



# CITY OF HOUSTON

Finance Department

## Interoffice

Correspondence

**To:** Budget and Fiscal Affairs Committee

**From:** Kelly Dowe, Director  
Finance Department

**Date:** Aug. 9, 2011

**CC:**

**Subject: Public Improvement Bonds (PIB),  
Series 2011**

The purpose of this memorandum is to summarize an upcoming transaction to support the City's Capital Improvement Program and equipment acquisitions. A specific Request for Council Action will be brought before City Council at a later date. The bond pricing is projected to take place in September.

In 1993, City Council began authorizing various commercial paper programs to provide appropriation capacity and cash for various needs of the City. The issuance of commercial paper has provided an expedient, cost-effective method of accessing cash and providing interim financing. The commercial paper notes are later refinanced to fixed rate bonds that match the useful life of the project or equipment being financed. This transaction represents the normal refunding of these commercial paper notes.

### **Commercial Paper Refunding**

**Series G, H-1, H-2, and J Commercial Paper:** The Series G, H, and J commercial paper programs are used to fund appropriations and spending related to the 2001 and 2006 Voter Authorized bond election and to support drainage initiatives. The proposal is to refund up to \$200 million of the outstanding notes, thereby restoring that capacity in the commercial paper program.

**Series E Commercial Paper:** The Series E commercial paper program is used to support the Equipment Acquisition Plan (EAP), which is used to acquire the majority of capital equipment for General Fund Departments. In addition, the Series E commercial paper program has been used for various incidental acquisitions and funding needs that require short term funding until these acquisitions can be converted to traditional fixed rate bonds. The proposal is to refund up to \$100 million of outstanding Series E commercial paper notes.

### **Potential Current and Advance Refundings**

The Finance Working Group (FWG) is also reviewing current outstanding debt for refinancing opportunities. Assuming conducive market conditions, the FWG will propose to City Council a refinancing that results in positive present value savings.

**Taxable Pension Obligation Note Refunding**

On April 28, 2010, City Council approved the issuance of the City of Houston Taxable Pension Notes Series 2010A. The note had an 18 month maturity and a maturity date of Nov. 16, 2011. The FWG had recommended refunding this note into long-term bonds in conjunction with the PIB Series 2010. However, at the pricing we did not find the market to be favorable and therefore decided not to refund the note. The FWG is now considering either refunding this note into long-term bonds in conjunction with the PIB Series 2011 or extending the maturity date of the note. The FWG will be reviewing which option appears to be the most cost effective.

**Certificate of Obligation (Demolition Program) Note Refunding**

On June 16, 2010, City Council approved the issuance of the City of Houston Certificate of Obligation (Demolition Program) Series 2010. The note had a 24 month maturity and a maturity date of June 30, 2012. The FWG is now considering either refunding this note into long-term bonds in conjunction with the PIB Series 2011 or extending the maturity date of the note. The FWG will be reviewing which option appears to be the most cost effective.

The following table summarizes individual elements of the proposed transaction with projected amounts:

**PIB Series 2011**

<b>Component being Refunded</b>	<b>Up To</b>	<b>Use</b>
Refund CP Series G, H, J	\$200,000,000	<b>CIP/Drainage</b>
Refund CP Series E	\$100,000,000	<b>EAF</b>

**Total** **\$300,000,000**

Current/Advance Refundings	\$150,000,000	
Taxable Pension Obligation Note Series 2010	\$20,000,000	
Certificate of Obligation Series 2010	\$ 10,000,000	<b>Demolition Program</b>

**Total** **\$180,000,000**

**TOTAL** **\$480,000,000**

**Recommendation**

The Finance Working Group recommends that the City proceed with this transaction.