City of Houston, Texas
Quarterly Swap Agreements Disclosure
March 31st, 2026

Combined Utility System Swaps

General Terms:

Objective. The objective of the swaps 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 time of issuance.

Credit risk. (GASB 53, para. 73(a)): As of March 31, 2026, the City was not exposed to credit risk because the Swaps had a negative fair market value. However, should interest rates change and the fair market value of the Swaps become positive, then the City will be exposed to credit risk in the amount of the fair market value of the Swaps. In accordance with the City's swap policy and as established in the Swaps, if a counterparty's credit rating falls below AA, collateral must be posted in varying amounts, depending on the credit rating and the fair market value of the Swaps. No collateral has been required to date.

Basis risk. (GASB 53, para. 73(c)): Basis risk is measured by the difference between variable receipts on the Swaps and variable payments on the Bonds. In the case of the Bonds, the basis is the difference between the weekly interest rate on the bonds and 10-Year USD SOFR ICE Swap Rate ("10-Year SOFR").

Termination risk. (GASB 53, para. 73(d)): The City retains the right to terminate the Swaps at any time and for any reason. If the City terminates any of the Swaps, then a termination payment reflecting the "then-current" market value of the Swaps will be payable to or receivable by the City. By comparison, the City's counterparties may only terminate the Swaps in the event that the City fails to perform under the terms of the swap agreement, e.g., the City defaults on any swap payments.

Remarketing risk. The City faces a risk that the remarketing agent will not be able to sell the variable rate demand bonds at a competitive rate each week.

A. Combined Utility System Synthetic Fixed Rate Swap

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 58.55% of 10-year constant maturity swap rate (CMS). On April 21, 2020, the City remarketed the Series 2012A Bonds as variable rate demand bonds in a Weekly Rate mode. On July 1, 2023, the City adhered to the June 2022 Benchmark Module of the ISDA 2021 Fallbacks Protocol. This adherence changed Series 2004B Swap's floating-rate indices from 10-Year CMS to 10-Year SOFR.

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 3.78% and receive a floating rate equal to 57.6% of One-Month US Dollar LIBOR plus 37 basis points. All agreements were effective September 10, 2004 - the original date of issuance of the Bonds. The termination date is May 15, 2034.

Receipts and Payments. For the nine-month ending period ending March 31st, 2026, the City received $11,621,859.31 in swap revenue for these swaps and paid $11,940,740.93 of interest on the underlying securities. The average effective rate for the 2004B bonds, including interest for the Series 2004B bonds, the City's swap payments, and its dealer and liquidity fees, consist of an effective rate of 3.7780%. In contrast, the comparable fixed rate the City paid on its Combined Utility System Series 2004A bonds was 5.08%.

Fair value. Because interest rates have changed, the swaps had an estimated negative fair value of $43.5 million on March 31st, 2026. This value was calculated using the zero-coupon method.

Counterparty

Counterparty	Notional Amount	Fair Value	Credit Rating (Moody's/S&P/Fitch)
Goldman Sachs Capital Markets Inc.	$ 353,325,000	$ (23,500,610)	A1 /A+ /A+
JP Morgan Chase	150,000,000	(9,976,909)	Aa2/ A+/AA
Wells Fargo	150,000,000	(10,059,209)	Aa2 /A+/AA-
	$ 653,325,000	$ (43,536,728)	

B. Combined Utility System Forward Rate Lock/Synthetic Fixed Rate Swap

On November 1, 2005, the City priced a floating to fixed interest rate exchange agreement swap with Royal Bank of Canada ("RBC") on a forward basis. The City pre-qualified eight firms to submit competitive bids, and RBC submitted the lowest bid of 3.761%. The addition of the SIFMA-Indexed Notes diversifies the System's variable rate debt portfolio. This swap was previously assigned to the 2008A variable rate demand bonds and the 2010B SIFMA Indexed Notes. Later, 2012C SIFMA Indexed Notes refunded 2010 SIFMA Indexed Notes. On August 1, 2016, the City refunded 2012C SIFMA Inde
x Notes to CUS 2016C Libor Index. On August 1, 2018, the City refunded 2016C to CUS 2018C. The new rate on the note is calculated at 70% of One-Month US Dollar LIBOR plus 36 basis points.

<u>Terms.</u> The notional amount of the swap is $249.1 million with the underlying bonds being the Series 2018C Notes. The swap agreement contains scheduled reductions to the outstanding notional amount during the years 2028 to 2034.

Under terms of the swap, the City pays a fixed rate of 3.761% and receives a floating rate equal to 70% of One-Month US Dollar LIBOR. The agreement became effective March 3, 2007, with a termination date of May 15, 2034. On September 19, 2015, Royal Bank of Canada (RBC) novated $249,075,000 notional amount to Wells Fargo. On November 15, 2018, the City amended the floating rate received to 58.55% of the ten-year USD-CMS rate.

<u>Receipts and Payments.</u> For the nine-month ending period ending March 31st, 2026, the City received $4,430,742.61 on swap revenue for its 2018C swap and paid $4,543,537.43 on the underlying notes. The contractual rate for the City's swap payment is 3.7610%. The average effective rate for the bonds, including the City's swap payments and a fixed component, consists of an effective rate of 4.1866%.

<u>Fair value</u>. Because interest rates have changed, the swap had an estimated negative fair value of $16.4 million on March 31st, 2026. This value was calculated using the zero-coupon method.

Counterparty	Notional Amount	GAAP Fair Value	Counterparty Rating (Moody's/S&P/Fitch)
Wells Fargo	$ 249,075,000.00	$ (16,464,693)	Aa2/A+/AA-
TOTAL	$ 249,075,000.00	$ (16,464,693)	