PRELIMINARY OFFICIAL STATEMENT DATED JUNE 24, 2020

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

NEW ISSUE - BOOK-ENTRY ONLY

RATINGS:
Fitch: F1+
Moody's: MIG1

See "RATINGS" herein

In the opinion of Holland & Knight LLP, Special Tax Counsel, assuming compliance with certain arbitrage rebate and other tax requirements referred to herein, under existing law, interest on the Notes is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference in computing the federal alternative minimum tax imposed on individuals. Holders of Notes could be subject to the consequences of other provisions of the Internal Revenue Code of 1986, as amended, as further described herein. See "TAX MATTERS" herein.

$230,000,000*
City of Houston, Texas
Tax and Revenue Anticipation Notes
Series 2020

Interest Accrual: Date of Delivery **Due: June 30, 2021**

The City of Houston, Texas Tax and Revenue Anticipation Notes, Series 2020, (the "Notes") are payable from Pledged Revenues of the City collected in Fiscal Year 2021 (defined herein). Pledged Revenues consist of ad valorem taxes levied for general purposes, sales and use taxes, franchise charges and fees, and other general revenues of the City for Fiscal Year 2021 that remain after the deduction of all interest on debt obligations of the City to be paid out of such revenues for Fiscal Year 2021 and deduction of the sums required to be paid out of such revenues into any sinking fund, special fund or special trust fund of the City. Pledged Revenues exclude revenues derived from certain enterprise systems and pledged to the payment of certain debt obligations of the City, including revenues of the Houston Airport System, Combined Utility System, Convention and Entertainment Facilities Department, revenues derived from the hotel occupancy tax remitted to the City and the City's Dedicated Drainage and Street Renewal Fund (each an "Enterprise Fund" and collectively, the "Enterprise Funds").

Proceeds of the Notes shall be used to finance the City's general operating expenditures for Fiscal Year 2021 in anticipation of the collection of taxes and revenues for Fiscal Year 2021. Interest on the Notes will accrue from their Date of Delivery. Principal of and interest on the Notes are payable on June 30, 2021 upon presentation and surrender of the Notes to UMB Bank, N.A., Paying Agent/Registrar. **The Notes are not subject to redemption prior to maturity.**

All Notes are issued in fully registered form and in denominations or maturity amounts of $100,000 or integral multiples thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Notes. The Notes will be available to purchasers in book-entry form only. For as long as Cede & Co. is the sole registered owner of the Notes, the principal of and interest on the Notes will be payable by the Paying Agent/Registrar to DTC, which will be solely responsible for making such payments to DTC Participants (as defined herein) for subsequent remittance to the owners of beneficial interests in the Notes. The purchasers will not receive certificates representing their beneficial ownership interests.

Purchasers	Principal Amount	Interest Rate	Reoffering Yield	CUSIP 442331[+]

(Interest calculated on the basis of a 365 day year)

* Preliminary, subject change.

(+) CUSIP numbers are included solely for the convenience of the owners of the Notes. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Purchasers, the City, or the Co-Financial Advisors is responsible for the selection or correctness of the CUSIP numbers set forth herein.

The Notes are offered when, as and if issued, subject to the approving opinion of Holland & Knight LLP, Houston, Texas and Law Offices of Francisco G. Medina, Houston, Texas, as Co-Bond Counsel and Special Co-Disclosure Counsel to the City, as to the validity of the issuance of the Notes under the Constitution and laws of the State of Texas and the opinion of Holland & Knight LLP, Houston, Texas, as Special Tax Counsel, as described above. It is expected that the Notes will be available through the facilities of DTC on or about July 21, 2020 ("Date of Delivery").

THE NOTES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE NOTES IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE NOTES 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 NOTES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

The information set forth herein has been furnished by the City and includes information obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness. 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 for this issuance. Any statements made in this Official Statement or the appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any such opinions or estimates will be realized.

This Official Statement is delivered in connection with the sale of the securities described herein and may not be reproduced or used, in whole or in part, for any other purposes.

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

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

CITY OF HOUSTON, TEXAS

ELECTED OFFICIALS

Sylvester Turner, Mayor

Chris B. Brown, City Controller

CITY COUNCIL

Council Member,
District A .... Amy Peck

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

Council Member,
District C .... Abbie Kamin

Council Member,
District D .... Carolyn Evans-Shabazz

Council Member,
District E .... Dave Martin

Council Member,
District F .... Tiffany D. Thomas

Council Member,
District G .... Greg Travis

Council Member,
District H .... Karla Cisneros

Council Member,
District I .... Robert Gallegos

Council Member,
District J .... Edward Pollard

Council Member,
District K .... Martha Castex-Tatum

Council Member, At-Large
Position 1 .... Mike Knox

Council Member, At-Large
Position 2 .... David Robinson

Council Member, At-Large
Position 3 .... Michael Kubosh

Council Member, At-Large
Position 4 .... Letitia Plummer

Council Member, At-Large
Position 5 .... Sallie Alcorn

APPOINTED OFFICIALS

City Attorney .... Ronald C. Lewis
Deputy City Controller .... Charisse Page Mosely
Director, Department of Finance .... Tantri Emo
Interim City Secretary .... Pat Jefferson-Daniel

ADVISORS AND CONSULTANTS

Co-Financial Advisors .... Masterson Advisors LLC
The RSI Group LLC

Co-Bond Counsel and Special Co-Disclosure Counsel .... Holland & Knight LLP
Law Offices of Francisco G. Medina

Special Tax Counsel .... Holland & Knight LLP

FINANCING WORKING GROUP

Department of Finance .... Melissa Dubowski
Jaime Alvarez
Elvira Ontiveros
Fahad Gulzar
Alma Tamborello
LaToya Stephenson

Office of the City Attorney .... Gary L. Wood
Joe Crawford
Rahat Huq

Office of the City Controller .... Alexander Obregon
Shannan Nobles
Han Au
Vernon Lewis
Linjie Zhu

* See "THE CITY- Governmental Structure" for a discussion of the litigation related to the election of a successor to the District B Council position.

TABLE OF CONTENTS

#74255945_v9

OFFICIAL STATEMENT

$230,000,000*
City of Houston, Texas
Tax and Revenue Anticipation Notes
Series 2020

INTRODUCTION

This Official Statement is in connection with the offering of the City of Houston, Texas Tax and Revenue Anticipation Notes, Series 2020, in the aggregate principal amount of $230,000,000* (the "Notes"). The Notes are issued under and authorized pursuant to Section 1507.251 et seq., Texas Government Code, as amended (the "Act"), and an ordinance adopted by the City Council of the City of Houston, Texas ("City Council" and "City") on May 20, 2020 (the "Ordinance"). Concurrently with the adoption of the Ordinance, the City adopted a separate ordinance (the "Supplemental Ordinance" and along with the Ordinance, the "Ordinances") authorizing the City, to the extent needed, to issue additional tax and revenue anticipation notes during Fiscal Year 2021 (as defined herein). The Notes are secured with and payable solely from Pledged Revenues (as defined herein). See "PLAN OF FINANCE—Purpose" and "PLAN OF FINANCE—Pledged Revenues." The total amount of parity tax and revenue anticipation notes issued under the Ordinances will not exceed $400,000,000.

The City is the fourth most populous city in the nation and the most populous city in the State of Texas (the "State"). According to the most recent U.S. Census Bureau estimate, the City's population was approximately 2.3 million in 2019. The United States Census Bureau 2019 estimate for the population of the nine-county metropolitan statistical area ("Houston-The Woodlands-Sugar Land" or the "MSA") was 6.99 million, which is the fifth largest metropolitan statistical area in the United States. Located on the Southeast Texas Gulf Coastal Plains, Houston is approximately 50 miles from the Gulf of Mexico. The City is a major corporate and international financial center, and leading industries include energy, engineering and construction, real estate, aerospace, commerce, medicine and health care, transportation, biotechnology and computer technology. See "THE CITY" herein.

The City's audited basic financial statements which are part of the City Controller's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2019 (the "Financial Statements") are attached to this Official Statement as APPENDIX A. The Financial Statements present information on the general financial condition of the City at the dates and for the periods described therein. The inclusion of the Financial Statements, and other financial information in this Official Statement is not intended to imply that any other tax receipts, revenues or moneys of the City other than Pledged Revenues are pledged to pay the principal of or interest on the Notes. See "PLAN OF FINANCE—Pledged Revenues" and "PROPERTY TAXES," particularly the subcaptions "—Constitutional and Statutory Tax Rate Limitations" and "—City Charter Tax and Revenue Propositions" for a discussion of current revenue limitations and related measures. As used herein, the term "Fiscal Year," unless otherwise indicated, means the City's Fiscal Year, which currently is the twelve-month period beginning on July 1 of a calendar year and ending on June 30 of the next succeeding calendar year. Each such period may be designated with the number of the calendar year in which such period ends. APPENDIX B provides certain economic and demographic information about the City; APPENDIX C provides the form of opinion of Co-Bond Counsel for the Notes and form of opinion of Special Tax Counsel for the Notes; and APPENDIX D provides information relating to the securities clearance procedures applicable to the Notes, including a description of The Depository Trust Company ("DTC").

FORWARD LOOKING STATEMENTS

The statements contained in this Official Statement that are not purely historical are forward looking statements, including statements regarding the City's expectations, estimates, intentions, or strategies regarding the future. Readers should not place undue reliance on forward looking statements. All forward looking statements in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward looking statements.

---
* Preliminary, subject to change.

The forward looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or development in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward looking statements included in this official statement would prove to be accurate and may be materially different.

COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all Texas counties in response to the Pandemic. Pursuant to Chapter 41, Texas Government Code, the Governor has broad authority to respond to disasters, including the authority to suspend any regulatory statute prescribing the procedures for conducting State business or any order or rule of a State agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and to issue executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. Many of the federal and State actions and policies are focused on limiting opportunities for the public to congregate and individuals to interact with each other, which affects the operation of businesses and directly impacts the national, State and local economies.

In addition to actions by State and federal officials, on March 11, 2020, the Harris County Judge activated the County's emergency management plan by issuing a Declaration of Local Disaster for Public Health Emergency (the "Declaration") in order to contain the COVID-19 outbreak and prevent its spread throughout Harris County. On March 24, 2020, the Harris County Judge issued a "Stay Home, Work Safe" Order ("Stay Home Order") prohibiting gatherings and providing that residents stay home other than to perform Essential Services as defined in Federal guidance. The Stay Home Order, which lasted until June 10, 2020, provided that in performing or obtaining Essential Services, residents should follow Center for Disease Control and Prevention ("CDC") guidelines on social distancing.

The Pandemic has negatively affected travel, commerce, and financial markets globally and is widely expected to continue negatively affecting economic growth and financial markets worldwide. The City continues to monitor the Pandemic and work with local, state and national agencies to address its potential impact on the City. The impact of COVID-19 is expected to have a negative financial impact on local, state and national economies, the severity of which is unknown at this time, in a manner that could adversely affect the amount of property and sales and use taxes, franchise charges and fees, and other general revenues received by the City.

The City has identified several funding sources to assist with expenses related to the COVID-19 outbreak. In March 2020, the City established the COVID-19 Disaster Fund and transferred $5 million out of the Budget Stabilization Fund to cover expenditures related to public health emergency response efforts and also received another $5 million through a CDC grant. Most significantly, in April 2020 the City received $405 million from the U.S. Department of Treasury pursuant to the Coronavirus Aid Relief & Economic Security Act (the "CARES ACT"). The City's Administration is currently evaluating how to best utilize the funding, but to date has identified some top priorities including: rental assistance, contact tracing, and funding to cover the redeployment of certain City employees.

The City currently anticipates finishing Fiscal Year 2020 with a larger budget surplus than provided for in the Adopted Budget. At the time of the Fiscal Year 2020 Adopted Budget, the estimated ending fund balance was $207 million, and it is currently estimated to be $277 million. Lower than anticipated revenues are more than offset by increased sales in capital assets and lower than budgeted expenditures.

Prior to COVID-19, Fiscal Year 2020 sales tax revenues were budgeted for $695 million, and post-COVID-19 the revised estimate is $680 million. General Fund expenditure projections have also been reduced significantly to come in under budget by approximately $15 million. Coupled with reduced revenues, significant reductions in expenditures for Fiscal Year 2020 were made by utilizing the Coronavirus Relief Fund money made available through the CARES Act to cover costs of redeploying personnel that were previously paid out of the General Fund. Notwithstanding the preceding estimates, the City at this time cannot predict with any certainty the actual impact COVID-19 may have on revenues in the coming Fiscal Year. While the impact on the City is uncertain at this time, the City is monitoring the impact of COVID-19 and will address such impacts, as necessary.

HURRICANE HARVEY

The City experienced a substantial natural disaster on August 23 – 27, 2017, resulting from Hurricane Harvey, when up to 50 inches of rain in the Houston area caused flooding in portions of the City. Damaged property included residential and commercial properties, as well as numerous City-owned facilities. The estimate of the total damage to City facilities, properties and infrastructure, along with costs incurred by the City due to Hurricane Harvey, is projected to be approximately $2.48 billion; this amount includes the costs of debris removal, emergency protective measures including overtime, damages to roads and bridges, water plants, city buildings and equipment, and parks. Of that amount, the City's general fund may bear costs in the approximate amount of $120 million. Damage and costs assessments are ongoing and are subject to change. Damage to other facilities, property and infrastructure that are outside of the General Fund and relate to the various Enterprise Funds, are expected to be funded by revenues of the enterprise systems (i.e., Combined Utility System, Houston Airport System and the Convention and Entertainment Facilities Department). Revenues of the various enterprise systems are not pledged to the Notes.

The City anticipates that a portion of the City's share of the damage will be covered by the City's general property insurance policy, with $92 million allocated to damaged facilities and $10 million to business interruption costs. The City also anticipates that a significant portion of the City's share of the damage in excess of $92 million, which is not covered by the City's general property insurance policy, together with other disaster related expenses, will be covered by advances and grants from the Federal Emergency Management Agency ("FEMA") and the State. The City has engaged a disaster consultant to coordinate with FEMA and to assist in preparing FEMA documentation. The City updates this information in its quarterly financial reports.

As of March 2020, the City has received a total of $443 million in Harvey recovery funds including (i) $274 million from FEMA (ii) $102.7 million in insurance proceeds, (iii) $41 million from the State and (iv) $25 million from the Budget Stabilization Fund and Other Funds. During Fiscal Year 2018, the City transferred $20 million from its budget stabilization fund to the "Disaster Recovery Fund," which serves as an appropriation source for disaster related expenses, pending reimbursement from FEMA and insurance recoveries. As budgeted in the Fiscal Year 2020 Budget, the City reimbursed its budget stabilization fund by the end of the fiscal year for the $20 million transferred related to Harvey.

While there has been significant storm and flooding damage, based on the certified estimate for Tax Year 2020, overall ad valorem tax values have increased by approximately 6% since Tax Year 2019. See "PROPERTY TAXES." As a long-term response to the hurricane, the Mayor appointed a chief recovery officer to address longer-term flooding issues. The chief recovery officer is working with other local and state agencies on flood control projects, some of which were previously underway. See also "LITIGATION AND REGULATION—Storm Activity and Periodic Flooding" for a discussion of regional efforts to mitigate future flood events.

PLAN OF FINANCE

Purpose

As in prior fiscal years, the City expects to issue tax and revenue anticipation notes for the Fiscal Year beginning July 1, 2020 and ending June 30, 2021 ("Fiscal Year 2021"). For Fiscal Year 2021, the City is authorized to issue parity tax and revenue anticipation notes in an aggregate amount not to exceed $400,000,000. The Notes are payable solely from Pledged Revenues collected in Fiscal Year 2021 and shall be paid on or before the end of Fiscal Year 2021. See "—Pledged Revenues." The aggregate principal amount of parity tax and revenue anticipation notes outstanding at any time during a Fiscal Year may not exceed the greatest amount by which the City's estimated proposed expenditures for such Fiscal Year exceed certain estimated revenues.

The Notes are issued to finance the City's general operating expenditures for Fiscal Year 2021 in anticipation of the collection of taxes and revenues, a significant portion of which will be collected in the latter half of Fiscal Year 2021. The Notes accrue interest from the Date of Delivery, mature on June 30, 2021, and are issued in fully registered form, in denominations of $100,000 or any integral multiple thereof. Interest on the Notes is calculated on the basis of a 365-day year at the rates set forth on the cover page hereof.

UMB Bank, N.A., is the initial paying agent/registrar (the "Paying Agent/Registrar"). **The Notes are not subject to redemption prior to maturity.**

The following table provides the principal amount of parity tax and revenue anticipation notes issued in Fiscal Years 2017 through 2020 and the proposed principal amount of the Notes for Fiscal Year 2021, along with the corresponding percentage of such amount relative to Pledged Revenues.

Table 1: Tax and Revenue Anticipation Notes

Fiscal Year	Amount	Percentage of Pledged Revenues
2017	$230,000,000	11.3%
2018	200,000,000	9.7
2019	225,000,000	11.1
2020[a]	200,000,000	10.1
2021[b]	230,000,000	11.4[c]

[a] Projection based on information reported in the City's Monthly Financial Report as of April 30, 2020.
[b] Projection based on information reported in the City's Fiscal Year 2021 Budget.
[c] If the City issued the entire authorized amount of parity tax and revenue anticipation notes, the percentage of Pledged Revenues would be approximately 19.8%.

Ownership

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

The Depository Trust Company

The information concerning The Depository Trust Company, New York, New York ("DTC") and its book-entry system has been obtained from DTC and is contained in APPENDIX D to this Official Statement. Beneficial Ownership of Notes registered in the name of DTC will be initially transferred as described in APPENDIX D.

Transfers and Exchanges

So long as any Notes remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal corporate trust office and shall provide for the registration and transfer of the Notes in accordance with the terms of the Ordinance. Each Note 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 Note 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 Note or Notes, registered in the name of Cede & Co., as DTC's nominee, or such other transferee, in authorized denominations, of the same maturity and interest rate, in the same aggregate principal amount as the Note or Notes so presented and surrendered. In the event the Notes are not held in a book-entry registration system, all Notes shall be exchangeable upon the presentation and surrender thereof at the principal corporate trust office of the Paying Agent/Registrar for a Note or Notes of the same maturity and interest rate, in any authorized denomination and in an aggregate principal amount equal to the Note or Notes presented for exchange. Notes issued in exchange for other Notes shall be entitled to the benefits and security of the Ordinance to the same extent as the Note or Notes in lieu of which such Note is delivered.

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

Pledged Revenues

Pledged Revenues consist of ad valorem taxes, sales and use taxes, franchise charges and fees, and other general revenues of the City for Fiscal Year 2021 that remain after the deduction of all interest on debt obligations of the City, specifically ad valorem tax obligations, to be paid out of such revenues for Fiscal Year 2021, and deduction of the sums required to be paid out of such revenues into any sinking fund, special fund or special trust fund of the City ("Pledged Revenues"). For a discussion of the impact of Proposition 1 (defined herein) and other Charter measures on the ad valorem tax revenues, see "PROPERTY TAXES—City Charter Tax and Revenue Propositions" and "—Impact of Proposition 1 and Proposition H on Ad Valorem Tax Collections." See "ADDITIONAL SOURCES OF PLEDGED REVENUES" and "ACCOUNTING AND BUDGETING PROCEDURES AND GENERAL FUND REVENUES FOR FISCAL YEARS 2021 AND 2020." Pledged Revenues exclude revenues pledged to the payment of certain debt obligations of the City, including revenues of the Houston Airport System, Combined Utility System, Convention and Entertainment Facilities Department and revenues derived from the hotel occupancy tax remitted to the City and the City's Dedicated Drainage and Street Renewal Fund.

Table 2 represents Pledged Revenues for Fiscal Years 2017 through 2019, the projected Pledged Revenues for Fiscal Year 2020 and the estimated Pledged Revenues for the adopted Fiscal Year 2021 Budget ("Fiscal Year 2021 Budget").

Table 2: Pledged Revenues

Fiscal Year	Pledged Revenues (in thousands)
2017	$2,027,456
2018	2,055,012
2019	2,019,972
2020[(a)]	1,986,917
2021[(b)]	2,011,071

[(a)] Projection based on information reported in the City's Monthly Financial Report as of April 30, 2020.
[(b)] Projection based on information reported in the City's Fiscal Year 2021 Budget.

General Fund Revenues and Expenditures

The City's General Fund operating expenditures are expected to occur in level amounts throughout a Fiscal Year, but significant portions of the City's revenues will not be received until the latter half of the Fiscal Year. The principal revenue source for the City's General Fund is ad valorem taxes, and the majority of such taxes are collected shortly before the tax delinquency date, which is February 1 of each year. See "PROPERTY TAXES." Prior to these revenue collections, current operations are financed by the expenditure of the beginning fund balance, collection from other revenue sources and the Notes which, under the Act, must be repaid by the end of the Fiscal Year in which they are incurred.

The General Fund Projected Cash Flow for Fiscal Year 2020 was prepared by using data available to the City on or about the date hereof, with estimates through June 30, 2020. The General Fund Projected Cash Flow for Fiscal Year 2021 is based on the Fiscal Year 2021 Budget. The Fiscal Year 2021 Budget was adopted by City Council on June 10, 2020. The City may modify or amend the Fiscal Year 2021 Budget as it deems appropriate consistent with the Financial Policies and applicable State law and may manage temporary cash flow shortfalls for the General Fund through interfund borrowings or other similar means. See "Table 12: General Fund Budget for Fiscal Year 2021 and Fiscal Year 2020" for a comparison of the originally adopted Fiscal Year 2020 Budget and the Fiscal Year 2021 Budget, and see "Table 15: General Fund Unassigned and Assigned Fund Balance" for historical information regarding the City's General Fund unassigned and assigned fund balances.

The City does not as a matter of course make public projections as to cash flows as described in Table 3 and Table 4 of this Official Statement. However, the City has prepared the prospective financial information set forth below to present the General Fund Projected Cash Flows of the City with respect to Fiscal Year 2020 and Fiscal Year 2021. The accompanying prospective financial information was not prepared with a view toward public disclosure (other than as described herein) or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but in the view of the City, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of the City's knowledge and belief, the current and future financial performance of the City for this fiscal year and the next fiscal year. The information presented is not fact, and should not be relied upon as being necessarily indicative of future results, and prospective purchasers are cautioned not to place undue reliance on the prospective financial information.

The assumptions and estimates underlying the prospective financial information are inherently uncertain and, though considered reasonable by the City as of the date hereof, are subject to change due to many circumstances, including economic conditions and other factors or events that could cause actual results to differ materially from that described in Table 3. Those factors include, among others, uncertainties relating to timing as to receipt of *revenue sources and payment of expenditures, as well as actual revenues and expenditures varying from expected amounts.*

Neither the City's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

[Remainder of Page Intentionally Left Blank]

Table 3: General Fund Projected Cash Flow
Fiscal Year 2020
(in thousands)
(See Table 3 Notes below)

	Jul Actuals	Aug Actuals	Sep Actuals	Oct Actuals	Nov Actuals	Dec Actuals	Jan Actuals	Feb Actuals	Mar Actuals	Apr Actuals	May Actuals	Jun	Total
General Fund	$ 289,027	$ 182,395	$ 110,391	$ 38,762	$ (11,830)	$ (66,134)	$ 52,405	$ 697,850	$1,019,835	$ 616,290	$ 399,369	$ 353,988	$ 289,027
Budget Stabilization Fund	5,001	6,001	6,001	6,001	6,001	6,001	6,001	10,001	10,001	16,001	15,001	15,001	5,001
Total Cash Beginning Balance	$ 294,028	$ 188,396	$ 116,392	$ 44,763	$ (5,828)	$ (60,132)	$ 58,407	$ 707,851	$1,029,836	$ 632,291	$ 414,370	$ 368,989	$ 294,028
Receipts:													
Note Proceeds	-	-	-	-	-	-	-	-	-	-	-	-	-
Ad Valorem Tax	1,393	1,418	3,021	771	18,497	172,406	767,341	359,821	19,372	4,325	5,286	14,028	1,367,678
Sales Tax	57,026	62,926	56,373	56,052	60,218	60,427	55,674	74,121	57,298	50,464	57,451	46,570	694,600
Franchise Fees	12,776	31,446	25	12,832	22,374	18,708	13,377	22,302	43	10,713	19,282	9,572	173,451
Other	40,672	40,533	26,841	40,979	21,020	28,823	30,644	22,452	32,747	44,938	33,789	55,948	419,385
Total Receipts	111,867	136,323	86,260	110,634	122,109	280,363	867,037	478,696	109,460	110,440	115,808	126,118	2,655,115
Disbursements:													
Note Principal and Interest	-	-	-	-	-	-	-	-	-	-	-	2,176	2,176
Payroll Expenses	123,685	170,534	116,675	120,323	119,882	120,690	171,320	118,825	121,160	120,620	121,030	116,278	1,541,024
General Debt Service	-	-	-	-	-	-	-	-	352,100	-	-		352,100
Utility Expense	3,443	1,751	6,088	4,790	4,200	4,341	5,410	4,547	3,787	2,322	6,335	6,133	53,146
TIRZ Transfer	-	-	-	-	-	-	-	-	-	149,959	-	-	149,959
Other	91,371	36,042	35,126	36,112	52,331	36,793	44,862	33,340	35,957	54,461	33,823	100,274	590,492
Total Disbursements	218,499	208,327	157,889	161,225	176,413	161,824	221,592	156,711	513,004	327,362	161,188	224,861	2,688,897
General Fund	$ 182,395	$ 110,391	$ 38,762	$ (11,830)	$ (66,134)	$ 52,405	$ 697,850	$1,019,835	$ 616,290	$ 399,369	$ 353,988	$ 255,245	$ 255,245
Budget Stabilization Fund	6,001	6,001	6,001	6,001	6,001	6,001	10,001	10,001	16,001	15,001	15,001	16,319	16,319
Total Cash Ending Balance	$ 188,396	$ 116,392	$ 44,763	$ (5,828)	$ (60,132)	$ 58,407	$ 707,851	$1,029,836	$ 632,291	$ 414,370	$ 368,989	$ 271,563	$ 271,563

Table 3 Notes:
This table does not include Series 2019 Note proceeds and principal retirement, but does include an associated interest expense with respect to the Series 2019 Notes.
The amounts include all general fund revenues, including ad valorem taxes levied for the purpose of funding the debt service on outstanding debt of the City; however ad valorem taxes levied for the purpose of funding debt service on outstanding debt are not Pledged Revenues available for repayment of the Notes. See "PLAN OF FINANCE- Pledged Revenues" herein .
Ad Valorem Tax includes current and delinquent taxes and penalty and interest.
Other Receipts include misc. fees, interfund transfers, parking and moving violation tickets, grants, mixed beverage tax, industrial assessments, license and permit fees.
General Debt Service is a direct transfer processed once a year from the General Fund in the amount of $352,100,000.
Other Disbursements include office supplies, equipment and other services.
Excluding the Series 2019 TRANS borrowing, the maximum General Fund cash deficit occurs on December 6, 2019 in the amount of approximately $144.7 million.
The "Budget Stabilization Fund" was drawn down in response to Hurricane Harvey. The City has budgeted for the ending fund balance equal an amount not less than the greater of 1% of expenditures (excluding debt services and PAYGO payments) or $20,000,000.
Assumes revenue stability during the fiscal year.
Totals may not add exactly due to rounding.

Table 4: General Fund Projected Cash Flow
Fiscal Year 2021
(in thousands)
(See Table 4 Notes below)

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
General Fund	$ 255,245	$ 98,880	$ 40,953	$ (30,556)	$ (79,108)	$ (143,615)	$ (82,355)	$ 622,971	$ 634,886	$ 580,000	$ 331,520	$ 276,282	$ 255,245
Budget Stabilization Fund	16,319	16,319	16,319	16,319	16,319	16,319	16,319	16,319	16,319	16,319	16,319	16,319	16,319
Total Cash Beginning Balance	$ 271,563	$ 115,199	$ 57,272	$ (14,237)	$ (62,789)	$ (127,296)	$ (66,036)	$ 639,290	$ 651,205	$ 596,319	$ 347,839	$ 292,601	$ 271,563
Receipts:													
Note Proceeds	-	-	-	-	-	-	-	-	-	-	-	-	-
Ad Valorem Tax	1,441	1,467	3,126	798	19,136	178,371	793,891	372,270	20,042	4,475	5,469	14,514	1,415,000
Sales Tax	50,020	55,217	53,501	52,453	58,358	55,155	52,057	68,049	51,435	49,594	62,521	54,914	663,276
Franchise Fees	18,508	12,123	9,254	18,864	12,140	18,508	0	22,079	9,254	18,849	8,184	9,498	157,260
Other	43,675	39,359	26,621	39,778	20,899	29,183	30,701	23,082	31,213	27,604	30,809	56,458	399,383
Total Receipts	113,644	108,166	92,502	111,893	110,534	281,217	876,650	485,481	111,944	100,522	106,983	135,384	2,634,919
Disbursements:													
Note Principal and Interest	-	-	-	-	-	-	-	-	-	-	-	4,443	4,443
Payroll Expenses	181,991	121,927	124,239	124,318	123,862	177,229	124,476	122,770	125,182	124,625	125,048	120,128	1,595,796
General Debt Service	-	-	-	-	-	-	-	311,353	-	-	-		311,353
Utility Expense	3,443	4,388	4,920	5,687	4,987	5,154	6,424	5,399	4,497	5,220	5,059	7,283	62,461
TIRZ Transfer	-	-	-	-	-	-	-	-	-	180,341	-	-	180,341
Other	84,575	39,778	34,852	30,440	46,192	37,573	40,423	34,045	37,150	38,816	32,114	125,711	581,669
Total Disbursements	270,009	166,093	164,011	160,445	175,041	219,957	171,323	473,566	166,829	349,002	162,221	257,565	2,736,062
General Fund	$ 98,880	$ 40,953	$ (30,556)	$ (79,108)	$ (143,615)	$ (82,355)	$ 622,971	$ 634,886	$ 580,000	$ 331,520	$ 276,282	$ 154,101	$ 154,101
Budget Stabilization Fund	16,319	16,319	16,319	16,319	16,319	16,319	16,319	16,319	16,319	16,319	16,319	16,151	16,151
Total Cash Ending Balance	$ 115,199	$ 57,272	$ (14,237)	$ (62,789)	$ (127,296)	$ (66,036)	$ 639,290	$ 651,205	$ 596,319	$ 347,839	$ 292,601	$ 170,252	$ 170,252

Table 4 Notes:

This table does not include Series 2020 Note proceeds and principal retirement, but does include an associated interest expense with respect to the Series 2020 Notes.

The amounts include all general fund revenues, including ad valorem taxes levied for the purpose of funding the debt service on outstanding debt of the City; however ad valorem taxes levied for the purpose of funding debt service on outstanding debt are not Pledged Revenues available for repayment of the Notes. See "PLAN OF FINANCE- Pledged Revenues" herein .

Ad Valorem Tax includes current and delinquent taxes and penalty and interest.

Other Receipts include misc. fees, interfund transfers, parking and moving violation tickets, grants, mixed beverage tax, industrial assessments, license and permit fees.

General Debt Service is a direct transfer processed once a year from the General Fund in the amount of $311,353,000.

Other Disbursements include office supplies, equipment and other services.

Excluding the Series 2020 TRANS borrowing, the maximum General Fund cash deficit occurs on December 5, 2020 in the amount of approximately $178.1 million.

The total designation for the "Budget Stabilization" fund is approximately $16 million. $20 million was transferred to the Disaster Recovery fund in FY2018. In response to COVID-19, the City has established a COVID-19 Disaster Fund and approved an appropriation not to exceed $5 million from the "Budget Stabilization" fund. These funds will pay the costs incurred by the City in responding to COVID-19.

Assumes revenue stability during the fiscal year.

Totals may not add exactly due to rounding.

PROPERTY TAXES

Property Subject to Taxation by the City

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

Pursuant to the Tax Code, which authorizes residential homestead exemptions of up to 20% of the appraised value, City Council has authorized the full amount of such residential homestead exemptions for prior tax years and the current tax year. The adopted Fiscal Year 2021 Budget (Tax Year 2020) maintained the senior citizen and disabled exemption ("Additional Exemptions") of $160,000 per household. A household may claim one but not both Additional Exemptions. In Tax Year 2019, approximately 122,968 households claimed an Additional Exemption, with an average Additional Exemption claim of $115,437 for each such household, compared to $103,860 for Tax Year 2018. In addition, the Tax Code provides for an exemption of up to $12,000 for real or personal property of disabled veterans or the surviving spouse of children of a deceased veteran who died while on active duty in the armed forces. Further, disabled veterans (and their surviving spouses) who receive a rating of 100% disabled are entitled to an exemption equal to the total appraised value of a residence homestead.

As of April 3, 2020 and based on information received from the Appraisal Districts (as defined below), certified exemptions claimed by taxpayers and an estimate for additional losses due to other challenges totaled approximately $76.0 billion, which when subtracted from the total certified appraised value for Tax Year 2019 of approximately $321.2 billion yields a net certified taxable value of approximately $245.2 billion. See "-Tax Rolls."

Taxing Procedures

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

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

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

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

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

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

Constitutional and Statutory Tax Rate Limitations

The Constitution of the State of Texas (the "State" or "Texas") limits the maximum ad valorem tax rate to $2.50 (per $100 of assessed valuation) for home-rule cities such as the City. However, as discussed below, the City Charter has ad valorem tax rate limitations that are more restrictive than those imposed under the Texas Constitution. See "ACCOUNTING AND BUDGETING PROCEDURES AND GENERAL FUND REVENUES FOR FISCAL YEARS 2021 AND 2020—General Fund and General Debt Service Fund Budgets—Fiscal Year 2021 Budget." See also "Table 6: Ad Valorem Tax Levies and Collections," however, the final rate is not determined until City Council levies its ad valorem taxes which is typically in October or November of each year following budget approval.

During the 86th Regular Legislative Session, Senate Bill 2 ("SB 2") was passed by the Texas Legislature and signed by the Governor, with an effective date of January 1, 2020. SB 2 includes provisions that address the following: (1) lowering the rollback rate for maintenance and operations taxes from the existing 8.0% to 3.5% for the largest taxing units in the State including the City; (2) requiring a tax ratification election if the rollback rate is exceeded, eliminating the petition requirement; (3) making information about the tax rates proposed by local taxing units more accessible to property owners and more timely; and (4) making it easier for property owners to express their opinions about proposed tax rates to local elected officials before tax rates are adopted. Additionally, the term for the rollback tax rate was changed to the "voter-approval tax rate" and the term for the effective tax rate was changed to the "no-new-revenue tax rate." At this time, the City cannot predict how the City would be affected by the provisions of SB 2 and how the new state cap will interact with Propositions 1 and H.

City Charter Tax and Revenue Propositions

General. In addition to certain constitutional and statutory limits described above, 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. Since 2004, voters of the City limited 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 increased available revenue sources in Proposition G (codified in Article IX, Sec. 21 of the City Charter) and Proposition H (defined herein), 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 (hereinafter defined), 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 plaintiff has challenged the trial court's disposition.

Proposition 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 (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.

Passage of Proposition B; Effect on Future City Budget and Services; Status of Litigation. The Houston Professional Fire Fighters Association (the "Fire Fighter Union") presented a petition to the City to amend the City's Charter with regard to the compensation of the City's firefighters. On November 6, 2018, the voters approved a proposition adding a charter amendment (hereinafter "Proposition B") to cause the City to compensate its firefighters in an amount that is "at least equal and comparable by rank and seniority" to the City's police officers. Proposition B does not identify a revenue source or define what "equal and comparable" means with respect to police officers and firefighters. The City reviewed Proposition B and estimated that its impact on the City's budget could be approximately $80 million annually based on previous assumptions.

Implementation of Proposition B is the subject of ongoing litigation. On May 15, 2019, the Harris County District Court granted the City's Motion for Summary Judgment and ruled that Proposition B is preempted in its entirety and unconstitutional. Based on the trial court's order, the City will not implement Proposition B, and Proposition B is expected to have no impact on the City budget and services during Fiscal Year 2021.

The Fire Fighter Union filed a Notice of Appeal of the trial court's order. If the City is required to manage the impact of Proposition B in the future, the City will explore a number of options, including reducing overall budgetary spending, phasing in compensation parity over multiple Fiscal Years, creating additional revenue sources to increase available revenues, reaching an agreement with the Fire Fighter Union, or some combination of these options.

Tax Rolls

Set forth in the table below are the City's tax rolls for Tax Years 2015 through 2019 (Fiscal Years 2016 through 2020), as provided by the Appraisal Districts. The Tax Years 2015 through 2018 (Fiscal Year 2016 through 2019) tax rolls represent the total appraised value of property, after subtracting all exemptions, and reflect all adjustments made by the Appraisal Districts. The Tax Year 2019 (Fiscal Year 2020) tax rolls represent the Appraisal Districts' estimated final taxable value of property, which consists of the total appraised value of property less all exemptions and adjustments made by the Appraisal Districts. All figures are as of June 30 of each Fiscal Year, except for Tax Year 2019 (Fiscal Year 2020), which are based upon certified tax rolls as of April 3, 2020.

Table 5: Tax Rolls[(a)]

Tax Year	Fiscal Year	Real Property (in thousands)	Personal Property (in thousands)	Total Tax Rolls[(b)(c)] (in thousands)
2015	2016	175,900,039	28,400,928	204,300,968
2016	2017	192,559,491	28,133,218	220,692,709
2017	2018	200,281,439	27,238,242	227,519,681
2018	2019	203,084,280	26,546,003[(d)]	229,630,283[(d)]
2019	2020	218,180,314[(d)]	27,402,605[(d)]	245,582,919[(d)]

____

(a) Information provided by the Appraisal Districts.
(b) As of April 5, 2019, the Harris County Appraisal District reported that approximately 11,000 active lawsuits have been filed which, in the aggregate, challenge the valuation placed on approximately $50 billion of the total appraised tax rolls for Tax Year 2018 and all prior Tax Years. No prediction can be made as to how the tax rolls may be affected by these lawsuits.
(c) The City has entered into approximately 8 active abatement agreements to stimulate economic development. Property owners receiving these abatements agree to construct certain real property and/or personal property improvements in consideration of the abatement of ad valorem taxes on such improvements for a specified period of time, with a minimum investment exceeding $1 million and the creation or retention of full-time jobs. Ad valorem taxes are assessed on all other property. According to the Harris County Appraisal District, these abatement projects currently represent investments of approximately $642,850,000 with the value of abatable improvements totaling approximately $321,425,000.
(d) These amounts reflect the Appraisal Districts' certified taxable valuations and uncertified taxable valuations less an estimate of hearing loss based on tax rolls available as of April 3, 2020.

[Remainder of Page Intentionally Left Blank]

Ad Valorem Tax Levies and Collections

The following table sets forth for Fiscal Years 2015 through 2020 the tax rate in each year, the net amount of ad valorem taxes levied by the City, the amount of each year's levy that was collected through the end of each respective Fiscal Year, the amount of prior years' delinquent taxes collected and the percentage of the net levy represented by such total collections. All figures are as of June 30 of each Fiscal Year, except for Fiscal Year 2020, which are approximate amounts as of April 3, 2020.

Table 6: Ad Valorem Tax Levies and Collections

	Tax Rate[a] [e]			Net Current Year	Current	Prior Years' Delinquent	Total	Total Collections
Fiscal Year	General Purposes	Debt Service	Total	Tax Levy[b][d] (in thousands)	Collections [c][d] (in thousands)	Collections (in thousands)	Collections[c][d] (in thousands)	(Percentage of Net Levy) [c] [d]
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	1,384,414	1,362,263	10,369	1,372,632	99.1

[a] The Texas Constitution limits the maximum ad valorem tax rate to $2.50 per $100 of assessed valuation for home-rule cities such as the City. See "PROPERTY TAXES—City Charter Tax and Revenue Propositions."

[b] The figures represent net adjusted levies, including the late certification and correction rolls from the Appraisal Districts, through June 30 of each Fiscal Year, except for Fiscal Year 2020, which is as of the date set forth above.

[c] 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 totaled 19.5 million in Fiscal Year 2019. 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.

[d] 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 2020, the City has budgeted approximately $161 million of tax increments to be transferred to special funds for such zones, as required by State law, of which approximately $42 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.

[e] From Fiscal Year 2015 to Fiscal Year 2019, the City reduced its ad valorem tax rate from .63108 to 0.58831. In Tax Year 2019 (Fiscal Year 2020), the City adopted a tax rate of $0.56792 (per $100 assessed valuation) to meet the revenue limitation prescribed by Proposition 1 on the collection of ad valorem taxes; the City anticipates that the Tax Year 2020 (Fiscal Year 2021) tax rate may be reduced further to meet the revenue limitations of Proposition 1. The City Charter provides that, in preparing the City's budget, provision shall first be made for the payment of debt service on the City's outstanding bond indebtedness, with the remaining revenues to be apportioned among the City's respective departments. For further information, see "PROPERTY TAXES-City Charter Tax and Revenue Projections" and "PROPERTY TAXES-Impact of Proposition 1 and Proposition H on Ad Valorem Tax Collections."

Source: Harris County Appraisal District, Fort Bend Central Appraisal District, and Montgomery Central Appraisal District and City Finance Department

[Remainder of Page Intentionally Left Blank]

Principal Taxpayers

The top ten taxpayers for Fiscal Year 2020 (Tax Year 2019) by taxable valuations, as provided by the Appraisal Districts, and the percentage of the total taxable valuation attributable to each such taxpayer were as follows:

Table 7: Principal Taxpayers[(a)]

Rank	Name	Taxable Valuation (in thousands)	% of Tax Roll[(a)]
1	Centerpoint Energy, Inc.	$ 2,204,939	0.97 %
2	Chevron Chemical Company	1,032,609	0.45
3	PKY CITYWEST 1-4, POC, SAN FELIPE	843,913	0.37
4	Memorial City Medical, Mall, Towers	815,712	0.36
5	ONE TWO THREE ALLEN CENTER	788,054	0.35
6	BSREP (Brookfield Management)	786,878	0.35
7	SHELL	786,445	0.35
8	GWP (Greenway Plaza)	736,958	0.32
9	HG GALLERIA	713,931	0.31
10	Conoco Phillips CO	486,147	0.21
	TOTAL[(b)]	9,195,586	4.05%

(a) Based on information reported in the City's audited financial statements for Fiscal Year 2019 presented in APPENDIX A.
(b) Based on Tax Year 2019 estimated taxable value of $245.6 billion, the percentage of total taxable valuation attributable to the top ten taxpayers is approximately 4.05%.

Impact of Proposition 1 and Proposition H on Ad Valorem Tax Collections

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 the actual ad valorem tax revenues collected in the preceding Fiscal Year, plus 4.5%, or actual ad valorem tax revenues received in Fiscal Year 2005 adjusted for the cumulative combined rates of inflation and the City's population growth (as determined by the US Census). Additionally, to augment the impact of Proposition 1, Proposition H authorizes the City to annually budget up to $90 million of ad valorem tax revenue for increased police, fire and emergency medical services and related matters. The amount collected and spent in each year becomes part of the base ad valorem revenue calculations for the following year. The City intends to continue collecting revenues for public safety purposes in compliance with Proposition H. See "PROPERTY TAXES—City Charter Tax and Revenue Propositions."

The Fiscal Year 2020 Budget contemplated the ad valorem tax revenues as allowed under Proposition 1 and Proposition H. Because the final Tax Year 2019 ad valorem tax values provided by the Appraisal Districts exceeded the growth factor allowed by Proposition 1, the City adopted a tax rate of $0.56792 (per $100 assessed valuation) for Fiscal Year 2020, which is approximately 0.35% lower than the City's Fiscal Year 2019 tax rate of $0.58831. Similarly, the City's Fiscal Year 2021 Budget contemplates ad valorem tax revenues as allowed under Proposition 1 and Proposition H, and, based on the preliminary ad valorem tax values reported by the Appraisal Districts, it is expected that the tax rate may be reduced further at such time the City levies taxes for Fiscal Year 2021. See "General Fund and General Debt Service Fund Budgets."

Including Fiscal Year 2021 and the past five Fiscal Years, the City estimates that the impact of Proposition 1 has reduced ad valorem tax collections by approximately $915 million based on the Fiscal Year 2014 tax rate of $0.63875. If ad valorem tax values continue to increase in an amount greater than the growth factor allowed under Proposition 1, it is expected that the City's revenues from ad valorem taxes will continue to be limited and will negatively impact City budgets in subsequent Fiscal Years due to increasing demands on the City's budget, annual pension contributions, and the costs of other services. Due to the revenue limitations imposed by Proposition 1, all 5-

year forecasts prepared by the City rely on projections of CPI plus population growth to project ad valorem revenue growth as prescribed by Proposition 1.

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 property that receives drainage services (the "Drainage Utility Fee") to help provide for 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 existing churches. Exempted properties are estimated to be 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.

Pay-As-You-Go Fund Litigation. In December 2010, citizens filed an election contest in State district court seeking to have the voters' approval of the Pay-As-You-Go Fund charter amendment declared void. The citizen-initiated proposed charter amendment was put back on the ballot with revised language in November 2018, and was approved by the voters, resolving the dispute.

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 the 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 that denial is currently on appeal to the Fourteenth Texas Court of Appeals.

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 his 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.

Three railroad companies had intervened in the lawsuit to challenge the Drainage Utility Fee but, on the City's motion, the court struck the railroad companies' intervention. The railroad companies then filed their own lawsuit challenging the validity of various aspects of the assessment of the Drainage Utility Fee, alleging both ultra vires and constitutional claims, and asking for injunctive relief and attorneys' fees. The City filed a plea to the jurisdiction on all of the railroads' ultra vires claims, which was granted by the district court but denied on appeal by the Texas Supreme Court. The railroad companies' ultra vires claims, declaratory judgment claims, and constitutional challenges are currently pending in the district court.

A small business has filed a lawsuit contending that the City, Mayor Sylvester Turner and the Director of Houston Public Works in his official capacity 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 plaintiff's deadline for filing a petition for review in the Texas Supreme Court has not yet passed.

AD VALOREM TAX OBLIGATIONS OF THE CITY

Authority to Issue Bonds and Other Obligations

Statutory Limitation. Texas law authorizes the City to incur total bond indebtedness through the issuance of tax obligations in an amount not to exceed 10% of the total assessed valuation of property in the City ("Tax Obligations"). As of April 3, 2020, the statutory limitation on such ad valorem tax obligations was approximately $32.1 billion based on an approximate assessed valuation of $321.2 billion for Tax Year 2019. See "—Ad Valorem Tax Obligation Percentages." Revenue bonds, tax and revenue anticipation notes, and other contracts are not included in the bonded debt total to which the statutory limitation of 10% applies. See "TABLE 8: Outstanding Debt." The City has covenanted to assess, levy and collect an ad valorem tax in each Tax Year sufficient to pay debt service on the outstanding Tax Obligations.

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

The City may also issue Tax Certificates payable from ad valorem taxes and, in some cases, a pledge of certain City revenues for the purpose of paying any contractual obligations to be incurred in the construction of any public work or for the purchase of materials, supplies, equipment, machinery, buildings, land and rights-of-way, for the demolition of dangerous structures, and other professional services. The City also is authorized to issue anticipation notes and time warrants payable from ad valorem taxes for general purposes. The issuance of Tax Certificates, certain commercial paper notes, tax and revenue anticipation notes and time warrants does not require voter approval unless the applicable law allows a qualifying referendum petition to be filed with the City within a specified time limit. The City is authorized to issue pension obligations, which may be payable from and secured by ad valorem taxes or revenues or both to fund UAAL associated with the Pension System (as defined herein), as further set forth in Chapter 107, Texas Local Government Codes. The City has previously incurred or issued approximately $1.613 billion in tax supported pension obligations to fund amounts required under Pension Reform Legislation, which includes Tax Bonds issued to refinance the Pension Obligations. See "—Table 8: Outstanding Debt" for the current amount of outstanding pension obligation bonds. Also see "EMPLOYEE PENSION FUNDS."

General Obligation Commercial Paper Programs. The City has multiple general obligation commercial paper programs with an aggregate authorization of $925 million, of which $625 million is secured by credit facilities. Each of the various programs may be used for the purposes of the voter-authorized obligations or for other purposes allowed by law, including for equipment and other purposes. As of April 30, 2020, an aggregate amount of $121.9 million of Commercial Paper Notes was outstanding. See "PURPOSE AND PLAN OF FINANCING." The City's Series A, B, C, D, F and H-1 General Obligation Commercial Paper Programs have expired.

The City's existing General Obligation Commercial Paper Programs are as follows:

(1) A $100 million Series E-1 General Obligation Commercial Paper Program (the "Series E-1 Notes"). The liquidity provider for the Series E-1 Notes is Citibank, N.A. As of April 30, 2020, $40 million of the Series E-1 Notes have been issued;

(2) A $100 million Series E-2 General Obligation Commercial Paper Program (the "Series E-2 Notes"). The liquidity provider for the Series E-2 Notes is Wells Fargo Bank, N.A. As of April 30, 2020, $33.9 million of the Series E-2 Notes have been issued;

(3) A voter authorized $75 million Series G-1 General Obligation Commercial Paper Program (the "Series G-1 Notes"). The liquidity provider for the Series G-1 Notes is Toronto Dominion. As of April 30, 2020, none of the Series G-1 Notes have been issued;

(4) A voter authorized $125 million Series G-2 General Obligation Commercial Paper Program (the "Series G-2 Notes"). The liquidity provider for the Series G-2 Notes is Barclays Bank PLC. As of April 30, 2020, $8.0 million of the Series G-2 Notes have been issued;

(5) A voter authorized $100 million Series H-2 General Obligation Commercial Paper Program (the "Series H-2 Notes"). The liquidity provider for the Series H-2 Notes is Barclays Bank PLC. As of April 30, 2020, $40 million of the Series H-2 Notes have been issued; and

(6) A voter authorized $125 million Series J General Obligation Commercial Paper Program (the "Series J Notes"). The liquidity provider for the Series J Notes is State Street Bank and Trust Company. As of April 30, 2020, none of the Series J Notes have been issued.

Additionally, the City entered into two appropriation facilities supported by a forward bond purchase agreement ("Forward BPA") between RBC Capital Markets, LLC ("RMCCM") and the City under which, pursuant to certain parameters and at the City's direction, RBCCM has agreed to use its best efforts to sell up to $200 million and $100 million of Public Improvement Bonds. These commitments expire February 2, 2026. The Royal Bank of Canada ("RBC") is the parent company of RBCCM.

With regard to all general obligation commercial paper programs, Commercial Paper Notes may be issued for a period not to exceed 270 days and will bear interest based upon the specified term of the Commercial Paper Notes, but not to exceed 12%. The principal and interest on the Commercial Paper Notes is payable from ad valorem taxes and other funds that may be provided under their respective lines of credit. The Commercial Paper Notes are offered for sale by commercial paper dealers. In addition, the rating of each liquidity provider has a direct effect on the liquidity of the respective Commercial Paper Notes being secured and the cost to the City to issue such Commercial Paper Notes. Financial and other information about each liquidity provider may be available from the applicable liquidity provider or one or more nationally recognized rating agencies.

Interest Rate Swaps. The City currently has no outstanding interest rate swaps or hedge agreements for its tax supported debt. As part of its debt management program, consistent with the guidelines set forth in its interest rate swap policy, the City considers and reviews various interest rate swap proposals, including tax supported interest rate swaps. The City's interest rate swap policy does not impose any quantitative limits on the rate, credit, or other risks that the City could assume under interest rate swap agreements. See "ACCOUNTING AND BUDGETING PROCEDURES AND GENERAL FUND REVENUES FOR FISCAL YEARS 2019 AND 2020—Interest Rate Swap Policy."

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

[Remainder of page intentionally left blank.]

Obligations of the City

The following table sets forth, as of April 30, 2020, the outstanding principal amounts of obligations of the City payable from ad valorem taxes and Enterprise Fund revenues.

Table 8: Outstanding Debt

	Amount (in thousands)
Payable from Ad Valorem Taxes	
Tax Obligations[(a)]	$ 1,888,435
Pension Obligations[(b)]	1,523,220
General Obligation Commercial Paper Notes[(c)]	121,900
Certificates of Obligation	12,340
Subtotal	$ 3,545,895
Payable from Sources Other Than Ad Valorem Taxes	
Combined Utility System Revenue Bonds[(d)]	$ 6,109,410
Combined Utility System Commercial Paper Notes[(e)]	210,000
Water and Sewer System Revenue Bonds[(f)]	163,651
Contract Revenue Obligations[(g)]	56,955
Combined Utility System Subordinate Lien[(h)]	430,805
Airport System Senior Lien Bonds	-0-
Airport System Senior Lien Commercial Paper Notes[(i)]	125,970
Airport System Subordinate Lien Revenue Obligations[(j)]	1,855,340
Airport Special Facilities Revenue Bonds[(k)]	923,290
Hotel Occupancy Tax and Civic Parking Facilities Revenue Bonds[(l)]	610,077
Hotel Occupancy Tax and Parking Revenue Flexible Rate Notes, Series A & B	20,000
Subtotal	$10,505,498
Total Debt Payable by the City	$14,051,393

(a) A portion of the debt service for Tax Obligations is paid by transfers of revenues derived from certain Enterprise Funds, Special Revenue Funds or otherwise dedicated funds.

(b) This amount includes certain Tax-Supported Bonds issued to fund certain pension obligations. A portion of the debt service for the Pension Obligations is paid by certain Enterprise Funds. See "EMPLOYEE PENSION FUNDS—Municipal System" and "—Police System." Additionally, as contemplated by the Pension Reform Legislation (as defined herein), the City issued its Pension Obligations Bonds, Series 2017 (Taxable) to fund a portion of the UAAL of Houston Municipal Employee Pension System and Houston Police Officers' Pension System.

(c) The City has multiple series of general obligation programs with total authorization of $925 million; however, of this amount, $300 million is allocated to a commercial paper program that provides appropriation capacity to manage its capital improvement program. Liquidity for $625 million of such commercial paper programs is provided by various commercial banks with various commitments ranging from one year to three years. See "—Authority to Issue Bonds and Other Obligations – *General Obligation Commercial Paper Programs*."

(d) As of April 30, 2020, $653,325 million are outstanding as variable rate demand obligations, and $249.075 million are outstanding as LIBOR indexed notes. In respect to such bonds, the City has entered into interest rate swap agreements secured by revenues of the system. See "—Authority to Issue Bonds and Other Obligations" and Note 8.C.13, 14 of the City's audited Financial Statements in APPENDIX A. The table values do not include the impact of the scheduled July 1, 2020 issuance of $610.72 million Combined Utility System First Lien Revenue and Refunding Bonds, Series 2020C&D or the impact of the scheduled August 19, 2020 issuance of the Combined Utility System First Lien Revenue Refunding Bonds, Series 2020A.

(e) The City maintains the Series B Commercial Paper Program for the City's Combined Utility System that provides for the issuance of Commercial Paper Notes as Third Lien Obligations. The current issuance capacity of the Series B Commercial Paper Program is $700 million, of which $375 million is a supported by either lines of credit or letters of credit, and certain appropriation facilities to manage its capital improvement program of the system represent the balance. While the appropriation facilities allow for the issuance of obligations, there are no amounts outstanding under such programs. The balance of $210 million of commercial paper is scheduled to be refunded by the July 1, 2020 issue described in footnote (d).

(f) This amount represents outstanding Water and Sewer System Revenue Bonds issued prior to the City's creation of the Combined Utility System and includes $113.7 million accreted value of capital appreciation bonds. The Water and Sewer System is now a component of the Combined Utility System; however the Water and Sewer System Bonds are senior in priority to those of the Combined Utility System.

(g) Contract Revenue Obligations consist of obligations under certain contracts between the City and the Coastal Water Authority, which are payable, as to both principal and interest, as operating expenses of the City's Combined Utility System.

(h) Does not include $361.294 million contract obligations payable to Coastal Water Authority; the City receives payments from regional water authorities offsetting a significant portion of these obligations.

(i) The City has authorized a $350 million Airport System Senior Lien Commercial Paper Program, which is additionally secured by a letter of credit provided by Sumitomo Mitsui Banking Corporation, acting through its New York Branch; the letter of credit expires on March 31, 2025.

(j) Of this amount, as of April 30, 2020, $92,105 are outstanding as variable rate demand obligations.

(k) All Special Facilities Revenue Bonds are secured solely from Special Facilities Lease Revenues, which are not revenues of the Houston Airport System. The table values do not include the impact of the scheduled June 29, 2020 issuance of $148.5 million of Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal E Project), Series 2020A (AMT), Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2020B-2 (AMT), and Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2020C.

(l) Of this amount, as of April 30, 2020, approximately $163.7 million represents accreted value of capital appreciation bonds.

Ad Valorem Tax Obligation Percentages

The following table shows (i) tax-supported debt, (ii) tax rolls as of June 30 of each Fiscal Year, except for Tax Year 2019, the figures of which are based on tax rolls as of April 3, 2020, (iii) tax-supported debt as a percentage of the City's tax rolls, (iv) tax-supported debt per capita and (v) debt service requirements payable from taxes at the end of Tax Years 2015 through 2019 (Fiscal Years 2016 through 2020). For purposes of this table, tax-supported debt consists of the outstanding Tax-Supported Bonds, Tax-Supported Certificates, Commercial Paper Notes and Pension Obligations as of the dates shown.

Table 9: Ad Valorem Tax Obligation Percentages[a]

Tax Year	Fiscal Year	Tax Obligations as of December 31 (in thousands)	Tax Roll[b] (in thousands)	Tax Obligations as a Percentage of Tax Roll	Tax-Supported Per Capita Debt[c]	Debt Service Requirement Payable from Taxes[d][e] (in thousands)	Tax Levy for Debt Service [f] (in thousands)
2015	2016	3,225,240	204,300,968	1.58	1,405	339,851	295,954
2016	2017	3,079,240	220,692,709	1.40	1,337	339,639	258,415
2017	2018	3,978,830	227,519,681	1.75	1,720	384,968	333,784
2018	2020	3,887,020	231,287,201	1.69	1,671	427,761	342,205
2019	2020	3,918,035	245,582,919	1.60	1,685	403,043	352,100

(a) Information as reported in the City's Monthly Financial Report dated as of December 31 of each Fiscal Year.

(b) With the exception of Tax Year 2019, the tax roll represents the total appraised value of property, after subtracting all exemptions, and reflects all adjustments made by the Appraisal Districts as of June 30 of each Fiscal Year. As of April 3, 2020, the total assessed value for Tax Year 2019 (including exempt property values) was approximately $32.1 billion, which is the appraised value used to determine the statutory limitation of approximately $32.1 billion relating to total bond indebtedness. See "TABLE 8: Outstanding Debt" for the total amount of the City's outstanding bond indebtedness.

(c) Per capita figures are based on population estimates according to the U.S. Census Bureau. See "APPENDIX B – ECONOMIC AND DEMOGRAPHIC CHARACTERISTICS" for additional population information and other economic and demographic information.

(d) These amounts have not been reduced by the combined ending fund balances in the General Debt Service Fund, which were as follows for the Fiscal Years indicated: Fiscal Year 2016 - $153,757, Fiscal Year 2017 is $128,072 and for Fiscal year 2018 is $132,704, and the estimate for Fiscal Year 2019 is $131,649.

(e) These amounts include principal and interest payments for Tax Obligations, except that only interest is included for Commercial Paper Notes at an assumed market rate appropriate for each Fiscal Year.

(f) Sources of funds for the general obligation debt service requirements include the proceeds of the tax levy and transfers from Enterprise Funds and Special Revenue Funds.

ADDITIONAL SOURCES OF PLEDGED REVENUES

General

In addition to ad valorem tax receipts, Pledged Revenues also include sales and use tax, franchise charges and fees, certain direct and indirect charges to other City funds, and certain other general revenues of the City. Pledged Revenues exclude revenues (i) pledged to the payment of certain bonds and other obligations of the City and (ii) from the City's (a) Houston Airport System, (b) Combined Utility System, (c) Convention and Entertainment Facilities Department, and (iii) revenues derived from (a) the hotel occupancy taxes remitted to the City and (b) the Drainage Utility Fee.

Sales and Use Tax and Franchise Charges and Fees

A 1% sales and use tax is collected for the City by the State. The sales and use tax is collected by the retailer from the consumer or purchaser and remitted by the retailer to the Comptroller of Public Accounts of the State, which then remits a portion of the collected amount to the City on a monthly basis. Sales and use tax revenues accounted for approximately 26% to 28% of General Fund revenues for Fiscal Years 2017 through 2019, and are projected to be approximately 28% of the Fiscal Year 2020 General Fund revenues and approximately 28% of the budgeted Fiscal Year 2021 General Fund revenues.

The City also collects franchise charges and fees on utilities, including electric, telephone and gas companies, and other parties that have obtained franchises from the City. The fees generally vary from 1% to 5% of the gross receipts collected by the franchise holder within the City although this varies. For example, some franchise fees are a designated amount set forth in the franchise agreement, adjusted annually by an inflation or growth factor. This is true of electric franchise fees and fiber optic franchises. Other fees, such as those for the use of the right-of-way by telecommunications companies, are a function of the number of access lines in the municipality's right-of-way. All of the City's franchise fee revenue above a base amount (equal to the franchise fee revenue actually collected in Fiscal Year 2005) has been dedicated to public safety expenditures. Franchise charges and fees accounted for approximately 9% to 8% of General Fund Revenues for Fiscal Years 2017 through 2019, and are projected to be approximately 8% of the Fiscal Year 2020 General Fund Revenues and approximately 7% of the budgeted Fiscal Year 2021 General Fund Revenues.

Table 10 shows the amount of revenues obtained by the City from the sales and use tax and from franchise charges and fees for Fiscal Years 2017-2019, the amount projected for Fiscal Year 2020 and the budgeted amount for Fiscal Year 2021:

Table 10: Sales and Use Tax and Franchise Charges and Fees

Fiscal Year	Sales and Use Tax (in thousands)	Franchise Charges and Fees (in thousands)
2017	631,993	190,586
2018	674,279	185,774
2019	692,271	179,307
2020[a]	680,000	168,539
2021[b]	675,000	157,260

[a] Projections based on information reported in the City's Monthly Financial Report as of April 30, 2020.
[b] Projections based on information reported in the City's Fiscal Year 2021 Budget.

Charges to Certain City Enterprise Funds

Indirect and Direct Charges. An Indirect Charge is a charge made by the General Fund to the Combined Utility System, Houston Airport System, or Convention and Entertainment Facilities Department funds, or to certain grant and special revenue funds for indirect charges incurred by the General Fund on behalf of such funds. A Direct Charge is a charge made by the General Fund to the Combined Utility System, Houston Airport System, Convention and Entertainment Facilities Department or the Capital Projects funds or certain other funds of the City for specific services provided to such funds by the General Fund.

[Remainder of Page Intentionally Left Blank]

Table 11 shows Indirect and Direct Charges for Fiscal Years 2017 through 2019, the projected amounts for Fiscal Year 2020, and the budgeted amounts for Fiscal Year 2021:

Table 11: General Fund Direct and Indirect Charges to Other City Funds

Fiscal Year	Indirect Charges (in thousands)	Direct Charges (in thousands)
2017	27,399	53,523
2018	28,910	54,449
2019	26,603	62,214
2020[(a)]	27,871	62,665
2021[(b)]	24,258	63,175

[(a)] Projections based on information reported in the City's Monthly Financial Report as of April 30, 2020.
[(b)] Projections based on information reported in the City's Fiscal Year 2021 Budget.

Special Revenue Funds

The City maintains various special revenue funds, which are budgeted and accounted for outside the City's General Fund. Revenues of such funds (except for certain indirect charges from the General Fund) are not considered available revenues (or Pledged Revenues) and are dedicated to specific City projects. For further information regarding the special revenue funds, see Note 1.C. to the City's audited financial statements for Fiscal Year 2019 presented in APPENDIX A.

ACCOUNTING AND BUDGETING PROCEDURES AND GENERAL FUND REVENUES FOR FISCAL YEARS 2021 AND 2020

Financial Accounting

The accounts of the City are organized on the basis of funds, each of which constitutes a separate entity for accounting purposes. The most significant of these funds is the General Fund, which accounts for all revenues and expenditures of the City not accounted for in the various Enterprise Funds or the other funds maintained by the City. Other than ad valorem taxes, the primary sources of General Fund revenues include sales and use taxes, franchise charges and fees, charges to other City funds, industrial district contract revenues and miscellaneous revenue sources such as fines, penalties, licenses, fees, interest income from investments and other taxes. There are three major Enterprise Funds: the Combined Utility System Fund, the Houston Airport System Fund and the Convention and Entertainment Facilities Fund.

The methods of accruing revenues and expenditures differ between the General Fund and the Enterprise Funds. For a description of the accrual methods and the reporting entity definitions, see Note 1 to the City's audited Financial Statements for Fiscal Year 2019 as presented in APPENDIX A. Other major governmental funds maintained by the City include the Debt Service Fund, the Capital Projects Fund and the Grants Fund. Other funds include Nonmajor Special Revenue Funds (e.g., Public Works Special Fund - Dedicated Drainage & Street Renewal), Internal Service Funds and Fiduciary Funds, including Pension Trust Funds and certain agency funds.

Budgeting Procedures

State law and the City Charter require that the Mayor annually prepare and submit to the City Council a balanced budget consisting of an estimate of the revenues and expenditures in the budget period. The proposed expenditures in each budget period may not exceed the estimated available resources in such period. According to the City Charter, the estimate of available resources is based on the amount of available surplus, if any, carried forward from the preceding period, the estimated revenues of the City derived from ad valorem taxes, based on the total valuation of the property for taxation for the preceding period, and such other contingent revenues of the City as may probably accrue.

The City Charter further provides that, in preparing the budget, provision shall first be made for the payment of debt service on the City's outstanding bond indebtedness, with the remaining revenues to be apportioned among the City's respective departments. After a budget has been approved by the City Council, the Mayor may, under certain limited circumstances, submit a revised budget to the City Council for approval.

The City Council appropriates funds both in support of the budget and for specific purposes. The City Charter also provides that no appropriation or obligation of City funds may be made unless the City Controller first certifies that funds are available for payment of such obligation or that such funds will be available before the maturity of such obligation. The City Charter prohibits the execution of any warrant, contract or order for payment unless signed by the Mayor and countersigned by the City Controller, each of whom is an independently elected official. The City Controller's responsibility not to certify the availability of funds in the event of a shortfall in revenues in a Fiscal Year can serve to assure that expenditures do not exceed resources during such Fiscal Year. If a budget is not adopted prior to the beginning of a Fiscal Year, the City Council historically has adopted an ordinance that appropriates funds to authorize an interim spending plan for City operations.

General Fund and General Debt Service Fund Budgets

The City's budget process has several phases, including public meetings to obtain public input, departmental submission of budget and Capital Improvement Plan ("CIP") requests, and presentation of the Mayor's budget priorities, policies and strategies to City Council. State law provides that no budget may be adopted when budgeted expenditures exceed budgeted resources, and the City Charter provides that no appropriation or obligation of City funds may be made unless the City Controller first certifies that funds are or will be available for payment of such obligation before maturity. ***The discussion of the City's Fiscal Year 2020 Budget and Fiscal Year 2021 Budget contain projections that are subject to change due to a variety of factors and circumstances. The City, as in prior fiscal years, expects to monitor the receipt of revenues and expenditures within its department, and recommend such changes as may be necessary to meet its statutory, charter and internal financial requirements. The City may modify or amend the budget as it deems appropriate.***

Fiscal Year 2020. The City adopted its Fiscal Year 2020 Budget in June 2019, and all references to the Fiscal Year 2020 Budget in this Official Statement are to the Fiscal Year 2020 Budget adopted at that time. In the Fiscal Year 2020 General Fund Budget, approximately $2.531 billion was budgeted for expenditures and transfers and approximately $2.717 billion was budgeted for total available resources, which is expected to produce a General Fund unassigned ending fund balance of approximately $186.1 million. The Fiscal Year 2020 Budget provides for transfers of approximately $352.1 million from the General Fund to the Debt Service Fund. Subsequent to the adoption of the Fiscal Year 2020 Budget, an ad valorem tax rate of $0.56792 (per $100 assessed valuation) for Tax Year 2019 (Fiscal Year 2020) was adopted by City Council. As of the April 30, 2020 Monthly Financial Report, the projected General Fund ending fund balance for Fiscal Year 2020 was $277 million, including budget stabilization fund. The projected increase in fund balance is due to a higher than anticipated Fiscal Year 2019 ending fund balance and reduced expenditures, which are partially offset by lower than anticipated revenues in Fiscal Year 2020.

Fiscal Year 2021 Budget. Consistent with the City's budget process, the Mayor proposed and City Council adopted the Fiscal Year 2021 Budget on June 10, 2020, with approximately $2.512 billion budgeted for expenditures and transfers, approximately $2.683 billion budgeted for total available resources, which is expected to produce a General Fund unassigned ending fund balance of approximately $170.4 million. The Fiscal Year 2021 Budget provides for transfers of approximately $316.6 million from the General Fund to the Debt Service Fund.

It is anticipated that Proposition 1 will continue to limit ad valorem tax revenue collections in Fiscal Year 2021 and thereafter, assuming continued increases in ad valorem tax values reported by the Appraisal Districts beyond the growth factor allowed under Proposition 1. Accordingly, the City Council will adopt a tax rate consistent with limits of Proposition 1, which may be less than the tax rate of the previous fiscal year. See "Impact of Proposition 1 and Proposition H on Ad Valorem Tax Collection."

In addition to Proposition 1, the City anticipates increased demands on future budgets and possible declines in other revenue sources, such as sales taxes, and other economic factors beyond the City's control could impact future budgets. The combined effects of Proposition 1 and increased budgetary demands could materially impact the City's ability to maintain or provide certain services at current levels if it does not take action to increase revenues, decrease expenditures, or both. Accordingly, all 5-year forecasts rely on projections of CPI plus population growth to project ad valorem revenue growth. See "PROPERTY TAXES—Impact of Proposition 1 and Proposition H on Ad Valorem Tax Collections."

Table 12 and Table 13 set forth a summary of the adopted General Fund Budget (excluding grant programs) and Debt Service Fund Budget for Fiscal Year 2020 and the adopted General Fund Budget (excluding grant programs) and the Debt Service Fund Budget for Fiscal Year 2021.

Table 12: General Fund Budget for Fiscal Year 2021 and Fiscal Year 2020

	Adopted Fiscal Year 2021[a] (in thousands)	Adopted Fiscal Year 2020 (in thousands)
BUDGETED RESOURCES		
Ad Valorem Taxes (current and delinquent)	$1,233,391	$1,215,687
Sales and Use Tax	675,000	694,567
Franchise Fees	157,259	159,169
Municipal Court Fines and Forfeits	19,744	22,572
Miscellaneous/Other	323,975	308,102
TOTAL CURRENT REVENUES[b]	$2,409,368	$2,400,095
Sale of Capital Assets/Transfers from Other Funds	12,699	17,883
Beginning Fund Balance as of July 1 – unassigned	261,100	299,213
TOTAL BUDGETED RESOURCES[b]	$2,683,167	$2,717,191
BUDGETED EXPENDITURES		
Administrative Services	$ 99,065	$ 104,466
Public Safety	1,480,548	1,446,404
Development and Maintenance Services	164,415	166,573
Human and Cultural Services	184,702	190,870
General Government	186,370	223,579
Transfer to Debt Service Fund and Pay-As-You-Go Capital Projects	397,644	399,203
TOTAL BUDGETED EXPENDITURES[b]	$2,512,745	$2,531,095
ENDING FUND BALANCE as of June 30	$170,422	$186,096
TOTAL BUDGETED EXPENDITURES AND ENDING UNASSIGNED FUND BALANCE[b]	$2,683,167	$2,717,191
ENDING FUND BALANCE – unassigned	$ 170,590	$ 185,647

[a] Information as reported in the City's Fiscal Year 2021 Budget. See "COVID-19" herein for a discussion of the potential impact of COVID-19 on the City's Fiscal Year 2021 budget.
[b] Totals may reflect a slight variance due to rounding and minor changes in the unassigned fund balance.

[Remainder of Page Intentionally Left Blank]

Table 13: Debt Service Fund Budget for Fiscal Year 2021 and Fiscal Year 2020

	Adopted Fiscal Year 2021[a] (in thousands)	Adopted Fiscal Year 2020 (in thousands)
BUDGETED RESOURCES		
Transfers in from:		
General Fund	$ 311,353	$ 352,100
Combined Utility System	20,054	20,103
Other Sources	25,016	42,071
Third Party Reimbursement	3,586	3,342
Net Bond Proceeds	--	--
Other	455	--
TOTAL CURRENT REVENUES	360,464	417,616
Beginning Fund Balance Estimate as of July 1	155,271	131,649
TOTAL BUDGETED RESOURCES[b]	515,735	549,265
BUDGETED EXPENDITURES		
Debt Service Requirements:		
Tax Bonds	$ 369,698	$ 391,993
Commercial Paper Interest and Program Expense	13,129	10,750
TOTAL BUDGETED EXPENDITURES[b]	382,854	403,043
Budgeted Ending Fund Balance as of June 30	132,881	146,222
TOTAL BUDGETED EXPENDITURES AND ENDING FUND BALANCE[b]	515,735	549,265

[a] Information as reported in the City's Fiscal Year 2021 Budget.
[b] Total may reflect a variance due to rounding.

[Remainder of Page Intentionally Left Blank]

Summary of General Fund Revenues, Expenditures, Transfers and Changes in Fund Balance

The following table sets forth the actual revenues, expenditures, and transfers for Fiscal Year 2019 and Fiscal Year 2018. Fund balances in this summary differ from budgeted fund balances due primarily to the inclusion of certain reserves. See footnote (b) below. The Fiscal Year 2019 and Fiscal Year 2018 amounts are taken from the audited basic financial statements included in the City Controller's Comprehensive Annual Financial Report of the City of Houston, Texas for the years ended June 30, 2019 and June 30, 2018, respectively. For additional information concerning the City's basic financial statements for the General Fund for Fiscal Year 2019, see APPENDIX A.

Table 14: General Fund Statement of Revenues and Expenses

	Fiscal Year 2019 (in thousands)	Fiscal Year 2018 (in thousands)
REVENUES		
Taxes and Assessments	$ 2,120,114	$ 2,068,243
Licenses and Permits	36,192	34,273
Charges for Services[(a)]	154,381	146,421
Intergovernmental-grants	60,426	76,585
Fines and Forfeits	25,635	25,001
Investment Income	16,571	6,092
Other	25,404	73,119
Total Revenues	$ 2,438,723	$ 2,429,734
EXPENDITURES		
General Government	281,700	$ 291,676
Public Safety	1,430,600	2,136,766
Public Works	213,356	203,464
Health	58,516	66,396
Housing and Community Development	612	439
Parks and Recreation	75,203	76,077
Library	39,780	39,883
Retiree Benefits	11,123	167,372
Capital Outlay	30,999	27,225
Debt service principal	--	2,221
Debt service interest	3,818	4,709
Total Expenditures	$ 2,145,707	$ 3,016,228
OTHER FINANCING SOURCES (USES)		
Proceeds from Issuance of Debt and Tax Notes	$ 28,500	$ 943,051
Sale of capital assets	26,763	4,892
Transfers in	76,206	73,036
Transfers out	(430,363)	(391,895)
Transfers from component units	--	--
Total other financing sources (uses)	$ (298,894)	$ (629,084)
Changes in Fund Balance	(5,878)	42,590
FUND BALANCE, beginning of year	394,475	351,885
FUND BALANCE, end of year[(b)]	$ 388,597	$ 394,475

(a) This category includes ambulance service, library fees, parking fees, charges for direct and indirect services performed for other funds, rents and royalties, and other fees and charges.

(b) This amount includes various reserves totaling $39,421,000 for Fiscal Year 2019 and $36,946,000 for Fiscal Year 2018. Per governmental accounting standards, the year-end balance includes the General Fund and other governmental accounting funds, as well as balances categorized as restricted, committed and assigned.

Summary of General Fund Unassigned and Assigned Fund Balance

The following table sets forth the unassigned and assigned fund balance for the operating fund within the General Fund for the periods designated below.

Table 15: General Fund Unassigned and Assigned Fund Balance[(a)]

Fiscal Year	Balance (in thousands)
2017	269,558
2018	328,345
2019	299,213
2020[(b)]	261,100
2021[(c)]	170,591

(a) Formerly General Fund Unreserved and Undesignated Fund Balance. Such balances do not include amounts in the Budget Stabilization Fund.
(b) Current estimate as of June 2020
(c) Projection based on information reported in the City's Fiscal Year 2021 Budget.

Financial Policies

The City operates under financial policies (the "Financial Policies") that have been adopted by City Council. The Financial Policies were initially approved in 2003, and were amended and restated in 2014, and also amended in 2015 to include provisions regarding pay-as-you-go funding. Under the Financial Policies the Mayor is required to review the Financial Policies at least once every two years. On May 16, 2018, the City Council revised and updated the Financial Policies in connection with the required review.

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—Health Benefits" through and including "EMPLOYEE PENSION FUNDS—Firefighter Fund" and Tables 18, 18A, 18B and 18C 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 2020. Beginning in Fiscal Year 2020, 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, 2019 City Controller's audited Comprehensive Annual Financial Report of the City and additional financial information are available for public inspection, or copies may be obtained by written request, to the extent permitted by law, addressed to the Office of the City Controller.

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.

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 Policy) shall submit quarterly investment reports to City Council and (2) the Policy shall be reviewed annually by City Council. On December 4, 2019, the City Council approved and readopted the Investment Policy, which was amended to permit the investment in commercial paper with a stated maturity of up to 365 days as permitted by new legislation. 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 ratings reflect the view of Fitch Ratings, Inc., from whom an explanation of the significance of such ratings may be obtained.

Interest Rate Swap Policy

The are no outstanding Swaps (as defined below) in respect to any outstanding Tax Obligations.

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 of Texas in connection with the issuance or payment of certain debt obligations, before, concurrently with, or after the actual issuance of the debt. See "AD VALOREM TAX OBLIGATIONS OF THE CITY—Authority to Issue Bonds and Other Obligations."

As a general rule, the City will enter into transactions only with counterparties whose obligations are rated in the double-A category or better from at least one nationally recognized rating agency. In addition, if a counterparty's credit rating is downgraded below the double-A rating category, the City may require that its exposure to the counterparty be collateralized or may exercise its right to terminate the transaction prior to its scheduled termination date. In order to limit the City's counterparty risk, the City will seek to avoid excessive concentration of exposure to a single counterparty or guarantor.

The Swap Policy provides that City may choose counterparties for Swap contracts on either a negotiated or competitive basis. To provide safeguards on negotiated transactions, the Swap Policy provides that the City should generally secure outside professional advice to assist in the process of structuring, documenting and pricing the transaction, and to verify that a fair price was obtained. In any negotiated transactions, the counterparty will be required to disclose all payments to third parties (including lobbyists, consultants and attorneys) who had any involvement in assisting the counterparty in doing business with the City.

The City will track and regularly report on the financial implications of its Swaps. A quarterly report will be prepared for the City Council including: (i) a summary of key terms of the agreements, including notional amounts, interest rates, maturity and method of procurement, including any changes to Swap agreements since the last reporting period; (ii) the mark-to-market value (termination value) of its Swaps, as measured by the economic cost or benefit of terminating outstanding contracts at specified intervals; (iii) the amount of exposure that the City has to each specific counterparty, as measured by aggregate mark-to-market value, netted for offsetting transactions; (iv) the credit ratings of each counterparty (or guarantor, if applicable) and any changes in the credit rating since the last reporting period; and (v) any collateral posting as a result of Swap agreement requirements. In addition, the City will perform monitoring and reporting as is required by the rating agencies or for compliance with GASB requirements.

THE CITY

Governmental Structure

The City has a mayor-council form of government in which the Mayor and the sixteen-member City Council serve as the legislative body. Eleven council members are elected by district and five council members are elected at-large. The present term of office for all elected officials expires in January 2024.

Litigation is pending relating to the qualifications to hold office of one of the Council District B candidates in the election for terms of office beginning in January 2020. Pursuant to Article XVI, Section 17 of the Texas Constitution and Article V, Section 5 of the City of Houston Charter, Council Member Davis, whose eligibility to serve on City Council has expired, may continue to perform the duties of his office until this litigation is finally resolved and his successor is qualified and elected.

On November 3, 2015, voters approved an amendment to the City Charter ("Term Limits Amendment") that changed the number of terms of elective office to no more than two terms in the same office and limits the length for all terms of elective office to four years, beginning in January 2016. This Term Limits Amendment (codified in Article V, Sec. 6a of the City Charter) also provided for a transition whereby City elected officials elected to their first terms in office in the November 2013 election are able to serve two more four year terms (for a potential total of 10 years in office), and those elected to their second terms in the November 2013 election are able to serve a final term of four years (for a potential total of 8 years in office).

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

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

Services Provided by the City

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

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

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. In addition, to help protect the City against claims and expenses due to a cybersecurity incident, the City maintains $30,000,000 of cyber insurance.

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, 4-year information security master plan covering Fiscal Years 2018 through 2021. 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 is in year two of the master plan and several initiatives have been completed. Certain aspects of the plan are funded and are expected to be implemented in the next several Fiscal Years.

Home-Rule Charter

Although the City is a home-rule city under the Texas Constitution, it may not adopt ordinances or charter provisions inconsistent with Texas law. The Texas Legislature may enact legislation that (i) materially increases the costs and expenditures of the City or (ii) reduces the ability of the City to collect ad valorem taxes or other revenues described herein. Under the Texas and United States Constitutions, the Texas Legislature may not, however, enact legislation that impairs the City's ability to pay principal of and interest on its indebtedness. Under the Texas Constitution, the City Charter may be amended not more than once every two years at an election held for that purpose, which may be called by the City Council or upon petition of 20,000 of the City's registered voters. The last City Charter amendments were adopted on November 6, 2018. See "—Governmental Structure." In addition, the City Charter allows the City's voters to exercise the powers of initiative and referendum. To enact an initiative ordinance, a petition signed by voters equal in number to at least 15% of the greater total vote cast for Mayor in any general election in the preceding three years must be submitted to the City. Thereafter, the City Council may enact the ordinance or call an election on the question of its adoption. In order to exercise the referendum power, a petition signed by voters equal in number to at least 10% of the greater total vote cast for Mayor in any general election in the preceding three years must be submitted to the City. City Council may repeal the ordinance that is the subject of the referendum petition or submit the issue to the electorate. See "PROPERTY TAXES—City Charter Tax and Revenue Propositions."

Employees

The following schedule shows the total number of City employees at the end of Fiscal Years 2016 through 2019 and estimated Fiscal Year 2020 figures:

Table 16: City Employees

Fiscal Year	2016	2017	2018	2019	2020[(a)]
Police (classified)	5,100	5,081	5,060	5,146	5,208
Fire (classified)	4,001	4,054	3,996	3,922	3,822
Other Municipal	12,171	12,401	12,166	11,749	11,589
Total	21,272	21,536	21,221	20,817	20,619

(a) Based on the City's Monthly Financial Report dated as of March 31, 2020. This information is updated on a quarterly basis.

Bargaining with Police and Firefighters. **Chapter 143 of the Texas Local Government Code** prohibits police officers and fire fighters from engaging in strikes. They may, however, elect bargaining agents for the purpose of negotiating with a municipality regarding compensation and other terms and conditions of employment. The bargaining agent for police officers "meet and confer" upon specific terms and conditions of employment, including wages, with the Mayor and/or his representatives. The bargaining agents for firefighters engage in collective bargaining with the Mayor pursuant to Subchapter C of Chapter 174 of the Texas Local Government Code.

In 2015, the City and the police union agreed on terms of a "meet and confer" agreement (the "2015 Agreement") relating to various matters, including wages, leave and promotional testing. The agreement continued through December 31, 2018. In 2018, the City and the police union agreed on terms of a "meet and confer" agreement (the "2018 Agreement") that runs through December 2020. The 2018 Agreement included a four percent wage increase for the ranks of Police Officer and above effective July 1, 2020 and a three percent wage increase for the ranks of Police Officer and above effective July 1, 2020. If the parties do not enter into a new agreement prior to December 31, 2020, the 2018 Agreement will continue on a month-to-month basis, with a two percent wage increase for the ranks of Police Officer and above effective July 1, 2021.

The collective bargaining agreement between the City and the firefighters' union expired on June 30, 2017. As of the date hereof, the parties have not negotiated a successor agreement and a statutory impasse has been reached as described by Texas Local Government Code, Chapter 174. The City Council has adopted an ordinance to maintain wages and other terms and conditions of employment for firefighters until a successor collective bargaining agreement is reached. Until that time the compensation and conditions of employment for firefighters will be governed by State law and the City's ordinance.

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 Care 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 June 25, 2018, City Council enacted an ordinance approving a new "meet and confer" agreement between HOPE and the City that will expire on June 30, 2021 (the "2018 HOPE Agreement"). Pursuant to 2018 HOPE Agreement an "across-the-board" three percent pay increase occurred on July 1, 2018, a two percent increase occurred on July 1, 2019, and a one percent increase will occur on July 1, 2020.

Employee Compensated Absence. The City offers various vacation, sick leave and compensatory time benefits for its employees with distinctions based on date or duration of employment or other factors. As of June 30, 2019, the amount of accumulated vacation, sick leave and compensatory time was valued at approximately $504 million. Of this, approximately $156 million was expected to be paid within 12 months from governmental funds, and approximately $317 million was recorded as a long-term liability of the governmental funds. A liability of $32 million was recorded in the Enterprise Funds.

Additionally, the City provides in its annual budget for each Fiscal Year an amount reasonably calculated to provide funding for the payment of accumulated sick leave and vacation benefits for City employees whose employment terminates during that year. In Fiscal Years 2019 and 2020, the City paid out approximately $8.1 million and $7.8 million, as of June 23, 2020, respectively, relating to these benefits for civilian employees, and approximately $8.5 million and $8.6 million, as of June 23, 2020, respectively, relating to these benefits for classified employees.

The City is subject to federal and state laws regarding the terms, conditions and extent of financial benefits it must provide to its employees. Future changes in the benefits required by such laws cannot be predicted and may substantially increase the City's personnel costs. The following schedules provide the compensated absence liability and long-term disability obligation as of June 30, 2019 and June 30, 2018. See also "—Health Benefits—Health Care Benefits for Retired Employees."

Compensated Absence Liability and Long-Term Disability Fund

Table 17A: Compensated Absence Liability

	Fiscal Year 2019 (in thousands)	Fiscal Year 2018 (in thousands)
General Fund Short Term Liability	$ 7,054	$ 45,009
Other Governmental Short Term Liability	148,747	105,852
Enterprise Funds Liability	31,967	32,716
Internal Service Funds Liability	420	318
Governmental Funds Long-Term Liability	316,541	325,021
Total	$ 504,729	$ 508,916

Table 17B: Long-Term Disability Fund[(a)]

	Fiscal Year 2019 (in thousands)	Fiscal Year 2018 (in thousands)
Assets Available for Future Long-Term Disability Obligations	$ 9,972	$ 10,049
Less: Claims Payable on Long-Term Disability Obligations	(7,396)	(8,746)
Net Assets	$ 2,576	$ 1,303

(a) Based on information reported in the City's audited Financial Statements for Fiscal Year 2019 and 2018 presented in APPENDIX A.

Health Benefits

The Health Benefits Fund (the "Health Benefits Fund") is an Internal Service Fund administered by the Human Resources department of the City. The Health Benefits Fund was established to centralize the financial transactions for the City's employee benefit plans, which include medical, dental, 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. The City will assume the financial risk of catastrophic and overall claim liability. Pursuant to the City's Financial Policies adopted in December 2014, 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 2021 Budget, the estimated Fiscal Year 2021 ending fund balance for the Health Benefits fund is approximately $37.9 million, with an additional $15 million 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 is paid by the City and Voluntary Life Insurance is paid by the subscribers. Basic life insurance coverage is one times the base salary of the employee, which is 100% employer funded. Basic life insurance coverage premiums for retirees are paid by retiree contributions. 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 one-year options to provide vision services. The plan year is May through April 2023. 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.

The City provides five Medicare plans with five different vendors and has made these plans mandatory for all retirees over age 65 who are eligible for Medicare. The medical plans are supported by contributions from the City and subscribers. In addition to the medical plan and in an effort to mitigate costs and maximize benefits to the City and Medicare eligible retirees, the City offers Medicare Advantage plans from several insurance providers. Effective January 1, 2015, the City awarded a three-year contract with two one-year renewal options to Texan Plus, HealthSpring, Aetna Steerage (PPO Plan), Kelsey (HMO Plan) and United Healthcare. As of January 1, 2020, the City extended the current contract for an additional year, ending in December 31, 2020. These Medicare Advantage Plans provide retirees with alternative managed healthcare plans. The Medicare Advantage Plans continue to be fully insured products and offer retirees several plans to choose from. Effective May 1, 2011, the City requires all Medicare eligible retirees to enroll in the Medicare Advantage Plans.

Funding of Other Postemployment Benefits. Similar to many issuers, the City 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 audited Financial Statements for Fiscal Year 2019. The City has taken steps to assess the current and future financial impact of its unfunded OPEB liabilities and continues to review the appropriate policies to address and manage any such liabilities.

Beginning in Fiscal Year 2007, to adhere to the Government Accounting Standards Board Statement No. 45 ("GASB 45"), *Accounting by Employers for Other Postemployment Benefits*, the City reported 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 recognized such costs over the working lifetime of employees to the extent they were not prefunded, and reported such costs as a financial statement liability. In June 2015, the Government Accounting Standards Board issued Statements 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 other post-employment benefits (OPEB) 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 the full other post-employment benefits (OPEB) liability on the City's balance sheet. The financial impact of implementing GASB 75 was an increase in liabilities for the 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, for the period ending June 30, 2018. The City's total net position is $972 million as reported in the City's Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2019.

The City's most recent actuarial study indicated that, as of June 30, 2019, the City's net OPEB Liability was $2.267 billion, the reported Actuarial Determined Contribution (ADC) was $134 million, and it was calculated using a discount rate of 3.87%. The City expects the actuarial report for July 1, 2020 to be completed and received in Fiscal Year 2022.

The City cost for retiree claim payments and health insurance premiums from the General Fund were approximately $36.9 million in Fiscal Year 2019 and approximately $51.1 million as of June 11, 2020 for Fiscal Year 2020. Including non-general fund sources, payments were approximately $45.8 million in Fiscal Year end 2019 and approximately $62.4 million as of June 11, 2020 for Fiscal Year 2020. To date, the City has not accumulated assets to offset future benefit costs.

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 of the City's audited Financial Statements for Fiscal Year 2019, which includes information relating to retiree health care premiums paid by the City in Fiscal Year 2019, as well as information relating to health and long-term disability benefits.

EMPLOYEE PENSION FUNDS

Prospective investors are advised that any projections or forecasts in the section below, including projections of the amount of the 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 in APPENDIX A to this Official Statement also report Net Pension Liability as required by GASB 68. The Net Pension Liability, as reported in the financial statements, is *materially 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 beginning in Fiscal Year 2015. 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 financial statements set forth in APPENDIX A hereto 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 System" below and in Note 10. 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. As such, the City must fund the Pension Systems to pay a retiree's defined benefit regardless of why the Pension System is underfunded.

The Texas Legislature adopted the Pension Reform Legislation to enact reforms and substantive changes to the funding and benefit structure of the Pension Systems. The Pension Reform Legislation was effective July 1, 2017 (the "Reform Effective Date"), the first day of Fiscal Year 2018 and is the culmination of an effort to reform the Pension Systems to control costs, reduce the unfunded liability and better manage future pension costs and liabilities. The risk-sharing corridor implemented in the Pension Reform Legislation provides the City with more budget certainty by establishing minimum and maximum City contribution rates, and mandates management of unfunded liabilities by the City and the Pension Systems. Under the Pension Reform Legislation, the City will pay off the unfunded liability (the "Legacy Liability") over a fixed maximum 30-year amortization period ending in 2047. The Legacy Liability is calculated using a standard actuarial cost methodology, based on the market value of each Pension System's assets as of July 1, 2016, after giving effect to the Pension Reform Legislation and delivery of the 2017 pension obligation bonds issued on December 22, 2017 in the aggregate principal amount of $1,005,145,000 (the "2017 POB Bonds") for HMEPS and HPOPS, with earnings at the 7% per annum discount rates and allocable City contributions from July 1, 2016 through the Reform Effective Date. Any future actuarial loss liabilities will have an amortization period of 30 years from the date the loss is recognized, with a corresponding final payoff year and credits for any future gains.

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.

Statutory Authority and Contracts Between the Pension Boards and the City.

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").

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. See "—Pending Pension Systems Litigation."

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, though their ability to act unilaterally with respect to pension reform enacted as part of the Pension Reform Legislation is limited. The grant of such powers to the Pension System boards may adversely affect the City's ability to manage its pension obligations through mechanisms such as reducing the number of City full-time employees by outsourcing certain City functions.

In 2004, City voters opted out of an amendment to the Texas Constitution that otherwise would have prohibited a reduction in or impairment of the accrued retirement benefits or death benefits provided by a public employee retirement.

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. Each of the Pension Systems is currently underfunded.

Pension System Funding Prior to Pension Reform Legislation

Historically, the Pension Systems calculated unfunded liability as required by each Pension Statute pursuant to actuarial valuation reports prepared by firms retained by each respective Pension System. Prior to the enactment of the Pension Reform Legislation (as described below), the City and the governing boards of HMEPS and HPOPS have agreed to changes in benefits, management, and funding of HMEPS and HPOPS through "meet and confer" agreements as allowed under their respective Pension Statutes. Accordingly, funding plans negotiated through the "meet and confer" process were not necessarily consistent with actuarially-determined contribution levels and component UAALs (determined by a standard actuarial cost method for the respective System) or Net Pension Liability, as determined by GASB 68. The current "meet and confer" agreement between HMEPS and the City is effective until July 1 of the year following the date that the City's annual contribution rate meets or exceeds the actuarial required contribution, and the current "meet and confer" agreement between HPOPS and the City is effective until 2023. From the Reform Effective Date, the Pension Reform Legislation governs most aspects of Pension System funding and City contributions. See "—Municipal System" and "—Police System." Prior to the Reform Effective Date, the HFRRF Statute did not allow "meet and confer" negotiations or agreements to change or augment benefits, management or funding, and the authority to enter into such agreements after the Reform Effective Date is limited.

Pension Reform Legislation

General. The Pension Reform Legislation (https://legiscan.com/TX/text/SB2190/2017) amends the HMEPS Statute, the HPOPS Statute, and the HFRRF Statute and enacted portions of the meet and confer agreements between the City and HMEPS and HPOPS. The Pension Reform Legislation includes recognition of unrealized losses in the Pension Systems and reductions in both anticipated earnings and the discount rate used to calculate the City's future payments to 7.00% (which is lower than the discount rate assumptions used by the Pension Systems in prior actuarial reports), reduction of planned benefits, amortization of the Legacy Liability (see "— Legacy Liability") over a fixed maximum 30-year period, and a limit on the maximum future City payments as a percentage of active employee payroll. For a comparison of actuarial liabilities of each Pension System before and after the Pension Reform Legislation, see "—Status of Funding of the Pension Systems."

The Pension Reform Legislation augments the principle provisions of the existing agreements between HMEPS and HPOPS and the City, and authorizes future agreements between HMEPS, HPOPS, and HFRRF under limited circumstances. Moreover, to the extent there is any conflict between the Pension Reform Legislation and any separate "meet and confer" agreements between HPOPS and the City, or HMEPS and the City, the Pension Reform Legislation governs future agreements between the Pension Systems and the City, and such agreements may not affect the calculation, payment of City obligations or benefit structure unless they conform to limitations and scope set forth in the Pension Reform Legislation. In respect to the enforcement of meet and confer agreements, the Texas Supreme Court has held that agreements under the Pension Statutes are contracts and do not amend the statutes. A suit for breach of such an agreement by either the City or a Pension System could be subject to governmental immunity. See "—Pending Pension Systems Litigation."

The principal changes to the Pension Statutes in the Pension Reform Legislation are as follows:

- Benefits and Contributions. The Pension Reform Legislation reduces future benefits and increases current employee contributions. No current payments to existing retirees are reduced by the proposed amendments, but cost of living adjustments ("COLA") for current retirees are suspended for up to three years.

- Unfunded Liability. The existing unfunded pension obligation as reduced by the benefit changes (See "—Legacy Liability" below) is amortized and required to be paid by the City over a fixed maximum 30-year period.

- Future Costs. The Pension Reform Legislation requires that future costs of the Pension Systems be calculated each Fiscal Year by actuarial valuations separately carried out by each of the respective Pension Systems and the City. The annual valuation establishes the City's legally mandated payments to meet the costs of the respective Pension Systems.

- Risk Sharing. The City and the Pension Systems share the risk that returns on pension assets are less than projected so that the City's maximum annual contribution is capped.

Utilizing lower long-term discount rate assumptions, the total recalculated GASB Net Pension Liability of the Pension Systems as of July 1, 2016 was estimated by the City to be approximately $8.21 billion. The City estimates the Pension Reform Legislation reduced the recalculated GASB Net Pension Liability by approximately $2.9 billion, without giving effect to the Series 2017 POB Bonds, which were delivered in December 2017. See "—Legacy Liability." Certain of the estimates used herein depend upon the data provided by the Pension Systems and are subject to the completeness and accuracy of the data provided by the Pension Systems, which is in their sole control. As part of the Pension Reform Legislation, the City issued the Series 2017 POB Bonds to fund a portion of the Legacy Liability relating to the Municipal System and the Police System.

The following is a general description of the principal benefits changes implemented by the Pension Reform Legislation.

Benefits Reforms. In order to reduce and reform pension costs related to each Pension System, the Pension Reform Legislation (i) increased the age at which an employee can retire with full benefits for HPOPS and HFRRF; (ii) reduced the amount of benefits accrued in each year for HFRRF; and (iii) changed the types of pay included in salary for pension benefit calculations for HFRRF and HPOPS. Significantly, the Pension Reform Legislation suspended cost of living ("COLA") increases for up to three years. The minimum guaranteed COLA for future benefits was reduced, and the age at which COLAs begin for retirees increased from no minimum age to age 55 for HPOPS and age 48 to age 55 for HFRRF retirees.

The Pension Reform Legislation substantially changed the Deferred Retirement Option Plans ("DROP"), for active employee members of HFRRF and HPOPS. DROP allows an active employee to be paid a salary and have the monthly pension benefit the employee would have received as a retiree credited to the DROP account. Credited benefits accumulate and are paid to the employee (or retiree, as applicable) as a lump sum, with attributed earnings and with COLA increases, if any, at the end of the member's period of participation therein. Earnings may reflect actual earnings of the applicable pension fund, but the payment is guaranteed by the applicable Pension System, and ultimately the City. Under the Pension Reform Legislation, the ability of active employees to enter the DROP program has been restricted by reducing the period during which an employee can enter such program, and over time, will eliminate the opportunity for all employees to participate in the DROP program. Additionally, among other changes, earnings on amounts credited to DROP accounts are aligned with expected earnings of the respective Pension Systems, and COLAs for monthly DROP payments have been eliminated.

The Pension Reform Legislation increased employee contributions for each Pension Systems. Additionally, with respect to HMEPS, it reduced survivor benefits generally from 100% of the retirement benefit to which a deceased member would have been entitled to 80% of the retirement benefit to which a deceased member would have been entitled. For HMEPS, a cash balance plan component is added for group D members, which is comprised of employees hired after January 1, 2008. In addition to the required employee contribution for group D members, the Pension Reform Legislation requires each group D member to contribute an additional 1.0% of salary, that will be credited to a notional cash balance plan account on the member's behalf. Such amounts are credited with earnings at a rate equal to the discount rate on amounts credited to an eligible member's DROP account. See "—Municipal System."

Legacy Liability. The Pension Reform Legislation implements a fixed maximum 30-year closed period (as opposed to a rolling 30-year open period used prior to pension reform) to amortize the Legacy Liability. Based on the risk sharing valuation studies conducted for each Pension System by the respective Pension System and the City, the Legacy Liability for HMEPS is calculated to be $2.0 billion as calculated by the City's actuary compared to $2.1 billion as calculated by the Pension System actuary; for HPOPS $1.3 billion as calculated by the Pension System actuary compared to $1.4 billion as calculated by the City's actuary; and for HFRRF $900 million as calculated by the Pension System actuary compared to $602 million as calculated by the City's actuary.

Future Costs. Costs of the Pension Systems arising after the Reform Effective Date 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 will be amortized over a new 30-year period. New liability gains will be amortized over the remaining period of the largest remaining liability loss layer, or if there is none, 30 years.

Risk Sharing. The Pension Reform Legislation enacted a risk sharing and cost control mechanism. Under the risk sharing mechanism, 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 valuation study—(the "RSVS")—which is subject to review by the Texas Pension Review Board. The initial RSVS process is complete and sets the City's projected future contribution rates, the corridor midpoint, as a percent of projected pensionable payroll for each Pension System for the next 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 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 calculation of the City's contribution rates for future Fiscal Years is calculated by each subsequent year's RSVS.

Under the Pension Reform Legislation, because the differences in the calculations for HPOPS and HMEPS by the City and such Pension System for any year were less than two percent of projected payroll, the System's calculations were used to establish the corridor midpoints for future years. Because for HFRRF the differences for each year were greater than two percent of projected payroll, the arithmetic means of the City and System calculations were used to establish the corridor midpoints.

The City bears the risk of pension contribution costs increasing up to 5% of pensionable payroll above the corridor midpoint. If the increase 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, 2021, 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.

Investment Considerations Relating to the Implementation of Pension Reform

The changes to be implemented under the Pension Reform Legislation are prospective. There are foreseen and unforeseen risks arising from that implementation that could affect the general financial condition of the City and that should be considered by any potential investor. The City has identified the following investment considerations, but any potential investor should consult their own advisor, and should recognize that additional risks may occur with implementation of the Pension Reform Legislation.

Conduct of the RSVS. The RSVS requires the sharing of information and comparison of results by the City and each Pension System. While the Pension Reform Legislation requires 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 conduct of 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.

Changes in pension accounting rules have 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. 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. As stated in the City's Monthly Financial Report dated as of March 31, 2020, the total amount of the City's contribution to the three Pension Systems for Fiscal Year 2020 will be approximately $430 million, which represents an approximate $21.6 million increase from the Fiscal Year 2019 Actual Contribution. See " –Municipal System," "–Police System" and "–Firefighter Fund."

Based, in part, on the issuance of the 2017 POB Bonds, the Fiscal Year 2018 contribution to the Pensions Systems was sufficient to fund the annual cost of amortizing the Legacy Liability and funding normal and administrative costs of the Pension Systems.

Net Pension Liability 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, 2019. For a more detailed break-out of Net Pension Liability for each Pension System, see Note 10.

[Remainder of Page Intentionally Left Blank]

NET PENSION LIABILITY AS OF JUNE 30, 2019

(in thousands)

	HFRRF	HMEPS	HPOPS
Total Pension Liability	$ 4,928,809	$ 5,236,133	$6,920,548
Fiduciary Net Position	(4,237,692)	(3,100,999)	(5,674,648)
Net Pension Liability	$691,117	$2,135,134	$1,245,900

The calculation of Net Pension Liability under GASB 67 and 68 as reported in the City's financial statements for Fiscal Year 2019 factors in the reforms enacted by the Pension Reform Legislation. See Note 10.

Table 18: 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. Such information is historic, and prior to Fiscal Year 2018 does not reflect the Pension Reform Legislation calculation of the City's required contributions, which are effective starting in Fiscal Year 2018 and thereafter. See "Pension Reform Legislation – Risk Sharing." Part 1 sets forth for each of the Fiscal Years 2015 through 2019 the amount of the annual pension cost to the City and the percentage contribution made by the City to each of the Pension Systems. Amounts paid in Fiscal Year 2017 were established by the meet and confer agreements with HPOPS and HMEPS and the pre-reform HFRRF legislation. For Fiscal Year 2018 and thereafter, contribution amounts are established by the Pension Reform Legislation.

Part 2 sets forth for each of the Fiscal Years 2015 through 2020 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 2019 (June 30, 2019). The tables reflect annual pension costs and contributions after the enactment of the Pension Reform Legislation. See "—Pension Reform Legislation."

[Remainder of Page Intentionally Left Blank]

Part 1: Annual Pension Costs and Contributions[a]

(in millions)

	Municipal System			Police System			Firefighter Fund		
Fiscal Year	Annual Pension Cost	City Contrib.[b]	Percent Contrib.	Annual Pension Cost	City Contrib.[b]	Percent Contrib.	Annual Pension Cost	City Contrib.[c]	Percent Contrib.
2015[d]	241.0	145.0	60	333.0	113.0	34	128.0	92.6	72
2016	315.3	160.0	51	340.0	137.4	40	223.0	94.3	42
2017[e]	(319.1)	182.6	N/A	(594.1)	133.8	N/A	(318.2)	93.7	N/A
2018 [f]	383.9	171.6	45	353.3	137.1	39	210.4	83.0	39
2019	366.1	176.3	48	330.3	142.4	43	227.3	89.9	40

(a) For further details, see the City's Financial Statements for Fiscal Year 2019, particularly Note 10 and the section captioned "Required Supplementary Information."

(b) For Fiscal Years 2015-2017 contribution amounts are determined in accordance with the applicable "meet and confer" agreements. For Fiscal Year 2018 and thereafter contribution amounts are determined by the applicable Pension Statute.

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

(d) Fiscal Year 2015 is the first year subject to GASB 68 accounting requirements. The change in accounting methodology caused a substantial increase in annual pension costs and contributions.

(e) As the result of the Pension Reform Legislation, for the Fiscal Year ended June 30, 2017, the City recognized a negative pension expense. Therefore, the percent contribution calculation is not applicable.

(f) City contribution amounts exclude pension obligation bonds in the amount of $250 million for HMEPS and $750 million for HPOPS.

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

	Municipal System		Police System		Firefighter Fund	
Fiscal Year	Actuarial	Actual	Actuarial	Actual	Actuarial	Actual
2015[c]	27.5%	25.0%	36.0%	27.4%	33.2%	33.7%
2016	27.4	27.0	38.2	32.2	N/A[d]	33.4
2017	31.8	30.0	39.6	30.4	30.8	33.5
2018[e]	27.8	28.1	31.8	33.2	31.9	31.9
2019[f]	28.9	28.7	31.9	32.0	33.0	33.0
2020[g]	29.3	TBD	31.8	TBD	32.3	TBD

(a) For further details, see the City's Financial Statements for Fiscal Year 2019 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) Adopted actuarial reports for the respective Pension System for actuarially determined percentages and internal City figures for actual contribution percentages. See "—Municipal System," "—Police System" and "—Firefighter Fund."

(c) Fiscal Year 2015 is the first year subject to GASB 68 accounting requirements.

(d) The Firefighter Fund did not perform a valuation for the period referenced.

(e) Source: HMEPS Final Initial Risk Sharing Valuation Study as of July 1, 2016; HPOPS Final Risk Sharing Valuation Study as of June 30, 2016; and Joint Addendum to HFRRF Final Initial Risk Sharing Valuation Study as of July 1, 2016.

(f) Source: HMEPS Risk Sharing Valuation Study as of July 1, 2017; HPOPS Risk Sharing Valuation Study as of July 1, 2017; and HFRRF Joint Addendum to Final Risk Sharing Valuation Study for Fiscal Year 2019. Actual Contributions for Fiscal Year 2019 are per the City's annual financial statements for Fiscal Year 2019. The HMEPS actuarial percentage for Fiscal Year 2019 is calculated based on 8.27% of payroll plus $127 million. Using HMEPS's payroll assumption, the rate is approximately 28.9%.

(g) Source: HMEPS Risk Sharing Valuation Study as of July 1, 2018; HPOPS Risk Sharing Valuation Study as of July 1, 2018; and HFRRF Joint Addendum to Final Risk Sharing Valuation Study for Fiscal Year 2020. Actual contributions for Fiscal Year 2020 are budgeted and equal the required actuarial contribution. The HMEPS actuarial percentage for Fiscal Year 2020 is calculated based on 8.32% of payroll plus $131 million. Using HMEPS's payroll assumption, the rate is approximately 29.3%.

[Remainder of Page Intentionally Left Blank]

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

Fiscal Year 2019	Municipal	Police	Fire	Total
Additions[b]	$ 409.2	$ 529.5	$ 346.0	$ 1,284.7
(Deductions)[c]	(297.1)	(341.5)	(278.6)	(917.2)
Net Increase	$ 112.1	$ 188.0	$ 67.4	$ 367.5
City's Total Contribution	$ 176.3	$ 142.4	$ 89.9	$ 408.6

(a) Source: Pension Systems Financial Statements for Fiscal Year 2019.
(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") under which, prior to the Reform Effective Date, the employees contributed 5% of their salary to the plan 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") which, prior to the Reform Effective Date, was non-contributory. The HMEPS Risk Sharing Valuation Study as of July 1, 2019 does not provide classification of active employees by their Groups. Prior year's Study reports that 40.89% of active employees of the City were enrolled in Group A, 10.23% were enrolled in Group B and 48.88% were enrolled in Group D. After the Reform Effective Date, 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.

Prior to the enactment of the Pension Reform Legislation, the City's annual contributions were determined through the "meet and confer" process. For Fiscal Year 2018 and thereafter, the annual contribution is governed by the Pension Reform Legislation, and annual contributions for Fiscal Year 2019 to the Municipal System was 8.27% of payroll plus $127.4 million, equating to roughly 28.9% of payroll. The Fiscal Year 2020 Budget includes annual contributions to the Municipal System of 8.32% of payroll plus $130.9 million, equating to roughly 29.3% 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 2020 provides that the General Fund is responsible for approximately $65.1 million of the City's approximately $197.3 million contribution to the Municipal System (approximately 8.32% of payroll plus $130.9 million); the Fiscal Year 2021 Budget provides that the General Fund will be responsible for approximately $66.2 million of the City's estimated $200.5 million contribution to the Municipal System.

[Remainder of Page Intentionally Left Blank]

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 2015-2019. The information contained therein is derived from the HMEPS actuarial valuation reports for July 1, 2015. For 2016 through 2019, the values are based on the HMEPS Risk Sharing Valuation Study as of July 1, 2016 through July 1, 2019 and reflect the enactment of the Pension Reform Legislation. See "—Pension Reform Legislation."

Table 18A: Municipal System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability[(a)]
(in millions)

	2015	2016 Post-Reform[(b)]	2017 Post-Reform[(c)]	2018 Post-Reform	2019
Actuarial Accrued Liability	$4,766	$4,735	$4,866	$4,982	$5,091
Actuarial Value of Plan Assets[(d)]	2,583	2,626	2,743	2,875	3,019
Unfunded Actuarial Accrued Liability	2,183	2,109	2,123	2,107	$2,072
Funded Ratio	54.2%	55.5%	56.4%	57.7%	59.3%

(a) Source: Municipal System Actuarial Valuation Reports. This information is no longer presented in the City's financial statements.
(b) Source: HMEPS Final Initial Risk Sharing Valuation Study as of July 1, 2016. These values are post-enactment of the Pension Reform Legislation, and reflect a reduction in the discount rate, changes in future benefits, delivery of the proceeds of the Series 2017 POB Bonds, and allocable payments by the City in Fiscal Year 2017.
(c) Source: HMEPS Risk Sharing Valuation Study as of July 1, 2017. These values are post-enactment of the Pension Reform Legislation, and reflect a reduction in the discount rate, changes in future benefits, and delivery of the proceeds of the Series 2017 POB Bonds.
(d) The actuarial value of plan assets is determined by the actuary for HMEPS; such value represents a generally accepted method of recognizing market gains and losses (relative to the assumed discount rate) over a five-year period.

Police System

The Police System is a contributory defined benefits pension program that provides benefits to the City's classified police officers. Prior to the enactment of the Pension Reform Legislation, the City's annual contributions were determined through the "meet and confer" process; the board of trustees of the Police System and the City entered into an agreement in 2004, as amended in 2011, which is referred to herein as the HPOPS Agreement.

Police System Fiscal Year Funding. The General Fund covers substantially all of the City's contributions to the Police System. The Fiscal Year 2018 and 2019 set the contribution to HPOPS at approximately $137.1 million and $142.4 million respectively, excluding the 2017 POB Bonds. The Fiscal Year 2020 and 2021 Budget sets the contribution to HPOPS at approximately $149.2 million and $154.2 million respectively, as determined by the Pension Reform Legislation.

[Remainder of Page Intentionally Left Blank]

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 2015-2019. The information contained therein is derived from the HPOPS actuarial valuation reports from July 1 in each of the respective years. For 2016, the values are based on the HPOPS actuarial valuation report (pre-reform) and HPOPS Final Initial Risk Sharing Valuation Study as of July 1, 2016 (post-reform). The schedule reflects annual pension costs and contributions prior to and following the Reform Effective Date. See "– Pension Reform Legislation."

Table 18B: Police System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability[a]
(in millions)

	2015	2016		2017	2018	2019
		Pre-Reform[b]	Post-Reform[c]	Post-Reform[d]	Post-Reform	
Actuarial Accrued Liability	$5,706	$6,013	$6,081	$6,218	$6,464	$6,655
Actuarial Value of Plan Assets	4,551	4,662	4,758	4,869	5,129	5,435
Unfunded Actuarial Accrued Liability	$ 1,156	$1,351	$1,323	$1,350	$1,335	$1,220
Funded Ratio	79.7%	77.5%	78.2%	78.3%	79.3%	81.7%

(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.
(b) Source: HPOPS Actuarial Valuation Report as of July 1, 2016. These values are prior to the enactment of the Pension Reform Legislation.
(c) Source: HPOPS Final Initial Risk Sharing Valuation Study as of June 30, 2016. These values are post-enactment of the Pension Reform Legislation, and reflect a reduction in the discount rate, changes in future benefits, delivery of the Series 2017 POB Bonds and allocable payments by the City in Fiscal Year 2017.
(d) Source: HPOPS Risk Sharing Valuation Study as of July 1, 2017. These values are post-enactment of the Pension Reform Legislation, and reflect a reduction in the discount rate, changes in future benefits, and delivery of the proceeds of the Series 2017 POB Bonds.

Firefighter Fund

The Firefighter Fund provides benefits to the City's classified firefighters and is structured as a contributory defined benefits pension program. Prior to the Pension Reform Legislation, each fund member in active service made contributions to the fund in an amount equal to 9% of the member's salary at the time of the contribution. Under the Pension Reform Legislation, firefighters must contribute 10.5% of the member's pensionable pay.

Prior to the Pension Reform Legislation, State law provided that the City contribution to the Firefighter Fund be the greater of two times the firefighter's contribution or an actuarially determined rate established at least once every three years. The City contribution is now determined by the RSVS process. See "—Pending Pension System Litigation" regarding the Firefighter lawsuit relating to the Pension Reform Legislation.

Firefighter Fund Fiscal Year Funding. The General Fund covers substantially all of the City's contributions to HFRRF. The Fiscal Year 2020 contribution to HFRRF is approximately $83.7 million. The Fiscal Year 2021 Budget sets the contribution at $79.8 million as determined by the Pension Reform Legislation. For a discussion of certain lawsuits related to the HFRRF , see "– Pending Pension System Litigation."

[Remainder of Page Intentionally Left Blank]

The table below reflects actuarial accrued liability, actuarial value of plan assets, unfunded actuarial accrued liability or surplus and funded ratio for 2015 to 2019. (Data is not available for 2014.) The information contained therein is derived from the HFRRF Actuarial Valuations from July 1 in each of the respective years. The decrease in the funded ratio for 2016 shown in the schedule below is partially attributable to a change in the assumption for the rate of return on investment from 8.5% to 7.25%. For 2016, the values are shown based on both the HFRRF actuarial valuation report (pre-reform) and the initial RSVS calculation of the Legacy Liability as of July 1, 2016 (post-reform). See "– Pension Reform Legislation."

Table 18C: Firefighter Fund Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability[a]
(in millions)

	As of July 1,					
	2015	2016		2017	2018	2019
		Pre-Reform[b]	Post-Reform[c]	Post-Reform[d]	Post-Reform	
Actuarial Accrued Liability	$4,397	$5,074	$4,629	$4,828	$4,948	$5,058
Actuarial Value of Plan Assets[e]	3,930	4,089	3,730	3,884	4,027	4,191
Unfunded Actuarial Accrued Liability	$ 467	$ 984	$ 900	$ 944	$921	$867
Funded Ratio	89.4%	80.6%	80.6%	80.4%	81.4%	82.9%

(a) Source: Firefighter Fund Actuarial Valuation Reports. This information is no longer presented in the City's financial statements.
(b) Source: HFRFF Actuarial Valuation Report as of July 1, 2016. These values are prior to the enactment of the Pension Reform Legislation.
(c) Source: HFRFF Final Initial Risk Sharing Valuation Study as of July 1, 2016. These values are post enactment of the Pension Reform Legislation, and reflect a reduction in the discount rate, changes in future benefits, and allocable payments by the City in Fiscal Year 2017.
(d) Source: HFRFF Risk Sharing Valuation Study as of July 1, 2017. These values are post-enactment of the Pension Reform Legislation, and reflect a reduction in the discount rate and changes in future benefits.
(e) The actuarial value of the plan assets is determined by the actuary for the Firefighter Fund. Such value represents a generally accepted method of recognizing market gains and losses (relative to the assumed discount rate) over a five-year period.

Pending Pension System Litigation

Firefighter Litigation Regarding Pension Reform Legislation. In *Houston Firefighters' Relief and Retirement Fund v. City of Houston, et. al.*, filed on May 30, 2017, the Firefighter Fund sued the City and various City officials asserting a facial challenge to the constitutionality of the Pension Reform Legislation passed in the 2017 legislative session and sought injunctive relief and declaratory judgment in respect to such legislation. Specifically, the Firefighter Fund alleged that the Pension Reform Legislation violates Article XVI, Section 67 of the Texas Constitution because it allegedly violates the Firefighter Fund's Board of Trustee's "exclusive" authority to select an actuary, and adopt actuarial assumptions regarding the City contribution rates. The Attorney General of Texas intervened to defend the constitutionality of the Pension Reform Legislation. On June 30, 2017, the district court judge sustained all the City defendants' Pleas to the Jurisdiction, ordered that the case be dismissed in its entirety, and, in the alternative, should the dismissal be found to have been granted in error, denied the Firefighter Fund's request for a temporary injunction. On June 20, 2019, the Court of Appeals ruled in favor of the City and City officials and affirmed the trial court's dismissal of all claims against them. The Firefighter Fund filed a petition for review in the Supreme Court seeking to challenge the appeals court ruling. On November 8, 2019, the Supreme Court requested the City parties to respond to the petition which they did in early January. On July 26, 2019, HFRRF filed a separate, as-applied constitutional challenge to the Pension Reform Legislation largely asserting the same allegations and arguments as the facial challenge in the first suit. On March 13, 2020, the Supreme Court denied the petition for review filed by the Firefighter Fund and the deadline for it to file any motion for rehearing has passed. The second suit by the Firefighter Fund raising the as-applied constitutional challenge remains pending. The City intends to continue to vigorously defend this litigation.

Litigation Regarding HMEPS. The City is also currently involved in a lawsuit involving the Municipal System. Before this current suit, on March 20, 2015, the Texas Supreme Court issued its opinion in *Klumb v. Houston Municipal Employees Pension System* ("*Klumb*"). At issue in the case was whether the board of HMEPS violated the HMEPS Statute by resolving that employees of certain local government corporations and not-for-profit corporations are employees of the City for purposes of membership in the Municipal System. The Texas Supreme Court found, among other things, that the HMEPS board's actions were within its "broad discretionary authority" under the HMEPS Statute, and thus held that the City and individual plaintiffs there "failed to plead actionable ultra vires and constitutional claims against the Municipal System and the Trustees." Following the issuance of the Texas Supreme Court's ruling in Klumb, the Municipal System asked the City to turn over certain identifying information and make pension contributions for employees of the local government corporations and not-for-profit corporations at issue in that case. On June 18, 2015, the Municipal System initiated a new lawsuit, seeking mandamus relief and asserting an ultra vires action against the City, the Mayor and several other City officers. The City filed a counterclaim against HMEPS and third-party claim against the HMEPS board members alleging breach of the "meet and confer" agreement and other claims related to the Municipal System's definition of "employee." The Municipal System parties filed a motion for summary judgment and the City defendants filed a plea to the jurisdiction. In October 2015, the trial court denied the plea to the jurisdiction, and the City defendants filed an interlocutory appeal. The trial court did not rule on the summary judgment motion filed by the Municipal System parties. The Court of Appeals affirmed in part, reversed in party, rendered judgment in part, and remanded with instructions in part. The denial of the City's plea was reversed in part and affirmed in part by the Court of Appeals. The City defendants and the Municipal System each filed a petition for review in the Texas Supreme Court. In June 2018, the Texas Supreme Court ruled mostly in favor of HMEPS in a decision that affirmed in part, reversed in part, rendered judgment in part, and remanded the case in part back to the trial court for further proceedings. On October 12, 2018, the trial court denied the City defendants' Plea to the Jurisdiction and granted the HMEPS parties' Motion for Summary Judgment, with the exception of HMEPS's request for an award of attorneys' fees. The trial court severed the attorneys' fees issue from the case to proceed to trial as a separate case. In October 2018, the City parties filed a notice of appeal of the trial court's order for severance and the judgment. The City parties also filed an original petition in the Court of Appeals seeking a writ of mandamus compelling the trial court to set aside its severance order and final judgment in favor of the HMEPS parties. On March 26, 2019, the Court of Appeals consolidated the appeal and mandamus into a single proceeding and cause number. The parties then settled HMEPS's claim for mandamus relief and request for attorney fee recovery under the TPIA and the City provided information sought by HMEPS for the purposes of evaluating possible settlement of the rest of the dispute. As part of the settlement, the parties also requested the appeals court to dismiss the City's mandamus petition in that court challenging the trial court's severance of the attorney fee issue and likewise requested the appeals court to abate the direct appeal to allow the parties time to evaluate possible settlement of the rest of the dispute. The appeals court granted the request, dismissed the mandamus petition by the City, and abated the direct appeal. The abatement ended on February 10, 2020. The parties have all filed their briefs in the appeal. They are also in the process of working on a possible settlement of the rest of the dispute. The case remains pending in the Court of Appeals for decision. The City intends to continue to vigorously defend this litigation in the event no such settlement occurs.

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 after December 1, 2017, 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 don't 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 don't 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—Limited Purpose Annexations and Strategic Partnership Agreements" below.

Limited Purpose Annexations and Strategic Partnership Agreements. Strategic partnership agreements ("SPAs") may provide for limited-purpose annexation for a period of time, during which the City may impose a sales and use tax within the boundaries of the part of the district that is annexed for limited purposes. SPAs may provide that at the completion of the agreed duration of the limited purpose annexation, full-purpose annexation may occur either on an agreed full-purpose annexation date without the need for further action by the City, or by City action at that time. The qualified voters of an area annexed for limited purposes are entitled to vote in municipal elections for members of the governing body or for amendments to the municipal charter. Such voters may not vote in a bond election.

The City has completed limited-purpose annexations by mutual consent with approximately one-third of the water districts in the City's extraterritorial jurisdiction. The City expects to enter into similar agreements with other districts in the future. Generally, the limited-purpose annexations have applied only to non-residential property, and the City is authorized to, and does impose, its sales tax in each of the areas annexed for limited purposes. In most cases, the City and a district each receive an amount equal to one-half the sales tax received in that area. The City is not authorized to levy an ad valorem tax on property annexed for limited purposes, and the district continues to levy and collect ad valorem taxes. The 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 developed or some other event occurs. Since January 2001, the City has approved 384 SPAs with 242 municipal utility districts totaling approximately $621.93 million in revenue to the City (as of March 2020). $44.1 million of the total amount was received in Fiscal Year 2020 (3 months remain to be received). The revenue from SPAs now represents 8.35% of the sales tax collection for the City.

The City does not assume the debts of a district until such time as the district is annexed for full purposes, at which time all of the sales taxes collected within the district will be retained by the City, the annexed area will become subject to the City's ad valorem tax levy and collection, the district will be dissolved and the debt will be assumed by the City. In some cases, the City agrees to provide police or fire services to the district, if the cost of providing such services is marginal to the City.

Regional Participation Agreements. Under Texas law, the City and certain large unincorporated areas within the City's extraterritorial jurisdiction are authorized to enter into regional participation agreements. The City and The Woodlands Township entered into a Regional Participation Agreement (the "RPA") in 2007, pursuant to which the City agreed (i) not to annex the land in The Woodlands Township for a term of 50 years and (ii) if during that time, The Woodlands Township incorporates as a municipality or any other form of local government under Texas law, the City will release it from the City's extraterritorial jurisdiction. In exchange for such provisions, The Woodlands Township agreed to provide a sixteenth of one percent of sales and use taxes for mutually beneficial projects in the City, including improvements at the City's parks, the Texas Medical Center and various road improvements. On May 19, 2010, the City's City Council voted to approve an amendment to the RPA, which allows for the addition of land into The Woodlands Township, but requires consent of the City's mayor for future annexation by The Woodlands Township. The City may further amend the RPA from time to time.

In-City Districts

Texas law authorizes the creation of certain types of "in-city" districts with independent taxing authority. The City has authorized by ordinance the creation of water districts within its corporate limits, six of which have been created (two of which, Harris County Municipal Utility District No. 361 and Harris County Municipal Utility District No. 412, were disannexed and then re-annexed for limited purposes pursuant to a strategic partnership agreement) and three additional water districts that have been consented to by the City but not yet created. There have been 27 in-City municipal utility districts created. There are currently 23 active in-City municipal utility districts, 2 inactive municipal utility districts and 2 that have been disannexed.

In order to encourage development within the City, the City has entered into agreements with "in-city" districts whereby the district will provide the water, wastewater and stormwater drainage infrastructure in the district and convey such facilities to the City, although in some instances, the district has retained ownership and operation of its facilities. In exchange, the City agrees to maintain the facilities and rebate to the district the portion of City ad valorem taxes collected within the district and attributable to drainage. In some agreements, the City agrees to collect water and wastewater charges at standard City retail rates and remit to the district for deposit in the debt service fund of the district the difference between City retail rates and wholesale rates. The City's obligations under these agreements are payable only from revenues from within the district, can never exceed annually the annual debt service of the district and expire upon maturity of the district's bonds.

There are numerous municipal management districts within the corporate limits of the City. Such districts have independent authority to impose assessments on certain property owners to support and enhance specific residential or business corridors within the City. Municipal management districts may issue bonds secured by assessments or taxes levied on property within the district pursuant to a vote in such district approving the bonds.

The City has also created certain entities to enhance and encourage redevelopment activities within the City and to provide a mechanism to fund certain public improvements and related redevelopment costs, in addition to providing administrative support for these projects. In many cases, in order to more effectively and efficiently manage its tax increment reinvestment zones, the City has created local government corporations, which are not-for-profit local government corporations created under Chapter 431 of the Texas Transportation Code, as amended. Such redevelopment authorities are created to aid, assist and act on behalf of the City in the performance of certain of the City's governmental and proprietary functions, including acting as a financing vehicle for the reinvestment zones. Tax increment revenues for each such reinvestment zone are initially deposited in separate tax increment funds maintained by the City and then a local government corporation if a local government corporation has been created to manage such reinvestment zone. Projects financed on behalf of tax increment reinvestment zones are typically accomplished through the issuance of bonds by local government corporations that pledge tax increment revenues received from the City by virtue of a contract between the respective local government corporation, the tax increment reinvestment zone, and the City. The City has also created certain public improvement districts but their existence does not materially impact the operations of the City.

LITIGATION AND REGULATION

General Litigation and Claims

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; class actions and other lawsuits and claims alleging discriminatory hiring and promotion practices and certain civil rights violations arising under the Federal Voting Rights Act; various claims from contractors for additional amounts under construction contracts; claims involving 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.

Additionally, the City has received various claims related to Hurricane Harvey, none of which have become a lawsuit, alleging that the City released water from reservoirs flooding nearby residential and commercial properties and vehicles. The claims consist of both requests for compensation for loss from individual claimants and claims from insurance companies for their insured's losses. The claims allege either a constitutional taking under the Texas Constitution, a nuisance claim, or simply allege the City released the water causing harm to the claimants' property. The City intends to defend itself vigorously against all such claims; however, the City's liability with respect to these claims cannot be predicted.

For discussions of litigation relating to the City's Drainage Utility Fee and Pension Funds, see "PROPERTY TAXES—Drainage Utility Fee and Pay-As-You-Go Fund Assessments and Litigation" and "EMPLOYEE PENSION FUNDS—Pending Pension System Litigation."

State Legislation

Although the City is a home-rule city under the Texas Constitution, it may not adopt ordinances or charter provisions inconsistent with Texas law. The Texas Legislature may enact legislation that (i) materially increases the costs and expenditures of the City or (ii) reduces the ability of the City to collect ad valorem taxes or other revenues described herein. Under the Texas and United States Constitutions, the Texas Legislature may not, however, enact legislation that impairs the City's ability to pay principal of and interest on its indebtedness.

The Texas Legislature may consider bills that could have a direct impact on the City, its operations or the administrative agencies that oversee the City. The City can make no representations or predictions concerning the substance or the effect of any legislation that may be passed in the future. The City also cannot predict whether the Governor will exercise his power under the Texas constitution to call special sessions.

Environmental Regulation

The City is subject to the environmental regulations of the State and the United States. These laws and regulations are subject to change, and the City may be required to expend substantial funds to meet the requirements of such regulatory authorities, such as requirements relating to quality of the City's water supply or wastewater discharges or to the handling and disposal of wastes. Failure to comply with these laws and regulations may result in the imposition of administrative, civil and criminal penalties, or the imposition of an injunction requiring the City to take or refrain from taking certain actions. In addition, the City may be required to remediate contamination on properties owned or operated by the City, or at sites where the City has sent waste for disposal.

Other Environmental Measures

Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality ("TCEQ") may adversely affect new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act Amendments of 1990, the eight county Houston-Galveston-Brazoria Area ("HGB Area") has been designated by the EPA as a non-attainment area under the EPA's ozone standards. Such areas are required to demonstrate progress in reducing ozone concentrations each year until compliance with EPA's standards are achieved. To provide for annual reductions in ozone concentrations, the EPA and the TCEQ have imposed increasingly stringent limitations on emissions of volatile organic compounds and nitrogen oxides (chemical precursors of ground level ozone) from existing stationary sources of air emissions. In addition, any significant new source of those types of emissions, such as a new industrial plant, must provide for a net reduction of those air emissions by arranging or paying for reductions of emissions by 1.3 times the amount of pollutants proposed to be emitted by the new source. Even though existing air emissions controls are quite stringent, studies have indicated that even more stringent air emissions controls will be necessary in order for the HGB Area to achieve compliance with ozone standards. Due to the magnitude of air emissions reductions required as well as shortage of economically reasonable control options, the development of a successful air quality compliance plan has been and continues to be extremely challenging and will inevitably impact a wide cross-section of the business and residential community. More stringent controls on sources of air emissions in the HGB Area could make the Houston area a less attractive location to businesses in comparison to other areas of the country that are not subject to similarly stringent air emissions controls. Although air quality data indicates steady improvements in the HGB Area, if it fails to meet EPA's standards, EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects. The EPA may also impose more stringent emissions offset requirements on new major sources of emissions for which construction has not already commenced.

Other constraints on economic growth and development include lawsuits filed under the Clean Air Act by plaintiffs seeking to require emission reduction measures that are even more stringent than those adopted by TCEQ and approved by EPA. From time to time, various plaintiff environmental organizations have filed lawsuits against TCEQ and EPA seeking to compel the early adoption of additional emission reduction measures, many of which could make it more difficult for businesses to construct or expand industrial facilities or which could result in new restrictions on the actions of businesses, governmental entities and private citizens. Any successful court challenge to the currently effective air emissions control plan could result in the imposition of even more stringent air emission controls that could threaten continued growth and development in the HGB Area.

Storm Activity and Periodic Flooding

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 two other major floods in the past three years: 2015 Memorial Day and 2016 Tax Day.

The City and Harris County each participate in the National Flood Insurance Program, which is administered by FEMA. Communities participating in the National Flood Insurance Program are required by FEMA to adopt restrictions on development in designated flood prone areas. In exchange, the National Flood Insurance Program makes federally subsidized flood insurance available to homeowners, renters, and business owners located in the participating communities.

In connection with its administration of the National Flood Insurance Program, FEMA will from time to time revise its Flood Insurance Rate Maps, which serve to classify the relative flooding potential of geographic areas. FEMA revised its Flood Insurance Rate Maps for the Greater Houston area as well as unincorporated Harris County in late 2006. As a result of this most recent revision, some homes and businesses within the City and the surrounding area that were outside of the 100-year flood plain (those areas that are determined to have a greater than 1% chance of flooding in any given year) under the previous Flood Insurance Rate Maps are now included in the 100-year flood plain under the new maps. Residential, commercial, and industrial properties in the City that recently have been reclassified as being within the 100-year flood plain could experience a diminution in value, the extent of which has not yet been determined. It is anticipated that a pending federal climate study will result in floodplain map changes that will significantly increase the 100-year flood elevation and floodplain.

The City is currently pursuing hazard mitigation grants from FEMA to fund flood mitigation and/or flood damage reduction projects. Mitigation projects may include home buyout, home elevation and home reconstruction. Flood damage reduction projects may consists of channel widening, regional detention and stream diversions. These projects will be coordinated with the other local agencies responsible for watershed management.

REMEDIES

The Ordinance does not specifically provide any remedies to a Registered Owner if the City defaults on the payment of the principal of or interest on the Notes, nor does it provide for the appointment of a trustee to protect and enforce the interest of the Registered Owner upon the occurrence of such a default. If a Registered Owner of a Note does not receive payment of principal or interest when due, the Registered Owner may seek a writ of mandamus from a court of competent jurisdiction requiring the City to levy and collect taxes. Such Registered Owner also may seek a judgment against the City. The mandamus remedy, however, may be impractical and difficult to enforce. There is no provision for the acceleration of maturity of principal of the Notes in the event of a default. A judgment against the City could not be effectively enforced by a direct levy and execution against property owned by the City or any City funds. The enforcement of a claim for the payment of a Note also would be subject to the applicable provisions of the Federal bankruptcy laws and to any other statutes affecting the rights of creditors of political subdivisions and may be limited by general principles of equity.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under Texas law, the Notes are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries and trustees. The Notes are also legal and authorized investments for the sinking funds of cities, towns, villages, school districts and other political subdivisions or public agencies of the State of Texas and are eligible to secure deposits of public funds of the State of Texas or any political subdivision or agency thereof and are lawful and sufficient security for the deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended), the Notes may have to be assigned a rating of "A" or its equivalent as to investment quality by a nationally recognized rating agency before such obligations are eligible investments for sinking funds and other public funds.

The City has not reviewed the laws in other states to determine with the Notes are legal investments for various institutions in those states.

The City has not made any investigation of any other laws, rules, regulations or investment criteria that affect the suitability of the Notes for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Notes.

RATINGS

The rating services of Fitch Rating Services and Moody's Investor Service, have assigned ratings of "F1+" and "MIG1" respectively on the Notes. Ratings reflect only the views of the rating agencies, from whom an explanation of the significance of such ratings may be obtained. There is no assurance that ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal could have an adverse effect on the market price of the Notes. The City and the Financial Advisors will undertake no responsibility to oppose any revision or withdrawal of such ratings.

TAX MATTERS

General

In the opinion of Special Tax Counsel, under existing law, interest on the Notes is excludable from gross income for federal income tax purposes. Further, Special Tax Counsel has expressed no opinion regarding the state tax consequences that may arise with respect to the Notes.

The Internal Revenue Code of 1986, as amended (the "Code") and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Notes in order for the interest thereon to be and remain excludable from gross income for federal income tax purposes. Examples include: the requirement that, unless an exception applies, the City rebates certain excess earnings on proceeds and amounts treated as proceeds of the Notes to the United States Treasury Department; restrictions on the investment of such proceeds and other amounts; and certain restrictions on the use of the proceeds of the Notes and the sources of repayment of the Notes. The foregoing is not intended to be an exhaustive listing of the post-issuance tax compliance requirements of the Code, but is illustrative of the requirements that must be satisfied subsequent to the issuance of the Notes to maintain the exclusion of interest on the Notes from gross income for federal income tax purposes. Failure to comply with such requirements may cause the inclusion of interest on the Notes in the gross income of the holders thereof for federal income tax purposes, retroactive to the date of issuance of the Notes. The City has covenanted to comply with each such requirement of the Code that must be satisfied subsequent to the issuance of the Notes in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The opinion of Special Tax Counsel is subject to the condition that the City complies with all such requirements. Special Tax Counsel has not been retained to monitor compliance with the described post-issuance tax requirements subsequent to the issuance of the Notes.

Special Tax Counsel gives no assurance that any future legislation or clarifications or amendments to the Code, if enacted into law or otherwise become effective, will not cause the interest on the Notes to be subject, directly or indirectly, to federal income taxation, or otherwise prevent the holders of the Notes from realizing the full current benefit of the tax status of the interest on the Notes. During recent years, legislative proposals have been introduced in Congress, and in some cases have been enacted, that have altered or could alter certain federal tax consequences of owning obligations similar to the Notes. In some cases, these proposals have contained provisions that were to be applied on a retroactive basis. It is possible that legislation could be introduced that, if enacted, could change the federal tax consequences of owning the Notes and, whether or not enacted, could adversely affect their market value. Prospective purchasers of the Notes are encouraged to consult their own tax advisors regarding any pending or proposed federal legislation, as to which Special Tax Counsel expresses no view.

As to certain questions of fact material to the opinion of Special Tax Counsel, Special Tax Counsel will rely upon representations and covenants made on behalf of the City, the City's Financial Advisors and the Initial Purchaser (as defined herein) with respect to matters solely within the knowledge of the City, the City's Financial Advisors and the Initial Purchaser, respectively, and certificates of appropriate officers and public officials (including certifications as to the use of proceeds of the Notes), which Special Tax Counsel has not independently verified.

Reference is made to the proposed form of the opinion of Special Tax Counsel attached hereto as "APPENDIX C – Form of Special Tax Counsel Opinion" for the complete text thereof. See also "OTHER INFORMATION – Legal Opinions" herein.

Alternative Minimum Tax

An alternative minimum tax is imposed by the Code on individuals. Interest on the Notes will not be treated as an item of tax preference for purposes of the alternative minimum tax. Interest on the Notes will therefore not be included in the alternative minimum taxable income of individuals.

Original Issue Premium

In general, if an owner of a Note acquires it for a purchase price (excluding accrued interest) in excess of its stated redemption price to maturity, such excess constitutes "bond premium on the Note (a "Premium Note"). Section 171(a) of the Code provides rules under which a bond premium may be amortized and a deduction allowed for the amount of the amortizable bond premium for a taxable year. Under Section 171(a)(2) of the Code, however, no deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Notes, the interest on which is excludable from gross income. Under Section 1016(a)(5) of the Code, the purchaser's basis in a Premium Note will be reduced by the amount of the amortizable bond premium disallowable as a deduction under Section 171(a)(2) of the Code. Proceeds received from the sale, exchange, redemption or payment of a Premium Note in excess of the owner's adjusted basis (as reduced pursuant to Section 1016(a)(5) of the Code), will be treated as a gain from the sale or exchange of such Premium Note and not as interest.

The federal income tax treatment of original issue premium under the Code, including the determination of the amount of amortizable bond premium that is allocable to each year, is complicated and holders of Premium Notes should consult their own tax advisors in order to determine the federal income tax consequences to them of purchasing, holding, selling or surrendering Premium Notes at their maturity.

Other Tax Consequences

Prospective purchasers of the Notes should be aware that ownership of the Notes may result in collateral federal income tax consequences to certain taxpayers, including without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S Corporations and foreign corporations (including the "branch profits tax"), individuals entitled to receive the earned income tax credit, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Notes and low and middle income taxpayers otherwise qualifying for the health insurance provision assistance credit. Prospective purchasers of the Notes should also be aware that ownership of the Notes may result in adverse tax consequences under the laws of various states. Special Tax Counsel has not expressed an opinion regarding the collateral federal income tax consequences that may arise with respect to the Notes. Further, Special Tax Counsel has expressed no opinion regarding the state tax consequences that may arise with respect to the Notes. Prospective purchasers of the Notes should consult their tax advisors as to the collateral federal income tax and state tax consequences to them of owning the Notes.

The federal income tax consequences from the purchase, ownership and redemption, sale or other disposition of Notes which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. Holders of Notes, should consult their own tax advisors with respect to the consequences of owning Notes, including the effect of such ownership under applicable state and local laws.

Information Reporting and Backup Withholding

Interest paid on tax-exempt obligations, such as the Notes, 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 Notes from gross income for federal income tax purposes. However, in conjunction with that information reporting requirement, the Code subjects certain non-corporate owners of Notes, under certain circumstances, to "backup withholding" at the fourth lowest rate applicable to unmarried individuals with respect to payments on the Notes and proceeds from the sale of Notes. Any amounts so withheld would be refunded or allowed as a credit against the federal income tax of such owner of Notes. This withholding generally applies if the owner of Notes (i) fails to furnish the paying agent (or other person who would otherwise be required to withhold tax from such payments) such owner's social security number or other taxpayer identification number ("TIN"), (ii) furnishes the paying agent 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 paying agent 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 Notes 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 and the procedures for obtaining exemptions.

PURCHASE, OWNERSHIP, SALE OR DISPOSITION OF THE NOTES AND THE RECEIPT OR ACCRUAL OF THE INTEREST THEREON MAY HAVE ADVERSE FEDERAL TAX CONSEQUENCES FOR CERTAIN INDIVIDUAL AND CORPORATE NOTEHOLDERS, INCLUDING, BUT NOT LIMITED TO, THE CONSEQUENCES DESCRIBED ABOVE. PROSPECTIVE NOTEHOLDERS SHOULD CONSULT WITH THEIR TAX SPECIALISTS FOR INFORMATION IN THAT REGARD.

Reference is made to the proposed form of the opinion of Special Tax Counsel attached hereto as "APPENDIX C – Form of Special Tax Counsel Opinion" for the complete text thereof. See also "OTHER INFORMATION – Legal Opinions" herein.

LEGAL MATTERS

The delivery of the Notes is subject to receipt of the approving opinion of Co-Bond Counsel as to the validity of the issuance of the Notes under the Constitution and laws of the State of Texas and an opinion of Special Tax Counsel addressing the matters described under the heading "TAX MATTERS." The opinion of Co-Bond Counsel will be based upon an examination of a transcript of certain proceedings taken by the City incident to the issuance and authorization of the Notes. Co-Bond Counsel will not be responsible in any manner for matters addressed in the opinion of Special Tax Counsel and, likewise, Special Tax Counsel will not be responsible in any manner for matters addressed in the opinion of Co-Bond Counsel. Moreover, Co-Bond Counsel and Special Tax Counsel have no joint responsibility with respect to the Notes or the proceeds relating to the Notes. Co-Bond Counsel will be solely responsible for such proceedings and Special Tax Counsel will be solely responsible for its opinion.

Co-Bond Counsel have reviewed the information appearing in this Official Statement with respect to the description of the Notes solely to determine whether such information conforms to and fairly summarizes the provisions of the Ordinance referred to herein. Co-Bond Counsel also have read and participated in the drafting of the information under the headings "PLAN OF FINANCE," "REMEDIES," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "CONTINUING DISCLOSURE," except for the information under the subheading "Compliance with Prior Undertaking," and "TAX MATTERS" solely to determine whether such information fairly summarizes the law referred to therein. Such firms have not, however, independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firms' limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained herein. Certain matters will passed on for the City by it Special Co-Disclosure Counsel, Holland & Knight LLP., Houston, Texas and Law Offices of Francisco G. Medina, Houston, Texas and its Special Tax Counsel, Holland & Knight LLP, Houston, Texas. The legal fees of Co-Bond Counsel, Special Tax Counsel and Special Co-Disclosure Counsel are contingent upon the sale and delivery of the Notes.

FINANCIAL ADVISORS

Masterson Advisors LLC, and The RSI Group LLC (the "Co-Financial Advisors") are retained by the City in connection with the issuance of the Notes and, in such capacity, have assisted the City in the preparation of documents. The Co-Financial Advisors' fees for services rendered with respect to the sale of the Notes are not contingent upon the issuance and delivery of the Notes.

Although the Co-Financial Advisors have read and participated in the preparation of this Official Statement, they have not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the City's records and from other sources which are believed to be reliable, including financial records of the City and other entities which may be subject to interpretation. No guarantee is made as to the accuracy or completeness of any such information. No person, therefore, is entitled to rely upon the participation of the Co-Financial Advisors as an implicit or explicit expression of opinion as to the completeness and accuracy of the information contained in this Official Statement.

OFFICIAL STATEMENT CERTIFICATE

At the time of delivery of the Notes, the purchaser of the Notes (the "Initial Purchaser") will receive a certificate dated the Date of Delivery of the Notes, signed on behalf of the City by the City Controller or another appropriate City official acting solely in an official capacity, which certifies substantially to the effect that to the best of such official's knowledge and belief, as of the Date of the Delivery of the Notes to the Initial Purchaser, the Official Statement, as then supplemented or amended, does not contain any untrue statement of a material fact and does not omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. In delivering such certificate, the official executing the certificate may rely in part on an examination of the records of the City related to matters within such official's own area of responsibility, and discussion with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of the City.

NO-LITIGATION CERTIFICATE

The City will deliver to the Initial Purchaser a certificate, dated as of the Date of Delivery of the Notes, stating that no litigation has been filed or is then pending to restrain or enjoin the issuance or delivery of the Notes, or which would affect the provisions made for payment of the principal of and interest on the Notes or in any manner would question the validity of the Notes.

INDEPENDENT AUDITORS

The financial statements of the City of Houston, Texas, as of and for the year ended June 30, 2019, included in this Official Statement as APPENDIX A, have been audited by McConnell & Jones LLP/Banks, Finley, White & Co., a joint venture known as M&J/BFW, independent auditors, as stated in their report appearing herein.

REGISTRATION, SALE AND DISTRIBUTION

The Notes have not been registered under the federal Securities Act of 1933, as amended (in reliance upon an exemption therefrom), or the blue sky laws of any jurisdiction. The Ordinance has not been qualified under the federal Trust Indenture Act of 1939, as amended (in reliance upon an exemption therefrom).

Interest on the Notes will accrue from the Date of Delivery. No assurance can be given that any trading market will be developed for the Notes after their initial sale by the City. The City has no control over the prices at which the Notes initially will be reoffered to the public.

CONTINUING DISCLOSURE

General

In the Ordinance, the City has made the following agreement for the benefit of the holders of the Notes. The City is required to observe the agreement for so long as the Notes are outstanding. Under the agreement, the City is exempt from providing certain updated financial information and operating data annually pursuant to an exemption set forth in the United States Securities and Exchange Commission (the "SEC") Rule 15c2-12 (the "Rule"), which provides that municipal securities maturing within 18 months of their issuance are not required to provide annual updated financial and operating data. The City will provide timely notice of specified events to the Municipal Securities Rulemaking Board (the "MSRB"), which is the sole information repository.

Annual Reports

As described above, the City is not required to provide annual financial information and operating data pursuant to the Rule. Notwithstanding, the City provides annually updated financial information and operating data to certain information vendors in connection with the issuance of certain other debt obligations that are not otherwise exempt under the Rule. Holders of notes may have access to such information and will be made available to the public without charge by the MSRB on its Electronic Municipal Market Access ("EMMA") website.

Material 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 Notes: (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 Notes, or other material events affecting the tax status of the Notes; (7) modifications to rights of holders of the Notes, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Notes, 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. In addition, the City will provide to the MSRB, in a timely manner, notice of any failure by the City to provide the required annual financial information described above under "Annual Reports" and any notices of material events in accordance with this section.

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. A "financial obligation" as described in (15) and (16) above means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term "financial obligation" does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

Compliance with Prior Undertakings

On November 1, 2019, 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/IssuerHomePage/Issuer?id=122D8F57A31F0F0513F7133054BC213B&type=G) and locating the Summarized Update under the "Event-Based Disclosures" tab under the link "Other Event-based Disclosures: Summarized Update of Previous Disclosure Filings." The content of the Summarized Update is incorporated herein by reference.

Limitations and Amendments

The City has agreed to provide notices of material events only as described above. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its agreement to provide notices of certain events or from any statement made pursuant to its agreement, although holders of Notes may seek a writ of mandamus to compel the City to comply with its agreement.

Except for the City's obligation to comply with the foregoing, the City has not agreed and does not intend to provide owners of the Notes, subsequent to the issuance thereof, with continuing information about its finances, changes in its debt structure or tax base, legal matters, ratings or any other information related to the City or the Notes.

GENERAL INFORMATION

The description herein of the Notes and the Ordinance does not purport to be complete, and all such descriptions or references thereto are qualified in their entirety by reference to the complete form of the Ordinance. Statements made herein involving estimates or projections, whether or not expressly identified as such, should not be construed to be statements of fact or as representations that such estimates or projections will ever be attained or will approximate actual results. Any summaries or excerpts of constitutional provisions, statutes, ordinances or other documents do not purport to be complete statements of same, and are made subject to all of the provisions thereof. Reference should be made to such original sources in all respects.

This Official Statement is not to be construed as a contract with the purchaser(s) or the holders of any of the Notes.

For additional information with respect to the financial condition of the City, a copy of the June 30, 2019 Comprehensive Annual Financial Report of the City is available upon written request addressed to the City Controller, P.O. Box 1562, Houston, Texas 77251-1562. A copy of the most recent quarterly investment report is also available upon request from the City Controller. Copies of the Ordinance may be obtained from Pat Jefferson-Daniel, Interim City Secretary, City Hall Annex, 900 Bagby, Level P, Room P-101, Houston, Texas, or by mail, P.O. Box 1562, Houston, Texas 77251-1562.

This document has been approved by the City Council of the City of Houston, Texas.

APPENDIX A

AUDITED BASIC FINANCIAL STATEMENTS

City of Houston, Texas

Annual Financial Report
For the Fiscal Year Ended June 30, 2019

Chris B. Brown, City Controller

CITY OF HOUSTON, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2019

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and the aggregate remaining fund information of the City of Houston, Texas (the "City"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Firefighter's Relief and Retirement Pension Trust Fund, the Municipal Employees' Pension Trust Fund, and the Police Officer's Pension Trust Fund, blended component units of the City, which, in the aggregate, represent 100% of the assets and net position of the pension trust funds, within the fiduciary funds. Except for Houston Area Library Automated Network, and Lamar Terrace Public Improvement District, we did not audit the financial statements of any governmental discretely presented component units which represent 7.5%, (4.9%) and 8.7%, respectively, of the assets, net position (deficit), and revenues of the governmental activities or any business-type discretely presented component units which represents 5.7%, 15.4% and 14.8% respectively, of the assets, net position, and revenues of the business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for such pension trust funds, governmental discretely presented component units, and business-type discretely presented component units, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and the aggregate remaining fund information of the City of Houston, Texas, as of June 30, 2019, 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.

Other Matters

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 132 through 135), Pension System Supplementary Information (pages 138 through 140), and Other Post-Employment Benefits Supplementary Information (pages 140 and 141) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2019, on our consideration of the City of Houston, Texas'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 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 of Houston, Texas's internal control over financial reporting and compliance.

McConnell & Jones LLP   Banks, Finley, White & Co.

December 17, 2019

This page is left blank intentionally

City of Houston, Texas
Management's Discussion and Analysis
June 30, 2019
(Unaudited)

As management of the City of Houston, we offer readers of the City of Houston's financial statements this narrative overview and analysis of the financial activities of the City of Houston for the fiscal year ended June 30, 2019. Please read this information in conjunction with the basic financial statements that follow this section. The discussion and analysis includes comparative data for 2018. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Financial Highlights

Some of the City's financial highlights for the fiscal year ending June 30, 2019 include:

- The assets and deferred outflows of resources of the City of Houston exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $972 million. This is a net increase from the prior year of $101 million.
- The net position of governmental activities decreased by $83 million. The decrease is primarily attributed to the amortization and change in assumptions related to pension and OPEB liabilities. See pages 8 and 9 for further discussion.
- The City's unrestricted net position is a deficit of $6.7 billion. The deficit is the result of $7.7 billion of all pension and OPEB related liabilities and net deferred outflows and inflows that are required to be presented by the Governmental Accounting Standards Board (GASB) pronouncements 68 and 75 in the government-wide financial statements. The implementation of these reporting standards had a significant negative impact upon the net position of the governmental activities, beginning in the year 2016.
- The City of Houston's total expenses were $5.3 billion.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Houston's basic financial statements. The City of Houston's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

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

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

The statement of activities presents information showing how the government'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).

Both of the government-wide financial statements distinguish between functions of the City of Houston 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 of Houston include general government, public safety, public works, health, housing and community development, parks and recreation, and library. The business-type activities of the City of Houston include the airport system, combined utility system and convention & entertainment facilities.

The government-wide financial statements include not only the City of Houston itself (known as the primary government), but also legally separate component units for which the City of Houston is financially accountable. With the exception of 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 of Houston, 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 of Houston, 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 of Houston 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 government-wide financial statements. However, unlike the government-wide statements, 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 the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. 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 of Houston maintains nine 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 and the grants fund, all of which are considered to be 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).

Proprietary funds. The City of Houston 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 government-wide financial statements. The City of Houston uses enterprise funds to account for its aviation system, combined utility system and the convention and entertainment facilities. The City of Houston uses internal service funds to account for health and benefits and long-term disability activities. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the aviation system, combined utility system and convention and entertainment facilities, all of which are considered to be major funds for the City of Houston. 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 government-wide financial statements because the resources of those funds are not available to support the City of Houston'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 government-wide 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 of Houston's progress in funding its obligation to provide pension benefits to its employees; and other post-employment benefits.

Net Position
June 30, 2019
(With comparative totals for 2018)
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018 (as restated)	2019	2018 (as restated)
Current and other assets	$ 1,807	$ 1,766	$ 5,081	$ 3,861	$ 6,888	$ 5,627
Capital assets	7,554	7,329	10,417	10,272	17,971	17,601
Total assets	9,361	9,095	15,498	14,133	24,859	23,228
Deferred outflows of resources	844	2,027	441	442	1,285	2,469
Long-term liabilities	9,630	9,797	12,826	11,735	22,456	21,532
Other liabilities	992	1,082	1,041	1,013	2,033	2,095
Total liabilities	10,622	10,879	13,867	12,748	24,489	23,627
Deferred inflows of resources	581	1,158	102	41	683	1,199
Net position						
Net investment in capital assets,	5,139	4,865	755	808	5,894	5,673
Restricted	367	187	1,416	1,353	1,783	1,540
Unrestricted (deficit)	(6,504)	(5,967)	(201)	(375)	(6,705)	(6,342)
Total net position (deficit)	$ (998)	$ (915)	$ 1,970	$ 1,786	$ 972	$ 871

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 of Houston, on a government-wide basis, assets and deferred outflows were higher than liabilities and deferred inflows by $972 million at the close of the most recent fiscal year.

The largest portion of the City of Houston's net position is net investment in capital assets of approximately $5.9 billion (e.g., land, building, machinery, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City of Houston uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Houston'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 $1.8 billion of the City of Houston's net position.

In previous years, GASB issued pronouncements which had the effect of reporting pension related expenses in the financial statements. As a result of pension reform measures enacted into law in May of 2017, several changes occurred in the actuary assumptions used in determining pension liabilities. Any changes in actuarial assumptions creates net deferred inflows/outflows (which are more clearly described in Note 1F) and are amortized over a period of 5 years. As noted in Note 10D, during Fiscal Year 2019, the City recognized a total of $924 million in pension expenses in the financial statements. Almost $550 million of the expense is related to the amortization of net deferred outflows. As noted in Note 10E, the amortization of this deferred outflow is expected to be approximately $358 million in 2020. Based on current year actuarial assumptions, the amount of the amortization expense related to these deferred outflows will continue to decrease through Fiscal Year 2024. As a result, if the operations remain consistent, the City's net position will improve.

For the Fiscal Year Ended June 30, 2019

With comparative totals for 2018

(in millions)

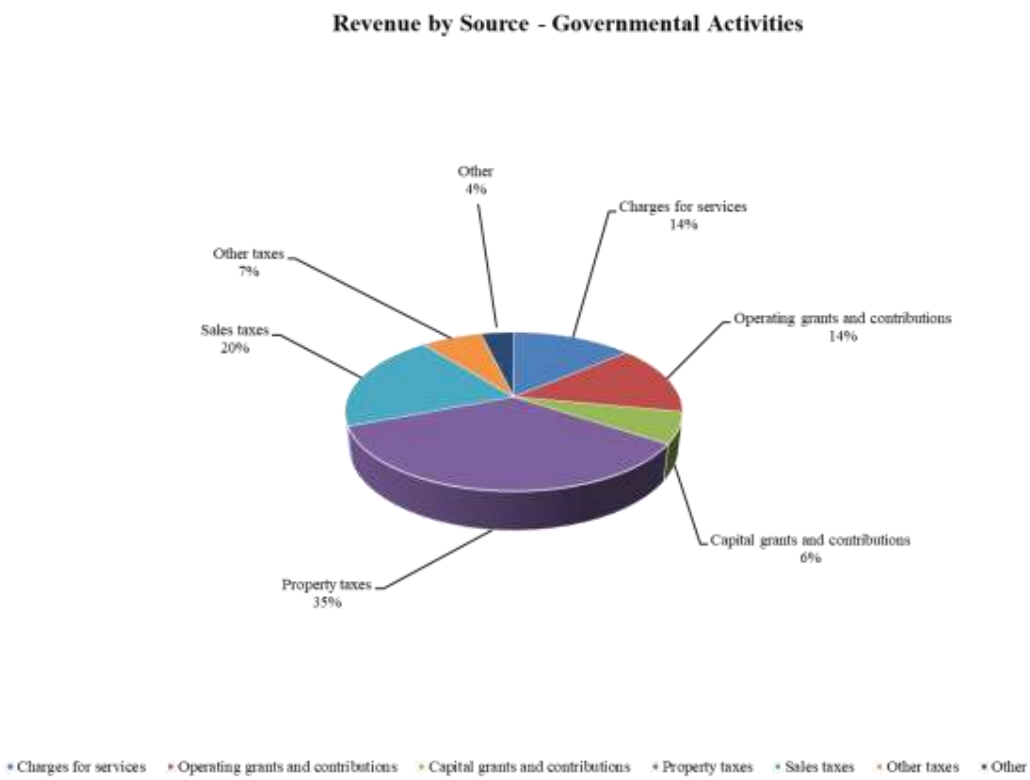
	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018 (as restated)	2019	2018 (as restated)
Program Revenues:						
Charges for services	$ 473	$ 427	$ 1,680	$ 1,698	$ 2,153	$ 2,125
Operating grants and contributions	489	380	27	19	516	399
Capital grants and contributions	217	84	29	23	246	107
General revenues:						
Property taxes	1,196	1,172	-	-	1,196	1,172
Sales taxes	692	674	-	-	692	674
Other taxes	238	240	69	72	307	312
Other	129	221	179	69	308	290
Gain on sale of asset	13	-	(6)	12	7	12
Total revenues	3,447	3,198	1,978	1,893	5,425	5,091
Expenses:						
General government	412	421	-	-	412	421
Public safety	2,034	2,138	-	-	2,034	2,138
Public works	403	423	-	-	403	423
Health	165	172	-	-	165	172
Housing and community development	92	54	-	-	92	54
Parks and recreation	108	126	-	-	108	126
Library	50	51	-	-	50	51
Interest on Long-term Debt	165	160	-	-	165	160
Depreciation and amortization	156	153	-	-	156	153
Airport System	-	-	596	604	596	604
Convention & Entertainment Facilities	-	-	97	98	97	98
Combined Utility System	-	-	1,042	991	1,042	991
Total expenses	3,585	3,698	1,735	1,693	5,320	5,391
Change in net position before contributions, special items and transfers	(138)	(500)	243	200	105	(300)
Contributions	(4)	-	-	-	(4)	-
Transfers	59	65	(59)	(65)	-	-
Change in net position	(83)	(435)	184	135	101	(300)
Net assets, July 1 as previously reported	(915)	203	1,786	1,651	871	1,854
Cumulative effect of a change in accounting principle	-	(683)	-	(81)	-	(764)
Prior period adjustment	-	-	-	80	-	80
Beginning net position July 1	(915)	(480)	1,786	1,571	871	1,091
Net position (deficit) June 30	$ (998)	$ (915)	$ 1,970	$ 1,786	$ 972	$ 871

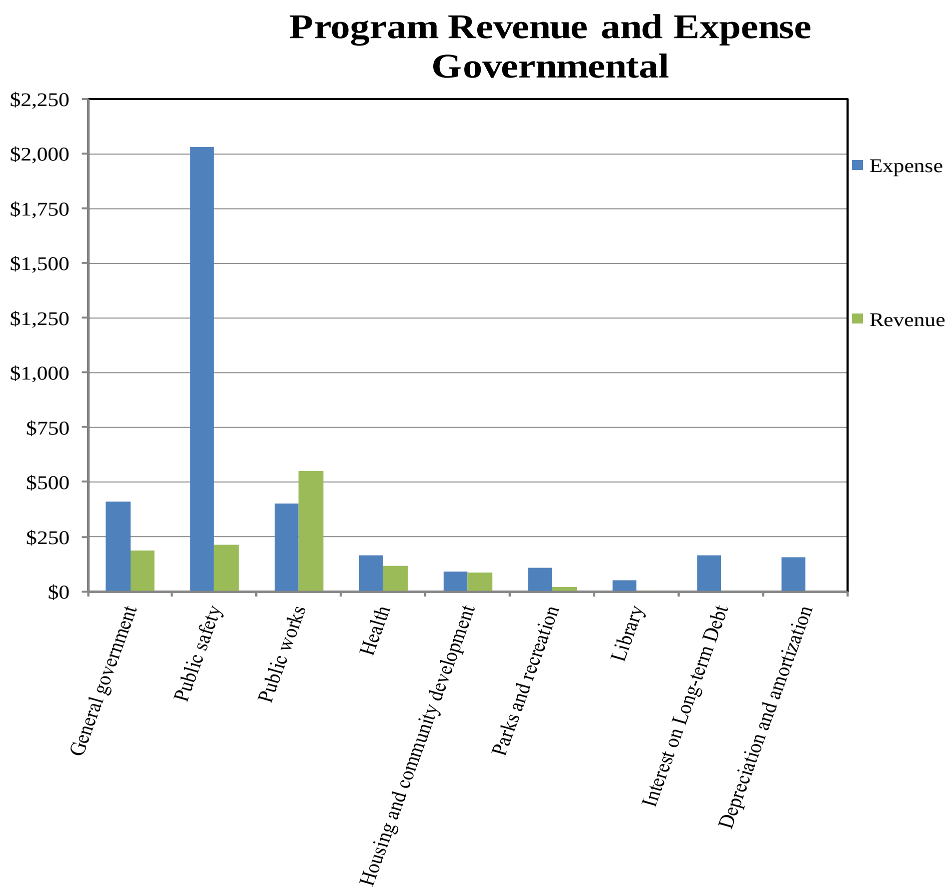
Governmental activities. Governmental activities decreased the City of Houston's net position from Fiscal Year 2018 by $83 million. The key elements of this change are as follows:

- Even though expenses were down from Fiscal Year 2018, expenses exceeded revenues in Fiscal Year 2019 by $138 million. The majority of the excess in expenses over revenues is due to the amortization of pension related costs.

- Although revenues were higher in Fiscal Year 2019 than in the prior year, those revenues were not enough to cover current year costs.

- The City did not see as much of an increase in its primary revenues streams of property tax and sales tax as in previous years.





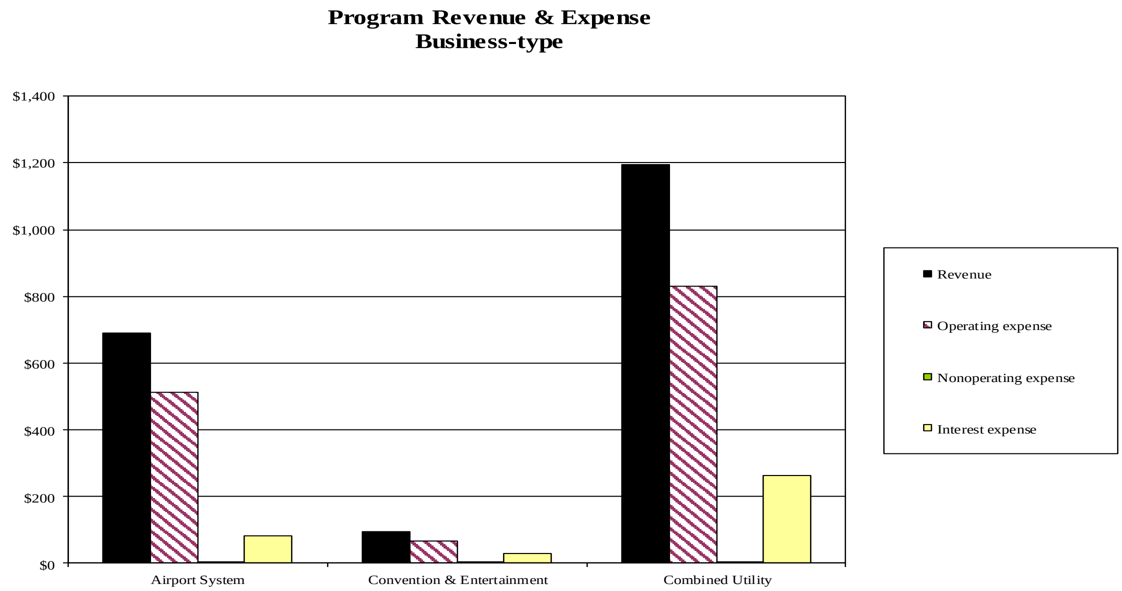
Business-type activities. Business-type activities increased the City of Houston's net position during the year by $184 million (see Note 16). The cumulative effect of the implementation of a prior period adjustment increased net position by $79 million, resulting in a net increase from the prior year of $263 million.

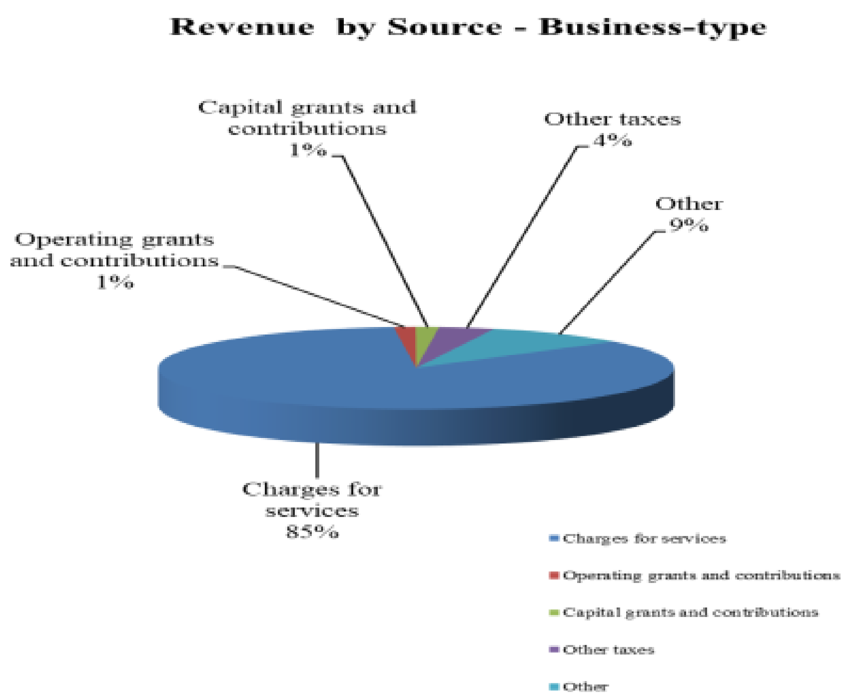
Key elements of this change are as follows:

- Airport systems operating expenses were up by 0.11%, from $511.1 million to $511.7 million. Operating revenues were down by 2.4% from $511 million to $498 million, predominantly due to increases in parking and concession fees which are being overshadowed by decreases in landing fees and ground rentals. Conversely, nonoperating revenues were up 126%, from $40 million to $89 million due mainly to increases in investment income and an increase in passenger facility charges.

- Convention & Entertainment operating expenses were down 4.3% from $70 million to $67 million. Operating revenues were up 35% from $8 million to $11 million due to increased parking revenues.

- The Combined Utility System operating expenses increased by 4% from $744 million to $774 million due to increases in asset condition assessments, water plant equipment purchases, Coastal Water Authority debt service expense (partially offset by contributions in) and a new water reservation fee for surface water. Operating revenues decreased by 1% from $1.053 billion to $1.042 billion primarily due to a decrease in metered water revenues.


Program Revenue & Expense
Business-type
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
Airport System
Convention & Entertainment
Combined Utility
Revenue
Operating expense
Nonoperating expense
Interest expense


Revenue by Source - Business-type
Capital grants and contributions 1%
Other taxes 4%
Other 9%
Operating grants and contributions 1%
Charges for services 85%
Charges for services
Operating grants and contributions
Capital grants and contributions
Other taxes
Other

Financial Analysis of the Government's Funds

As noted earlier, the City of Houston 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 of Houston'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 of Houston'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 of the end of the current fiscal year, the City of Houston's governmental funds reported combined ending fund balances of $1.017 billion. Approximately 34.3% of this total, or $349 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, $72 million; restricted to pay debt service, $132 million; or a variety of other restricted purposes, $464 million.

The general fund is the chief operating fund of the City of Houston. At the end of the current fiscal year, unassigned fund balance of the general fund was $349 million, while the total fund balance reached $389 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 16.3% of total general fund expenditures, while total fund balance represents 18.1% of that same amount.

Key differences between last year's general fund activity and this year's include:

- $9 million increase in total revenues – primarily increased property tax by $18 million, sales tax revenues by $18 million and investment income of $10 million. Decreases were primarily $16 million in intergovernmental grants and $31 million in other revenue
- $871 million decrease in expenditures – reduction in public safety and retiree benefit costs
- $915 million decrease in proceeds from issuance of debt

Debt service principal expenditures for the debt service fund decreased by $273 million. In addition, debt service interest increased $27 million while net proceeds from issuance of refunding debt decreased $536 million. Fund balance decreased by $870 thousand.

The capital projects fund, which is used for the acquisition and/or construction of capital facilities by the City (except those financed by Enterprise Funds), has a fund balance of $137 million. The net increase in fund balance during the current fiscal year was 32%.

Proprietary funds (see tabs labeled "Enterprise Funds" and "Internal Services Funds"). The City of Houston proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of the year, the Airport System had an unrestricted net deficit of $138 million, Convention and Entertainment had an unrestricted net position of $19 million and the Combined Utility System had an unrestricted net deficit of $82 million. The increase in net position for the Airport System for the fiscal year was $93 million. The Convention and Entertainment fund experienced a decrease in net position during the fiscal year of $3 million. The Combined Utility System fund experienced an increase of $93 million in net position during the fiscal year. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Houston's business-type activities.

General Fund Budgetary Highlights

Total revenues were above budget by $46 million. The details of the more significant variances are highlighted below:

- $11 million below budget in property taxes
- $35 million above budget in sales tax
- $6 million above budget in ambulance service
- $3 million above budget in other revenues

Total expenditures for the General Fund were $39 million below the final expenditure budget. The details of the more significant variances are highlighted below:

- $14 million under budget in general government
- $20 million under budget in public safety
- $2 million under budget in public works
- $2.6 million under budget in parks

Capital Asset and Debt Administration

Capital assets. The City of Houston's investment in capital assets for its governmental and business-type activities as of June 30, 2019, amounts to $18 billion (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery, equipment, storm drainage, streets and bridges. The City of Houston's net investment in capital assets was relatively stable.

Capital Assets
June 30, 2019
(With comparative totals for 2018)
(net of accumulated depreciation in millions)

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land and right of way	$ 2,247	$ 2,219	$ 472	$ 469	$ 2,719	$ 2,688
Buildings, improvements and equipment	2,695	2,582	5,885	5,781	8,580	8,363
Construction in progress	521	400	1,054	840	1,575	1,240
Water rights	-	-	847	846	847	846
Runway rights	-	-	17	17	17	17
Garage rights	-	-	13	13	13	13
Infrastructure Assets	7,153	6,959	11,560	11,349	18,713	18,308
Less accumulated depreciation	(5,062)	(4,831)	(9,432)	(9,044)	(14,494)	(13,875)
Total	$ 7,554	$ 7,329	$ 10,416	$ 10,271	$ 17,970	$ 17,600

More detailed information regarding capital assets can be found in Note 6 to the financial statements.

Major capital asset events during the current fiscal year included the following:

- Governmental fund activities recorded $27.9 million in land and $113.7 million in construction in process that was received from Uptown Redevelopment Authority. More detailed information about the City's capital assets is presented in Note 6 to the financial statements.

Long-term debt At the end of the current fiscal year, the City of Houston had total bonded debt outstanding of $15 billion. The two largest portions of this total are made up of $2.7 billion comprising debt backed by the full faith and credit of the government and $10 billion comprising various enterprise fund revenue bonds which are payable from future revenues of the various operations of those enterprise funds. The remainder of the City of Houston's debt represents various long-term contracts.

Outstanding Debt
June 30, 2019
(With comparative totals for 2018)
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
General obligation bonds and commercial paper	$ 2,455	$ 2,541	$ 233	$ 241	$ 2,688	$ 2,782
Pension bonds	1,434	1,444	102	132	1,536	1,576
Inferior lien contract	-	-	-	-	-	-
Special facility bonds	-	-	80	86	80	86
Revenue bonds	-	-	9,447	9,444	9,447	9,444
Other borrowings	5	9	910	750	915	759
Total	$ 3,894	$ 3,994	$ 10,772	$ 10,653	$ 14,666	$ 14,647

The City's total debt remained stable during the current fiscal year.

More detailed information on long-term debt can be found in Note 8 to the financial statements.

Standard & Poor’s, Moody’s and Fitch’s underlying ratings of the City’s obligations as of June 30, 2019 are as follows:

	Standard & Poor's	Moody's	Fitch's
General Obligation	AA	Aa3	AA
Water & Sewer System Junior Lien	AA+	Aa1	AA+
Combined Utility System First Lien	AA	Aa2	AA
Houston Airport System-Subordinate Lien	A+	A1	A
Houston Airport System-CRCF Lien	A	A3	A-
Convention & Entertainment - Senior Lien	A	A2	N/R

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total assessed valuation. The current debt limitation for the City of Houston is $26.3 billion, which is significantly in excess of the City of Houston’s outstanding general obligation debt.

Next Year’s Budget and Rates

Highlights of the fiscal year 2020 budget are as follows:

- The property tax rate was decreased to 56.79 cents per $100 of valuation.
- The general fund budget will increase spending by 2.2% from the fiscal 2019 budget. This is primarily due to contractually mandated increases including police and municipal pay raises for the current meet and confer agreements as well as health benefits and pension costs.

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, Attention: Financial Reporting Division, 901 Bagby, 8th Floor, Houston, Texas 77002.

CITY OF HOUSTON, TEXAS
STATEMENT OF NET POSITION

June 30, 2019
(amounts expressed in thousands)

	Governmental Activities	Business-type Activities	Total	Component Units Governmental	Component Units Business-type
Assets					
Cash and cash equivalents (Note 3A)	$ 325,568	320,768	$ 646,336	$ 128,829	$ 79,580
Investments (Note 3A)	930,328	1,899,190	2,829,518	218,339	19,452
Receivables, net of allowances					
Accounts receivable	228,063	201,992	430,055	43,128	17,955
Hotel occupancy tax receivable	-	22,785	22,785	-	-
Property taxes receivable	28,544	-	28,544	54,683	-
Sales taxes receivable	119,710	-	119,710	-	-
Mixed beverage taxes receivable	4,751	-	4,751	-	-
Franchise taxes receivable	16,296	-	16,296	-	-
Special assessments receivable	7,991	93	8,084	26	-
Accrued interest and other	-	-	-	-	588
Due from component units	-	64,138	64,138	-	-
Internal balances	(2,334)	2,334	-	-	-
Due from other governments	112,062	25,634	137,696	18,918	2,023
Inventory	20,238	15,028	35,266	-	-
Other receivables	-	-	-	49,060	60,537
Prepaid items	3,433	13,320	16,753	2,127	6,933
Notes receivable	12,500	-	12,500	-	-
Restricted				-	
Cash and cash equivalents (Note 3A)	-	50,840	50,840	-	29,044
Investments (Note 3A)	-	1,126,459	1,126,459	5,171	49,485
Due from component units	-	340,013	340,013	-	-
Receivables and deposits	-	1,494	1,494	1,857	83,765
Due from other governments	-	985,583	985,583	-	-
Amounts held by other governments	-	11,270	11,270	-	-
Due from primary government	-			12,690	
Capital Assets					
Land and right-of-way	2,237,035	472,192	2,709,227	135,832	23,480
Buildings	1,336,784	3,798,024	5,134,808	110,159	717,434
Improvements and equipment	1,358,677	2,087,230	3,445,907	-	-
Construction in progress	520,722	1,054,137	1,574,859	58,348	88,840
Runway rights	-	17,471	17,471	-	-
Water rights	-	846,513	846,513	-	-
Garage rights	-	13,144	13,144	-	-
Rights & Intangibles	10,272	-	10,272	-	-
Infrastructure assets	7,152,741	11,560,044	18,712,785	-	-
Less accumulated depreciation and amortization	(5,062,462)	(9,432,099)	(14,494,561)	(23,406)	(218,361)
Total assets	$ 9,360,919	15,497,597	$ 24,858,516	$ 815,761	$ 960,755
Deferred outflows of resources					
Deferred outflows of resources	843,914	441,465	1,285,379	2,858	4,172
Total deferred outflows of resources	$ 843,914	441,465	$ 1,285,379	$ 2,858	$ 4,172

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS
STATEMENT OF NET POSITION

June 30, 2019
(amounts expressed in thousands)

	Governmental Activities	Business-type Activities	Total	Component Units Governmental	Component Units Business-type
Liabilities					
Accounts payable and accrued expenditures	$ 183,714	191,874	$ 375,588	$ 52,373	$ 55,627
Accrued payroll liabilities	70,147	8,865	79,012	141	1,329
Cost of issuance	-	1,389	1,389	-	-
Accrued interest payable	54,273	132,233	186,506	7,281	3,278
Due to other governments	11,200	2,087	13,287	29,699	-
Other liabilities	-	-	-	7,161	920
Advances and deposits	11,054	47,977	59,031	33	-
Unearned revenue	241,719	4,347	246,066	1,719	887
Due to component units	-	29,769	29,769	-	-
Due to primary government	-	-	-	-	25,954
Contracts and retainages payable	-	65,617	65,617	6,669	1,639
Due within one year					
Notes payable	183	-	183	7,013	12,703
Bonds payable	213,040	343,972	557,012	25,695	-
Claims and judgments	38,012	1,486	39,498	-	-
Compensated absences	155,791	16,931	172,722	-	-
Special facility bonds payable	-	5,960	5,960	-	-
Commercial paper	-	185,000	185,000	-	-
Arbitrage rebate liability	-	257	257	-	-
Other liabilities	-	1,132	1,132	-	-
Pension bonds payable	12,073	1,637	13,710	-	
Due in more than one year					
Notes payable	4,879	-	4,879	117,806	473,117
Bonds payable	2,076,581	9,102,549	11,179,130	476,914	-
Claims and judgments	121,053	2,052	123,105	-	-
Compensated absences	316,541	15,036	331,577	994	-
Contracts payable	-	891,276	891,276	-	-
Special facility bonds payable	-	74,425	74,425	-	-
Commercial paper	165,000	48,473	213,473	-	-
Other long-term liabilities	-	-	-	31,664	-
Unearned revenue	-	1,548,757	1,548,757	-	11,004
Due to primary government	-	-	-	633	-
Arbitrage rebate liability	370	3,629	3,999	-	-
SWAP liability	-	223,339	223,339	-	-
Pension obligation bonds payable	1,422,407	100,814	1,523,221	-	-
Other post employment benefits liability	2,039,993	227,088	2,267,081	-	-
Municipal net pension liability	1,546,413	588,721	2,135,134	-	-
Police officers' net pension liability	1,245,900	-	1,245,900	-	-
Firefighter's net pension liability	691,117	-	691,117	-	-
Total liabilities	$ 10,621,460	13,866,692	$ 24,488,152	$ 765,795	$ 586,458
Deferred inflows of resources					
Deferred inflows of resources	581,232	102,164	683,396	-	19,203
Total deferred inflows of resources	$ 581,232	102,164	$ 683,396	$ -	$ 19,203
Net position					
Net investment in capital assets	5,138,847	754,981	5,893,828	220,233	110,713
Restricted net position					
Restricted for debt service	85,186	529,511	614,697	75,249	367
Restricted for renewal and replacement	-	10,006	10,006	-	-
Restricted for maintenance and operations	-	166,719	166,719	3,076	-
Restricted for others' capital improvement	-	57,895	57,895	-	-
Restricted for capital improvement	212,548	651,664	864,212	47,930	-
Other restricted	69,804	-	69,804	103,884	73,599
Unrestricted (deficit)	(6,504,244)	(200,570)	(6,704,814)	(397,548)	174,587
Total net position (deficit)	$ (997,859)	1,970,206	$ 972,347	$ 52,824	$ 359,266

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS
STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2019
(amounts expressed in thousands)

		Program Revenue		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government				
Governmental activities				
General government	412,427	58,537	129,634	-
Public safety	2,034,121	152,061	60,725	1,044
Public works	402,857	232,423	112,790	205,849
Health	164,550	20,614	96,545	-
Housing and community development	91,997	-	85,040	-
Parks and recreation	107,788	7,483	3,933	10,387
Library	50,007	2,035	90	-
Interest on long-term debt	165,573	-	-	-
Unallocated Depreciation	156,412	-	-	-
Total governmental activities	3,585,732	473,153	488,757	217,280
Business-type activities				
Airport System	596,069	627,058	-	16,599
Convention & Entertainment facilities	96,486	10,655	-	-
Combined Utility System	1,042,141	1,042,442	26,731	12,330
Total business-type activities	1,734,696	1,680,155	26,731	28,929
Total primary government	5,320,428	2,153,308	515,488	246,209
Component Units				
Governmental	331,496	75,967	33,504	11,890
Business-type	267,995	170,838	154,514	-
Total component units activities	599,491	246,805	188,018	11,890

General Revenues:

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

Bingo tax

Hotel occupancy tax

Insurance proceeds

Investment earnings

Other

Gain (loss) on disposal of asset

Contributions

Transfers

Total general revenues and transfers

Change in net position

Net position beginning, as previously reported

Cumulative effect of prior period adjustment

Beginning net position, July 1

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
(224,256)	-	(224,256)	$ -	$ -
(1,820,291)	-	(1,820,291)	-	-
148,205	-	148,205	-	-
(47,391)	-	(47,391)	-	-
(6,957)	-	(6,957)	-	-
(85,985)	-	(85,985)	-	-
(47,882)	-	(47,882)	-	-
(165,573)	-	(165,573)	-	-
(156,412)	-	(156,412)	-	-
(2,406,542)	-	(2,406,542)	-	-
-	47,588	47,588	-	-
-	(85,831)	(85,831)	-	-
-	39,362	39,362	-	-
-	1,119	1,119	-	-
(2,406,542)	1,119	(2,405,423)	-	-
-	-	-	(210,135)	-
-	-	-	-	57,357
-	-	-	(210,135)	57,357
853,898	-	853,898	185,359	750
342,051	-	342,051	-	-
19,755	-	19,755	-	-
692,271	-	692,271	-	-
182,870	-	182,870	-	-
18,026	-	18,026	-	-
222	-	222	-	-
17,180	68,898	86,078	5,310	-
2,061	-	2,061	-	-
47,825	113,797	161,622	6,302	1,688
79,349	65,043	144,392	2,353	4,494
12,904	(5,664)	7,240	-	-
(4,165)	-	(4,165)	-	-
59,280	(59,280)	-	-	-
2,323,527	182,794	2,506,321	199,324	6,932
(83,015)	183,913	100,898	(10,811)	64,289
(914,844)	1,706,865	792,021	63,635	294,977
-	79,429	79,429	-	-
(914,844)	1,786,294	871,450	63,635	294,977
(997,859)	1,970,207	972,348	$ 52,824	$ 359,266

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2019
(amounts expressed in thousands)

	General	Debt Service	Capital Projects
Assets			
Cash and cash equivalents	$ 154,560	$ 27,016	$ 59,827
Investments	165,064	104,335	202,842
Receivables, net of allowances			
Accounts receivable	125,668	-	1
Contracts receivable	-	-	-
Property taxes receivable	28,544	-	-
Sales taxes receivable	119,710	-	-
Mixed beverage taxes receivable	4,751	-	-
Franchise taxes receivable	16,296	-	-
Special assessments receivable	7,991	-	-
Due from other funds	44,213	550	13,758
Due from other governments	1,642	-	37,965
Inventory	17,808	-	-
Prepaid items	2,579	-	229
Notes receivable	-	-	-
Total assets	$ 688,826	$ 131,901	$ 314,622
Liabilities and fund balance			
Liabilities			
Accounts payable	84,874	68	52,713
Accrued payroll liabilities	61,877	-	-
Due to other funds	22,138	-	13,251
Due to other governments	4,257	-	-
Advances and deposits	4,160	-	-
Claims and judgments	2,061	-	-
Compensated absences	7,054	-	-
Unearned revenue	-	-	111,934
Total liabilities	186,421	68	177,898
Deferred inflows of resources			
Deferred inflow of resources	113,808	-	-
Total deferred inflows of resources	113,808	-	-
Fund balance			
Non-Spendable			
Prepaids	2,579	-	229
Inventory	17,808	-	-
Notes receivable	-	-	-
Committed	17,942	-	-
Restricted	1,092	131,833	64,673
Assigned	-	-	71,822
Unassigned	349,176	-	-
Total fund balance	388,597	131,833	136,724
Total liabilities and fund balance	$ 688,826	$ 131,901	$ 314,622

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.
Revenues earned but not available are not recognized as revenues on the fund financial statements
Deferred inflows and outflows related to pension and debt are not recognized on the fund financial statements
Internal service funds are used by management to charge the cost of health benefits and workers' compensation to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.
Liabilities, including bonds payable, not due and payable in the current period are not reported in the funds.

Net position of governmental activities

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

Grants	Nonmajor Governmental Funds	Total
$ 34,716	$ 41,650	$ 317,769
115,763	255,717	843,721
48,089	54,301	228,059
-	-	-
-	-	28,544
-	-	119,710
-	-	4,751
-	-	16,296
-	-	7,991
9,839	16,331	84,691
53,010	19,435	112,052
524	1,906	20,238
575	50	3,433
12,500	-	12,500
$ 275,016	$ 389,390	$ 1,799,755
27,622	18,099	183,376
2,448	5,684	70,009
19,393	19,750	74,532
6,009	934	11,200
3,007	3,887	11,054
-	-	2,061
-	56	7,110
126,607	-	238,541
185,086	48,410	597,883
-	70,581	184,389
-	70,581	184,389
575	50	3,433
524	1,906	20,238
12,500	-	12,500
-	77,580	95,522
76,331	190,863	464,792
-	-	71,822
-	-	349,176
89,930	270,399	1,017,483
$ 275,016	$ 389,390	
		7,553,367
		184,389
		262,682
		33,581
		(10,049,361)
		(997,859)

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS

STATEMENT OF REVENUES, EXPENDITURES and CHANGES in FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2019
(amounts expressed in thousands)

	General	Debt Service	Capital Projects
Revenues			
Taxes and assessments	$ 2,120,114	$ -	$ -
Licenses and permits	36,192	-	-
Charges for services	154,381	-	-
Intergovernmental - grants	60,426	-	48,810
Fines and forfeits	25,635	-	-
Investment income	16,571	4,478	7,552
Other	25,404	2,913	9,110
Total revenues	2,438,723	7,391	65,472
Expenditures			
Current Expenditures			
General government	281,700	-	-
Public safety	1,430,600	-	-
Public works	213,356	-	-
Health	58,516	-	-
Housing and community development	612	-	-
Parks and recreation	75,203	-	-
Library	39,780	-	-
Retiree benefits	11,123	-	-
Capital outlay	30,999	-	266,396
Debt Service			
Debt service principal	-	216,600	-
Debt service interest	3,818	173,669	-
Debt service fiscal agent & fees	-	3,774	-
Total expenditures	2,145,707	394,043	266,396
Other financing sources (uses)			
Proceeds from issuance of debt	28,500	1,065	109,500
Sale of capital assets	26,763	-	-
Transfers in	76,206	384,717	124,908
Transfers out	(430,363)	-	(91)
Contributions out	-	-	-
Insurance proceeds	-	-	-
Total other financing sources (uses)	(298,894)	385,782	234,317
Changes in fund balance	(5,878)	(870)	33,393
Fund balances, July 1	394,475	132,703	103,331
Fund balances, June 30	$ 388,597	$ 131,833	$ 136,724

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

Grants	Nonmajor Governmental Funds	Total
$ -	$ 453	$ 2,120,567
-	87,063	123,255
-	157,206	311,587
334,391	93,775	537,402
-	10,772	36,407
6,930	9,477	45,008
-	41,609	79,036
341,321	400,355	3,253,262
34,673	39,092	355,465
22,606	49,128	1,502,334
34,999	134,663	383,018
63,002	33,366	154,884
89,557	229	90,398
1,798	7,538	84,539
59	-	39,839
-	-	11,123
16,707	43,318	357,420
3,164	-	219,764
317	-	177,804
-	766	4,540
266,882	308,100	3,381,128
-	-	139,065
3,263	35	30,061
5,118	63,445	654,394
(3,152)	(161,508)	(595,114)
-	(4,165)	(4,165)
2,061	-	2,061
7,290	(102,193)	226,302
81,729	(9,938)	98,436
8,201	280,337	919,047
$ 89,930	$ 270,399	$ 1,017,483

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS

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, 2019
(amounts expressed in thousands)

Net change in fund balances - total governmental funds	$	98,436
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 ($277,221) and net disposal of assets ($17,157) was less than the increase in capital assets ($518,853) in the current period. For capital outlay, the Statement of Revenues, Expenditures and Changes in Fund Balance is $357,420. Capital assets of $19,840 are recorded in functional expenses in general government.		224,317
Revenue in the statement of activities that do not provide current financial resources are deferred as revenues in the funds.		184,389
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.		(176,302)
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, whereas 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.		94,653
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.		(515,343)
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.		6,835
Change in net position of governmental activities	$	(83,015)

* The notes to the basic financial statements are an integral part of this statement *

This page is left blank intentionally

CITY OF HOUSTON, TEXAS
PROPRIETARY FUNDS
Statement of Net Position
June 30, 2019
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds		
	Airport System	**Convention & Entertainment**	**Combined Utility**
Assets			
Current Assets			
Cash and cash equivalents	$ 144,076	$ 8,097	$ 168,595
Investments	290,965	51,014	1,557,211
Receivables, net of allowances			
Accounts receivable	30,758	62	171,172
Hotel occupancy tax receivable	-	22,785	-
Special assessments receivable	-	-	93
Due from component units	-	64,138	-
Due from other funds	486	-	5,467
Due from other governments	18,392	-	7,242
Inventory	1,739	-	13,289
Prepaid items	4,882	-	5,088
Restricted assets			
Cash and cash equivalents	5,593	189	28
Restricted accounts receivable	1,494	-	-
Total current assets	498,385	146,285	1,928,185
Noncurrent Assets			
Investments	971,015	36,120	119,324
Due from component units	-	340,013	-
Prepaid items	195	-	3,155
Due from other governments	-	-	985,583
Amounts held by other governments	-	-	11,270
Other interfund receivable	-	-	22,033
Restricted assets			
Cash and cash equivalents	45,030	-	-
Total noncurrent restricted assets	1,016,240	376,133	1,141,365
Capital assets			
Land	216,100	95,687	160,405
Buildings	3,066,213	577,527	154,284
Improvements and equipment	1,897,017	8,632	181,581
Infrastructure	569,516	334	10,990,194
Construction in progress	206,687	-	847,450
Intangibles	17,471	-	-
Water rights	-	-	846,513
Garage rights	-	13,144	-
Less accumulated depreciation and amortization	(3,207,696)	(310,775)	(5,913,628)
			-
Net capital assets	2,765,308	384,549	7,266,799
Total noncurrent assets	3,781,548	760,682	8,408,164
Total assets	4,279,933	906,967	10,336,349
Deferred outflows of resources			
Deferred outflows	37,388	850	403,227
Total deferred outflows of resources	$ 37,388	$ 850	$ 403,227

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

Business-type Activities-Enterprise Total	Governmental Activities Internal Service Funds
$ 320,768	$ 7,799
1,899,190	86,607
201,992	4
22,785	-
93	-
64,138	-
5,953	629
25,634	10
15,028	-
9,970	-
5,810	-
1,494	-
2,572,855	95,049
1,126,459	-
340,013	-
3,350	-
985,583	-
11,270	-
22,033	-
45,030	-
2,533,738	-
472,192	-
3,798,024	957
2,087,230	-
11,560,044	-
1,054,137	-
17,471	-
846,513	-
13,144	-
(9,432,099)	(555)
10,416,656	402
12,950,394	402
15,523,249	95,451
441,465	-
$ 441,465	$ -

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS
PROPRIETARY FUNDS
Statement of Net Position
June 30, 2019
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds		
	Airport System	**Convention & Entertainment**	**Combined Utility**
Liabilities			
Current Liabilities			
Accounts payable	$ 15,575	$ 628	$ 175,671
Accrued payroll liabilities	3,166	-	5,699
Accrued interest payable	49,339	5,796	77,098
Commercial paper	-	-	185,000
Contracts and retainages payable	46,518	-	-
Due to other funds	247	-	10,238
Due to component units	-	26,288	3,481
Due to other governments	571	-	1,516
Special facility bonds payable	5,960	-	-
Advances and deposits	2,439	-	45,538
Contracts payable - current maturities	-	-	19,099
Cost of issuance payable	-	79	1,310
Claims and judgments	904	-	582
Compensated absences	6,120	-	10,811
Arbitrage rebate	-	88	169
Pension obligation bonds payable	-	90	1,547
Other liabilities	1,132	-	-
Other interfund liabilities	-	-	1,002
Revenue bonds payable	80,110	56,752	207,110
Unearned revenue	4,347	-	-
Total current liabilities	216,428	89,721	745,871
Noncurrent liabilities			
Revenue bonds payable	2,034,592	665,583	6,402,374
Special facility bonds payable	74,425	-	-
Claims and judgments	902	-	1,150
Compensated absences	6,489	-	8,547
Contracts payable	-	-	891,276
Other interfund liabilities	-	-	21,031
Commercial paper	48,473	-	-
Arbitrage rebate liability	-	9	3,620
Municipal pension trust liability	229,757	6,086	352,878
Other post employment benefits	73,872	2,365	150,851
SWAP liability	-	-	223,339
Unearned revenue	-	6,317	1,542,440
Pension obligation bonds payable	2,006	3,379	95,429
Total noncurrent liabilities	2,470,516	683,739	9,692,935
Total liabilities	2,686,944	773,460	10,438,806
Deferred inflows of resources			
Deferred inflows	32,121	8,218	61,825
Total deferred inflows of resources	32,121	8,218	61,825
Net position (deficit)			
Net investement in capital assets	542,125	52,693	160,163
Restricted net position			
Restricted for debt service	428,856	36,309	64,346
Restricted for renewal and replacement	10,000	6	-
Restricted for maintenance and operations	60,525	17,707	81,621
Restricted for others' capital improvement	43,442	-	14,453
Restricted for capital improvements	651,664	-	-
Unrestricted	(138,356)	19,424	(81,638)
Total net position (deficit)	$ 1,598,256	$ 126,139	$ 238,945

Cumulative asset resulting from internal service funds overcharging proprietary 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 Total	Governmental Activities Internal Service Funds
$ 191,874	$ 337
8,865	138
132,233	-
185,000	-
46,518	-
10,485	6,257
29,769	-
2,087	-
5,960	-
47,977	-
19,099	-
1,389	-
1,486	22,954
16,931	250
257	-
1,637	-
1,132	-
1,002	-
343,972	-
4,347	3,178
1,052,020	33,114
9,102,549	-
74,425	-
2,052	21,720
15,036	170
891,276	-
21,031	-
48,473	-
3,629	-
588,721	-
227,088	-
223,339	-
1,548,757	-
100,814	-
12,847,190	21,890
13,899,210	55,004
102,164	-
102,164	-
754,981	402
529,511	-
10,006	-
159,853	-
57,895	-
651,664	-
(200,570)	40,045
1,963,340	$ 40,447
6,866	
$ 1,970,206	

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS
PROPRIETARY FUNDS
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Fiscal Year Ended June 30, 2019
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds		
	Airport System	**Convention & Entertainment**	**Combined Utility**
Operating Revenues			
Landing area fees	$ 87,767	$ -	$ -
Terminal space rentals	211,323	-	-
Parking	110,136	9,206	-
Concession	83,115	-	-
Other	6,123	-	-
Rental	-	1,449	-
Water/Sewer Billing	-	-	1,042,442
Health benefit premiums	-	-	-
Total operating revenue	498,464	10,655	1,042,442
Operating Expenses			
Administrative costs	-	-	-
Claims Costs	-	-	-
Maintenance and operating	337,477	53,235	516,503
Depreciation and amortization	174,266	13,508	257,430
Total operating expenses	511,743	66,743	773,933
Operating income (loss)	(13,279)	(56,088)	268,509
Nonoperating revenues (expenses)			
Investment income	45,067	13,560	55,170
Hotel occupancy tax	-	68,898	-
Other revenue	221	2,082	62,740
Gain (loss) on disposal of assets	119	-	(5,783)
Cost of issuance	(2,960)	(1,330)	(5,455)
Passenger facility charges	111,155	-	-
Interest expense on long-term debt	(81,575)	(28,417)	(263,253)
Contributions	-	-	26,731
Customer facility charges	17,439	-	-
Special facility cost	(43)	-	-
Total nonoperating revenues (expenses)	89,423	54,793	(129,850)
Income (loss) before capital contributions and transfers	76,144	(1,295)	138,659
Capital contributions	16,599	-	12,330
Transfers in	-	-	72
Transfers out	-	(1,449)	(57,903)
Total transfers	-	(1,449)	(57,831)
Change in net position	92,743	(2,744)	93,158
Beginning Net Position as previously reported	1,505,513	128,883	66,359
Cumulative effect of prior period adjustment	-	-	79,429
Total net position (deficit), July 1,	1,505,513	128,883	145,788
Total net position (deficit), June 30	$ 1,598,256	$ 126,139	$ 238,946

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 Total	Governmental Activities Internal Service Funds
$ 87,767	$ -
211,323	-
119,342	-
83,115	-
6,123	994
1,449	-
1,042,442	-
-	390,996
1,551,561	391,990
-	6,609
-	380,553
907,215	-
445,204	54
1,352,419	387,216
199,142	4,774
113,797	2,817
68,898	-
65,043	-
(5,664)	-
(9,745)	-
111,155	-
(373,245)	-
26,731	-
17,439	-
(43)	-
14,366	2,817
213,508	7,591
28,929	-
72	-
(59,352)	-
(59,280)	-
183,157	7,591
1,700,755	-
79,429	-
	32,856
	$ 40,447
756	
$ 183,913	

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS
PROPRIETARY FUNDS
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds		
	Airport System	**Convention & Entertainment**	**Combined Utility**
Cash flows from operating activities			
Receipts from customers	$ 511,854	$ 9,206	$ 1,010,612
Payments to employees	(103,091)	(261)	(182,931)
Payments to suppliers	(145,518)	487	(235,016)
Internal activity-payments (to) from other funds	(71,263)	2	(42,655)
Claims paid	(904)	-	(1,595)
Due to(from) other governments	-	-	-
Other receipts (payments)	221	1,792	62,859
Other payments	-	(71,527)	-
Receipts from component units	-	1,449	-
Receipts from other governments	-	-	72
Net cash provided by (used in) operating activities	191,299	(58,852)	611,346
Cash flows from investing activities			
Interest income on investments	1,754,930	13,560	55,170
Purchases of investments	(1,832,687)	(105,438)	(2,422,798)
Sales of investments	45,067	99,023	2,126,403
Net cash provided by (used in) investing activities	(32,690)	7,145	(241,225)
Cash flows from capital and related financing activities			
Retirement of revenue bonds	(719,586)	(31,779)	(213,810)
Retirement of special facility bonds	(5,715)	-	-
Refunding of revenue bonds	-	(70,150)	(586,600)
Retirement of commercial paper	-	-	(220,000)
Proceeds (uses of cash) from issuance of revenue bonds	653,881	122,975	884,026
Proceeds from issuance of commercial paper	27,000	-	185,000
Passenger facilities charges	110,892	-	-
Customer facilities charges	17,388	-	-
Proceeds from contracts payable	-	-	170,265
Interest expense on debt	(97,352)	(5,185)	(270,248)
Proceeds from disposition of assets	-	-	338
Grant receipts	19,377	-	-
Retirement of contracts payable	-	-	(8,792)
Acquisition of property, plant and equipment	(116,566)	-	(431,535)
Due from other governments	-	-	181,515
Cost of issuance on debt	(3,140)	(1,700)	(5,408)
Net cash provided by (used in) capital and related financing activities	(113,821)	14,161	(315,249)

(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
$ 1,531,672	$ 390,999
(286,283)	(4,401)
(380,047)	(2,182)
(113,916)	(591)
(2,499)	(382,678)
-	14
64,872	995
(71,527)	-
1,449	-
72	-
743,793	2,156
1,823,660	(7,087)
(4,360,923)	-
2,270,493	-
(266,770)	(7,087)
(965,175)	-
(5,715)	-
(656,750)	-
(220,000)	-
1,660,882	-
212,000	-
110,892	-
17,388	-
170,265	-
(372,785)	-
338	-
19,377	-
(8,792)	-
(548,101)	(211)
181,515	-
(10,248)	-
(414,909)	(211)

(Continued)

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS
PROPRIETARY FUNDS
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019
(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	(715)	(221)	(5,132)
Retirement of Pension bonds	-	(80)	(1,405)
Payments from component unit	-	(46,002)	-
Hotel occupancy tax revenue	-	86,125	-
Proceeds from pension bonds	(27,610)	-	-
Transfers to debt service fund	-	-	(7,775)
Transfers to other funds	-	-	(50,128)
Net cash provided by (used in) noncapital financing activities	(28,325)	39,822	(64,440)
Net increase (decrease) in cash and cash equivalents	16,463	2,276	(9,568)
Cash and cash equivalents, July 1	178,236	6,010	178,191
Cash and cash equivalents, June 30	$ 194,699	$ 8,286	$ 168,623
Cash and cash equivalents			
Pooled cash and cash equivalents (Note 3A)	$ 144,076	$ 8,097	$ 168,595
Non-pooled cash and cash equivalents (Note 3A)	50,623	189	28
Total cash and cash equivalents, June 30	$ 194,699	$ 8,286	$ 168,623
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	$ (13,279)	$ (73,320)	$ 268,509
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	174,266	13,508	257,430
Other post employment benefits	36	52	69
Other revenues (expenses)	221	2,084	62,931
Terminal space revenue bond	-	(1,449)	-
Capital improvement plan expense	11,541	-	-
Changes in assets and liabilities			
Accounts receivable	19,619	-	(30,978)
Due from other funds	(210)	2	(2,495)
Inventory and prepaid insurance	(246)	-	1,107
Accounts payable	(1,199)	586	23,536
Accrued payroll liabilities	140	(8)	278
Due to other funds	(147)	-	(667)
Construction and retainages payable	-	-	-
Advances and deposits	(6,227)	-	(4,588)
Due from other governments	-	-	5,018
Claims and judgments-workers' compensation	(470)	-	(327)
Compensated absences	(450)	(35)	(265)
Other current liabilities	(8,868)	-	-
Pension obligation payable	16,572	19	33,375
Deferred revenue	-	(291)	-
Net cash provided by (used in) operating activities	$ 191,299	$ (58,852)	$ 611,346
Non cash transactions			
Receivable from component unit	$ -	$ (52,825)	$ -
Addition of HOT and Special Revenue Bond Series	-	122,975	-
Refunding of HOT And Special Revenue Bond Series	-	(70,150)	-
Bond amortization expense	14,868	-	-
Grants included in receivables	(4,198)	-	-
Unrealized gain on investments	-	1,191	-
Capital additions included in liabilities	10,927	-	-
Donated capital	-	-	(12,081)
Capitalized interest expense	7,500	-	14,234
CAB accretion interest	-	-	9,461
Gain (loss) on disposal of assets	220	-	5,783
Total non cash transactions	$ 29,317	$ 1,191	$ 17,397

(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
(6,068)	-
(1,485)	-
(46,002)	-
86,125	-
(27,610)	-
(7,775)	-
(50,128)	-
(52,943)	-
9,171	(5,142)
362,437	11,323
$ 371,608	$ 6,181
$ 320,768	$ 6,181
50,840	-
$ 371,608	$ 6,181
$ 181,910	$ 4,775
445,204	54
157	-
65,236	-
(1,449)	-
11,541	-
(11,359)	3
(2,703)	(629)
861	-
22,923	(204)
410	9
(814)	171
-	-
(10,815)	-
5,018	14
(797)	(2,085)
(750)	-
(8,868)	-
49,966	-
(291)	48
$ 743,793	$ 2,156
$ (52,825)	$ -
122,975	-
(70,150)	-
14,868	-
(4,198)	-
1,191	-
10,927	-
(12,081)	-
21,734	-
9,461	-
6,003	-
$ 47,905	$ -

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2019
(amounts expressed in thousands)

	Pension Trust Funds	Private Trust Funds	Agency Funds
Assets			
Cash and cash equivalents	$ 37,501	$ 234	$ 22,419
Investments			
Investments held by trust	-	5,621	-
U.S. government and agency securities	100,319	-	-
Corporate bonds	198,302	-	-
Other fixed income securities	2,141,465	-	-
Commingled equity funds	646,384	-	-
Common and preferred stock	4,520,877	-	-
Real estate, partnerships and alternatives	4,288,709	-	-
Short-term investment funds	1,037,915	-	146,532
Invested securities lending collateral	181,284	-	-
Receivables, net of allowances			
Accounts receivable	5,064	-	8,766
Contributions	20,444	-	-
Accrued interest and other	13,882	-	-
Other	73,530	-	-
Other Assets	6,911	-	-
Land	483	-	-
Building	4,029	-	-
Total assets	13,277,099	5,855	177,717
Liabilities			
Accounts payable	77,204	-	177,586
Advances and deposits	-	-	131
Security lending collateral	181,284	-	-
Foreign funds contracts payable	1,089	-	-
Other liabilities	4,184	-	-
Total liabilities	263,761	-	$ 177,717
Net position	**$ 13,013,338**	**$ 5,855**	**-**

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2019
(amounts expressed in thousands)

	Pension Trust	Private Purpose Trust
Additions		
Contributions:		
City of Houston	$ 408,587	$ -
Plan members	113,714	-
Private donations	-	1,566
Total Contributions	522,301	1,566
Investment earnings		
Interest and dividends	157,964	-
Net increase in the fair value of investments	634,254	-
Total investment income	792,218	-
Less investment expense	(29,122)	-
Net investment income	763,096	124
Total additions	1,285,397	1,690
Deductions		
Benefits	897,523	-
Refund of contributions	5,208	-
Administrative expense	15,160	-
Total deductions	917,891	-
Change in net position	367,506	-
Total net position restricted, July 1	12,645,832	4,165
Total net position restricted, June 30	$13,013,338	$ 5,855

* The notes to the basic financial statements are an integral part of this statement *

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Houston, Texas (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.

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 financial statements for related organizations in accordance with generally accepted accounting principles. 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 Comprehensive Annual Financial Report. 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 the CAFR. Additional information is available by contacting the entities at the addresses shown herein.

Blended Component Units are incorporated into the financial reports of the City.

Following are the City's blended component units:

Blended Component Units Reported with the Primary Government	Brief Description of Activities, Relationship to the City and Key Inclusion Criteria
Houston Firefighters' Relief and Retirement Fund ***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 ***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 Employee's Pension Trust Fund.
Houston Police Officers' Pension System ***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 Officer's 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 Reported 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 (Department) 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," and Houston First Corporation (HFC) 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 fund component units: (* indicates a major designation)

Discretely Reported Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
City Park Redevelopment Authority ***c/o TIFWorks, LLC*** ***P.O. Box 10330*** ***Houston, TX 77002***	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 ***c/o Bracewell & Giuliani, 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 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*** ***16800 Greenspoint Park Drive, #160S*** ***Houston, TX 77060***	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.
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 & Giuliani, 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.

Discretely Reported Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
Hardy/Near Northside Redevelopment Authority ***c/o Bracewell & Giuliani, LLP*** ***711 Louisiana Street, Suite 2300*** ***Houston, TX 77002***	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.
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 ***3201 Allen Parkway, Suite 250*** ***Houston, TX 77019***	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.
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 ***c/o City of Houston, Mayor's Office of Special Events*** ***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.

Discretely Reported Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
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 (LARA) 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.
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 Museum District Association ***1300 McGowen Street, Suite 120*** ***Houston, TX 77004***	A 501(c)(3) non-profit corporation with a mission to making cultural arts accessible to all and creating unparalleled opportunities for education, inspiration and recreation. The Association allocates funding, holds free events and conducts marketing. 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.
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.

Discretely Reported Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
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.
Leland Woods Redevelopment Authority I ***c/o Bracewell & Giuliani, 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 & Giuliani, 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

Discretely Reported Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
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.
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 Theater. 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.
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*** ***5445 Almeda Road, Suite 545*** ***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.
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.

Discretely Reported Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
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.
Stadium Park 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 enhance the various corridors around the NRG Reliant complex park with general improvements in the form of landscaping and street improvement such as lighting, signage, and way-finding graphics. Private funds will be actively sought and interlocal agreements entered into with other governmental agencies as needed. The Authority will serve as a catalyst to encourage adjacent property owners and/or institutions to improve their properties. 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.
Theater District Improvement, Inc c/o Houston Downtown Alliance 912 Prairie Street, Suite 250 Houston, TX 77002	A 501(c)(3) non-profit corporation with a mission to enhance the quality of life and tourism in the Houston region and beyond by supporting and promoting the Theater District programs, initiatives and communication efforts. Theater District Improvement distributes grants, holds and annual open house and conducts marketing. 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.
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 Theater 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 is 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) ***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*** **-** 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*** - 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, Houston Center for the Arts, Talento Bilingue de Houston, Jones Plaza, and Theater District parking garages.

(c) ***Combined Utility System 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.

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 or as an agent for individuals, private organizations, other governmental units and other funds. 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) ***Agency Funds*** - are custodial in nature and do not involve measurement of results of operations. They are relative to the City's payroll revolving and deposit funds, and activity relating to receipt and disbursement of taxes collected for entities outside of the City government.

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 Statement of Government Accounting Standards 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 forfeits; ambulance receipts; and investment earnings. Intergovernmental revenue from reimbursable grants and capital projects is recognized when the related expenditure is incurred.

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 reported as deferred inflow.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude 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 and pension trust 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 Statement of Government Accounting Standards 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 pension trust 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.

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 72 "Fair Value Measurement and Application". Consistent with GASB Statement 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.13 to the financial statements. The blended 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 at their fair values.

"Cash and cash equivalents" and "Investments" are further split into current and non-current in accordance with GASB Statement 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. Investments are carried at fair value based on quoted market prices.

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 market/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. Interest costs on funds borrowed to finance the construction of property, plant and equipment of the enterprise funds are capitalized when the interest costs materially exceed interest earnings on related revenue bond proceeds. For fiscal year 2019, the capitalized interest cost for the Airport System Facilities was $7.5 million and Combined Utility System Fund was $16.9 million. 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	Years
Airport System Facilities	3-50
Convention & Entertainment Facilities	5-45
Combined Utility System Facilities	5-50

Water rights and conveyance system rights of the Combined Utility System Fund are not amortized. Garage rights of the Convention and Entertainment fund are amortized over the life of the related contracts. These rights are reported as capital assets. Land use and avigation easements of the Houston Airport System are not amortized.

4. Bond Premiums, Discounts and Issuance Costs

Bond premiums, discounts and prepaid bond insurance costs in Enterprise Funds are amortized over the term of the bonds using the effective interest or straight-line amortization method. Gains or losses on Enterprise Fund refundings are reported as deferred inflows or outflows 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.

5. Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

F. Deferred Outflows and Inflows of Resources

In accordance with Government Accounting Standards Board 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):

	Governmental Activities	Business Type Activities: Aviation	Business Type Activities: Convention & Entertainment	Business Type Activities: Combined Utility System	Total
Deferred Outflows of Resources from:					
Municipal pension activities	$ 107,507	$ 17,720	$ 657	$ 22,480	$ 148,364
Police pension activities	356,512	-	-	-	356,512
Firefighter's municipal pension activities	338,350	-	-	-	338,350
Deferred Outflows of Resources for pensions	802,369	17,720	657	22,480	843,226
OPEB activities - long-term disability	1,045	96	-	184	1,325
Unamortized bond refunding costs/SWAP liability	40,500	19,572	193	380,563	440,828
Total Deferred Outflows of Resources	843,914	37,388	850	403,227	1,285,379
Deferred Inflows of Resources from:					
Municipal pension activities	(35,187)	(5,800)	(215)	(7,358)	(48,560)
Police pension activities	(109,371)	-	-	-	(109,371)
Firefighter's municipal pension activities	(7,355)	-	-	-	(7,355)
	(151,913)	(5,800)	(215)	(7,358)	(165,286)
OPEB activities - health benefits	(428,518)	(26,321)	(791)	(54,467)	(510,097)
Unearned revenues	(801)	-	-	-	(801)
Unamortized cost on refunded debt	-	-	(7,212)	-	(7,212)
Total Deferred Inflows of Resources	$ (581,232)	$ (32,121)	$ (8,218)	$ (61,825)	$ (683,396)

In the fund financials, 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 financials, the unamortized loss on refunding has been reclassified from long-term debt to deferred outflows.

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.

2. Fund Balance Summary

A Summary of the nature and purpose of governmental fund balances at June 30, 2019 is as follows (in thousands):

					Non-Major Special Revenue Funds						
	General	Debt Service	Capital Projects	Grant	Public Safety	Public Works	Health & Housing	Parks	Other	Total Nonmajor	Total
Fund balances:											
Non-spendable:											
Inventory	17,808	-	-	524	-	1,906	-	-	-	1,906	20,238
Prepaid items	2,579	-	229	575	-	-	-	-	50	50	3,433
Notes receivable				12,500							12,500
Total non-spendable	20,387	-	229	13,599	-	1,906	-	-	50	1,956	36,171
Restricted for:											
Grants and other purposes	-	-	-	-	-	-	-	-	3,961	3,961	3,961
Police special purpose	452	-	-	-	10,013	-	-	-	-	10,013	10,465
Public transit operations	-	-	-	-	-	-	-	-	2,811	2,811	2,811
Affordable housing programs	-	-	-	-	-	-	8,789	-	-	8,789	8,789
Health services	640	-	-	76,331	-	-	-	-	86,768	86,768	163,739
Community development	-	-	-	-	-	-	-	159	582	741	741
Capital construction	-	-	64,673	-	-	67,241	-	-	10,539	77,780	142,453
Debt service	-	131,833	-	-	-	-	-	-	-	-	131,833
Total restricted	1,092	131,833	64,673	76,331	10,013	67,241	8,789	159	104,661	190,863	464,792
Committed to:											
Community development	2,991	-	-	-	6	-	-	1,040	393	1,439	4,430
Economic development	-	-	-	-	-	-	-	-	2,546	2,546	2,546
Court operations	-	-	-	-	962	-	-	-	-	962	962
Police special purpose	-	-	-	-	9,522	(4)	-	-	-	9,518	9,518
Emergency services	-	-	-	-	5,487	-	-	-	-	5,487	5,487
Capital construction	6,667	-	-	-	-	-	-	-	-	-	6,667
Public parks and preserves	8,284	-	-	-	-	1,897	-	3,903	-	5,800	14,084
Recycling programs	-	-	-	-	-	870	-	-	-	870	870
Development services	-	-	-	-	-	41,001	-	-	-	41,001	41,001
Health services	-	-	-	-	-	-	7,723	-	-	7,723	7,723
Affordable housing programs	-	-	-	-	-	-	-	-	101	101	101
Public transit operations	-	-	-	-	-	-	-	-	2,133	2,133	2,133
Total committed	17,942	-	-	-	15,977	43,764	7,723	4,943	5,173	77,580	95,522
Assigned:											
Capital construction	-	-	71,822	-	-	-	-	-	-	-	71,822
Disaster recovery	-	-	-	-	-	-	-	-	-	-	-
Total assigned	-	-	71,822	-	-	-	-	-	-	-	71,822
Unassigned:	349,176	-	-	-	-	-	-	-	-	-	349,176
Total	388,597	131,833	136,724	89,930	25,990	112,911	16,512	5,102	109,884	270,399	1,017,483

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.

3. Budget Stabilization Arrangements

In accordance with the City's Financial Policies (as amended by Ordinance 2018-390), 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 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 pay-as-you-go (PAYGO) capital expenditures. These amounts are included in the General Fund's Unassigned Fund balance. On August 30, 2017, Ordinance 2017-667 was passed authorizing the appropriation of $20 million from the Budget Stabilization Fund to the Disaster Recovery Fund for immediate relief during the Hurricane Harvey disaster. As of June 30, 2019, $5 million has been replenished to the Budget Stabilization Fund. According to the financial policies, the balance of $15 million must be returned to the Budget Stabilization Fund by June 30, 2020.

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 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 (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 (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 of additional hours 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. As noted above, classified police officers are covered by a paid time off plan.

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 also 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 generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. 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.

K. New Accounting Pronouncements

In November 2016, the GASB issued Statement No. 83, "Certain Asset Retirement Obligations". This statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain ARO's, including obligations that may not have been previously reported. The requirements of this statements are effective for financial statements for periods beginning after June 15, 2018. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption. The City has determined that GASB No. 83 is not applicable to its CAFR.

In January 2017, the GASB issued Statement No. 84, "Fiduciary Activities". This statement will enhance consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2018. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2017, the GASB issued Statement No. 87, "Leases". This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019. (FY2021) The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2018, the GASB issued Statement No. 88, "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements". This statement will improve the information that is disclosed in notes of governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. The City has implemented GASB No. 88 as in this annual report.

In June 2018, the GASB issued Statement No. 89, "Accounting for Interest Cost Incurred before the End of a Construction Period". This statement will enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and will simplify accounting for interest cost incurred before the end of a construction period. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In August 2018, the GASB issued Statement No. 90, "Majority Equity Interests". This statement will improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In May 2019, the GASB issued Statement No. 91, "Conduit Debt Obligations". This statements 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, 2020. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

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 refunded some of its existing debt. The amount borrowed is received in the governmental funds and increases fund balance. The amount that was sent to the paying agent to be escrowed for payment of the old debt as it comes due is paid out of governmental funds and reduces fund balance. The difference between those amounts will be amortized as an adjustment to interest expense in the government-wide statement of activities over the remaining life of the refunded bonds.

Balances at June 30, 2019 were (in thousands):

Deferred outflows of resources	$	843,914
Deferred inflows of resources		(581,232)
	$	262,682
Internal Service Fund total assets	$	95,451
Internal Service Fund liabilities		(55,004)
Allocation to Proprietary Funds		(6,866)
	$	33,581
Bonds and notes payable	$	(3,894,163)
Arbitrage rebate payable		(370)
Accrued interest		(54,273)
Compensated absences not reported at the fund level		(464,802)
Claims and judgments not reported at the fund level		(112,330)
Net pension liability		(3,483,430)
Other post employment benefits obligation		(2,039,993)
	$	(10,049,361)

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

Bond proceeds 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, 2019 were (in thousands):

Debt issued:		
Public Improvement Bonds	$	(139,065)
	$	(139,065)
Principal payments	$	219,764
	$	219,764
Amortization of:		
Premium	$	19,054
Deferred loss		(5,100)
Net adjustment	$	13,954
Total	$	94,653

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	$	25,720
Ambulance fees earned but not available		72,666
Fines and forfeits earned but not available		3,430
Other (primarily storm water drainage fees) earned but not available		82,573
Total revenue not reported at fund level	$	184,389
Property taxes for prior periods	$	(20,014)
Ambulance fees for prior periods		(70,282)
Fines and forfeits for prior periods		(3,927)
Other (primarily storm water drainage fees) earned but not available		(82,079)
Total revenue for prior period transactions	$	(176,302)
Accrued interest	$	3,188
Municipal Employees pension		(9,279)
Police Officers' pension		12,927
Firefighters' pension		(46,417)
Claims and judgments		(10,218)
Deferred inflow from pensions		757,061
Deferred outflow from pensions		(1,178,468)
Compensated absences		3,695
Arbitrage		(370)
Other post employment benefits		(47,462)
Total differences in accrued expenses	$	(515,343)

NOTE 3: DEPOSITS AND INVESTMENTS

A. Deposits

The City's 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 and 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 follows.

	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	$154,467,505	$165,064,001	$319,531,506	$92,361	-	$319,623,867
Debt Service	26,986,472	99,818,499	126,804,971	29,606	4,516,352	131,350,929
Capital Projects	59,826,819	202,841,826	262,668,645	-	-	262,668,645
Grants	34,715,097	115,763,150	150,478,247	1,000	-	150,479,247
Non-major:						
Health and Housing	3,009,947	15,403,594	18,413,541	-	-	18,413,541
Other Special Revenue	21,148,223	81,082,429	102,230,652	-	-	102,230,652
Parks and Recreation	624,391	6,587,653	7,212,044	4,650	-	7,216,694
Public Safety	7,655,070	20,051,865	27,706,935	-	-	27,706,935
Public Works	9,205,579	132,591,748	141,797,327	2,100	-	141,799,427
Enterprise Funds:						
Airport System	144,070,828	1,261,979,730	1,406,050,558	50,628,473	-	1,456,679,031
Convention & Entertainment	8,096,824	87,134,139	95,230,963	188,912	-	95,419,875
Combined Utility	168,595,431	1,676,534,373	1,845,129,804	28,111	-	1,845,157,915
Internal Service:						
Health Benefits	809,330	84,254,286	85,063,616	-	-	85,063,616
Long-term Disability	6,989,829	2,353,326	9,343,155	-	-	9,343,155
Agency:						
City Deposits	11,448	119,793	131,241	-	-	131,241
Payroll Revolving	672,021	3,401,500	4,073,521	10	-	4,073,531
TIRZ Deposits	21,736,086	143,009,693	164,745,779	-	-	164,745,779
Trust Fund	-	-	-	-	5,855,398	5,855,398
Total	$668,620,900	$4,097,991,605	$4,766,612,505	$50,975,223	10,371,750	$4,827,959,478

B. Investments and Risk Disclosures

The following describes the investment positions of the City's operating funds as of June 30, 2019. The City held $4.5 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 City's 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 below do not include the City's three pension funds, which are described separately in this report.

1. General Investment Pool

The General Investment Pool consists of all working capital, construction, and debt service funds not subject to yield restriction under 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 98.6% of the City's total pooled investable funds are held in this portfolio.

City of Houston Investments As of June 30, 2019	Credit Quality Ratings (1)(2)	Fair Value ($ in millions)	WAM* (years)
U.S. Treasury Securities	AAA	2,577.16	1.343
Govt. Agency Securities (3)	AAA	1,058.60	1.651
Govt. Agency Securities (3) (4)	Not Rated	228.00	2.574
Govt. Mortgaged Backed Securities (3) (4)	Not Rated	5.91	1.427
MMF - TexSTAR Cash Reserves	AAA Short Term	191.56	0.041
Commercial Paper	A-1/P-1 Short Term	248.79	0.215
Municipal Securities	AAA Long Term	86.93	1.120
Municipal Securities	AA Long Term	126.54	1.300
Municipal Securities	A Long Term	4.77	0.626
Total Investments		4,528.26	1.353

* 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.

(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 City's investment policy limits this investment portfolio's dollar-weighted average maturity to 2.5 years maximum. As of June 30, 2019, this investment portfolio's dollar-weighted average maturity was 1.35 years. Modified duration was 1.32 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 1.32 years would experience approximately a 1.32% 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 A. The City's 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 with the exception of 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 270 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 15%.

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, 2019 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, 2019, none of the City's investments in the General Investment Pool 9900 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 pool investments are limited by policy to US dollar denominated investments and not subject to this risk.

A summary of the Pool's investment under the requirements of the fair value hierarchy follows:

	Fair Value Measuments Using ($ in millions)			
	6/30/19	Quoted prices (Level 1)	Other significant observable inputs (Level 2)	Significant observable inputs (Level 3)
Investments by fair value level				
U.S. Treasury Securities	$ 2,577.16	$ 2,577.16	$ -	$ -
Govt. Agency Securities	1,286.60	-	1,286.60	-
Govt. Mortgage Backed Securities	5.91	-	5.91	-
Municipal Securities	218.24	-	218.24	-
Commercial Paper	248.79	-	248.79	-
Total Investment by Fair Value Level	$ 4,336.70	$ 2,577.16	$ 1,759.54	$ -
Investments measured at the net asset value (NAV)				
MMF - TexSTAR Cash Reserves	$ 191.56	$ -	$ 191.56	$ -
Total investments measured at the net asset value (NAV)	$ 191.56	$ -	$ 191.56	$ -
Total investments measured at fair value and NAV	**$ 4,528.26**	**$ 2,577.16**	**$ 1,951.10**	**$ -**

Security Valuation Disclosure:
Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 & 3 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Pricing Sources: IDC for municipal securities and Reuters for all else.

TexSTAR uses the fair value method to report its investments. 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.

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.

City of Houston Investments As of June 30, 2019	Credit Quality Ratings	Fair Value ($ in millions)	WAM
Municipal Securities	AAA Long Term	$ 5.02	308 days
Municipal Securities	AA Long Term	1.00	259 days
Total Investments		$ 6.02	300 days

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 City's investment policy limits this pool's dollar-weighted average maturity to 1.5 years. As of June 30, 2019, the pool's dollar-weighted average maturity was 300 days or 0.822 years. Modified duration was 0.605 years.

Credit Risk. The City's 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, 2019, 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 US dollar denominated and not subject to foreign currency risk.

A summary of the Pool's investment under the requirements of the fair value hierarchy follows:

	Fair Value Measuments Using ($ in millions)			
	6/30/19	Quoted prices (Level 1)	Other significant observable inputs (Level 2)	Significant observable inputs (Level 3)
Investments by fair value level				
Municipal Securities	$ 6.01	$ -	$ 6.01	
Total Investment by Fair Value Level	**$ 6.01**	**$ -**	**$ 6.01**	**$ -**

Security Valuation Disclosure:
Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Pricing Sources: IDC for municipal securities and Reutoers for all else.

3. Housing Department Section 108 Pool

The Housing Department Pool was created to comply with rules of the US 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.

City of Houston Investments As of June 30, 2019	Credit Quality Ratings	Fair Value ($ in millions)	WAM
U.S. Treasury Bills	F1+	$ 3.60	5 days

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 City's investment policy limits this investment portfolio's dollar-weighted average stated maturity to six months maximum. As of June 30, 2019, this investment portfolio's dollar-weighted average stated maturity was 5 days. Modified duration was 0.014 years.

Credit Risk. The HUD Pool consists only of U.S. Treasury Bills with maturities less than six months. HUD requires that investment of these funds must be in direct obligations of the United States Government. The City's investment policy limits investments in the HUD Pool to high quality U.S. Treasury Bill Securities, with maximum maturity of six months.

Custodial Credit Risk. As of June 30, 2019, 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 US dollar denominated and not subject to foreign currency risk.

A summary of the Pool's investment under the requirements of the fair value hierarchy follows:

	Fair Value Measuments Using ($ in millions)			
	6/30/19	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	$ 3.60	$ 3.60	$ -	$ -
Total Investment by Fair Value Level	**$ 3.60**	**$ 3.60**	**$ -**	

Security Valuation Disclosure:

Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Pricing Sources: IDC for municipal securities and Reutoers for all else.

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:

City of Houston Investments As of June 30, 2019	Credit Quality Ratings	Fair Value ($ in millions)	WAM
BlackRock Institutional Temporary Liquidity Fund: Balances held for Consolidated Rental Car Facility operations, improvements, debt service	AAA	50.616	32 days
JP Morgan US Treasury Securities Money Market Fund: Balances held for auction bonds debt service	AAA	-	31 days
First American US Treasury Money Market Fund: Balances held for commercial paper debt service	AAA	0.073	24 days
Total Miscellaneous Money Market Funds		50.689	32 days

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 US dollar denominated securities that present minimal credit risk. They have the highest credit ratings.

Custodial Credit Risk. As of June 30, 2019, 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 US dollar denominated and not subject to foreign currency risk.

A summary of the investment under the fair value hierarchy follows:

		Fair Value Measuments Using ($ in millions)		
	6/30/19	Quoted prices (Level 1)	Other significant observable inputs (Level 2)	Significant observable inputs (Level 3)
Investments measured at the net asset value (NAV)				
BlackRock FedFund-Institutional	$ 50.616	$ -	$ 50.616	$ -
First American US Treasury MMF	0.073	-	0.073	
Total investment measured at the net asset value (NAV)	**$ 50.689**	**$ -**	**$ 50.689**	**$ -**

Security Valuation Disclosure:
Security fair value levels are established on a security by security basis. Matrix pricing, market corroborated pricing inputs such as yield curve and indices; often includes fixed income bonds, over the counter swaps, and other derivatives. These can also include securities priced using quoted prices for similar assets or liabilities in active markets and quoted prices for similar assets or liabilities in markets that are not active.

5. Houston Foundation

The Houston Foundation consists of the Hill Trust. It is reported as an Nonmajor Other Special Revenue 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.

City of Houston Investments As of June 30, 2019	Credit Quality Ratings	Fair Value ($ in millions)	WAM (years)
Cash and Equivalents	Not rated	0.141	N/A
Fixed Income	Not rated	0.813	8.30
Equities	N/A	3.054	N/A
Tangible Assets	N/A	0.047	N/A
Total Assets		4.055	8.30

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 average maturities less than 10.4 years. The weighted average maturity for the fixed income portfolio is 8.3 years, and the weighted average duration is 5.9 years.

Credit Risk. The allocations of assets among various asset classes are set by the Foundation board. The fixed income portfolio consists of unrated mutual funds. The equities portion of this portfolio is invested in common stocks.

Custodial Credit Risk. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City of Houston 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, 2019 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 Houston Foundation are subject to this risk to the extent that the corporations held have not fully hedged their foreign currency dealings.

A summary of the Pool's investment under the requirements of the fair value hierarchy follows:

	Fair Value Measuments Using ($ in millions)			
	6/30/19	Quoted prices (Level 1)	Other significant observable inputs (Level 2)	Significant observable inputs (Level 3)
Investments by fair value level				
Cash and Equivalents	$ 0.1412	$ 0.1412	$ -	$ -
Fixed Income	0.8132	0.4257	0.3875	-
Equities	3.0538	1.4224	1.6313	-
Tangible Assets	0.0473	-	-	0.0473
Total Investment by Fair Value Level	$ 4.0555	$ 1.9893	$ 2.0188	$ 0.0473

Security Valuation Disclosure:
Domestic equity securities and investment companies are valued at the last sale price on the principal exchange on which they trade, except for securities traded on the NASDAQ, which are valued at the NASDAQ official close price. Unlisted securities or listed securities for which there were no sales during the day are valued at the closing bid price on such exchanges or over-the-counter markets.

Foreign securities are generally valued at last price on the foreign exchange or market on which they trade. If any foreign share prices are not readily available as a result of limited share activity, the securities are valued at the last sale price of local shares in the principal market in which such securities are normally traded.

Securities, if any, for which market quotations are not readily available, or that have quotations which the Trustee believes are not reliable, are valued at fair value as determined in good faith by procedures approved by the Trustee. If a security is valued at fair value, such value is likely to be different from the last quoted market price for the security. The determination of fair value often requires significant judgment. To determine fair value, the Trustee may use assumptions including but not limited to future cash flows and estimated risk premiums. Multiple inputs from various sources may be used to determine value.

6. Investments – Houston Municipal Employees Pension System (the System)

The System's Board, in accordance with the power and authority conferred under the Texas Statutes, engaged State Street Bank and Trust Company (Custodian) as custodian of the assets of the System, and in said capacity, the Custodian is a fiduciary of the System's assets with respect to its discretionary duties including safekeeping of the System's assets.

The Custodian has established and maintains a custodial account to hold, or direct its agents to hold, for the account of the System all assets that the Board shall from time to time deposit with the Custodian. All rights, title and interest in and to the System's assets shall at all times be vested in the System.

The Board shall manage the investment program of the System in compliance with all applicable Federal and State statutes and regulations concerning the investment of pension assets. The Board has adopted an Investment Policy Statement to set forth the factors involved in the management of investment assets for the System and which is made part of every investment management agreement.

The fair values of the System's investments at June 30, 2019, are presented by type, as follows:

Short-term investment funds	$ 44,271,926
Government securities	100,318,852
Corporate bonds	198,302,026
Capital stocks	805,238,023
Commingled funds	646,384,175
Real assets	259,725,223
Alternative investments	1,019,691,808
Total investments	$ 3,073,932,033

Custodial Credit Risk. For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the System 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 risk if the securities are uninsured, are not registered in the name of the System, and are held by either the counterparty or the counterparty's trust department or agent but not in the System's name.

Concentration Risk. The allocation of assets among various asset classes is set by the Board. For major asset classes (e.g., global equity, fixed income, real estate, private equity, inflation-linked, absolute return and private credit), the System 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 Policy Statement of the System provides that no public market investment manager shall have more than 20.0% (at fair value) of the System's assets.

Representative guidelines by type of investment are disclosed in the System's separately issued financial statements.

As of June 30, 2019, across all asset classes, the System held two securities with a market value over 5.0% of the System's fiduciary net position. The security, BlackRock MSCI ACWI Minimum Volatility Index, had a fair value of $249 million, representing 8.1% of the System's portfolio as of June 30, 2018. In addition, the BlackRock ACWI Index had a fair market value of $224 million, representing 7.5% of the System's portfolio as of June 30, 2019. This investment also exceeded the 5% threshold last year.

At June 30, 2019, the following table shows the System's investments by type, amount and the effective duration rate.

	Effective Duration	Domestic	International	Fair Value
Collateralized mortgage obligations	5.3	$ 9,811,982	$ -	$ 9,811,982
Convertible bonds	4.1	4,532,655	-	4,532,655
Corporate bonds	5.1	127,176,103	13,826,440	141,002,543
GNMA/FNMA/FHLMC	3.4	36,152,524	-	36,152,524
Municipal	6.4	2,431,904	-	2,431,904
Government issues	5.7	49,080,501	12,653,923	61,734,424
Misc. receivable (auto/credit card)	1.6	10,123,212	-	10,123,212
Other ABS	2.5	2,244,740	-	2,244,740
Bank Loan[1]	N/A	30,586,891	-	30,586,891
Total		$ 272,140,512	$ 26,480,363	$ 298,620,875

[1] The bank loan market, or "leveraged loan" market as it is sometimes known, comprises debt with below investment grade credit ratings. Bank loans generally rank senior to the company's other debt, and offer higher credit ratings, and less risk than high yield bonds. Bank loans typically use floating rather than fixed interest rates. Companies often access this market to fund leveraged buyouts.

Credit Risk. The quality ratings of investments in fixed income securities are set forth in the Investment Policy Statement.

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at June 30, 2019 are as follows:

Quality Rating	Asset Backed Securities	Corp Bonds & Bank Loans	CMO	US Gov't Agencies	Gov't Issues	Municipals	TOTAL	% of Holdings
AAA	6,216,960	-	1,375,061	-	204,960	1,512,192	$ 9,309,173	30.00%
AA	866,983	-	-	-	997,286	919,712	2,783,981	9.00%
A	202,318	16,936,221	-	-	2,314,931	-	19,453,470	63.00%
BBB	-	37,597,855	-	-	-	-	37,597,855	1.22%
BB	-	27,077,574	-	-	-	-	27,077,574	88.00%
B	-	27,845,346	-	-	-	-	27,845,346	91.00%
CCC	-	24,516,015	-	-	-	-	24,516,015	80.00%
C	-	2,210,300	-	-	-	-	2,210,300	7.00%
D	-	102,350	-	-	-	-	102,350	0.00%
NA*	5,081,691	39,836,428	8,436,921	36,152,524	58,217,247	-	147,724,811	4.81%
Total Fixed Securities	$ 12,367,952	$ 176,122,089	$ 9,811,982	$ 36,152,524	$61,734,424	$2,431,904	$ 298,620,875	9.71%
Other Investments							2,775,311,158	90.29%
Total Investments							3,073,932,033	100.00%

*NA = Not Available

Foreign Currency Risk. International securities investment managers are expected to maintain diversified portfolios by sector and by issuer using the System's 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.

The System has an indirect exposure to foreign currency fluctuation as of June 30, 2019 as follows:

	Fair Value
Australian Dollar	$ 11,456,152
Brazilian Real	1,524,828
Canadian Dollar	12,041,517
Danish Krone	3,432,444
Euro Currency	102,071,240
Hong Kong Dollar	14,414,580
Hungarian Forint	467,026
Indonesian Rupiah	1,723,091
Japanese Yen	40,949,958
Malaysian Ringgit	754,701
Mexican Peso	1,973,101
New Israeli Sheqel	319,498
New Taiwan Dollar	654,218
Norwegian Krone	307,338
Philippine Peso	284,071
Polish Zloty	338,146
Pound Sterling	30,587,326
Singapore Dollar	1,842,899
South African Rand	5,655,662
South Korean Won	2,786,437
Swedish Krona	9,871,169
Swiss Franc	20,590,302
Thailand Baht	1,638,860
Turkish Lira	69,447
	$ 265,754,011

The System has adopted the provisions of GASB Statement 72 and fully disclosed in the notes to the financial statements the fair value hierarchy and the methods of valuing the related investments as required under the generally accepted accounting principles. A summary of the hierarchy is as follows:

Houston Municipal Employees Pension System had some of their short term investments measured at cost. For fiscal year 2019, the amount was $44,272,000.00.

Level 1 inputs are quoted prices in active markets for identical assets	$ 801,612
Level 2 inputs are significant other observable inputs	291,238
Level 3 inputs are significant unobservable inputs	12,686
Short Term Investments at cost	44,272
Investments measured at net asset value	1,924,124
TOTAL INVESTMENTS	$ 3,073,932

Alternative Investments – As of June 30, 2019, the System was not invested in various partnerships, separate accounts, commingled funds, private equity funds, and hedge funds.

7. Investments – Houston Firefighters' Relief and Retirement Fund (the Fund)

Statutes of the State of Texas authorize the Fund 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. The Board seeks to produce a return on investments that is based on prudent and reasonable investment risk and the cash flow requirements of the Fund given prevailing economic and capital market conditions. While the 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.

The Board manages the investment program of the Fund in compliance with all applicable Federal and State statutes and regulations concerning the investment of pension assets. The Board has adopted an Investment Policy Statement (Investment Policy) to set forth the factors involved in the management of investment assets for the Fund. The Board has established an Investment Committee to act on all matters related to investments.

The fair values of the Fund's investments as of June 30, 2019 by type are as follows:

Short-Term Investment Funds	$ 70,726,108
Fixed Income-Government Securities	366,195,367
Fixed Income-Corporate Bonds	815,643,037
Fixed Income-Convertibles	870,444
Common Equity	1,819,409,410
Preferred Equity	584,883
Hedge Funds:	
Global Macro Hedge Fund	148,788,827
Multi-Strategy FOHFs	55,057,556
Private Equity:	
Buyout Partnerships/Funds	307,460,330
Credit Partnerships/Funds	13,630,517
Distressed Debt Partnerships/Funds	108,035,094
Direct Investments	1,075,000
Infrasturcture Partnerships/Funds	2,448,304
Secondary Partnerships/Funds	138,863,142
Special Situations Investments	62,351,255
Venture Capital Partnerships/Funds	91,270,043
Real Estate	195,647,628
Total Investments	$ 4,198,056,945

Custodial credit risk. Portions of the Fund'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.

Custodial credit risk disclosures relate to securities. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are (i) uninsured, (ii) not registered in the name of the Fund, and (iii) are held by either the counterparty or the counterparty's trust department or agent but not in the Fund's name. At June 30, 2018 and 2017 the Fund'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 the Fund's investment in a single issue. The allocation of assets among various asset classes is set by the Board with the objective of optimizing the investment return of the Fund 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), the Fund further diversifies by employing investment managers who implement the strategies selected by the Investment Committee. In addition, Exchange Traded Funds (ETFs) may be used.

Significant risk management asset allocation guidelines are disclosed in the Fund's separately issued financial statements.

As of June 30, 2019, more than 5% of the Fund's net assets are in the MCM ACWI EX-U.S. Fund (12.85%), MCM Broad Market Stock Index Fund (8.92%), MCM Dynamic U>S> Equity Fund (8.07%), KKR Global Credit Opportunities Fund (7.37%), and BlackRock Russell 3000 Fund (5.83%). As of June 30, 2018, more than 5% of the Fund's net assets were in the MCM ACWI Ex-U.S. Fund (16.81%), MCM Dynamic U.S. Equity Fund (8.19%), MCM Broad Market Stock Index Fund (7.1%), and BlackRock Russell 3000 Fund (5.43%).

Interest rate risk. The Fund 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 noninvestment 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 the Fund's Investment Policy.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Interest rate risk is the greatest risk faced by an investor in the fixed income market. The price of a fixed income security typically moves in the opposite direction of the change in interest rates. The weighted average maturity expresses investment time horizons (when the investment comes due and payable) in years, weighted to reflect the dollar size of individual investments within the investment type. The Fund 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, 2019, the following table shows the Fund's investments by type, with weighted average maturity and fair value:

	Weighted Average Maturity	Fair Value
Commingled Funds	3.61	$ 312,112,915
Non-U.S. Convertibles	30.53	12,248
Non-U.S. Corporate	3.76	62,490,200
Non-U.S. Treasuries	1.12	3,608,935
Taxable Municipals	10.15	3,001,925
TIPS	9.05	11,225,583
U.S. Agencies	28.67	212,588,602
U.S. Collateralized	19.53	21,578,175
U.S. Convertibles	12.19	858,196
U.S. Corporate	6.75	419,461,747
U.S. Treasuries	18.65	135,770,322
Total Fixed Income Securities		$ 1,182,708,848

Credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Fund 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.

Foreign currency risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Realized and unrealized gains and losses on investments which result from changes in foreign currency exchange rates have been included in the net appreciation (depreciation) in fair value of investments. The Fund'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 the Fund's Investment Policy Statement.

The Fund's exposure to foreign currency fluctuation as of June 30, 2019 is as follows:

	Fair Value	Percentage of Holdings
Euro Currency Unit	$ 45,873,568	1.09%
New Zealand Dollar	1,764,625	0.04%
Canadian Dollar	1,207,191	0.03%
Norwegian Krone	654,145	0.02%
Swiss Franc	92,713	0.00%
Japanese Yen	237	0.00%
Mexican Peso	-	-
Brazil Real	-	-
Pound Sterling	-	-
Czech Koruna	-	-
Total securities subject to foreign currency risk	$ 49,592,479	1.18%

The Fund's exposure to investment credit risk in fixed income securities (which includes government securities, corporate bonds, convertibles) as of June 30, 2019 is as follows:

Quality Rating	Fair Value	Percentage of Holdings
AGY	$ 212,588,602	5.08%
AAA	59,895,059	1.43%
AA1	7,345,157	0.18%
AA3	4,987,862	0.12%
A1	18,683,555	0.45%
A2	35,788,921	0.86%
A3	61,013,604	1.46%
BAA1	109,761,362	2.62%
BAA2	62,472,665	1.49%
BAA3	45,728,629	1.09%
BA1	1,523,377	0.04%
BA2	2,159,644	0.05%
BA3	1,222,038	0.03%
B1	801,491	0.02%
B2	614,543	0.01%
B3	1,083,118	0.03%
B	312,112,915	7.46%
CAA1	744,805	0.02%
CAA2	115,550	0.00%
CAA3	92,538	0.00%
CA	250,513	0.01%
Not rated	96,726,996	2.31%
Total credit risk debt securities*	$ 1,035,712,944	24.76%

*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.

The provisions of GASB Statement 72 and fully disclosed in the notes to the financial statements the fair value hierarchy and the methods of valuing the related investments as required under the generally accepted accounting principles. A summary of the hierarchy is as follows:

Level 1 inputs are quoted prices in active markets for identical assets	$ 266,770,835
Level 2 inputs are significant other observable inputs	628,170,300
Level 3 inputs are significant unobservable inputs	2,245,000
Investments measured at net asset value	3,300,870,809
TOTAL INVESTMENTS	$ 4,198,056,944

Alternative Investments – As of June 30, 2019, the System was invested in various private equity funds and hedge funds as detailed in the table below.

Investment Type	Fair Value ($000's)
Private Equity	$ 725,133,685
Hedge Funds	203,846,383
Total	$ 928,980,068

8. Investments – Houston Police Officers' Pension (the System)

Summary of Significant Accounting Policies

Statutes of the State of Texas authorize the System 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 the System is responsible for the management and administration of the funds of the System and shall determine the procedure it finds most efficient and beneficial for the management of the reserve fund of the System. The governing body may directly manage the investments of the System or may choose and contract for professional investment management services. Investments are reported at fair value in accordance with GASB 72, Fair Value Measurement and Application, which defines fair value, establishes a framework for measuring fair value, and establishes disclosures about fair value measurements.

Custodial Credit Risk for Deposits and Investments. Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the System will not be able to recover the value of the investment or collateral in possession of the counterparty. The System does not have an investment policy regarding custodial credit risk. The System considers only demand deposits as cash. As of June 30, 2019 and June 30, 2018, the System had a balance of $239 thousand and $33 thousand, respectively, on deposit at a financial institution. The Federal Depository Insurance Corporation (FDIC) covered cash on deposit up to $250 thousand at this financial institution. Therefore, as of June 30, 2019, none of the System's bank balance of $239 thousand was exposed to custodial credit risk. At June 30, 2019, the System did not have any other investments with other financial institutions subject to custodial credit risk.

Credit Risk. As of June 30, 2019 and 2018, the System's fixed income assets that are not U.S. government guaranteed represented 98.9% and 93.7%, respectively, of the System's fixed income plus short term investments portfolio. The tables below and on the following page summarize the System's fixed income portfolio and short term investment exposure levels and credit qualities as of June 30, 2019 and 2018.

Average Credit Quality and Exposure Levels of Non-U.S. Government Guaranteed Securities

Fixed Income Security Type	Fair Value ($000's)	Percent of Total	Weighted Average Credit Quality
Corporate Bonds	$ 295,145	16.7 %	BB
Mutual Bond Funds	643,687	36.3	Not Rated
Short Term Investment Funds	833,164	47.0	Not Rated
Total	$ 1,771,996	100.0 %	

Ratings Dispersion Detail
($000's)

Credit Rating Level	Corporate Bonds	Mutual Bond Funds	Short Term Investment Funds
BBB	$ 11,569	-	-
BB	159,224	-	-
B	106,892	-	-
CCC	12,403	-	-
NR	5,057	643,687	833,164
Total	$ 295,145	$ 643,687	$ 833,164

The System's 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 System staff.

Credit risk for derivative instruments held by the System results from counterparty risk, which is essentially that the counterparty will be unable to fulfill its obligations, which are then assumed by the System. Information regarding the System's credit risk related to derivatives is found under the derivatives disclosures.

Policies regarding credit risk pertaining to credit risk associated with the System's securities lending program are found under the securities lending disclosures.

Concentration of Credit Risk. The System's 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 both June 30, 2019, the System did not have any single investment in any one organization which represented greater than 5% of plan net position.

Interest Rate Risk. Interest rate risk is managed within the portfolio using the modified duration methodology. It is widely used in the management of fixed income portfolios and estimates the sensitivity of a bond's price to interest rate changes. The System's 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 the System's 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, 2019, found in the tables below quantify the interest rate risk of the System's fixed income and short term investments.

Modified Duration by Security Type

Security Type	Fair Value ($000's)	Percent of Total	Weighted Average Modified Duration (years)
US Treasuries	$ 19,924	1.1%	0.7
Corporate Bonds	295,145	15.7	3.7
Mutual Bond Funds	643,687	34.2	5.3
Short Term Investment Funds	922,917	49.0	0.1
Total	$ 1,881,673	100.0%	2.6

Modified Duration Analysis by Security Type

U.S. Treasuries	Fair Value ($000's)	Average Modified	Contribution to Modified Duration
Less than 1 year	$ 19,924	0.7	0.7
Corporate Bonds			
Less than 1 year	$ 2,784	0.7	0.0
1 to 5 years maturities	197,032	2.8	1.9
5 to 10 years maturities	91,552	5.4	1.7
Greater than 10 years maturities	3,777	9.4	0.1
Total	$ 295,145		3.7
Mutual Bond Funds			
Less than 1 year	$ 15,435	5.3	0.1
1 to 5 years maturities	294,500	5.3	2.4
5 to 10 years maturities	241,588	5.3	2.0
Greater than 10 years maturities	92,164	5.3	0.8
Total	$ 643,687		5.3
Short Term Investment Funds			
Less than 1 year	$ 908,564	0.1	0.1
1 to 5 years maturities	14,353	0.1	0.0
Total	$ 922,917		0.1

Foreign Currency Risk. The books and records of the System are maintained in US dollars. Foreign currencies and non-US dollar denominated investments are translated into US dollars at the bid prices of such currencies against US 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 the System 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.

The System's exposure to foreign currency risk in U.S. dollars as of June 30, 2019, is shown in the table below.

Foreign Currency Exposure by Asset Class ($000's)

Currency	Short Term	Fixed Income	Equities	Alternative	Total
Euro	$ (124,910)	$ 11	$ 254,086	$ 3,652	$ 132,839
Canadian dollar	$ 40,820	-	80,886	-	121,706
Chinese yuan renminbi	-	-	96,115	-	96,115
Japanese yen	(92,610)	-	185,687	-	93,077
British pound sterling	(65,578)	-	131,351	-	65,773
Australian dollar	-	-	55,779	6,784	62,563
New Taiwan dollar	-	-	52,784	-	52,784
Swiss franc	-	-	46,615	-	46,615
Hong Kong dollar	-	-	31,308	-	31,308
South Korean won	-	-	27,563	-	27,563
Indian rupee	-	-	27,352	-	27,352
Brazilian real	-	3,951	23,277	-	27,228
Thai baht	-	3,175	21,414	-	24,589
Swedish krona	-	-	22,027	-	22,027
South African rand	-	3,272	14,129	-	17,401
Russian ruble	-	2,664	12,284	-	14,948
Danish krone	-	-	13,434	-	13,434
Mexican peso	-	3,953	7,741	-	11,694
Indonesian rupiah	-	3,949	6,457	-	10,406
Malaysian ringgit	-	1,629	6,472	-	8,101
Turkish lira	-	1,233	5,442	-	6,675
Polish zloty	-	3,092	3,388	-	6,480
Norwegian krone	-	-	5,245	-	5,245
Singapore dollar	-	-	5,245	-	5,245
New Israeli shekel	-	-	4,576	-	4,576
Phillipine peso	-	1,166	3,398	-	4,564
Chilean peso	-	1,179	2,823	-	4,002
Colombian peso	-	1,812	1,284	-	3,096
Qatari riyal	-	-	2,916	-	2,916
Peruvian nuevo sol	-	1,208	1,237	-	2,445
Hungarian forint	-	1,146	884	-	2,030
New Zealand dollar	-	-	1,938	-	1,938
United Arab Emirates dirhar	-	-	1,831	-	1,831
Argentine austral	-	671	1,071	-	1,742
Czech koruna	-	1,134	478	-	1,612
Dominican peso	-	1,196	-	-	1,196
Uruguayan peso uruguayo	-	1,181	-	-	1,181
New Romanain Leu	-	1,150	-	-	1,150
Egyptian pound	-	-	421	-	421
Pakistan rupee	-	-	76	-	76
Total	$ (242,278)	$ 38,772	$ 1,159,014	$ 10,436	$ 965,944

Securities Lending Program. The System's Board of Trustees' policies permit the System to lend securities (domestic and international equities and fixed income) to securities firms on a temporary basis through its custodian bank. The System 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. The System's bank pools all collateral received from securities lending transactions and invests any cash collateral. The System holds an undivided share of the collateral provided by the borrowers of the securities. At June 30, 2019 the weighted-average maturity of the collateral pool was 30 days. The relationship between the maturities of the collateral pool and the

System's loans has not been determined. Cash collateral invested in the custodian bank collateral pool at June 30, 2019 and 2018, was $64,316 thousand and $109,070 thousand, respectively. The System also had non-cash collateral at June 30, 2019 and 2018, of $6,096 thousand and $14,284 thousand respectively, consisting of treasury securities and letters of credit. The System 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, 2019 and 2018 was $69,133 thousand and $120,404 thousand, respectively. At June 30, 2019, the System had no credit risk exposure to borrowers because the amounts the System owes the borrowers, $70,412 thousand, exceeds the amounts the borrowers owe the System, $69,133 thousand.

Derivatives. The System's investment managers may invest in derivatives if permitted by the guidelines established by the System's Board of Trustees. The System's staff monitors guidelines and compliance. From time to time the System's 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.

The fair value balance of posted margin and collateral and notional amounts of derivative instruments outstanding at June 30, 2019, classified by type, and the changes in fair value of such derivative instruments for the year then ended is shown in the table below. The Change in Fair Value figures are reported as a component of net appreciation (depreciation) in the Statement of Changes in Fiduciary Net Position.

Fair Value ($000's) at June 30, 2019

($000's)	Year ending June 30, 2019 Changes in Fair Value	As of June 30, 2019 Posted Margin	Collateral Held at Custodian Bank	Collateral Held at Broker	Notional Value
Equity Futures	$ (21,213)	$ 61,960	$ 686,260	$ -	$ 1,056,836
Currency Futures	4,514	(63)	76,756	-	(246,045)
Fixed Income Futures	1,242	2	474	-	86,535
Equity Options	20,947	-	5,805	49,859	(456,413)

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* – Custodial credit risk for derivative instruments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of the derivative instruments or collateral securities that are in the possession of an outside party. Consistent with the System's investment policy, the System's derivative instruments were held by the counterparty that was acting as the System's agent.

- *Credit Risk* – Credit risk is the risk that the counterparty will not fulfill its obligations. The System does not have an investment policy specifically regarding credit risk for derivative instruments. The System's investment policy allows investment managers full discretion in adopting investment strategies to deal with this risk. The System's 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 System's derivative instruments.

- *Foreign Currency Risk* – Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of derivative instruments. The System's 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. The System 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.

The System's derivative instruments exposure to foreign currency risk in U.S. dollars as of June 30, 2019, is shown in the table below ($000's).

Currency	Equity Derivatives	Currency Derivatives	Total
Canadian dollar	40,552	37,053	77,605
Chinese yuan renminbi	46,806	-	46,806
Swiss franc	36,151	-	36,151
Australian dollar	27,685	-	27,685
South Korean won	18,284	-	18,284
New Taiwan dollar	16,100	-	16,100
Hong Kong dollar	15,539	-	15,539
Indian rupee	13,320	-	13,320
Brazilian real	11,335	-	11,335
Swedish krona	10,311	-	10,311
South African rand	8,807	-	8,807
Danish krone	6,668	-	6,668
Russian ruble	5,982	-	5,982
Singapore dollar	5,245	-	5,245
Thai baht	4,454	-	4,454
Mexican peso	3,770	-	3,770
Malaysian ringgit	3,152	-	3,152
Indonesian rupiah	3,144	-	3,144
Norwegian krone	2,603	-	2,603
Euro	122,358	(124,910)	(2,552)
New Israeli shekel	2,271	-	2,271
Phillippine peso	1,655	-	1,655
Polish zloty	1,650	-	1,650
Qatari riyal	1,420	-	1,420
Chilean peso	1,375	-	1,375
United Arab Emirates dirham	1,040	-	1,040
New Zealand dollar	962	-	962
Turkish lira	751	-	751
Colombian peso	625	-	625
Peruvian nuevo sol	602	-	602
Argentine austral	522	-	522
Japanese yen	92,164	(92,610)	(446)
Hungarian forint	430	-	430
British pound sterling	65,194	(65,578)	(384)
Czech koruna	233	-	233
Egyptian pound	205	-	205
Pakistan rupee	37	-	37
Total	$ 573,402	$ (246,045)	$ 327,357

Alternative Investments – As of June 30, 2019, the System was invested in various partnerships, separate accounts and commingled funds across various types of alternative investments as detailed in the table below.

Investment Type	**Fair Value ($000's)**
Private Equity	
Leveraged Buyouts	$ 429,841
Energy	150,178
Special Situations	133,251
Private Equity Secondaries	90,764
Venture Capital	17,749
Other Alternatives	
Real Estate	381,559
Private Credit	279,765
Hedge Funds	
Portable alpha hedge funds	-
Global macro hedge funds	171,660
Multi-strategy hedge funds	126,435
Long/short credit hedge funds	49,646
Long/short equity hedge funds	28,533
Multi-strategy commingled funds	25,282
Total	$ 1,884,663

The provisions of GASB Statement 72 and fully disclosed in the notes to the financial statements the fair value hierarchy and the methods of valuing the related investments as required under the generally accepted accounting principles. A summary of the hierarchy is as follows (in thousands):

Level 1 inputs are quoted prices in active markets for identical assets	$ 106,307
Level 2 inputs are significant other observable inputs	1,456,213
Level 3 inputs are significant unobservable inputs	1,483,107
Investments measured at net asset value (NAV)	2,616,354
TOTAL INVESTMENTS	$ 5,661,981

NOTE 4: ACCOUNTS RECEIVABLE

The following were the accounts receivable by fund as of June 30, 2019 ($000's):

GOVERNMENTAL FUNDS	**General**	**Capital Projects**	**Nonmajor**	**Grants**	**Internal Service Fund**	**Total Governmental Activities**
Receivables:						
Accounts	$ 639,403	$ 1	$ 180,587	$ 74,816	$ 7	894,814
Property tax	60,525	-	-	-	-	60,525
Sales tax	119,710	-	-	-	-	119,710
Mixed beverage	4,751	-	-	-	-	4,751
Franchise	16,296	-	-	-	-	16,296
Special assessment	156,979	-	-	-	-	156,979
Due from other governments	1,642	37,965	19,435	53,010	10	112,062
Gross receivables	999,306	37,966	200,022	127,826	17	1,365,137
Less allowance for doubtful accounts	(694,704)	-	(126,286)	(26,727)	(3)	(847,720)
Net total receivables	$ 304,602	$ 37,966	$ 73,736	$ 101,099	$ 14	$ 517,417

ENTERPRISE FUNDS

	Airport		Convention and Entertainment		Combined Utility		Total Enterprise Activities	
Receivables:								
Accounts	$	33,362	$	580	$	354,763	$	388,705
Hotel occupancy tax		-		22,785		-		22,785
Special assessment		-		-		93		93
Due from other governments		18,392		-		7,242		25,634
Gross receivables		51,754		23,365		362,098		437,217
Less allowance for doubtful accounts		(1,110)		(518)		(183,591)		(185,219)
Net total receivables	$	50,644	$	22,847	$	178,507	$	251,998

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 2018 tax year was $0.588310 per $100 of assessed value with $0.419242 for operations and $0.169068 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 ("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 (TIRZs)

The City of Houston has 26 active Tax Increment Reinvestment Zones (TIRZs) currently, including 1 County-led TIRZ, as listed below.

TIRZ #	TIRZ Name	TIRZ #	TIRZ Name	TIRZ #	TIRZ Name
1	St. George Place	11	Greenspoint	20	Southwest
2	Midtown	12	City Park	21	Hardy/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		

The TIRZ’s were created pursuant to Chapter 311 of the Texas Tax Code to aid in financing the development or redevelopment of unproductive, underdeveloped or blighted areas.

The City of Houston, 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 to create a project plan and reinvestment zone financing plan that reflects the Zone’s goals and priorities for its term. The plan is subsequently approved by City Council for implementation. Annually, City Council reviews and approves each TIRZ budget for implementation of capital projects.

In fiscal year 2019, the City of Houston contributed $142.6 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 $71.7 million to the TIRZs. The City-led TIRZ budgets totaled $417.9 million in expenditures for fiscal year 2019.

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]	2, 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; Harris County Hospital District and Port Authority no longer participate in TIRZ No. 3
[3]Houston Independent School District no longer participates in TIRZ No. 4, 5 and 19

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. In fiscal year 2019, the total amount abated was $800,763, to seven businesses.

Company Name	Abatement Project Information	Investment Requirement	City's Abatement Commitments	Amount Eligible for Abatement (HCAD Value)	Tax Abatement for Tax Year 2018 (COH tax rate- 0.00588310)
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.	$9,719,068	$57,178
Emerson Process LLLP	Company will construct and install the Improvements in the Zone by the Effective Date of Abatement.	$13,850,000	City agrees to grant the Owner a 50% abatement of the ad valorem taxes on the improvements in the Zone.	$6,656,280	$39,160
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.	$26,030,842	$153,142

(Continued)

Company Name	Abatement Project Information	Investment Requirement	City's Abatement Commitments	Amount Eligible for Abatement (HCAD Value)	Tax Abatement for Tax Year 2018 (COH tax rate-0.00588310)
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 abount is $1,500,000.	$6,088,875	$35,821
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.	$41,000,000	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.	$3,640,105	$21,415
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.	$2,387,546	$14,046
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.	$81,589,635	$480,000

NOTE 6: CAPITAL ASSETS

A. Governmental Activities of the Primary Government

A summary of changes in capital assets for the year ended June 30, 2019 follows (in thousands):

	Balance July 1, 2018	Additions	Retirements	Transfers	Balance June 30, 2019
Governmental Activities					
Capital assets not being depreciated:					
Land	$ 446,013	$ 35,819	$ (15,414)	$ 4,521	$ 470,939
Right of way	1,764,013	1,236	-	847	1,766,096
Construction Work in Progress	400,446	381,459	-	(261,183)	520,722
Total capital assets not being depreciated	2,610,472	418,514	(15,414)	(255,815)	2,757,757
Depreciable capital assets:					
Buildings	1,294,411	437	(174)	42,110	1,336,784
Rights & Intangibles - Amortizable	8,625	219	-	1,428	10,272
Improvements and Equipment	1,287,748	61,818	(23,801)	32,912	1,358,677
Infrastructure	6,959,388	37,865	(23,877)	179,365	7,152,741
Total other capital assets	9,550,172	100,339	(47,852)	255,815	9,858,474
Less accumulated depreciation for:					
Buildings	(476,711)	(35,499)	100	-	(512,110)
Rights and Intangibles	(8,075)	(752)	-	-	(8,827)
Improvements and Equipment	(871,718)	(84,554)	23,078	-	(933,194)
Infrastructure	(3,474,846)	(156,416)	22,931	-	(3,608,331)
Total accumulated depreciation	(4,831,350)	(277,221)	46,109	-	(5,062,462)
Depreciable capital assets, net	4,718,822	(176,882)	(1,743)	255,815	4,796,012
Governmental Activities capital assets, net	$ 7,329,294	$ 241,632	$ (17,157)	$ -	$7,553,769

B. Business-type Activities

	Balance July 1, 2018	Additions	Retirements	Transfers	Balance June 30, 2019
Airport System					
Capital assets not being depreciated:					
Land	$ 216,107	$ -	$ (7)	$ -	$ 216,100
Rights & Intangibles- Non Amortizable	12,679	-	-	95	12,774
Construction Work in Progress	182,844	119,871	-	(96,028)	206,687
Total capital assets not being depreciated	411,630	119,871	(7)	(95,933)	435,561
Depreciable capital assets:					
Buildings	2,985,527	23	(536)	81,199	3,066,213
Improvements and equipment	1,885,075	3,891	(2,234)	10,285	1,897,017
Infrastructure	565,067	-	-	4,449	569,516
Rights & Intangibles- Amortizable	4,697	-	-	-	4,697
Total other capital assets	5,440,366	3,914	(2,770)	95,933	5,537,443
Less accumulated depreciation for:					
Buildings	(1,425,400)	(98,497)	296	-	(1,523,601)
Improvements and equipment	(1,245,650)	(64,902)	2,226	-	(1,308,326)
Infrastructure	(361,133)	(10,092)	-	-	(371,225)
Rights & Intangibles	(3,769)	(775)	-	-	(4,544)
Total accumulated depreciation	(3,035,952)	(174,266)	2,522	-	(3,207,696)
Depreciable capital assets, net	2,404,414	(170,352)	(248)	95,933	2,329,747
Airport System capital assets, net	$ 2,816,044	$ (50,481)	$ (255)	$ -	$2,765,308

	Balance July 1, 2018	Additions	Retirements	Transfers	Balance June 30, 2019
Convention and Entertainment Facilities					
Capital assets not being depreciated:					
Land	$ 95,687	$ -	$ -	$ -	$ 95,687
Construction Work in Progress	-	-	-	-	-
Total capital assets not being depreciated	95,687	-	-	-	95,687
Depreciable capital assets:					
Buildings	577,527	-	-	-	577,527
Garage Rights	13,144	-	-	-	13,144
Improvements and equipment	8,880	-	(248)	-	8,632
Infrastructure	334	-	-	-	334
Total other capital assets	599,885	-	(248)	-	599,637
Less accumulated depreciation/amortization for:					
Buildings	(285,925)	(13,089)	-	-	(299,014)
Garage Rights	(5,078)	(343)	-	-	(5,421)
Improvements and equipment	(6,368)	(63)	248	-	(6,183)
Infrastructure	(142)	(15)	-	-	(157)
Total accumulated depreciation/amortization	(297,513)	(13,510)	248	-	(310,775)
Depreciable capital assets, net	302,372	(13,510)	-	-	288,862
Convention and Entertainment Facilities capital assets,	$ 398,059	$ (13,510)	$ -	$ -	$ 384,549

	Balance July 1, 2018	Additions	Retirements	Transfers	Balance June 30, 2019
Combined Utility System					
Capital assets not being depreciated:					
Land	$ 157,064	$ 1,417	$ (242)	$ 1,288	$ 159,527
Right of way	427	411	-	40	878
Rights and Intangibles - Non-depreciable	845,975	39	-	499	846,513
Construction Work in Progress	657,016	439,548	-	(249,114)	847,450
Total capital assets not being depreciated	1,660,482	441,415	(242)	(247,287)	1,854,368
Depreciable capital assets:					
Buildings	152,725	445	-	1,114	154,284
Improvements other than Buildings	-				-
Improvements and equipment	171,053	14,786	(4,252)	(6)	181,581
Infrastructure	10,784,039	16,277	(56,299)	246,177	10,990,194
Water Rights	-	-	-	-	-
Total depreciable capital assets	11,107,817	31,508	(60,551)	247,285	11,326,059
Less accumulated depreciation/amortization for:					
Buildings	(80,709)	(4,376)	-	-	(85,085)
Improvements other than Buildings	-				-
Improvements and equipment	(124,276)	(12,758)	4,173	-	(132,861)
Infrastructure	(5,505,835)	(240,240)	50,499	-	(5,695,576)
Water Rights	(49)	(57)	-	-	(106)
Total accumulated depreciation/amortization	(5,710,869)	(257,431)	54,672	-	(5,913,628)
Depreciable capital assets, net	5,396,948	(225,923)	(5,879)	247,285	5,412,431
Combined Utility System capital assets, net	7,057,430	215,492	(6,121)	(2)	7,266,799
Business-type activities capital assets, net	$ 10,271,533	$ 151,501	$ (6,376)	$ (2)	$ 10,416,656

C. Depreciation Expense

Depreciation expense was charged to functions programs of the primary government as follows (in thousands):

Governmental activities		
General government	$	42,346
Public safety		33,654
Public works		14,760
Health		4,690
Housing		1,617
Parks and recreation		17,641
Library		6,101
Infrastructure		156,412
Total depreciation expense - governmental activities	$	277,221
Business-type activities		
Airport System	$	174,266
Convention & Entertainment Facilities		13,508
Combined Utility System		257,430
Total depreciation expense - business-type activities	$	445,204

D. Pension Trust Funds

In February 1998, the Firefighters' Relief and Retirement Fund purchased land in the amount of $483,325 for use in the construction of a new office building for its operations and its members. In April of 2001, the construction of the new building was completed. The building's capitalized cost of $9,882,445 is being depreciated over 30 years. The accumulated depreciation for the building as of June 30, 2019 amounted to $5,853,658.

NOTE 7: SHORT-TERM DEBT – TAX AND REVENUE ANTICIPATION NOTES

Short-term debt activity for the year ended June 30, 2019, was as follows (in thousands):

	Balance July 1, 2018	Issued	Redeemed	Balance June 30, 2019
Tax and Revenue Anticipation Notes	$ -	$ 225,000	$ 225,000	$ -

On July 11, 2018, the City closed on the sale of $225,000,000 Tax and Revenue Anticipation Notes (TRANS), Series 2018. The proceeds of the TRANS were used to pay working capital expenditures until tax revenues were received. The stated rate was 4.06%, and the average yield 1.57%. The notes matured on June 30, 2019.

NOTE 8: LONG-TERM LIABILITIES

A. General Long-Term Liabilities

Changes in General Long-Term Liabilities for the year ended June 30, 2019 are summarized as follows (in thousands):

	Balance June 30, 2018	Additions	Retirements/ Transfers	Balance June 30, 2019	Amounts Due within One Year
Governmental Activities					
Bonds and notes payable:					
General tax obligation debt	$ 3,681,410	$ 139,065	$ (216,600)	$ 3,603,875	$ 225,113
HUD Section 108 Loans	8,226	-	(3,164)	5,062	183
Plus premium (discount) on bonds	304,280	-	(19,054)	285,226	-
Total bonds and notes payable	3,993,916	139,065	(238,818)	3,894,163	225,296
Other liabilities:					
Claims and judgments	150,057	326,457	(317,449)	159,065	38,012
Compensated absences	476,201	62,932	(66,801)	472,332	155,791
Arbitrage rebate	-	370	-	370	-
Other Post Employment Benefit obligation	2,172,678	1,478	(134,163)	2,039,993	-
Net Pension liability	3,440,660	54,173	(11,403)	3,483,430	-
Total other liabilities	6,239,596	445,410	(529,816)	6,155,190	193,803
Governmental Activities Long-Term Liabilities	$ 10,233,512	$ 584,475	$ (768,634)	$ 10,049,353	$ 419,099
Discretely Presented Component Units:					
Notes payable	$ 592,665	$ 51,760	$ (33,782)	$ 610,643	$ 19,717
Bonds payable	475,153	54,522	(27,066)	502,609	25,695
Discretely Presented Component Units Long-Term Liabilities	$ 1,067,818	$ 106,282	$ (60,848)	$ 1,113,252	$ 45,412

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 June 30, 2018	Additions	Retirements/ Transfers	Balance June 30, 2019	Amounts Due within One Year
Business-type activities					
Bonds and notes payable:					
Airport System debt	$ 2,224,184	$ 596,110	$ (753,980)	2,066,314	$ 86,070
Convention and Entertainment debt	518,254	106,320	(102,010)	522,564	56,842
Combined Utility System debt	6,303,480	1,027,980	(1,021,815)	6,309,645	393,657
Long-term contracts - Combined Utility	741,482	170,265	(8,927)	902,820	19,099
Premiums, discounts amount	866,026	167,419	(61,584)	971,861	-
Total bonds and notes payable	10,653,426	2,068,094	(1,948,316)	10,773,204	555,668
Other liabilities:					
Claims and judgments	4,335	689	(1,486)	3,538	1,486
Compensated absences	32,717	16,406	(17,156)	31,967	16,931
Arbitrage rebate liability	136	3,774	(24)	3,886	256
Other Post Employment Benefit obligation	276,934	374	(50,220)	227,088	-
Net Pension liability	587,360	2,885	(1,524)	588,721	-
Total other liabilities	901,482	24,128	(70,410)	855,200	18,673
Business-type activities Long-Term Liabilities	$ 11,554,908	$ 2,092,222	$ (2,018,726)	$ 11,628,404	$ 574,341
Total Reporting Entity Long-Term Liabilities	$ 22,856,238	$ 2,782,979	$ (2,848,208)	$ 22,791,009	$1,038,852

[THIS PAGE INTENTIONALLY LEFT BLANK]

B. Schedule of Changes in Bonds and Long-Term contracts (amounts expressed in thousands):

	Stated Interest Rate Range, %	Face Value Outstanding 6/30/2018	FY19 Issued/ Increased
General Tax Obligation Debt			
Public improvement bonds	0.25 to 6.32	$ 2,151,850	$ 44,065
Pension obligations	5.31 to 6.29	1,444,890	-
Commercial paper	0.12 to 10.00	70,000	95,000
Tax and revenue certificates of obligation	4.00 to 5.00	14,670	-
Total General Tax Obligation Debt		$ 3,681,410	$ 139,065
HUD Section 108 Loans		$ 8,226	$ -
Revenue Bonded Debt			
Airport System Bonds			
Senior Lien Revenue bonds	5.00 to 5.50	$ 420,420	$ -
Subordinate lien revenue and refunding bonds	1.85 to 5.45	1,666,575	569,110
Special facility bonds (Note 1K)	2.687 to 6.88	86,100	-
Inferior lien contractual obligation		-	-
Pension obligations	2.203 to 5.31	29,616	-
Note obligation		-	-
Commercial paper	1.47 to 1.87	21,473	27,000
		$ 2,224,184	$ 596,110
Convention and Entertainment Facilities			
Senior lien hotel occupancy tax/parking facilities	1.12 to 5.75	$ 514,705	$ 106,320
Pension obligations	5.31 to 6.29	3,549	-
		$ 518,254	$ 106,320
Combined Utility System			
Combined Utility System first lien bonds	0.02 to 6.00	$ 5,927,760	$ 842,980
Water and Sewer System junior lien revenue bond	1.25 to 6.90	57,339	-
Combined Utility System commercial paper	0.12 to 10.00	220,000	185,000
Pension obligations	5.31 to 6.29	98,381	
		$ 6,303,480	$ 1,027,980
Long-Term Contracts-Water and Sewer System			
Coastal Water Authority	2.00 to 7.50	$ 64,300	$ -
Other long term contracts	3.22 to 5.85	677,182	170,265
		$ 741,482	$ 170,265
Total Revenue Bonded Debt and Long-Term Contracts, Primary Government		$ 9,787,400	$ 1,900,675
Total Bonds and Long-Term Contracts Payable, Primary Government		$ 13,477,036	$ 2,039,740

(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.

FY19 Redeemed/ Refunded (2)	Face Value Outstanding 6/30/2019	Adjustments (1)	Net Outstanding 6/30/2019
$ 205,055	$ 1,990,860	$ 284,605	$ 2,275,465
10,410	1,434,480	-	1,434,480
-	165,000	-	165,000
1,135	13,535	621	14,156
$ 216,600	$ 3,603,875	$ 285,226	$ 3,889,101
$ 3,164	$ 5,062	$ -	$ 5,062
$ 420,420	$ -	$ -	$ -
300,235	1,935,450	179,252	2,114,702
5,715	80,385	-	80,385
-	-	-	-
27,610	2,006	-	2,006
-	-	-	-
-	48,473	-	48,473
$ 753,980	$ 2,066,314	$ 179,252	$ 2,245,566
101,930	519,095	203,239	722,334
80	3,469	-	3,469
$ 102,010	$ 522,564	$ 203,239	$ 725,803
$ 800,410	$ 5,970,330	$ 459,761	$ 6,430,091
-	57,339	122,054	179,393
220,000	185,000	-	185,000
1,405	96,976	-	96,976
$ 1,021,815	$ 6,309,645	$ 581,815	$ 6,891,460
$ 3,590	$ 60,710	$ 4,804	$ 65,514
5,337	842,110	2,751	844,861
$ 8,927	$ 902,820	$ 7,555	$ 910,375
$ 1,886,732	$ 9,801,343	$ 971,861	$ 10,773,204
$ 2,106,496	$ 13,410,280	$ 1,257,087	$ 14,667,367

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.

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.

3. General Obligation Commercial Paper

The City currently has multiple General Obligation Commercial Paper Programs with total authorization of $975 million. The programs' current issuance capacity is $925 million, of which $625 million is supported by credit facilities. General Obligation Commercial Paper, $200 million Series E Program, $200 million Series G Program, $100 million Series H-2 Program, $125 million Series J. Currently none are outstanding. The Notes may be issued for a period not to exceed 270 days and will bear interest based upon the specified term of the Notes, but not to exceed 10%. Principal on the Notes 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 Notes are used to finance various capital projects and public improvements for authorized City purposes. Upon maturity, the Notes will be remarketed by the commercial paper dealers or extinguished with long-term debt. At June 30, 2019, $165 million 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 2019, the average interest rate for the outstanding General Obligation Notes, including dealer and credit fees, was 1.124%. 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 2019. The average fees related to Series K-1 was 0.13%, K-2 is 0.13% and G-1 is 0.26% without any notes outstanding during fiscal year 2019. The Credit Agreements expire on the following dates: Series E-1 on July 15, 2021, Series E-2 on April 22, 2022, Series G-1 on February 12, 2021, Series G-2 on November 19, 2021, Series H-2 on November 13, 2020, Series J on May 20, 2020, 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.

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

On June 30, 2019, the Houston Airport System has no senior lien revenue bonds outstanding. Any bonds issued on the senior lien would require net revenues totaling 125% of the debt service requirements for such fiscal year. The Houston Airport System has issued Subordinate Lien 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 bonds for such fiscal year. On June 30, 2019, the subordinate lien bonds have a total $1,935,450,000 outstanding balance with a final maturity in the year 2048. These bonds have a fixed interest rate except for the Airport System Revenue Refunding Bonds, Variable Rate Demand Obligations (VRDOs) Series 2010, with a 7-day reset, and an outstanding balance of $92,305,000. The VRDO bonds may be converted to other modes including fixed rate bonds.

The City has a liquidity facility with Barclays Bank PLC for the Series 2010 bonds, with a termination date of December 22, 2020. If the Remarketing Agent is unable to resell the VRDO bonds, then the liquidity facility will pay the principal to the bondholders and the bonds will become bank bonds, subject to the greater of several options for interest rates. The maximum interest rate permitted under the ordinance is 10%. After 60 days, the bank bonds become a term loan, where the Airport System must pay six semi-annual principal payments over three years to retire the loan. Because the Series 2010 Bonds were issued as multi-modal bonds, the City can elect to convert the Bonds into long-term fixed rate that would not require a letter of credit.

On March 20, 2018, the City issued Airport System Subordinate Lien Revenue and Refunding Bonds, Series 2018A (AMT), and Series 2018B (Non-AMT). Series 2018A was issued in the aggregate principal amount of $130,550,000 with a final maturity date on July 1, 2041. Series 2018A was issued to buy out the unamortized portion of Southwest Airline's note for the Hobby International Terminal project for $115,881,553, to refund $21,112,000 in Commercial Paper Notes, to increase the Subordinate Lien Debt Reserve Fund, and to pay costs of issuance. Series 2018B was issued in the aggregate principal amount of $285,220,000 with a final maturity date of July 1, 2048. Series 2018B was issued to refund $62,415,000 in Commercial Paper Notes, to current refund $261,330,000 of the Airport System Subordinate Lien Revenue Refunding Bonds, Series 2007B (Non-AMT), to increase the Subordinate Lien Debt Reserve Fund, and to pay costs of issuance. The Airport System Revenue and Refunding Bonds, Series 2018A and Series 2018B were issued with a stated rate of 5%, and a yield of 3.0526%. Net present value savings related to the refunding of Series 2007B totaled $39,634,975, or 15.16% of the refunded bonds. Total debt service was reduced by $49,510,272.

The Airport System Subordinate Lien Revenue Refunding Bonds, Series 2018C (AMT) and the Airport System Subordinate Lien Revenue Refunding Bonds, Series 2018D (Non-AMT) were issued on August 2, 2018, with a combined par amount of $569,110,000. The bonds have a coupon rate of 5.0%, a true interest cost of 3.34%, and an arbitrage yield of 2.86%. They mature in varying amounts from 2019 to 2039.

Series 2018C was issued with a par amount of $212,820,000 to current refund the following auction rate bonds: Airport System Subordinate Lien Revenue Bonds, Series 2000P-1 (AMT) $32,275,000; Airport System Subordinate Lien Revenue Bonds, Series 2000P-2 (AMT) $32,050,000; Airport System Subordinate Lien Revenue Bonds, Series 2002C (AMT) $71,175,000; Airport System Subordinate Lien Revenue Bonds, Series 2002D-1 (AMT) $55,800,000; and Airport System Subordinate Lien Revenue Bonds, Series 2002D-2 (AMT) $50,975,000, and to pay for costs of issuance. Net present value savings on the refunding were $12.9 million or 5.3%, with total debt service reduced by $15.6 million. Series 2018C will reach final maturity on July 1, 2032.

Series 2018D was issued with a par amount of $356,290,000 to current refund $409,685,000 in outstanding Airport System Senior Lien Revenue and Refunding Bonds Series 2009A (Non-AMT) and to pay costs of issuance. Series 2018D will reach final maturity on July 1, 2039. Net present value savings on the refunding were $77.4 million or 18.9% of the refunded bonds. Total debt service was reduced by $107.0 million.

The Fund has purchased Subordinate Lien Debt Service Reserve Fund Surety Policies that unconditionally guarantee the payment of the current principal and interest on all outstanding Airport System subordinate lien issues. The surety policies have termination dates ranging from July 1, 2022 to July 1, 2032. Each of the draws made against the surety policies shall bear interest at the prime rate plus two percent, not to exceed a maximum interest rate of 12%. The repayment provisions require one-twelfth of the policy costs for each draw to be repaid monthly, beginning the first month following the date of each draw. The policies were issued by (1) FGIC in the aggregate maximum amount of $102,949,865, reinsured by National Public Finance Guarantee Corporation; and (2) Assured Guarantee Municipal Corporation in the aggregate maximum amount of $31,921,384. The Airport System Fund also has a cash reserve of $68,960,003 in the Subordinate Lien Bond Reserve Fund.

7. Airport System Inferior Lien Contract

On July 1, 2004, the City and United Airlines (formerly Continental Airlines, Inc). entered into a Sublease Agreement associated with the Special Facilities Lease for the Automated People Mover System and the City's Airport System Special Facilities Revenue Bonds (Automated People Mover Project) Series 1997A (1997A Special Facilities Bonds). The City assumed United Airlines' interest in the project upon completion of the expansion of the Automated People Mover System on January 25, 2005. As part of the sublease, the City agreed to make sublease payments that include amounts equal to the debt service on the 1997A Special Facilities Bonds. The payments were payable from Airport System net revenues on the same priority as inferior lien bonds and were recorded as an Inferior Lien Contract. The Series 1997A Bonds reached final maturity on July 15, 2017.

8. Airport System Special Facility Bonds

The Airport System Special Facilities Taxable Revenue Bonds, (Consolidated Rental Car Facility Project), Series 2001, and the Airport System Special Facilities Taxable Revenue Refunding Bonds (Consolidated Rental Car Facility Project), Series 2014, financed the design and construction at Intercontinental 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. The City holds legal title to the completed Consolidated Rental Car Facility ("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 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, 2019, 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 customer facility charges. These bonds do not constitute a debt or pledge of the faith or credit of the City or the Airport System Fund. At June 30, 2019, Special Facilities Taxable Revenue and Refunding Bonds (CRCF) outstanding totaled $80,385,000.

9. Airport System Commercial Paper Notes

On November 20, 2013, the Airport System Senior Lien Commercial Paper Notes Series A and B (the Notes) were re-authorized for $150 million to establish, improve, enlarge, extend and repair the City's Airport System, acquire land, and pay interest and cost of issuance of the Notes. The notes were collateralized by a direct pay letter of credit issued by the Royal Bank of Canada on December 18, 2013, terminating on December 16, 2016. A new letter of credit was issued on December 15, 2016 by Sumitomo Mitsui Banking Corp. for $150 million plus $11.1 million in respect of 270 days accrued interest computed at 10%. 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%. This letter of credit will expire on December 15, 2021.

The Fund presently has three outstanding Senior Lien Debt Service Reserve Fund Surety Policies issued by Financial Guaranty Insurance Corporation (FGIC) and reinsured by National Public Finance Guarantee Corporation for any outstanding Senior Lien Notes. These policies have an aggregate maximum amount of $12,374,996 and terminate on October 25, 2023 and July 1, 2030. There are $48.47 million in outstanding commercial paper notes as of June 30, 2019.

10. Airport System Inferior Lien Forward Delivery Bond Purchase Agreement

On October 21, 2015, the City authorized the issuance of $450 million in Airport System Inferior Lien Revenue Bonds in one or more series. The City also authorized the execution of a forward delivery bond purchase agreement. This authorization is valid until October 4, 2019 unless extended by a separate City Council action. On November 5, 2015, The City executed a forward delivery bond purchase agreement for the issuance of up to $450 million of Airport System Inferior Lien Revenue Bonds with the Royal Bank of Canada. The agreement expires on November 5, 2022. No bonds have been issued as of June 30, 2019.

11. Airport System Note Obligation

In February of 2013, the City entered a contract with Southwest Airlines Co. ("Southwest") under which Southwest would construct five international gates, a Federal Inspection Service Facility, and associated enabling projects (the "Project") at William P. Hobby Airport. Southwest was responsible for the initial funding of all costs of the Project including any related financing costs, but title to the Project was passed to the City at each point in construction. The new gates and facility opened on October 15, 2015.

At any time after completion of the Project, the City had the right to buy out Southwest's investment for the unamortized costs of the Project, calculated at an annual amortization rate equal to 2.19% over a 25-year period, with final maturity at June 30, 2040. The Airport Fund recorded the initial note payable on October 15, 2015 as $123,785,000. On November 15, 2017, the City Council authorized the issuance of Airport System Revenue Bonds to buy out Southwest's investment, the unamortized value of which was calculated to be $115,881,553. This amount was delivered to Southwest Airlines on March 20, 2018 from the proceeds of Airport System Subordinate Lien Revenue and Refunding Bonds, Series 2018A. After November 15, 2017, Southwest Airlines was billed for its use of International Terminal facility to recover both operating costs and the cost of capital for the City.

12. 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 a Hotel Occupancy Tax at a rate not less than 7%. The City currently levies a Hotel Occupancy Tax 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 Hotel Occupancy Tax (HOT), As of June 30, 2019, Flexible Rate Notes totaled $115 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.

13. Combined Utility System First Lien Revenue Bonds

City Council authorized creation of the Combined Utility System ("the System") on September 3, 2003. The Combined Utility System currently consists of the City's Water and Sewer System. In the future the City may elect to include other utility systems. Its bonds are special obligations of the City payable from Net Revenues of the System after payments for maintenance and operations and debt service on Water and Sewer Junior Lien bonds. Net Revenues must equal 110% of the First Lien Revenue Bonds debt service.

The Combined Utility System Revenue Refunding Bonds, Series 2004B and 2004C, were initially issued as Auction Rate

Securities. All of the 2004B and a portion of the 2004C auction rate securities were converted to variable rate demand bonds in April 2008. Series 2004B-1 bonds were later refunded by Combined Utility System Revenue Refunding Bonds, Series 2012A and 2012B for $125 million and $100 million, respectively, in June 2012. The refunding bonds were issued as SIFMA index floating rate bonds. In June 2018, Series 2012B bonds were remarketed and converted back to variable rate demand bonds. 2004C auction rate securities were refunded by Combined Utility System Revenue Refunding Bonds, Series 2008A and 2008D for $249.08 million and $200.43 million respectively. Series 2008A bonds were later refunded by Combined Utility System Revenue Refunding Bonds, Series 2010B, effectively converting the bonds into floating rate notes. The bonds were subsequently refunded by Series 2012C, Series 2016C and most recently by Series 2018C bonds on August 1, 2018. The refunding bonds were issued as LIBOR index floating rate bonds.

14. Combined Utility System Commercial Paper

The Combined Utility System established a Commercial Paper Notes Program Series B which has been authorized for $700 million to finance costs of eligible projects for the City's combined utility system, including acquisition or construction of improvements and additions or extension for the System, and costs of issuance. The program is structured as a revolving Commercial Paper Note program. The notes are issued as third lien obligations. A portion of the Series B Notes, in the amount of $375 million, is secured by credit facilities from Bank of America (Series B-1) and expires on October 22 2021, and Sumitomo Mitsui Banking Corporation, acting through its New York Branch (Series B-3) which expires on January 15, 2021, PNC Bank, N.A (Series B-4) with an expiration date of July 12, 2022 and Bank of America (Series B-6) which expire on October 22, 2021. As of June 30, 2019, the Series B Notes are outstanding in the principal amount of $185 million.

The Series B Notes may be issued for a period not exceed 270 days and the maximum interest rate may not exceed 10%. The Series B Commercial Paper 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. The System's outstanding notes from credit agreements contain a two to three year repayment provision in the event of default or material adverse change.

Effective March 13, 2015, the City established a $75 million Series B-2 Extendable Commercial Paper Note program (the "Series B-2 ECP Notes") that provides for the issuance of Series B-2 ECP Notes as Third Lien Obligations through March 2022. In January 2019, the City established a $250 million Series B-5 Extendable Commercial Paper Note program (the "Series B-5 ECP Notes") that provides for the issuance of Series B-5 ECP Notes as Third Lien Obligations through March 2023. 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 ECP Notes 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 System, 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 System. No bonds have been issued as of June 30, 2019.

15. Combined Utility System SWAP Agreements

The City has determined the Swap liability to be a Level 2 measurement under the fair value hierarchy disclosure standards. A summary of the fair value follows:

Change in Fair Value	Fair Value at June 30, 2019	Notional Amount
$131,594,522	$223,339,430	$902,400,000
(Reported as Deferred Outflow of Resources)	(Reported in SWAP Liability)	

General Terms:

Objective: The objective is to hedge against the potential of rising interest rates associated with the Bonds and to achieve a lower fixed rate than the market rate for traditional fixed rate debt at the time of issuance.

Hedging Relationship. Hedge accounting can be applied for derivatives that are found to be effective hedges under Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* The City has determined that the swaps are effective hedges and the changes in the fair values are reported as deferred inflows/outflow on the statement of net assets.

Non-Performance Adjustments. Paragraph 62 of Statement No. 72, *Fair Value Measurement and Application,* requires a government to consider nonperformance risk when measuring the fair value of a derivative in a liability position. The fair market value listed below includes consideration of the City's credit rating and an adjustment for nonperformance risk.

Credit risk. As of June 30, 2019, the City was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates increase and the fair value of the swap become positive, the City would be exposed to credit risk on the swap in the amount of its fair value. The City's swap policy generally requires that swap counterparties be rated double-A or better by at least one nationally recognized rating agency at inception. Under the agreements, if a counterparty's credit rating falls below AA, collateral may be required in varying amounts depending on the credit rating and fair market value to the City of the swaps. No collateral has been required to date.

Basis risk. The City is exposed to basis risk on the swap because the variable payment received is based on an index that is not tax-exempt. Should the relationship between one-month LIBOR and 10-year CMS or one-week SIFMA and 10-year CMS move to convergence (because of reductions in tax rates, for example), the expected cost savings may not be realized.

Termination risk. The City may terminate for any reason. A counterparty may terminate a swap if the City fails to perform under the terms of the contract. The City's on-going payment obligations under the swap (and, to a limited extent, its termination payment obligations) are insured, and counterparties cannot terminate so long as the insurer does not fail to perform. If a swap should be terminated, the associated variable-rate bonds would no longer carry synthetic fixed interest rates. Also, if at the time of the termination the swap has a negative market value, the City would be liable to the counterparty for a termination payment equal to the swap's market value, which may not include any adjustment for non-performance risk that is included in the swap's fair value measurement.

Swap payments and associated debt. As of June 30, 2019, 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 also included with other Combined Utility System Bonds in Note 8D.

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 $653,325,000, 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 US 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.

Under the amended terms, the City will now receive variable payments based on 58.55% of 10-year CMS.

At June 30, 2019, the effective rate on the 2004B Bonds associated with the swap was computed as follows:

	Initial Terms	Amended Terms	RATE (%) Received (Paid)
Variable rate payment from counterparties	1M LIBOR x 57.6%	10Y CMS x 58.55%	1.4746
	+ Constant		0.1233
Swap receipt			1.5979
Fixed rate paid to counterparties	Fixed		(3.7784)
Net rate (paid)/received for swap			(2.1805)
Average variable rate on 2004B bonds, year end			(1.5076)
Plus dealer and credit fees on 2004B bonds			(0.5804)
Effective rate of 2004B bonds			(4.2685)

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 $165,893,546 on June 30, 2019. After adjustment for the refunded portion, the value reported in the financial statements is negative $161,337,847. 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 System 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	Fair Value	Counterparty Credit Rating (Moody's /S&P /Fitch)
Goldman Sachs Capital Markets	$353,325,000	(89,721,597)	A1/A+A+
JP Morgan Chase	150,000,000	(38,090,256)	Aa2/A+/AA
Wells Fargo	150,000,000	(38,081,693)	Aa2/A+/AA-
Total	$653,325,000	(165,893,546)	

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 Royal Bank of Canada ("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 $249,075,000, and it will receive variable payments based on 70% of One-Month US Dollar LIBOR. The City's scheduled net swap payments are insured by Ambac Assurance Corporation.

Under the amended contract, the City will now receive variable payments based on 58.55% of 10-year CMS.

At June 30, 2019, 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 (Swap Receipt)	1M LIBOR x 70%	10Y CMS x 58.55%	1.5700
Fixed rate paid to counterparty	Fixed		(3.7610)
Net rate (paid)/received for swap			(2.1910)
Year-end variable rate on 2018C bonds			(1.9817)
Effective rate of 2004B bonds			(4.1727)

Fair value. The swap had a fair value of negative $62,765,282 on June 30, 2019. After adjustment for the refunded portion, the value reported in the financial statements is negative $62,001,583. The fair value is recorded on the balance sheet of the Combined Utility System 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	Fair Value	Counterparty Credit Rating (Moody's /S&P /Fitch)
Wells Fargo	249,075,000	(62,765,282)	Aa2/A+/AA

16. Water and Sewer System Junior Lien Revenue Bonds

These bonds are paid solely from a lien on the net water and sewer system revenues, which must total 110% of the current debt service requirements on the junior lien bonds. As part of the restructuring to the new Combined Utility System, the City refunded a substantial portion of the outstanding junior lien bonds on June 10, 2004 and reissued bonds as Combined Utility System bonds. Debt service payments on remaining Water and Sewer Junior Lien Revenue Bonds ("Junior Lien Bonds") will be made after payment of operating expenses and prior to any debt service payments on the Combined Utility System bonds. The final maturity date for the remaining junior lien bonds is December 1, 2028. No additional Junior Lien Bonds may be issued.

17. Coastal Water Authority ("CWA")

The contract payable relating to CWA represents the outstanding balance of $60,710,000 at June 30, 2019 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 City's Combined Utility System 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 Texas Water Development Board (TWDB) financing program. The 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, 2019 represents $28,754,000 of State Participation Loan (maturing in 2047), $28,000,000 of Series 2009 WIF Loan (maturing in 2029) and $5,115,000 of Series 2010 WIF Loan (maturing in 2030) for a total of $61,869,000. The annual debt service payments for the State Participation Loan started in FY 2015, Series 2009 started in FY 2019 and Series 2010 WIF Loan is deferred to 2020. In FY 2017, two new State Water Implementation Revenue Fund for Texas (SWIRFT) bonds were issued in relation to Luce Bayou, in November 2015 and December 2016 for $66,565,000 and $136,460,000, respectively. The annual debt service payments for these bonds started in FY 2019 and their maturity is in 2050 and 2051, respectively. Additionally, in FY 2018, two new State Water Implementation Revenue Fund for Texas (SWIRFT) bonds were issued in relation to Luce Bayou in November 2017 for $24,180,000 and $72,795,000, respectively. The annual debt service payments began in FY 2018 for the $24.18 million issuance, while the first debt service payment on the $72.80 million issuance is expected in June 2020. The bonds will mature in 2047 and 2052, respectively.

Luce Bayou & 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 was deferred until 2019, with the accrued interests during 2009-2019 rolled into principal to be amortized over the next 20 years. As of June 30, 2019, the current principal balance is $17.04 million.

SWIFT TWDB Loans for the Northeast Plant Expansion and the Northeast Transmission Line

On December 2015 and December 2016, the City closed on a TWDB subordinate lien State Water Implementation Fund for Texas (SWIFT) Loan of $25,915,000 and $63,020,000, respectively. These loans were issued to fund the Northeast Plant Expansion and Northeast Transmission Line. The annual debt service payments began in May 2016 and May 2017, respectively and final payments are expected to be made on November 15, 2045 and November 15, 2046, respectively. Annual debt service is payable from the Combined Utility System General Purpose Fund. As of June 30, 2019, principal payments of $1,925,000 and $3,335,000 were made, for the 2015 and 2016 issuances, respectively. On November 2017 and June 2018 two new SWIFT loans were issued 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 are expected to mature in 2047. As of June 30, 2019, principal payment of $2,125,000 was made for the November 2017 issuance. Additionally, in FY 2019, a new SWIFT loan was issued in November 2018 for $170,265,000. Annual debt service began in May 2019, with the first principal payment due in November 2019. The bonds are expected to mature in 2049.

18. Other Contracts

Payments on the following contracts will be made only after the Combined Utility System has funded all maintenance and operation costs and debt service payments for the Combined Utility System, 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 as of June 30, 2019 is $8.5 million.

In April 2000, the City, Brazos River Authority ("BRA"), and the Texas Water Development Board ("TWDB") entered into an agreement to develop the Allen's Creek water supply reservoir in Fort Bend County as a regional water supply. TWDB paid $14,000,000, or 50% of funding, to provide for construction of the project, and the City agreed to purchase TWDB's share. Interest payments on the lease-purchase began in 2005 at an average rate of 5.85%. Interest costs over the first eight years were partially deferred to later years. Principal payments will begin in 2022, and the final principal payment will be made in 2037. H.B. 2846, passed during the 86th Session of the Texas Legislature and signed into law on June 2, 2019, mandates that the City sell its ownership interest in Allen's Creek Reservoir to the Brazos River Authority at or below a capped price of $23 million. The City has filed a suit in state district court in Travis County seeking a declaratory judgment that H.B. 2846 is invalid and unenforceable because it violates the Texas Constitution. In particular, H.B. 2846 requires an unconstitutional forced sell of property and is an unconstitutional local law. In addition, it is a retroactive law and, in violation of the Texas Constitution, imposes debt on the Brazos River Authority. Finally, the City seeks a declaratory judgment that H.B. 2846 is void because the state lacks legal authority to force the City to enter into a specific contract to sell vested water rights.

In response to repeated extreme rainfall and flooding events impacting the Brays Bayou watershed, the Harris County Flood Control District (HCFCD) and the United States Army Corp of Engineers (USACE) have partnered to implement the Brays Bayou Federal Flood Damage Reduction Project ("Project Brays"), with HCFCD assuming responsibility for planning and implementation in 1998. While the primary stormwater channel and detention basin improvements have been completed work remains to reconstruct bridges carrying thoroughfares across the bayous.

To accelerate the completion of the remaining bridge construction modifications and replacements approved by USACE as part of Project Brays the City has entered into an interlocal agreement with the HCFCD to advance up to $43 million. The interlocal agreement provides that HCFCD will pass certain reimbursements received from USACE to pay back all or part of the City's advanced funding.

To provide the upfront funding, on October 17, 2017 the Texas Water Development Board (TWDB) approved a loan to the City at zero percent interest for $43 million dollars. On June 27, 2018, City Council approved an ordinance approving and authorizing the Interlocal Agreement between the City and HCFCD. On August 7, 2018 City Council authorized Texas Public Improvement Bonds, Series 2018A for $43 million dollars plus cost of issuance fees. The City will be responsible for repayment of the TWDB loan, regardless of the timing or amounts received by the City under the interlocal agreement with HCFCD. The debt service obligation will be shared 50/50 by the General Fund and the Combined Utility System. The General Fund and the Combined Utility System will be reimbursed by HCFCD upon their receipt of reimbursement from USACE. Debt service payments will begin March 2020 and end March 2041. It is anticipated the construction project will be completed in 2021.

The Combined Utility System recorded a long term Other Interfund receivable of $22,033 as well as a current Other Interfund payable of $1,002 and a long term Other Interfund payable of $21,031 to reflect the obligations of this contract.

D. Schedule for Debt Service Requirements to Maturity:

The following debt service schedules have been adjusted to include refundings that occurred subsequent to June 30, 2019.

1. General Long-Term Tax Obligation Debt:

	Public Improvement Bonds		Pension Obligation Bonds	
Year Ending June 30	Principal	Interest	Principal	Interest
2020	211,845	95,546	12,073	65,935
2021	209,830	85,370	22,279	65,333
2022	197,290	75,158	24,656	64,123
2023	183,015	65,506	27,155	62,800
2024	170,520	56,681	29,829	61,352
2025-2029	628,505	177,420	203,035	279,946
2030-2034	260,855	56,033	289,076	210,739
2035-2039	110,015	13,875	294,760	140,001
2040-2044	18,985	1,740	305,542	82,084
2045-2049	-	-	226,076	18,313
Total	$ 1,990,860	$ 627,329	$ 1,434,481	$ 1,050,626

Year Ending June 30	General Obligation Commercial Paper		Tax and Revenue Certificates of Obligation	
	Principal	Interest	Principal	Interest
2020	-	5,458	1,195	619
2021	40,000	4,712	1,255	559
2022	125,000	1,468	1,315	496
2023	-	-	1,380	431
2024	-	-	8,390	181
2025-2029	-	-	-	-
2030-2034	-	-	-	-
2035-2039	-	-	-	-
2040-2044	-	-	-	-
2045-2049	-	-	-	-
Total	$ 165,000	$ 11,638	$ 13,535	$ 2,286

Year Ending June 30	Total Future Requirements		
	Principal	Interest	Total Future Requirements
2020	$ 225,113	$ 167,558	$ 392,671
2021	273,364	155,974	429,338
2022	348,261	141,245	489,506
2023	211,550	128,737	340,287
2024	208,739	118,214	326,953
2025-2029	831,540	457,366	1,288,906
2030-2034	549,931	266,772	816,703
2035-2039	404,775	153,876	558,651
2040-2044	324,527	83,824	408,351
2045-2049	226,076	18,313	244,389
Total	$ 3,603,876	$ 1,691,879	$ 5,295,755

2. HUD Section 108 Loans (in thousands):

Year Ending June 30	HUD Section 108 Loans (in thousands)		
	Principal	Interest	Total Future Requirements
2020	183	129	$ 312
2021	189	149	338
2022	195	143	338
2023	201	139	340
2024	208	133	341
2025-2029	1,148	579	1,727
2030-2034	2,938	357	3,295
2035-2039	-	-	-
2040-2044	-	-	-
2045-2049	-	-	-
Total	$ 5,062	$ 1,629	$ 6,691

CITY OF HOUSTON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

3. Enterprise Funds:

Year Ending June 30	Airport System Senior Lien Revenue Bonds Principal	Airport System Senior Lien Revenue Bonds Interest	Airport System Senior Lien Commercial Paper Principal	Airport System Senior Lien Commercial Paper Interest	Airport System Subordinate Lien Revenue Bonds Principal	Airport System Subordinate Lien Revenue Bonds Interest
2020	$ -	$ -	$ -	$ 1,467	$ 80,110	$ 92,557
2021	-	-	-	1,466	89,090	88,330
2022	-	-	48,473	675	94,085	83,743
2023	-	-	-	-	96,375	78,961
2024	-	-	-	-	100,730	73,997
2025-2029	-	-	-	-	588,840	287,834
2030-2034	-	-	-	-	636,615	130,291
2035-2039	-	-	-	-	166,070	42,452
2040-2044	-	-	-	-	66,980	8,533
2045-2049	-	-	-	-	16,555	2,149
Total	$ -	$ -	$ 48,473	$ 3,608	$ 1,935,450	$ 888,847

Year Ending June 30	Airport System Inferior Lien Contract Principal	Airport System Inferior Lien Contract Interest	Airport System Pension Obligations Principal	Airport System Pension Obligations Interest	Airport System Special Facility Bonds- Rental Car Facility Principal	Airport System Special Facility Bonds- Rental Car Facility Interest
2020	$ -	$ -	$ -	$ 107	$ 5,960	$ 5,038
2021	-	-	-	107	6,240	4,877
2022	-	-	-	106	7,505	4,691
2023	-	-	-	106	8,165	4,175
2024	-	-	-	107	8,870	3,613
2025-2029	-	-	293	532	43,645	7,808
2030-2034	-	-	1,334	282	-	-
2035-2039	-	-	379	20	-	-
2040-2044	-	-	-	-	-	-
2045-2049	-	-	-	-	-	-
Total	$ -	$ -	$ 2,006	$ 1,367	$ 80,385	$ 30,202

Year Ending June 30	Airport System Note Southwest Airlines Principal	Airport System Note Southwest Airlines Interest
2020	$ -	$ -
2021	-	-
2022	-	-
2023	-	-
2024	-	-
2025-2029	-	-
2030-2034	-	-
2035-2039	-	-
2040-2044	-	-
2045-2049	-	-
Total	$ -	$ -

Year Ending June 30	Airport System Total Future Requirements Principal	Airport System Total Future Requirements Interest	Airport System Total Future Requirements Total
2020	$ 86,070	$ 99,169	$ 185,239
2021	95,330	94,780	190,110
2022	150,063	89,215	239,278
2023	104,540	83,242	187,782
2024	109,600	77,717	187,317
2025-2029	632,778	296,174	928,952
2030-2034	637,949	130,573	768,522
2035-2039	166,449	42,472	208,921
2040-2044	66,980	8,533	75,513
2045-2049	16,555	2,149	18,704
Total	$ 2,066,314	$ 924,024	$ 2,990,338

Year Ending June 30	Convention and Entertainment Facilities Revenue Bonds Principal	Convention and Entertainment Facilities Revenue Bonds Interest	Convention and Entertainment Pension Obligations Principal	Convention and Entertainment Pension Obligations Interest
2020	$ 56,752	$ 28,345	$ 90	$ 216
2021	24,513	27,424	185	211
2022	23,697	30,901	195	199
2023	26,276	30,896	210	187
2024	58,347	31,055	220	174
2025-2029	130,026	152,701	1,373	640
2030-2034	131,759	150,944	1,196	159
2035-2039	41,820	9,486	-	-
2040-2044	21,575	2,981	-	-
2045-2049	4,330	87	-	-
Total	$ 519,095	$ 464,820	$ 3,469	$ 1,786

Year Ending June 30	Convention and Entertainment Total Future Requirements Principal	Convention and Entertainment Total Future Requirements Interest
2020	$ 56,842	$ 28,561
2021	24,698	27,635
2022	23,892	31,100
2023	26,486	31,083
2024	58,567	31,229
2025-2029	131,399	153,341
2030-2034	132,955	151,103
2035-2039	41,820	9,486
2040-2044	21,575	2,981
2045-2049	4,330	87
Total	$ 522,564	$ 466,606

Year Ending June 30	Combined Utility System Revenue Bonds Principal	Combined Utility System Revenue Bonds Interest	Combined Utility System Swap Agreement Net Swap Payment	Combined Utility System Commercial Paper Principal	Combined Utility System Commercial Paper Interest
2020	$ 199,720	$ 233,376	20,708	$ 185,000	$ -
2021	212,555	225,822	21,395	-	-
2022	227,785	217,489	20,667	-	-
2023	235,830	208,197	20,517	-	-
2024	244,030	198,286	20,534	-	-
2025-2029	1,337,740	823,536	102,315	-	-
2030-2034	1,817,260	539,850	54,291	-	-
2035-2039	1,017,405	241,976	-	-	-
2040-2044	471,920	82,350	-	-	-
2045-2049	206,085	14,272	-	-	-
2050-2054	-	-	-	-	-
Total	$ 5,970,330	$ 2,785,154	$ 260,427	$ 185,000	$ -

Year Ending June 30	Water and Sewer Jr. Lien Revenue Bonds Principal	Water and Sewer Jr. Lien Revenue Bonds Interest	Combined Utility System Pension Obligations Principal	Combined Utility System Pension Obligations Interest
2020	$ 7,390	$ 16,130	$ 1,547	$ 5,049
2021	6,656	15,749	3,126	4,959
2022	4,347	11,133	3,369	4,771
2023	4,604	12,741	3,625	4,569
2024	4,767	14,239	3,901	4,353
2025-2029	29,576	112,289	24,770	17,929
2030-2034	-	-	23,989	9,610
2035-2039	-	-	9,431	5,736
2040-2044	-	-	12,953	3,647
2045-2049	-	-	10,264	831
2050-2054	-	-	-	-
Total	$ 57,340	$ 182,281	$ 96,975	$ 61,454

Year Ending June 30	Combined Utility System Total Future Requirements Principal	Interest	Net Swap Payment	Total Future Requirements
2020	$ 393,657	$ 254,555	$ 20,708	$ 668,920
2021	222,337	246,530	21,395	490,262
2022	235,501	233,393	20,667	489,561
2023	244,059	225,507	20,517	490,083
2024	252,698	216,878	20,534	490,110
2025-2029	1,392,086	953,754	102,315	2,448,155
2030-2034	1,841,249	549,460	54,291	2,445,000
2035-2039	1,026,836	247,712	-	1,274,548
2040-2044	484,873	85,997	-	570,870
2045-2049	216,349	15,103	-	231,452
Total	$ 6,309,645	$ 3,028,889	$ 260,427	$ 9,598,961

4. Long-Term Contracts-Water and Sewer System (in thousands):

Year Ending June 30	Coastal Water Authority Maintenance and Operation Lien Principal	Coastal Water Authority Maintenance and Operation Lien Interest	US Army Corps of Engineers Principal	US Army Corps of Engineers Interest	Texas Water Development Board Principal	Texas Water Development Board Interest	Swift Loans Principal	Swift Loans Interest
2020	$ 3,755	$ 2,626	$ 141	$ 274	$ -	$ 1,497	$ 11,090	$ 11,449
2021	3,960	2,438	146	269	-	1,497	11,215	11,311
2022	4,125	2,251	151	265	-	1,497	11,355	11,160
2023	4,300	2,056	155	260	610	819	11,505	10,996
2024	4,515	1,835	160	255	645	783	11,670	10,818
2025-2029	21,940	5,342	883	1,194	3,830	3,309	61,390	50,906
2030-2034	14,800	2,140	1,035	1,042	5,090	2,054	68,365	43,774
2035-2039	3,315	66	1,213	864	3,825	458	78,280	33,776
2040-2044	-	-	1,421	656	-	-	90,790	21,107
2045-2049	-	-	1,665	412	-	-	86,235	6,156
2048-2052	-	-	1,536	126	-	-	-	-
2053-2057	-	-	-	-	-	-	-	-
Total	$ 60,710	$ 18,754	$ 8,506	$ 5,617	$ 14,000	$ 11,914	$ 441,895	$ 211,453

Year Ending June 30	CWA Luce Bayou Principal	CWA Luce Bayou Interest	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
2020	$ 2,915	$ 1,663	$ 573	$ 669	$ 625	$ 2,356	$ 15,344	$ 17,908
2021	2,975	1,805	596	645	635	3,143	15,567	18,670
2022	3,045	1,935	619	621	640	4,039	15,810	19,517
2023	3,120	1,959	644	596	645	5,331	16,680	19,960
2024	3,200	1,878	670	570	655	6,815	17,000	21,119
2025-2029	17,335	12,820	3,772	2,416	3,410	53,167	90,620	123,813
2030-2034	3,335	9,229	4,588	1,585	3,785	96,406	86,197	154,089
2035-2039	8,220	5,133	5,579	574	47,450	69,678	144,566	110,484
2040-2044	10,305	2,993	-	-	89,110	38,998	191,626	63,753
2045-2049	7,419	533	-	-	105,180	20,644	200,499	27,745
2048-2052	-	-	-	-	46,665	2,843	48,201	2,969
2053-2057	-	-	-	-	-	-	-	-
Total	$ 61,869	$ 39,948	$ 17,041	$ 7,676	$ 298,800	$ 303,420	$ 842,110	$ 580,027

E. Debt Issuances and Refundings

Public Improvement and Refunding Bonds

On September 14, 2018, the City issued $44,065,000 of Public Improvement Bonds, Series 2018A as a Private Placement with the Texas Water Development Board with 0.0% coupons. The proceeds were placed in a project fund for Project Brays and to pay cost of issuance of the Bonds. The Bonds mature in varying amounts from 2020 to 2041.

Combined Utility System Revenue and Refunding Bonds

On August 1, 2018, the City issued $249,075,000 of Combined Utility System First Lien Revenue Refunding Bonds, Series 2018C. The Bonds were issued as LIBOR-indexed floating rate notes at an interest cost of 70% of One Month LIBOR plus 0.36%. The proceeds were used to refund the entire Combined Utility System First Lien Revenue Refunding Bonds, Series 2016C and to pay costs of issuance of the Bonds. The Bonds mature in varying amounts from 2028 to 2034 and have a mandatory tender date of August 1, 2021.

On August 21, 2018, the City issued $529,220,000 in Combined Utility System First Lien Revenue Refunding Bonds, Series 2018D and E (Taxable) with coupons ranging from 2.50% to 5.00%. The proceeds were placed in escrow to provide for future debt service payments on the refunded portions of the Combined Utility System First Lien Revenue Refunding Bonds, Series 2007A, 2007B, 2008B, 2008E, 2009A, 2011A and to refund $220,000,000 of Combined Utility System Commercial Paper Notes and to pay costs of issuance of the Bonds. The true interest cost of the 2018D and E Bonds was 3.66%. The Bonds mature in varying amounts from 2019 to 2048. Net present value savings related to the bonds totaled $27,432,955, or 8.13% of the refunded bonds and reduced debt service by $38,638,866.

On November 16, 2018, the City issued $170,265,000 of Combined Utility System Subordinate Lien Revenue Bonds Series 2018F as a Private Placement with the Texas Water Development Board, with coupons ranging from 1.48% - 3.42%. 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 2019 to 2048.

On April 6, 2019, the City issued $64,685,000 of Combined Utility System First Lien Revenue Bonds Series 2019A as a Private Placement with the Texas Water Development Board, with coupons ranging from 0.05% - 1.35%. 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 2020 to 2048.

Houston Airport System Revenue and Refunding Bonds

On August 2, 2018, the City issued $569,110,000 in Houston Airport System Subordinate Lien Revenue Refunding Bonds Series 2018C (AMT) and D (NON-AMT) with coupons at 5%. The proceeds were placed in Escrow for the purpose of generating resources for debt service payments of the refunded portions of HAS 2009A, 2000P-1 (AMT), 2000P-2 (AMT), 2002C (AMT), 2002D-1 (AMT), 2002D2 (AMT) and to pay costs of issuance of the Bonds. The true interest cost of the 2018 C & D Bonds was 3.34%. The Bonds mature in varying amounts from 2019 to 2039. Net present value savings related to the bonds totaled $90,332,446.13 and reduced debt service by $122,591,945.38.

Prior Year Defeased Debt
In fiscal year 2017, the City defeased $70,570,000 of the Series 2011D Combined Utility System First Lien Revenue Refunding Bonds, by placing new bond proceeds in an escrow to provide for future debt payments on the defeased bonds. Accordingly, the escrowed assets and the liability for the defeased bonds are not included in the government section of the financial statements. At June 30, 2019, $70,750,000 of defeased bonds are still outstanding.

In fiscal year 2018, the City defeased $313,730,000 of the 2007A, 2009A, 2009B, 2010A, 2010B, 2011A and 2012A Public Improvement Refunding Bonds by placing new bond proceeds in an escrow to provide for future debt payments on the defeased bonds. Accordingly, the escrowed assets and the liability for the defeased bonds are not included in the government section of the financial statements. As of June 30, 2019, $159,540,000 of defeased bonds are still outstanding.

In fiscal year 2019, the City defeased $337,525,000 of the Series 2007A, 2007B, 2008B, 2008E, 2009A, 2011A Combined Utility System First Lien Revenue Refunding Bonds, by placing new bond proceeds in an escrow to provide for the future debt service payments on the defeased bonds. Accordingly, the escrowed assets and the liability for the defeased bonds are not included in the government section of the financial statements. As of June 30, 2019, $337,525,000 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%. During fiscal year 2019 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 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. 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. 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. City Council has authorized issuance of $97,966,000 as General Obligation Commercial Paper Series G, H-2 and J.

In addition, the City is authorized by the City Charter to issue $100,000 annually in general improvement bonds without voter approval.

H. Legal Debt Margin

At June 30, 2019, the City's legal debt limit was 10% of assessed property valuation totaling $301,433,658,721. The City's legal debt margin less applicable outstanding debt was $26,254,265,000.

NOTE 9: LEASES

Operating Leases

A. City as Lessee

The City has obtained office space, data processing and other equipment through long-term operating leases. The total cost for such leases was $16,071,200 for the year ended June 30, 2019. The cost is $9,953,035 for the General Fund, $1,843,133 for the Grant Funds, $2,956,944 for the Non-Major Governmental Funds, $972,934 for the Combined Utility System Funds, $310,845 for the Airport System Funds, $0 for the Convention and Entertainment Facilities Funds and $34,309 for the Internal Service Funds.

The future minimum payments under these agreements are as follows (in thousands):

Year ended June 30	Operating Lease Payments
2020	8,192
2021	4,299
2022	3,291
2023	1,954
2024	1,159
2025-2029	6,597
2030-2034	1,865
2035-2039	1,865
2040-2044	1,866
2045-2049	1,866
2050-2054	1,866
2055-2058	1,866
2059-2063	801
2064-2068	801
Total	$ 38,288

B. City as Lessor

The Convention and Entertainment Facilities Department is the lessor of all of their capital assets to Houston First Corporation, a component unit. The agreement is a cancellable operating lease, and the capital assets have a cost of $695,324,435, accumulated depreciation of $310,774,833, and a carrying value of $384,549,602. All the capital assets are used for performance and entertainment purposes.

The Airport System is the lessor of approximately ten percent of its land and substantially all of its buildings and improvements. These lease agreements are non-cancelable operating leases with fixed minimum rentals and non-cancelable operating use and lease agreements with annually adjusted rates. Rental income is earned from leasing various parcels of land with asset costs of $21,609,968 to airlines, fixed base operators and various corporations for hangars, aircraft maintenance facilities, flight kitchens and cargo buildings; to auto rental companies for their service facilities and storage lots; and to a variety of other entities for buildings and other permanent improvements. Airlines and airport concessionaires lease various sections of City owned airport buildings and improvements for ticket counters, passenger hold rooms, baggage carousels, restaurants, retail stores and other facilities. Leased buildings, improvements and equipment have asset costs of $5,532,746,287 and carrying costs of $2,325,049,950. Accumulated depreciation on all these assets is $3,207,696,337.

Minimum guaranteed income on all City non-cancelable operating leases is as follows (in thousands):

Year ended June 30	Operating Leases Minimum Rental Income
2020	$ 73,518
2021	62,037
2022	58,375
2023	57,813
2024	55,345
2025-2029	156,954
2030-2034	61,693
2035-2039	54,188
2040-2044	51,088
2045-2049	43,577
2050-2054	36,467
2055-2058	2,235
Total	$ 713,290

Contingent income associated with the Airport System non-cancelable operating leases was approximately $12,308,101 for the year ended June 30, 2019. Contingent income is earned when a concessionaire's payment, based on a percentage of sales, is higher than the minimum amount guaranteed to the Airport System under the terms of the lease. In addition, income is earned from certain non-cancelable operating use and lease agreements for landing fees and terminal building rentals. Such income is adjusted annually based on a compensatory formula to recover certain operating and capital costs of the related facilities. Compensatory income for the year ended June 30, 2019 was $270,362,986.

NOTE 10: PENSION PLANS

A. General Information

Plan Descriptions

The City has three single employer defined benefit pension plans (Municipal Employees' Pension System, Firefighters' Relief and Retirement Fund, and the Police Officers' Pension System) 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, 6243g-4, respectively), 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, 2019. 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 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.

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 Deferred Retirement Option Plan (DROP) is available to eligible members with 20 or more years of service that were hired prior to July 1, 2017.

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 in excess of 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 for a cost of living adjustment between 0% and 4% for eligible members. A Deferred Retirement Option Plan (DROP) is available, generally, to members hired before October 9, 2004 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:

	Houston Firefighters' Pension	Houston Municipal Employees' Pension	Houston Police Officers' Pension
Retirees and beneficiaries currently receiving benefits	3,312	10,834	4,494
Former members - entitled to but not receiving benefits	89	6,044	43
Active members:			
Vested	777	7,745	1,773
Non-vested	3,198	4,135	3,509
Total participants	7,376	28,758	9,819

On November 10, 2004, the City issued a $300,000,000 collateralized note (The Collateralized Note) to HMEPS as part of the meet and confer agreement with HMEPS to fund part of the unfunded accrued actuarial liability of its pension plan. This note was paid in January 2009 with proceeds from City of Houston, Texas Taxable Pension Obligation Refunding Bonds, Series 2008. (See "Long-Term Liabilities" Note 8-C for further Pension Obligation Bond information).

B. Net Pension Liability

The "Net Pension Liability" (NPL) 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 (COLA's). In addition, ad hoc COLA's 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 net pension liability, net pension liability and certain sensitivity information are based on an actuarial valuation performed as of July 1, 2018. The total pension liability was rolled forward from the valuation date to the measurement date of June 30, 2019 using generally accepted actuarial principles.

Net Pension Liability (in thousands)	Houston Firefighters' Pension	Houston Municipal Employees' Pension	Houston Police Officers' Pension
Measurement Date	June 30, 2019	June 30, 2019	June 30, 2019
Total Pension Liability	$ 4,928,809	$ 5,236,133	$ 6,920,548
Less: Fiduciary Net Position	(4,237,692)	(3,100,999)	(5,674,648)
Net Pension Liability	$ 691,117	$ 2,135,134	$ 1,245,900

A schedule of Net Pension Liability, in addition to the information above, includes multi-year trend information (beginning with FY 2015) and is presented in the Required Supplementary Information section on pages 138 and 139.

C. Schedule of Changes in Net Pension Liability

Changes in the City's net pension liability presented below are calculated on the same basis as each of the plans. The Change in Net Pension Liability for Fire, Municipal, and Police pension plans for the Fiscal Year ended June 30, 2019 are as follows:

Houston Firefighters' Relief and Retirement Fund

Change in Net Pension Liability (in thousands)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Service Cost	$ 55,532	$ -	$ 55,532
Interest on the Total Pension Liability	343,416	-	343,416
Difference between Expected and Actual Experience	34,668	-	34,668
Employer Contributions	-	89,897	(89,897)
Employees Contributions	-	34,281	(34,281)
Pension Plan Net Investment Income	-	221,775	(221,775)
Assumptions Changes	(47,463)	-	(47,463)
Benefit Payments	(272,398)	(272,398)	-
Administrative Expense	-	(4,952)	4,952
Other	-	(1,265)	1,265
Net Change	113,755	67,338	46,417
Net Pension Liability Beginning	4,815,054	4,170,354	644,700
Net Pension Liability Ending	$ 4,928,809	$ 4,237,692	$ 691,117

Houston Municipal Employees' Pension System

Change in Net Pension Liability (in thousands)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Service Cost	$ 77,175	$ -	$ 77,175
Interest on the Total Pension Liability	349,593	-	349,593
Difference between Expected and Actual Experience	(11,538)	-	(11,538)
Employer Contributions	-	176,261	(176,261)
Employees Contributions	-	32,537	(32,537)
Pension Plan Net Investment Income	-	200,445	(200,445)
Benefit Payments	(291,061)	(291,061)	-
Refunds	(1,394)	(1,394)	-
Administrative Expense	-	(5,363)	5,363
Other	-	710	(710)
Net Change	122,775	112,135	10,640
Net Pension Liability Beginning	5,113,358	2,988,864	2,124,494
Net Pension Liability Ending	$ 5,236,133	$ 3,100,999	$ 2,135,134

Houston Police Officers' Pension System

Change in Net Pension Liability (in thousands)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Service Cost	$ 66,750	$ -	$ 66,750
Interest on the Total Pension Liability	462,691	-	462,691
Difference between Expected and Actual Experience	(16,454)	-	(16,454)
Employer Contributions	-	142,429	(142,429)
Employees Contributions	-	46,896	(46,896)
Pension Plan Net Investment Income	-	340,167	(340,167)
Assumptions Changes	-	-	-
Benefit Payments	(335,600)	(335,600)	-
Refunds	(2,278)	(2,278)	-
Administrative Expense	-	(3,580)	3,580
Net Change	175,109	188,034	(12,925)
Net Pension Liability Beginning	6,745,438	5,486,613	1,258,825
Net Pension Liability Ending	$ 6,920,547	$ 5,674,647	$ 1,245,900

D. Pension Expense

For the year ended June 30, 2019, the City recognized total pension expense of $923,777,411. Pension expense recognized by plan is as follows (in thousands):

Amounts Recognized in Pension Expense	Houston Firefighters' Pension	Houston Municipal Employees' Pension	Houston Police Officers' Pension
Changes for the year:			
Service Cost	$ 55,532	$ 77,175	$ 66,750
Interest	343,416	349,593	462,691
Difference between Expected and Actual Experience	(6,789)	149,067	162,689
Differences between Projected and Actual Earnings on plan investments	104,274	24,302	60,261
Member Contributions	(34,281)	(32,536)	(46,896)
Net Investment Income	(297,072)	(206,130)	(378,738)
Administrative Expense	4,952	5,363	3,580
Assumption Changes	56,019	-	-
Other	1,265	(710)	-
Total Pension Expense	$ 227,316	$ 366,124	$ 330,337

E. Schedule of Deferred Outflows and Inflows of Resources

Deferred outflows of resources and deferred inflows of resources by source reported by the City at June 30, 2019 for each plan are as follows (in thousands):

	HFRRF			HMEPS			HPOPS					
	Deferred Outflows of Resources	Deferred Inflows of Resources	Total HFRRF	Deferred Outflows of Resources	Deferred Inflows of Resources	Total HMEPS	Deferred Outflows of Resources	Deferred Inflows of Resources	Total HPOPS	Total Deferred Outflows of Resources	Total Deferred Inflows of Resources	Total Deferred Inflow and Outflow of Resources
Differences between expected actual experience	$ -	$ 7,355	$ (7,355)	$ -	$ 9,278	$ (9,278)	$ 77,660	$ -	$ 77,660	$ 77,660	$ (16,633)	$ 61,027
Changes of assumptions	292,451	-	292,451	148,363	-	148,363	278,853	-	278,853	719,667	-	719,667
Net difference between projected and actual earnings on pension plan investments	45,899	-	45,899	-	39,282	(39,282)	-	109,371	(109,371)	45,899	(148,653)	(102,754)
Total	$ 338,350	$ 7,355	$ 330,995	$ 148,363	$ 48,560	$ 99,803	$ 356,513	$ 109,371	$ 247,142	$ 843,226	$ (165,286)	$ 677,940

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2019 will be recognized in pension expense as follows (in thousands):

	Houston Firefighters' Relief and Retirement	Houston Municipal Employees' Pension	Houston Police Officers' Pension	Pension Total
Year ended June 30:				
2020	$ 98,074	$ 132,484	$ 127,058	$ 357,616
2021	23,501	(23,563)	(17,448)	(17,510)
2022	57,315	(10,256)	122,020	169,079
2023	67,784	1,138	18,470	87,392
2024	60,037	-	(2,699)	57,338
Thereafter	24,285	-	(260)	24,025
Total	$ 330,996	$ 99,803	$ 247,141	$ 677,940

A single discount rate of 7.00% was used to measure the total pension liability 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 (RSVS) which would become effective in the fiscal year beginning one year after the study date. Additionally, the first year of contributions includes an expected $750 million in Pension Obligation Bonds (POB) for the HPOPS and $250 million for the HMEPS. 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, 2018 measurement date, the single discount rate used was 7.00% for each of the plans.

The discount rate used to measure the HFRRF total pension liability 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, 2018 measurement date, the single discount rate of 7.25% was used.

F. Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability for each of the City's plans, calculated using the discount rate, as well as what the City's net pension liability 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):

Sensitivity

	1% Decrease	Current Discount Rate	1% Increase
	6.25%	**7.25%**	**8.25%**
Houston Firefighters' Pension - Net Pension Liability	$ 1,192,934	$ 691,117	$ 279,424
	6.00%	**7.00%**	**8.00%**
Houston Municipal Employees' Pension	$ 2,701,000	$ 2,135,134	$ 1,662,160
	6.00%	**7.00%**	**8.00%**
Houston Police Officers' Pension	$ 2,003,251	$ 1,245,901	$ 627,017

G. Assumptions

Schedule of Assumptions	Houston Firefighters' Pension	Houston Municipal Employees' Pension	Houston Police Officers' Pension
Inflation	3%	2.25%	2.75%
Salary Changes	3%	3.00% to 5.25%	0% to 12%, plus a 2.75% inflation and productivity
Investment Rate of Return	7.25%	7.00%	7.00%
Valuation Date	7/1/2018	7/1/2018	7/1/2019
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	Level Percent of Payroll, 30 year closed laddered bases
Amortization Period	29 Years	29 Years	28 Years
Asset Valuation Method	Market value	5 Year smoothed, 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.
Ad hoc OPEB and Ad hoc COLA	2.5% Annually	3% - 6%	2%
Mortality Assumption	RP-2014 Table Scale MP-2018	RP-2000 Table scaled by 125% for males and 112% for females	RP-2014 Table combined healthy mortality tables with blue collar adjustment for males and no collar adjustment for females.

NOTE 11: OTHER EMPLOYEE BENEFITS

The City of Houston OPEB 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 of the City's employees become eligible for these benefits if they reach normal retirement age while working for the City.

Contributions are recognized in the year paid. The cost of retiree health care premiums and claim liability incurred by the City (employer and subscriber) amounted to $95,170,571 for the year ended June 30, 2019. Retiree health care is accounted for in the Health Benefits Fund, an Internal Service Fund. At June 30, 2019, there were 11,606 retirees including active survivors eligible to receive benefits. Effective August 1, 2011 all Medicare Eligible Retirees must enroll in an insured Medicare Advantage Program Plan.

Actuarially Determined Contribution and Total OPEB Liability

The Annual OPEB cost associated with the City's retiree health care costs for the current year is as follows (in thousands):

Actuarially Determined Contribution before Timing Adjustment	$ 132,172
Expected net benefits payments	1,789
Actuarially Determined Contribution	133,961
Contribution made	57,100
Net OPEB liability, beginning	2,438,572
Change in Net OPEB liability	(184,383)
Net OPEB liability, end of year	$2,254,189

Fiscal Year Ended 30-Jun	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Liability
2018	$ 166,044	23.98%	$2,438,572
2019	$ 103,249	55.30%	$2,254,189

A. Post-Retirement Health Insurance Benefits

1. Membership

As of the most recent actuarial valuation of the net OPEB liability, membership data is as follows:

Retirees and beneficiaries currently receiving	10,053
Active members	21,696
Total participants	31,749

2. Net OPEB Liability

The Net OPEB liability was measured as of June 30, 2018. The Total OPEB Liability was determined from an actuarial valuation as of June 30, 2018. 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.

Net OPEB Liability (in thousands)	
Measurement Date	June 30, 2018
Reporting Date	June 30, 2019
Total OPEB Liability	$ 2,254,189
Less: Fiduciary Net Position	-
Net Pension Liability	$ 2,254,189

A schedule of Net OPEB Liability, in addition to the information above, includes multi-year trend information (beginning with Fiscal year 2018) and is presented in the Required Supplementary Information section on page 141.

3. Schedule of Changes in Net OPEB Liability

Change in Net OPEB Liability (in thousands)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Service Cost	$ 110,793	$ 57,100	$ 53,693
Interest	90,245	-	90,245
Change of benefit terms	(5,007)	-	(5,007)
Difference between Expected and Actual Experience	(99,153)	-	(99,153)
Assumptions Changes	(224,161)	-	(224,161)
Benefit Payments	(57,100)	(57,100)	-
Net Change	(184,383)	-	(184,383)
Beginning Net OPEB Liability	2,438,572	-	2,438,572
Ending Net OPEB Liability	$ 2,254,189	$ -	$ 2,254,189

4. OPEB Expense

For the reporting year ended June 30, 2019, the City recognized OPEB expense of $103,249. OPEB expense recognized is as follows (in thousands):

Amounts Recognized in OPEB Expense (in thousands)	
Components of OPEB Expense:	
Service Cost	$110,793
Interest	90,245
Current-period benefit changes	(5,007)
Difference between Expected and Actual Experience	(14,165)
Recognition Deferred	(46,594)
Expensed Portion of Current Period Changes in Assumptions	(32,023)
OPEB Expense	$103,249

5. Schedule of Deferred Outflows and Inflows of Resources

Deferred outflows of resources and deferred inflows of resources are differences between actual and expected experience that are not reflected in the current year's expenses. Deferred inflows and outflows of resources related to OPEB reported by the City at June 30, 2019 is as follows (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ -	$ (367,430)
Difference between expected and actual earnings in the Total OPEB Liability	-	(142,667)
Total	$ -	$ (510,097)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to Net OPEB Liability at June 30, 2019 will be recognized in OPEB expense as follows (in thousands):

· Ended June 30:	and Inflows of Resources
2019	N/A
2020	(92,782)
2021	(92,782)
2022	(92,782)
2023	(92,782)
2024	(92,782)
2025	(46,187)
Total	($510,097)

6. Sensitivity of the Net OPEB Liability to changes in the discount rate

The following presents the Net OPEB Liability, calculated using the discount rate, as well as what the City's Net OPEB Liability 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):

1% Decrease 2.87%	**Current Discount Rate 3.87%**	**1% Increase 4.87%**
$ 2,627,916	$ 2,254,189	$ 1,954,903

7. Schedule of Assumptions

The total OPEB liability was rolled forward from an actuarial valuation as of July 1, 2017 using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary Increases	2.75% to 22.75%, varies by employee class and service/age
Discount Rate	3.87%
Measurement Date	June 30, 2018
Healthcare costs trends rates	
Medicare	6.00% trending down to 4.5%
Other Medical	7.50% trending down to 4.5%
Prescription drug	9.00% trending down to 4.5%
Administrative costs	2.00%
Healthy Mortality Rates	RP-2000 Combined Healthy Mortality Table for males and females.

B. Health Benefits Internal Service Fund

Effective May 1, 2011, the City elected to be substantially self-insured and on May 1, 2019 once again awarded CIGNA a five year contract with two (2) one-year renewal options for 3 new health plans. All have a heavy 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, 3) a consumer driven high deductible health plan, partnered with a health reimbursement account, and 4) a specific plan for retirees, mostly those under age 65, who live outside the limited network service area but who live in Texas. Effective May 1, 2013, the City will no longer purchase individual and aggregate stop-loss coverage. The City will assume the financial risk of catastrophic and overall claim liability.

Premiums paid (employer and subscriber) for current employees to third party administrators including claim liability totaled $256,964,014 for the year ended June 30, 2019.

	CIGNA Schedule of Changes in Liability (in thousands)	
	June 30, 2019	**June 30, 2018**
Beginning actuarial estimate of		
claims liability reserve, July 1	$ 23,067	$ 19,136
Catastrophic claims reserve, July 1	15,000	13,000
Additional increase to Catastrophic claims reserve, August 2018	-	2,000
Incurred claims for fiscal year	312,477	295,713
Payments on claims - net of RX rebates and refunds	(312,710)	(296,573)
Actuarial adjustment	116	4,791
Ending actuarial estimate of claims liability including catastrophic claims liability, June 30	$ 37,950	$ 38,067

The City also provides 1 times the salary of basic life insurance, with a minimum of $15,000, at no cost to the employee. The employee, at no cost to the City, may then obtain additional life insurance up to four times their annual salary. The current costs for active employees for both basic and voluntary life insurance totaled $6,224,962 for the year ended June 30, 2019.

C. Incurred for Catastrophic claims

In addition to the IBNR, to mitigate claim volatility, the city has funded a catastrophic claim liability of $15 million. This would increase the total liability to $38 million and designated fund balance of $37 million for claim volatility.

D. Long-Term Disability Plan

The long-term disability plan, accounted for as an internal service fund, is a part of the Income Protection Plan implemented effective September 1, 1985 (renamed the Compensable Sick Leave Plan (CSL) in October, 1996) 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 (Previously Hewitt Associates LLC), which is reimbursed from the fund for claims as they are paid along with a fee for administrative services. Effective September 1, 2001 the Meet and Confer Agreement establishes Paid Time Off (PTO) for police classified officers. This replaces their participation in the LTD plan.

	Schedule of Changes in Liability (in thousands)	
	June 30, 2019	**June 30, 2018**
Beginning actuarial estimate of claims liability, July 1	$ 5,990	$ 8,184
Incurred claims for fiscal year	1,510	1,481
Payments on claims	(957)	(976)
Actuarial adjustment	177	(2,699)
Ending actuarial estimate of claims liability, June 30	$ 6,720	$ 5,990

Actuarially Determined Contribution and Total Claim Liability (in thousands)

During fiscal year 2019, there was a decrease of $730 thousand in the amount of disabled life reserves.

Total claim liability at beginning of period	$ 5,990
Changes due to assumption changes	126
Increase attributable to additions	1,337
Decrease attributable to terminations	(324)
Change attributable to passage of time and adjustments	(409)
Net change	730
Total claim liability at end of period	$ 6,720

Fiscal Year Ended 30-Jun	**Annual OPEB Cost**	**Percentage of Annual OPEB Cost Contributed**	**Net OPEB Liability**
2018	$ 1,092	120.24%	$ 11,040
2019	$ 1,329	6.85%	$ 12,902

1. Changes in Net OPEB Liability (in thousands)

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (NPL)
Balance at 06/30/2018	$11,040	$ -	$ 11,040
Changes for the year			
Service Cost	776	-	776
Interest	409	-	409
Experience	1,369	-	1,369
Employer Contributior	-	957	(957)
Benefit Payments	(947)	(947)	-
Assumption Changes	255	-	255
Net Changes	1,862	10	1,852
Balance at 06/30/2019	$12,902	$ 10	$ 12,892

2. OPEB Expense Components (in thousands)

Service Cost	$	776
Interest on TOL		409
Differences between expected and actual exp		134
Changes in Assumptions		10
Total OPEB Expense	$	1,329

For the year ended June 30, 2019, the City will recognize OPEB expense of $1,328,625. At June 30, 2019, the City reports deferred outflows of resources and deferred inflows of resources related to OPEB expense from the following sources:

3. Deferred Outflows of Resources and Deferred Inflows of Resources (in thousands)

3. Deferred Outflows of Resources and Deferred Inflows of Resources (in thousands)

	Deferred Outflows of Resources	
Differences between expected and actual experience	$	1,222
Changes in assumptions		103
	$	1,325

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense (in thousands) as follows:

Year Ended June 30:	
2020	144
2021	144
2022	144
2023	144
2024	144
Thereafter	605
	$ 1,325

4. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate (in thousands)

The following presents the net OPEB liability, calculated using the discount rate of 3.50%, as well as what the net 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 2.50%	Current Discount Rate of 3.50%	1% Decrease 4.50%
City's Net OPEB Liability	$ 13,602	$ 12,892	$ 12,221

E. Deferred Compensation Plan

The City offers its employees a deferred compensation plan (Plan), created in accordance with Internal Revenue Code Section 457 as a separately administered trust. The Plan, available to all City employees, permits employees to defer a portion of their salary until future years. 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. Pursuant to tax law changes, the Plan’s assets are no longer subject to the City’s general creditors and are not included in these financial statements.

F. Workers' Compensation Self-Insurance Plan

The City has established a Workers' Compensation Self-Insurance Plan, accounted for within the various operating funds. The plan is administered by TriStar Insurance Group, Inc. Funds are wire transferred to TriStar as needed to pay claims.

As of June 30, 2019, the City has an accumulated liability in the amount of $99 million covering estimates for approved but unpaid claims and incurred but not reported claims (calculated on an actuarial basis) recorded in the government-wide Statement of Net Position and Enterprise Funds. The amount of liability is based on an actuarial study.

Schedule of Changes in Liability (in thousands)

	June 30, 2019	June 30, 2018
Beginning actuarial estimate of claims liability, July 1	$ 87,502	$ 61,244
Incurred claims for fiscal year	19,984	13,220
Payments on claims	(20,387)	(16,832)
Actuarial adjustment	11,635	29,870
Ending actuarial estimate of claims liability, June 30	$ 98,734	$ 87,502

NOTE 12: INTERFUND TRANSACTIONS

A. Transfers

Transfers during the year ended June 30, 2019 were as follows (in thousands):

	Transferred to:						
Transferred from:	**General Fund**	**Nonmajor Governmental Funds**	**Debt Service**	**Capital Projects**	**Combined Utility System**	**Grants Fund**	**Total Transfers Out**
General Fund	$ -	$ 62,815	$ 363,825	$ 1,642	$ 72	$ 2,009	$ 430,363
Grants Fund	3,109	-	-	43	-		3,152
Nonmajor Funds	21,520	630	13,026	123,223	-	3,109	161,508
Debt Service	-	-			-		-
Capital Projects			91		-		91
Convention and Entertainment	1,449	-	-	-	-	-	1,449
Combined Utility System	50,128	-	7,775	-	-	-	57,903
Total transfers in	$ 76,206	$ 63,445	$ 384,717	$ 124,908	$ 72	$ 5,118	$ 654,466

Transfers are used to (1) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, (3) use unrestricted revenues in the Combined Utility System and non-major revenue fund to finance general fund programs.

B. Interfund Charges

The General Fund charges the Airport System, Combined Utility System, Capital Project, Auto Dealer's and Cable Television Funds for services provided by the General Fund on behalf of these funds. Such charges totaled $84,245,000 for the year ended June 30, 2019, and are recorded as revenue in the General Fund and as expense, expenditure or capital assets in the funds assessed.

Included in the Fiscal Year 2019 total are charges to the funds for direct and indirect expenses as shown below (in thousands):

	Airport System	Combined Utility Sytem	Other Funds	Total
General Services	$ 3,193	$ 10,404	$ 10,260	$ 23,857
Fire Services	21,545	-	-	21,545
Police Services	31,955	-	-	31,955
Legal	-	666	75	741
Other	260	4,660	1,227	6,147
Total	$ 56,953	$ 15,730	$ 11,562	$ 84,245

C. 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, 2019 is as follows (in thousands):

Receivable Fund	Payable Fund	Amount
General Fund	Grants Revenue	$ 15,624
	Combined Utility System	9,384
	Nonmajor Governmental Funds	5,035
	Capital Projects Fund	7,827
	Airport System	247
	Internal Service Fund	6,096
		$ 44,213
Grants Revenue	General Fund	$ 3,942
	Capital Projects Fund	5,336
	Nonmajor Governmental Funds	19
	Combined Utility System	396
	Internal Service Fund	147
		$ 9,840
Capital Projects Fund	Grants Revenue	$ 3,005
	General Fund	15
	Nonmajor Governmental Funds	10,583
	Internal Service Fund	14
	Combined Utility System	141
		$ 13,758
Airport System	General Fund	$ 485
	Nonmajor Governmental Funds	1
		$ 486
Internal Service Fund	General Fund	$ 629
		$ 629
Combined Utility System	Nonmajor Governmental Funds	$ 4,047
	General Fund	1,304
	Grants Revenue	116
		$ 5,467
Nonmajor Governmental Funds	Nonmajor Governmental Funds	$ 65
	General Fund	15,213
	Grants Revenue	648
	Combined Utility System	317
	Capital Projects Fund	88
		$ 16,331
Debt Service Fund	General Fund	$ 550
		$ 550

NOTE 13: COMMITMENTS AND CONTINGENCIES

A. Litigation and Claims

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits and claims alleging that the City caused personal injuries and 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. Alleged damages in the lawsuits are approximately $34.3 million. 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. In the Statement of Net Position, the City has recognized a liability of $16.2 million for potential litigation losses arising from various lawsuits.

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 in the preceding fiscal year, plus 4.5 percent, or the revenues received 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 City Defendants (Mayor Turner and the City of Houston) filed a plea to the jurisdiction, which was denied by the district court. The City Defendants appealed the denial. On August 17, 2017, the appeals court affirmed the trial court's denial of the plea. The City Defendants filed a petition for review with the Texas Supreme Court, which was denied, and the case has been remanded to the trial court. The City Defendant's Supplemental Plea to the Jurisdiction/Motion for Summary Judgment and Motion for Reconsideration was heard on May 24, 2019; however, the judge allowed plaintiffs to file a counter-motion for summary judgment. 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 plaintiff has challenged the trial courts disposition.

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.

In 2013, the City commenced formal negotiations with the Environmental Protection Agency ("EPA") and the 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 ("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 ("State") has also been a party to 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 negotiated in the consent decree negotiations with the United States and 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 believes precludes 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' 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 the City seeks to dismiss as being barred under law by the first-filed case. That litigation was also stayed to allow settlement negotiations to proceed between the United States, the State and the City.

Following filing of the lawsuit on September 20, 2018, the United States, State and City continued settlement negotiations, which have now concluded 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 EPA, 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. After consideration of any comments received, the United States and State may request the court to enter the Consent Decree, which will become effective on entry. It is possible that the Consent Decree could be challenged prior to its entry by the court or by appeal after the Consent Decree is entered. The City has posted a copy of the Consent Decree on its website at https://www.publicworks.houstontx.gov/.

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, 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. The System is currently performing a water/wastewater rate study that will take into account this additional investment in wastewater infrastructure in evaluating impacts on future wastewater rates. However, initial estimates do not indicate a substantial rate increase and rates are expected to remain well below EPA's affordability guidelines. 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. In addition, resolution of the issues related to the addressment of the City's Wastewater Treatment and Collection System could entail expenditures or payment of costs by the City that could be substantial. These costs could be immediate or could extend over a longer period of time.

For Fiscal Year 2020, 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.

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.

Pay-As-You-Go Fund Litigation. In December 2010, citizens filed an election contest in State district court seeking to have the voters' approval of the Pay-As-You-Go Fund charter amendment declared void. The citizen-initiated proposed charter amendment was put back on the ballot with revised language in November 2018, and was approved by the voters, resolving the dispute.

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.

Three railroad companies had intervened in the lawsuit to challenge the Drainage Utility Fee but, on the City's motion, the court struck the railroad companies' intervention. The railroad companies then filed their own lawsuit challenging the validity of various aspects of the assessment of the Drainage Utility Fee, alleging both ultra vires and constitutional claims, and asking for injunctive relief and attorneys' fees. The City filed a plea to the jurisdiction on all of the railroads' ultra vires claims, which was granted by the district court but denied on appeal by the Texas Supreme Court. The railroad companies' ultra vires claims, declaratory judgment claims, and constitutional challenges are currently pending in the district court.

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 appealed and the dismissal of the case was affirmed on appeal. The plaintiff has filed a motion for rehearing in the appellate court.

B. Environmental Liabilities

The City is aware of various sites contaminated by asbestos or other hazardous materials. The City has recorded accrued liabilities of $12.5 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, 2019, the City had appropriated but not yet spent from Capital Projects and Enterprise Funds approximately $1,772,501,000 for capital projects.

The City leased a tract of land to the Houston Music Hall Foundation for 30 years with a 30-year renewal option. On this site, the Houston Music Hall Foundation constructed the facility named the Hobby Center for the Performing Arts, which was donated to the City.

Upon commencement of the lease, the City is obligated to pay from parking revenues $1.1 million per year for 30 years. The City's annual obligation is secured by a pledge of the parking revenues from the Theater District and Tranquility Park Parking Garages equal to $1.2 million per year for 30 years. This lease and the corresponding obligation has been assigned to Houston First Corporation.

D. Risk Management

The City purchases fidelity coverage to comply with City ordinance, boiler and machinery insurance with a per occurrence loss limit of $100 million and commercial property insurance with a per occurrence loss limit of $175 million. The commercial property insurance sublimit for flood is $175 million. Property insurance provides deductibles as follows: $500,000 per occurrence for all perils except; 3% of the damaged insured value for windstorm or hail from a named storm, subject to a $2.5 million minimum and a $15 million maximum deductible; and 3% of the damaged insured value for flood, subject to a $2.5 million minimum and a $15 million maximum deductible. Should a named storm event occur that involves both perils of windstorm and flood, the maximum deductible is $15 million.

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 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.

For unemployment claims, the City pays claims as they are settled. Unemployment claim activity is as follows:

	Unemployment Claim Activity	
	June 30, 2019	June 30, 2018
Unpaid claims, beginning of fiscal year	$159,929	$153,019
Incurred claims (including IBNRs)	898,403	654,107
Claim payments	(626,948)	(647,197)
Unpaid claims, end of fiscal year	$431,384	$159,929

E. Purchase Commitments for Electricity

At June 30, 2019, the City had entered into agreements to lock rates for part of the natural gas component of its expected electricity use from July 1, 2019 through June 30, 2019. The total committed price is approximately $93 million for expected usage. The City may pay a different amount if actual electricity usage varies. This amount will be appropriated in future annual budgets.

F. Purchase Commitment - Luce Bayou Inter-Basin Transfer Project

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 Texas Water Development Board (TWDB) financing program. The 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, 2019 represents $28,754,000 of State Participation Loan (maturing in 2047), $28,000,000 of Series 2009 WIF Loan (maturing in 2029) and $5,115,000 of Series 2010 WIF Loan (maturing in 2030) for a total of $61,869,000. The annual debt service payments for the State Participation Loan started in FY 2015, Series 2009 started in FY 2019 and Series 2010 WIF Loan is deferred to 2020. In FY 2017, two new State Water Implementation Revenue Fund for Texas (SWIRFT) bonds were issued in relation to Luce Bayou, in November 2015 and December 2016 for $66,565,000 and $136,460,000, respectively. The annual debt service payments for these bonds started in FY 2019 and their maturity is in 2050 and 2051, respectively. Additionally, in FY 2018, two new State Water Implementation Revenue Fund for Texas (SWIRFT) bonds were issued in relation to Luce Bayou in November 2017 for $24,180,000 and $72,795,000, respectively. The annual debt service payments began in FY 2018 for the $24.18 million issuance, while the first debt service payment on the $72.80 million issuance is expected in June 2020. The bonds will mature in 2047 and 2052, respectively.

G. Federal and State

Amount 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.

H. Hurricane Harvey Disaster

The City experienced a substantial natural disaster in August 2017 resulting from Hurricane Harvey, when up to 50 inches of rain caused flooding in portions of the City. All financial activity related to Hurricane Harvey is recorded in the Disaster Recovery Fund. The fund is used to account for disaster related expenditures, insurance proceeds, and Federal Emergency Management Agency (FEMA) grant distributions for presidentially declared disasters impacting Houston. The City continues to evaluate the storm's effects and submit reimbursement requests to FEMA.

Several of the City's capital fixed assets incurred loss of service utility during the storm. Repairs to capital assets are underway. Assessments regarding structures, mitigation efforts and improvements are ongoing by City and FEMA engineers. The estimated costs will be determined in due course and will be reported upon FEMA project approval.

Advances received for Category B as of June 30, 2019 have been recognized as revenue. Advances received for Category A have been recognized as revenue to the extent of FEMA obligations. As the FEMA projects are obligated in subsequent years, the advances and additional inflows will be recognized as revenue as eligible expenditures are incurred.

NOTE 14: RELATED ORGANIZATION TRANSACTIONS

A. Metropolitan Transit Authority (Metro)

The City and Metro have an inter-local agreement covering shared costs of street maintenance/construction and traffic control during the fiscal year ended June 30, 2019. The City received $100.798 million from Metro under this contract in the fiscal year ended June 30, 2019. The breakout was $45.718 million to Capital Projects and $55.080 million to Special Revenues. No payments were for the prior contract year. The City did not make any payments to Metro for transportation services during fiscal year 2019.

B. Trinity River Authority (TRA)

As described in Note 8C, 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 fiscal year ended June 30, 2008, all outstanding long-term debt had been paid off. During the fiscal year ended June 30, 2019 the City paid $3.8 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, 2019 is $74.1 million. The current portion of this receivable is $3.5 million with the remaining $70.6 million reflected as non-current.

C. Coastal Water Authority (CWA)

The City has a long-term contract with Coastal Water Authority (CWA) for water conveyance. During the fiscal year ended June 2019, the City paid CWA $6.4 million for debt services and $21.0 million for maintenance and operating expenses.

D. Component Units

The City has a number of component units, most of which have fiscal years ended June 30, 2019. Eight discretely presented component units: Greater Houston Convention and Visitors Bureau, Houston Arts Alliance, Houston First Corporation, Houston Housing Finance Corporation, Houston Museum District Association, Houston Zoo, Inc., Miller Theatre Advisory Board, Inc., and Theater District Improvement, Inc. have fiscal years ended December 31, 2018. Subsequent to December 31, 2018, the City received interest payments of $6,925 thousand from Houston First Corporation.

NOTE 15: CONDUIT DEBT OBLIGATIONS

The City has authorized various issues of Special Facilities Bonds to enable United Airlines, Inc. (successor to Continental Airlines, Inc.) a private company, to construct facilities at Intercontinental that were deemed to be in the public interest (Special Facilities). 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 Airlines. Collected pledged revenues are remitted directly to a trustee by United Airlines. Under the terms of the related lease agreements, United Airlines operates, maintains, and insures the terminal, 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 private companies through long-term leases, and the Airport System Fund will enjoy no direct financial benefit from these facilities for the term of the lease agreements. Accordingly, the Airport System Fund accounts for the United Airlines' 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.

Conduit debt outstanding at June 30, 2019 (in thousands):

		June 30, 2019
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		308,660
Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2015B-1 (AMT), $176,650,000 original principal, matures in 2035		176,650
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2015B-2 (AMT), $47,390,000 original principal, matures in 2020		47,390
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2015C (AMT), $65,785,000 original principal, matures in 2020		65,785
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
Total conduit debt outstanding	$	848,865

On February 20, 2018, the City issued $90,650,000 in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Technical Operations Center Project), Series 2018 (AMT) on behalf of United Airlines, to finance the construction of a technical operations center and related facilities at the George Bush Intercontinental Airport. 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 $46,425,000 in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2018C (AMT) on behalf of United Airlines, to finance the improvement, renovation, expansion and repair of certain special facilities at George Bush Intercontinental Airport, 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 $176,650,000 in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2015B-1 (AMT) on behalf of United Airlines, 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.

The Airport System Special Facilities Revenue Bonds, (Continental Airlines, Inc., Terminal Improvement Projects) Series 1997B and 1998B financed various leasehold improvements for United Airlines in Terminals B, C and D. On March 16, 2015, the City issued $47,390,000 in Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2015B-2 (AMT) on behalf of United Airlines, with a 5.00% coupon rate, to mature on July 15, 2020. Proceeds of the bonds were used to refund the outstanding Airport System Special Facilities Revenue Bonds, Series 1997B and 1998B and to pay costs of issuance. Net present value savings for United Airlines related to the refunded bonds totaled $12,049,244 or 18.36% of the refunded bonds and reduced total debt service by $45,281,400.

The Airport System Special Facilities Revenue Bonds, (Continental Airlines, Inc., Airport Improvement Projects) Series 1997C and 1998C, financed the construction of an aircraft hangar, maintenance and parts storage facility, mail sort facility, flight simulator, and inflight training facility. On March 26, 2015, the City issued $65,785,000 in Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2015C, on behalf of United Airlines, with a coupon rate of 5.00%, to mature on July 15, 2020. Proceeds of the bonds were used to refund the outstanding Airport System Special Facilities Revenue Bonds, Series 1997C and 1998C, and to pay costs of issuance. Net present value savings for United Airlines related to the refunded bonds totaled $14,553,627 or 20.95% of the refunded bonds and reduced total debt service by $40,135,502.

The Airport System Special Facilities Revenue Bonds, (Continental Airlines, Inc. Terminal E Project), Series 2001, financed the construction of international Terminal E and related airport facilities for the exclusive use of United Airlines (Terminal E Special Facilities). On May 8, 2014, the City issued $308,660,000 in Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal E Project) Series 2014 on behalf of United Airlines, 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. Net present value savings for United Airlines related to the refunded bonds totaled $40,519,909 or 13.31% of the refunded bonds and reduced total debt service by $58,675,823.

The Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Terminal Improvement Projects), Series 2011 (AMT) financed the replacement of two flight stations at Terminal B with a new South Concourse building to serve United Airlines' regional jet operations (Terminal B Special Facilities). The Terminal B Special Facilities went into service in March, 2014.

NOTE 16: PRIOR PERIOD ADJUSTMENT

The net position in the Combined Utility enterprise fund and primary government business-type activities as of the beginning of the fiscal year been adjusted to increase the due from other governments for a contractual arrangement with Trinity River Authority which was not reflected in the financial statements of the City. (See note 14B)

The correction resulted in an increase to net position of $79.4 million dollars.

	Combined Utility System	
July 1,2018 as previously reported	$	(22,657)
Prior period adjustment		79,429
July 1,2018 as restated	$	56,772

NOTE 17: SUBSEQUENT EVENTS

A. Tax and Revenue Anticipation Notes

On July 26, 2019, the City closed the sale of $200,000,000 Tax and Revenue Anticipation Notes (TRANS), Series 2019. The proceeds of the TRANS will be used to pay working capital expenditures until tax revenues are received in early 2020. The stated interest rate was 3.26%. The notes will mature on June 26, 2020.

B. Public Improvement Refunding Series 2019A and 2019B (Taxable)

On September 10, 2019, the City issued $470,010,000 in Public Improvement Refunding Bonds Series 2019A and Series 2019B (Taxable) with coupons ranging from 1.785% to 5.00%. The proceeds were placed in Escrow for the purpose of generating resources for future debt service payments of the refunded portions of the PIB 2009A, 2009B, 2010B, 2011A, 2012A, 2013A bonds; to refund $150,000,000 of General Obligation Commercial Paper Notes; and to pay costs of issuance of the Bonds. The true interest cost of the 2018 A&B Bonds is 2.17%. The Bonds mature in varying amounts from 2021 to 2048. Net present value savings related to the bonds totaled $36,951,167 and reduced debt service by $38,295,653.

C. Combined Utility System First Lien Revenue Refunding Bonds Series 2019B and 2019C (Taxable)

On September 17, 2019, the City issued $690,845,000 in Combined Utility First Lien Revenue Refunding Bonds, Series 2019B and 2019C (Taxable), with coupons at 1.66% to 5.00%. The proceeds were placed in escrow to provide for future debt service payments on the refunded portions of the Combined Utility System First Lien Revenue Refunding Bonds, Series 2011D, 2011F, 2012D, 2012F; to refund $185,000,000 of Combined Utility System Commercial Paper Notes; and to pay costs of issuance of the Bonds. The true interest cost of the 2019B Bonds is 3.01% and 2019C Bonds is 2.66%. The Bonds mature in varying amounts from 2020 to 2049. Net present value savings related to the bonds totaled $94,963,546 or 19.05% of the refunded bonds. Total debt service was reduced by $126,733,755.

D. Airport System Inferior Lien Forward Delivery Bond Purchase Agreement

On September 11, 2019, the City Council extended through October 3, 2020 its authorization of $450 million in Inferior Lien Airport System Revenue Bonds, while confirming the forward delivery purchase agreement with the Royal Bank of Canada.

E. Debt

The Houston Airport System (HAS) executed two low-cost 2.0% reimbursement loan agreements with the Texas State Energy Conservation Office (SECO) in May 2019 to finance environmentally friendly projects that will conserve energy consumption at the IAH and HOU airports. HAS submitted on November 1st, 2019 its first two reimbursement requests totaling $324 thousand to SECO, and on November 14th requested another $300 thousand in reimbursements for both commercial airports. As of the cutoff for CAFR publishing, none of the costs have been approved (or disapproved) and reimbursed by SECO. The repayment of the two loans will commence individually shortly after completion of the maximum-length 18-month projects, and after the last reimbursement requests are processed by SECO. Repayment will occur over approximately ten years. The two loans are capped at $7,991,463.00 and $7,531,679.00.

F. Terminal Construction at IAH

HAS anticipates extending a payment to United Airlines in December 2019 for $36.5 million related to the early termination of United's leasehold for the original north concourse at Terminal C, now referred to as "Old C North," so that Old C North can be demolished and the site used for a new international pier that will connect to the existing Mickey Leland International Terminal, also referred to as Terminal D. This deferred outflow will be recovered, plus interest, over an 8-year period from the airlines using this terminal.

Required Supplementary Information - (unaudited)

CITY OF HOUSTON, TEXAS
GENERAL OPERATING FUND
Schedule of Budgeted and Actual Revenues and Expenditures
For the Year Ended June 30, 2019
amounts expressed in thousands
(unaudited)

	Budgeted Amounts		Actual Budget	Variance with Final Budget-
	Original	Final	Basis	Pos (Neg)
Revenues				
Taxes and assessments				
Property Taxes	$ 1,200,813	$ 1,200,813	$ 1,190,243	$ (10,570)
Industrial Assessments	19,463	19,463	19,755	292
Sales Tax	657,700	657,700	692,271	34,571
Franchise Tax	176,845	176,845	182,417	5,572
Mixed Beverage Tax	17,703	17,703	18,026	323
Bingo Tax	308	308	222	(86)
Total taxes and assessments	2,072,832	2,072,832	2,102,934	30,102
Licenses and permits				
General	26,057	26,057	27,830	1,773
Health Permits	6,802	6,802	7,471	669
Total licenses and permits	32,859	32,859	35,301	2,442
Charges for services				
Ambulance service	40,338	40,338	45,904	5,566
Library fees	10	10	11	1
Parking	215	215	298	83
Services performed for other funds				
Direct	58,505	58,505	62,214	3,709
Indirect	29,246	29,246	26,603	(2,643)
Rents and royalties	1,559	1,559	1,429	(130)
Others	12,758	12,758	13,420	662
Total charges for services	142,631	142,631	149,879	7,248
Intergovernmental - grants	66,152	66,152	60,205	(5,947)
Fines and forfeits				
Municipal Courts	21,591	21,591	21,702	111
Others	3,978	3,978	3,933	(45)
Total fines and forfeits	25,569	25,569	25,635	66
Interest	6,011	6,011	15,386	9,375
Other				
Sale of Property	274	274	170	(104)
Other	20,542	20,542	23,673	3,131
Total Other	20,816	20,816	23,843	3,027
Total revenues	2,366,870	2,366,870	2,413,183	46,313
Other financing sources (uses)				
Transfers in	25,804	25,804	20,680	(5,124)
Sale of capital assets	2,123	2,123	26,021	23,898
Total other financing sources (uses)	27,927	27,927	46,701	18,774
Total revenues and other financing sources	$ 2,394,797	$ 2,394,797	$ 2,459,884	$ 65,087

* See Note to Required Supplementary Information *

CITY OF HOUSTON, TEXAS
GENERAL OPERATING FUND
Schedule of Budgeted and Actual Revenues and Expenditures
For the Year Ended June 30, 2019
amounts expressed in thousands
(unaudited)

	Budgeted Amounts		**Actual**	**Variance with Final Budget-**
	Original	**Final**	**Budget Basis**	**Pos (Neg)**
Expenditures				
General government				
Legislative and executive				
Legislative - Council				
Personnel services	7,222	7,615	7,344	271
Other current expenditures	3,107	3,187	1,671	1,516
Equipment acquisition	-	132	131	1
Total legislative - council	10,329	10,934	9,146	1,788
Legislative - Mayor's Office				
Personnel services	4,970	5,106	5,047	59
Other current expenditures	530	555	582	(27)
Total executive - mayor's office	5,500	5,661	5,629	32
Total legislative and executive	15,829	16,595	14,775	1,820
Office of Business Opportunity				
Personnel services	3,144	3,188	2,593	595
Other current expenditures	504	493	350	143
Total office of business opportunity	3,648	3,681	2,943	738
Municipal Courts Administration				
Municipal Courts				
Personnel services	23,290	23,703	22,676	1,027
Other current expenditures	6,572	6,387	5,656	731
Equipment acquisition	-	1	1	-
Total municipal courts	29,862	30,091	28,333	1,758
Elections	-	1,080	1,302	(222)
Finance administration				
Controller				
Personnel services	7,484	7,632	6,994	638
Other current expenditures	1,094	1,079	868	211
Total controller	8,578	8,711	7,862	849
Finance				
Personnel services	13,722	13,996	12,845	1,151
Other current expenditures	5,004	4,974	3,670	1,304
Equipment acquisition	-	-	6	(6)
Total finance	18,726	18,970	16,521	2,449
Administrative and Regulatory Affairs				
Personnel services	15,354	15,836	15,551	285
Other current expenditures	4,248	4,174	3,263	911
Equipment acquisition	13	13	43	(30)
Total administrative and regulatory affairs	19,615	20,023	18,857	1,166
Information Technology				
Personnel services	12,237	12,426	10,885	1,541
Other current expenditures	5,383	5,749	5,193	556
Equipment acquisition	-	6	6	-
Total information technology	17,620	18,181	16,084	2,097
Bond and Legal	2,085	1,585	1,280	305
Total finance administration	66,624	67,470	60,604	6,866

* See Note to Required Supplementary Information *

CITY OF HOUSTON, TEXAS
GENERAL OPERATING FUND
Schedule of Budgeted and Actual Revenues and Expenditures
For the Year Ended June 30, 2019
amounts expressed in thousands
(unaudited)

	Budgeted Amounts		Actual	Variance with Final Budget-
	Original	**Final**	**Budget Basis**	**Pos (Neg)**
Legal				
Personnel services	14,671	14,905	13,511	1,394
Other current expenditures	1,310	1,261	982	279
Equipment acquisition	18	26	-	26
Total legal	15,999	16,192	14,493	1,699
City Secretary				
Personnel services	699	763	734	29
Other current expenditures	230	205	91	114
Total city secretary	929	968	825	143
Planning and Development				
Personnel services	3,180	3,199	2,745	454
Other current expenditures	1,038	1,138	622	516
Total planning and development	4,218	4,337	3,367	970
Human Resources				
Personnel services	2,284	2,334	2,136	198
Other current expenditures	433	409	444	(35)
Equipment acquisition	3	9	10	(1)
Total human resources	2,720	2,752	2,590	162
Total general government	139,829	143,166	129,232	13,934
Public safety				
Police				
Personnel services	811,516	813,401	809,112	4,289
Other current expenditures	59,446	56,410	52,039	4,371
Equipment acquisition	300	965	778	187
Total police	871,262	870,776	861,929	8,847
Fire				
Personnel services	454,783	484,546	472,498	12,048
Other current expenditures	48,617	48,577	49,553	(976)
Equipment acquisition	60	1,257	1,176	81
Total fire	503,460	534,380	523,227	11,153
Total public safety	1,374,722	1,405,156	1,385,156	20,000
Public Works				
Administration				
Personnel services	905	926	684	242
Other current expenditures	26,795	30,469	28,706	1,763
Equipment acquisition	-	-	1	(1)
Total administration	27,700	31,395	29,391	2,004
General Services				
Personnel services	13,173	13,354	11,955	1,399
Other current expenditures	26,743	27,973	26,876	1,097
Equipment acquisition	-	2	4	(2)
Total general services	39,916	41,329	38,835	2,494

* See Note to Required Supplementary Information *

CITY OF HOUSTON, TEXAS
GENERAL OPERATING FUND
Schedule of Budgeted and Actual Revenues and Expenditures
For the Year Ended June 30, 2019
amounts expressed in thousands
(unaudited)

	Budgeted Amounts		Actual	Variance with Final Budget-
	Original	Final	Budget Basis	Pos (Neg)
Solid Waste				
Personnel services	33,931	34,595	33,149	1,446
Other current expenditures	41,413	45,250	49,709	(4,459)
Equipment acquisition	1,000	1,164	944	220
Total solid waste	76,344	81,009	83,802	(2,793)
Total public works	143,960	153,733	152,028	1,705
Department of Neighborhoods				
Personnel services	8,934	8,737	8,113	624
Other current expenditures	2,322	2,637	2,796	(159)
Total department of neighborhoods	11,256	11,374	10,909	465
Health				
Personnel services	37,206	40,044	39,634	410
Other current expenditures	18,807	18,915	18,868	47
Equipment acquisition	28	32	24	8
Total health	56,041	58,991	58,526	465
Housing				
Personnel services	98	99	102	(3)
Other current expenditures	405	420	510	(90)
Total housing	503	519	612	(93)
Parks and Recreation				
Personnel services	43,620	44,389	43,241	1,148
Other current expenditures	31,466	32,077	30,620	1,457
Equipment acquisition	16	28	29	(1)
Total parks and recreation	75,102	76,494	73,890	2,604
Library				
Personnel services	31,529	32,407	30,970	1,437
Other current expenditures	5,387	5,231	5,134	97
Equipment acquisition	3,602	3,691	3,691	-
Total library	40,518	41,329	39,795	1,534
Retiree Benefits				
Hospital and life insurance	28,111	8,445	11,123	(2,678)
Total retiree benefits	28,111	8,445	11,123	(2,678)
Other current expenditures				
Tax appraisal fees	10,830	10,830	9,895	935
Limited-purpose Annexation Districts	57,905	57,905	59,951	(2,046)
Contingency	1,500	1,500	-	1,500
Claims and judgments	14,109	11,529	13,049	(1,520)
Membership dues	845	845	743	102
Advertising and promotion	529	529	379	150
Consultants	2,160	1,660	746	914
Miscellaneous support services	67,251	66,243	65,146	1,097
Total other current expenditures	155,129	151,041	149,909	1,132
Debt service				
Debt service interest	4,064	3,941	3,818	123
Total debt service	4,064	3,941	3,818	123
Total expenditures	2,029,235	2,054,189	2,014,998	39,191
Other financing sources (uses)				
Transfers out	450,179	447,228	447,212	16
Total other financing sources (uses)	450,179	447,228	447,212	16
Total expenditures and other financing uses	$ 2,479,414	$ 2,501,417	$ 2,462,210	$ 39,207

* See Note to Required Supplementary Information *

CITY OF HOUSTON, TEXAS
REQUIRED RECONCILIATION FOR GENERAL FUND
BUDGET vs. GAAP PRESENTATION

For the Year Ended June 30, 2019
amounts expressed in thousands
(*unaudited*)

Revenues		
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules	$	2,413,182
Revenues of non-budgeted funds		
Equipment Acquisition		1,045
Revolving Funds		1,924
Building Security		562
Grant Matching Fund		218
Storm Water		16
Bureau of Animal Regulation and Care		1,856
Forensic Transition		1,424
Civic Events		17,222
Renewal and Replacement		71
Health and Environmental		17
Total revenues of non-budgeted funds		24,355
Interest on pooled investments from non-budgeted revenues		1,186
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances	$	2,438,723
Expenditures		
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedules	$	2,015,087
Expenditures of non-budgeted funds		
Equipment Acquisition		32,679
Revolving Funds		1,924
Building Security		589
Grant Matching Fund		329
Storm Water		41,571
Bureau of Animal Regulation and Care		11,055
Fleet maintenance		1,640
Forensic Transition		1,402
Civic Events		19,384
Renewal and Replacement		20,047
Health and Environmental		
Total expenditures of non-budgeted funds		130,620
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances	$	2,145,707
Other financing sources (uses)		
Actual amounts (budgetary basis) "other financing sources and uses" from the budgetary comparison schedules	$	(400,531)
Proceeds from Issuance of Debt		28,500
Sale of Assets		742
Transfers of Non Budgeted Funds		72,395
Total other financing sources and uses as reported on the statement of revenues, expenditures, and changes in fund balances-government funds	$	(298,894)

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 24, 2019, City Council approved the fiscal year 2019 general appropriation ordinance in the amount of $2.501 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 2018 results for both budgeted and non-budgeted Special Revenue Funds (in thousands):

	Revenues	Expenditures	Other Sources (Uses)
Budgeted Special Revenue Funds	$ 391,552	$ 282,485	$ (99,019)
Non-budgeted Disaster Recovery Fund	903	-	-
Non-budgeted Grants Revenue Fund	179,592	320,211	93,772
Non-budgeted Health and Housing	71	62	-
Non-budgeted Other Funds	21,407	14,973	(496)
Total Special Revenue Funds - Actual	$ 593,525	$ 617,731	$ (5,743)

2. General Fund Budgetary Highlights

Revenues were $65 million above budget. This increase was mainly evident in taxes and assessments of $30 million. In addition, increase in licenses and permits ($2.4 million), charges for services ($7.2 million), interest ($9.4 million), other income ($3 million) and other financing sources of $18.8 million, were offset by decrease in intergovernmental – grants ($6 million).

Significant differences between budgeted and actual taxes and assessments include:

- $34.6 million increase in sales tax
- $5.6 million increase in franchise tax
- $.5 million increase in industrial assessments and mixed beverage
- $10.6 million decrease in property taxes

CITY OF HOUSTON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2019
(*unaudited*)

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
Last 5 Fiscal Years
(in thousands)

	Fire				
	2019	2018	2017	2016	2015
Total Pension Liability					
Service Cost	$55,532	$52,579	$80,002	$76,407	$68,145
Interest	343,416	332,357	389,938	369,708	353,405
Changes of benefit terms	-	-	(645,971)	-	-
Differences between expected and actual experience	34,668	62,117	(65,194)	(63,047)	(28,536)
Changes of assumptions	(47,463)	(16,572)	534,646	2,918	2,801
Benefit payments including refunds of employee contributions	(272,398)	(289,108)	(249,394)	(211,673)	(196,362)
Refunds	-	-	-	-	-
Net change in total pension liability	113,755	141,373	44,027	174,313	199,453
Total pension liability - beginning	4,815,054	4,673,681	4,629,654	4,455,341	4,255,888
Total pension liability - ending (a)	4,928,809	4,815,054	4,673,681	4,629,654	4,455,341
Plan fiduciary net position					
Contributions-employer	89,897	83,010	93,658	94,279	92,610
Contributions-employee	34,281	35,622	25,404	25,511	25,092
Net investment income	221,775	322,306	432,948	(47,437)	51,801
Benefit payments, including refunds of employee contributions	(272,398)	(289,108)	(249,394)	(211,673)	(196,362)
Administrative expense	(4,952)	(4,890)	(4,898)	(6,771)	(6,640)
Refunds	-	-	-	-	-
Other	(1,265)	(1,676)	(2,298)	(1,890)	(1,676)
Net change in plan fiduciary net position	67,338	145,264	295,420	(147,981)	(35,175)
Plan fiduciary net position-beginning	4,170,354	4,025,090	3,729,670	3,877,651	3,912,826
Plan fiduciary net position-ending (b)	4,237,692	4,170,354	4,025,090	3,729,670	3,877,651
City's net pension liability-ending (a)-(b)	$691,117	$644,700	$648,591	$899,984	$577,690
Plan fiduciary net position as percentage of the total pension liability	85.98%	86.61%	86.12%	80.56%	87.03%
Covered payroll	$272,498	$260,345	$279,836	$281,865	$274,999
Net position liability as a percentage of covered payroll	253.62%	247.63%	231.78%	319.30%	210.07%

The schedule is intended to show information for ten years. The additional years' information will be displayed as it becomes available.

(1) The 2015 amounts are based on 8.0% per City actuary.

CITY OF HOUSTON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2019
(*unaudited*)

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
Last 5 Fiscal Years
(in thousands)

Municipal					Police				
2019	2018	2017	2016	2015 (1)	2019	2018	2017	2016	2015
$77,175	$78,149	$75,961	$68,968	$65,810	$66,750	$63,633	$60,930	$66,098	$56,062
349,592	341,276	331,166	379,781	361,007	462,691	445,113	433,598	488,223	473,065
-	-	(724,683)	-	-	-	-	(1,006,000)		
(11,538)	19,158	(38,387)	(16,194)	(23,380)	(16,454)	69,534	80,023	10,390	26,705
-	-	562,237	91,248	-	-	21,399	778,710	(676,151)	664,974
(291,060)	(283,928)	(280,456)	(253,178)	(234,955)	(335,600)	(361,033)	(458,733)	(259,076)	(225,656)
(1,394)	(807)	(718)	(1,105)	(1,549)	(2,278)	(1,329)	(1,696)	(978)	(945)
122,775	153,848	(74,880)	269,520	166,933	175,109	237,317	(113,168)	(371,494)	994,205
5,113,358	4,959,510	5,034,390	4,764,870	4,597,937	6,745,438	6,508,121	6,621,289	6,992,783	5,998,578
5,236,133	5,113,358	4,959,510	5,034,390	4,764,870	6,920,547	6,745,438	6,508,121	6,621,289	6,992,783
176,261	421,562	182,558	159,958	145,007	142,429	887,143	133,805	137,392	113,665
32,536	27,905	15,902	15,874	16,198	46,896	45,254	40,104	39,017	37,719
200,445	231,815	290,911	27,639	73,370	340,167	463,079	667,476	(135,833)	35,339
(291,060)	(283,928)	(280,456)	(253,178)	(234,955)	(335,600)	(361,033)	(458,733)	(259,076)	(225,656)
(1,394)	(807)	(718)	(1,105)	(1,549)	(2,278)	(1,329)	(1,696)	(978)	(945)
(5,363)	(6,442)	(6,827)	(7,360)	(7,007)	(3,580)	(3,679)	(4,238)	(4,585)	(3,478)
710	(3,905)	1,272	1,651	1,041	-	-	-	-	-
112,135	386,200	202,642	(56,521)	(7,895)	188,034	1,029,435	376,718	(224,063)	(43,356)
2,988,865	2,602,665	2,400,023	2,456,544	2,464,439	5,486,611	4,457,176	4,080,458	4,304,521	4,347,877
3,101,000	2,988,865	2,602,665	2,400,023	2,456,544	5,674,645	5,486,611	4,457,176	4,080,458	4,304,521
$2,135,133	$2,124,493	$2,356,845	$2,634,367	$2,308,326	$1,245,902	$1,258,827	$2,050,945	$2,540,831	$2,688,262
59.22%	58.45%	52.48%	47.67%	51.56%	82.00%	81.34%	68.49%	61.63%	61.56%
$614,451	$611,493	$607,975	$593,285	$580,395	$444,871	$412,786	$439,626	$426,795	$414,465
347.49%	347.43%	387.65%	444.03%	397.72%	280.06%	304.96%	466.52%	595.33%	648.61%

CITY OF HOUSTON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2019
(*unaudited*)

Schedule of City Contributions for Pension Plans
for the Fiscal Years ended June 30, (in thousands)

	2019	2018	2017	2016	2015
Fire (1)					
Actuarially determined contribution	$ 99,676	$ 96,530	$ 88,745	$ 87,464	N/A
Contributions in relation to the actuarially determined contribution	89,897	83,010	93,658	94,279	92,610
Contribution deficiency (excess)	$ 9,779	$ 13,520	$ (4,913)	$ (6,815)	
Covered payroll	$ 272,498	$ 260,345	$ 279,836	$ 281,865	$ 274,999
Contributions as a percentage of covered payroll	33.0%	31.9%	33.5%	33.4%	33.7%
Municipal					
Actuarially determined contribution	$ 178,256	$ 423,989	$ 184,733	$ 162,230	$ 155,299
Contributions in relation to the actuarially determined contribution	176,261	421,562	182,558	159,959	145,007
Contribution deficiency (excess)	$ 1,995	$ 2,427	$ 2,175	$ 2,271	$ 10,292
Covered payroll	$ 614,451	$ 611,493	$ 607,975	$ 593,285	$ 580,395
Contributions as a percentage of covered payroll	28.7%	68.9%	30.0%	27.0%	25.0%
Police					
Actuarially determined contribution	$ 141,202	$ 131,142	$ 167,980	$ 161,154	$ 150,949
Contributions in relation to the actuarially determined contribution	142,429	887,143	133,805	137,392	113,665
Contribution deficiency (excess)	$ (1,227)	$ (756,001)	$ 34,175	$ 23,762	$ 37,284
Covered payroll	$ 444,871	$ 412,786	$ 439,626	$ 426,795	$ 414,465
Contributions as a percentage of covered payroll	32.0%	214.9%	30.4%	32.2%	27.4%

A funding valuation for Fire Pension was not performed as of July 1, 2014; therefore, no actuarially determined contribution was calculated for the period July 1, 2014 to June 30, 2015.

The schedule is intended to show information for ten years. The additional years' information will be displayed as it becomes available.

Schedule of OPEB Contributions (in thousands)

	Health Benefits		**Long-Term Disability**	
	2019	**2018**	**2019**	**2018**
Actuarially Determined Contribution	$ 133,961	$ 194,236	$ 6,720	$ 5,990
Contributions in relation to the actuarially determined contribution	(57,100)	(39,820)	(947)	(975)
Contribution deficiency (excess)	$ 76,861	$ 154,416	$ 5,773	$ 5,015
Covered payroll	$ 1,285,000	$ 1,234,545	$ 611,493	$ 611,493
Contribution as a percentage of covered payroll	10.42%	15.73%	1.10%	0.98%

The schedule is intended to show information for ten years. The additional years' information will be displayed as it becomes available.

CITY OF HOUSTON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2019
(*unaudited*)

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
(in thousands)

	Health Benefits		Long-Term Disability	
	2019	2018	2019	2018
Total OPEB Liability				
Service Cost	$110,793	$139,332	$776	$730
Interest	90,245	73,306	409	379
Changes of benefit terms	(5,007)	-	-	-
Differences between expected and actual experience	(99,153)	(15,727)	1,369	(14)
Changes of assumptions	(224,161)	(310,431)	255	(158)
Benefit payments including refunds of employee contributions	(57,100)	(39,820)	(947)	(975)
Net change OPEB liability	(184,383)	(153,340)	1,862	(38)
Net OPEB liability - beginning	2,438,572	2,591,912	11,040	11,078
Net OPEB liability - ending (a)	2,254,189	2,438,572	12,902	11,040
Plan fiduciary net position				
Service Cost	57,100	39,820	-	-
Employer contributions	-	-	(975)	(975)
Benefit payments including refunds of employee contributions	(57,100)	(39,820)	975	975
Net change in plan fiduciary net position	-	-	-	-
Net OPEB liability - beginning	-	-	-	-
Net OPEB liability - ending (b)	-	-	-	-
City's net pension liability-ending (a)-(b)	$2,254,189	$2,438,572	$12,902	$11,040
Plan fiduciary net position as percentage of the total OPEB liability	0.00%	0.00%	0.00%	0.00%
Covered payroll	$1,285,000	$1,235,000	$611,493	$611,493
Net OPEB liability as a percentage of covered payroll	175.42%	197.46%	2.11%	1.81%

The schedule is intended to show information for ten years. The additional years' information will be displayed as it becomes available.

[THIS PAGE INTENTIONALLY LEFT BLANK]

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
2018	6,997.4	1.5%
2017	6,892.4	1.4
2016	6,772.5	1.9
2015	6,647.5	2.4
2014	6,488.0	2.5

(a) In 2010, the U.S. Census Bureau changed the MSA to include The Woodlands instead of Baytown.
(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
2018	2,325.5	0.55
2017	2,312.7	0.40
2016	2,303.5	0.32
2015	2,296.2	1.77
2014	2,256.2	1.79

(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

Calendar Year	Average Index	Annual % Change
2019	228.8	1.3%
2018	225.9	2.4
2017	220.7	2.0
2016	216.4	1.6
2015	213.0	-0.2
2014	213.4	2.8

Source: U.S. Bureau of Labor Statistics, CPI.

HOUSTON-THE WOODLANDS-SUGAR LAND MSA
NONFARM PAYROLL

Calendar Year	Annual Average (in thousands)	Percent Change
2019	3,225.7	4.6%
2018	3,083.8	2.0
2017	3,021.3	0.7
2016	3,000.6	0.2
2015	2,995.9	1.9

Source: U.S. Bureau of Labor Statistics.

HOUSTON-THE WOODLANDS-SUGAR LAND MSA
UNEMPLOYMENT RATE
(NOT SEASONALLY ADJUSTED)
% UNEMPLOYED

Calendar Year	Annual Average %
2019	3.6%
2018	4.3
2017	5.0
2016	5.3
2015	4.6

Source: U.S. Department of Labor Bureau of Labor Statistics.

PORT OF HOUSTON TONNAGE
TOTAL CARGO

Calendar Year	Short Tons
2018	268,930,047
2017	260,070,837
2016	247,981,663
2015	240,933,000
2014	234,304,000

Source: Estimates; Port of Houston Authority.

GREATER HOUSTON AREA
APARTMENT OCCUPANCY RATES[(a)]

Calendar Year	Occupancy Rate
2019	89.8%
2018	89.7
2017	89.5
2016	88.4
2015	90.6

(a) Physical occupancy based on calendar year.
Source: Apartment Data Services, December 2019.

HOUSTON HOTEL OCCUPANCY RATES

Calendar Year	Average Occupancy Rate
2019	62.5%
2018	66.0
2017	66.6
2016	62.3
2015	68.5

Source: CB Richard Ellis Hotels, February 2020.

CITY OF HOUSTON BUILDING PERMITS
NEW NON-RESIDENTIAL[(a)]

Calendar Year	Number of Permits Issued	Dollar Value (In Thousands)
2019	1,457	$1,713,808
2018	1,484	1,024,850
2017	1,498	898,172
2016	1,784	1,102,563
2015	2,089	2,191,599

(a) Privately Owned.
Source: City of Houston, Public Works and Engineering.

CITY OF HOUSTON BUILDING PERMITS
RESIDENTIAL[a]

Calendar Year	Single Family Number of Permits Issued	Multi-Family Number of Permits Issued
2019	6,477	1,218
2018	5,487	2,680
2017	5,412	4,426
2016	4,206	4,899
2015	5,191	11,983

(a) Privately Owned.
Source: City of Houston, Public Works and Engineering.
Compiled by Planning and Development Dept., January 2020.

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]
2019	229.20	1.7	19.30%	$29.82
2018	212.83	1.9	20.00	29.04
2017	213.20	0.7	21.70	29.22
2016	212.55	(0.9)	15.70	28.71
2015	210.90	4.8	14.20	28.67

(a) Includes all general multi and single tenant office buildings 20,000 square feet or greater.
(b) Net absorption is the difference between the total number of square feet that are leased (excluding renewals of leases) and the total number of square feet that have become vacant in the year.
(c) Average asking rental rates are quoted on a gross basis.
Source: Collier International, Fourth Quarter 2019.

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
2019	47,600	8.3%	11,905	4.8%	59,505	7.6%
2018	43,966	1.7	11,361	(1.4)	55,327	1.0
2017	43,232	(2.1)	11,466	0.4	54,698	(1.6)
2016	44,167	0.8	11,420	14.0	55,587	3.3
2015	43,805	3.2	10,022	5.8	53,827	3.7
2014	42,441	2.2	9,470	7.7	51,911	3.2

Source: Houston Airport System Fiscal Year 2019 Comprehensive Annual Financial Report.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

FORM OF CO-BOND COUNSEL OPINION AND SPECIAL TAX COUNSEL OPINION

[THIS PAGE INTENTIONALLY LEFT BLANK]

Holland & Knight

1100 Louisiana Street, Suite 4300 | Houston TX 77002 | T 713-821-7000 | F 713-821-7001
Holland & Knight LLP | www.hklaw.com

___________, 2020

City of Houston, Texas

UMB Bank, N.A.

Re: $230,000,000 City of Houston, Texas Tax and Revenue Anticipation Notes, Series 2020

To the Addressees:

We have acted as Special Tax Counsel for the City of Houston, Texas (the "City") in connection with the issuance by the City of its $230,000,000 Tax and Revenue Anticipation Notes, Series 2019 (the "Notes"). In such capacity, we have examined (a) the ordinance adopted by the City Council of the City on May 20, 2020 (the "Ordinance"), authorizing the issuance of the Notes and (b) such law and such other certified proceedings, certifications and documents as we have deemed necessary to render this opinion. In all such examinations, we have assumed the genuineness of signatures of original documents and the conformity to original documents of all copies submitted to us as certified, conformed or photographic copies, and as to the certificates of public officials, we have assumed the same to have been properly given and to be accurate.

We have acted as Special Tax Counsel for the sole purpose of rendering an opinion with respect to the excludability of the interest on the Notes from gross income for federal income tax purposes. As to certain questions of fact material to the opinion of Special Tax Counsel, Special Tax Counsel will rely upon certificates, representations and covenants made on behalf of the City, the City's co-financial advisors (the "Financial Advisors") and the initial purchaser of the Notes (the "Initial Purchaser"), respectively, and certificates of appropriate officers and public officials, which Special Tax Counsel has not independently verified.

Defined terms used herein that are not otherwise defined herein shall have the meanings assigned to such terms in the Ordinance.

Based upon the foregoing, we are of the opinion that, under existing law:

Interest on the Notes is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference in computing the alternative minimum tax imposed on certain taxpayers other than corporations (as defined for federal income tax purposes). The opinion set forth in the preceding sentence assumes the accuracy of factual representations made by the City, the Financial Advisors and Initial Purchaser and is subject to the compliance by the City with all requirements of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, that must be satisfied subsequent to the issuance of the Notes in order that the interest on the Notes be, and continue to be, excludable from gross income for federal income tax purposes. The City has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Notes to be included in gross income for federal income tax purposes retroactively to the original date of issuance of the Notes. We express no opinion regarding any other federal, state or local tax consequences caused by the ownership or receipt or accrual of interest on the Notes.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Sincerely yours,

HOLLAND & KNIGHT LLP

Holland & Knight

1100 Louisiana Street, Suite 4300 | Houston TX 77002 | T 713-821-7000 | F 713-821-7001
Holland & Knight LLP | www.hklaw.com

Law Offices of Francisco G. Medina
1111 North Loop West, Suite 820, Houston, Texas 77008 | T 713-869-7030 |F 713-869-7761

___________, 2020

City of Houston, Texas

City of Houston, Texas Tax and Revenue Anticipation Notes, Series 2020 in the principal amount of $230,000,000

Ladies and Gentlemen:

We have acted as Co-Bond Counsel in connection with the issuance and sale by the City of Houston, Texas (the "Issuer"), of its $230,000,000 Tax and Revenue Anticipation Notes, Series 2020 (the "Notes").

All terms used herein in capitalized form and not otherwise defined herein shall have the same meanings as ascribed to them in the ordinance adopted by the City Council of the Issuer authorizing their issuance on May 20, 2020 (the "Ordinance").

The Notes have been issued in fully registered form, bear interest from the date thereof at the rates provided for by the Ordinance, finally mature on June 30, 2021, and are subject to redemption prior to their maturity in the manner and upon the terms and conditions as provided for by the Ordinance and other documents relating to the issuance of the Notes.

The Notes have been issued to finance the City's general operating expenditures for Fiscal Year 2021 in anticipation of the collection of taxes and revenues for Fiscal Year 2021 and paying certain costs of issuance with respect thereto.

The description of the Notes in this opinion and other statements concerning the terms and conditions of the issuance of the Notes do not purport to set forth all of the terms and conditions of the Notes or of any other document relating to the issuance of the Notes, but are intended only to identify the Notes and to describe briefly certain features thereof. This opinion shall not be deemed or treated as an offering circular, prospectus or official statement, and is not intended in any way to be a disclosure document used in connection with the sale or delivery of the Notes.

In rendering the opinions set forth below, we have examined a certified copy of the Ordinance and various other agreements, certificates and opinions, and are relying on the covenants and agreements of the Issuer contained therein.

We have examined a certified copy of the proceedings of the Issuer, and other information submitted to us relative to the issuance and sale by the Issuer of the Notes. In addition, we have examined and relied upon the certain certified copies of customary certificates of officers, agents and representatives of the Issuer, the Issuer's co-financial advisor, and public officials as to among other things the due organization and valid existence of the Issuer, the due adoption of the Ordinance and all documents associated with the issuance thereof, the levy and collection of the ad valorem taxes and the issuance of notes payable therefrom, other certified showings relating to the authorization and issuance of the Notes and the compliance of the Issuer with all conditions precedent to the issuance of the Notes.

We have relied on such other agreements, certificates, documents and opinions, including certificates and representations of public officials and other officers and representatives of the various parties participating in this transaction, as we have deemed relevant and necessary in connection with the opinions expressed below. We have not undertaken an independent audit, examination, investigation or inspection of the matters described or contained in such agreements, documents, certificates, representations and opinions, and have relied solely on the facts, estimates and circumstances described and set forth therein.

In our examination of the foregoing, we have assumed the genuineness of signatures on all documents and instruments, the authenticity of documents submitted as originals and the conformity to originals of documents submitted as copies.

The opinions set forth below are expressly limited to, and we opine only with respect to, the laws of the State of Texas.

Based upon and subject to the foregoing, we are of the opinion that, under existing law:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Notes in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Notes constitute valid and legally binding obligations of the Issuer; and

(2) Taxable property in the Issuer is subject to the levy of ad valorem taxes, within the limits prescribed by law, to pay the Notes and the interest thereon.

Our opinions expressed herein are predicated upon present laws, facts and interpretations thereof. We assume no affirmative obligation with respect to any change in circumstances or laws or interpretations thereof after the date hereof that may adversely affect the opinions contained herein to update the opinions expressed herein.

All opinions as to legal obligations of the Issuer set forth above are subject to and limited by (a) bankruptcy, insolvency, reorganization, moratorium or similar laws, in each case relating to or affecting the enforcement of creditors' rights, (b) applicable laws or equitable principles that may affect remedies or injunctive or other equitable relief, and (c) judicial discretion which may be exercised in applicable cases to adversely affect the enforcement of certain rights or remedies.

The scope of our engagement in relation to the issuance of the Notes has been limited solely to the examination of facts and law incident to rendering the opinions expressed herein. We have not been engaged or undertaken to review, confirm or verify and therefore express no opinion as to the accuracy, completeness, fairness or sufficiency of any of the statements in the Official Statement or any exhibits or appendices thereto or any other offering material relating to the Notes. In addition, we have not been engaged to and therefore express no opinion regarding the perfection or priority of the lien on the ad valorem taxes or other amounts pledged under the Ordinance or as to the compliance by the Issuer or the initial purchaser(s) with any federal or state statute, regulation or ruling with respect to the sale or distribution of the Notes.

Sincerely yours,

HOLLAND & KNIGHT LLP

LAW OFFICES OF FRANCISCO G. MEDINA

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

DEPOSITORY TRUST COMPANY

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Notes. The Notes 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 Notes, in the aggregate principal amount of such series, and will be deposited with DTC.

DTC, the world's largest 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, in turn, is owned by a number of Direct Participants or DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LCC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's Rating Services rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes 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 Notes 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 Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes 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 Notes with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the Note documents. For example, Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Notes 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 Notes unless authorized by a Direct Participant in accordance with DTC's 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 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Notes 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 Notes held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Paying Agent/Registrar; disbursement of such payments to Direct Participants will be the responsibility of DTC; and reimbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Notes purchased or tendered, through its Participant, to the Paying Agent/Registrar, and shall effect delivery of such Notes by causing the Direct Participant to transfer the Participant's interest in the Notes, on DTC's records, to the Paying Agent/Registrar. The requirement for physical delivery of Notes in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Notes are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Notes to the Paying Agent/Registrar's DTC account.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving reasonable notice to the City or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

CITY OF HOUSTON, TEXAS • TAX AND REVENUE ANTICIPATION NOTES, SERIES 2020

Mixed Sources
Product group from well managed forests, controlled sources and recycled wood or fiber.

Printed by: ImageMaster, LLC
www.imagemaster.com