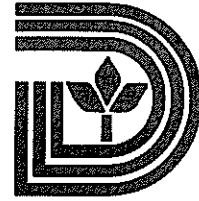


Memorandum



CITY OF DALLAS

DATE May 20, 2011

TO Honorable Members of the Budget, Finance & Audit Committee:
Jerry R. Allen (Chair), Ann Margolin (Vice Chair), Vonciel Jones Hill, Angela Hunt,
Delia D. Jasso, Ron Natinsky, David A. Neumann

SUBJECT Dallas Water Utilities Revenue Bond Issuance

The May 23, 2011 Budget, Finance & Audit meeting agenda includes a briefing on the Dallas Water Utilities Revenue Bond Issuance. Attached is a copy of the briefing.

Please contact me if you need additional information.

A handwritten signature in cursive script that reads "Jeanne Chipperfield".

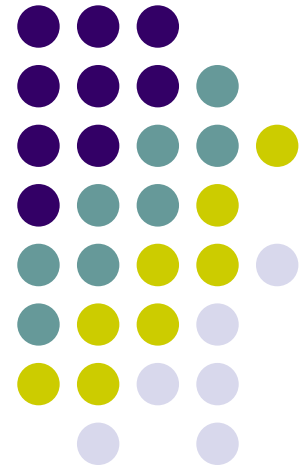
Jeanne Chipperfield
Chief Financial Officer

Attachment

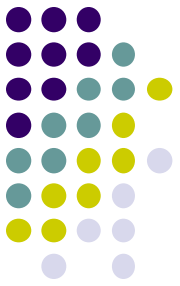
c: Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Ryan S. Evans, First Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
A.C. Gonzalez, Assistant City Manager
Forest E. Turner, Assistant City Manager
Deborah A. Watkins, City Secretary
Tom P. Perkins, City Attorney
Craig D. Kinton, City Auditor
Frank Libro, Public Information Office
Helena Stevens-Thompson, Assistant to the City Manager

Dallas Water Utilities Revenue Bond Issuance

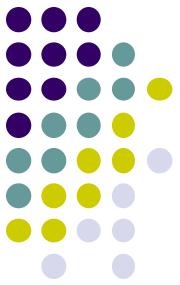
Budget, Finance and Audit Committee
May 23, 2011



Purpose



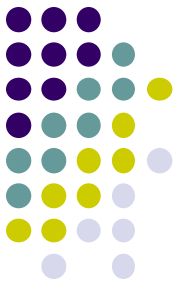
- Provide an overview of the bond sale
- Review revenue bond refunding candidates
- Review refunding of outstanding commercial paper
- Review the syndicate selection process and assignment for this transaction
- Seek committee recommendation on the May 25th resolution authorizing staff to proceed with preparations for the Waterworks and Sewer System Revenue Refunding Bonds, Series 2011



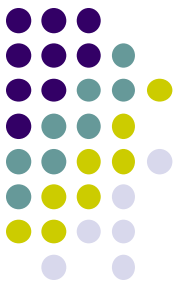
Bond Sale Overview

- Bond sale size currently estimated up to \$285 million
- Proposed bond sale will include up to \$170 million to retire outstanding commercial paper and refund \$115 million in existing revenue bond debt
- Issuance costs of \$579,800 to be paid from Water Utilities (DWU) operating funds
- 30-year bonds with a 10-year call
- Sale will be negotiated

Revenue Bond Refunding

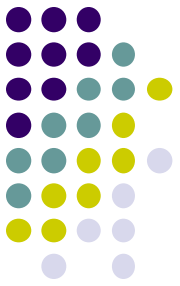


- Current interest rates provide an opportunity to refund approximately \$115 million in outstanding revenue bonds
- Proposed refunding includes specified maturities of:
 - Series 2003A Revenue Bonds: \$115 million principal
 - Maturities Oct. 1, 2013 – Oct. 2023, Interest Rate: 4.00% - 4.75%



Revenue Bond Refunding

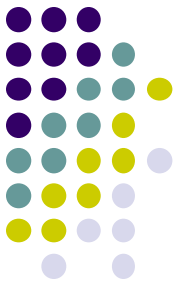
- Based on current interest rates, the estimated savings are:
 - Total net present value (NPV) cash savings of \$5.8 million
 - \$1.3 million cash savings in FY2011-12
 - 5.5% NPV savings as a percentage of the bonds being refunded
 - Exceeds FMPC criteria of 4% savings
- Co-Financial Advisors will continue to monitor the market to ensure feasibility of refunding
 - Refunding may be restructured or deleted if market changes prior to July pricing



Revenue Bond Refunding

- Refunding does not extend or increase debt service payments in any year
- DWU's bond rating will not be adversely affected in the opinion of the City's Co-Financial Advisors
 - AAA by Standard & Poor's
 - Aa1 by Moody's Investors Service

Commercial Paper Refunding



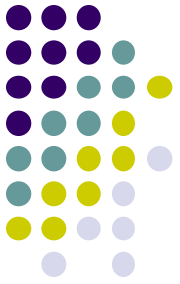
- Commercial paper provides short-term financing for DWU's capital improvement program
 - Current program size is \$600 million
 - Commercial paper issuance is timed to fund contract payments
 - Outstanding commercial paper balance is \$138 million as of 5/23/2011
 - Average interest rate is 0.3416% for 146 days

Syndicate Selection



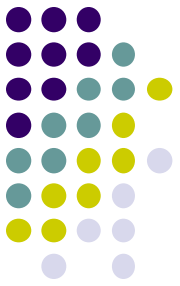
- In April 2010, City Council approved two underwriting syndicate teams for negotiated sales. Council approval provided that:
 - Bookrunning senior manager position would rotate between national and M/WBE firms
 - Co-senior manager would be the highest ranking national or regional firm if the bookrunning senior manager position is assigned to the M/WBE firm on a rotating basis
- Each syndicate has underwritten one negotiated sale since April 2010

Syndicate Team A



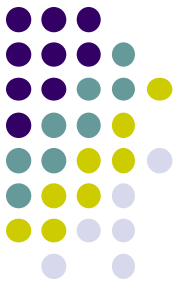
- Team A underwrote \$298.85 million in July 2010 and consists of the following firms:
 - **National**
 - JP Morgan
 - Bank of America Merrill Lynch
 - Morgan Stanley
 - **Regional**
 - Southwest Securities Group
 - RBC Capital Markets
 - Raymond James & Assoc.
 - **MWBE**
 - Siebert Brandford Shank & Co.
 - M. R. Beal & Co.
 - Cabrera Capital Markets

Syndicate Team B



- Team B underwrote \$237.28 million in November 2010 and consists of the following firms:
 - **National**
 - Citigroup Global Markets, Inc.
 - Wells Fargo Bank, N.A.
 - Goldman, Sachs & Co.
 - **Regional**
 - Morgan Keegan & Co., Inc.
 - Piper Jaffray
 - Stifel, Nicolaus & Co., Inc.
 - **MWBE**
 - Loop Capital Markets, LLC
 - Samuel A. Ramirez & Co.
 - Jackson Securities, LLC

Syndicate Team A



- The proposal is for Team A to underwrite the DWU refunding:

Senior Managers:

JPMorgan (Bookrunning Senior Manager)

M.R. Beal & Co. (Co-Senior Manager)

Co-Managers:

Bank of America Merrill Lynch

Morgan Stanley

Southwest Securities Group

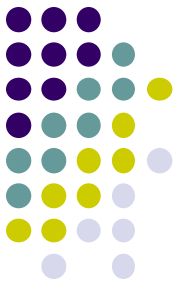
RBC Capital Markets

Raymond James & Assoc.

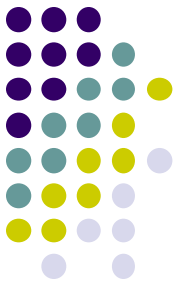
Cabrera Capital Markets

Siebert Brandford Shank & Co.

Timeline for Bond Sale



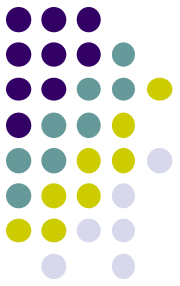
- May 23 Budget, Finance and Audit Committee
- May 25 City Council authorization to proceed with sale
- June 20 Receive ratings from rating agencies
- June 22 Parameters ordinance authorized by City Council
- July 7 Pricing of the bonds
- July 27 Deliver bonds and receive proceeds



Recommendation

- Authorize staff to proceed with preparations for the sale of \$285 million Waterworks and Sewer System Revenue Refunding Bonds, Series 2011 on the May 25th Council Addendum

Appendix



Issuance Costs Schedule

Page 15

Sources and Uses

Page 16

Debt Service Schedule

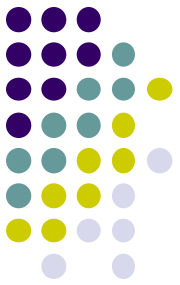
Page 17

Summary of Bonds to be Refunded

Page 18

Savings on Refunding

Page 19



Issuance Costs Schedule

Estimated Issuance Costs

Bond Counsel	\$173,250
Co-Financial Advisors	193,000
Debt Analysis/Structuring	50,000
Official Statement Printing	10,000
Rating Agencies	128,550
Auditor – Grant Thornton	13,500
Attorney General Filing Fee	9,500
Total	\$579,800

SAVINGS

City of Dallas, Texas

Waterworks and Sewer System Revenue Refunding Bonds, Series 2011

Uninsured (Aa1/AAA) Market Rates as of Monday, May 9, 2011

Date	Prior Debt Service	Refunding Debt Service	Savings
9/30/2012	4,676,431.26	3,363,187.50	1,313,243.76
9/30/2013	4,676,431.26	4,484,250.00	192,181.26
9/30/2014	12,134,231.26	7,602,750.00	4,531,481.26
9/30/2015	12,138,531.26	12,133,800.00	4,731.26
9/30/2016	12,154,731.26	12,150,075.00	4,656.26
9/30/2017	12,171,540.63	12,170,900.00	640.63
9/30/2018	12,192,081.25	12,188,000.00	4,081.25
9/30/2019	12,210,231.25	12,206,250.00	3,981.25
9/30/2020	12,220,537.50	12,220,500.00	37.50
9/30/2021	12,215,431.25	12,215,125.00	306.25
9/30/2022	12,217,050.00	12,214,250.00	2,800.00
9/30/2023	12,228,850.00	12,226,125.00	2,725.00
9/30/2024	12,249,168.75	12,248,750.00	418.75
	143,485,246.93	137,423,962.50	6,061,284.43

Savings Summary

Savings PV date	7/1/2011
Savings PV rate	2.970009%
PV of savings from cash flow	5,770,560.76
Plus: Refunding funds on hand	4,020.66
Net PV Savings	5,774,581.42
Percentage savings of refunded bonds	5.48%

SOURCES AND USES OF FUNDS
City of Dallas, Texas
Waterworks and Sewer System Revenue Refunding Bonds, Series 2011
Uninsured (Aa1/AAA) Market Rates as of Monday, May 9, 2011

Dated Date 7/1/2011

Delivery Date 7/1/2011

Sources:	New Money (\$170MM) component	Advance Ref (S2003A) component	Total
Bond Proceeds:			
Par Amount	161,035,000.00	99,620,000.00	260,655,000.00
Premium	10,177,033.90	13,034,337.40	23,211,371.30
	171,212,033.90	112,654,337.40	283,866,371.30
Uses:			
Project Fund Deposits:			
Project Fund	170,000,000.00		170,000,000.00
Refunding Escrow Deposits:			
Cash Deposit		403.75	403.75
Open Market Purchases		111,902,762.99	111,902,762.99
		111,903,166.74	111,903,166.74
Delivery Date Expenses:			
Cost of Issuance	241,552.50	149,430.00	390,982.50
Underwriter's Discount	966,210.00	597,720.00	1,563,930.00
	1,207,762.50	747,150.00	1,954,912.50
Other Uses of Funds:			
Additional Proceeds	4,271.40	4,020.66	8,292.06
	171,212,033.90	112,654,337.40	283,866,371.30

SUMMARY OF BONDS REFUNDED
City of Dallas, Texas
Waterworks and Sewer System Revenue Refunding Bonds, Series 2011
Uninsured (Aa1/AAA) Market Rates as of Monday, May 9, 2011
Maturity

Bond	Date	Interest Rate	Par Amount	Call Date
\$164,000,000 Waterworks and Sewer System Revenue Refunding and Improvement Bond, 2003A:				
SERIAL	10/1/2013	4.000%	7,610,000.00	10/1/2012
	10/1/2014	4.000%	7,925,000.00	10/1/2012
	10/1/2015	4.000%	8,265,000.00	10/1/2012
	10/1/2016	4.125%	8,625,000.00	10/1/2012
	10/1/2017	4.250%	9,015,000.00	10/1/2012
	10/1/2018	4.250%	9,425,000.00	10/1/2012
	10/1/2019	4.750%	9,870,000.00	10/1/2012
	10/1/2020	4.750%	10,345,000.00	10/1/2012
	10/1/2021	4.750%	10,850,000.00	10/1/2012
	10/1/2022	4.750%	11,390,000.00	10/1/2012
	10/1/2023	4.750%	11,965,000.00	10/1/2012
			105,285,000.00	

DEBT SERVICE SCHEDULE
City of Dallas, Texas
Waterworks and Sewer System Revenue Refunding Bonds, Series 2011
Uninsured (Aa1/AAA) Market Rates as of Monday, May 9, 2011

Period Ending	Adv Refunding 2003A	Tax-Exempt Takeout \$170MM of Outstanding W&S CP	Total
9/30/2012	3,363,188	5,801,438	9,164,625
9/30/2013	4,484,250	10,477,550	14,961,800
9/30/2014	7,602,750	10,476,600	18,079,350
9/30/2015	12,133,800	10,479,850	22,613,650
9/30/2016	12,150,075	10,476,575	22,626,650
9/30/2017	12,170,900	10,479,900	22,650,800
9/30/2018	12,188,000	10,477,125	22,665,125
9/30/2019	12,206,250	10,476,250	22,682,500
9/30/2020	12,220,500	10,476,875	22,697,375
9/30/2021	12,215,125	10,478,500	22,693,625
9/30/2022	12,214,250	10,480,625	22,694,875
9/30/2023	12,226,125	10,477,875	22,704,000
9/30/2024	12,248,750	10,479,750	22,728,500
9/30/2025		10,480,625	10,480,625
9/30/2026		10,480,000	10,480,000
9/30/2027		10,477,375	10,477,375
9/30/2028		10,477,125	10,477,125
9/30/2029		10,478,500	10,478,500
9/30/2030		10,475,875	10,475,875
9/30/2031		10,478,500	10,478,500
9/30/2032		10,480,500	10,480,500
9/30/2033		10,476,250	10,476,250
9/30/2034		10,479,875	10,479,875
9/30/2035		10,475,500	10,475,500
9/30/2036		10,477,250	10,477,250
9/30/2037		10,479,000	10,479,000
9/30/2038		10,479,750	10,479,750
9/30/2039		10,478,500	10,478,500
9/30/2040		10,479,125	10,479,125
9/30/2041		10,475,500	10,475,500
	137,423,963	309,668,163	447,092,125