



# Finance Department

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

### Upcoming Financial Transactions

October 3<sup>rd</sup> 2017

Presented By:  
Melissa Dubowski – Assistant Director



# Agenda

## A. Houston Airport System (HAS)

- i. Forward Bond Purchase Agreement
- ii. Special Facilities Revenue Bonds (United Airlines Improvement Projects)
- iii. General Airport Revenue Bonds, Series 2017

## B. Convention & Entertainment System (C&E)

- i. Interim Financing Facility
- ii. Hotel Occupancy Tax and Special Revenue Refunding Bonds, Series 2017



# Variable Rate Exposure Summary

Liquidity Type	Series	Size (\$ Millions)	Bank	Expiration	Requires Bank Letter of Credit
Commercial Paper	A&B	150 <sup>(1)</sup>	Sumitomo	12/16/2021	Y
Forward Bond Purchase Agreement	C	450 <sup>(2)</sup>	RBC	11/05/2022	N
Variable Rate Demand Bonds	2010A	92.505	Barclays	12/22/2017	Y
Auction Rate Securities	2000 P-1	34.100	N/A	N/A	N
	2000 P-2	33.875			N
	2002C	76.875			N
	2002D1	55.800			N
	2002D2	53.825			N
<b>Total Variable Debt</b>		<b>946.98</b>			
<b>Total Variable Debt Outstanding</b>		<b>433.98</b>			
<b>Total Debt Outstanding</b>		<b>2,835.135</b>	<b>Total Current Variable Rate Exposure 15.31%</b>		

<sup>(1)</sup> As of July 31, 2017 Monthly Financial Report, there is a total of \$87 Million outstanding on the \$150 Million Commercial Paper program.

<sup>(2)</sup> Forward Bond Purchase Agreement is expected to be used for appropriations capacity. Currently, there is nothing outstanding.

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



# Forward Bond Purchase Agreement

## Background:

- Over the next five years, the Airport System (HAS) has capital funding requirements of approximately \$2.05 billion in capital projects, to be funded with airport equity, grants, passenger facility charges, and airport revenue bonds.
- HAS anticipates substantial appropriations needs related to the Intercontinental Terminal Redevelopment Program (ITRP) beginning in FY2018, which will require additional appropriation and interim financing capacity.
- Two years ago, on October 21, 2015, City Council approved the replacement of a \$150 million inferior lien commercial paper facility with a Forward Bond Purchase Agreement (FBPA) with RBC Capital Markets in an amount not to exceed \$450 million (\$300 million to increase appropriations capacity and \$150 million to replace an existing inferior lien commercial paper facility).

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# Forward Bond Purchase Agreement

- The structure allows the City the flexibility to use the facility similarly to a commercial paper program, but at a reduced cost for undrawn (appropriation) purposes only
- The agreement with RBC has a term of 7 years with a final maturity of November 2022

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# Forward Bond Purchase Agreement

## Next Steps:

- Annual re-authorization is required to ratify and confirm the Forward Bond Purchase Agreement.
- To be in compliance with Ordinance 2015-1004, the City has 365 days from the date of the ordinance, for the annual re-authorization which will be October 6<sup>th</sup>, 2017.
- An RCA for City Council consideration will be on agenda on October 4<sup>th</sup>, 2017

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# HAS Special Facilities Revenue Bonds (United Airlines Improvement Projects)

## Background:

- United has proposed, and the City agrees, that there is a need for United to expand and renovate its existing aircraft maintenance operations at IAH.
- United has requested that the City issue of Special Facilities Revenue Bonds to fund these projects.
- The expansion is anticipated to include a hangar complex consisting of one large hangar capable of handling up to two wide-body aircraft, a parts storage, warehouse facilities, workshops, engineering support facilities and related employee parking at a proposed site located within the boundaries of IAH.
- Under the proposed lease agreement for this complex, the City is not obligated to pay debt service on the bonds and no City revenues are pledged other than special facilities lease payments received from United, which are pledged to repay the Special Facility Revenue Bonds.

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# HAS Special Facilities Revenue Bonds (United Airlines Improvement Projects)

- Anticipated size of the transaction is up to \$180 million.

## Next Steps:

- The City anticipates issuing Special Facilities Revenue Bonds in November 2017.
- The issuance of the Special Facility Revenue Bonds will require two Council actions:
  - Council Approval of Lease & Financing Agreement in October
  - Council Approval of the terms (interest rates, redemption provisions and maturity dates) of the Sale of the Special Facility Revenue Bonds, expected in November

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# Houston Airport System (HAS)

## Series 2017

### Background:

- The total size of the Series 2017 Bonds is anticipated to be approximately \$618 million
- This transaction includes the normal refunding of approximately \$100 million of commercial paper notes.
  - The use of commercial paper (CP) provides an expedient, cost-effective method of accessing cash and providing interim financing. The CP notes are later refinanced into fixed rate bonds that match the useful life of the projects and/or equipment being financed.
- Bond proceeds will also be used to refinance the City's investment in the Hobby International terminal and make a deposit to the Debt Service Reserve Account, as required by the HAS master bond ordinance (approximately \$116 million and \$25.5 million, respectively).
- \$36.5 million in bond proceeds will be used to pay an early termination fee to United Airlines in consideration of United agreeing to an early termination of the Use and Lease agreement with respect to Terminal C North, as approved by City Council in Ordinance 2015-0269.

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# Houston Airport System (HAS)

## Series 2017

- In an effort to reduce variable rate exposure in line with City’s target of 20%, some auction rate securities (ARS), amounting to approximately \$70 million, will also be fixed out. This will help reduce the variable rate exposure for HAS, from 15% to 10%.
- As a standard course of business, in conjunction with this transaction, the FWG will review possibilities to refinance existing debt if prudent opportunities to achieve present value savings exists. The total potential size of the 2017 Bonds (approximately \$618 million) includes approximately \$270 million for this purpose, which will result in present value savings currently estimated at \$50 million, subject to market conditions and further due diligence.

### **Next Steps:**

- An RCA is anticipated to be brought before Council in late October/early November

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# Houston Airport System (HAS) Series 2017

- Below is a breakdown of proposed components:

Components	Up To	Use
Senior Lien Commercial Paper	\$100,000,000	Refunding
ARS Series 2001P-1 and 2001P-2	\$ 70,000,000	Refunding
Current Refunding	\$ 270,000,000	Refunding
Total	<b>\$440,000,000</b>	
Refinance City's investment in HOU Int'l Terminal	\$116,000,000	New Money
City Contribution to United Terminal C Lease	\$ 36,500,000	New Money
Deposit to Debt Service Reserve Account	\$ 25,500,000	New Money
Total	<b>\$178,000,000</b>	
<b>Grand Total</b>	<b>\$618,000,000</b>	

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# Houston Airport System (HAS) Series 2017

System:	Houston Airport System
New Money or Refunding?:	Both
Par Amount:	\$618 Million (approximately)
Use of the Debt Proceeds:	Capital Improvement Program and Refunding
Revenue Source Securing Debt:	Net General Airport Revenues
Estimated Weighted Average Life of the Debt Being Refunded (other than Commercial Paper):	9.428 Years
Estimated Change to the Weighted Average Life of Debt Being Refunded (other than Commercial Paper):	0.352 Years
Estimated Net Present Value Savings:	\$50 Million
Estimated Percentage Savings:	18.5%
Estimated True Interest Cost (%):	2.69%
Anticipated Council Agenda Date:	October 2017
Anticipated Date of Pricing:	December 2017
Anticipated Date Closing:	December 2017

All figures are as of September 15, 2017 and are subject to market adjustments.

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# Convention & Entertainment Facilities

## Background:

- The City’s Convention and Entertainment Facilities Department has recently expressed the need for capital expenditures, in light of the recent flooding due to Hurricane Harvey.
- Subsequently, the City issued two requests for proposals for the following:
  - Interim Financing Facility of up to \$75 million
  - Refund approximately \$12 million of the City’s outstanding Convention & Entertainment Facilities Department Hotel Occupancy Tax (HOT) and Special Revenue Refunding Bonds, Series 2011B via direct placement with a financial institution



# Convention & Entertainment Facilities

## Next Steps:

- The Finance Working Group will review proposals from qualified financial institutions to provide credit facilities
- An RCA is expected to be brought before Council by mid October.



# Finance Department

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**Questions?**