



# CITY OF HOUSTON

Finance Department

## Interoffice

Correspondence

**To:** Budget and Fiscal Affairs  
Committee

**From:** Michelle Mitchell, Director  
Finance Department

A handwritten signature in black ink that reads "Michelle Mitchell".

**Date:** January 5, 2010

**Subject:** **Creation of New General Obligation  
Commercial Paper Program(s)**

The purpose of this memorandum is to summarize an upcoming transaction to support the City's Capital Improvement Program ("CIP") and the City's drainage initiatives. A specific Request for Council Action is expected to be brought before Council later in January.

Starting in 1993, City Council began authorizing commercial paper programs to provide appropriation capacity and "on time" funding for various capital expenditures of the City. The issuance of commercial paper has provided an expedient, cost-effective method of accessing cash and providing interim financing. Commercial paper notes are later refinanced into fixed rate bonds more closely matching the useful life of the project or equipment being financed.

Currently, the Series D commercial paper program is used in support of the City's CIP, and Series F is used in support of the City's drainage initiatives. The current liquidity facilities that support the Series D and Series F Commercial Paper programs expire in May 2010. This recommendation is for the creation of one or more new commercial paper programs, to be designated as Series I (and adding subsequent lettering designations if more than one program is required), as replacement for Series D and Series F Commercial Paper programs. The aggregate amount of commercial paper capacity to be added is up to \$125 million.

The Finance Working Group ("FWG") recommends adding one or more new General Obligation Commercial Paper Note programs in support of the City's CIP and drainage initiatives. The Mayor and City Controller will present their recommended liquidity provider(s), commercial paper dealers, and issuing/paying agent to City Council later in January 2009.

### Recommendation

The FWG recommends approval of this transaction.



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**Subject:** Combined Utility System Series  
2008A-1 and Series 2008A-2 First  
Lien Revenue Refunding Bonds

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The purpose of this memorandum is to summarize an upcoming transaction to support the \$249 million Combined Utility System ("CUS") Series 2008A-1 and Series 2008A-2 First Lien Revenue Refunding Bonds ("Series 2008A1-2"). A specific Request for Council Action ("RCA") is expected to be brought before Council later in January.

On May 7, 2008, the CUS issued the Series 2008A1-2 as 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. The current liquidity facility that supports these bonds will expire in May 2010 and replacement of such facility is likely to be significantly more expensive, if available.

The Finance Working Group ("FWG") recommends the approval of a Direct Purchase Agreement with a highly rated bank. This transaction will involve either a refunding or a restructuring of current documents to allow the Direct Purchase of these bonds for a three-year period. The applicable interest rate will remain variable, but will not require a liquidity facility. The specific companies selected for this transaction will be presented to Council through an RCA that is forthcoming.

### Recommendation

The FWG recommends approval of this transaction.