

Memorandum



CITY OF DALLAS

DATE October 1, 2021

TO Honorable Mayor and Council Members

SUBJECT **Moody's Investors Service Completes Periodic Review of City of Dallas Airport Enterprise Rating- INFORMATION**

On September 29, Moody's Investors Service (Moody's) announced the completion of a "periodic review of the ratings of Dallas (City Of) TX Airport Enterprise and other ratings that are associated with the same analytical unit." This is not a rating action, but rather a review of the Airport Enterprise portfolio in which, "Moody's reassessed the appropriateness of the ratings in the context of the relevant principal methodology(ies), recent developments, and a comparison of the financial and operating profile to similarly rated peers." Moody's last affirmed the 'A1' credit rating and stable outlook on the outstanding Love Field Airport Modernization Corp. (LFAMC) General Airport Revenue Bonds on August 24, 2021, following a review of outstanding Airport Enterprise debt.

The key rating considerations in Moody's portfolio review of the Airport Enterprise echo recent rating actions. In the publication, Moody's states that the current 'A1' rating is "supported by the economic strength of the Dallas-Fort Worth service area that mitigates the outsized exposure to Southwest Airlines Co. (Baa1), the long term use and lease agreement that matures in 2028 and low leverage, inclusive of the obligations for the revenue credit, of \$149 adjusted debt per [origin and destination] O&D enplanement in fiscal 2019." The article further states that, "the ratings are constrained by the high exposure to Southwest, which accounted for 95% of enplanements in fiscal 2020 and more than any other rated airport, but that risk is mitigated by Southwest's headquarters adjacent to the airport and Southwest's relative credit strength among US airlines." Moody's also discussed the Airport Enterprise's challenge with "federal limitations on Love Field's ability to grow and substantial competition from larger and relatively unconstrained Dallas-Fort Worth International Board, TX (DFW, A1)," noting however, that "Southwest is discouraged from serving DFW by the same federal agreement that limits Love Field's size through 2025."

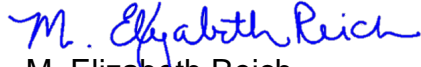
Moody's announcement does not constitute a rating action and is not an indication of whether a credit rating action is likely in the near future. The announcement serves to summarize Moody's view of the Airport Enterprise credit portfolio as of the publication date, which will not be updated again until the next periodic review.

According to Moody's, the City of Dallas Airport Enterprise faces certain constraints and legal limitations, but is supported by the strength of the economic region, the Airport's financial profile, and the sustained partnership it shares with Southwest Airlines Co. As we continue to navigate the challenges and changes to the airline industry during the COVID pandemic, Dallas continues to work to provide fiscally responsible, efficient, and excellent service for its airport customers and citizens.

DATE October 1, 2021

SUBJECT **Moody's Investors Service Completes Periodic Review of City of Dallas Airport Enterprise Rating-
INFORMATION**

Attached is the press release for your review. Please let me know if you need additional information.



M. Elizabeth Reich
Chief Financial Officer

c: T.C. Broadnax, City Manager
Chris Caso, City Attorney
Mark Swann, City Auditor
Biliera Johnson, City Secretary
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Joey Zapata, Assistant City Manager
Dr. Eric A. Johnson, Chief of Economic Development & Neighborhood Services
M. Elizabeth (Liz) Cedillo-Pereira, Chief of Equity and Inclusion
Directors and Assistant Directors

Announcement of Periodic Review: Moody's announces completion of a periodic review of ratings of Dallas (City Of) TX Airport Enterprise

29 Sep 2021

New York, September 29, 2021 -- Moody's Investors Service ("Moody's") has completed a periodic review of the ratings of Dallas (City Of) TX Airport Enterprise and other ratings that are associated with the same analytical unit. The review was conducted through a portfolio review discussion held on 22 September 2021 in which Moody's reassessed the appropriateness of the ratings in the context of the relevant principal methodology(ies), recent developments, and a comparison of the financial and operating profile to similarly rated peers. The review did not involve a rating committee. Since 1 January 2019, Moody's practice has been to issue a press release following each periodic review to announce its completion.

This publication does not announce a credit rating action and is not an indication of whether or not a credit rating action is likely in the near future. Credit ratings and outlook/review status cannot be changed in a portfolio review and hence are not impacted by this announcement. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key rating considerations are summarized below.

Dallas (City of) TX Airport Enterprise's A1 rating is supported by the economic strength of the Dallas-Fort Worth service area that mitigates the outsized exposure to Southwest Airlines Co. (Baa1), the long term use and lease agreement that matures in 2028 and low leverage, inclusive of the obligations for the revenue credit, of \$149 adjusted debt per O&D enplanement in fiscal 2019. The ratings are constrained by the high exposure to Southwest, which accounted for 95% of enplanements in fiscal 2020 and more than any other rated airport, but that risk is mitigated by Southwest's headquarters adjacent to the airport and Southwest's relative credit strength among US airlines. The rating is further challenged by federal limitations on Love Field's ability to grow and substantial competition from larger and relatively unconstrained Dallas-Fort Worth International Board, TX (DFW, A1). However, Southwest is discouraged from serving DFW by the same federal agreement that limits Love Field's size through 2025.

This document summarizes Moody's view as of the publication date and will not be updated until the next periodic review announcement, which will incorporate material changes in credit circumstances (if any) during the intervening period.

The principal methodology used for this review was Publicly Managed Airports and Related Issuers published in March 2019. Please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

This announcement applies only to EU rated, UK rated, EU endorsed and UK endorsed ratings. Non EU rated, non UK rated, non EU endorsed and non UK endorsed ratings may be referenced above to the extent necessary, if they are part of the same analytical unit.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

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