

Memorandum



CITY OF DALLAS

DATE May 30, 2013

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

SUBJECT Dallas Water Utilities Bond Sale

Attached is the Dallas Water Utilities Bond Sale briefing. This briefing will be presented by Corrine Steeger, Assistant Director in the City Controller's Office.

Please let me know if you need additional information.

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

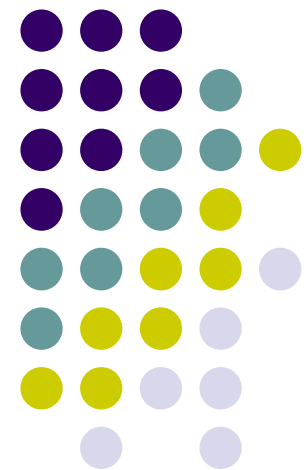
Jeanne Chipperfield
Chief Financial Officer

Attachment

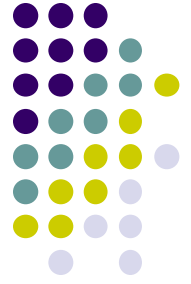
c: Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Rosa A. Rios, City Secretary
Thomas P. Perkins, Jr., City Attorney
Daniel F. Solis, Administrative Judge Municipal Court
Craig D. Kinton, City Auditor
A.C. Gonzalez, First Assistant City Manager
Ryan S. Evans, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Forest E. Turner, Assistant City Manager
Joey Zapata, Assistant City Manager
Stephanie Cooper, Assistant to the City Manager

Dallas Water Utilities Bond Sale

Budget, Finance and Audit Committee
June 3, 2013



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 12th resolution authorizing staff to proceed with preparations for the Waterworks and Sewer System Revenue Refunding Bonds, Series 2013



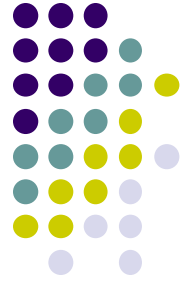
Bond Sale Overview

- Total bond sale size currently estimated up to \$285 million
- Proposed bond sale will include proceeds sufficient to retire \$175 million in commercial paper estimated to be outstanding at the time of the sale and to refund approximately \$84.050 million in existing revenue bond debt through the issuance of tax-exempt bonds
- Issuance costs of \$571,650 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 advance refund approximately \$84.050 million in outstanding revenue bonds using a tax-exempt refunding
- Proposed tax-exempt refunding includes specified maturities of:
 - Series 2006 Revenue Bonds: \$59.515 million principal
 - Maturities: Oct. 1, 2017; Oct. 1, 2032 – Oct. 1, 2035
 - Interest Rates: 4.375% - 5.00%
 - Series 2007 Revenue Bonds: \$24.535 million principal
 - Maturities: Oct. 1, 2021; Oct. 1, 2023; Oct. 1, 2024
 - Interest Rate: 4.5%



Revenue Bond Refunding

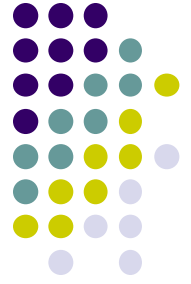
- Based on current interest rates, the estimated savings are:
 - Total net present value (NPV) cash savings of \$5.9 million
 - 7% NPV savings as a percentage of the bonds being refunded
 - Exceeds FMPC criteria of 4% savings
- Co-Financial Advisors will continue to monitor the market to ensure feasibility 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



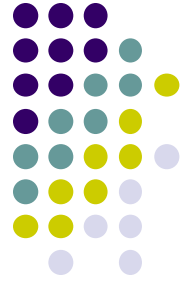
- Commercial paper provides short-term financing for DWU's capital improvement program
 - Current program size is \$600 million
 - Commercial paper issuance is timed to fund contract payments
 - Outstanding commercial paper balance is \$118.8 million as of 6/3/2013
 - Average interest rate is 0.1852% for 41 days

Syndicate Selection



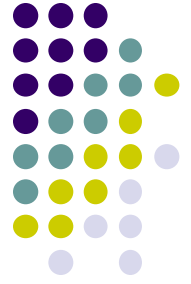
- In April 2010, City Council approved two underwriting syndicate teams for negotiated sales. Council approval provided that:
 - Bookrunning senior manager position would rotate between national and M/WBE firms
 - Co-senior manager would be the highest ranking national or regional firm if the bookrunning 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 three negotiated sales, and Team B has underwritten three negotiated sales

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.
 - Stern Brothers & Co.



Syndicate Team A

- It is proposed that Team A underwrite the DWU revenue bond sale:

Senior Managers

Bank of America Merrill Lynch (Bookrunning Senior Manager)

Cabrera Capital Markets (Co-Senior Manager)

Co-Managers

JPMorgan

Morgan Stanley

Southwest Securities Group

RBC Capital Markets

Raymond James & Assoc.

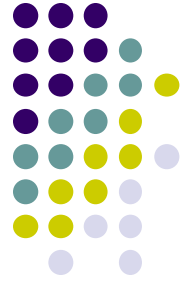
Siebert Brandford Shank & Co.

M. R. Beal & Co.



Timeline for Bond Sale

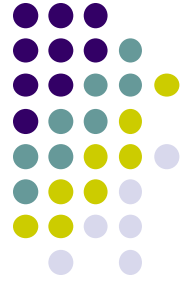
- | | |
|--------------|---|
| June 3 | Budget, Finance and Audit Committee |
| June 12 | City Council authorization to proceed with sale |
| August 2 | Receive ratings from rating agencies |
| August 14 | Parameters ordinance authorized by City Council |
| August 22 | Pricing of the bonds |
| September 17 | Deliver bonds and receive proceeds |



Recommendation

- Authorize staff to proceed with preparations for the sale of up to \$285 million Waterworks and Sewer System Revenue Refunding Bonds, Series 2013 on the June 12th Council agenda

Appendix



| | |
|---------------------------------|---------|
| Issuance Costs Schedule | Page 15 |
| Bond Summary Statistic | Page 16 |
| Sources and Uses | Page 17 |
| Debt Service Schedule | Page 18 |
| Summary of Bonds to be Refunded | Page 19 |
| Savings on Refunding | Page 20 |



Issuance Costs Schedule

Estimated Issuance Costs

| | |
|-----------------------------|-----------|
| Co-Bond Counsel | \$182,250 |
| Co-Financial Advisors | 175,700 |
| Debt Analysis/Structuring | 40,000 |
| Official Statement Printing | 10,000 |
| Rating Agencies | 141,550 |
| Auditor – Grant Thornton | 12,650 |
| Attorney General Filing Fee | 9,500 |

| | |
|--------------|------------------|
| Total | \$571,650 |
|--------------|------------------|

Bond Summary Statistics
City of Dallas, Texas
Waterworks & Sewer System Revenue Refunding Bonds, Series 2013
Assumes Aa1/AAA Rates as of May 16, 2013

| | |
|---------------------------------|------------------|
| Dated Date | 9/16/2013 |
| Delivery Date | 9/16/2013 |
| First Coupon | 4/1/2014 |
| Last Maturity | 10/1/2042 |
| | |
| Arbitrage Yield | 2.676823% |
| True Interest Cost (TIC) | 3.512536% |
| Net Interest Cost (NIC) | 3.939715% |
| All-In TIC | 3.532422% |
| Average Coupon | 5.000000% |
| | |
| Average Life (years) | 17.181 |

Sources and Uses of Funds
City of Dallas, Texas
Waterworks & Sewer System Revenue Refunding Bonds, Series 2013
Assumes Aa1/AAA Rates as of May 16, 2013

PARAMETERS RUN

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

Dated Date 9/16/2013
Delivery
Date 9/16/2013

| Sources: | Commercial Paper Refunding | Tax Exempt Refunding | Total |
|--------------------------------|-------------------------------|----------------------|----------------|
| Bond Proceeds: | | | |
| Par Amount | 149,250,000.00 | 90,210,000.00 | 239,460,000.00 |
| Premium | 26,164,822.65 | 17,457,964.15 | 43,622,786.80 |
| | 175,414,822.65 | 107,667,964.15 | 283,082,786.80 |
| Other Sources of Funds: | | | |
| DSF Contribution | | 2,098,659.64 | 2,098,659.64 |
| | 175,414,822.65 | 109,766,623.79 | 285,181,446.44 |

| Uses: | Commercial Paper Refunding | Tax Exempt Refunding | Total |
|-----------------------------------|-------------------------------|----------------------|----------------|
| Project Fund Deposits: | | | |
| CP Refunding | 175,000,000.00 | | 175,000,000.00 |
| Refunding Escrow Deposits: | | | |
| Cash Deposit | | 0.14 | 0.14 |
| SLGS Purchases | | 109,517,920.00 | 109,517,920.00 |
| | | 109,517,920.14 | 109,517,920.14 |
| Delivery Date Expenses: | | | |
| Cost of Issuance | 356,296.51 | 215,353.49 | 571,650.00 |
| | 356,296.51 | 215,353.49 | 571,650.00 |
| Other Uses of Funds: | | | |
| Additional Proceeds | 4,385.15 | 626.15 | 5,011.30 |
| | 175,360,681.66 | 109,733,899.78 | 285,094,581.44 |

Bond Debt Service
City of Dallas, Texas
Waterworks & Sewer System Revenue Refunding Bonds, Series 2013
Assumes Aa1/AAA Rates as of May 16, 2013

PARAMETERS RUN

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

| Period Ending | Principal | Coupon | Interest | Debt Service |
|---------------|-------------|--------|-------------|--------------|
| 9/30/2014 | | | 6,485,375 | 6,485,375 |
| 9/30/2015 | 2,345,000 | 5.000% | 11,914,375 | 14,259,375 |
| 9/30/2016 | 2,465,000 | 5.000% | 11,794,125 | 14,259,125 |
| 9/30/2017 | 2,590,000 | 5.000% | 11,667,750 | 14,257,750 |
| 9/30/2018 | 7,935,000 | 5.000% | 11,404,625 | 19,339,625 |
| 9/30/2019 | 2,865,000 | 5.000% | 11,134,625 | 13,999,625 |
| 9/30/2020 | 3,010,000 | 5.000% | 10,987,750 | 13,997,750 |
| 9/30/2021 | 14,430,000 | 5.000% | 10,551,750 | 24,981,750 |
| 9/30/2022 | 14,035,000 | 5.000% | 9,840,125 | 23,875,125 |
| 9/30/2023 | 3,500,000 | 5.000% | 9,401,750 | 12,901,750 |
| 9/30/2024 | 9,540,000 | 5.000% | 9,075,750 | 18,615,750 |
| 9/30/2025 | 10,020,000 | 5.000% | 8,586,750 | 18,606,750 |
| 9/30/2026 | 4,065,000 | 5.000% | 8,234,625 | 12,299,625 |
| 9/30/2027 | 4,275,000 | 5.000% | 8,026,125 | 12,301,125 |
| 9/30/2028 | 4,490,000 | 5.000% | 7,807,000 | 12,297,000 |
| 9/30/2029 | 4,720,000 | 5.000% | 7,576,750 | 12,296,750 |
| 9/30/2030 | 4,965,000 | 5.000% | 7,334,625 | 12,299,625 |
| 9/30/2031 | 5,220,000 | 5.000% | 7,080,000 | 12,300,000 |
| 9/30/2032 | 5,485,000 | 5.000% | 6,812,375 | 12,297,375 |
| 9/30/2033 | 17,585,000 | 5.000% | 6,235,625 | 23,820,625 |
| 9/30/2034 | 18,485,000 | 5.000% | 5,333,875 | 23,818,875 |
| 9/30/2035 | 19,430,000 | 5.000% | 4,386,000 | 23,816,000 |
| 9/30/2036 | 20,425,000 | 5.000% | 3,389,625 | 23,814,625 |
| 9/30/2037 | 7,045,000 | 5.000% | 2,702,875 | 9,747,875 |
| 9/30/2038 | 7,405,000 | 5.000% | 2,341,625 | 9,746,625 |
| 9/30/2039 | 7,785,000 | 5.000% | 1,961,875 | 9,746,875 |
| 9/30/2040 | 8,185,000 | 5.000% | 1,562,625 | 9,747,625 |
| 9/30/2041 | 8,605,000 | 5.000% | 1,142,875 | 9,747,875 |
| 9/30/2042 | 9,045,000 | 5.000% | 701,625 | 9,746,625 |
| 9/30/2043 | 9,510,000 | 5.000% | 237,750 | 9,747,750 |
| | 239,460,000 | | 205,712,625 | 445,172,625 |

Summary of Bonds Refunded
City of Dallas, Texas
Waterworks & Sewer System Revenue Refunding Bonds, Series 2013
Assumes Aa1/AAA Rates as of May 16, 2013
******* Preliminary - For Discussion Purposes Only *******

| Bond | Maturity Date | Interest Rate | Par Amount | Call Date | Call Price |
|--|---------------|---------------|---------------|-----------|------------|
| \$255,375,000 Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2006, 2006: | | | | | |
| SERIAL | 10/1/2017 | 4.375% | 5,865,000.00 | 10/1/2015 | 100.000 |
| TERM | 10/1/2032 | 5.000% | 12,425,000.00 | 10/1/2015 | 100.000 |
| | 10/1/2033 | 5.000% | 13,060,000.00 | 10/1/2015 | 100.000 |
| | 10/1/2034 | 5.000% | 13,730,000.00 | 10/1/2015 | 100.000 |
| | 10/1/2035 | 5.000% | 14,435,000.00 | 10/1/2015 | 100.000 |
| | | | 59,515,000.00 | | |
| \$678,480,000 Waterworks and Sewer System Revenue Refunding Bonds, Series 2007, 2007: | | | | | |
| SERIAL | 10/1/2020 | 4.500% | 11,905,000.00 | 10/1/2017 | 100.000 |
| | 10/1/2021 | 4.500% | 11,320,000.00 | 10/1/2017 | 100.000 |
| | 10/1/2023 | 4.500% | 6,460,000.00 | 10/1/2017 | 100.000 |
| | 10/1/2024 | 4.500% | 6,755,000.00 | 10/1/2017 | 100.000 |
| | | | 36,440,000.00 | | |
| | | | 95,955,000.00 | | |

Savings
City of Dallas, Texas
Waterworks & Sewer System Revenue Refunding Bonds, Series 2013
Assumes Aa1/AAA Rates as of May 16, 2013

PARAMETERS RUN

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

| Date | Prior Debt Service | Prior Receipts | Prior Net Cash Flow | Refunding Debt Service | Savings |
|-----------|--------------------|----------------|---------------------|------------------------|---------------|
| 9/30/2013 | | 2,098,659.64 | -2,098,659.64 | | -2,098,659.64 |
| 9/30/2014 | 4,578,893.76 | | 4,578,893.76 | 2,443,187.50 | 2,135,706.26 |
| 9/30/2015 | 4,578,893.76 | | 4,578,893.76 | 4,510,500.00 | 68,393.76 |
| 9/30/2016 | 4,578,893.76 | | 4,578,893.76 | 4,510,500.00 | 68,393.76 |
| 9/30/2017 | 4,578,893.76 | | 4,578,893.76 | 4,510,500.00 | 68,393.76 |
| 9/30/2018 | 10,315,596.88 | | 10,315,596.88 | 9,590,250.00 | 725,346.88 |
| 9/30/2019 | 4,322,300.00 | | 4,322,300.00 | 4,250,000.00 | 72,300.00 |
| 9/30/2020 | 4,322,300.00 | | 4,322,300.00 | 4,250,000.00 | 72,300.00 |
| 9/30/2021 | 15,959,437.50 | | 15,959,437.50 | 15,233,375.00 | 726,062.50 |
| 9/30/2022 | 14,851,875.00 | | 14,851,875.00 | 14,124,125.00 | 727,750.00 |
| 9/30/2023 | 3,277,175.00 | | 3,277,175.00 | 3,151,500.00 | 125,675.00 |
| 9/30/2024 | 9,591,825.00 | | 9,591,825.00 | 8,865,000.00 | 726,825.00 |
| 9/30/2025 | 9,589,487.50 | | 9,589,487.50 | 8,859,625.00 | 729,862.50 |
| 9/30/2026 | 2,682,500.00 | | 2,682,500.00 | 2,550,750.00 | 131,750.00 |
| 9/30/2027 | 2,682,500.00 | | 2,682,500.00 | 2,550,750.00 | 131,750.00 |
| 9/30/2028 | 2,682,500.00 | | 2,682,500.00 | 2,550,750.00 | 131,750.00 |
| 9/30/2029 | 2,682,500.00 | | 2,682,500.00 | 2,550,750.00 | 131,750.00 |
| 9/30/2030 | 2,682,500.00 | | 2,682,500.00 | 2,550,750.00 | 131,750.00 |
| 9/30/2031 | 2,682,500.00 | | 2,682,500.00 | 2,550,750.00 | 131,750.00 |
| 9/30/2032 | 2,682,500.00 | | 2,682,500.00 | 2,550,750.00 | 131,750.00 |
| 9/30/2033 | 14,796,875.00 | | 14,796,875.00 | 14,070,375.00 | 726,500.00 |
| 9/30/2034 | 14,794,750.00 | | 14,794,750.00 | 14,069,500.00 | 725,250.00 |
| 9/30/2035 | 14,795,000.00 | | 14,795,000.00 | 14,067,625.00 | 727,375.00 |
| 9/30/2036 | 14,795,875.00 | | 14,795,875.00 | 14,068,125.00 | 727,750.00 |
| | 168,505,571.92 | 2,098,659.64 | 166,406,912.28 | 158,429,437.50 | 7,977,474.78 |

Savings Summary

| | |
|-------------------------------|--------------|
| Savings PV date | 9/16/2013 |
| Savings PV rate | 2.666866% |
| PV of savings from cash flow | 5,696,029.32 |
| Plus: Refunding funds on hand | 626.15 |
| | ----- |
| Net PV Savings | 5,696,655.47 |