



CITY OF HOUSTON

Finance Department

Interoffice

Correspondence

To: Budget and Fiscal Affairs
Committee

From: Michelle Mitchell, Director
Finance Department

Date: April 30, 2010

Subject: TRANS Series 2010

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 in December. 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. Any additional issue is only issued if actual cash flows during the fiscal year require it. The supplemental borrowing has only been used once in the past 5 years for unexpected like related expenditures in FY 2009.

For FY 2011, the TRANS primary borrowing in July 2010 will be \$200 to \$275 million. The total authorized size (primary and supplemental) of the TRANS will be \$350 million. Since this is a competitive auction, there will not be a necessity for an underwriting team. Vinson & Elkins and the Law Offices of Francisco G. Medina will serve as co-bond counsel.

To complete this transaction, an RCA will be presented to City Council on May 12, 2010 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.

Recommendation

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