

CITY OF HOUSTON

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То:	Budget and Fiscal Affairs Committee	From:	Finance Working Group
Cc:		Date:	May 1, 2012
Subject:	General Obligation Tax and Revenue A	nticipatio	on Notes Series 2012

Finance Working Group Recommendation

- Authorize the sale of Tax and Revenue Anticipation Notes Series 2012
 - Initial issuance is projected to be \$150-250 million
 - Total authorization recommended is \$300 million

See Attachment 1 for the list of the Finance Working Group.

Background

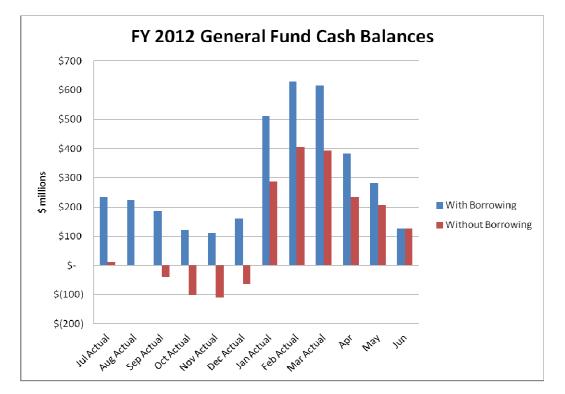
Each year the City sells Tax and Revenue Anticipation Notes (TRANS) to help manage working capital needs during the year. This need for working capital is caused by the timing difference between the collections of revenues versus expenditures. The major revenue source for the General Fund is ad valorem taxes, which are largely collected during December, January and February. Consequently, a temporary cash shortfall occurs during the fiscal year because of these timing issues, and reaches its maximum just prior to the collection of the majority of ad valorem tax receipts. 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 electronic auction intended to give the City access to a large scope of potential purchasers and provides efficient pricing.

Historically, the TRANS are structured to potentially 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 supplemental

borrowing has only been used once in the past 7 years for unexpected Ike related expenditures in FY 2009.

To complete this transaction, an RCA will be presented to City Council on May 9, 2012 for authorization of the sale, and approval of the Preliminary Official Statement (POS), Notice of Sale, and distribution of the POS. The competitive auction is expected to occur in June and the results will be presented to City Council for a motion to accept the winning bid or bids. Closing will occur in July.

The bidding process allows the broker/dealers to bid for less than the full amount of such Notes; therefore, the winning bid may be awarded to more than one firm. Electronic bids for the Notes will be received via the Internet the morning of a City Council session. At the close of the bidding period, the Office of the City Controller, Finance Department, and the City's financial advisors will verify interest rate calculations of bids received and join the City Council session to announce the results. City Council is asked to adopt a motion to award the sale based on the lowest true interest cost, ratify and confirm the use of the Preliminary Official Statement provided to prospective bidders in connection with the offering for sale of the Notes, and authorize the distribution of the Official Statement.



Recommendation Rationale

HISTORICAL BORROWING RATES

Series	Par Amount (\$ millions)	All-In True Interest Cost
Series 2011	220	0.197702%
Series 2010	230	0.383430%
Series 2009	150	0.412370%

Attachment 1: Finance Working Group

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