



Finance Department

Presentation to the City of Houston Budget and Fiscal Affairs Committee

Pension Obligation Bond Update

June 6th 2017

Presented by:

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Tax Supported Pension Obligation Bonds Series 2017

Background:

- As part of its overall Pension Reform plan, the City has committed to deliver \$1 billion in pension obligation bond proceeds to HMEPS (\$250M) and HPOPS (\$750M) to fund a portion of each funds' respective unfunded actuarial accrued liability [Legacy Liability]
- Should the City fail to deliver pension bond proceeds by March 31, 2018:
 - HPOPS
 - can chose to extend the delivery deadline to as late as May 31, 2018
 - if the proceeds are not delivered by the new deadline, HPOPS is required to rescind any benefit changes
 - HMEPS
 - can chose to extend the delivery deadline
 - if the proceeds are not delivered by the new deadline, HMEPS has the option to rescind any benefit changes



Tax Supported Pension Obligation Bonds Series 2017

Cost Impact:

- Estimated cost impact of not delivering POBs:
 - Budget Impact
 - » FY 2018: \$23M, FY 2019: \$155M
 - Increase in Net Pension Liability: \$1.8B
 - » HMEPS: \$768M
 - » HPOPS: \$1.1B



Tax Supported Pension Obligation Bonds Series 2017

Section 107 of Local Government Code:

- Before authorizing issuance and delivery of Pension Obligation Bonds, a written agreement between the governing body of a municipality and the governing body of the pension fund must be in place.
- The written agreement must:
 - state the amount of the unfunded liability, and
 - the date or dates on which the public pension fund will accept the net proceeds of the obligations to be issued in payment of all or a portion of the unfunded liability.



Tax Supported Pension Obligation Bonds Series 2017

Voter Authorization:

- The reform legislation (SB 2190) states that voter authorization is required, unless the City and the respective pension fund execute a written agreement prior to July 1, 2017

- Bringing Section 107 agreements to Council now that the Governor has signed the bill into law.
 - Wanted certainty that benefit reductions were in place



SECTION 4.01. Chapter 107, Local Government Code, is amended by adding Section 107.0036 to read as follows:

Sec. 107.0036. VOTER APPROVAL REQUIRED FOR CERTAIN PENSION FUND OBLIGATIONS. (a) This section applies only to a public pension fund subject to:

(1) Article 6243e.2(1), Revised Statutes;

(2) Chapter 88 (H.B. 1573), Acts of the 77th Legislature, Regular Session, 2001 (Article 6243h, Vernon's Texas Civil Statutes); and

(3) Article 6243g-4, Revised Statutes.

(b) A municipality may issue an obligation under Section 107.003 to fund all or any part of the unfunded liability of a public pension fund subject to this section only if the issuance is approved by a majority of the qualified voters of the municipality voting at an election held for that purpose.

SECTION 4.02. Section 107.0036, Local Government Code, as added by this Act, applies only to obligations for which the governing body of a municipality executes an agreement under Section 107.003(b), Local Government Code, on or after the effective date of this Act.



Tax Supported Pension Obligation Bonds Series 2017

Next Steps:

- Section 107 written agreements
- Bond Election
 - August: Bring agenda item to City Council for approval to put item on ballot
 - November: Bring ballot initiative to voters
- Sale of Bonds
 - Complete documents needed to come to City Council for authorization of bond sale
 - City Council approval of bond sale
 - Bond pricing
 - Bond closing and delivery of proceeds to HMEPS and HPOPS



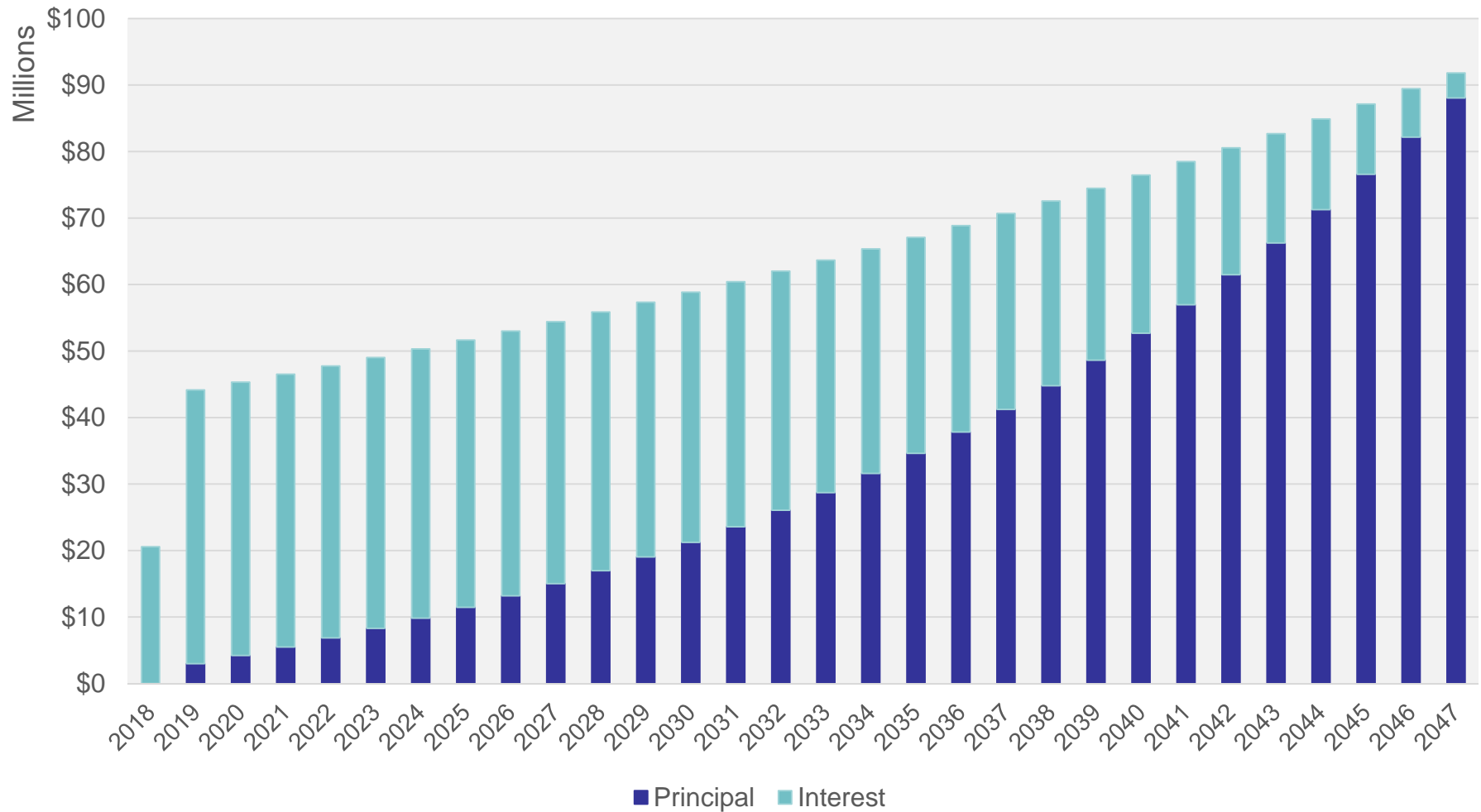
Tax Supported Pension Obligation Bonds Series 2017

System:	General Obligation
New Money or Refunding?:	Refinancing of Existing Pension Liability
Par Amount:	\$1.008 billion (maximum, including cost of issuance)
Use of the Debt Proceeds:	Deposit to HMEPS & HPOPS
Revenue Source Securing Debt:	Ad Valorem Property Taxes
Estimated Weighted Average Life of 2017 POBS:	21.4 Years
Estimated Change to the Weighted Average Life of Debt Being Refunded (other than Commercial Paper):	N/A
Estimated Net Present Value Savings:	N/A
Estimated Percentage Savings:	N/A
Estimated True Interest Cost (%):	4.225%
Anticipated Council Agenda Date:	TBD
Anticipated Date of Pricing:	TBD
Anticipated Date Closing:	TBD

All figures are subject to market adjustments. Market rates assume (Aa3/AA-/AA) ratings as of May 31, 2017.



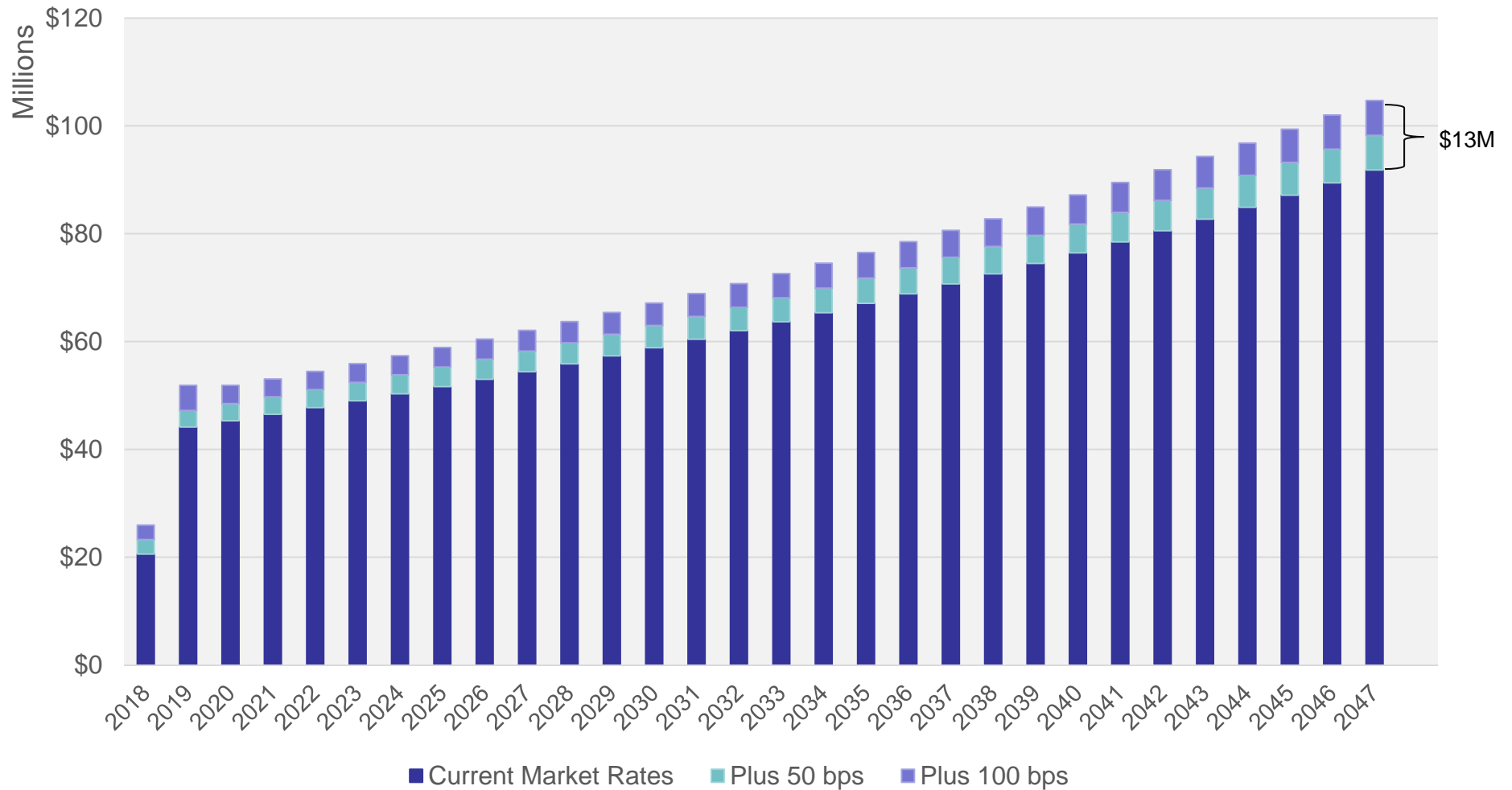
2017 POB Debt Service



All figures are subject to market adjustments. Market rates assume (Aa3/AA-/AA) ratings as of May 31, 2017.



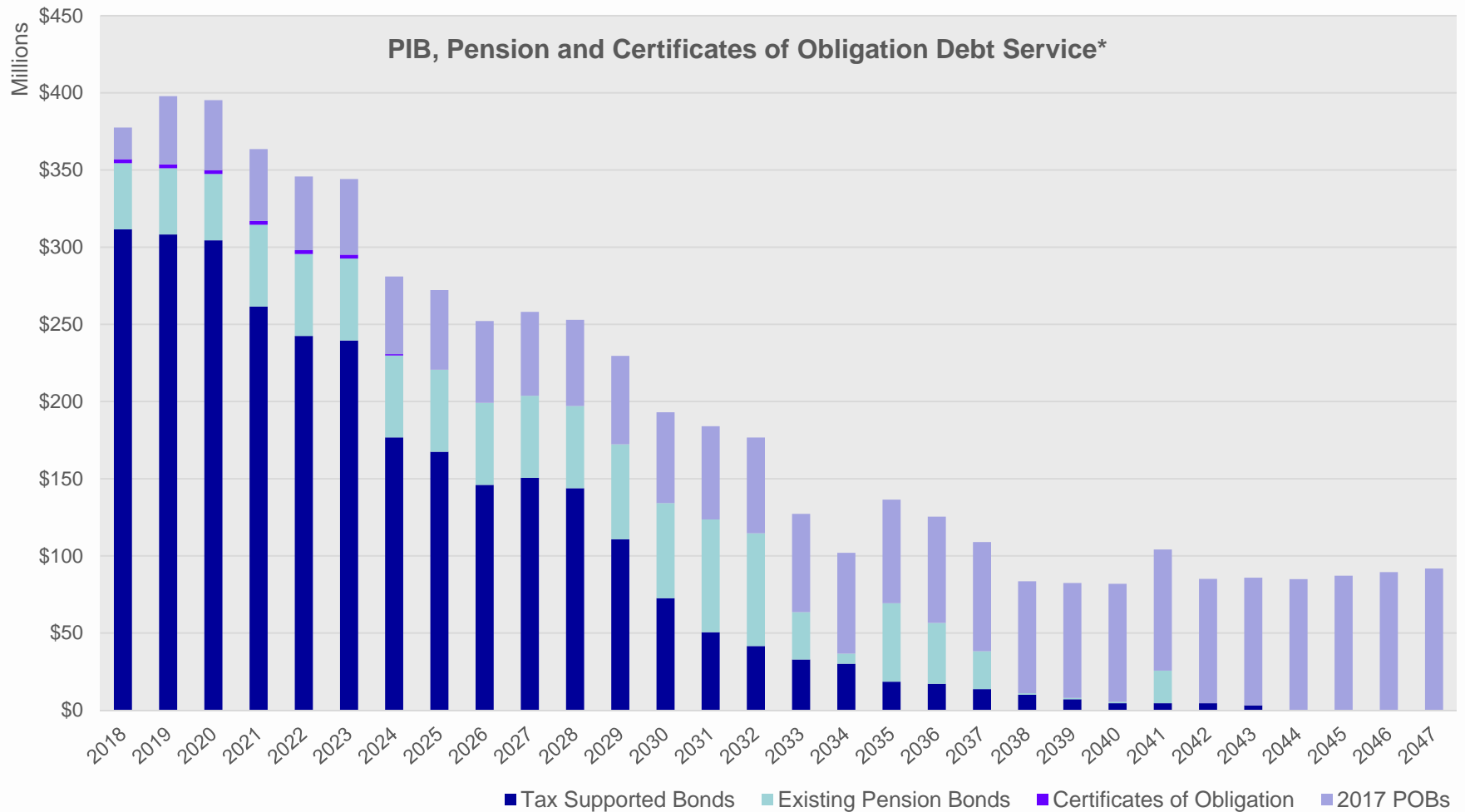
2017 POB Debt Service plus 50 & 100 bps



All figures are subject to market adjustments. Market rates assume (Aa3/AA-/AA) ratings as of May 31, 2017.



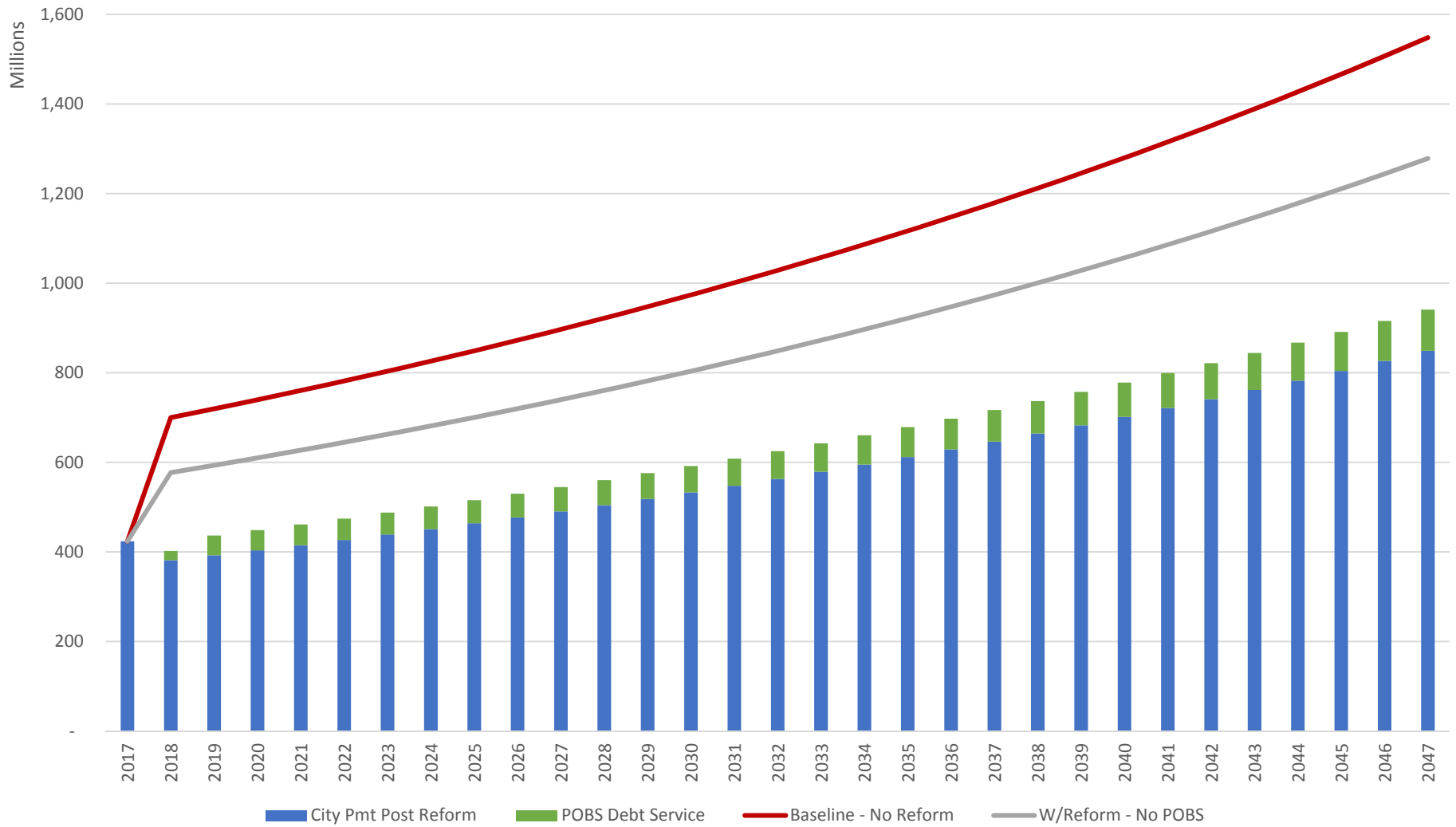
Pro forma GO Debt Service – Post 2017 POB issuance



* Debt Service is shown exclusive of federal subsidies. 2017 POBs figures are subject to market adjustments. Assumes (Aa3/AA-/AA) ratings and market rates as of May 31, 2017. **DOES NOT include future issuances.**



Total City Payment





Financial Policies

Potential Impacts:

- Issuing over \$ 1 billion in pension obligation bonds may impact compliance with the City's financial policies related to debt
 - I.2. Debt Service Fund Balance: may need to increase debt service reserve amount
 - I.6. Debt Service Index: if exceed 4% annual growth in GO debt service, need to identify funding mechanism to offset difference
 - I.7. General Fund Transfer: Target to drive Maximum General Fund transfer for debt service from 20% in FY2019 to 10%
 - I.8. Average Weighted Life of GO bonds: must be 12 years or less
- Next Steps: Evaluate Financial Policies with this issuance in mind and recommend revisions



Finance Department

Questions?