with respect to the affected Target Bonds prior to such amendment or extension, including a change to decrease the Offer Purchase Price for any Tax-Exempt Target Bonds or a change to increase the the Fixed Spreads for any Taxable Target Bonds pursuant to the Invitation will remain in full force and effect and any Bondowner of such affected Target Bonds, as applicable, wishing to revoke their tender offer of such Target Bonds for purchase must affirmatively withdraw such offer prior to the Expiration Date.

The Invitation is available: (i) at the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access website, currently located at http://emma.msrb.org, using the CUSIP numbers for the Target Bonds, and (ii) on the website of the Information Agent and Tender Agent at www.globic.com/houston.

Any questions are to be directed to the Information Agent and Tender Agent at (212) 227-9622.

TAX-EXEMPT TARGET BONDS – OFFER PURCHASE PRICES

Pursuant to the Invitation, the Offer Purchase Prices for the Tax-Exempt Target Bonds are listed below. [There has been no change in the Indicative Offer Purchase Prices listed on page (iv) of the Invitation.]

City of Houston, Texas

Combined Utility System First Lien Revenue Refunding Bonds Series 2015D

CUSIP[1] (Base No. 44244C)	Maturity Date (November 15)	Par Call Date	Interest Rate	Outstanding Principal Amount ($)	Indicative Offer Purchase Price[2]

Combined Utility System First Lien Revenue and Refunding Bonds, Series 2016B

CUSIP[1] (Base No. 44244C)	Maturity Date (November 15)	Par Call Date	Interest Rate	Outstanding Principal Amount ($)	Indicative Offer Purchase Price[2]

Combined Utility System First Lien Revenue Refunding Bonds, Series 2017B

CUSIP[1] (Base No. 44244C)	Maturity Date (November 15)	Par Call Date	Interest Rate	Outstanding Principal Amount ($)	Indicative Offer Purchase Price[2]

Combined Utility System First Lien Revenue Refunding Bonds, Series 2018D

CUSIP[1] (Base No. 44244C)	Maturity Date (November 15)	Par Call Date	Interest Rate	Outstanding Principal Amount ($)	Indicative Offer Purchase Price[2]

(1) CUSIP is a registered trademark of FactSet. CUSIP data herein is provided by CUSIP Global Services, managed on behalf of the American Bankers Association by FactSet Research Systems Inc. The CUSIP numbers are being provided solely for the convenience of the owners of the Target Bonds and the Authority is not responsible for the selection or correctness of the CUSIP numbers printed herein and does not make any representation with respect to such numbers or undertake any responsibility for their accuracy.

(2) The Offer Purchase Prices shown herein exclude Accrued Interest. The Purchase Price to be paid on the Settlement Date excludes Accrued Interest on the Target Bonds tendered for purchase, which will be paid up to but not including the Settlement Date in addition to the Purchase Price.

TAXABLE TARGET BONDS – FIXED SPREADS

Pursuant to the Invitation, the Fixed Spreads for the Taxable Target Bonds are listed below. [There has been no change in the Indicative Fixed Spreads listed on page (v) and (vi) of the Invitation.]

CITY OF HOUSTON, TEXAS

Combined Utility System First Lien Revenue Refunding Bonds, Federally Taxable Series 2018E

CUSIP[1] (Base No. 44244C)	Maturity Date (November 15)	Average Life Date[2]	Interest Rate	Outstanding Principal Amount ($)	Par Call Date	Benchmark Treasury Security[3]	Indicative Fixed Spreads[4]

Combined Utility System First Lien Revenue Refunding Bonds, Federally Taxable Series 2019C

CUSIP[1] (Base No. 44244C)	Maturity Date (November 15)	Average Life Date[2]	Interest Rate	Outstanding Principal Amount ($)	Par Call Date	Benchmark Treasury Security[3]	Indicative Fixed Spreads[4]

Combined Utility System First Lien Revenue Refunding Bonds, Federally Taxable Series 2020D

CUSIP[1] (Base No. 44244C)	Maturity Date (November 15)	Average Life Date[2]	Interest Rate	Outstanding Principal Amount ($)	Par Call Date	Benchmark Treasury Security[3]	Indicative Fixed Spreads[4]

Combined Utility System First Lien Revenue Refunding Bonds, Federally Taxable Series 2021B

CUSIP[1] (Base No. 44244C)	Maturity Date (November 15)	Average Life Date[2]	Interest Rate	Outstanding Principal Amount ($)	Par Call Date	Benchmark Treasury Security[3]	Indicative Fixed Spreads[4]

[1] CUSIP is a registered trademark of FactSet. CUSIP data herein is provided by CUSIP Global Services, managed on behalf of the American Bankers Association by FactSet Research Systems Inc. The CUSIP numbers are being provided solely for the convenience of the owners of the Target Bonds and the City is not responsible for the selection or correctness of the CUSIP numbers printed herein and does not make any representation with respect to such numbers or undertake any responsibility for their accuracy.

[2] Average life date is shown for the Taxable Target Term Bonds only. The Taxable Target Term Bonds will be priced to their respective average life dates.

[3] Except for the 30-Year Benchmark Treasury Security, which will be the "old long bond" (maturity date November 15, 2053, 4.75%, CUSIP 912810TV0), each Benchmark Treasury Security (as defined herein) will be the most recently auctioned "on-the-run" United States Treasury Security for the maturity indicated as of the date and time that the Offer Purchase Price for the Target Bonds is set, currently expected to be approximately 10:00 a.m., New York City time, on April 23, 2024.

Illustrative Offer Purchase Price Calculations: Treasury Security Yields as of ____________, 2024

The tables below provide examples of the Offer Purchase Price realized by a Bondowner that submits an offer based on the following yields for the Benchmark Treasury Securities as of ____________, 2024 and the Fixed Spreads. This example is being provided for convenience only and is not to be relied upon by a Bondowner as an indication of the Purchase Yield or Offer Purchase Price that may be paid by the City.

Based on these Treasury Security Yields, the following Offer Purchase Prices would be derived:

CITY OF HOUSTON, TEXAS

Combined Utility System First Lien Revenue Refunding Bonds, Federally Taxable Series 2018E

CUSIP No[1]	Maturity Date (November 15)	Average Life Date[2]	Interest Rate (%)	Outstanding Principal Amount	Par Call Date	Benchmark Treasury Security[3]	Fixed Spreads	Illustrative Treasury Security Yield*	Illustrative Purchase Yield*	Illustrative Offer Purchase Price[4]*
				$						

Combined Utility System First Lien Revenue Refunding Bonds, Federally Taxable Series 2019C

CUSIP No[1]	Maturity Date (November 15)	Average Life Date[2]	Interest Rate (%)	Outstanding Principal Amount	Par Call Date	Benchmark Treasury Security[3]	Fixed Spreads	Illustrative Treasury Security Yield*	Illustrative Purchase Yield*	Illustrative Offer Purchase Price[4]*
				$						

**Combined Utility System First Lien Revenue Refunding Bonds,
Federally Taxable Series 2020D**

CUSIP No[1]	Maturity Date (November 15)	Average Life Date[2]	Interest Rate (%)	Outstanding Principal Amount	Par Call Date	Benchmark Treasury Security[3]	Fixed Spreads	Illustrative Treasury Security Yield*	Illustrative Purchase Yield*	Illustrative Offer Purchase Price[4]*
				$						

**Combined Utility System First Lien Revenue Refunding Bonds,
Federally Taxable Series 2021B**

CUSIP No[1]	Maturity Date (November 15)	Average Life Date[2]	Interest Rate (%)	Outstanding Principal Amount	Par Call Date	Benchmark Treasury Security[3]	Fixed Spreads	Illustrative Treasury Security Yield*	Illustrative Purchase Yield*	Illustrative Offer Purchase Price[4]*
				$						

(1) CUSIP is a registered trademark of FactSet. CUSIP data herein is provided by CUSIP Global Services, managed on behalf of the American Bankers Association by FactSet Research Systems Inc. The CUSIP numbers are being provided solely for the convenience of the owners of the Target Bonds and the City is not responsible for the selection or correctness of the CUSIP numbers printed herein and does not make any representation with respect to such numbers or undertake any responsibility for their accuracy.

(2) Average life date is shown for the Taxable Target Term Bonds only. The Taxable Target Term Bonds will be priced to their respective average life dates.

(3) Except for the 30-Year Benchmark Treasury Security, which will be the “old long bond” (maturity date November 15, 2053, 4.75%, CUSIP 912810TV0), each Benchmark Treasury Security (as defined herein) will be the most recently auctioned “on-the-run” United States Treasury Security for the maturity indicated as of the date and time that the Offer Purchase Price for the Target Bonds is set, currently expected to be approximately 10:00 a.m., New York City time, on April 23, 2024.

(4) **SEE Section 2, "Information to Bondowners – *Tender Consideration - Determination of Offer Purchase Prices*" in the** Invitation**.**

**Preliminary and subject to change.*

Illustrative Offer Purchase Price Calculations: Interest Rate Sensitivity

As a measure of the sensitivity of the Offer Purchase Price to changes in the yield on the Benchmark Treasury Security, the following tables show the impact on the Offer Purchase Price of a 0.10% (10 basis point) movement in the yield of the Benchmark Treasury Security.

CITY OF HOUSTON, TEXAS

Combined Utility System First Lien Revenue Refunding Bonds, Federally Taxable Series 2018E

		Illustrative Purchase Yield	Illustrative Offer Purchase Prices(2)*		
CUSIP No(1)	Maturity Date (November 15)	Based on Treasury Security Yields as of ________, 2024	Assuming a 0.10% Increase in Treasury Security Yields	Current Treasury Security Yield	Assuming a 0.10% Decrease in Treasury Security Yields
		%			

Combined Utility System First Lien Revenue Refunding Bonds, Federally Taxable Series 2019C

		Illustrative Purchase Yield	Illustrative Offer Purchase Prices(2)*		
CUSIP No(1)	Maturity Date (November 15)	Based on Treasury Security Yields as of ________, 2024	Assuming a 0.10% Increase in Treasury Security Yields	Current Treasury Security Yield	Assuming a 0.10% Decrease in Treasury Security Yields
		%			

Combined Utility System First Lien Revenue Refunding Bonds,
Federally Taxable Series 2020D

		Illustrative Purchase Yield	Illustrative Offer Purchase Prices[2]*		
CUSIP No[1]	Maturity Date (November 15)	Based on Treasury Security Yields as of ________, 2024	Assuming a 0.10% Increase in Treasury Security Yields	Current Treasury Security Yield	Assuming a 0.10% Decrease in Treasury Security Yields
		%			

Combined Utility System First Lien Revenue Refunding Bonds,
Federally Taxable Series 2021B

		Illustrative Purchase Yield	Illustrative Offer Purchase Prices[2]*		
CUSIP No[1]	Maturity Date (November 15)	Based on Treasury Security Yields as of ________, 2024	Assuming a 0.10% Increase in Treasury Security Yields	Current Treasury Security Yield	Assuming a 0.10% Decrease in Treasury Security Yields
		%			

(1) CUSIP is a registered trademark of FactSet. CUSIP data herein is provided by CUSIP Global Services, managed on behalf of the American Bankers Association by FactSet Research Systems Inc. The CUSIP numbers are being provided solely for the convenience of the owners of the Target Bonds and the City is not responsible for the selection or correctness of the CUSIP numbers printed herein and does not make any representation with respect to such numbers or undertake any responsibility for their accuracy.

(2) **SEE Section 2 "Information to Bondowners – *Tender Consideration - Determination of Offer Purchase Prices*" in the Invitation.**

**Preliminary and subject to change.*