DEBT SERVICE

GENERAL OBLIGATION DEBT

Introduction

The General Obligation Debt Service Fund provides for the payment of principal and interest on the City's outstanding general obligation bonds, certificates of obligation and equipment acquisition notes. Debt financing is used to pay for large capital projects by spreading the cost of the project over the life of the asset. Capital projects may include improvements to and/or construction of the City's street system; parks and recreational facilities; libraries, police and fire protection facilities; and the flood protection and storm drainage system. The Financial Management Performance Criteria (FMPC) address debt management, and among other requirements, necessitate voter approval prior to issuance of general obligation bonds and restrict the maturities, amounts of and purposes for which bonded debt may be issued.

The primary source of revenue for the debt service fund is the ad valorem property tax. The adopted ad valorem tax rate of 72.92¢ per $100 assessed value is split into two rates. Approximately one-fourth (18.44¢) of the tax revenue is used to pay principal and interest on the City's outstanding general obligation debt. The remaining three-fourths (54.48¢) of the revenue generated by the tax rate is used to pay for operating and maintenance costs incurred in the General Fund.

Due to the level principal structure of individual bond sales, the principal and interest payments of the existing general obligation debt decline annually. This repayment schedule creates more growth in the capacity to issue new debt within the existing debt service tax rate than a level payment schedule would.

Credit Rating

The City of Dallas' General Obligation debt currently holds AA+/Aa1 ratings from Standard & Poor's and Moody's Investors Service, respectively. These exceptionally high ratings reflect the sound management of the City of Dallas' financial resources and allow the City of Dallas to issue relatively low cost debt.

DEBT SERVICE

Legal Debt Margin

The City of Dallas Charter (Chapter XXI, Section 3) limits the maximum bonded indebtedness, payable from taxation, to 10% of assessed property value. However, the City's Financial Management Performance Criteria (FMPC) further limits the net general obligation debt to 4% of the true market valuation of the taxable property of Dallas. Existing debt plus the planned issuance of $244.5 million would constitute 1.6% of the market value of $96.2 billion and 2.0% of the assessed value of $76.8 billion. Thus, the City would continue to be in compliance with both requirements as of 9/30/2007.

Assessed Value	$76,792,536,880
10% Legal Debt Margin	$7,679,252,688
Projected GO Debt 9/30/07	$1,546,212,609
GO Debt as a percent of Assessed Property Value	2.0%

Market Value	$96,200,019,660
4% FMPC Limit	$3,848,000,786
Projected GO Debt 9/30/07	$1,546,212,609
GO Debt as a percent of Market Value	1.6%

DEBT SERVICE

FY2006-07 Debt Service Budget

The FY2006-07 budget includes principal and interest payments on $1.4 billion of existing general obligation debt. This amount includes $390.3 million of outstanding pension obligation bonds. New debt to be issued includes $230.1 million in general obligation bonds and $14.4 million in equipment acquisition notes. Principal and interest expenses for existing debt and new debt are $122.2 million and $80.2 million, respectively, and are summarized in the table below.

	Principal	Interest	Total
Existing General Obligation Debt	$103,000,000	$45,644,222	**$148,644,222**
$230.1m General Obligation Bonds	0	10,739,461	**10,739,461**
$14.4m Equipment Acquisition Notes	2,890,000	541,765	**3,431,765**
Sub total General Obligation Debt	**105,890,000**	**56,925,448**	**162,815,448**
Existing Pension Obligation Debt	16,305,000	12,037,199	**28,342,199**
Total Debt Service	**$122,195,000**	**$68,962,647**	**$191,157,647**

Selected Financial Management Performance Criteria - Debt Management

These key criteria, established to ensure sound management of the City's financial resources, are listed below to detail the effects of the issuance of new debt.

Criteria	09/30/05 Actual	09/30/06 Estimate	09/30/07 Adopted[1]
Total direct plus overlapping debt not to exceed 8% of the market value of taxable property	3.7 % In compliance	3.6 % In compliance	3.5 % In compliance
Weighted average general obligation bond maturities (exclusive of pension obligation bonds) not to exceed 10 years	7.0 years In compliance	7.2 years In compliance	7.4 years In compliance
Certificate of obligation debt not to exceed 15% of total authorized and issued general obligation debt	3.4 % In compliance	2.6 % In compliance	1.9 % In compliance
Per capita general obligation debt not to exceed 10% of latest authoritative computation of per capita annual income	3.0 % In compliance	3.2 % In compliance	3.4% In compliance

[1] *9/30/07 Adopted includes the issuance of $244.5 million of new debt.*

DEBT SERVICE

Statement of General Obligation Bonded Indebtedness
As of 09/30/2006

Series Number	Issue Name	Issue Date	Term Years	Interest Rate(s)	Outstanding Principal
560	General Obligation Various Purpose	11/01/1996	19	4.0%-6.0%	10,260,000
563	General Obligation Various Purpose	11/01/1997	19	4.3%-5.5%	8,640,000
571	General Obligation Refunding and Improvement	11/01/1998	20	4.0%-5.0%	106,685,000
574	General Obligation Various Purpose	11/01/1999	19	5.1%-5.5%	13,875,000
578	General Obligation Various Purpose	11/01/2000	19	5.0%-5.8%	27,100,000
583	General Obligation Various Purpose	11/01/2001	19	4.0%-5.0%	44,235,000
589	General Obligation Refunding	01/15/2003	8	2.5%-5.0%	30,325,000
592	General Obligation Refunding	10/29/2003	10	4.0%-5.0%	43,150,000
593	General Obligation Various Purpose	11/01/2003	19	3.5%-4.5%	155,120,000
597	General Obligation Various Purpose	11/01/2004	19	4.0%-5.0%	154,020,000
604	General Obligation Refunding	04/13/2005	15	5.0%	156,850,000
606	General Obligation Various Purpose	11/01/2005	19	3.3%-5.0%	179,810,000
	Total General Obligation Bonds				$ 930,070,000
588	Equipment Acquisition Notes	11/01/2002	5	2.0%-2.3%	2,235,000
594	Equipment Acquisition Notes	11/01/2003	5	2.0%-2.5%	8,700,000
598	Equipment Acquisition Notes	11/01/2004	5	3.0%	14,120,000
608	Equipment Acquisition Notes	11/01/2005	5	3.5%-4.0%	26,225,000
	Total Equipment Acquisition Notes				$ 51,280,000
565	Certificates of Obligation	11/01/1997	10	4.4%-4.5%	640,000
580	Certificates of Obligation	11/01/2000	10	4.8%	9,650,000
591	Certificates of Obligation	05/01/2003	10	2.0%-3.3%	25,200,000
599	Certificates of Obligation	11/01/2004	10	3.0%-3.6%	4,915,000
605	Certificates of Obligation (Taxable)	04/13/2005	10	4.0%-4.5%	5,980,000
607	Certificates of Obligation	11/01/2005	10	3.8%-4.1%	5,785,000
	Total Certificates of Obligation				52,170,000
	Total General Obligation Bonds, Equipment Acquisition Notes, and Certificates of Obligation				**$1,033,520,000**
600	Pension Obligation Bonds (Current Interest Bonds - Taxable)	01/19/2005	30	3.2%-5.0%	177,525,000
601	Pension Obligation Bonds (Capital Appreciation Bonds - Taxable)	01/19/2005	30	4.1%-5.5%	137,772,609
602	Pension Obligation Bonds (Step-up Coupon Bonds - Taxable)	01/19/2005	19	5.5%-8.0%	75,000,000
	Total Pension Obligation Bonds				390,297,609
	Total General Obligation Debt				**$ 1,423,817,609**

DEBT SERVICE

General Obligation Debt Service Requirements
As of 09/30/2006

Fiscal	Outstanding Debt (w/o POB)			Outstanding Pension Obligation Bond Debt			Total
Year	Principal	Interest	Total	Principal	Interest	Total	Outstanding
2007	103,000,000	45,644,222	148,644,222	16,305,000	12,037,199	28,342,199	176,986,421
2008	96,090,000	41,483,455	137,573,455	17,500,000	11,411,149	28,911,149	166,484,604
2009	91,785,000	37,359,558	129,144,558	12,382,696	17,078,828	29,461,524	158,606,082
2010	84,175,000	33,300,599	117,475,599	18,875,000	10,874,562	29,749,562	147,225,161
2011	71,170,000	29,552,425	100,722,425	11,097,826	19,311,023	30,408,849	131,131,274
2012	70,660,000	26,252,716	96,912,716	10,419,750	20,689,099	31,108,849	128,021,565
2013	69,490,000	22,996,138	92,486,138	9,707,602	22,148,747	31,856,349	124,342,487
2014	60,730,000	19,925,428	80,655,428	12,616,830	20,023,720	32,640,549	113,295,977
2015	54,990,000	17,214,006	72,204,006	8,636,841	24,855,408	33,492,249	105,696,255
2016	51,510,000	14,739,601	66,249,601	8,050,977	26,357,522	34,408,499	100,658,100
2017	48,015,000	12,378,306	60,393,306	8,214,089	27,166,370	35,380,459	95,773,765
2018	44,975,000	10,136,869	55,111,869	8,933,560	27,471,259	36,404,819	91,516,688
2019	39,085,000	8,114,431	47,199,431	8,635,322	28,821,172	37,456,494	84,655,925
2020	35,555,000	6,318,213	41,873,213	8,261,699	30,388,970	38,650,669	80,523,882
2021	30,540,000	4,728,463	35,268,463	28,800,000	10,930,587	39,730,587	74,999,050
2022	27,140,000	3,340,588	30,480,588	31,545,000	9,398,428	40,943,428	71,424,016
2023	27,135,000	2,029,325	29,164,325	35,350,000	7,183,500	42,533,500	71,697,825
2024	18,015,000	923,375	18,938,375	39,650,000	4,183,500	43,833,500	62,771,875
2025	9,460,000	236,500	9,696,500	8,036,834	36,784,235	44,821,069	54,517,569
2026	-	-	-	8,040,114	38,163,093	46,203,207	46,203,207
2027	-	-	-	8,037,694	39,593,689	47,631,383	47,631,383
2028	-	-	-	8,034,062	41,073,353	49,107,416	49,107,416
2029	-	-	-	8,038,642	42,583,831	50,622,474	50,622,474
2030	-	-	-	8,040,730	44,141,866	52,182,596	52,182,596
2031	-	-	-	8,035,840	45,728,242	53,764,082	53,764,082
2032	-	-	-	8,038,960	47,358,879	55,397,839	55,397,839
2033	-	-	-	8,037,046	49,022,603	57,059,649	57,059,649
2034	-	-	-	8,039,198	50,731,091	58,770,289	58,770,289
2035	-	-	-	14,936,297	45,590,144	60,526,441	60,526,441
	$ 1,033,520,000	$ 336,674,218	$ 1,370,194,218	$ 390,297,609	$ 811,102,069	$ 1,201,399,678	$ 2,571,593,896

DEBT SERVICE

Statement of Revenues and Expenditures
General Obligation Debt

	FY 2004-05 Actual	FY 2005-06 Budget	FY 2005-06 Estimate	FY 2006-07 Adopted
Beginning Cash Balance	**$ 6,591,410**	**$ 4,486,744**	**$ 5,074,414**	**$ 3,549,497**
Revenues				
Ad Valorem Taxes	115,654,077	138,302,853	138,834,840	140,429,580
Interest/Transfers/Other	29,482,368	24,564,598	21,672,560	22,595,435
Total	**145,136,445**	**162,867,451**	**160,507,400**	**163,025,015**
Total Available Resources	**$ 151,727,855**	**$ 167,354,195**	**$ 165,581,814**	**$ 166,574,512**
Expenses				
Principal Payments	104,365,000	114,930,000	112,695,000	105,890,000
Interest Payments	40,830,839	49,577,094	48,027,004	56,925,448
Other Expenses	1,457,602	1,165,862	1,310,313	2,064,465
Total	**146,653,441**	**165,672,956**	**162,032,317**	**164,879,913**
Ending Cash Balance	**$ 5,074,414**	**$ 1,681,239**	**$ 3,549,497**	**$ 1,694,599**

DEBT SERVICE

Statement of Revenues and Expenditures
Pension Obligation Debt

	FY 2004-05 Actual	FY 2005-06 Budget	FY 2005-06 Estimate	FY 2006-07 Adopted
Beginning Cash Balance	**$ 0**	**$ 0**	**$ 795,823**	**$ 887,997**
Revenues				
Departmental Pension Assessments	0	27,802,966	27,735,140	29,300,000
Interest/Transfers/Other	1,338,446	0	160,000	118,000
Total	**1,338,446**	**27,802,966**	**27,895,140**	**29,418,000**
Total Available Resources	**$ 1,338,446**	**$ 27,802,966**	**$ 28,690,963**	**$ 30,305,997**
Expenses				
Principal Payments	0	9,050,000	9,050,000	16,305,000
Interest Payments	0	18,752,966	18,752,966	12,037,199
Bond Issuance Costs	542,623	0	0	0
Total	**542,623**	**27,802,966**	**27,802,966**	**28,342,199**
Ending Cash Balance	**$ 795,823**	**$ 0**	**$ 887,997**	**$ 1,963,798**

Pension Obligation Bonds were issued in January 2005 to partially fund the unfunded actuarial accrued liability in the City's Employees' Retirement Fund.

DEBT SERVICE

AVIATION

Introduction

The Aviation Debt Service Fund provides for the payment of principal and interest on the Department of Aviation's outstanding revenue bonded indebtedness. In April 2001, the Department of Aviation issued $59.385 million in Series 2001 Airport System Revenue Bonds for construction of an additional parking facility at Dallas Love Field. Construction of the new garage began in August of 2001 and was completed in April of 2003. Revenues from Aviation operations and interest earned on the cash balance in the debt service fund are pledged for repayment of the debt. Revenues are transferred from the Aviation operating fund to the debt service fund to meet annual principal and interest obligations.

Credit Rating

The Department of Aviation currently holds BBB/Baa2 underlying ratings from Standard & Poor's and Moody's Investors Service, respectively. The bonds are rated AAA/Aaa based on the bond insurance policy that AMBAC Assurance Corporation is providing.

FY2006-07 Debt Service Budget

The FY2006-07 budget includes payments of $6.0 million in principal repayments and $1.6 million in interest payments. There are no plans to issue debt in the upcoming fiscal year.

Statement of Revenue Bonded Indebtedness, as of 09/30/06

Series Number	Issue Name	Date of Issue	Term Years	Interest Rate	Outstanding Principal
581	Airport System Revenue Bonds	04/01/01	10	5.0%	$32,555,000
			Total Aviation Department Outstanding Debt		**$32,555,000**

DEBT SERVICE

Aviation Debt Service Requirements
As of 09/30/2006

Fiscal Year	Outstanding Debt Principal	Interest	Total
2007	6,000,000	1,627,750	7,627,750
2008	6,240,000	1,327,750	7,567,750
2009	6,495,000	1,015,750	7,510,750
2010	6,765,000	691,000	7,456,000
2011	7,055,000	352,750	7,407,750
	$ 32,555,000	**$5,015,000**	**$ 37,570,000**

DEBT SERVICE

Statement of Debt Service Revenues and Expenditures
Aviation

	FY 2004-05 Actual	FY 2005-06 Budget	FY 2005-06 Estimate	FY 2006-07 Adopted
Beginning Cash Balance	**$ 4,210,135**	**$ 4,246,715**	**$ 4,254,582**	**$ 4,357,332**
Revenues				
Transfers	7,717,625	7,657,000	7,657,000	7,597,750
Interest/Other	75,822	67,421	132,000	162,166
Total	**7,793,447**	**7,724,421**	**7,789,000**	**7,759,916**
Total Available Resources	**$ 12,003,582**	**$ 11,971,136**	**$ 12,043,582**	**$ 12,117,248**
Expenses				
Principal Payments	5,555,000	5,770,000	5,770,000	6,000,000
Interest Payments	2,194,000	1,916,250	1,916,250	1,627,750
Total	**7,749,000**	**7,686,250**	**7,686,250**	**7,627,750**
Ending Cash Balance	**$ 4,254,582**	**$ 4,284,886**	**$ 4,357,332**	**$ 4,489,498**

DEBT SERVICE

CONVENTION CENTER

Introduction

The Convention Center Debt Service Fund provides for the payment of principal and interest on the Convention Center's outstanding revenue bonded indebtedness. In April 1998, the Convention Center Complex issued $326.23 million in revenue bonds. This issue included the refunding of all of the Convention Center's $236.60 million outstanding debt and a new money issuance of $110.76 million. The new money issuance of $110.76 million was invested to generate total funding for the $125 million expansion and renovation of the complex which was put into service in 2002.

The 7% Hotel Occupancy Tax, operating revenues of the Convention Center Complex, and interest earned on cash balances in the bond reserve and debt service funds are pledged for repayment of the debt. Additionally, the City has covenanted to provide for the payment of operating and maintenance expenses of the Convention Center Complex, should a shortfall in Convention Center revenues occur. The General Fund will be providing financial assistance to the Convention Center during FY2006-07. Revenue from the Convention Center operating fund is transferred to the debt service fund to meet annual principal and interest payments.

Credit Rating

The Convention Center Complex currently holds A/A1 underlying ratings from Standard & Poor's and Moody's Investors Service, respectively. The bonds are rated AAA/ Aaa based on the bond insurance policy that MBIA Insurance Corporation is providing.

FY2006-07 Debt Service Budget

The FY2006-07 budget includes payments on existing debt of $11.2 million in principal repayments and $13.8 million in interest payments.

Statement of Revenue Bonded Indebtedness, as of 09/30/06

Series Number	Issue Name	Date of Issue	Term Years	Interest Rate	Outstanding Principal
567	Civic Center Convention Complex, Revenue Refunding Bonds	04/01/98	30	4.6%-6.0%	279,130,000
				Total Convention Center Outstanding Debt	**$279,130,000**

DEBT SERVICE

Convention Center Debt Service Requirements
As of 09/30/2006

Fiscal Year	Outstanding Debt Principal	Interest	Total
2007	11,245,000	13,799,830	25,044,830
2008	11,835,000	13,209,467	25,044,467
2009	12,460,000	12,588,130	25,048,130
2010	12,065,000	12,014,970	24,079,970
2011	12,635,000	11,447,915	24,082,915
2012	13,240,000	10,841,435	24,081,435
2013	13,890,000	10,192,675	24,082,675
2014	14,585,000	9,498,175	24,083,175
2015	15,315,000	8,768,925	24,083,925
2016	16,080,000	8,003,175	24,083,175
2017	16,885,000	7,199,175	24,084,175
2018	17,725,000	6,354,925	24,079,925
2019	18,615,000	5,468,675	24,083,675
2020	19,520,000	4,561,194	24,081,194
2021	20,470,000	3,609,594	24,079,594
2022	6,470,000	2,611,681	9,081,681
2023	6,785,000	2,296,269	9,081,269
2024	7,115,000	1,965,500	9,080,500
2025	7,470,000	1,609,750	9,079,750
2026	7,845,000	1,236,250	9,081,250
2027	8,235,000	844,000	9,079,000
2028	8,645,000	432,250	9,077,250
	$279,130,000	**$148,553,960**	**$427,683,960**

DEBT SERVICE

Statement of Debt Service Revenues and Expenditures

Convention Center

	FY 2004-05 Actual	FY 2005-06 Budget	FY 2005-06 Estimate	FY 2006-07 Adopted
Beginning Cash Balance	**$ 4,134,025**	**$ 4,179,888**	**$ 4,252,116**	**$ 4,213,475**
Revenues				
Transfers	23,609,956	24,742,152	24,742,152	24,645,716
Interest/Other	202,227	130,000	265,000	426,542
Total	**23,812,183**	**24,872,152**	**25,007,152**	**25,072,258**
Total Available Resources	**$ 27,946,208**	**$ 29,052,040**	**$ 29,259,268**	**$ 29,285,733**
Expenses				
Principal Payments	8,805,000	10,685,000	10,685,000	11,245,000
Interest Payments	14,889,092	14,360,793	14,360,793	13,799,830
Total	**23,694,092**	**25,045,793**	**25,045,793**	**25,044,830**
Ending Cash Balance	**$ 4,252,116**	**$ 4,006,247**	**$ 4,213,475**	**$ 4,240,903**

DEBT SERVICE

SPORTS ARENA

Introduction

On January 17, 1998, the Dallas voters approved a proposition authorizing the City to impose an additional 2% Hotel Occupancy Tax and a 5% Motor Vehicle Rental Tax to be used solely to pay for a new sports arena. On June 24, 1998, $140.38 million of revenue bonds were issued to fund the City's $125 million contribution to build the new arena. Of the $140.38 million issued, $104.81 million of the bonds are tax-exempt and the other $35.57 million of the bonds are taxable. The debt service fund provides for the payment of principal and interest on both series of bonds.

Credit Rating

These bonds currently hold underlying ratings of A-/Baa1/A from Standard & Poor's, Moody's Investors Service and Fitch IBCA, respectively. These bonds are rated AAA/Aaa/AAA reflecting the assessment of the likelihood of repayment of principal and interest based on the bond insurance policy that Ambac Assurance Corporation is providing.

FY2006-07 Debt Service Budget

The FY2006-07 budget includes scheduled debt service payments of $9.3 million. Of this total, $3.0 million and $6.3 million are for principal payments and interest payments, respectively. These payments are funded with transfers of the 2% Hotel Occupancy Tax, the 5% Motor Vehicle Rental Tax, and interest earnings on the cash balance. Tax revenues in excess of the required debt service payments are retained in the Surplus Debt Redemption Fund until required for the payment of debt service. The Statement of Expenditures and Revenues shown on the next page reflects both of the Sports Arena Debt Service Funds and the Sports Arena Surplus Debt Redemption Fund. There are no plans to issue additional debt in FY2006-07.

Statement of Revenue Bonded Indebtedness as of 09/30/06

Series Number	Issue Name	Date of Issue	Term Years	Interest Rate	Outstanding Principal
568	Special Tax Revenue Bonds (Tax Exempt)	06/15/98	30	4.2%-5.4%	83,410,000
569	Special Tax and Lease Revenue Bonds (Taxable)	06/15/98	30	6.0%-6.7%	31,380,000
			Total Sports Arena Revenue Bonds		**$114,790,000**

DEBT SERVICE

Sports Arena Debt Service Requirements
As of 09/30/2006

Fiscal Year	Outstanding Debt Principal	Interest	Total
2007	3,020,000	6,296,237	9,316,237
2008	3,185,000	6,130,557	9,315,557
2009	3,360,000	5,955,389	9,315,389
2010	3,550,000	5,767,369	9,317,369
2011	3,750,000	5,568,604	9,318,604
2012	3,960,000	5,358,499	9,318,499
2013	4,180,000	5,136,529	9,316,529
2014	4,415,000	4,902,029	9,317,029
2015	4,665,000	4,650,124	9,315,124
2016	4,935,000	4,383,825	9,318,825
2017	5,210,000	4,106,863	9,316,863
2018	5,495,000	3,823,856	9,318,856
2019	5,795,000	3,525,056	9,320,056
2020	6,110,000	3,209,713	9,319,713
2021	6,440,000	2,876,913	9,316,913
2022	6,790,000	2,525,744	9,315,744
2023	7,160,000	2,155,206	9,315,206
2024	7,555,000	1,764,056	9,319,056
2025	7,965,000	1,350,963	9,315,963
2026	8,400,000	915,094	9,315,094
2027	8,850,000	469,781	9,319,781
	$ 114,790,000	**$80,872,407**	**$195,662,407**

DEBT SERVICE

Statement of Debt Service Revenues and Expenditures

Sports Arena

	FY 2004-05 Actual	FY 2005-06 Budget	FY 2005-06 Estimate	FY 2006-07 Adopted
Beginning Cash Balance	**$ 36,282,872**	**$ 40,049,272**	**$ 39,431,492**	**$ 45,182,617**
Revenues				
2% Hotel Occupancy Tax	8,409,352	8,603,428	9,857,405	10,350,275
5% Motor Vehicle Rental Tax	3,396,400	3,250,000	3,876,853	3,954,390
Interest/Transfers/Other	660,322	1,453,229	1,336,193	2,099,038
Total	**12,466,074**	**13,306,657**	**15,070,451**	**16,403,703**
Total Available Resources	**$ 48,748,946**	**$ 53,355,929**	**$ 54,501,943**	**$ 61,586,320**
Expenses				
Principal	2,725,000	2,870,000	2,870,000	3,020,000
Interest/Other	6,592,454	6,447,326	6,449,326	6,298,237
Total	**9,317,454**	**9,317,326**	**9,319,326**	**9,318,237**
Ending Cash Balance	**$ 39,431,492**	**$ 44,038,603**	**$ 45,182,617**	**$ 52,268,083**

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.

Credit Rating Service	Revenue Bonds	Commercial Paper Notes
Moody's	Aa2	P-1
Standard & Poor's	AA+	A-1+

DEBT SERVICE

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.

FY2004-05 coverage at September 30, 2005 is summarized in the table below.

Debt Service Coverage Requirements
FY 2004-05

Coverage Net Revenue (CNR) = $180,440 (000 omitted)

Authority	Ratio	Requirement	Denominator $	Actual
Bond Ordinance	CNR/Max YR	1.25	130,435	1.38
DWU Criteria	CNR/Max YR	1.50	130,435	1.38
DWU Criteria	CNR/Max CP	1.10	143,284	1.26
Rating Agencies	CNR/AVG	N/A	76,619	2.35

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.

DEBT SERVICE

FY 2006-07 Debt Service Budget

The FY 2006-07 budget provides principal and interest on existing debt of $76.8 million and $71.1 million, respectively. New debt to be issued includes $220 million in revenue bonds to refinance and retire commercial paper. Commercial paper issues in FY 2006-07 are forecast at $232 million with an estimated interest cost of $6.9 million, which is paid from the Water Utilities Operating Fund.

DEBT SERVICE

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 2006-07 unless otherwise noted (in italics).

(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 thirty (30) years (revised by City Council 9/28/05).

(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.

Statement of Indebtedness

DEBT SERVICE

As of 09/30/06

Series Number	Issue Name	Interest Rate(s)	Date of Issue	Term Years	Outstanding Principal
Water Works and Sewer System Revenue Bonds					
550	Refunding & Improvement	4.0%	09/01/93	20	4,715,000
570	Refunding *	4.3-5.0%	09/01/98	31	292,380,000
573	Refunding & Improvement	4.8-5.5%	09/01/99	20	13,205,000
576	Refunding & Improvement	5.3-5.8 %	09/01/00	20	23,225,000
582	Refunding & Improvement	5.0-5.3%	09/01/01	20	107,105,000
586	Refunding	3.0-5.5%	02/01/02	20	23,260,000
587	Refunding	3.0-5.0%	09/01/02	8	101,350,000
590	Refunding & Improvement	3.0-5.4%	01/01/03	20	275,465,000
B595	Refunding & Improvement	3.5-5.0%	09/01/03	20	151,960,000
603	Refunding	5.0%	02/01/05	20	235,805,000
610	Refunding & Improvement	4.3-5.5%	04/01/06	30	255,375,000
	Total Dallas Water Utilities Revenue Bonds				**$1,483,845,000**

*Longer term authorized to prepay previous 50 year contractual obligation

Commercial Paper Notes(projected)	**$ 195,000,000**
Equipment Notes	**$ 4,157,000**

DEBT SERVICE

Dallas Water Utilities Debt Service Requirements
As of 09/30/2006

Fiscal Year	Outstanding Debt Principal	Interest	Total
2007	76,825,000	71,700,035	148,525,035
2008	80,515,000	67,939,041	148,454,041
2009	84,445,000	63,937,841	148,382,841
2010	88,585,000	59,679,763	148,264,763
2011	83,130,000	55,390,804	138,520,804
2012	73,585,000	51,446,507	125,031,507
2013	78,415,000	47,604,991	126,019,991
2014	74,560,000	43,835,810	118,395,810
2015	70,200,000	40,243,547	110,443,547
2016	68,335,000	36,680,284	105,015,284
2017	65,820,000	33,335,650	99,155,650
2018	59,270,000	30,146,453	89,416,453
2019	63,450,000	27,142,357	90,592,357
2020	66,680,000	23,927,101	90,607,101
2021	64,930,000	20,672,570	85,602,570
2022	62,335,000	17,550,598	79,885,598
2023	55,695,000	14,657,897	70,352,897
2024	43,645,000	12,232,569	55,877,569
2025	33,290,000	10,339,000	43,629,000
2026	20,505,000	8,994,125	29,499,125
2027	21,545,000	7,942,875	29,487,875
2028	22,630,000	6,838,500	29,468,500
2029	23,775,000	5,678,375	29,453,375
2030	24,975,000	4,459,625	29,434,625
2031	11,240,000	3,554,250	14,794,250
2032	11,815,000	2,977,875	14,792,875
2033	12,425,000	2,371,875	14,796,875
2034	13,060,000	1,734,750	14,794,750
2035	13,730,000	1,065,000	14,795,000
2036	14,435,000	360,875	14,795,875
	$ 1,483,845,000	**$ 774,440,943**	**$ 2,258,285,943**

DEBT SERVICE

Statement of Debt Service Revenues and Expenditures
Dallas Water Utilities

	FY 2004-05 Actual	FY 2005-06 Budget	FY 2005-06 Estimate	FY 2006-07 Adopted
Beginning Cash Balance	**$ 99,997,371**	**$ 98,682,946**	**$ 98,682,946**	**$ 111,380,514**
Revenues				
Operating Fund Transfers*	130,442,897	139,126,041	142,548,012	150,266,949
General Fund	0	0	0	262,075
Sanitation	0	0	0	332,101
Storm Water Utility Transfers	562,937	564,120	564,120	976,362
Total	**131,005,834**	**139,690,161**	**143,112,132**	**151,837,487**
Total Available Resources	**$ 231,003,205**	**$ 238,373,107**	**$ 241,795,078**	**$ 263,218,001**
Expenses				
Principal Payments**	72,780,000	67,985,000	67,985,000	76,825,000
Interest Payments	59,540,259	62,429,564	62,429,564	71,700,035
Total	**132,320,259**	**130,414,564**	**130,414,564**	**148,525,035**
Ending Cash Balance	**$ 98,682,946**	**$ 107,958,543**	**$ 111,380,514**	**$ 114,692,966**

**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 and do not include any additional fees or commercial paper interest.*

CITY OF DALLAS

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