



CITY OF HOUSTON

Finance Department

Interoffice

Correspondence

To: Budget and Fiscal Affairs Committee

From: Kelly Dowe, Director
Finance Department

Date: May 31, 2011

CC:

Subject: **Houston Airport System,
Subordinate Lien Revenue
Refunding Bonds, Series
2011, Series A and Series B**

The purpose of this memorandum is to summarize an upcoming transaction with the Houston Airport System, Subordinate Lien Revenue Refunding Bonds, Series 2011A and Series 2011B (the "Series 2011 Bonds"). The Series 2011 Bonds will refund outstanding bonds of the System, supplement the current debt service reserve fund, and pay costs of issuance. A specific Request for Council Action will be brought before City Council in early June.

The City has identified approximately \$450 million of Subordinate Lien Bonds and another \$30 million of Special Facility Bonds that are candidates to be refunded to achieve present value savings in the current interest rate environment. If interest rates decrease further, there is potentially \$50 million of additional bonds that could be candidates for refunding. Therefore, the maximum size of the Series 2011 Bonds, including funding the debt service reserve, is \$600 million. The currently projected present value savings of the refunding alone is estimated to be \$25 million, which is approximately 6% of the refunded par.

Actual savings on the transaction will be reduced as a portion of the bond proceeds will be used to supplement the balances of the subordinate lien bond debt service reserve fund. This action will enhance the value of the subordinate lien reserve fund from a credit perspective. The savings may be reduced further to provide some reduction of debt service to provide additional cushion for the airports bond coverage levels in the near term. This transaction is contingent on market conditions remaining favorable.

The Finance Working Group recommends the Series 2011 Bonds be issued through a negotiated financing with Goldman, Sachs & Co. serving as senior manager along with Wells Fargo Securities, L.L.C. and Morgan Stanley as co-senior managers. Rice Capital Markets, Cabrera Capital Markets and Raymond James & Associates are recommended as co-managers. Vinson & Elkins, L.L.P. and Bates & Coleman are recommended as co-bond counsel along with Bracewell Giuliani, L.L.P. and Bratton & Associates as co-disclosure counsel.

Recommendation

The Finance Working Group recommends that the City proceed with this transaction.