



CITY OF HOUSTON

Finance Department

Interoffice

Correspondence

To: Budget and Fiscal Affairs Committee

From: Kelly Dowe, Director 
Finance Department

Date: September 29, 2011

CC:

Subject: **Upcoming Debt Financings**

The purpose of this memorandum is to summarize three upcoming transactions:

- The Houston Airport System Special Facilities Revenue Bonds, Series 2011 (the "Special Series 2011 Bonds") up to \$200 million will finance the redevelopment of the South Concourse of Terminal B used by Continental Airlines at George Bush Intercontinental Airport.
- The Houston Airport System Subordinate Lien Revenue Refunding Bonds, Series 2011C & D (the "Series 2011C & D Bonds"), which will refund outstanding bonds of the System, supplement the debt service reserve fund as necessary, and pay costs of issuance.
- The taxable Pension Obligation Notes will be refunded with another short-term note to extend the maturity.

A specific Request for Council Action will be brought before City Council in early October for the Special Series 2011 Bonds and the other two will come soon after.

Special Facilities Revenue Bonds, Series 2011

Under the Second Amended and Restated Lease Agreement between the City and Continental, for as long as the bonds remain outstanding, Continental will be obligated to pay the principal and interest on the outstanding Bonds. This obligation is in addition to and separate from rental payments with respect to the ground area underlying Terminal B, which are due to the City. Prompt payment of principal and interest on the Special Series 2011 Bonds will be unconditionally guaranteed by Continental.

The Special Series 2011 Bonds will be issued as a series of additional bonds on parity with previously issued Airport System Special Facilities Revenue Bonds issued by the City. The Special Series 2011 Bonds will not constitute an indebtedness of the City, nor will it be a general obligation of the City. No holder of any Series 2011 Bond shall have the right to demand payment of any funds raised or to be raised by taxation, and may not be repaid in any circumstances from tax revenues. In addition, the Series 2011 Bonds shall not constitute obligations of the City's Airport System, nor will revenues be pledged or made available to repay any of the Special Series 2011 Bonds.

Revenue Refunding Bonds, Series 2011C & D

The City has identified approximately \$250 to \$300 million of Subordinate Lien Bonds that are candidates to be refunded to achieve present value savings in the current interest rate environment. The currently projected present value savings of the refunding is estimated to be \$10 million, which is approximately 4% of the refunded par. This transaction is contingent on continuing favorable market conditions and it's estimated impact on the Airport System's rates and charges.

Taxable Pension Obligation Note Refunding

On April 28, 2010, City Council approved the issuance of the City of Houston \$20.1 million Taxable Pension Notes, Series 2010A. The note had an 18 month maturity and a maturity date of Nov. 16, 2011. In early August 2011, the Finance Working Group (FWG) presented two options to the Budget and Fiscal Affairs Committee, to either refund this note into long term bonds or extend the maturity of the short-term note. The FWG recommends proceeding with the option of extending the maturity of the short-term note.

The newly refunded short-term note will have a 15 month maturity and will be refunded with long-term bonds when the City is prepared to do a larger debt issuance and when economically feasible. The short-term note can also be accomplished quickly and temporarily benefit from low short-term rates.

Recommendation

The Finance Working Group recommends that the City proceed with this transaction.