



Finance Department

Presentation to the City of Houston Budget and Fiscal Affairs Committee

Upcoming Financial Transactions

March 5th 2019

Presented By:
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Agenda

- **Houston Airport System (HAS)**
 - a) State Energy Conservation Office (SECO) Loan
- **Combined Utility System (CUS)**
 - a) Variable Rate Bonds, Series 2004B-2, B-4 & B-5
 - b) First Lien Revenue Bonds, Series 2019A (TWDB)
- **Convention & Entertainment Facilities (CEF)**
 - a) Hotel Occupancy Tax & Special Revenue Refunding Bonds, Series 2019
- **General Obligation (GO)**
 - a) Public Improvement Bonds, Series 2019A



HAS State Energy Conservation Office Loan

Background:

- The Texas Comptroller of Public Accounts administers the LoanSTAR Revolving Loan Program through its State Energy Conservation Office (“SECO”).
- The program finances energy-related cost-reduction retrofits for eligible public sector institutions.
- HAS wishes to participate in the program through two separate loans totaling \$15.5M to install/upgrade several systems at IAH and HOU ranging from lighting replacement to HVAC system controls to one of its baggage handling systems at IAH’s Terminal A.
- Both SECO loans will be repaid by the annual energy savings realized through the implementation of the State-approved energy efficiency projects.



HAS State Energy Conservation Office Loan

- The implementation of the Comprehensive Equipment Upgrade and Energy Efficiency Program for Houston Airport System is anticipated to reduce utility energy consumption by 24,404,226 kW or by \$1,302,432 annually.

Next Steps:

- The SECO has approved and signed the memoranda of understanding (MOUs) along with the Utility Assessment Report (UAR) for each of the two loan packages.
- An RCA is expected to be brought before Council on March 20, 2019.



CUS Variable Rate Exposure Summary

Liquidity Type	Series	Size (\$ millions)	Bank / Dealer	Expiration	Requires Bank Facility
Commercial Paper ⁽¹⁾	B-1	100.00	Bank of America	10/22/2021	Y
	B-2	75.00	Morgan Stanley	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	Morgan Stanley	3/1/2023	N
	B-6	100.00	Bank of America	10/22/2021	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
	2012B	100.00	State Street	6/1/2021	Y
Subtotal		528.33			
Index Floaters	2012A	125.00	Bank of America	5/1/2020	N
	2018C	249.08	Bank of America	8/1/2021	N
Subtotal		374.08	Total Debt Outstanding⁽²⁾	\$6,669.622	
				Total Commercial Paper Outstanding⁽²⁾	\$60.00
				Total Unhedged Variable Rate Debt⁽²⁾	0.90%

⁽¹⁾ The Series B-2 and B-5 are an Extendible Commercial Paper product.

⁽²⁾ As of December 31, 2018 Monthly Financial Report.

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



CUS Series 2004B-2, B-4 & B-5 Variable Rate Bonds

Background:

- On April 8, 2008 the Combined Utility System (CUS) converted the Series 2004B Bonds, which were originally issued as auction rate securities, into variable rate demand bonds (VRDBs). VRDBs are long term bonds that are remarketed weekly at short term interest rates. The VRDBs have provided a cost-effective method of financing a portion of the CUS Capital Improvement Program (CIP). In order to be marketable, the VRDBs require a liquidity facility provided by a highly rated bank.
- Currently, the letters of credit for the CUS Series 2004 B-2, B-4 & B-5 are scheduled to expire in late March/early April.



CUS Series 2004B-2, B-4 & B-5 Variable Rate Bonds

- The City requested renewal proposals from the current liquidity providers for all three Series.
 - City plans to renew the Series 2004 B-2 & B-5 bonds.
 - City has issued a request for term sheets for the Series 2004B-4 bonds in an amount up to \$75 million.

Next Steps:

- The Finance Working Group will review submitted proposals from qualified financial institutions to provide credit facilities for the Series 2004B-4 bonds in mid March 2019.
- An RCA is expected to be brought before Council in late March or April.



CUS First Lien Revenue Bonds, Series 2019A

Background:

- The Texas Water Development Board (“TWDB”) administers a program that provides below market, low-interest loans to communities that assist in meeting clean water standards. This program is known as the Clean Water State Revolving Fund (“CWSRF”) and is open to political subdivisions that own and operate a wastewater system.
- In 1998, the TWDB began using a priority rating process to determine the amount of funding participants could receive from the Clean Water State Revolving Fund. Municipalities are annually requested to submit an Intended Use Plan providing information on projects to be considered for TWDB funding. After projects are prioritized and the amount of available funds determined, applicants are invited to apply for CWSRF loans.



CUS First Lien Revenue Bonds, Series 2019A

Background:

- Projects being financed: Citywide Sanitary Sewer Collection System Rehabilitation

Next Steps:

- The Finance Working Group recommends issuing the CUS First Lien Revenue Bonds, Series 2019A in an amount not to exceed \$65 million.
- The proceeds would be used for approved wastewater projects that are included in the FY2018 - FY2022 Adopted Capital Improvement Project.
- This item will be presented to City Council for consideration in March 2019.

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



CUS First Lien Revenue Bonds, Series 2019A

System:	Combined Utility System
New Money or Refunding?:	New Money
Par Amount:	\$65 Million
Use of the Debt Proceeds:	Clean Water Projects

Revenue Source Securing Debt:	Net revenues of the Combined Utility System
Estimated Weighted Average Life of the Debt Being Refunded(Years):	N/A
Estimated Change to the Weighted Average Life of Debt Being Refunded:	N/A
Estimated Present Value Savings:	N/A
Estimated Percentage Savings:	N/A
Estimated True Interest Cost (%):	165 basis points below market rates, given the underlying credit rating for CUS
Anticipated Council Agenda Date:	March 2019
Anticipated Date of Pricing:	March 2019
Anticipated Date Closing:	April 2019



Hotel Occupancy Tax & Special Revenue Refunding Bonds, Series 2019

Background:

- In an effort to reduce variable rate exposure in line with City's target of 20%, the City is considering fixing out approximately \$70 million of variable rate debt. This will help reduce the variable rate exposure for C&E from its current rate of 22%.
- 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.
- Anticipated size of the transaction is up to \$135 million, which includes \$50 million for capital improvements.

Next Steps:

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



Hotel Occupancy Tax & Special Revenue Refunding Bonds, Series 2019

System:	Convention & Entertainment Facilities
New Money or Refunding?:	Both
Par Amount:	\$135 Million
Use of the Debt Proceeds:	Capital Improvement Program

Revenue Source Securing Debt:	HOT and Parking revenues
Estimated Weighted Average Life of the Debt Being Refunded (Years):	7.12 Years
Estimated Change to the Weighted Average Life of Debt Being Refunded:	< 1 Year
Estimated Present Value Savings:	N/A – (Fixed out of variable rate debt)
Estimated Percentage Savings:	N/A
Estimated True Interest Cost (%):	3.13%
Anticipated Council Agenda Date:	March 2019
Anticipated Date of Pricing:	April 2019
Anticipated Date Closing:	April 2019

All figures are subject to market adjustments. Market rates are as of February 26, 2019.

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



GO Public Improvement Bonds Series 2019A

Background:

- Commercial paper (CP) has provided an expedient, cost-effective method of accessing cash and providing interim financing. The CP notes are later refinanced into fixed rate bonds that match the useful life of the project or equipment being financed.
- This transaction represents the normal refunding of these General Obligation commercial paper notes. The anticipated size of the Series 2019A Bonds used to refund CP will be approximately \$160 million.
- Additionally we will be refinancing some currently outstanding bonds at lower current market interest rates which result in present value savings currently estimated at \$3.4 Million.



GO Public Improvement Bonds Series 2019A

– Below is a breakdown of proposed components:

Component being Refunded	Up To	Use
Refund CP Series G, H, J	\$90,000,000	Capital Projects
Refund CP Series E	\$70,000,000	Equipment
Total	\$160,000,000	
Current Refunding	\$35,000,000	
Total	<u>\$35,000,000</u>	
Grand Total	\$195,000,000	

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



GO Public Improvement Bonds Series 2019A

Next Steps:

- 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.
- An RCA is expected to be brought before Council in spring 2019.



GO Public Improvement Bonds Series 2019A

System:	General Obligation
New Money or Refunding?:	Both
Par Amount:	\$195 Million
Use of the Debt Proceeds:	Capital Improvement Program and Refunding

Revenue Source Securing Debt:	Ad Valorem Property Taxes
Estimated Weighted Average Life of the Debt Being Refunded (other than Commercial Paper):	7.616 Years
Estimated Change to the Weighted Average Life of Debt Being Refunded (other than Commercial Paper):	< 1 Year
Estimated Net Present Value Savings:	\$3.4 Million
Estimated Percentage Savings:	9.7%
Estimated True Interest Cost (%):	3.05%
Anticipated Council Agenda Date:	Spring 2019
Anticipated Date of Pricing:	Spring 2019
Anticipated Date Closing:	Spring 2019

All figures are subject to market adjustments. Market rates are as of February 27, 2019

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Questions?