



# Finance Department

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

### Upcoming Financial Transactions

April 5<sup>th</sup> 2016

Presented By:  
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# Agenda

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- General Obligation
  - Tax and Revenue Anticipation Notes 2016
- Houston Airport System
  - General Airport Revenue and Refunding Bonds, Series 2016



# Annual Financing Plan

Department	Series	Size (\$ Millions)	Actual or Anticipated Closing	PV Savings (\$ Millions)	True Interest Cost (%)
GO	TRANS 2015	210	July 2, 2015	N/A	0.29
CUS	2015D & 2007A Exchange Bonds	119	July 9, 2015	10.12	3.71
CUS	2016A	64	January 20, 2016	N/A	1.40
CUS	2016B	955	March 8, 2016	116.76	3.26
GO	PIB 2016	557	April 13, 2016	49.16	2.58
<b>Subtotal</b>		<b>\$1,905</b>		<b>\$176.04</b>	<b>2.70%</b>
HAS	2016	380	June 2016	5	3.84
GO	TRANS 2016	150-250	July 2016	---	---
<b>Subtotal</b>		<b>\$530-630</b>		<b>\$5</b>	
<b>FY2016</b>	<b>Total</b>	<b>\$2,435-2535</b>		<b>\$181.04</b>	
<b>FY2015</b>	<b>Total</b>	<b>\$1,353</b>		<b>\$44.13</b>	
<b>FY2014</b>	<b>Total</b>	<b>\$2,390</b>		<b>\$209.23</b>	

(1) Estimated. Preliminary, subject to change.

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



# Tax and Revenue Anticipation Notes Series 2016

- 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 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 electronic auction intended to give the City access to a large scope of potential purchasers and provides efficient pricing.

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# Tax and Revenue Anticipation Notes Series 2016

- Historically, the TRANS are structured to potentially 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 supplemental borrowing has only been used once in the past 11 years for unexpected Ike related expenditures in FY 2009.

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# Tax and Revenue Anticipation Notes Series 2016

- For FY 2017, the TRANS primary borrowing in July 2016 will be \$150 to \$250 million. The total authorized size (primary and supplemental) of the TRANS will be \$300 million.
- The competitive auction 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 in May for authorization of the sale.

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# Houston Airport System (HAS)

## Series 2016

The total size of the 2016 Series Bonds is anticipated to be approximately \$380 million

- This transaction includes the normal refunding of approximately \$100 million of commercial paper notes.
  - The use of commercial paper (CP) provides 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 projects and/or equipment being financed.
- Bond proceeds will also be used to buy-out Southwest's investment in the Hobby International terminal and establish the Debt Service Reserve Account, as required by the HAS master bond ordinance (approximately \$150 million and \$16 million, respectively).
- In an effort to reduce variable rate exposure in line with City's target of 20%, some auction rate securities (ARS), amounting to \$73 million, will also be fixed out. This will help reduce the variable rate exposure for HAS, from 17% to 12%.

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# Houston Airport System (HAS)

## Series 2016

- 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. The total potential size of the 2016 Bonds (approximately \$380 million) includes approximately \$41 million for this purpose, which will result in present value savings currently estimated at \$5 million, subject to market conditions and further due diligence.
- An RCA is expected to be brought before Council in May.





# Houston Airport System (HAS) Series 2016

- Below is a breakdown of proposed components:

Components	Up To	Use
Senior Lien Commercial Paper	\$100,000,000	Refunding
ARS Series 2001P-1 and 2001P-2	\$ 73,000,000	Refunding
Advance Refunding	\$ 41,000,000	Refunding
Total	<b>\$214,000,000</b>	
Buy-out Southwest's investment	\$150,000,000	New Money
Maintenance of Debt Service Reserve Account	\$ 16,000,000	New Money
Total	<b>\$166,000,000</b>	
<b>Grand Total</b>	<b>\$380,000,000</b>	

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# Houston Airport System (HAS) Series 2016

System:	Houston Airport System
New Money or Refunding?:	Both
Par Amount:	\$380 Million (approximately)
Use of the Debt Proceeds:	Capital Improvement Program
Revenue Source Securing Debt:	Net General Airport Revenues
Estimated Weighted Average Life of the Debt Being Refunded (other than Commercial Paper):	9.366 Years
Estimated Change to the Weighted Average Life of Debt Being Refunded (other than Commercial Paper):	(0.052) Years
Estimated Net Present Value Savings:	\$5 Million
Estimated Percentage Savings:	13.0%
Estimated True Interest Cost (%):	3.84%
Anticipated Council Agenda Date:	May 2016
Anticipated Date of Pricing:	June 2016
Anticipated Date Closing:	July 2016

All figures are as of March 24, 2016 and are subject to market adjustments.

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**Questions?**