*** PRELIMINARY, For Illustrative Purposes Only ***

Transportation Committee Meeting

Dallas Love Field Airport Modernization Corporation Refunding

September 21, 2020

Table of Contents

Background – Love Field Modernization Corporation Bonds

TAB 1

Love Field Modernization Corporation Bonds

- When the City originally agreed to a terminal renovation as part of the Five Party agreement in 2006, the method of delivery was not identified.
- In 2008, the City and Southwest Airlines agreed to a financing and governance structure that would allow faster delivery of the renovations and shift the credit guaranty to Southwest.
- In 2008, the City formed the Love Field Airport Modernization Finance Corporation, which later issued the Special Facility Bonds used to finance the terminal renovations.
- This arrangement allowed SWA to mange the construction of the terminal under the 50% private funding requirement of the Texas Transportation Code and avoid the public bidding requirements of Chapter 252 of the Texas Local Government Code.

Love Field Modernization Corporation Bonds

- Special Facilities Agreement – Dated 11/1/2010:
  - Parties : City - LFAMC - Southwest
  - Southwest agreed to:
    - Construct Facilities in accordance with Program Development Agreement approved by the City Council in November 2008
    - Make Facilities Payments to Trustee to fund 100% of net debt service after applying available PFC revenues throughout term of bond
  - City agreed to:
    - Authorize bond issue on Southwest credit
    - Own & operate facilities
- In 2010, the City approved the sale of $310 million in Special Facilities Bonds by LFAMC to finance a portion of the project. In 2012, the City approved the sale of an additional $146 million in Special Facilities Bonds by LFAMC to finance the completion of the project.
- The project consisted of a new terminal building complex, aircraft parking apron, fuel systems, baggage handling system, roadways, and other new and renovated facilities at Dallas Love Field for use by Southwest Airlines and other commercial air carriers.

Love Field Modernization Corporation Bonds

- Pursuant to the Special Facilities Agreement:
  - Southwest makes payments sufficient to pay the principal and interest on the Bonds
  - The amount of each payment from Southwest is reduced by the amount, if any, of the passenger facilities charges (PFCs) and federal grant payments that have been approved by the Federal Aviation Administration (FAA) for use in connection with the Project.
  - The City reimburses Southwest for their debt payment from airport revenue (rates and charges billed to the airlines)

Love Field Modernization Corporation Bonds

- Rates and Charges:
  - The City allocates revenues and expenses to cost centers
  - The airlines and the airport "true up" at the end of each year
  - Cost centers that **are** airline responsibility:
    - Airfield & Apron Area
    - Terminal Building
    - Parking and Ground Transportation
    - Terminal Roadways
  - Cost Centers that **are <u>not</u>** airline responsibility:
    - Dallas Executive Airport & Vertiport
    - Other Building and Areas
  - Ultimately, the airlines are responsible for total revenues required for their cost centers
  - This includes:
    - Direct and Indirect Operation & Maintenance (O&M) expenses
    - Debt service on Bonds
    - Amortization charges (for capital costs paid with Airport funds)
    - Deposits to certain reserve funds
  - The airlines essentially guarantee adequate revenues to pay all expenses for these cost centers.

Love Field Modernization Corporation Bonds

- The LFAMC is a blended component unit of the City and is included in the financial statements CAFR – see Note 1B on page 33 of the FY 2019 CAFR.
  - This debt is reported as a long-term debt of the airport revenue fund (CAFR page 74)
  - We record a payable to reimburse Southwest for the debt payment
  - We explain the revenue credit agreement in Note 11L on page 77, which concludes:
    - In the event the airline carrier fails to make payments under the Facilities Agreement the City is no longer obligated to make any further payments under the Revenue Credit Agreement, and that agreement shall terminate.

Love Field Modernization Corporation Bonds

Debt Service (1)

FYE	Series 2012			Series 2010			Total Debt Service		
9/30	Principal	Interest	Debt Service	Principal	Interest	Debt Service	Principal	Interest	Debt Service
2021	$ 8,840,000	$ 4,652,000	$ 13,492,000	$ -	$ 16,275,000	$ 16,275,000	$ 8,840,000	$ 20,927,000	$ 29,767,000
2022	9,280,000	4,199,000	13,479,000	-	16,275,000	16,275,000	9,280,000	20,474,000	29,754,000
2023	9,745,000	3,723,375	13,468,375	-	16,275,000	16,275,000	9,745,000	19,998,375	29,743,375
2024	10,230,000	3,224,000	13,454,000	-	16,275,000	16,275,000	10,230,000	19,499,000	29,729,000
2025	10,745,000	2,699,625	13,444,625	-	16,275,000	16,275,000	10,745,000	18,974,625	29,719,625
2026	11,280,000	2,149,000	13,429,000	-	16,275,000	16,275,000	11,280,000	18,424,000	29,704,000
2027	11,845,000	1,570,875	13,415,875	-	16,275,000	16,275,000	11,845,000	17,845,875	29,690,875
2028	12,435,000	963,875	13,398,875	-	16,275,000	16,275,000	12,435,000	17,238,875	29,673,875
2029	13,060,000	326,500	13,386,500	3,380,000	16,186,275	19,566,275	16,440,000	16,512,775	32,952,775
2030				18,985,000	15,599,194	34,584,194	18,985,000	15,599,194	34,584,194
2031				19,985,000	14,576,231	34,561,231	19,985,000	14,576,231	34,561,231
2032				21,035,000	13,499,456	34,534,456	21,035,000	13,499,456	34,534,456
2033				22,135,000	12,366,244	34,501,244	22,135,000	12,366,244	34,501,244
2034				23,300,000	11,173,575	34,473,575	23,300,000	11,173,575	34,473,575
2035				24,520,000	9,918,300	34,438,300	24,520,000	9,918,300	34,438,300
2036				25,810,000	8,597,138	34,407,138	25,810,000	8,597,138	34,407,138
2037				27,165,000	7,206,544	34,371,544	27,165,000	7,206,544	34,371,544
2038				28,590,000	5,742,975	34,332,975	28,590,000	5,742,975	34,332,975
2039				30,090,000	4,202,625	34,292,625	30,090,000	4,202,625	34,292,625
2040				31,670,000	2,581,425	34,251,425	31,670,000	2,581,425	34,251,425
2041				33,335,000	875,044	34,210,044	33,335,000	875,044	34,210,044
	$ 97,460,000	$ 23,508,250	$ 120,968,250	$ 310,000,000	$ 252,725,025	$ 562,725,025	$ 407,460,000	$ 276,233,275	$ 683,693,275

(1) Fiscal Year debt service includes debt service on the previous November 1 and May 1 (i.e. Fiscal Year 2021 includes debt service on November 1, 2020 and May 1, 2021).

CITY OF DALLAS, TEXAS

Background – Parking Facility General Airport Revenue Bonds (GARBs)

TAB 2

Background - Parking Facility General Airport Revenue Bonds (GARBs)

- Since the ending of the Wright Amendment restriction (10/13/2014), there has been significant increase in air traffic activity at the Airport. Additional parking spaces were needed to accommodate the associated increase in parking demand.

- The project consisted of a planned new parking garage (Garage C), which is located adjacent to the ticketing lobby.

- With the completion of Garage C, the total parking spaces available on Airport property increased to approximately 12,000 spaces.

- Estimated total cost of the Project will be $208.8 million, which has been funded with the proceeds of the Series 2015 GARB Bonds and the Series 2017 GARB Bonds.

- Estimated other capital needs of the Airport, to be financed with debt, related to runway and taxiway improvements would be approximately $183.37 million for fiscal years 2020 through 2022.

Background - Parking Facility General Airport Revenue Bonds (GARBs)

Debt Service [1]

FYE	Series 2015			Series 2017			Total Aggregate Debt Service		
9/30	Principal	Interest	Debt Service	Principal	Interest	Debt Service	Principal	Net Interest	Net Debt Service
2021	$ 4,280,000	$ 4,956,750	$ 9,236,750	$ 4,360,000	$ 5,525,750	$ 9,885,750	$ 8,640,000	$ 10,482,500	$ 19,122,500
2022	4,495,000	4,737,375	9,232,375	4,580,000	5,302,250	9,882,250	9,075,000	10,039,625	19,114,625
2023	4,720,000	4,507,000	9,227,000	4,810,000	5,067,500	9,877,500	9,530,000	9,574,500	19,104,500
2024	4,955,000	4,265,125	9,220,125	5,050,000	4,821,000	9,871,000	10,005,000	9,086,125	19,091,125
2025	5,205,000	4,011,125	9,216,125	5,300,000	4,562,250	9,862,250	10,505,000	8,573,375	19,078,375
2026	5,465,000	3,744,375	9,209,375	5,565,000	4,290,625	9,855,625	11,030,000	8,035,000	19,065,000
2027	5,735,000	3,464,375	9,199,375	5,845,000	4,005,375	9,850,375	11,580,000	7,469,750	19,049,750
2028	6,025,000	3,170,375	9,195,375	6,135,000	3,705,875	9,840,875	12,160,000	6,876,250	19,036,250
2029	6,325,000	2,861,625	9,186,625	6,445,000	3,391,375	9,836,375	12,770,000	6,253,000	19,023,000
2030	6,640,000	2,537,500	9,177,500	6,765,000	3,061,125	9,826,125	13,405,000	5,598,625	19,003,625
2031	6,975,000	2,197,125	9,172,125	7,105,000	2,714,375	9,819,375	14,080,000	4,911,500	18,991,500
2032	7,320,000	1,839,750	9,159,750	7,460,000	2,350,250	9,810,250	14,780,000	4,190,000	18,970,000
2033	7,690,000	1,464,500	9,154,500	7,830,000	1,968,000	9,798,000	15,520,000	3,432,500	18,952,500
2034	8,070,000	1,070,500	9,140,500	8,225,000	1,566,625	9,791,625	16,295,000	2,637,125	18,932,125
2035	8,475,000	656,875	9,131,875	8,635,000	1,145,125	9,780,125	17,110,000	1,802,000	18,912,000
2036	8,900,000	222,500	9,122,500	9,065,000	702,625	9,767,625	17,965,000	925,125	18,890,125
2037				9,520,000	238,000	9,758,000	9,520,000	238,000	9,758,000
	$ 101,275,000	$ 45,706,875	$ 146,981,875	$ 112,695,000	$ 54,418,125	$ 167,113,125	$ 213,970,000	$ 100,125,000	$ 314,095,000

(1) Fiscal Year debt service includes debt service on the previous November 1 and May 1 (i.e. Fiscal Year 2021 includes debt service on November 1, 2020 and May 1, 2021).

CITY OF DALLAS, TEXAS

The Team

TAB 3

The Team

CITY OF DALLAS

M. Elizabeth Reich, Chief Financial Officer

Mike Phemister, Interim Assistant Director/Treasury Manager

DEPARTMENT OF AVIATION – CITY OF DALLAS

Mark Duebner, Director of Aviation

Sheneice Hughes, Assistant Director, Administration and Customer Engagement

CITY OF DALLAS SUPPORT

Co-Financial Advisors – Hilltop Securities Inc. / Estrada Hinojosa & Company, Inc.*

Co-Bond Counsel – McCall, Parkhurst & Horton LLP / Escamilla & Poneck, LLP*

Co-Disclosure Counsel – Norton Rose Fulbright LLP / Kintop Smith, PLLC*

Feasibility Consultant – Unison Consulting, Inc.

Trustee – Wells Fargo Bank

Underwriter's:

- Senior Manager – BofA Securities, Inc.
- Co-Senior Manager – Siebert Williams Shank & Co., LLC*
- Co-Manager – Citi
- Co-Manager – J.P. Morgan
- Co-Manager – Ramirez & Co., Inc.*

*Indicates Minority Owned Firm.

Financial Management Performance Criteria (FMPC)

TAB 4

Financial Management Performance Criteria (FMPC)

Advance and current refunding criteria

- **Capital and Debt Management**
- **Description**: Advance refunding and forward delivery refunding transactions should be considered when the net present value savings as a percentage of the par amount of refunded bonds is at least **four** percent.
- Current refunding transactions should be considered when the net present value savings as a percentage of the par amount of refunded bonds is at least **three** percent.

Scenario 1: Special Facility Bonds

TAB 5

Scenario 1: Special Facility Bonds

	Citi Analysis	BofA Analysis	HTS Analysis
Refunding Bonds, Series 2020			
Credit	Special Facilities Non-AMT	Special Facilities Non-AMT + Taxable	Special Facilities Non-AMT
Par Amount (Non-AMT)	$ 294,275,000	$ 249,200,000	$ 283,130,000
Premium	19,550,777	60,790,506	26,865,963
Total Proceeds (Non-AMT)	$ 313,825,777	$ 309,990,506	$ 309,995,963
Issuer Contribution	-	-	*2,835,337*
Par Amount (Taxable)	-	2,530,000	-
Total Par (Tax-Exempt & Taxable)	294,275,000	251,730,000	283,130,000
DSR Deposit	-	-	-
2020 Debt Service	515,113,628	439,765,632	494,612,468
AIC	4.50%	3.03%	4.22%
TIC	N/A	3.00%	4.18%
Refunding Results			
Total Savings	$ 39,428,688	$ 113,420,434	$ 58,573,599
Annual Savings (22-27)	1,560,630	3,746,129	2,118,500
Annual Savings (28-40)	2,192,637	2,192,637	3,378,963
PV Savings ($)	25,645,725	88,499,978	34,713,616
PV Savings (%)	8.27%	28.55%	11.20%
PV Savings ($) w/o DSRF	25,645,725	88,499,978	34,713,616
PV Savings (%) w/o DSRF	8.27%	28.55%	11.20%

Scenario 2: General Airport Revenue Bonds (GARBs)

TAB 6

Scenario 2: General Airport Revenue Bonds (GARBs)

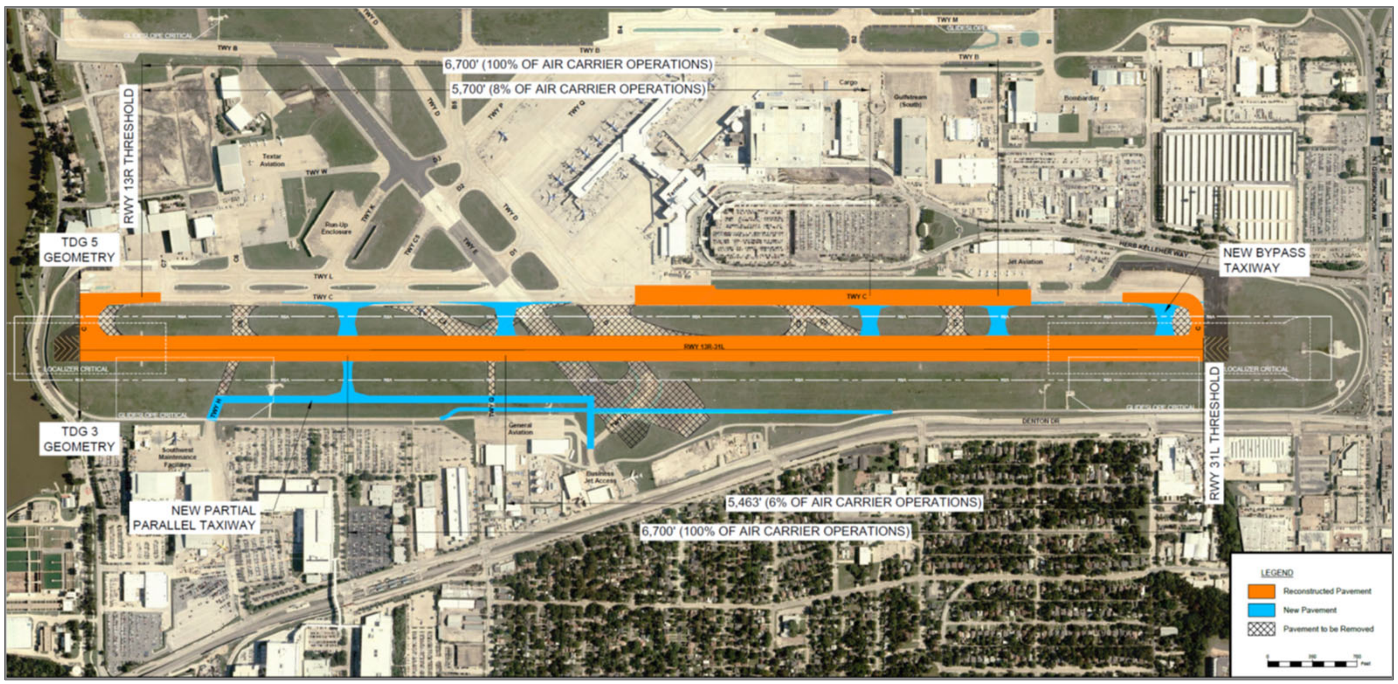
	BofA Analysis	HTS Analysis
Refunding Bonds, Series 2020		
	GARBs	GARBs
Credit	Non-AMT + Taxable	Non-AMT + Taxable
Par Amount (Non-AMT)	$ 242,010,000	$ 252,985,000
Premium	67,868,839	57,008,699
Total Proceeds (Non-AMT)	$ 309,878,839	$ 309,878,839
Issuer Contribution	-	-
Par Amount (Taxable)	31,465,000	33,810,000
Total Par (Tax-Exempt & Taxable)	273,475,000	286,795,000
DSR Deposit	28,605,797	30,935,031
2020 Debt Service	469,546,924	492,829,419
AIC	2.78%	3.19%
TIC	2.81%	3.16%
Refunding Results		
Total Savings	$ 83,639,143	$ 60,356,648
Annual Savings (22-27)	3,452,458	2,764,348
Annual Savings (28-40)	4,597,633	3,172,635
PV Savings ($)	68,505,831	74,802,299
PV Savings (%)	31.32%	24.13%
PV Savings ($) w/o DSRF	39,900,035	43,867,268
PV Savings (%) w/o DSRF	12.87%	14.15%

Upcoming Additional Financing Needs / Condition of Runway

TAB 7

Runway 13R-31L

- Runway 13R-31L was originally constructed in 1961. A complete overlay of the runway was completed in 1990
- According to FAA, the minimum useful life for pavement reconstruction is 20 years. The runway pavement is over 25 years-old and well beyond its functional life
- Runway 13R-31L handles 42% of the Airport's operations and also the longest runway at the Airport (8,800 feet)



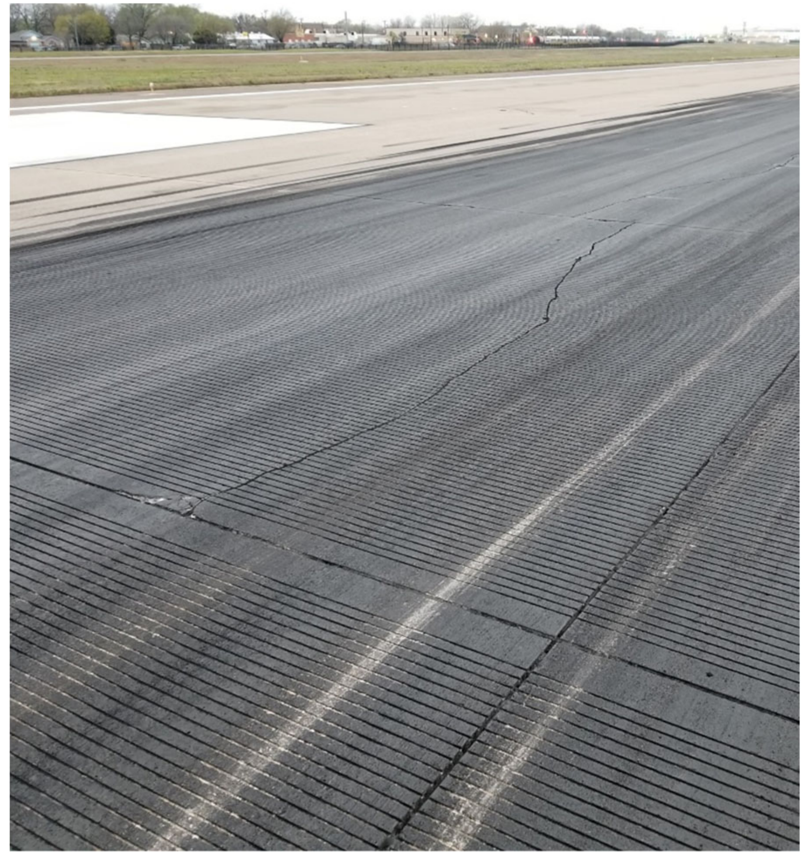
CITY OF DALLAS, TEXAS

Runway 13R-31L

- The repeal of the Wright Amendment in October 2015 significantly increased activity at Love Field
- In 2014 there were 182,949 movements
- By 2016 movements increased to 224,193
- In 2015, Runway 13R-31L average visual pavement rating was 81
- In 2016, the pavement rating was downgraded from 81 to 69 (the low end of fair rating)
- The rating scale identifies pavement under 70 as beyond regular maintenance and is deemed critical for replacement
- Predictive models show the runway rating will drop from fair to poor by 2022

Runway 13R-31L

- FAA prioritizes eligible projects for funding from the runways outward, with runways being the highest priority
- FAA has identified this project as a priority project in the Southwest Region
- FAA original Grant allocation was approximately $17.5 Million
- FAA recently revised Grant allocation is anticipated to be $29 Million
- All Grants are reimbursable Grants



Risk of GARBs

TAB 8

Risk of GARBs

- The transfer of SWA (a publicly held company) backed debt to the Aviation Department
- The resulting increase in GARB debt from the current level of $225 million to $535 million
- The potential downgrade of the GARB ratings due to the 137% increase in GARB debt when airports are facing economic challenges due to the COVID-19
- The higher potential financing costs that would be incurred on future GARB issues as well as the higher potential cost of liquidity support in favor of an airport commercial paper program as a result of the downgrade

Recommendation

TAB 9

Questions & Answers