



# Finance Department

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

### Upcoming Financial Transactions

March 3, 2020

Presented By:  
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# Agenda

## A. Combined Utility System (CUS)

- i. First Lien Revenue and Refunding Bonds, Series 2020C&D

## B. General Obligation (GO)

- i. Tax and Revenue Anticipation Notes (TRANS) 2020



# First Lien Revenue and Refunding Bonds, Series 2020C&D

## Background:

- The City has used the issuance of commercial paper to provide an expedient, cost-effective method of accessing cash and providing interim financing. The commercial paper (CP) notes are later refinanced into fixed rate bonds that match the useful life of the projects and/or equipment being financed.
- This transaction represents the normal refunding of these commercial paper notes issued by the Combined Utility System.
- Based on market conditions as of January 23, 2020, the total anticipated size of the Series 2020C&D Bonds will be approximately \$591 million, of which approximately \$265 million is related to CP refunding and \$200 million will be used to set up a project fund.



# First Lien Revenue and Refunding Bonds, Series 2020C&D

- Additionally, the Series 2020C&D Bonds will include approximately \$126 million for the purpose of refunding existing debt, which will result in present value savings currently estimated at \$10.8 million, subject to market conditions and further due diligence.

## **Next Steps:**

- An RCA is expected to be brought before Council in Spring 2020.



# CUS First Lien Revenue Bonds, Series 2020C&D

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System:	Combined Utility System
New Money or Refunding?:	Both (Tax-Exempt and Taxable)
Par Amount:	\$591 Million approximately
Use of the Debt Proceeds:	Capital Improvement Program and Refunding

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Revenue Source Securing Debt:	Net Revenues of the Combined Utility System
Estimated Weighted Average Life of the Debt Being Refunded(Years):	15.3 Years
Estimated Change to the Weighted Average Life of Debt Being Refunded:	-0.437 Years
Estimated Present Value Savings:	\$10.8 Million
Estimated Percentage Savings:	6.94%
Estimated True Interest Cost (%):	3.24%
Anticipated Council Agenda Date:	Spring 2020
Anticipated Date of Pricing:	Spring 2020
Anticipated Date Closing:	Spring 2020

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All figures are subject to market adjustments. Market rates are as of January 23, 2020.

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



# Tax and Revenue Anticipation Notes Series 2020

## Background:

- 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 during the City's fiscal year 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 auction intended to give the City access to a large scope of potential purchasers and provides efficient pricing.



# Tax and Revenue Anticipation Notes Series 2020

- Historically, the TRANS ordinance is structured to 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 last time the City used the supplemental borrowing was in FY2009 for unexpected Ike-related expenditures.



# Tax and Revenue Anticipation Notes Series 2020

## Next Steps:

- For FY2021, the TRANS primary borrowing in July 2020 will be approximately \$150 to \$300 million. The total authorized size (primary and supplemental) of the TRANS is anticipated to be approximately \$400 million.
- The competitive sale process is expected to occur in June. The results will be presented to City Council on the date of sale as part of a motion to accept the winning bid or bids.
- An RCA will be presented to City Council for authorization of the sale in May 2020.





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Questions?