CITY OF HOUSTON

Finance Department

Interoffice

Correspondence

To: Budget and Fiscal Affairs Committee

From: Kelly Dowe, Director KD
Finance Department

Date: December 6, 2011

Subject: **General Obligation Commercial Paper, Series K**

The purpose of this memorandum is to summarize an upcoming transaction to support the City's Rebuild Houston Initiatives. A specific Request for Council Action is expected to be brought before Council on December 7, 2011.

Starting in 1993, City Council began authorizing commercial paper programs to provide appropriation capacity for various capital expenditures of the City. This recommendation is for the creation of two commercial paper programs to be designated as Series K-1 and K-2. The aggregate par amount of commercial paper capacity to be added is up to $200 million. The newly created tax-exempt commercial paper programs will be used in conjunction with capital expenditures related to public improvements including street and drainage projects. The Series K-1 and K-2 commercial paper programs will be used for appropriation capacity only. These programs will support the newly established dedicated pay-as-you-go fund to help maintain and improve the city's drainage and street infrastructure.

When Dedicated Drainage and Street Renewal Fund (DDSRF) was created on July 1, 2011, no drainage fees had yet been collected and the fund contained no assets to appropriate against or cash to make progress payments on construction projects with. Between July 1, 2011 and December 31, 2011 drainage and street projects continued to be appropriated against public improvement bond funds. As of January 1, 2012 sufficient cash will exist in the DDSRF, and at that time projects appropriated against bond funds will be de-appropriated and re-appropriated against the DDSRF commercial paper line.

In addition, City Council will be asked to de-appropriate the sum of $154 million for certain Capital Improvement Projects consisting of or including drainage projects from the following funds; approximately $81 million out of the Street and Bridge Consolidated Construction Fund (4506); approximately $70 million out of the Drainage Improvement Fund (4030); and approximately $3 million out of the Storm Sewer Consolidated Construction Fund (4505); and appropriate approximately $154 million out of the Dedicated Drainage and Street Renewal Fund (4042).

The Finance Working Group (FWG) recommends BBVA to provide liquidity for the Series K-1 program in the amount of $100 million, plus interest. The liquidity facility will have a 3-year term, with a commitment fee of 40 basis points per annum. In addition, the FWG recommends Citibank to provide liquidity for the Series K-2 program in the amount of $100 million, plus interest. The liquidity agreement will have a 1-year term, and the commitment fee will be 30 basis points per annum.