

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 12/31/2018: \$78,767,000

Debt Service Fund Balance as of 6/30/18 (projected): \$159,678,000

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. Debt financing in excess of one year shall be limited to capital expenditures for assets, asset lots of similar items, or asset improvements costing more than \$50,000 and having a useful life of more than three years.

IN COMPLIANCE

5. 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

FISCAL YEAR 2019 BUDGET

6. 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

Fiscal Year	GO Debt Service Index	GO Debt Service Due
2018	361,470,163	361,470,163
2019	375,928,970	421,488,594
2020	390,966,129	389,980,913
2021	406,604,774	389,183,668
2022	422,868,965	367,875,601
2023	439,783,723	345,426,385
2024	457,375,072	324,169,709
2025	475,670,075	282,857,081
2026	494,696,878	263,086,570
2027	514,484,753	269,387,486
2028	535,064,143	262,363,811
2029	556,466,709	240,054,014
2030	578,725,377	204,607,132
2031	601,874,393	195,937,404
2032	625,949,368	188,522,010
2033	650,987,343	139,072,247
2034	677,026,837	113,785,382
2035	704,107,910	148,152,722
2036	732,272,227	137,147,340
2037	761,563,116	120,602,049
2038	792,025,640	79,391,247
2039	823,706,666	78,324,041
2040	856,654,933	77,751,582
2041	890,921,130	99,996,140
2042	926,557,975	80,907,496
2043	963,620,294	81,643,022
2044	1,002,165,106	80,647,485
2045	1,042,251,710	82,861,427
2046	1,083,941,778	85,140,092
2047	1,127,299,450	87,483,182

*The FY2019 GO Debt Service Due exceeds the GO Debt Service Index due to the issuance of the Series 2017 Pension Obligation Bonds. FY2019 GO Debt Service Due includes the portion payable by the Houston Airport System for the system's share of the Series 2017 Pension Obligation Bonds in the amount of \$28.2 million, which was transferred to the General Obligation debt service reserve fund in December 2017. Even without that transfer, the amount due in excess of the index is more than offset by the costs avoided on the City's pension contribution as a percent of payroll that would have been owed without pension reform.

7. Through greater emphasis on pay-as-you-go infrastructure funding, it is the City's goal to reduce the General Fund transfer for debt service while remaining in compliance with all relevant bond or other debt covenants and indentures. Toward this goal and in compliance with such covenants, 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 10% of General Fund revenues (excluding state and federal grants), at which point the maximum is to be held constant and remain at 10%.

IN COMPLIANCE

General Fund Transfer Limit: 19.5%
 FY2019 budgeted General Fund Transfer: 14.5%

8. The City's desired target for average weighted General Obligation bond maturities is 12 years or less.

IN COMPLIANCE

The average weighted General Obligation bond maturity as of April 26, 2018 is 11.1 years.

9. 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

<u>Series</u>	<u>Delivery Date</u>	<u>Average life of refunded bonds</u>	<u>Average life of refunding bonds</u>
Public Improvement Refunding Bonds, Series 2017A	12/13/2017	7.177	7.488
Houston Airport System Subordinate Lien Revenue and Refunding Bonds, Series 2018A (AMT) and 2018B (Non-AMT)	3/20/2018	9.547	9.726

10. 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

11. All City financings must comply with applicable Federal, State and Local legal requirements; the Finance Working Group and City Council must approve the issue; the City must analyze the long-term affordability of the debt and assess the issue's impact on the City's self-imposed financial limitations on indebtedness.

IN COMPLIANCE

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

IN COMPLIANCE

13. A formal Request for Information (RFI) 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 RFI process to BFA and present recommendations for transactions expected to occur during the following year. RFIs 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;
- 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