

Memorandum



CITY OF DALLAS

DATE September 4, 2020

TO The Honorable Mayor and Members of the City Council

SUBJECT **Agenda Item #3 September 9, 2020 - Airport System Revenue Refunding Bonds, Series 2020**

The September 9, 2020 City Council agenda includes a resolution for your consideration authorizing the Love Field Airport Modernization Corporation (LFAMC) to proceed with preparing a resolution authorizing the issuance, sale, and delivery of its Airport System Revenue Refunding Bonds, Series 2020, guaranteed by Southwest Airlines Co. (Southwest), subject to certain parameters, in an aggregate principal amount not to exceed \$310,000,000.

The LFAMC was created as a local government corporation in June 2008, pursuant to the requirements of Chapter 431, Sub-chapter D of the Texas Transportation Code to aid, assist, and act on behalf of the City in the performance of its governmental functions to facilitate the Love Field Modernization Program and provide a mechanism for financing its costs. Subsequently, in November 2010, the LFAMC issued its Love Field Airport Modernization Corporation Special Facilities Revenue Bonds, Series 2010 (Southwest Airlines Company - Love Field Modernization Program Project) in the aggregate principal amount of \$310,000,000 ("Series 2010 Bonds"). Currently, the City's financial advisors recommend issuing up to \$310,000,000 in bonds for the purpose of refunding eligible outstanding LFAMC Special Facilities Revenue Bonds, Series 2010, to leverage market savings.

The issuance and sale of the bonds is contingent upon the City Council's approval to begin preparations of the issuances and a future bond resolution currently scheduled for consideration and approval by the City Council in October 2020.

Please let me know if you need additional information.

A handwritten signature in blue ink that reads "M. Elizabeth Reich".

M. Elizabeth Reich
Chief Financial Officer

Attachment

cc: T.C. Broadnax, City Manager
Chris Caso, City Attorney
Mark Swann, City Auditor
Biliera Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizer Tolbert, Chief of Staff to the City Manager
Majed A. Al-Ghafry, Assistant City Manager

Jon Fortune, Assistant City Manager
Joey Zapata, Assistant City Manager
Nadia Chandler Hardy, Assistant City Manager
Dr. Eric A. Johnson, Chief of Economic Development and Neighborhood Services
Laila Alequresh, Chief Innovation Officer
M. Elizabeth (Liz) Cedillo-Pereira, Chief of Equity and Inclusion
Directors and Assistant Directors



Agenda Information Sheet

File #: 20-1629

Item #: 3.

STRATEGIC PRIORITY: Government Performance and Financial Management

AGENDA DATE: September 9, 2020

COUNCIL DISTRICT(S): N/A

DEPARTMENT: City Controller's Office

EXECUTIVE: Elizabeth Reich

SUBJECT

A resolution authorizing **(1)** Love Field Airport Modernization Corporation ("LFAMC" or "Issuer") to proceed with preparing a resolution authorizing the issuance, sale, and delivery of its Airport System Revenue Refunding Bonds, Series 2020, guaranteed by Southwest Airlines Co. ("Southwest"), subject to certain parameters, in an aggregate principal amount not to exceed \$310,000,000; **(2)** the LFAMC to negotiate and enter into all agreements and instruments to which the Issuer is a party in connection with the issuance of its bonds, including, but not limited to, a bond purchase agreement; **(3)** the LFAMC and its consultants to take all other actions deemed necessary in connection with the issuance of the LFAMC special facilities revenue bonds including the engagement of the bond underwriters, trustee, co-bond counsel, and co-financial advisors; and **(4)** other actions by the LFAMC and the City Manager deemed necessary in connection with the foregoing - Financing: This action has no cost consideration to the City (see Fiscal Information for potential future cost)

BACKGROUND

In June 2008, the City Council authorized the creation of a local government corporation, the LFAMC, pursuant to the requirements of Chapter 431, Sub-chapter D of the Texas Transportation Code to aid, assist, and act on behalf of the City in the performance of its governmental functions to facilitate the Love Field Modernization Program and provide a mechanism for financing its costs.

On January 27, 2010, City Council authorized the LFAMC to issue bonds, in one or more series, in the principal amount not to exceed \$500,000,000.00, subject to certain parameters set forth in the resolution; authorized the LFAMC to enter into a special facilities agreement, a trust indenture, and a bond purchase agreement; and authorized the City Manager to enter into the special facilities agreement and a revenue credit agreement by Resolution No. 10-0360.

In November 2010, the LFAMC issued its Love Field Airport Modernization Corporation Special Facilities Revenue Bonds, Series 2010 (Southwest Airlines Company - Love Field Modernization Program Project) in the aggregate principal amount of \$310,000,000.00 ("Series 2010 Bonds"). Additionally, in May 2012, the LFAMC issued its Love Field Airport Modernization Corporation Special Facilities Revenue Bonds, Series 2012 (Southwest Airlines Co. - Love Field Modernization Program Project) in the aggregate principal amount of \$146,260,000.00 ("Series 2012 Bonds").

The City, the LFAMC, and Southwest are parties to a special facilities agreement and the LFAMC and Wells Fargo Bank, National Association, as trustee, are parties to a trust indenture supporting the Love Field Modernization Program project bond financing. Under the special facilities agreement, in consideration of Southwest's desire to manage the LFAMC, Southwest obligated itself to make 100 percent of the debt service payments on the Series 2010 and Series 2012 Bonds. Southwest provided a guaranty to the trustee that it would make the debt services payments on the Series 2010 and Series 2012 Bonds.

In 2015, the LFAMC approved a resolution authorizing the LFAMC to issue \$130,000,000.00 in general airport revenue bonds in order to initiate the design and construction of the Love Field parking garage and related improvements ("2015 Aviation Revenue Bonds").

On June 10, 2015, City Council authorized the sale of the 2015 Aviation Revenue Bonds. Additionally, in order to complete the construction and equipping of the Love Field parking garage and related improvements by Resolution No. 15-1051.

On November 9, 2016, City Council authorized the issuance and sale of \$116,850,000.00 Love Field Airport Modernization Corporation General Airport Revenue Bonds, Series 2016, wherein the bonds were later issued in 2017 ("2017 Aviation Revenue Bonds"), by Resolution No. 16-1794, wherein the bonds were later issued in 2017.

Currently, the City's financial advisors recommend issuing up to \$310,000,000.00 in bonds for the purpose of refunding eligible outstanding LFAMC Special Facilities Revenue Bonds, Series 2010, to leverage market savings. Additionally, the LFAMC ~~met prior to September 9, 2020 in order~~ will meet will meet to consider the approval to issue Airport System Revenue Refunding Bonds, Series 2020, in the amount not to exceed \$310,000,000.00.

On April 14, 2020, the City issued a Request for Proposals for Aviation Financing Debt Underwriting from the pool of qualified firms and received 28 proposals in response. To accommodate this transaction, the City's co-financial advisors, Hilltop Securities, recommend a syndicate of four underwriting firms; comprised of two non-Minority Women-owned Business Enterprises (M/WBE) firms and two M/WBE firms, achieving at minimum 36.3 percent M/WBE participation. Following committee review, the City plans to use an underwriting syndicate team comprised of BofA Securities, Inc.; Siebert Williams & Co., LLC; J.P. Morgan; Citigroup Global; and Ramirez & Co. BofA Securities, Inc. will be the Bookrunning Senior Manager and Siebert Williams & Co., LLC will serve as the Co-Senior Manager.

The issuance and sale of the bonds is contingent upon City Council's approval to begin preparations of the issuance and ~~parameters—Ordinance~~ a subsequent bond resolution a subsequent bond resolution currently scheduled for consideration and approval by the City Council in ~~September~~ October October 2020.

ESTIMATED SCHEDULE OF PROJECT

Authorize Preparation for Issuance of Bonds	September 2020
Approval of Bond Resolution	October 2020
Pricing	October 2020
Delivery of Proceeds	December 2020

PRIOR ACTION/REVIEW (COUNCIL, BOARDS, COMMISSIONS)

City Council will be briefed by memorandum regarding this matter on September 4, 2020.

FISCAL INFORMATION

This action has no cost consideration to the City. The anticipated cost of issuance is \$1,080,000 from 2020 Aviation Bond Funds, see Attachment I.

Attachment I provides an estimate of bond issuance costs for the proposed bonds and the M/WBE participation. Payment of fees and expenses is contingent upon the issuance and sale of the LFAMC Airport System Revenue Refunding Bonds, Series 2020.

Attachment I

LFAMC Airport System Revenue Refunding Bonds, Series 2020
\$310,000,000

Estimate of Total Issuance Costs and M/WBE Participation

	<u>Fees</u>	<u>Percent of Total Costs</u>
Co-Bond Counsel		
McCall, Parkhurst & Horton LLP (Vendor 193173)	\$210,000	19%
Escamilla & Poneck (Vendor 518903)	104,000	10%
Disclosure Counsel		
Norton Rose Fulbright US LLP (Vendor VC0000006239)	130,000	12%
Kintop Smith (Vendor VC22035)	85,000	8%
Co-Financial Advisors		
Hilltop Securities (Vendor VS0000052889)	145,000	13%
Estrada Hinojosa (Vendor 259910)	83,000	8%
Printing Fee		
TBD	10,000	1%
Paying and Escrow Agent Fee		
Wells Fargo Bank, N.A. (VS0000047523)	9,500	1%
Rating Agencies		
Moody's Investors Service (Vendor 951236)	140,000	13%
S&P Global (Vendor 954974)	135,000	13%
Auditor		
Grant Thornton LLP (Vendor VS0000007921)	14,000	1%
Attorney General Filing Fee		
	9,500	1%
Misc. Expenses		
	5,000	0%
Total Issuance Costs	<u>\$1,080,000</u>	<u>100%</u>
Total M/WBE Participation as % of Total Issuance Costs:	\$ 282,000	26%

Note: Payment of fees and expenses is contingent upon the issuance and sale of the LFAMC Special Facilities Revenue Refunding Bonds, Series 2020.

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WHEREAS, the City is the owner of Dallas Love Field, Dallas Executive Airport, and the Dallas Heliport (hereinafter defined and referred to as the “Airport System”), which is located in the City of Dallas, Dallas County, Texas; and

WHEREAS, Love Field Airport Modernization Corporation (the “Corporation”) was created under the auspices of the City of Dallas, Texas (the “City”); and

WHEREAS, on July 11, 2006, the City, the City of Fort Worth, The Dallas-Fort Worth (DFW) International Airport Board, Southwest Airlines Co. (the “Company”) and American Airlines, Inc. entered into that certain “Contract Among the City of Dallas, the City of Fort Worth, Southwest Airlines Co., American Airlines, Inc., and DFW International Airport Board Incorporating the Substance of the Terms of the June 15, 2006, Joint Statement Between the Parties to Resolve the ‘Wright Amendment’ Issues affecting Dallas Love Field” (the “Five Party Agreement”) wherein, among other things, the parties thereto agreed to seek to eliminate restrictions on air service at the Airport set forth in existing federal legislation (commonly referred to as the “Wright Amendment”); and

WHEREAS, on October 13, 2006, Public Law 109-352, commonly known as the “Wright Amendment Reform Act of 2006” was signed into law; and

WHEREAS, the Wright Amendment Reform Act of 2006 provides that the interstate flight restrictions imposed on the Airport since 1979 will be lifted on October 13, 2014, in accordance with other terms and conditions set forth in the Wright Amendment Reform Act of 2006; and

WHEREAS, in the Five Party Agreement, the City and the Company agreed to the significant redevelopment of portions of the Airport, including the modernization of the existing terminal facilities at the Airport, a program referred to as the “Love Field Modernization Program” or “LFMP”, and the City and the Company agreed to work toward completion of the LFMP by October 2014, eight years from the enactment of the Wright Amendment Reform Act of 2006; and

WHEREAS, following enactments of the Wright Amendment Reform Act of 2006, the City retained consultants to perform a terminal area master plan, a plan referred to as the “Terminal Area Redevelopment Program Study” or “TARPS”, establishing the requirements and criteria for terminal expansion and modernization and, in a parallel effort, the Company retained consultants to explore alternative conceptual layouts for terminal redevelopment, including the alternative conceptual layout that has been identified by City and the Company as “Option C”; and

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WHEREAS, on June 25, 2008, Dallas City Council authorized a “Term Sheet” negotiated by the City and the Company in which the consultant recommendations were adopted, establishing the consensus recommendation that Option C is the preferred concept for the LFMP and will satisfy the requirements defined in the TARPS by Resolution No. 08-1877; and

WHEREAS, to facilitate the development of the LFMP, the City created the Corporation to act on behalf of the City in the performance of its governmental functions to promote the development of the geographic area of the City included at or in the vicinity of the Airport, in furtherance of the promotion, development, encouragement, and maintenance of employment, commerce, aviation activity, tourism and economic development in the City; and

WHEREAS, in furtherance of the development of the LFMP, the City, the Corporation and the Company entered into that certain Program Development Agreement, dated January 15, 2009 (the “Program Development Agreement”); and

WHEREAS, in furtherance of the provisions of the Five Party Agreement, the City and the Company entered into that certain Amended and Restated Lease of Terminal Building Premises, effective October 1, 2008 (the “Airport Use and Lease Agreement”); and

WHEREAS, each of the Program Development Agreement and the Airport Use and Lease Agreement provide that the City and the Company are undertaking the LFMP, a major capital program to improve and modernize terminal facilities at the Airport; and

WHEREAS, each of the Program Development Agreement and the Airport Use and Lease Agreement provide that the Corporation, at the request of the Company, shall issue bonds to finance elements of the LFMP; and

WHEREAS, the Corporation finds the Love Field Modernization Program requires issuance of an amount not to exceed \$310,000,000 of Airport System Revenue Refunding Bonds, Series 2020 (the “Bonds”); for the purpose of refunding eligible outstanding LFAMC Special Facilities Revenue Bonds, Series 2010; and

WHEREAS, the City Council hereby finds that, in order to accomplish the Issuances in a timely and cost-efficient manner, the City Manager, the City Attorney, the City’s Financial Advisors, the City’s Co-Bond Counsel, and the City’s Disclosure Counsel (collectively, the “Necessary Parties”) should be authorized and directed to take such action and prepare documents as necessary in order to accomplish the sale of the Bonds.

WHEREAS, it is deemed necessary and advisable that this Resolution be adopted.

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Now, Therefore,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF DALLAS:

SECTION 1. That the Necessary Parties are hereby authorized to take action and prepare documents, including, without limitation, the actions specified in this resolution, needed to accomplish the sale of the Bonds, in an aggregate principal amount not to exceed \$310,000,000.00, with the sale of the Bonds scheduled to occur in a timely manner.

SECTION 2. That the Necessary Parties are hereby authorized and directed to prepare an Official Statement with respect to such obligations and to take such other action and prepare such other documents as are necessary and incidental to the issuance, sale, and delivery of the Bonds.

SECTION 3. That the selection of Hilltop Securities, Inc. and Estrada Hinojosa & Company as Co-Financial Advisor to the Corporation, and the selection of McCall, Parkhurst & Horton L.L.P and Escamilla & Poneck, Inc. as Co-Bond Counsel to the Corporation is hereby affirmed. The selection of BofA Securities, Inc., Siebert Williams & Co., LLC, J.P. Morgan, Citigroup Global, and Ramirez & Co. as underwriters for the Bonds is hereby approved.

SECTION 4. That the City Manager is hereby authorized to use the previously contracted professional services of Hilltop Securities, Inc. and Estrada Hinojosa & Company, Inc., co-financial advisors, for the proposed refunding bond sale. If the bonds are issued, payment for such services shall not exceed \$145,000.00 for Hilltop Securities, Inc. (VS0000052889) and shall not exceed \$83,000.00 for Estrada Hinojosa & Company Inc. (259910) and shall be made from proceeds after delivery of the Bonds.

SECTION 5. That the City Manager is hereby authorized to use the previously contracted professional services of McCall, Parkhurst & Horton LLP and Escamilla & Poneck LLP as co-bond counsel in connection with the sale and delivery of the Bonds. If bonds are issued, payment for the opinion, and the hourly rate of McCall, Parkhurst & Horton LLP (193173), shall be at the rate of \$0.30 per \$1,000.00 increment of bonds issued plus hourly rate of \$90.00 to \$525.00 for services rendered by individual attorneys and paralegals (estimated not to exceed \$210,000.00). If bonds are issued, payment for the opinion, and the hourly rate of Escamilla & Poneck LLP, (518903) shall be at the rate of \$0.20 per \$1,000.00 increment of bonds issued plus an hourly rate of \$90.00 to \$525.00 for services rendered by individual attorneys and paralegals (estimated not to exceed \$104,000.00) and shall be made from proceeds after delivery of the Bonds.

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SECTION 6. That the City Manager is hereby authorized to use the previously contracted professional services of Norton Rose Fulbright US LLP (VC0000006239) and Kintop Smith LLP (VC22035) as disclosure counsel in connection with the sale and delivery of the Bonds. If bonds are issued, payment for the opinion, and the hourly rate of Norton Rose Fulbright US LLP shall be at the rate of \$0.21 per \$1,000.00 increment of bonds issued plus hourly rate of \$475.00 and lower for services rendered by individual attorneys and paralegals (estimated not to exceed \$130,000.00), and shall be made from bond proceeds. If bonds are issued, payment for the opinion, and the hourly rate of Kintop Smith LLP shall be at the rate of \$0.14 per \$1,000.00 increment of bonds issued plus hourly rate of \$475.00 and lower for services rendered by individual attorneys and paralegals (estimated not to exceed \$85,000.00), and shall be made from proceeds after delivery of the Bonds.

SECTION 7. That the City Manager is hereby authorized to obtain bond ratings from Standard & Poor's, Inc. (954974) and Moody's Investors Service (951236) in connection with the sale of the Bonds. Payment for the bond ratings is estimated to be \$275,000.00 and shall be made from the Aviation Operating Fund, Fund 0130, Department AVI, Unit 7750, Object 3899 and shall be reimbursed from Bond proceeds.

SECTION 8. That the Chief Financial Officer is hereby authorized to make payments for printing services to print and mail official statements. Payment for printing services is estimated to be \$10,000.00 and shall be made from the proceeds after delivery of the Bonds.

SECTION 9. That the City Manager is hereby authorized to use the previously contracted professional services of Grant Thornton LLP to obtain an independent auditors consent letter in connection with the sale and delivery of the bonds. If the bonds are issued, payment for the services of Grant Thornton LLP (VS0000007921) shall not exceed \$14,000 and shall be made from the Aviation Operating Fund, Fund 0130, Department AVI, Unit 7750, Object 3899 and shall be reimbursed from Bond proceeds.

SECTION 10. That the Chief Financial Officer is hereby authorized to make payment to Wells Fargo Bank, N.A. (VS0000047523) for services provided as paying agent/registrar with respect to the Bonds at an annual cost of \$6,000.00 and an Acceptance fee at a cost of \$3,500.00, plus mailing expenses from the Aviation Operating Fund, Fund 0130, Department AVI, Unit 7750, Object 3899 upon issuance of the Bonds.

SECTION 11. That the proceeds received from the sale of the Bonds shall be deposited in Series 2020 Aviation Bond Funds, Fund 0684, Department AVI, Unit W652, Revenue Code 8448. Any accrued interest from these proceeds will be deposited in the Debt Service Fund, Fund 0981, Department AVI, Revenue Code 8438.

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SECTION 12. That the President of the Board of Directors of the LFAMC and the City Manager are hereby authorized and directed to file an Official Statement with respect to such Bonds and prepare such other documents as are necessary and incidental to the issuance, sale, and delivery of the Bonds with the Attorney General; and that the Chief Financial Officer be and is hereby authorized to make the payment for filing with the

Attorney General's Office (344989) prior to receiving the Bond proceeds. The cost is estimated to be \$9,500.00 and shall be made from Aviation Operating Fund, Fund 0130, Department AVI, Unit 7750, Object 3899 and shall be reimbursed from Bond proceeds.

SECTION 13. That the Chief Financial Officer is hereby authorized to make payments for miscellaneous services relating to the sale of the Bonds. Payments for the miscellaneous services are estimated to be \$5,000.00 and shall be made after delivery of the Bonds.

SECTION 14. That this resolution shall take effect immediately from and after its passage in accordance with the provisions of the Charter of the City of Dallas, and it is accordingly so resolved.