



Finance Department

Presentation to the City of Houston Budget and Fiscal Affairs Committee

Official Statement Template and Disclosure

September 3rd 2013

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Agenda

- Official Statement
- Policies and Procedures
- General Obligation vs. Revenue Bonds
- Official Statement – Review of Selected Sections
 - Purpose and Plan of Finance
 - Schedules
 - Evolution of Disclosures
 - Enterprise Fund Disclosures
 - Continuing Disclosure



Scope of Presentation

- The Policies and Procedures flowchart slide presents a high level understanding of policies and procedures relating to official statement production.

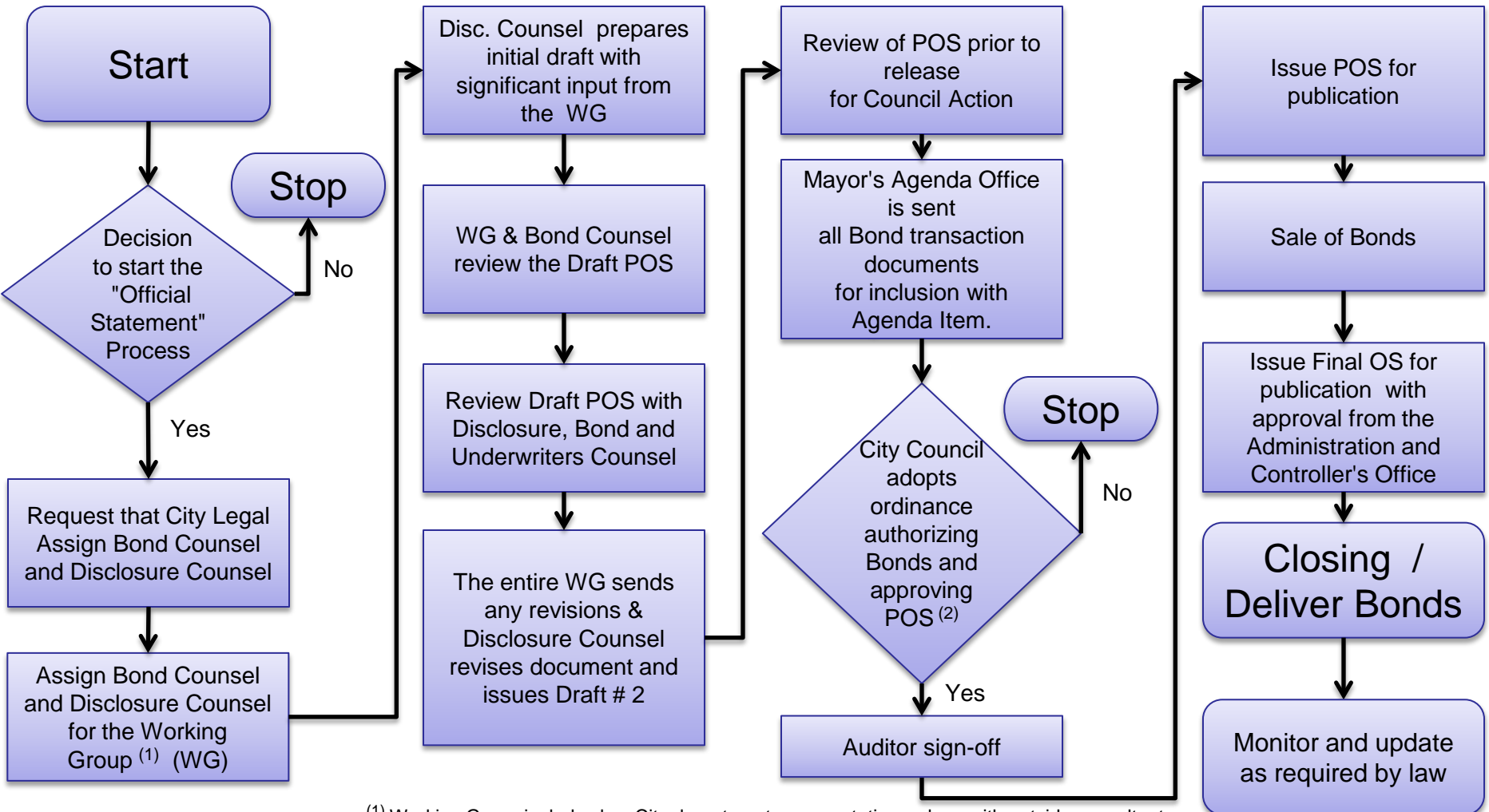


Official Statement

- Under federal securities law, the issuer is primarily responsible for the accuracy and completeness of the Official Statement.
- The Preliminary Official Statement (the “POS”) and Official Statement (the “OS”) are documents prepared by the issuer of municipal securities in connection with a public offering that discloses all material information (financial and otherwise) on the offering of such securities.
- The OS typically includes information regarding the purpose and plan of finance of the proposed debt issuance, the revenues from which the obligations will be repaid, and material information (financial and otherwise) of the issuer.
- Investors and others (rating agencies, bond insurers, etc.) use this information to evaluate the credit quality of the Issuer, the securities and the Issuer’s risk of nonpayment of the offering.
- The OS is not intended to be a forward looking document—it only speaks as of its date. The core of the document reflects the issuer’s financial position as of the posted date on the OS.



Policies and Procedures



(1) Working Group includes key City department representatives, along with outside consultants.

(2) Per SEC Rule 15c2-12



General Obligation vs Revenue Bonds

| | Tax-Backed Debt | Revenue Debt |
|-------------------------------|---|--|
| Security | Ad valorem tax | Pledge of gross or net revenues of an enterprise system (usually net). Pledge may be senior, subordinate or inferior lien basis. |
| Disclosure regarding Security | Includes data on tax rate levels (for debt and overall), rate limitations, property valuations, overlapping tax-backed debt, largest taxpayers, collection success, and similar items | Includes data on coverage, ability to adjust rates, collection percentage, largest sources of revenues and reserve funds. |
| Common Types of Disclosure | Principal Taxpayers/Largest Customers Debt Service Schedule Overall Capital Improvement Plans Annual Budget Employees, Pension, OPEB Description of City Government/Enterprise Fund Authorization for Issuance Description of the Securities | |
| Unique Types of Disclosure | Tax Rolls | Supply/Capacity (i.e. water supply, airport map/gates) Expense Details Rates and Rate-Setting |
| | Ad Valorem Tax Levies and Collections Level of Delinquent Taxes and Collections | Coverage Table of Debt Service by Revenues or Net Revenues Charges Per Customer (competitiveness) |
| | Direct and Overlapping Debt | Overall Obligations Payable from System Revenues (including lien level detail) |
| | Voter-Authorized but Unissued Bonds | Additional Bonds Test |



Purpose and Plan of Finance

- This section of the Official Statement describes the types of projects/purposes for which the bond proceeds will be used and other unique features of the structure.
- Provides a description of the total amount of funds to be used for those purposes, along with a description of how the funds will be applied.



Schedules

- The Official Statement provides financial schedules to provide prospective bondholders with financial information from the Monthly Financial and Operations Report and externally audited financial information. Such schedules include:
 - Tax Rolls, Ad Valorem Tax Levies and Collections and Principal Taxpayers
 - Net Revenues of the System and Debt Service Coverage, System Budget and Water Supply – Capacity, Production and Sales
- Schedules are prepared or updated by Finance, Controller's Office and the City's Financial Advisor in consultation with the respective City Department and staff. The City's external auditors review and approve the schedules prior to publication.
- All schedules are reviewed by the Finance Working Group.



Evolution of Disclosures

- Looking back a decade, disclosure was different than the disclosure of today.
- Past disclosure topics included:
 - Revenue limitation
 - Major Events (e.g. Tropical Storm Allison, September 11)
 - Bond Insurance
- The disclosure that is presented in the OS is a then-current financial health snapshot of the issuer complying with the market standards of the time.
- In the current market pension disclosure has become a place of emphasis.



Evolution of Disclosures

- In 2004, the Finance Working Group made significant changes to the City's pension disclosure in its offering documents.
 - Prior disclosure included a few pages and has since grown to over 10 pages of information.
- Since 2004, the City's Chief Pension Officer has carefully reviewed and prepared comments on every Official Statement prior to City Council approval of the Preliminary Official Statement through the distribution of the Official Statement.
- To further ensure that the City's pension disclosure stays aligned with best practices and market standards, the Office of the City Attorney, Disclosure Counsel and Bond Counsel review best practices for disclosure of information relating to pensions and OPEBs.
- Primary data source for figures are the adopted actuarial reports from the respective Pension System.



Enterprise Fund Disclosures

- The Security for the Bonds section is material in that it provides to the bondholder critical information regarding the revenues securing the City's obligation to pay debt service.
- Potential bondholders can evaluate the security of the bonds by examining the included descriptions of the
 - Revenues pledged and those previously collected.
 - Master Ordinance flow of funds.
 - Covenant to set water and sewer rates to appropriate levels to achieve coverage.
 - System's automatic annual rate adjustments.



Continuing Disclosure

- Issuers are required by federal securities law to make certain annual and periodic filings of their financial and operating data.
- This section of the Official Statement lays out those requirements and summarizes the undertaking the City has made in its ordinance to complete these filings.
 - E.g. Comprehensive Annual Financial Report (CAFR) to be provided within six months after the end of each fiscal year.
- Information includes audited financial statements, material event notices, etc.
- Controller's Office ensures that all continuing disclosure is released in a timely manner.



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Questions?