

# 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 2002 coverage at September 30, 2002 is summarized in the table below.

### **Debt Service Coverage Requirements FY 2002**

Coverage Net Revenue (CNR) = \$ 143, 800 (000 omitted)

<b><u>Authority</u></b>	<b><u>Ratio</u></b>	<b><u>Requirement</u></b>	<b><u>Denominator \$</u></b>	<b><u>Actual</u></b>
Bond Ordinance	CNR/Max YR	1.25	110,192	1.30
DWU Criteria	CNR/Max YR	1.50	110,192	1.30
DWU Criteria	CNR/Max CP	1.10	119,767	1.20
Rating Agencies	CNR/AVG	N/A	52,113	2.76

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 2003-04 Debt Service Budget**

The FY 2003-04 budget provides principal and interest of \$69 million and \$62 million, respectively. New debt to be issued includes \$171 million in revenue bonds to refinance and retire \$137 million in commercial paper and \$34 million for additional projects. The 2003A bond issue is projected to require \$10 million in interest payments for FY2003-04. Commercial paper issues in FY2003-04 are forecast at \$182 million with an estimated interest cost of \$1.5 million, 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 FY2002-03 and for FY2003-04.

- (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 20% 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 considered when the overall net present value savings is at least 3% of the principal amount to be refunded.
- (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 09/30/03**

Series Number	Issue Name	Date of Issue	Term Years	Outstanding Principal
<b><u>Water Works and Sewer System Revenue Bonds</u></b>				
550	Refunding & Improvement	09/01/93	20	4,715,000
562	Refunding & Improvement	09/01/97	20	2,210,000
570	Refunding *	09/01/98	31	310,075,000
573	Refunding & Improvement	09/01/99	20	54,930,000
576	Refunding & Improvement	09/01/00	20	69,895,000
582	Refunding & Improvement	09/01/01	20	120,045,000
586	Refunding	02/01/02	20	38,975,000
587	Refunding	09/01/02	8	179,350,000
590	Refunding & Improvement	01/01/03	20	307,410,000

**Total Dallas Water Utilities Revenue Bonds**

**\$ 1,087,605,000**

\*Longer term authorized to prepay previous 50 year contractual obligation

**Other Long Term Indebtedness**

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

**18,720,000**

**Total Other Long Term Indebtedness**

**\$ 18,720,000**

**Commercial Paper Notes (projected)**

**\$ 137,000,000**

**Equipment Notes (projected)**

**\$ 12,000,000**

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### Dallas Water Utilities Debt Service Requirements As of 09/30/2003

Fiscal Year	Outstanding Debt		
	Principal	Interest	Total
2004	\$ 50,915,000	\$ 55,671,656	\$ 106,586,656
2005	59,565,000	50,252,441	109,817,441
2006	61,930,000	47,640,445	109,570,445
2007	62,730,000	44,809,004	107,539,004
2008	65,560,000	41,774,262	107,334,262
2009	68,450,000	38,546,810	106,996,810
2010	72,005,000	35,103,108	107,108,108
2011	62,875,000	31,735,023	94,610,023
2012	52,285,000	28,821,814	81,106,814
2013	56,175,000	26,052,785	82,227,785
2014	51,320,000	23,369,660	74,689,660
2015	45,920,000	20,882,953	66,802,953
2016	42,960,000	18,479,741	61,439,741
2017	42,370,000	16,227,504	58,597,504
2018	34,725,000	14,069,894	48,794,894
2019	37,755,000	12,155,122	49,910,122
2020	39,775,000	10,108,388	49,883,388
2021	36,735,000	8,118,025	44,853,025
2022	32,465,000	6,366,125	38,831,125
2023	24,305,000	4,946,875	29,251,875
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
	<b>\$ 1,087,605,000</b>	<b>\$ 551,164,510</b>	<b>\$ 1,638,769,510</b>

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

	FY 2001-02 Actual	FY 2002-03 Budget	FY 2002-03 Estimate	FY 2003-04 Adopted
<b>Beginning Cash Balance</b>	\$ 71,974,330	\$ 80,350,036	\$ 80,350,036	\$ 93,769,733
<u>Revenues</u>				
Operating Fund Transfers*	132,293,559	130,572,979	132,370,070	128,206,213
Storm Water Utility Transfers	568,463	565,335	565,335	563,342
<b>Total</b>	<b>132,862,022</b>	<b>131,138,314</b>	<b>132,935,405</b>	<b>128,769,555</b>
 <b>Total Available Resources</b>	 <b>\$ 204,836,352</b>	 <b>\$ 211,488,350</b>	 <b>\$ 213,285,441</b>	 <b>\$ 222,539,288</b>
<u>Expenses</u>				
Principal Payments**	70,535,000	76,465,000	76,465,000	62,405,000
Interest Payments	53,951,316	43,050,708	43,050,708	66,392,981
<b>Total</b>	<b>124,486,316</b>	<b>119,515,708</b>	<b>119,515,708</b>	<b>128,797,981</b>
 <b>Ending Cash Balance</b>	 <b>\$ 80,350,036</b>	 <b>\$ 91,972,642</b>	 <b>\$ 93,769,733</b>	 <b>\$ 93,741,307</b>

\*Commercial paper costs, debt fees, and smaller debt expenses are paid directly from Water Utilities Operating Funds.

\*\*These payments are to bond holders and reservoir debt holders. They do not include any additional fees or commercial paper interest.

Note: This schedule reflects the accrual basis of accounting.