

DEBT SERVICE

WATER UTILITIES

Introduction

The debt service component of the Operating Budget for Dallas Water Utilities (DWU) provides for payment of principal and interest on DWU's indebtedness. The budget for these payments is prescribed by the following standards:

- ◆ The Dallas City Charter provides in Chapter XI, Section 14 that all water and wastewater costs (including debt requirements) shall be paid for from customer service revenues.
- ◆ Revenue bond ordinances provide that customer service revenues solely secure water and wastewater bonds.
- ◆ Financial criteria for DWU provide for financing of capital improvements (effectively defined as capital projects with useful lives of 20 years or longer) either from debt or directly from revenues, to maintain system equity levels.

In addition to revenue bonds, debt sources include tax-exempt commercial paper notes (CP), which are utilized for interim financing of capital construction projects. On an annual basis, commercial paper is refinanced and retired with revenue bonds. This process lowers overall interest costs and provides greater financing flexibility. Debt sources also include certain contractual obligations whereby DWU reimburses other agencies for debt incurred to construct joint-use facilities. Under these contractual agreements DWU makes payments in proportion to its allocated share of the joint use facilities.

Credit Ratings

The City of Dallas Waterworks and Sewer System Revenue Bonds are judged to be of high quality by all standards. These credit ratings reflect the sound management of DWU financial resources and allow issuance of bonds with relatively low interest costs. The City of Dallas Waterworks and Sewer System Commercial Paper Notes hold similarly high credit ratings. Current ratings of the City's debt instruments are shown in the table below.

<u>Credit Rating Service</u>	<u>Revenue Bonds</u>	<u>Commercial Paper Notes</u>
Moody's	Aa2	P-1
Standard & Poor's	AA+	A-1+

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Revenue Bond and Commercial Paper Note Coverage

The following are established standards for DWU net revenue in relation to future debt service payments.

- ◆ Revenue bond ordinances require net revenues equal to at least 1.25 times bond principal and interest requirements of the future year when those requirements are highest.
- ◆ DWU financial criteria state that net revenues should be 1.5 times maximum annual bond requirements at the end of each fiscal year.
- ◆ Commercial Paper coverage requirements state that net revenues should be 1.10 times the maximum annual principal and interest payments required on all debt outstanding in the future year when those requirements are highest.

For fiscal year 2001 coverage at September 30, 2001 is summarized in the table below.

Debt Service Coverage Requirements FY 2001

Coverage Net Revenue (CNR) = \$ 161, 880 (000 omitted)

<u>Authority</u>	<u>Ratio</u>	<u>Requirement</u>	<u>Denominator \$</u>	<u>Actual</u>
Bond Ordinance	CNR/Max YR	1.25	107,265	1.51
DWU Criteria	CNR/Max YR	1.50	107,265	1.51
DWU Criteria	CNR/Max CP	1.10	114,748	1.41
Rating Agencies	CNR/AVG	N/A	47,411	3.41

Max Yr = Maximum amount of debt service required in a single fiscal year for Principal and Interest payments on Outstanding Revenue Bond indebtedness.

Max CP = Maximum amount of debt service required in a single fiscal year for Principal and Interest payments on all Outstanding Debt.

FY 2002-03 Debt Service Budget

The FY 2002-03 budget provides transfers for principal and interest of \$78.0m and \$53.1m, respectively. New debt to be issued includes \$200m in revenue bonds to refinance and retire \$200m in commercial paper. The 2003 bond issue is projected to require \$7.6m in interest payments for FY 2002-03. Commercial paper issues in FY 2002-03 are forecast at \$200m with an estimated interest cost of \$2m, which is paid from the Water Utilities Operating Fund.

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Water Utilities Financial Criteria for Debt Management

Financial criteria have been established to ensure sound management of DWU's financial resources. Financial criteria that apply to DWU indebtedness are listed below. Compliance with each of the criteria is projected both for FY 2001-02 and for FY 2002-03.

- (1) Current revenues will be sufficient to support current expenditures including debt service and other obligations of the system.
- (2) Long-term debt will be used only for capital expansion, replacement and improvement of plant, not for current expenses.
- (3) Short-term debt, including tax-exempt commercial paper, will be used as authorized for interim financing of projects that will result in capital improvements.
- (4) Capital projects financed through the issuance of debt will be financed for a period not to exceed the expected useful lives of the projects.
- (5) An equity target will be maintained for each fiscal year-end of at least 50% of the total capital structure, excluding current liabilities.
- (6) Net revenues available for debt service should be at least 1.5 times the maximum annual principal and interest requirements of relevant outstanding revenue bonds at the end of the same fiscal year, and at least 1.3 times maximum-year requirements at all times, measured during a fiscal year using the previous year net revenues available for debt service.
- (7) Capital financing will be provided through revenue bonds, current revenues, contributed capital, and short-term debt.
- (8) Revenue bonds will be issued with serial maturities not to exceed twenty (20) years.
- (9) Debt refinancing will only be provided through revenue bonds, current revenues, contributed capital, and short-term debt.
- (10) Fully funded debt service reserves shall be maintained. A surety bond (or other type of credit facility such as a letter of credit) may be used in lieu of funding the reserve if the former is economically advantageous.

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Statement of Indebtedness

As of 09/30/02

Series Number	Issue Name	Date of Issue	Term Years	Outstanding Principal
<u>Water Works and Sewer System Revenue Bonds</u>				
548	Refunding	02/15/93	18	38,120,000
550	Refunding & Improvement	09/01/93	20	12,710,000
554	Refunding & Improvement	04/01/95	20	4,730,000
555	Refunding & Improvement	09/01/95	20	24,425,000
559	Refunding & Improvement	09/01/96	20	52,650,000
562	Refunding & Improvement	05/01/97	20	44,715,000
570	Refunding *	09/01/98	31	318,990,000
573	Refunding	09/01/99	20	56,810,000
576	Refunding	09/01/00	20	72,165,000
582	Refunding & Improvement	09/01/01	20	124,000,000
586	Refunding	02/01/02	20	43,455,000
587	Refunding**	09/01/02	8	179,350,000

Total Dallas Water Utilities Revenue Bonds

\$ 972,120,000

*Longer term authorized to prepay previous 50 year contractual obligation

**Estimated

Other Long Term Indebtedness

Contractual obligation to Sabine River Authority - SRA revenue bonds - for water rights in Lake Fork

30,175,000

Contractual obligation to Trinity River Authority - TRA revenue bonds - for wastewater treatment (estimated as of 09/30/01)

14,182,000

Total Other Long Term Indebtedness

\$ 44,357,000

Commercial Paper Notes (projected)

\$ 148,000,000

Equipment Notes (projected)

\$ 13,000,000

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Debt Service Requirements As of 09/30/2002

Fiscal Year	Outstanding Debt		
	Principal	Interest	Total
2003	\$65,010,000	\$45,182,126	\$110,192,126
2004	47,555,000	45,688,859	93,243,859
2005	53,070,000	41,695,141	94,765,141
2006	55,740,000	39,286,389	95,026,389
2007	56,325,000	36,668,630	92,993,630
2008	58,880,000	33,904,985	92,784,985
2009	61,470,000	30,984,165	92,454,165
2010	64,720,000	27,844,504	92,564,504
2011	55,270,000	24,802,003	80,072,003
2012	44,315,000	22,254,947	66,569,947
2013	47,800,000	19,892,865	67,692,865
2014	42,555,000	17,632,505	60,187,505
2015	36,690,000	15,609,469	52,299,469
2016	33,180,000	13,752,819	46,932,819
2017	32,030,000	12,058,413	44,088,413
2018	23,805,000	10,481,850	34,286,850
2019	26,230,000	9,170,288	35,400,288
2020	27,615,000	7,760,088	35,375,088
2021	23,925,000	6,416,775	30,341,775
2022	19,000,000	5,321,750	24,321,750
2023	10,150,000	4,593,000	14,743,000
2024	10,660,000	4,072,750	14,732,750
2025	11,190,000	3,526,500	14,716,500
2026	11,750,000	2,953,000	14,703,000
2027	12,340,000	2,350,750	14,690,750
2028	12,955,000	1,718,375	14,673,375
2029	13,605,000	1,054,375	14,659,375
2030	14,285,000	357,125	14,642,125
	\$972,120,000	\$487,034,446	\$1,459,154,446

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Statement of Debt Service Revenues and Expenditures *Dallas Water Utilities*

	FY 2000-01 Actual	FY 2001-02 Budget	FY 2001-02 Estimate	FY 2002-03 Adopted
Beginning Cash Balance	\$ 72,109,441	\$ 71,974,330	\$ 71,974,330	\$ 79,526,033
<u>Revenues</u>				
Operating Fund Transfers*	126,499,321	131,133,819	128,613,080	130,572,979
Storm Water Utility Transfers	572,379	568,463	568,463	565,335
Total	127,071,700	131,702,282	129,181,543	131,138,314
 Total Available Resources	 \$ 199,181,141	 \$ 203,676,612	 \$ 201,155,873	 \$ 210,664,347
<u>Expenses</u>				
Principal Payments**	76,155,000	70,535,000	70,535,000	76,465,000
Interest Payments	51,051,811	51,094,840	51,094,840	46,488,391
Total	127,206,811	121,629,840	121,629,840	122,953,391
 Ending Cash Balance	 \$ 71,974,330	 \$ 82,046,772	 \$ 79,526,033	 \$ 87,710,956

*Commercial paper costs, equipment note debt service, debt fees, and smaller debt expenses are paid directly from Water Utilities Operating Funds, and are therefore not included in these totals.

** These payments are to bond holders and reservoir debt holders (from Funds 109 & 110).
They do not include any additional fees or commercial paper interest.

Note: This schedule reflects the accrual basis of accounting.