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Houston deal is part of a Texas convention center bond rush

Fidelity Investments
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Texas cities are racing to build bigger and better convention centers largely financed with bonds, with Houston bringing $1.425 billion of debt to the municipal market this week.

A $1.14 billion phase one expansion plan unveiled a year ago for Houston's George R. Brown Convention Center includes a 700,000-square-foot south exposition building featuring two exhibition halls, a multi-purpose hall, and the largest ballroom in Texas that is scheduled to open in May 2028. A 100,000-square-foot pedestrian plaza will provide access to the 19,000-seat Toyota Center, the existing NBA sports arena.

"This development is an important public, anchor investment in response to the Houston hospitality economy's growth and Houston's rising profile as a great place for business and cultural convening for visitors from around the country and world," Melissa Dubowski, Houston's finance director, said in an email.

The debt offering by nation's fourth-largest city consists of $200 million of Series A tax-exempt and $75 million of Series B taxable hotel occupancy tax and special revenue refunding bonds in one deal and $1.05 billion of Series C new and refunding first lien bonds and $100 million of Series D second lien bonds in another.

Some of the proceeds will refund some outstanding bonds and $325 million of interim financing sold last year for the project. The city launched a tender offer last month for HOT and special revenue-backed debt it sold in 2001, 2019, and 2021.

"The plan of finance, inclusive of the refunding and the tender, has been planned to keep the city's total debt service costs as low as possible and provide permanent financing for the project," Dubowski said. "In order to create debt service capacity at the lowest cost of funds, the refunding extends the weighted average life slightly, but within the useful life of the assets."

Ahead of the pricing, S&P Global Ratings assigned an upgraded AA-minus rating and stable outlook to the Series A and B debt and outstanding senior-lien bonds that had been rated A, citing healthy coverage from a 5.65% city hotel occupancy tax and certain theatre district parking facilities revenue.

"We expect projected maximum annual debt service coverage for the 2026A and 2026B bonds will continue to increase, albeit with some volatility from the nature of the HOT pledge, through the life of the bonds given the closed-lien structure," S&P's rating report said.

S&P assigned its A-minus rating to Series C bonds and BBB-plus to Series D bonds, with stable outlooks, based on subordinate liens on hotel and parking revenue and security provided by revenue pledges from an additional 0.35% HOT tax, certain convention center parking facilities, and a project financing zone, or PFZ.

Maximum annual debt service coverage is thinner, "with our calculation of pledged revenue covering MADS at 1.24x and 1.09x, respectively," S&P said. "We believe this revenue will rapidly increase year over year from increased PFZ collections, which we have accounted for in our assessment of coverage and liquidity."

The PFZ was established under a 2023 Texas law that authorized the use of the state's portion of incremental increases in hotel occupancy, sales, and mixed-beverage tax growth within a three-mile radius of the convention center for 30 years.

Future plans for Houston's 1.8 million-square-foot convention center, which opened in 1987, call for two more phases to renovate the existing facility and further develop an entertainment district by 2038, according to the preliminary official statement.

The bonds will be priced by an underwriting team led by JP Morgan and Ramirez & Co, with co-managers Baird, Mesirow Financial, Huntington Securities, Jefferies, Loop Capital Markets, and Truist Securities. Co-municipal advisors are Masterson Advisors and Knight & Day Group and co-bond counsels are Greenberg Traurig and Bratton &

Associates.

The performance of Houston's bonds and those of other cities will depend on the local economy, absent "a real extraneous event like another COVID outbreak," according to Howard Cure, municipal bond research director at Evercore Wealth Management.

Houston's HOT revenue, which dropped during the COVID-19 outbreak, exceeded pre-pandemic levels beginning in 2023, according to an investor presentation.

A spring sale by Dallas of $1.5 billion of senior and subordinate lien revenue bonds for a larger Kay Bailey Hutchison Convention Center with about 500,000 square feet of new event space may be delayed.

"We are scheduled to brief the city council's finance committee on March 24 to discuss the convention center financing, including an extension of our current $1 billion bridge loan with JP Morgan," Dallas Chief Financial Officer Jack Ireland said in a statement. "Therefore, we will most likely be delaying the revenue bond issuance until the fall 2026."

The bonds are backed by incremental growth in Texas hotel tax revenue collected within a project financing zone and the city's HOT revenue that includes a two percentage point rate increase city voters approved in November 2022 for the convention center and improvements to Fair Park, the site of the Texas State Fair and Cotton Bowl Stadium.

The financing plan for the project, estimated to cost $3.34 billion, calls for $2.24 billion of bonds, $428 million in cash on hand, and $665 million from other sources like naming rights and asset sales, according to a January project update.

The city sold $170.6 million of senior lien special tax revenue bonds for the project in 2023.

Last week, Dallas announced major demolition of the existing facility was underway and is expected to be substantially complete by the end of 2026, with the overall project on track for completion in 2029.

"The redevelopment will deliver approximately 750,000 square feet of contiguous exhibit hall space, 105,000 square feet of ballroom space, and 180,000 square feet of meeting rooms," a city statement said.

Nearby Fort Worth, which celebrated completion of a $95 million phase 1 expansion of its convention center in December, plans to issue about $541 million of special tax revenue bonds in August for a $606 million Phase 2, which includes replacing an existing arena with flexible space, according to a city spokesperson.
"Once complete, the expanded and modernized facility will feature a total of 257,268 square feet of exhibit hall space, 60,917 square feet in meeting room space, 74,033 square feet in ballroom space and 16 loading docks," a Feb. 3 city statement said.

Last year, Fort Worth sold $64.12 million of revenue bonds rated AA-minus by Fitch Ratings and A2 by Moody's Ratings to fund Phase 2's design contract and pre-construction expenses.

Austin's $1.6 billion replacement for its convention center, which will boost rentable square footage to 620,000 from 365,000, is being challenged in court.
Backers of a petition drive to halt demolition and construction filed an emergency petition in February with the Texas Supreme Court seeking a writ of mandamus compelling Austin's city clerk to validate that enough valid signatures were submitted to put a proposed ordinance on the May ballot. The request was previously denied by a Travis County District Court judge.

Austin City Clerk Erika Brady determined in November that the petition drive, which submitted more than 25,000 signatures, fell 494 signatures short of a requirement for 20,000 valid signatures of registered voters.

The ballot measure pushed by Austin United PAC and others seeks to stop the demolition and reconstruction of the convention center for seven years ? or until the project is approved by voters ? and prioritize city funding for local live music, arts, cultural, and outdoor tourism. The previous convention center is already demolished.

About $1.2 billion of the project's cost will be financed with bonds backed by revenue from the city's hotel occupancy taxes and incremental state tax revenue generated within a project finance zone the city established in 2024.

The Austin City Council in October approved the initial issuance of up to $650 million of revenue bonds.

A bigger Henry B. Gonzalez Convention Center is part of San Antonio's plan for a downtown sports and entertainment district that includes a partly bond-financed, $1.3 billion arena for the National Basketball Association's Spurs. The expansion of the convention center, which currently has 728,500 square feet of rentable space, is projected to cost $750 million.