Dallas Water Utilities Revenue Bond Sale and Underwriter Syndicates

Finance, Audit & Accountability

February 26, 2007

Purpose

- Provide overview of the bond sale
- Review revenue bond refunding opportunity
- Review refunding of outstanding commercial paper
- Review the syndicate selection process and composition of the syndicates
- Review the negotiated sale process and the parameters of the sale

Bond Sale Overview

- Total bond sale estimated at $432.5m
- Proposed bond sale will advance refund $245.2m existing revenue bond debt and retire $197.6m in outstanding commercial paper
- Issuance costs of $812k to be paid from Water Utilities operating funds
- 30 year bonds with a 10 year call
- Issuance of additional debt will not adversely affect the bond rating, in the opinion of the City’s co-financial advisors
  - Currently rated AA+ by Standard & Poor’s
  - Currently rated AA2 by Moody’s Investors Service

Revenue Bond Refunding

- Current interest rates provide an opportunity to advance refund approximately $245.2m in outstanding revenue bonds
- Proposed refunding includes specified maturities of:
  - Series 2003 Revenue Bonds: $42.335m principal
    - Maturities Oct 1, 2016 - Oct 2019 to be called on Oct 1, 2013
  - Series 2001 Revenue Bonds: $56.6m principal
    - Maturities Oct 1, 2015 - Oct 2021 to be called on Oct 1, 2011
  - Series 2000 Revenue Bonds: $3.86m principal
    - Maturity Oct 1, 2012 to be called on Oct 1, 2010
  - Series 1998 Revenue Bonds: $142.43m principal
    - Maturities Oct 1, 2010 - Oct 2028 to be called on Oct 1, 2009

Revenue Bond Refunding

- Based on current interest rates the estimated savings are:
  - $11.3m cash savings in FY2007-FY2011
  - $9.9m net present value savings
  - 4.03% net present value of savings as a percentage of the bonds being refunded
    - Meets the 4% FMPC criterion

Revenue Bond Refunding

- Majority of savings realized in FY2007 and FY2011
  - Refunding does not extend any payments nor increase debt service payments in any year
  - See Page 22 for details on refunding savings

Commercial Paper Refunding

- Commercial paper provides short term financing of capital projects refunded with the issuance of 30 year revenue bonds
- $197.6m commercial paper balance projected outstanding on 2-28-07
- Average commercial paper interest rate is 3.6%
- See page 23 for overview of Commercial Paper Program

Syndicate Selection

- In May 1999 City Council approved two underwriting syndicates to handle the City’s negotiated sales; in June 2002 City Council approved minor changes to the syndicates to reflect industry consolidation
  - Each syndicate consists of
    - 8-10 firms
    - A mix of national, regional, and MWBE firms
    - A mix of institutional and retail firms
    - Two co-senior managers of which one will be a national firm and one will be an MWBE firm

  - Council approval of the syndicates provided for designation of one national firm and one MWBE firm as co-senior managers for each sale, with the designation to rotate among team members.

Syndicate Team A

- Since May 1999, each syndicate has underwritten three negotiated sales.
  - Team A has underwritten $426m bonds and consists of the following firms:

National

Merrill Lynch & Co.

Citigroup

Bear, Stearns & Co. Inc.

UBS Painewebber Inc.

Banc of America Securities, LLC

Regional

Morgan Keegan & Co., Inc.

MWB/E

Ramirez & Co., Inc.

Apex Pryor Securities, Inc

Syndicate Team B

- Team B has underwritten $414m in bonds and consists of the following firms:

  National

  Lehman Brothers

  Goldman, Sachs & Co.

  Morgan Stanley

  JP Morgan

  Regional

  RBC Dain Rauscher

  SWS Securities

  MWB/E

  Siebert Brandford Shank & Co., LLC

  Walton Johnson & Co.

Underwriting Syndicate

- In March 2006, Team B underwrote the most recent negotiated sale for the Downtown Connection Tax Increment Contract Revenue Bonds
- The proposal is for Team A to underwrite the revenue bond and commercial paper refunding.

Co-Senior Managers:

Citigroup (Bookrunning Senior Manager)
Apex Pryor Securities, Inc.

Co-Managers:

Banc of America Securities, LLC
Bear, Stearns & Co., Inc.
Merrill Lynch & Co.
Morgan Keegan & Company, Inc.
Ramirez & Co., Inc.
UBS Financial Services

Underwriting Syndicate

- Syndicates will be reviewed once each national firm and MWBE firm has had the opportunity to be the Co-Senior Manager

- The remaining schedule for the Senior Manager position is as follows:

Team B	JP Morgan (Bookrunning Senior Manager) Siebert Brandford Shank & Co, LLC
Team A	UBS Painewebber Inc (Bookrunning Senior Manager) Ramirez & Co
Team B	Goldman, Sachs & Co (Bookrunning Senior Manager) Walton Johnson & Co
Team A	Banc of America Securities, LLC (Bookrunning Senior Manager) Apex Pryor Securities, Inc

Negotiated Sale

- In a negotiated sale, the issuer sells bonds to an underwriter at rates and terms that are "negotiated"
- Underwriting syndicate is selected in advance of the sale
- Negotiated sale allows for flexibility in the structuring and timing of the sale
- On the day of the sale, underwriter works with investors to price bonds based on demand

Negotiated Sale Parameters

- Due to current interest rate volatility, a negotiated sale with a parameters ordinance will provide maximum flexibility for structuring the refunding bonds to achieve savings goals
- Parameters ordinance delegates authority to sign the bond purchase agreement to the City Manager
- Parameters
  - Maximum principal - $500m
  - Maximum interest rate – 10% per annum
  - Minimum net present value on bond refunding – 3.5%
    - FMPC requires 4% NPV for advance refundings; exception recommended to realize savings available from this refunding

Timeline

February 26	Finance, Audit & Accountability Briefing
February 28	1. City Council authorization to proceed with sale 2. City Council approval of bond ordinance and the establishment of parameters, approval of the execution of the Bond Purchase contract, approval of the refunding escrow agreement
March 15	Receive ratings from rating agencies
March 19	Distribute Preliminary Official Statement and representation letters to Council
Week of 3/26	Execute Bond Purchase Agreement
Week of 4/23	Deliver proceeds and establish refunding escrow to defease the refunded bonds
Beginning Oct 1,2009 – Oct , 2013	Refunding of the selected series of bonds as they become callable

Recommendation

- Authorize staff to proceed with preparations for the issuance of the revenue refunding bonds on the February 28th Addendum
- Approval of the ordinance, establishment of parameters, bond purchase contract execution and escrow agreement on the February 28th Addendum

Appendix

City of Dallas, Texas

$432,485,000 WW & SS Revenue Refunding and Improvement Bonds, Series 2007
CP Takeout and Refunding Bonds

Total Issue Sources And Uses

Dated 03/15/2007 | Delivered 04/25/2007

	Refunding-Upfront Majority in 2011	CP Takeout	Issue Summary
Sources Of Funds			
Par Amount of Bonds	$238,920,000.00	$193,565,000.00	$432,485,000.00
Reoffering Premium	15,595,729.65	6,964,516.75	22,560,246.40
Accrued Interest from 03/15/2007 to 04/25/2007	1,297,630.56	1,012,952.78	2,310,583.34
Total Sources	**$255,813,360.21**	**$201,542,469.53**	**$457,355,829.74**
Uses Of Funds			
Original Issue Discount (OID)	-	1,192,300.80	1,192,300.80
Total Underwriter's Discount (0.576%)	1,382,776.25	1,109,027.50	2,491,803.75
Gross Bond Insurance Premium	687,013.09	653,450.34	1,340,463.43
Deposit to Debt Service Fund	1,297,630.56	1,012,952.78	2,310,583.34
Deposit to Project Construction Fund	-	197,576,000.00	197,576,000.00
Deposit to Net Cash Escrow Fund	252,441,373.04	-	252,441,373.04
Rounding Amount	4,567.27	(1,261.89)	3,305.38
Total Uses	**$255,813,360.21**	**$201,542,469.53**	**$457,355,829.74**

City of Dallas, Texas

$432,485,000 WW & SS Revenue Refunding and Improvement Bonds, Series 2007

CP Takeout and Refunding Bonds

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I
09/30/2007	-	-	-	-
09/30/2008	2,630,000.00	4.000%	21,666,883.33	24,296,883.33
09/30/2009	3,155,000.00	4.000%	20,626,950.00	23,781,950.00
09/30/2010	3,280,000.00	4.000%	20,498,250.00	23,778,250.00
09/30/2011	5,150,000.00	4.000%	20,329,650.00	25,479,650.00
09/30/2012	16,425,000.00	4.000%	19,898,150.00	36,323,150.00
09/30/2013	20,120,000.00	4.500%	19,116,950.00	39,236,950.00
09/30/2014	11,725,000.00	4.500%	18,400,437.50	30,125,437.50
09/30/2015	10,285,000.00	5.000%	17,879,500.00	28,164,500.00
09/30/2016	18,770,000.00	5.000%	17,153,125.00	35,923,125.00
09/30/2017	30,730,000.00	5.000%	15,915,625.00	46,645,625.00
09/30/2018	25,020,000.00	5.000%	14,521,875.00	39,541,875.00
09/30/2019	27,100,000.00	5.000%	13,218,875.00	40,318,875.00
09/30/2020	28,480,000.00	5.000%	11,829,375.00	40,309,375.00
09/30/2021	20,650,000.00	5.000%	10,601,125.00	31,251,125.00
09/30/2022	21,700,000.00	5.000%	9,542,375.00	31,242,375.00
09/30/2023	12,990,000.00	5.000%	8,675,125.00	21,665,125.00
09/30/2024	13,650,000.00	5.000%	8,009,125.00	21,659,125.00
09/30/2025	14,340,000.00	5.000%	7,309,375.00	21,649,375.00
09/30/2026	15,065,000.00	5.000%	6,574,250.00	21,639,250.00
09/30/2027	15,830,000.00	5.000%	5,801,875.00	21,631,875.00
09/30/2028	16,630,000.00	5.000%	4,990,375.00	21,620,375.00
09/30/2029	17,470,000.00	5.000%	4,137,875.00	21,607,875.00
09/30/2030	8,615,000.00	5.000%	3,485,750.00	12,100,750.00
09/30/2031	9,035,000.00	4.500%	3,067,087.50	12,102,087.50
09/30/2032	9,450,000.00	4.500%	2,651,175.00	12,101,175.00
09/30/2033	9,885,000.00	4.500%	2,216,137.50	12,101,137.50
09/30/2034	10,340,000.00	4.500%	1,761,075.00	12,101,075.00
09/30/2035	10,815,000.00	4.500%	1,285,087.50	12,100,087.50
09/30/2036	11,315,000.00	4.500%	787,162.50	12,102,162.50
09/30/2037	11,835,000.00	4.500%	266,287.50	12,101,287.50
Total	**$432,485,000.00**	**-**	**$312,216,908.33**	**$744,701,908.33**

Yield Statistics

Accrued Interest from 03/15/2007 to 04/25/2007	2,310,583.34
Bond Year Dollars	$6,430,840.17
Average Life	14.870 Years
Average Coupon	4.8549941%
Net Interest Cost (NIC)	4.5614688%
True Interest Cost (TIC)	4.4085498%
Bond Yield for Arbitrage Purposes	4.2785764%
All Inclusive Cost (AIC)	4.4353951%

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Net Interest Cost	4.3088000%
Weighted Average Maturity	14.755 Years

City of Dallas, Texas

$238,920,000 WW & SS Revenue Refunding and Improvement Bonds, Series 2007

Upfront Savings - Majority of Savings in 2007 & 2011

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I
09/30/2007	-	-	-	-
09/30/2008	-	-	12,197,727.22	12,197,727.22
09/30/2009	-	-	11,678,675.00	11,678,675.00
09/30/2010	-	-	11,678,675.00	11,678,675.00
09/30/2011	1,735,000.00	4.000%	11,643,975.00	13,378,975.00
09/30/2012	12,870,000.00	4.000%	11,351,875.00	24,221,875.00
09/30/2013	16,410,000.00	4.500%	10,725,250.00	27,135,250.00
09/30/2014	7,845,000.00	4.500%	10,179,512.50	18,024,512.50
09/30/2015	6,215,000.00	5.000%	9,847,625.00	16,062,625.00
09/30/2016	14,495,000.00	5.000%	9,329,875.00	23,824,875.00
09/30/2017	26,235,000.00	5.000%	8,311,625.00	34,546,625.00
09/30/2018	20,295,000.00	5.000%	7,148,375.00	27,443,375.00
09/30/2019	22,130,000.00	5.000%	6,087,750.00	28,217,750.00
09/30/2020	23,255,000.00	5.000%	4,953,125.00	28,208,125.00
09/30/2021	15,155,000.00	5.000%	3,992,875.00	19,147,875.00
09/30/2022	15,925,000.00	5.000%	3,215,875.00	19,140,875.00
09/30/2023	6,920,000.00	5.000%	2,644,750.00	9,564,750.00
09/30/2024	7,270,000.00	5.000%	2,290,000.00	9,560,000.00
09/30/2025	7,630,000.00	5.000%	1,917,500.00	9,547,500.00
09/30/2026	8,010,000.00	5.000%	1,526,500.00	9,536,500.00
09/30/2027	8,415,000.00	5.000%	1,115,875.00	9,530,875.00
09/30/2028	8,835,000.00	5.000%	684,625.00	9,519,625.00
09/30/2029	9,275,000.00	5.000%	231,875.00	9,506,875.00
Total	**$238,920,000.00**	**-**	**$142,753,939.72**	**$381,673,939.72**

Yield Statistics

Accrued Interest from 03/15/2007 to 04/25/2007	1,297,630.56
Bond Year Dollars	$2,855,692.00
Average Life	11.953 Years
Average Coupon	4.9989263%
Net Interest Cost (NIC)	4.5012202%
True Interest Cost (TIC)	4.2883926%
Bond Yield for Arbitrage Purposes	4.2785764%
All Inclusive Cost (AIC)	4.3145515%

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Net Interest Cost	4.1272681%
Weighted Average Maturity	11.982 Years

City of Dallas, Texas

$193,565,000 WW & SS Revenue Refunding and Improvement Bonds, Series 2007

Refund $197.576 Million in Commercial Paper

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I
09/30/2007	-	-	-	-
09/30/2008	2,630,000.00	4.000%	9,469,156.11	12,099,156.11
09/30/2009	3,155,000.00	4.000%	8,948,275.00	12,103,275.00
09/30/2010	3,280,000.00	4.000%	8,819,575.00	12,099,575.00
09/30/2011	3,415,000.00	4.000%	8,685,675.00	12,100,675.00
09/30/2012	3,555,000.00	4.000%	8,546,275.00	12,101,275.00
09/30/2013	3,710,000.00	4.500%	8,391,700.00	12,101,700.00
09/30/2014	3,880,000.00	4.500%	8,220,925.00	12,100,925.00
09/30/2015	4,070,000.00	5.000%	8,031,875.00	12,101,875.00
09/30/2016	4,275,000.00	5.000%	7,823,250.00	12,098,250.00
09/30/2017	4,495,000.00	5.000%	7,604,000.00	12,099,000.00
09/30/2018	4,725,000.00	5.000%	7,373,500.00	12,098,500.00
09/30/2019	4,970,000.00	5.000%	7,131,125.00	12,101,125.00
09/30/2020	5,225,000.00	5.000%	6,876,250.00	12,101,250.00
09/30/2021	5,495,000.00	5.000%	6,608,250.00	12,103,250.00
09/30/2022	5,775,000.00	5.000%	6,326,500.00	12,101,500.00
09/30/2023	6,070,000.00	5.000%	6,030,375.00	12,100,375.00
09/30/2024	6,380,000.00	5.000%	5,719,125.00	12,099,125.00
09/30/2025	6,710,000.00	5.000%	5,391,875.00	12,101,875.00
09/30/2026	7,055,000.00	5.000%	5,047,750.00	12,102,750.00
09/30/2027	7,415,000.00	5.000%	4,686,000.00	12,101,000.00
09/30/2028	7,795,000.00	5.000%	4,305,750.00	12,100,750.00
09/30/2029	8,195,000.00	5.000%	3,906,000.00	12,101,000.00
09/30/2030	8,615,000.00	5.000%	3,485,750.00	12,100,750.00
09/30/2031	9,035,000.00	4.500%	3,067,087.50	12,102,087.50
09/30/2032	9,450,000.00	4.500%	2,651,175.00	12,101,175.00
09/30/2033	9,885,000.00	4.500%	2,216,137.50	12,101,137.50
09/30/2034	10,340,000.00	4.500%	1,761,075.00	12,101,075.00
09/30/2035	10,815,000.00	4.500%	1,285,087.50	12,100,087.50
09/30/2036	11,315,000.00	4.500%	787,162.50	12,102,162.50
09/30/2037	11,835,000.00	4.500%	266,287.50	12,101,287.50
Total	**$193,565,000.00**	**-**	**$169,462,968.61**	**$363,027,968.61**

Yield Statistics

Accrued Interest from 03/15/2007 to 04/25/2007	1,012,952.78
Bond Year Dollars	$3,575,148.17
Average Life	18.470 Years
Average Coupon	4.7400264%
Net Interest Cost (NIC)	4.6095930%
True Interest Cost (TIC)	4.5237999%
Bond Yield for Arbitrage Purposes	4.2785764%
All Inclusive Cost (AIC)	4.5511297%

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Net Interest Cost	4.4605904%
Weighted Average Maturity	18.296 Years

City of Dallas, Texas

$238,920,000 WW & SS Revenue Refunding and Improvement Bonds, Series 2007

Upfront Savings - Majority of Savings in 2007 & 2011

Refunding vs. Refunded Debt Service Comparison

Date	Refunding D/S	Refunded D/S	Savings
09/30/2007	(1,302,197.83)	-	1,302,197.83
09/30/2008	12,197,727.22	12,440,381.26	242,654.04
09/30/2009	11,678,675.00	12,440,381.26	761,706.26
09/30/2010	11,678,675.00	12,440,381.26	761,706.26
09/30/2011	13,378,975.00	21,566,381.26	8,187,406.26
09/30/2012	24,221,875.00	24,223,256.26	1,381.26
09/30/2013	27,135,250.00	27,139,231.26	3,981.26
09/30/2014	18,024,512.50	18,026,706.26	2,193.76
09/30/2015	16,062,625.00	16,066,831.26	4,206.26
09/30/2016	23,824,875.00	23,825,581.26	706.26
09/30/2017	34,546,625.00	34,549,787.50	3,162.50
09/30/2018	27,443,375.00	27,447,853.13	4,478.13
09/30/2019	28,217,750.00	28,219,596.88	1,846.88
09/30/2020	28,208,125.00	28,209,278.13	1,153.13
09/30/2021	19,147,875.00	19,147,875.00	-
09/30/2022	19,140,875.00	19,140,875.00	-
09/30/2023	9,564,750.00	9,564,750.00	-
09/30/2024	9,560,000.00	9,560,000.00	-
09/30/2025	9,547,500.00	9,547,500.00	-
09/30/2026	9,536,500.00	9,536,500.00	-
09/30/2027	9,530,875.00	9,530,875.00	-
09/30/2028	9,519,625.00	9,519,625.00	-
09/30/2029	9,506,875.00	9,506,875.00	-
09/30/2030	-		-
Total	**$380,371,741.89**	**$391,650,521.98**	**$11,278,780.09**

PV Analysis Summary (Net to Net)

Gross PV Debt Service Savings	8,571,403.12
Net PV Cashflow Savings @ 4.435%(AIC)	8,571,403.12
Accrued Interest Credit to Debt Service Fund	1,297,630.56
Contingency or Rounding Amount	4,567.27
Net Present Value Benefit	$9,873,600.95
Net PV Benefit /$245,245,000 Refunded Principal	4.026%
Average Annual Cash Flow Savings	907,140.49

Refunding Bond Information

Refunding Dated Date	3/15/2007
Refunding Delivery Date	4/25/2007

Commercial Paper Program Overview

- Commercial Paper is issued throughout the year as projects are awarded
- Program Benefits
  - Provides interim capital funding for projects at a relatively low interest rate
  - Can be issued in smaller amounts and later retired through scheduled revenue bond issues or available resources
- Program Authorized
  - Series B limit was increased effective August 25, 2004 to $200M
  - Series C limit was increased effective August 25, 2004 to $100M
  - Total authorized maximum outstanding is $300M
- Program expires September 30, 2014

Estimated Issuance Costs

Estimated Issuance Costs

Bond Counsel		$285,000
Co-Financial Advisors		332,000
Debt Analysis/Structuring		45,000
Official Statement Printing		8,000
Rating Agencies		123,000
Auditor – KPMG		8,000
Other (filing fee, typing fee)		11,000
	Total	**$812,000**