Memorandum

CITY OF DALLAS

DATE May 17, 2024

TO Honorable Mayor and Members of the City Council

SUBJECT **S&P Global Ratings Affirms 'A' Rating and Stable Outlook on Love Field Airport Modernization Corp. General Airport Revenue Bonds – RATING ACTION**

On May 8, 2024, S&P Global Ratings (S&P) affirmed its 'A' rating and stable outlook on the Love Field Airport Modernization Corp. (LFAMC) General Airport Revenue Bonds (GARBs) issued for Dallas Love Field Airport (DAL).

In the report, S&P notes "strong enplanement trends following the pandemic, showing growth every year since 2020, with 2023 enplanements coming in above prepandemic levels." According to the report, DAL's key credit strengths remain in its "role as an important provider of air service in the Dallas-Fort Worth MSA," "very strong management and governance," as well as, "strong financial metrics," as evidenced by a healthy debt-to-net revenues ratio and debt service coverage (DSC) in fiscal 2023. The report also notes potential credit weaknesses, including "very high airline concentration, with Southwest Airlines comprising more than 95% market share," and competition from nearby airports.

S&P previously upgraded the rating and outlook on the LFAMC GARBs in August 2021. The current S&P report states that, "enplanements will at least remain stable and likely grow given favorable demographic trends in the Dallas MSA, and that with limited capital needs, management will maintain its historically strong DSC," and "could raise the rating with two-year outlook period if the airport improves and maintains its financial metrics, particularly its debt-to-net revenues levels." This is a positive indicator of the future financial performance of DAL and the continued strength of the LFAMC credit profile.

Please find attached the report issued by S&P. If you have any questions or need further information, please do not hesitate to contact me.

Jack Ireland
Chief Financial Officer

c: Kimberly Bizor Tolbert, City Manager (I)
Tammy Palomino, City Attorney
Mark Swann, City Auditor
Bilierae Johnson, City Secretary
Preston Robinson, Administrative Judge
Jon Fortune, Deputy City Manager
Majed A. Al-Ghafry, Assistant City Manager
M. Elizabeth (Liz) Cedillo-Pereira, Assistant City Manager
Dr. Robert Perez, Assistant City Manager
Donzell Gipson, Assistant City Manager (I)
Robin Bentley, Assistant City Manager (I)
Genesis D. Gavino, Chief of Staff to the City Manager
Directors and Assistant Directors

S&P Global
Ratings

RatingsDirect®

Love Field Airport Modernization Corp., Texas; Airport

Primary Credit Analyst:
Alex Louie, Englewood + 1 (303) 721 4559; alex.louie@spglobal.com

Secondary Contact:
Scott Shad, Englewood (1) 303-721-4941; scott.shad@spglobal.com

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Love Field Airport Modernization Corp., Texas; Airport

Credit Profile		
Love Field Airport Modernization Corp gen arpt rev rfdg bnds ser 2021 (AMT) due 11/01/2040		
Unenhanced Rating	A(SPUR)/Stable	Current
Love Field Airport Modernization Corp AIRPORTS		
Long Term Rating	A/Stable	Current
Many issues are enhanced by bond insurance.		

Credit Highlights

- S&P Global Ratings' rating on Love Field Airport Modernization Corp. (LFAMC), Texas' general airport revenue bonds (GARBs), issued for Dallas Love Field airport (DAL), is A.
- The outlook is stable.

Security

Net airport system revenues, as made available by the city under a project financing agreement with the LFAMC, secure the bonds. A debt service reserve fund provides additional liquidity to bondholders. Legal provisions include a rate covenant equal to 1.25x debt service coverage (DSC) based on average annual debt service. Furthermore, an additional bonds test requires that historical net revenues, including passenger facility charges (PFCs) applied as a debt service offset, will provide at least 1.10x DSC or projected net revenues provide at least 1.25x DSC, respectively. We consider the bond provisions credit neutral.

As of April 2024, the airport had $496 million in airport revenue bonds outstanding.

Credit overview

The rating reflects our opinion of the airport's strong enterprise risk profile and strong financial risk profile incorporating its role as an important provider of air service in the Dallas-Worth Worth metropolitan statistical area (MSA) and a key component of Southwest Airline's route network. Enplanement activity surpassed prepandemic levels by 5% in fiscal 2023 to 8.8 million, and year-to-date fiscal 2024 enplanements are trending favorably at 103% in February and 106% in March) compared with 2023 levels. The airport has maintained historically solid financial metrics that we expect will continue, supported by favorable demographic trends in the Dallas Forth Worth MSA.

Based on fiscal 2023 audited financial results and fiscal 2024 activity trends, we expect DAL will maintain DSC above 1.25x, a debt-to-net revenue ratio ranging from 5x-10x, and unrestricted cash above 250 days and 7.5% of debt.

The airport's key credit strengths, in our opinion, include:

- Strong enplanement trends following the pandemic, showing growth every year since 2020, with 2023 enplanements coming in above prepandemic levels, supported by the growing Dallas metropolitan area.
- Strong financial metrics, with strong coverage of more than 1.49x in fiscal 2023, debt-to-net revenues ratio around

6.00x and limited capital needs given the constrained land the airport operates on, and very strong liquidity with 621 days' cash on hand, an increase from pandemic-era liquidity that was adequate around 250 days' cash.

- Very strong management and governance assessment employing practical financial management practices to assist the airport in navigating a dynamic post-pandemic growth market.

Partially offsetting these strengths, in our view, are DAL's:

- Competition from Dallas-Fort Worth International Airport (DFW), one of the busiest and largest airports in the world.
- Very high airline concentration, with Southwest Airlines comprising more than 95% market share, followed by Delta Airlines.
- Limited room for growth, given its location and lack of land for additional terminals or development.

Environmental, social, and governance

Long-term credit stability is supported by favorable demographic trends and economic growth within the Dallas-Fort Worth MSA, and represents a social capital demographics opportunity that generates demand for the system. In addition, we analyzed DAL's risks related to environmental and governance factors and consider them neutral in our credit rating analysis.

Outlook

The stable outlook reflects our view that DAL's enplanements will at least remain stable and likely grow given favorable demographic trends in the Dallas MSA, and that with limited capital needs, management will maintain its historically strong DSC.

Downside scenario

We could lower the rating if financial metrics deteriorate and we expect these metrics will be sustained at lower levels, or if enplanement trends weaken materially, leading us to change our view of the airport's market position.

Upside scenario

We could raise the rating with the two-year outlook period if the airport improves and maintains its financial metrics, particularly its debt-to-net revenues ratio at levels that we consider very strong, and if the airport maintains very strong liquidity and DSC.

Credit Opinion

Enterprise Risk Profile -- Strong

Important airport serving a large MSA, but facing significant competition from DFW

Our strong market position assessment reflects the strong recovery in enplanements after the pandemic and continued growth where fiscal 2023 total enplanements (8.8 million) were 105% of prepandemic levels in 2019 . For the first two months of 2024, the airport reported improved monthly enplanements at 3% and 6% higher than 2023, respectively.

The airport faces direct competition from DFW and is four miles north of Dallas' central business district. The airport is also a vital hub for Southwest Airlines, and the air carrier comprises more than 95% of market share at the airport, followed by Delta. We expect enplanement trends will continue at similar rates given strong economic activity in the Dallas-Forth Worth MSA.

Management and governance remains very strong

Our management and governance assessment remains unchanged, reflecting our view of the airport's strong risk and financial management. In our view, management has sufficient knowledge and experience to operate an airport of this size, which is evident in its very strong operations, even during the pandemic. As a wholly owned entity of the City of Dallas, the airport does not release its own statements or budgets but does have a five-year capital improvement plan (CIP) included yearly in the budget.

Financial Risk Profile -- Strong

Continued growth in the Dallas metropolitan area and growing enplanements will continue to support DAL's strong financial metrics.

Based on fiscal 2023 audited financial results, , we believe that DAL will continue to maintain DSC above 1.25x, and a debt-to-new revenue ratio above 7.00x. DAL has received $127.3 million in federal stimulus and has used the majority of the proceeds to pay off its commercial paper program and fund a some capital projects.

Liquidity has increased significantly in the past two years due to an infusion of federal stimulus aid, and improved-to-very strong levels, but we expect elevated reserve levels will moderate as the airport deploys some unspent remaining federal stimulus, bringing liquidity close to historical levels. After increasing to more than 800 days' in the fiscal 2022 audit, cash available declined to about 600 days', which is substantially higher than historical ranges at around 200 days' cash. We expect this will continue to slowly decline as the airport uses federal grants as a part of its capital plan.

The airport has limited capital needs, given space constraints on approximately 1,300 acres. DAL's most recent CIP is $497.8 million, an amount that we consider moderate given the airport's size, with most projects funded by commercial paper and intended to rehabilitate existing runways and tarmacs. We do not expect the airport will issue significant debt in the outlook period and that it will continue to use grants and its aviation capital commercial program for near-term needs.

Love Field Airport Modernization Corp., Texas--Financial and operating data

	--Fiscal year ended Sept. 30--				
	2023	**2022**	**2021**	**2020**	**2019**
Financial performance					
Total operating revenue ($000s)	185,572	167,339	146,826	132,045	154,344
Plus: interest income ($000s)	9,905	-3,500	786	2,916	4,885
Plus: other committed recurring revenue sources ($000s)	10,000	10,000	10,000	10,000	10,000

Love Field Airport Modernization Corp., Texas--Financial and operating data (cont.)

	--Fiscal year ended Sept. 30--				
	2023	**2022**	**2021**	**2020**	**2019**
Less: total O&M expenses and like transfers out, if any, net of noncash expenses	114,981	88,237	82,650	77,693	91,555
Numerator for S&P Global Ratings' coverage calculation ($000s)	90,496	85,602	74,962	67,268	77,674
Total debt service ($000s)	60,581	48,147	54,713	54,786	47,758
Denominator for S&P Global Ratings' coverage calculation ($000s)	60,581	48,147	54,713	54,786	47,758
S&P Global Ratings-calculated coverage (x)	1.49	1.78	1.37	1.23	1.63
Debt and liabilities					
Debt ($000s)	575,840	658,373	623,029	694,889	712,995
EBIDA ($000s)	70,591	79,102	64,176	54,352	62,789
S&P Global Ratings-calculated net revenue ($000s)	90,496	85,602	74,962	67,268	77,674
Debt to net revenue (x)	6.4	7.7	8.3	10.3	9.2
Debt to EBIDA (x)	8.2	8.3	9.7	12.8	11.4
Liquidity and financial flexibility					
Unrestricted cash and investments ($000s)	199,622	203,724	46,738	51,938	62,512
Available liquidity, net of contingent liabilities ($000s)	199,622	203,724	46,738	51,938	62,512
Unrestricted days' cash on hand	633.7	842.7	206.4	244.0	249.2
Available liquidity to debt (%)	34.7	30.9	7.5	7.5	8.8
Operating metrics - airport					
Total EPAX (000s)	8,674	7,841	5,634	5,062	8,310
Origin and destination EPAX (%)	67.0	67.0	67.0	67.0	66.0
Primary passenger airline carrier name	Southwest	Southwest	Southwest	Southwest	Southwest
Primary airline EPAX market share (%), including regional affiliates	96.1	96.5	95.0	95.0	93.7
Passenger airline revenue ($000s)	104,931	94,293	98,301	88,246	85,338
Debt per EPAX ($)	66.39	83.97	110.58	137.28	85.80
Airline cost per EPAX ($)	12.10	12.03	17.45	17.43	10.27
Annual PFC revenue ($000s)	30,972	28,404	20,499	15,805	29,404
PFC rate ($)	4.50	4.50	4.50	4.50	4.50
Operating metrics - PFC					
Total EPAX (000s)	8,674	7,841	5,634	5,062	8,310
Origin and destination EPAX (%)	67.0	67.0	67.0	67.0	66.0
Primary passenger airline carrier name	Southwest	Southwest	Southwest	Southwest	Southwest
Primary airline EPAX market share (%), including regional affiliates	96.1	96.5	95.0	95.0	93.7
Passenger airline revenue ($000s)	104,931	94,293	98,301	88,246	85,338
Airline cost per EPAX ($)	12.10	12.03	17.45	17.43	10.27

Love Field Airport Modernization Corp., Texas--Financial and operating data (cont.)

	--Fiscal year ended Sept. 30--				
	2023	2022	2021	2020	2019
Stand-alone PFC debt per EPAX ($)	N.A.	N.A.	N.A.	N.A.	N.A.

O&M--Operations and maintenance. EBIDA = Total operating revenue - total O&M expenses excl. noncash expenses. EPAX--Enplanements. PFC--Passenger facility charge. CFC--Customer facility charge. MADS--Maximum annual debt service. S&P Global Ratings-calculated net revenue = (Total operating revenue + other recurring nonoperating revenue committed to debt service) - total O&M expenses excl. noncash expenses. Available liquidity = unrestricted cash and investments + total contingent liquidity resources - contingent liabilities. Examples of total contingent liquidity resources include working capital line of credit and other available cash reserves not already included in unrestricted cash and investments. See Global Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions criteria for more S&P Global Ratings definitions and calculations. N.A.--Not available.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

This report does not constitute a rating action.