

# 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 2003 coverage at September 30, 2003 is summarized in the table below.

### **Debt Service Coverage Requirements FY 2003**

Coverage Net Revenue (CNR) = \$ 141, 930 (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	109,817	1.29
DWU Criteria	CNR/Max YR	1.50	109,817	1.29
DWU Criteria	CNR/Max CP	1.10	118,651	1.23
Rating Agencies	CNR/AVG	N/A	60,695	2.34

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 2004-05 Debt Service Budget**

The FY 2004-05 budget provides principal and interest of \$74 million and \$64 million, respectively. New debt to be issued includes \$165 million in revenue bonds to refinance and retire \$165 million in commercial paper. The 2004 bond issue is projected to require \$13 million in interest payments for FY 2004-05. Commercial paper issues in FY 2004-05 are forecast at \$189 million with an estimated interest cost of \$3 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 for FY 2004-05.

- (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 09/30/04

Series Number	Issue Name	Date of Issue	Term Years	Interest Rate(s)	Outstanding Principal
<b><u>Water Works and Sewer System Revenue Bonds</u></b>					
550	Refunding & Improvement	09/01/93	20	4.0%	4,715,000
562	Refunding & Improvement	09/01/97	20	5.0%	2,210,000
570	Refunding *	09/01/98	31	4.3-5.0%	305,660,000
573	Refunding & Improvement	09/01/99	20	4.8-5.5%	52,940,000
576	Refunding & Improvement	09/01/00	20	5.3-5.8 %	67,500,000
582	Refunding & Improvement	09/01/01	20	5.0-5.3%	115,915,000
586	Refunding	02/01/02	20	3.0-5.5%	33,550,000
587	Refunding	09/01/02	8	3.0-5.0%	155,850,000
590	Refunding & Improvement	01/01/03	20	3.0-5.4%	298,350,000
595	Refunding & Improvement	09/01/03	20	3.5-5.0%	164,000,000
<b>Total Dallas Water Utilities Revenue Bonds</b>					<b><u><u>\$ 1,200,690,000</u></u></b>
*Longer term authorized to prepay previous 50 year contractual obligation					
<b><u>Other Long Term Indebtedness</u></b>					
Contractual obligation to Sabine River Authority - SRA revenue bonds - for water rights in Lake Fork					<b>7,230,000</b>
<b>Total Other Long Term Indebtedness</b>					<b><u><u>\$ 7,230,000</u></u></b>
<b><u>Commercial Paper Notes (projected)</u></b>					<b><u><u>\$ 165,000,000</u></u></b>
<b><u>Equipment Notes (projected)</u></b>					<b><u><u>\$ 11,000,000</u></u></b>

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## Dallas Water Utilities Debt Service Requirements As of 09/30/2004

Fiscal Year	Outstanding Debt		Total
	Principal	Interest	
2005	65,550,000	57,670,111	123,220,111
2006	67,985,000	54,802,001	122,787,001
2007	68,885,000	51,665,310	120,550,310
2008	71,835,000	48,319,816	120,154,816
2009	74,880,000	44,774,741	119,654,741
2010	78,615,000	41,005,038	119,620,038
2011	69,695,000	37,301,204	106,996,204
2012	59,345,000	34,040,994	93,385,994
2013	63,500,000	30,912,341	94,412,341
2014	58,930,000	27,893,891	86,823,891
2015	53,845,000	25,096,484	78,941,484
2016	51,225,000	22,369,472	73,594,472
2017	50,995,000	19,774,044	70,769,044
2018	43,740,000	17,246,975	60,986,975
2019	47,180,000	14,940,353	62,120,353
2020	49,645,000	12,458,925	62,103,925
2021	47,080,000	9,988,456	57,068,456
2022	43,315,000	7,733,175	51,048,175
2023	35,695,000	5,785,725	41,480,725
2024	22,625,000	4,356,919	26,981,919
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>\$ 1,200,690,000</b>	<b>\$ 580,096,102</b>	<b>\$ 1,780,786,102</b>

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

	FY 2002-03 Actual	FY 2003-04 Budget	FY 2003-04 Estimate	FY 2004-05 Adopted
<b>Beginning Cash Balance</b>	\$ 80,350,036	\$ 90,384,597	\$ 90,384,597	\$ 98,755,281
<u>Revenues</u>				
Operating Fund Transfers*	132,422,617	128,769,554	130,993,394	137,633,356
Storm Water Utility Transfers	565,335	563,342	563,342	562,937
<b>Total</b>	<b>132,987,952</b>	<b>129,332,896</b>	<b>131,556,736</b>	<b>138,196,293</b>
 <b>Total Available Resources</b>	 <b>\$ 213,337,988</b>	 <b>\$ 219,717,493</b>	 <b>\$ 221,941,333</b>	 <b>\$ 236,951,574</b>
<u>Expenses</u>				
Principal Payments**	76,465,000	62,405,000	62,405,000	72,780,000
Interest Payments	46,488,391	60,781,052	60,781,052	57,871,560
<b>Total</b>	<b>122,953,391</b>	<b>123,186,052</b>	<b>123,186,052</b>	<b>130,651,560</b>
 <b>Ending Cash Balance</b>	 <b>\$ 90,384,597</b>	 <b>\$ 96,531,441</b>	 <b>\$ 98,755,281</b>	 <b>\$ 106,300,014</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.