



# Finance Department

## Presentation to the City of Houston Budget and Fiscal Affairs Committee

### Upcoming Financial Transactions

April 2<sup>nd</sup>, 2019

Presented By:  
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# Agenda

- **Houston Airport System (HAS)**
  - a) Special Facilities Revenue Bonds (United Airlines Improvement Project)
- **General Obligation (GO)**
  - b) Tax and Revenue Anticipation Notes (TRANS) 2019
- **Combined Utility Services (CUS)**
  - c) Commercial Paper Program, Series B-4
  - d) First Lien Revenue and Refunding Bonds, Series 2019B&C



# HAS Special Facilities Revenue Bonds (United Airlines Improvement Project)

## Background:

- United has proposed, and the City agrees, that there is a need for United to replace the baggage handling system in Terminals C and E at IAH.
- United has requested that the City issue Special Facilities Revenue Bonds to fund this project.
- The Special Facilities Revenue Bonds would not be general airport revenues or any other City revenues, other than payments from United under the special facilities lease.
- Anticipated size of the transaction is up to \$390 million.



# HAS Special Facilities Revenue Bonds (United Airlines Improvement Project)

## Next Steps:

- The City anticipates issuing Special Facilities Revenue Bonds in late July or early August 2019.
- The issuance of the Special Facility Revenue Bonds will require three Council actions:
  - City Council Approval of Inducement Resolution in April 2019
  - Council Approval of Lease & Financing Agreement in July 2019
  - Council Approval of the terms (principal amount, rates, redemption provisions and amortization) of the Sale of the Special Facility Revenue Bonds, expected in August 2019



# Tax and Revenue Anticipation Notes Series 2019

## 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 during the City's fiscal year 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 auction intended to give the City access to a large scope of potential purchasers and provides efficient pricing.



# Tax and Revenue Anticipation Notes Series 2019

- Historically, the TRANS ordinance is structured to 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 2019

## Next Steps:

- For FY2020, the TRANS primary borrowing in July 2019 will be approximately \$150 to \$300 million. The total authorized size (primary and supplemental) of the TRANS is anticipated to be approximately \$400 million.
- The competitive on the auction date 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 in May 2019.



# CUS Variable Rate Exposure Summary

Liquidity Type	Series	Size (\$ millions)	Bank / Dealer	Expiration	Requires Bank Facility
Commercial Paper <sup>(1)</sup>	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
<b>Subtotal</b>		<b>700.00</b>			
Variable Rate Demand Bonds	2004B-2	100.00	Citigroup	3/31/2022	Y
	2004B-3	75.00	Sumitomo	4/2/2021	Y
	2004B-4	75.00	Bank of Tokyo	6/14/2019	Y
	2004B-5	100.00	Wells Fargo	4/4/2022	Y
	2004B-6	78.33	Sumitomo	4/2/2021	Y
	2012B	100.00	State Street	6/1/2021	Y
<b>Subtotal</b>		<b>528.33</b>			
Index Floaters	2012A	125.00	Bank of America	5/1/2020	N
	2018C	249.08	Bank of America	8/1/2021	N
<b>Subtotal</b>		<b>374.08</b>	<b>Total Debt Outstanding<sup>(2)</sup></b>	<b>\$6,695.428</b>	
				<b>Total Commercial Paper Outstanding<sup>(2)</sup></b>	<b>\$105.00</b>
				<b>Total Unhedged Variable Rate Debt<sup>(2)</sup></b>	<b>1.56%</b>

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

<sup>(2)</sup> As of February 28, 2019 Monthly Financial Report.

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





# CUS Commercial Paper, Series B-4

## Background:

- Commercial Paper program has provided a cost-effective method of accessing cash and providing interim financing for the Combined Utility System's (CUS) capital Improvement program (CIP).
- The Series B-4 facility is approximately \$100 million in size and currently supports the CIP of the System.
- The current liquidity facility is set to expire on July 12, 2019.



# CUS Commercial Paper, Series B-4

## Next Steps:

- The City expects to issue a request for term sheets related to the B-4 facility, which may lead to a replacement of the current facility provider by late April 2019.
- The Finance Working Group will review submitted proposals from qualified financial institutions and make a recommendation by late May 2019.
- An RCA is expected to be brought before Council in late May or June



# CUS First Lien Revenue and Refunding Bonds, Series 2019B&C

## 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. Based on market conditions as of March 26, 2019, the total anticipated size of the Series 2019B Bonds will be approximately \$770 million, of which \$220 million is related to commercial paper refunding.



# CUS First Lien Revenue and Refunding Bonds, Series 2019B&C

- 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 2019B&C Bonds (approximately \$770 million) includes approximately \$550 million taxable bonds for this purpose, which will result in present value savings currently estimated at \$58 million, subject to market conditions and further due diligence.

## **Next Steps:**

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



# CUS First Lien Revenue Bonds, Series 2019A

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System:	Combined Utility System
New Money or Refunding?:	Both (Tax-Exempt and Taxable)
Par Amount:	\$770 Million
Use of the Debt Proceeds:	Capital Improvement Program and Refunding

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Revenue Source Securing Debt:	Net revenues of the Combined Utility System
Estimated Weighted Average Life of the Debt Being Refunded(Years):	14.4 Years
Estimated Change to the Weighted Average Life of Debt Being Refunded:	-0.775 Years
Estimated Present Value Savings:	\$58 Million
Estimated Percentage Savings:	11%
Estimated True Interest Cost (%):	3.45%
Anticipated Council Agenda Date:	Spring 2019
Anticipated Date of Pricing:	Spring 2019
Anticipated Date Closing:	Spring 2019

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

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Questions?