



CITY OF HOUSTON

Finance Department

Interoffice

Correspondence

To: Budget and Fiscal Affairs Committee

From: Michelle Mitchell, Director
Finance Department

Date: February 2, 2010

CC:

Subject: **Combined Utility System First
Lien Revenue Bonds Series
2010D**

The purpose of this memorandum is to summarize an upcoming transaction to support the City's Combined Utility System Capital Improvement Program. A specific Request for Council Action will be brought before City Council later this month. The bond pricing is projected to take place in early March and the closing a couple weeks later.

The CUS Series 2010D is composed of several potential components including:

- Refunding of outstanding commercial paper,
- Funding a construction fund, and
- Providing for associated reserve fund and costs of issuance.

Refunding of Commercial Paper Program Series B

In 1993, City Council began authorizing various commercial paper programs to provide appropriation capacity and cash for various needs of the City. The issuance of commercial paper has provided an expedient, cost-effective method of accessing cash and providing interim financing. The commercial paper notes are later refinanced to fixed rate bonds that match the useful life of the project or equipment being financed. This transaction represents the normal refunding of these commercial paper notes held by the Combined Utility System.

The Finance Working Group ("FWG") recommends refunding all currently outstanding commercial paper notes approximately \$200 million.

Funding a Construction Fund

The CUS FY2010 – FY2014 average annual planned Capital Improvement Program ("CIP") is approximately \$190 million. The FWG recommends utilizing a Construction Fund in conjunction with the CUS Commercial Paper Program Series B to fund the planned CIP, due to the increased costs of commercial paper facilities.

The FWG recommends issuing approximately \$250 million for the creation of a Construction Fund.

SUMMARY

	Approximately*
Refunding of Series B CP	\$200 million
Funding of Construction Fund	\$250 million
	\$450 million
Estimated Cash Funding of Debt Reserve Fund**	\$ 50 million
CUS First Lien Revenue Bonds Series 2010D	\$500 million

*Amounts subject to change.

**Cash funding of the debt reserve fund will occur in accordance with CUS bond ordinances at the time of issuance.

Depending on market conditions, some portion of these bonds may be issued as Build America Bonds. In this case, subsequent lettering will be added (e.g. Series 2010E) as needed, with the total amount of all series to be approximately \$500 million.

The Finance Working Group recommends the Series 2010D Bonds be issued through a negotiated financing with an underwriting and legal team to be named in the Request for Council Action.

Recommendation

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