

Memorandum



CITY OF DALLAS

Date April 11, 2008

TO Members of the Finance, Audit & Accountability Committee
Chair Mitchell Rasansky, Vice Chair Jerry R. Allen, Mayor
Pro Tem Dr. Elba Garcia, Vonciel Jones Hill, Angela Hunt,
Ron Natinsky, David A. Neumann

SUBJECT Bond Financing Options

On Monday, April 14th you will be briefed on Bond Financing Options.

If you have any questions, please contact me at 214/670-7804.

A handwritten signature in black ink, appearing to read 'D Cook'.

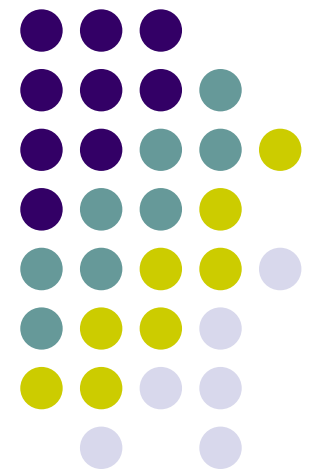
David Cook
Chief Financial Officer

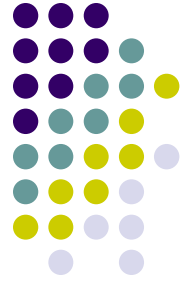
Attachments

C: Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Ryan S. Evans, First Assistant City Manager
David O. Brown, Interim Assistant City Manager
A. C. Gonzalez, Assistant City Manager
Jill A. Jordan, Assistant City Manager
Ramon F. Miguez, Assistant City Manager
Thomas P. Perkins, City Attorney
Craig Kinton, City Auditor

Bond Financing Options

Finance, Audit & Accountability
April 14, 2008





Purpose

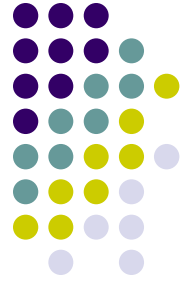
- Present information regarding the City's existing debt
- Present information regarding the types of variable rate debt



Existing Debt

General Obligation – Fixed Rate Debt

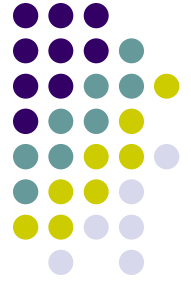
- 20 year bonds – current interest bonds issued for bond program debt
 - Interest rates range 2.4%-5.3%
- 30 year bonds – current interest, capital appreciation and step up coupon (interest rate) bonds issued for pension obligation debt
 - Interest rates range - 5.0%-6.2%
- 10 year certificates of obligation
 - Interest rates range 2.7%-4.8%
- 5 year equipment acquisition notes (10 year term previously used for helicopter replacement)
 - Interest rates range 2.2%-3.7%



Existing Debt (cont'd)

Revenue Bond – Fixed Rate Debt

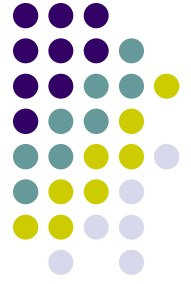
- **Aviation** – 10 year revenue bonds issued in 2001 for Love Field parking garage expansion
 - Interest rate - 4.3%
- **Convention Center** – 30 year revenue refunding and improvement bonds issued in 1998 for convention center expansion and restructure of existing debt
 - Interest rate - 5.1%
- **American Airlines Center** – 30 year tax and revenue bonds issued in 1998 for the City's contribution for the construction of the AAC
 - Interest rates 5.1%-6.8%
- **Dallas Water Utilities** – 30 year revenue bonds issued for capital improvements to the water and waste water systems
 - Interest rates 3.4%-5.4%



Existing Debt (cont'd)

Variable Rate Debt

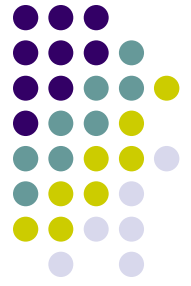
- Dallas Water Utilities Commercial Paper Program
 - \$300m authorization
 - Paper sold with City Council contract authorization for interim financing of capital improvement projects
 - Interest rates 1.4%-3.1% (as of 4/9/2008)
 - Program requires liquidity facility
 - Annual facility fee \$308,000
 - Paper refunded annually with revenue refunding bonds



Variable Rate Debt

3 Types of Variable Rate Debt available for use by City of Dallas

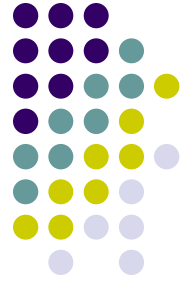
1. Commercial Paper (CP)
2. Variable Rate Demand Obligations (VRDO's)
3. Auction Rate Securities (ARS)



Commercial Paper

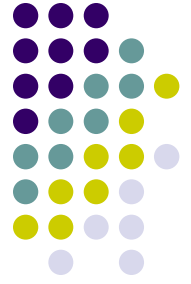
- Short term promissory notes with 1-270 day maturities
- Often used as interim financing
- Reissued at maturity until retired with permanent financing
- Minimum cost effective size is \$30m
- Requires liquidity facility, remarketing and paying agent contracts
- Liquidity facility costs have increased significantly in recent months

Variable Rate Demand Obligations

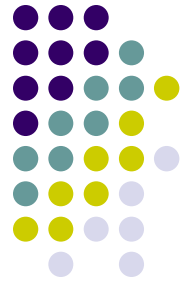


- Bonds with nominal long term maturities (15-30 years)
- Periodic coupon (interest rate) reset (daily, weekly, monthly, quarterly, semi-annually, annually)
- Tender option at par at end of reset period
 - Mandatory or optional
- Credit enhancement and liquidity support provided by:
 - Line of Credit – credit enhancement and put liquidity
 - Standby Bond Purchase Agreement – liquidity provider

Variable Rate Demand Obligations (cont'd)



- Interest rates generally set by remarketing agent or may be indexed (Securities Industry Financial and Markets Association (SIFMA) or London Interbank Offered Rate (LIBOR))
- Call Feature
 - Generally callable on the reset dates at par - attractive to issuers



Auction Rate Securities

- Bonds with nominal long term maturities (15-30 years)
- Periodic coupon (interest rate) reset through “Dutch Auction” process
- Holding period 7, 28 or 35 days
- Liquidity provided through Dutch Auction process
- Issuers typically are high credit quality
 - Purchase bond insurance or over-collateralize
- Market conditions changed mid-February
 - Concerns about credit strength of insurers
 - Auction failures due to imbalance of sellers to buyers
 - Issuers in process of converting/refinancing ARS to other types of debt

Interest Rate Comparison

(Most recent 12 months)



	Low Point	High Point	1 Year Average	Current Rates As of 4/4/08
Bond Buyer (20 Bonds) GO Index	4.15% (1/18/08)	5.11% (2/29/08)	4.50%	4.90%
SIFMA VRDO Index (7 day)	1.24% (2/15/08)	3.95% (8/31/07)	3.33%	1.89%
SIFMA ARS Index (7 day)	3.39% (11/9/07)	6.89% (2/22/08)	4.13%	5.67%
MMD Comm'l Paper Index (30 day)	0.75% (2/15/08)	3.80% (4/27/07)	3.20%	1.55%



Recommendation

- Continue with current debt issuance practices
- Analyze cost effectiveness of variable rate debt and current market conditions with the development of future bond issues