



Finance Department

Presentation to the City of Houston Budget and Fiscal Affairs Committee

Upcoming Financial Transactions

April 24th 2018

Presented By:
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Agenda

A. Combined Utility System

- i. Index Floating Rate Bonds, Series 2012B and 2016C
- ii. First Lien Revenue and Refunding Bonds, Series 2018C

B. General Obligation

- i. Tax and Revenue Anticipation Notes Series (TRANS) 2018

C. Houston Airport System (HAS)

- i. Subordinate Lien Revenue and Refunding Bonds, Series 2018C (AMT) and 2018D (Non-AMT)



CUS Variable Rate Exposure Summary

Liquidity Type	Series	Size (\$ millions)	Bank / Dealer	Expiration	Requires Bank Facility
Commercial Paper	B-1	100.00	Bank of America	1/8/2019	Y
	B-2	75.00	Morgan Stanley ⁽¹⁾	3/13/2022	N
	B-3	75.00	Sumitomo	1/15/2021	Y
	B-4	100.00	State Street	7/12/2019	Y
	B-5	250.00	RBC ⁽²⁾	10/30/2018	N
	B-6	100.00	Bank of America	7/12/2019	Y
Subtotal		700.00			
Variable Rate Demand Bonds	2004B-2	100.00	Citigroup	3/29/2019	Y
	2004B-3	75.00	Sumitomo	4/2/2021	Y
	2004B-4	75.00	Bank of Tokyo	4/4/2019	Y
	2004B-5	100.00	Wells Fargo	4/4/2019	Y
	2004B-6	78.33	Sumitomo	4/2/2021	Y
Subtotal		428.33			
SIFMA Index Floater	2012A	125.00	Bank of America	5/1/2020	N
	2012B	100.00	State Street	6/1/2021	N
	2016C	249.08	Bank of America	8/1/2018	N
Subtotal		474.08	Total Debt Outstanding⁽³⁾	\$6,403.237	
				Total Commercial Paper Outstanding⁽³⁾	\$120.00
				Total Unhedged Variable Rate Debt⁽³⁾	1.87%

⁽¹⁾ The Morgan Stanley B-2 is an Extendible Commercial Paper product.

⁽²⁾ The RBC facility B-5 is a Forward Purchase Agreement.

⁽³⁾ As of February 28, 2018 Monthly Financial Report.

Note: This presentation constitutes the written recommendation of the Finance Working Group.



CUS Index Floating Rate Bonds, Series 2012B and 2016C

Background:

- Floating-rate notes are bonds that have a variable coupon, equal to a market index rate (usually SIFMA or a percentage of LIBOR), plus a negotiated spread.
- As a result of Tax Reform that went into effect January 1, 2018, these bonds are to experience an increase in interest rate cost.
- In order to minimize the effects of rising costs, the Finance Working Group has worked on renegotiating the terms with the current providers.

Note: This presentation constitutes the written recommendation of the Finance Working Group.



CUS Index Floating Rate Bonds, Series 2012B and 2016C

Next Steps:

- The Finance Working Group recommends:
 - Accepting State Street's proposal related to 2012B Bonds
 - Saving approximately \$410K in interest cost annually
 - Accepting Bank of America's proposal related to 2016C Bonds
 - Saving approximately \$1 million in interest cost annually

- An RCA is expected to be brought before Council in May

Note: This presentation constitutes the written recommendation of the Finance Working Group.



CUS First Lien Revenue Refunding Bonds, Series 2018C

Background:

- The City has used the issuance of commercial paper to provide an expedient, cost-effective method of accessing cash and providing interim financing. The commercial paper notes are later refinanced into fixed rate bonds that match the useful life of the projects and/or equipment being financed.
- This transaction represents the normal refunding of these commercial paper notes issued by the Combined Utility System. The total anticipated size of the Series 2018C Bonds will be approximately \$342 million.



CUS First Lien Revenue Refunding Bonds, Series 2018C

- As standard course of business, in conjunction with this transaction, the Finance Working Group (FWG) will review possibilities to refinance existing debt if prudent opportunities to achieve present value savings exist. The total potential size of the 2018C Bonds (approximately \$342 million) includes approximately \$92 million for this purpose, which will result in present value savings currently estimated at \$9.4 million, subject to market conditions and further due diligence.

Next Steps:

- An RCA is expected to be brought before Council in May.



CUS First Lien Revenue Refunding Bonds, Series 2018C

System:	Combined Utility System
New Money or Refunding?:	Both
Par Amount:	\$342 Million
Use of the Debt Proceeds:	Capital Improvement Program

Revenue Source Securing Debt:	Net revenues of the Combined Utility System
Estimated Weighted Average Life of the Debt Being Refunded (Years):	10.6 Years
Estimated Change to the Weighted Average Life of Debt Being Refunded:	0.05 Years
Estimated Present Value Savings:	\$9.4 Million
Estimated Percentage Savings:	10.5%
Estimated True Interest Cost (%):	3.73%
Anticipated Council Agenda Date:	May
Anticipated Date of Pricing:	June
Anticipated Date Closing:	July

All figures are subject to market adjustments. Market rates are as of April 16, 2018.

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Tax and Revenue Anticipation Notes Series 2018

Background:

- Each year the City sells Tax and Revenue Anticipation Notes (TRANS) to help manage working capital needs during the year. This need for working capital is caused by the timing difference between the collections of revenues versus expenditures. The major revenue source for the General Fund is ad valorem taxes, which are largely collected during December, January and February.
- The TRANS provides an efficient, cost effective way to address this temporary cash shortfall. The actual sale of the notes is done on a competitive basis through an electronic auction intended to give the City access to a large scope of potential purchasers and provides efficient pricing.



Tax and Revenue Anticipation Notes Series 2018

- Historically, the TRANS are structured to potentially allow additional supplemental issuances, separated in time from the initial issuance, enabling the City to comply with tax laws and arbitrage regulations. The initial borrowing is based on an estimated monthly cash flow analysis prepared prior to the beginning of the fiscal year, which projects the cash flows (and predicts the maximum shortfall) during the fiscal year.
- The first TRANS issue is sized conservatively because it is based on an early estimate of cash flows. If the City's initial borrowing does not cover its shortfall, it may elect to borrow additional funds through the issuance of supplemental notes. The last time the City used the supplemental borrowing was in FY2009 for unexpected Ike related expenditures.



Tax and Revenue Anticipation Notes Series 2018

Next Steps:

- For FY 2019, the TRANS primary borrowing in July 2018 will be approximately \$150 to \$300 million. The total authorized size (primary and supplemental) of the TRANS will be \$400 million.
- The competitive auction is expected to occur in June and the results will be presented to City Council for a motion to accept the winning bid or bids.
- An RCA will be presented to City Council for authorization of the sale on May 2, 2018.



HAS Subordinate Lien Revenue & Refunding Bonds, Series 2018C (AMT) & 2018D (Non-AMT)

Background:

- The total size of the Series 2018CD Bonds is anticipated to be approximately \$689 million
- \$36.5 million in bond proceeds will be used to pay an early termination fee to United Airlines in consideration of United agreeing to an early termination of the Use and Lease agreement with respect to Terminal C North, as approved by City Council in Ordinance 2015-0269.
- In an effort to reduce variable rate exposure in line with City's target of 20%, some variable rate debt, amounting to approximately \$242 million, will also be fixed out. This will help reduce the variable rate exposure for HAS, from 12% to approximately 4%, excluding commercial paper.

Note: This presentation constitutes the written recommendation of the Finance Working Group.



HAS Subordinate Lien Revenue & Refunding Bonds, Series 2018C (AMT) & 2018D (Non-AMT)

- As a standard course of business, in conjunction with this transaction, the FWG will review possibilities to refinance existing debt if prudent opportunities to achieve present value savings exists. The total potential size of the 2018CD Bonds (approximately \$689 million) includes approximately \$410 million for this purpose, which will result in present value savings currently estimated at \$60 million, subject to market conditions and further due diligence.

Next Steps:

- An RCA is anticipated to be brought before Council in June.



HAS Subordinate Lien Revenue & Refunding Bonds, Series 2018C (AMT) & 2018D (Non-AMT)

- Below is a breakdown of proposed components:

Components	Up To	Use
Current Refunding	\$ 410,000,000	Refunding
ARS Series 2000P-1 & P-2, 2002C, D-1 & D-2	\$242,000,000	Refunding
Total	\$652,000,000	
City Contribution to United Terminal C Lease	\$ 36,500,000	New Money
Total	\$36,500,000	
Grand Total	\$688,500,000	

Note: This presentation constitutes the written recommendation of the Finance Working Group.



HAS Subordinate Lien Revenue & Refunding Bonds, Series 2018C (AMT) & 2018D (Non-AMT)

System:	Houston Airport System
New Money or Refunding?:	Both
Par Amount:	\$688 Million (approximately)
Use of the Debt Proceeds:	Capital Improvement Program and Refunding
Revenue Source Securing Debt:	Net General Airport Revenues
Estimated Weighted Average Life of the Debt Being Refunded (other than Commercial Paper):	10.9 Years
Estimated Change to the Weighted Average Life of Debt Being Refunded (other than Commercial Paper):	(0.162) Years
Estimated Net Present Value Savings:	\$60 Million
Estimated Percentage Savings:	16%
Estimated True Interest Cost (%):	3.52%
Anticipated Council Agenda Date:	June
Anticipated Date of Pricing:	June
Anticipated Date Closing:	July

All figures are as of April 13, 2018 and are subject to market adjustments.

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Questions?