Why Purchase City of Houston Municipal Bonds?

Chris B. Brown, Houston City Controller

Municipal bonds have been essential to Houston's growth. I am not sure most of the people who back them—the taxpayers—know the true value of municipal bonds. In short, bonds have allowed the City of Houston to accommodate all the new citizens in our city, over a quarter million moving here from other U.S. towns and cities just in the last decade. Our public schools, streets, water system, sewer system, airports, mass transit and the many public amenities for citizens—parks, libraries, health clinics—are all made possible by tax revenue ***and*** bonds. And it's been that way for most American cities for the past 100 years.

Why would the City issue bonds? Why would we want to accumulate debt, rather than relieve the debt we already have? It's much like a young family looking to buy their first house: they certainly don't want to save their money for 30 years, living in a small apartment, so they can finally buy a house outright. Instead, they go to a bank and arrange for a 30-year loan, a mortgage. Yes, they could look at this transaction as one of indebtedness, but of course they choose to look at it as their first home.

Because of historically low interest rates during the past two years—and with our exceptional credit rating as support--I have aggressively pursued re-financing several of the City's larger municipal bonds, lowering our debt more than $200 million over the next decade ***without extending the lifetime of the payment***. To me, that's exciting! That's $200 million that can fund water and sewer lines, libraries, swimming pools, airport expansion, fire house improvements and many other capital improvement projects. The Treasury Division of the Controller's Office monitors interest rates on an hourly basis: we are always looking for an opportunity to create a beneficial refinancing. The fact is that if cities built their infrastructure (and repaired it as it aged) on a pay-as-you-go basis, the property tax rate would have to at least triple.

Some think municipal bonds are not a very safe investment—they believe that like the stock market, bonds can "tank." In truth, when the City of Houston issues bonds, investors line up to buy them. The City's credit ratings are excellent; perhaps most importantly, municipal bonds are backed by property taxes (the City's largest revenue source), and in Houston that's a good guarantee because our city continues to attract new residents and businesses. The bonds the City of Houston issues are called general obligation bonds, or GOs, and it is our taxation authority that backs up the ability to pay the interest and, ultimately, pay back the principal. Cities in distress or in decline can issue bonds, but not with the low interest rates that Houston now enjoys. (The other type of municipal bonds, revenue bonds, are issued to pay for projects that will generate revenue, such as a toll road, to repay the debt.)

Houston carries $13 billion bond debt, about three times the annual total budget of the city, about the same proportion rate for a family with an income of $60,000 carrying a home mortgage of $180,000.

Obviously, carrying too much debt will inevitably cause big problems—whether it's a city or a young couple buying a house that's clearly out of their price range. But the City of Houston—like very few cities nowadays—has a very positive mix of revenues, population growth, business expansion and high credit ratings by the three rating agencies. This combination has allowed us to refinance existing bonds and save hundreds of millions of dollars, and I intend to continue looking for opportunities to lower the City's debt without extending its duration. That's a very exciting prospect.