Memorandum

CITY OF DALLAS

DATE December 18, 2020

TO Honorable Mayor and Members of the City Council

SUBJECT **Moody's Investors Service Affirmed 'A1' Rating and Stable Outlook for Love Field General Airport Revenue Bonds – INFORMATION**

On Wednesday, Moody's Investors Service (Moody's) affirmed the 'A1' credit rating and stable outlook for the Love Field Airport Modernization Corporation (LFAMC) general airport revenue bonds following an annual surveillance review of outstanding LFAMC debt. The Moody's report states that the rating reflects, "the ample debt service coverage ratios provided by the airport's unique debt structure and the economic strength of the Dallas-Fort Worth service," while "the stable outlook reflects Moody's expectations that Love Field will continue to outperform national recovery levels and that existing liquidity will be sufficient to manage through the downturn."

According to the analysis report, there are certain factors that could have a negative impact on the rating, including "sustained negative enplanement trends, a significant deterioration in the credit quality of Southwest Airlines (Baa1 negative) below investment grade, significant capital improvement projects to address airport access without improved revenue collection, and refinancing LFAMC terminal debt with senior lien general airport revenue bonds." However, high exposure to Southwest Airlines Co. risk, "is mitigated by Southwest's headquarters adjacent to the airport, the terminal debt being on Southwest's balance sheet, and Southwest's credit strength, all of which minimizes the risks of severe cuts at the airport."

As Moody's states, the "rating affirmation balances Dallas Airport Enterprise's sound liquidity and cost recovery structure against the breadth and severity of the coronavirus' shock and the related uncertain trend in demand for air travel in the upcoming year." With continued leadership and recent City Council action approving the LFAMC commercial paper program, the outlook on the Dallas Airport System continues to be strong and stable.

Please let me know if you need additional information.

M. Elizabeth Reich

M. Elizabeth Reich
Chief Financial Officer

Attachment

c: T.C. Broadnax, City Manager
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MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms A1 on Dallas (City of) TX Airport Enterprise revenue bonds; outlook is stable

16 Dec 2020

Approximately $205 million of bonds affected

New York, December 16, 2020 -- Moody's Investors Service has affirmed the A1 on Dallas (City of) TX Airport Enterprise $205 million outstanding general airport revenue bonds. The bonds were issued by the Love Field Airport Modernization Corporation, TX (LFAMC) on behalf of the airport enterprise. The outlook is stable.

RATINGS RATIONALE

The A1 rating on senior lien bonds reflects the ample debt service coverage ratios provided by the airport's unique debt structure and the economic strength of the Dallas-Fort Worth service area that mitigates the outsize exposure to Southwest Airlines Co. (Baa1 negative). General airport revenue bonds were issued for landside improvements at Dallas Love Field, like parking garages, at the airport and debt associated with the terminal was issued as obligations of Southwest Airlines. The city reimburses Southwest for debt service paid on the terminal, however failure to remit payment to Southwest is not an event of default, providing very strong coverage to senior bondholders. The arrangement with Southwest extends through the maturity of the terminal bonds in 2040, though the hybrid use and lease agreement matures in 2028. Debt service coverage of revenue bonds obligations was 5.3x in fiscal 2019 and coverage of all obligations, including the revenue credit to Southwest, was 1.98x. Low leverage, inclusive of the obligations for the revenue credit, of $149 adjusted debt per O&D enplanement in fiscal 2019 also supports the rating.

The rating is constrained by the high exposure to Southwest, which accounted for 94% of enplanements in fiscal 2019 and more than any other rated airport, but even that risk is mitigated by Southwest's headquarters adjacent to the airport, the terminal debt being on Southwest's balance sheet, and Southwest's credit strength, all of which minimizes the risks of severe cuts at the airport. The rating is also constrained by federal limitations of Love Field's ability to grow and substantial competition from larger and relatively unconstrained Dallas-Fort Worth International Board, TX (DFW, A1 stable). However, Southwest is discouraged from serving DFW by the same federal agreement that limits Love Field's size through 2025.The spread of the coronavirus outbreak, the weakened global economic outlook is sustaining a severe and extensive credit shock across many sectors, regions and markets. The airport sector is one of the sectors most significantly affected by the shock given its exposure to travel restrictions and sensitivity to consumer demand and sentiment. Moody's regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety that has resulted in severe travel restrictions, cancellation of airline routes, travel bans, border closings and new requirements for health and safety at airports. Today's rating affirmation balances Dallas Airport Enterprise's sound liquidity and cost recovery structure against the breadth and severity of the coronavirus' shock and the related uncertain trend in demand for air travel in the upcoming year.

RATING OUTLOOK

The stable outlook reflects Moody's expectations that Love Field will continue to outperform national recovery levels and that existing liquidity will be sufficient to manage through the downturn.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Sustained senior lien DSCR above 5.0x and 2.0x times on all obligations

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Sustained negative enplanement trends

- A significant deterioration in the credit quality of Southwest Airlines Co. (Baa1 negative) below investment grade

- Significant capital improvement projects to address airport access without improved revenue collection

- Refinancing LFAMC terminal debt with senior lien general airport revenue bonds

LEGAL SECURITY

The bonds are secured by a financing agreement between the city and LFAMC. The city will deposit net revenues of the airport system into a trust account. Bonds will be additionally secured by a cash-funded debt service reserve sized at the standard 3-prong test. An additional bonds test will apply that will require 1.25 times coverage.

PROFILE

The primary source of revenues will come from Love Field, which has 20 gates, 3 runways, and approximately 11,000 parking spaces. The airport is a primary airport for Southwest Airlines and facilitates connecting passenger flow across the Southwest system. The enterprise also operates Dallas Executive Airport, a general aviation airport on the southwest side of the city of Dallas.

METHODOLOGY

The principal methodology used in these ratings was Publicly Managed Airports and Related Issuers published in March 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1140469. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004

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