

## DEBT MANAGEMENT POLICIES

Financial Policies: Debt Management Policies

1. It is the City's goal to at least maintain the current credit ratings on each type of City credit or enterprise fund as of the date of adoption of these policies.

NOT IN COMPLIANCE

	Moody's		Standard & Poor's		Fitch	
	Dec '14	Current	Dec '14	Current	Dec '14	Current
City of Houston - General Obligation	Aa2	Aa3	AA+	AA	AA	AA
Water & Sewer System - Junior Lien	Aa1	Aa1	AA+	AA+	AA+	AA+
Combined Utility System First Lien	Aa2	Aa2	AA	AA	AA	AA
Houston Airport - Senior Lien	Aa3	Aa3	AA-	AA-	NR	NR
Houston Airport - Junior Lien	A2	A1	A	A+	A	A
Convention & Entertainment	A2	A2	A-	A	NR	NR

2. The debt service Fund Balance as of each fiscal year end relating to debt secured by ad valorem taxes shall be no less than debt service payments due within the first 180 days of the following fiscal year.

IN COMPLIANCE

Debt Service due by 12/31/2019:	\$74,487,000
Debt Service Fund Balance as of 6/30/19 (projected):	\$146,222,000

3. A standardized presentation format for proposed debt transactions will be adopted by Budget and Fiscal Affairs (BFA). Presentations of debt transactions to BFA shall at least include the following information: revenue source securing the debt uses of the debt proceeds, estimated weighted average life of the debt, estimated change to the overall weighted average life of outstanding debt, estimated present value savings as applicable, estimated true interest cost, anticipated date of pricing and closing.

IN COMPLIANCE

4. Any capital project financed through the issuance of bonds shall be financed for a period not to exceed the average expected life of the assets.

IN COMPLIANCE

5. Each fiscal year, the City will use that year's General Obligation (GO) debt service payment as a baseline to establish an index reflecting 4% annual growth in the City's GO debt service (i.e., if the current fiscal year's debt service is \$100, then the debt service index for subsequent years would be \$104, \$108.16, \$112.49, \$116.99, etc.). If any proposed action by the City (e.g., adoption of the CIP, or Council authorization of debt issuance) is to cause the GO debt service schedule as projected by the City's Financial Advisor to exceed the index in FY2019 and/or any subsequent year(s), a funding mechanism (e.g., reduced expenditures or increased revenue) must be identified to offset the amount(s) by which the proposed debt service payment(s) exceed the index. For purposes of this section, "identification" of a funding mechanism is satisfied by presentation to BFA and/or City Council prior to any action that would incur GO debt.

IN COMPLIANCE

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**FISCAL YEAR 2020 BUDGET**

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Fiscal Year	GO Debt Service Index	GO Debt Service Due
2019	421,496,015	421,496,015
2020	438,355,855	391,993,334
2021	455,890,090	391,196,992
2022	474,125,693	369,889,899
2023	493,090,721	347,441,728
2024	512,814,350	326,176,808
2025	533,326,924	284,856,029
2026	554,660,001	265,085,518
2027	576,846,401	271,386,435
2028	599,920,257	264,362,759
2029	623,917,067	242,054,661
2030	648,873,750	206,609,545
2031	674,828,700	197,941,654
2032	701,821,848	190,521,260
2033	729,894,721	141,071,498
2034	759,090,510	115,784,632
2035	789,454,131	150,151,972
2036	821,032,296	139,146,590
2037	853,873,588	122,601,444
2038	888,028,531	81,390,836
2039	923,549,673	80,323,831
2040	960,491,659	79,751,582
2041	998,911,326	102,001,140
2042	1,038,867,779	80,907,496
2043	1,080,422,490	81,643,022
2044	1,123,639,390	80,647,485
2045	1,168,584,965	82,861,427
2046	1,215,328,364	85,140,092
2047	1,263,941,498	87,483,182

6. To reduce the General Fund transfer for debt service while remaining in compliance with all relevant bond or other debt covenants and indentures, the maximum annual General Fund transfer for debt service is to be maintained at 20% of General Fund revenues (excluding state and federal grants) until FY2019. Beginning in FY2019 and in each subsequent fiscal year, the maximum annual General Fund transfer for debt service is to be reduced by 0.5% annually until it reaches 12% of General Fund revenues (excluding state and federal grants), at which point the maximum is to be held constant and remain at 12%.

**IN COMPLIANCE**

General Fund Transfer Limit:	19.0%
FY2020 budgeted General Fund Transfer:	14.5%

7. The City will maintain average weighted General Obligation bond maturities of 12 years or less.

**IN COMPLIANCE**

The average weighted General Obligation bond maturity as of April 26, 2019 is 10.8 years.

8. When refunding debt, the average weighted maturity of the refunded bonds may not be extended by more than one year unless approved by a two-thirds vote of the City Council present and voting.

**IN COMPLIANCE**

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**FISCAL YEAR 2020 BUDGET**

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<u>Series</u>	<u>Delivery Date</u>	<u>Average life of refunded bonds</u>	<u>Average life of refunding bonds</u>
Hotel Occupancy Tax and Special Revenue and Refunding Bonds, Series 2019	4/30/2019	7.119	6.970
Combined Utility System First Lien Rev & Ref Bonds, Series 2018D&E	8/21/2018	11.790	11.531
Houston Airport System Subordinate Lien Revenue and Refunding Bonds, Series 2018C (AMT) and 2018D (Non-AMT)	8/2/2018	10.976	11.152

9. Other than periodic refundings of commercial paper in accordance with routine City business, the City may initiate a refunding of outstanding debt when:
- a. A refinancing is expected to relieve the City of financially restrictive covenants;
  - b. A refinancing is expected to significantly reduce the remaining term of the debt being refunded; or
  - c. At the transaction's initiation, the City's financial advisors project net present value savings of at least:
    - i. 3% for Current Refundings, unless the final maturity of the refunded bonds is less than five years, in which case the bonds may be refunded for any savings if the final maturity of the bonds refunded is not extended; and
    - ii. 5% for Advance Refundings, unless the final maturity of the refunded bonds is less than five years, in which case the bonds may be refunded for any savings if the final maturity of the bonds refunded is not extended.

The Finance Working Group will be responsible for confirming that one of the above conditions exists.

**IN COMPLIANCE**

10. All City financings must be approved by the Finance Working Group, and must first be analyzed for long-term affordability and compliance with the City's financial policies and other legal or administrative requirements.

**IN COMPLIANCE**

11. The City shall review all outstanding debt at least annually for the purposes of identifying refunding opportunities.

**IN COMPLIANCE**

12. A formal procurement process shall be conducted by the Finance Working Group annually when selecting underwriters in order to promote fairness, objectivity and transparency. The selection committee shall report results of the process to BFA and present the approved list of underwriters for the following year. Evaluation criteria shall include questions related to the areas listed below to distinguish firms' qualifications and experience, including but not limited to:
- a. Relevant experience of the firm and the individuals assigned to the issuer, and the identification and experience of the individual in charge of day-to-day management of the bond sale, including both the investment banker(s) and the underwriter(s);
  - b. A description of the firm's bond distribution capabilities including the experience of the individual primarily responsible for underwriting the proposed bonds. The firm's ability to access both retail and institutional investors should be described;

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**FISCAL YEAR 2020 BUDGET**

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- c. Demonstration of the firm's understanding of the issuer's financial situation, including ideas on how the issuer should approach financing issues such as bond structures, credit rating strategies and investor marketing strategies;
- d. Demonstration of the firm's knowledge of local political, economic, legal or other issues that may affect the proposed financing;
- e. Documentation of the underwriter's participation in the issuer's recent competitive sales or the competitive sales of other issuers in the same state;
- f. Analytic capability of the firm and assigned investment banker(s);
- g. Access to sources of current market information to provide bond pricing data before, during, and after the sale;
- h. Any finder's fees, fee splitting, or other contractual arrangements of the firm that could present a real or perceived conflict of interest, as well as any pending investigation of the firm or enforcement or disciplinary actions taken within the past three years by the Securities and Exchange Commission, the Municipal Securities Rulemaking Board, or any other regulatory agency.

IN COMPLIANCE

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