

# Memorandum



CITY OF DALLAS

DATE June 15, 2012

TO Honorable Members of the Budget, Finance & Audit Committee: Jerry R. Allen (Chair), Tennell Atkins (Vice Chair), Monica R. Alonzo, Scott Griggs, Ann Margolin

SUBJECT Dallas Water Utilities Revenue Bond Issuance

On Monday, June 18, 2012, at the Budget, Finance, and Audit Committee meeting, you will be briefed on Dallas Water Utilities Revenue Bond Issuance. The briefing material is attached for your review.

Please contact me if you need additional information.

A handwritten signature in blue ink that reads "Jeanne Chipperfield".

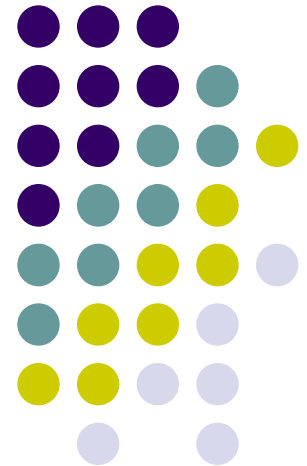
Jeanne Chipperfield  
Chief Financial Officer

Attachment

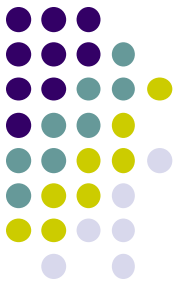
C: Honorable Mayor and Members of the City Council  
Mary K. Suhm, City Manager  
Rosa A. Rios, City Secretary  
Thomas P. Perkins, Jr., City Attorney  
Craig D. Kinton, City Auditor  
C. Victor Lander, Administrative Judge  
A.C. Gonzalez, First Assistant City Manager  
Ryan S. Evans, Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Forest E. Turner, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Edward Scott, City Controller  
Stephanie Pegues-Cooper, Assistant to the City Manager

# Dallas Water Utilities Revenue Bond Issuance

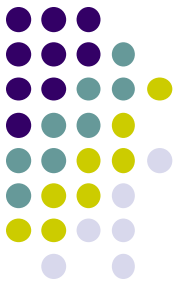
Budget, Finance and Audit Committee  
June 18, 2012



# Purpose

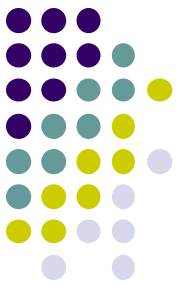


- Provide an overview of the bond sale
- Review revenue bond refunding candidates
- Review refunding of outstanding commercial paper
- Review the syndicate selection process and assignment for this transaction
- Seek committee recommendation on the June 27<sup>th</sup> resolution authorizing staff to proceed with preparations for the Waterworks and Sewer System Revenue Refunding Bonds, Series 2012A/B



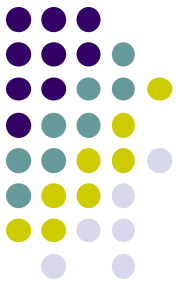
# Bond Sale Overview

- Total bond sale size currently estimated up to \$435 million
- Proposed bond sale will include up to \$185 million to retire outstanding commercial paper and refund approximately \$224 million in existing revenue bond debt through the issuance of separate tax-exempt and taxable series
- Issuance costs of \$737,915 to be paid from Water Utilities (DWU) operating funds
- 30-year bonds with a 10-year call
- Sales will be negotiated



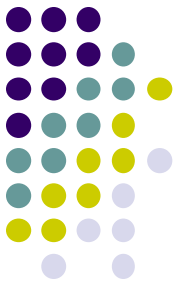
# Revenue Bond Refundings

- Current interest rates provide an opportunity to advance refund approximately \$224 million in outstanding revenue bonds using a combination of tax-exempt and taxable refundings
- Proposed tax-exempt refunding includes specified maturities of:
  - Series 2006 Revenue Bonds: \$121.965 million principal
    - Maturities Oct. 1, 2018 – Oct. 1, 2031, Interest Rate: 4.40% - 5.00%
- Proposed taxable refunding includes specified maturities of:
  - Series 2003 Revenue Refunding Bonds: \$44.865 million principal
    - Maturities Oct. 1, 2013 – Oct. 1, 2022, Interest Rate: 4.15% - 5.375%
  - Series 2005 Revenue Refunding Bonds: \$57.145 million principal
    - Maturities Oct. 1, 2014 – Oct. 1, 2024, Interest Rate: 5.00%



# Revenue Bond Refunding

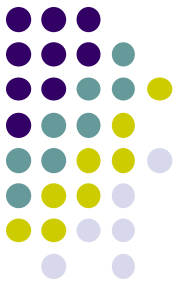
- Based on current interest rates, the estimated savings are:
  - Total net present value (NPV) cash savings of \$20.2 million
    - \$1.997 million cash savings in FY2012-2013
  - 9.0% NPV savings as a percentage of the bonds being refunded
    - Exceeds FMPC criteria of 4% savings
- Co-Financial Advisors will continue to monitor the market to ensure feasibility of refunding
  - Refunding may be restructured or deleted if market changes prior to August 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

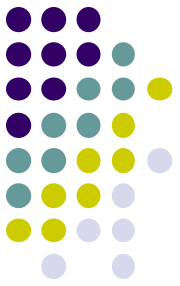
# Commercial Paper Refunding



- 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 \$130.685 million as of 6/18/2012
  - Average interest rate is 0.2333% for 32 days

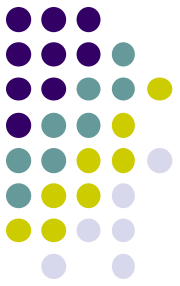


# Syndicate Selection



- 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
  - Alternate firms would assume the place on a team of a firm that could no longer serve
- Since April 2010, Team A has underwritten two negotiated sales, and Team B has underwritten one negotiated sale

# Syndicate Team A



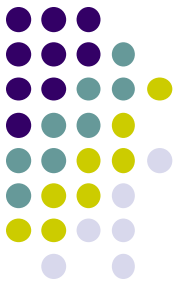
- Team A consists of the following firms:
  - **National**
    - JP Morgan
    - Bank of America Merrill Lynch
    - Morgan Stanley
  - **Regional**
    - Southwest Securities Group
    - RBC Capital Markets
    - Raymond James & Assoc.
  - **MWBE**
    - Siebert Brandford Shank & Co.
    - M. R. Beal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

# Syndicate Team B



- Team B consists of the following firms:
  - **National**
    - Citigroup Global Markets, Inc.
    - Wells Fargo Bank, N.A.
    - Goldman, Sachs & Co.
  - **Regional**
    - Piper Jaffray
    - Stifel Nicolaus & Co.
    - Frost Bank\*
  - **MWBE**
    - Loop Capital Markets, LLC
    - Samuel A. Ramirez & Co.
    - Jackson Securities, LLC

\*Frost Bank is the Team B regional alternate. Frost replaces Morgan Keegan & Co., which was purchased by Raymond James & Assoc. in March 2012.



# Syndicate Team B

- It is proposed that Team B underwrite the DWU refunding bond sale:

## **Senior Managers**

Citigroup Global Markets, Inc. (Bookrunning Senior Manager)

Samuel A. Ramirez & Co. (Co-Senior Manager)

## **Co-Managers**

Wells Fargo Bank, N.A.

Goldman Sachs & Co.

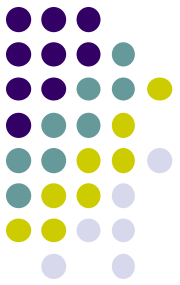
Piper Jaffray

Stifel Nicolaus & Co.

Frost Bank

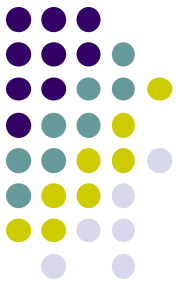
Loop Capital Markets, LLC

Jackson Securities, LLC



# Timeline for Bond Sale

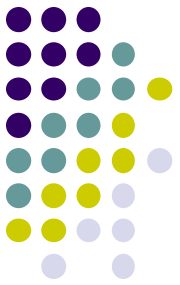
June 18	Budget, Finance and Audit Committee
June 27	City Council authorization to proceed with sale
August 7	Receive ratings from rating agencies
August 8	Parameters ordinance authorized by City Council
August 21	Pricing of the bonds
September 19	Deliver bonds and receive proceeds



# Recommendation

- Authorize staff to proceed with preparations for the sale of up to \$435 million Waterworks and Sewer System Revenue Refunding Bonds, Series 2012A/B on the June 27<sup>th</sup> Council Addendum

# Appendix



Issuance Costs Schedule

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Bond Summary Statistics

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Sources and Uses

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Debt Service Schedule

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Summary of Bonds to be Refunded

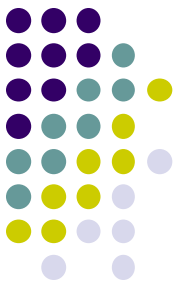
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Savings on Refunding

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Bond Pricing

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# Issuance Costs Schedule

## Estimated Issuance Costs

Co-Bond Counsel	\$252,750
Co-Financial Advisors	256,700
Debt Analysis/Structuring	40,000
Official Statement Printing	10,000
Rating Agencies	155,465
Auditor – Grant Thornton	13,500
Attorney General Filing Fee	9,500

<b>Total</b>	<b>\$737,915</b>
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**Bond Summary Statistics**  
**City of Dallas, Texas**  
**Waterworks & Sewer System Revenue Refunding Bonds, Series 2012A & 2012B**  
**Assumes Aa1/AAA Uninsured Rates as of June 6, 2012**  
**\*\*\*\*\* Not To Exceed Structruing Run \*\*\*\*\***  
**\*\*\*\*\* Preliminary - For Discussion Purposes Only \*\*\*\*\***

Dated Date	9/19/2012
Delivery Date	9/19/2012
First Coupon	4/1/2013
Last Maturity	10/1/2041
Arbitrage Yield	2.719433%
True Interest Cost (TIC)	3.303066%
Net Interest Cost (NIC)	3.665685%
All-In TIC	3.303066%
Average Coupon	4.560933%
Average Life (years)	13.378

Sources and Uses of Funds  
City of Dallas, Texas  
Waterworks & Sewer System Revenue Refunding Bonds, Series 2012A & 2012B  
Assumes Aa1/AAA Uninsured Rates as of June 6, 2012  
\*\*\*\*\* Not To Exceed Structruing Run \*\*\*\*\*  
\*\*\*\*\* Preliminary - For Discussion Purposes Only \*\*\*\*\*

Dated Date                    9/19/2012  
Delivery Date                9/19/2012

Sources:	Series A (CP Refunding)	Series A (Advance Refunding)	Series B (Taxable Refunding)	Total
<b>Bond Proceeds:</b>				
Par Amount	159,560,000.00	115,690,000.00	106,435,000.00	381,685,000.00
Premium	24,171,502.67	22,056,318.73		46,227,821.40
	<u>183,731,502.67</u>	<u>137,746,318.73</u>	<u>106,435,000.00</u>	<u>427,912,821.40</u>
<b>Other Sources of Funds:</b>				
Debt Service Fund Contribution		2,755,447.92	1,917,900.63	4,673,348.55
	<u>183,731,502.67</u>	<u>140,501,766.65</u>	<u>108,352,900.63</u>	<u>432,586,169.95</u>
<b>Uses:</b>				
<b>Project Fund Deposits:</b>				
Commercial Paper Refunding	183,730,000.00			183,730,000.00
<b>Refunding Escrow Deposits:</b>				
Cash Deposit		281.26	410.00	691.26
Open Market Purchases		140,498,778.23	108,350,928.51	248,849,706.74
		<u>140,499,059.49</u>	<u>108,351,338.51</u>	<u>248,850,398.00</u>
<b>Other Uses of Funds:</b>				
Additional Proceeds	1,502.67	2,707.16	1,562.12	5,771.95
	<u>183,731,502.67</u>	<u>140,501,766.65</u>	<u>108,352,900.63</u>	<u>432,586,169.95</u>

**Debt Service Schedule**  
**City of Dallas, Texas**  
**Waterworks & Sewer System Revenue Refunding Bonds, Series 2012A & 2012B**  
**Assumes Aa1/AAA Uninsured Rates as of June 6, 2012**

\*\*\*\*\* Not To Exceed Structruing Run \*\*\*\*\*

\*\*\*\*\* Preliminary - For Discussion Purposes Only \*\*\*\*\*

Period Ending	Series A (CP Refunding)	Series A (Advance Refunding)	Series B (Taxable Refunding)	Total
9/30/2013	4,055,040	2,948,346.67	983,640.53	7,987,027.20
9/30/2014	10,335,600	5,528,150.00	5,234,466.00	21,098,216.00
9/30/2015	10,335,550	5,528,150.00	11,513,137.25	27,376,837.25
9/30/2016	10,334,500	5,528,150.00	14,974,893.25	30,837,543.25
9/30/2017	10,334,275	5,528,150.00	14,763,167.25	30,625,592.25
9/30/2018	10,334,800	5,528,150.00	12,000,763.50	27,863,713.50
9/30/2019	10,335,850	11,310,150.00	11,995,106.75	33,641,106.75
9/30/2020	10,338,250	11,346,900.00	11,990,494.00	33,675,644.00
9/30/2021	10,337,750	11,374,300.00	10,392,212.25	32,104,262.25
9/30/2022	10,334,250	11,406,850.00	8,564,338.50	30,305,438.50
9/30/2023	10,337,250	11,439,250.00	8,570,246.50	30,346,746.50
9/30/2024	10,337,250	11,469,375.00	4,484,808.75	26,291,433.75
9/30/2025	10,337,000	11,484,625.00	4,488,731.00	26,310,356.00
9/30/2026	10,336,000	11,484,750.00		21,820,750.00
9/30/2027	10,338,625	11,489,000.00		21,827,625.00
9/30/2028	10,334,375	11,486,375.00		21,820,750.00
9/30/2029	10,337,625	11,485,875.00		21,823,500.00
9/30/2030	10,337,625	11,481,375.00		21,819,000.00
9/30/2031	10,333,875	11,481,625.00		21,815,500.00
9/30/2032	10,335,625	11,485,125.00		21,820,750.00
9/30/2033	10,337,000			10,337,000.00
9/30/2034	10,337,250			10,337,250.00
9/30/2035	10,335,625			10,335,625.00
9/30/2036	10,336,250			10,336,250.00
9/30/2037	10,338,125			10,338,125.00
9/30/2038	10,335,375			10,335,375.00
9/30/2039	10,337,000			10,337,000.00
9/30/2040	10,336,875			10,336,875.00
9/30/2041	10,334,000			10,334,000.00
9/30/2042	10,337,125			10,337,125.00
	303,805,740	190,814,671.67	119,956,005.53	614,576,417.20

**Summary of Bonds to be Refunded**  
**City of Dallas, Texas**  
**Waterworks & Sewer System Revenue Refunding Bonds, Series 2012A & 2012B**  
**Assumes Aa1/AAA Uninsured Rates as of June 6, 2012**  
**\*\*\*\*\* Preliminary - For Discussion Purposes Only \*\*\*\*\***

	Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
<b>\$307,410,000 Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2003:</b>						
	SERIAL	4/1/2014	4.150%	1,140,000.00	4/1/2013	100.000
	SERIAL2	10/1/2013	5.375%	4,305,000.00	4/1/2013	100.000
		10/1/2018	5.375%	3,240,000.00	4/1/2013	100.000
		10/1/2019	5.375%	3,420,000.00	4/1/2013	100.000
		10/1/2020	5.000%	3,600,000.00	4/1/2013	100.000
		10/1/2021	5.000%	3,785,000.00	4/1/2013	100.000
		10/1/2022	5.000%	3,980,000.00	4/1/2013	100.000
	TERM	4/1/2014	5.375%	510,000.00	4/1/2013	100.000
		10/1/2014	5.375%	4,550,000.00	4/1/2013	100.000
	TERM2	4/1/2015	5.375%	1,745,000.00	4/1/2013	100.000
		10/1/2015	5.375%	4,820,000.00	4/1/2013	100.000
	TERM3	4/1/2016	5.375%	1,135,000.00	4/1/2013	100.000
		10/1/2016	5.375%	4,360,000.00	4/1/2013	100.000
	TERM4	4/1/2017	5.375%	1,205,000.00	4/1/2013	100.000
		10/1/2017	5.375%	3,070,000.00	4/1/2013	100.000
				<b>44,865,000.00</b>		
<b>\$235,805,000 Waterworks and Sewer System Revenue Refunding Bonds, Series 2005:</b>						
	SERIAL	10/1/2014	5.000%	5,215,000.00	10/1/2013	100.000
		10/1/2015	5.000%	5,480,000.00	10/1/2013	100.000
		10/1/2016	5.000%	5,750,000.00	10/1/2013	100.000
		10/1/2017	5.000%	6,040,000.00	10/1/2013	100.000
		10/1/2018	5.000%	6,345,000.00	10/1/2013	100.000
		10/1/2019	5.000%	6,665,000.00	10/1/2013	100.000
		10/1/2020	5.000%	5,370,000.00	10/1/2013	100.000
		10/1/2021	5.000%	3,770,000.00	10/1/2013	100.000
		10/1/2022	5.000%	3,965,000.00	10/1/2013	100.000
		10/1/2023	5.000%	4,165,000.00	10/1/2013	100.000
		10/1/2024	5.000%	4,380,000.00	10/1/2013	100.000
				<b>57,145,000.00</b>		
<b>\$255,375,000 Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2006:</b>						
	SERIAL	10/1/2018	4.400%	6,170,000.00	10/1/2015	100.000
		10/1/2019	4.500%	6,485,000.00	10/1/2015	100.000
		10/1/2020	4.500%	6,815,000.00	10/1/2015	100.000
		10/1/2021	4.550%	7,165,000.00	10/1/2015	100.000
		10/1/2022	4.625%	7,535,000.00	10/1/2015	100.000
		10/1/2023	4.625%	7,920,000.00	10/1/2015	100.000
		10/1/2024	5.000%	8,325,000.00	10/1/2015	100.000
		10/1/2025	5.000%	8,755,000.00	10/1/2015	100.000
		10/1/2026	5.000%	9,205,000.00	10/1/2015	100.000
		10/1/2027	5.000%	9,675,000.00	10/1/2015	100.000
		10/1/2028	5.000%	10,170,000.00	10/1/2015	100.000
		10/1/2029	5.000%	10,690,000.00	10/1/2015	100.000
		10/1/2030	5.000%	11,240,000.00	10/1/2015	100.000
		10/1/2031	5.000%	11,815,000.00	10/1/2015	100.000
				<b>121,965,000.00</b>		
				<b>223,975,000.00</b>		

**Savings on Refund**  
**City of Dallas, Texas**  
**Waterworks & Sewer System Revenue Refunding Bonds, Series 2012A & 2012B**  
**Refunding of Series 2003, Series 2005 and Series 2006 Bonds**  
**Assumes Aa1/AAA Uninsured Rates as of June 6, 2012**  
**\*\*\*\*\* Preliminary - For Discussion Purposes Only \*\*\*\*\***

Date	Prior Debt Service	Refunding Debt Service	Savings
9/30/2013	5,928,902.01	3,931,987.20	1,996,914.81
9/30/2014	16,955,994.39	10,762,616.00	6,193,378.39
9/30/2015	22,067,918.77	17,041,287.25	5,026,631.52
9/30/2016	21,379,931.26	20,503,043.25	876,888.01
9/30/2017	20,671,462.52	20,291,317.25	380,145.27
9/30/2018	17,907,262.51	17,528,913.50	378,349.01
9/30/2019	23,937,316.26	23,305,256.75	632,059.51
9/30/2020	23,966,426.26	23,337,394.00	629,032.26
9/30/2021	22,399,388.76	21,766,512.25	632,876.51
9/30/2022	20,604,922.51	19,971,188.50	633,734.01
9/30/2023	20,640,171.88	20,009,496.50	630,675.38
9/30/2024	16,585,025.00	15,954,183.75	630,841.25
9/30/2025	16,600,125.00	15,973,356.00	626,769.00
9/30/2026	12,113,625.00	11,484,750.00	628,875.00
9/30/2027	12,114,625.00	11,489,000.00	625,625.00
9/30/2028	12,112,625.00	11,486,375.00	626,250.00
9/30/2029	12,111,500.00	11,485,875.00	625,625.00
9/30/2030	12,110,000.00	11,481,375.00	628,625.00
9/30/2031	12,111,750.00	11,481,625.00	630,125.00
9/30/2032	12,110,375.00	11,485,125.00	625,250.00
	<b>334,429,347.13</b>	<b>310,770,677.20</b>	<b>23,658,669.93</b>

**Savings Summary**

Savings PV date	9/19/2012
PV of savings from cash flow	20,206,568.93
Plus: Refunding funds on hand	4,269.28
Net PV Savings	20,210,838.21
Percentage savings of refunded bonds	9.02%

**Bond Pricing**  
**City of Dallas, Texas**  
**Waterworks & Sewer System Revenue Refunding Bonds, Series 2012A & 2012B**  
**Assumes Aa1/AAA Uninsured Rates as of June 6, 2012**  
**\*\*\*\*\* Not To Exceed Structruing Run \*\*\*\*\***  
**\*\*\*\*\* Preliminary - For Discussion Purposes Only \*\*\*\*\***

Bond Component	Maturity Date	Amount	Rate	Yield	Price
<b>Series A Serial Bonds:</b>					
	10/1/2013	2,760,000	2.000%	0.400%	101.648
	10/1/2014	2,830,000	3.000%	0.540%	104.967
	10/1/2015	2,930,000	4.000%	0.690%	109.918
	10/1/2016	3,065,000	5.000%	0.800%	116.636
	10/1/2017	3,190,000	3.000%	1.010%	109.741
	10/1/2018	9,205,000	4.000%	1.230%	116.059
	10/1/2019	9,670,000	5.000%	1.450%	123.655
	10/1/2020	10,090,000	3.000%	1.720%	109.565
	10/1/2021	10,480,000	4.000%	1.960%	116.813
	10/1/2022	11,000,000	5.000%	2.130%	125.802
	10/1/2023	11,595,000	5.000%	2.280%	124.270
	10/1/2024	12,205,000	5.000%	2.420%	122.860
	10/1/2025	12,830,000	5.000%	2.540%	121.666
	10/1/2026	13,495,000	5.000%	2.620%	120.878
	10/1/2027	14,180,000	5.000%	2.700%	120.096
	10/1/2028	14,910,000	5.000%	2.780%	119.320
	10/1/2029	15,670,000	5.000%	2.850%	118.645
	10/1/2030	16,470,000	5.000%	2.920%	117.976
	10/1/2031	17,320,000	5.000%	2.990%	117.311
	10/1/2032	6,430,000	5.000%	3.050%	116.744
		200,325,000			
<b>Series A Term Bond:</b>					
	10/1/2033	6,760,000	5.000%	3.360%	113.869
	10/1/2034	7,105,000	5.000%	3.360%	113.869
	10/1/2035	7,470,000	5.000%	3.360%	113.869
	10/1/2036	7,855,000	5.000%	3.360%	113.869
	10/1/2037	8,255,000	5.000%	3.360%	113.869
		37,445,000			
<b>Term Bond:</b>					
	10/1/2038	8,680,000	5.000%	3.410%	113.413
	10/1/2039	9,125,000	5.000%	3.410%	113.413
	10/1/2040	9,590,000	5.000%	3.410%	113.413
	10/1/2041	10,085,000	5.000%	3.410%	113.413
		37,480,000			
<b>Sereis B Serial Bonds - Taxable:</b>					
	10/1/2013	3,400,000	0.580%	0.580%	100.000
	10/1/2014	9,725,000	0.750%	0.750%	100.000
	10/1/2015	13,285,000	0.930%	0.930%	100.000
	10/1/2016	13,215,000	1.210%	1.210%	100.000
	10/1/2017	10,610,000	1.460%	1.460%	100.000
	10/1/2018	10,775,000	1.730%	1.730%	100.000
	10/1/2019	10,970,000	1.940%	1.940%	100.000
	10/1/2020	9,585,000	2.230%	2.230%	100.000
	10/1/2021	7,970,000	2.660%	2.660%	100.000
	10/1/2022	8,195,000	2.760%	2.760%	100.000
	10/1/2023	4,285,000	2.910%	2.910%	100.000
	10/1/2024	4,420,000	3.110%	3.110%	100.000
		106,435,000			
		381,685,000			