



CITY OF HOUSTON - CITY COUNCIL

Meeting Date:

Item Creation Date:

FIN - TRANS 2024 - Supplemental Borrowing

Agenda Item#:

Background:

RECOMMENDATION:

Approve an Ordinance supplemental borrowing evidenced by City of Houston, Texas Tax and Revenue Anticipation Notes, Series 2024 to provide for payment of current expenses of the city for a portion of the fiscal year beginning July 1, 2024 and ending June 30, 2025; providing for the payment of the principal of and interest on such notes; authorizing the procedure for determining the terms and conditions of such notes; authorizing the execution of a note purchase agreement; making other findings and provisions related to such notes and matters incident thereto; and declaring an emergency.

SPECIFIC EXPLANATION:

The City's General Fund revenue collections are not evenly distributed throughout the fiscal year. The major revenue source is ad valorem taxes, the largest part of which is collected shortly before the tax delinquency date of February 1st of each year. In order to finance its general operation expenditures each fiscal year, the City borrows against anticipated collection of taxes and revenues to cover temporary cash flow shortages. This request is for City Council's approval to issue Tax and Revenue Anticipation Notes for Fiscal Year 2025 in an aggregate amount not to exceed \$232 million (maximum allowable).

The Tax and Revenue Anticipation Notes are structured in two parts, primarily to allow the City to comply with federal tax laws and arbitrage regulations. The first ordinance will approve the initial borrowing. This initial issuance is sized to comply with the federal tax law exemptions and avoid arbitrage penalties. We currently project that the initial issuance will be between \$50 and \$150 million approximately and this amount, based on preliminary cash flows for FY2025, will continue to be conservatively refined until the pricing in October. The ordinance also authorizes the preparation of the POS, Official Statement and NOS in respect to the competitive sale of the initial TRANS Series 2024 Notes. Prior to distribution, the finance working group will approve and deem final the POS and NOS in conformity with the City's disclosure policies. The closing for the Notes is anticipated to occur on October 24, 2024.

The second ordinance will authorize the Mayor and City Controller to authorize the terms of one or more supplemental borrowings if there are additional cash needs later in the fiscal year. If a supplemental borrowing occurs (not to exceed \$232 million in aggregate for the initial and any supplemental borrowing), the finance working group is authorized to determine certain matters relating to the supplemental borrowing consistent with the terms of this ordinance. The supplemental notes, if issued, would be repaid prior to fiscal year end. The supplemental borrowing option was last utilized in FY 2009, in an amount of \$40 million for Hurricane Ike related expenditures.

For the first borrowing, electronic bids for the Notes are expected to be received on or about October 9, 2024 with the winning bid or bids approved via motion at the City Council meeting. If any bid becomes a leading bid within two minutes prior to the scheduled end of the bidding, the time period for submission of bids will automatically be extended by two minutes from the time that such bid was received. 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. Since this is a competitive auction, there will not be a necessity for an underwriting team.

If market conditions are unfavorable for the sale of the Notes by competitive bidding as described above, an ordinance authorizing the negotiated sale or private placement of the notes may be presented to City Council for approval at a later date.

This item was presented to the Budget and Fiscal Affairs Committee on July 30, 2024

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