Memorandum

CITY OF DALLAS

DATE December 2, 2016

TO Honorable Mayor and Members of the City Council

SUBJECT Love Field Airport Modernization Corporation, General Airport Revenue Bonds, Series 2017 - Ratings

The rating agencies have assigned ratings to the $117,625,000 Love Field Airport Modernization Corporation (LFAMC), General Airport Revenue Bonds, Series 2017, which will complete the financing of the new parking garage at Love Field. All three agencies affirmed the ratings assigned to the first issuance of LFAMC general airport revenue bonds in 2015. The ratings are:

Moody's Investors Service	A1/stable outlook
Fitch Ratings	A/stable outlook
S&P Global Ratings	A/stable outlook

The three rating agency reports are attached. Common strengths cited in the reports include the strong economy of Love Field's service area demonstrated in the enplanement growth and the airport's stable financial performance.

If you have any questions or need further information, please do not hesitate to contact me.

M. Elizabeth Reich

M. Elizabeth Reich
Chief Financial Officer

c: A.C. Gonzalez, City Manager
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Ryan S. Evans, First Assistant City Manager
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Mark McDaniel, Assistant City Manager
Joey Zapata, Assistant City Manager
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S&P Global
Ratings

RatingsDirect®

Summary:
Love Field Airport Modernization Corp., Texas; Airport

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Summary:

Love Field Airport Modernization Corp., Texas; Airport

Credit Profile		
US$115.0 mil gen arpt rev bnds ser 2017 due 11/01/2036		
Long Term Rating	A/Stable	New
Love Field Airport Modernization Corp AIRPORTS		
Long Term Rating	A/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'A' long-term rating to Love Field Airport Modernization Corp. (LFAMC), Texas' $115 million series 2017 general airport revenue bonds (GARBs), issued on behalf of Dallas, which owns and operates Dallas Love Field Airport (DAL). At the same time, S&P Global Ratings affirmed its 'A' rating on the airport's series 2015 bonds. The outlook is stable.

The rating reflects our assessment of the airport facility whose primary carrier has a significant presence and solid traffic trends, which we anticipate will support credit quality in the medium term.

The rating further reflects our view of the airport's:

- Strong service area economy, which encompasses the Dallas-Fort Worth-Arlington metropolitan statistical area and has a diverse employment base, with strong wealth indicators and incomes;
- Generally favorable enplanement trends that we expect to remain strong and supportive of credit quality; and
- Strong rate-setting flexibility with a cost structure that allows DAL to sets rates and charges to service all obligations, including debt service, subordinated payments to Southwest Airlines Co., and funding of all required reserves and funds.

Partially offsetting the above strengths, in our view, are the airport's exposure to risks associated with the significant presence of Southwest, which has historically enplaned approximately 91% of traffic and the airport's moderate debt burden, given subordinated payments to Southwest Airlines.

Net airport revenue, as made available by the city under a project financing agreement with the LFAMC, secures the bonds. Proceeds will be used to finance the construction of a new 5,000 space parking facility adjacent to the terminal, as well as new parking control systems in all of the facilities which will enhance wayfinding and revenue collections. With this facility the airport's parking capacity will expand to around 12,000 spaces from the current 8,500. Partial completion is expected in October 2017, with the facility entirely open by October 2018. Construction is currently underway and to date has been slightly ahead of schedule and within budget. Bond provisions are adequate, in our view. A debt service reserve fund funded to lesser of the IRS maximum additionally secures the bonds. The LFAMC is authorized to issue additional debt pursuant to the agreement, so long as historical or projected net revenue provide at least 1.25x DSC.

The City of Dallas owns and operates DAL, which is managed through the city's department of aviation. The city created the LFAMC to manage the airport system on its behalf. The system consists of Love Field, Dallas Executive Airport (a general aviation airport), and a heliport.

DAL continues to experience high growth due to ramp-up following the expiration of the Wright Amendment in 2014. Traffic grew 54.2% and 15.9% in fiscals 2015 and 2016 (estimated), respectively, to a peak of 7.8 million enplanements. Three signatory carriers serve the airport: Southwest, Virgin America, and Delta Airlines Inc. DAL lost service from Seaport Airlines in 2015; however, the carrier enplaned less than 1% of traffic. Southwest had been the only carrier at the airport following American Airlines' departure in 2007. DAL's traffic increased 20.5% in 2007, when through-ticketing was permitted. Virgin and Delta service began in late 2014 with the lifting of the Wright Amendment in October, and the number of scheduled flights increased to 148 from 112. Enplanements grew to 6.7 million in fiscal 2015, up 54.2% from 4.4 million. From 2005 through 2014, traffic trends generally tracked those of the national economy, growing a steady 4.3% on a compound annual average basis, and declined annually once in 2009 (4.8%) due to the recession. We expect 2017 traffic to stabilize even with 2016 levels at 7.8 million.

Although Southwest's market share has declined modestly since the Wright Amendment lift, enplanements remain highly concentrated and are unlikely to change in the near term. Year-to-date market share through July was 91.3%, down modestly from 97% historically but even with fiscal 2015 results. We consider the concentration a credit weakness, but it is unique in that the legislative framework intentionally enabled Southwest's position at the airport. The airport is 75% origin and destination (O&D; with all connecting passengers on Southwest) and the top markets are concentrated in Texas and southern and Midwest regions of the U.S. The top five markets by share of DAL's O&D traffic are Houston, San Antonio, New Orleans, Austin, and Kansas City, Mo.

The airport's financial performance in fiscal 2015 was adequate, with adequate debt service coverage (DSC) including subordinated payments to Southwest, and strong liquidity that we consider moderate on a pro forma basis. We expect these to continue at levels we consider supportive of credit quality. Both operating revenues and expenses have grown annually as the airport's fully built facilities have been in operation; however, revenue growth has surpassed expense growth. The 2015 bonds constitute the only debt secured by airport revenues, but S&P Global Ratings calculates DSC by adding subordinated payments on the airport's 2010 and 2012 special facility debt, including passenger facility charge (PFC) and letter of intent (LOI) money as revenues. The LFAMC issued the bonds to facilitate the phased redevelopment of the airport terminal (the Love Field Modernization Plan). Securing the bonds are "facilities payments" payable by Southwest pursuant to the airport's facilities agreement with the airline and city. To the extent net revenues are available, DAL will reimburse Southwest for payments on debt service, which are subordinate to the GARBs and are not considered airport debt. However, airport management budgets annually for these payments and intends to continue to make payments. As such, S&P Global Ratings treats these payments as a debt obligation. Fiscal 2015 operating revenues grew 20.8% to $82.6 million, commensurate with operating expenses up 20.8% to $56.7 million excluding depreciation. DSC (special facility debt only) was 2.13x. Strong growth in traffic and increased rates and charges were budgeted in for fiscal 2016, with revenues estimated 8.7% higher to $91.2 million, while expenses are even with projections at $66.7 million. We expect budgeted fiscal 2016 results to yield 1.39x DSC, which we consider adequate.

Under the airport's consultant's base case forecast, traffic grows at an average annual rate of 0.5% as a result of increased seats; we view this assumption as conservative given historic growth trends and the market which we believe will support steady growth. Under this forecast, DSC remains steady at 1.16x-1.23x, with cost per enplanement reaching a high of $9.21 in 2025. DSC is just adequate under the base case, in keeping with the residual nature of the airline use and lease agreement.

DAL is capitalizing interest through 2018 on the series 2015 issue and through 2019 on the 2017 issue. We expect GARB debt service levels of about $19.2 million to come online fully in 2019 and increase to $22.8 million thereafter, with the addition of debt in 2021 or 2022. While we expect rates and charges to increase pursuant to the airline agreement commensurate with increased demand, its provisions requiring surplus funds to revert back to the airlines limits DSC after funding all required reserve funds, debt service on GARBs, and subordinated payments to sufficiency. As such, we expect DSC levels to remain at or near 1x or incrementally higher depending on enplanement growth trends.

The airport's 10-year 2016-2024 capital plan totals $428.1 million and is manageable in our view. Funding sources include approximately $237.7 million in PFC (55.5%), $121.2 million in local funds in the form of aviation fund monies (28.3%), and $78.9 million in airport improvement program discretionary and entitlement funds (18.4%). The airport may issue additional debt in 2021 or 2022 to address additional airfield projects. The debt service on this potential issue is included in our calculations.

Outlook

The stable outlook reflects our assessment of DAL's financial profile, which we expect to remain steady given healthy enplanement growth.

Upside scenario

Although unlikely, we could consider an upgrade if enplanements increase and is what we consider sustainable as the airport also manages an increased cost structure and its capital needs.

Downside scenario

We could lower the rating during the two-year outlook period if DAL is unable to set rates and airport revenues insufficiently cover required payments and deposits.

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
29 November 2016

New Issue

Rate this Research

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Dallas (City of) TX Airport Enterprise

New Issue: Moody's assigns A1 to Love Field Airport Modernization Corporation, TX's Series 2017 GARBs; Outlook Stable

Summary Rating Rationale

Moody's Investors Service has assigned an A1 to the Love Field Airport Modernization Corporation, TX's (LFAMC) General Airport Revenue Bonds, Series 2017. At the same time, we have affirmed the A1 on the outstanding parity bonds. The obligor of the loan agreement backing the bonds is the Dallas (City of) TX Airport Enterprise, which owns and operates Love Field and Dallas Executive airports in Dallas, TX. The outlook is stable.

The A1 is based on the low cost and low leverage of the airport along with the economically thriving and growing service area. The rating is also supported by limited capital needs of the airport after the construction of the garage being funded by this and last calendar year's issuances given terminal facility was completely reconstructed in 2013. The rating is constrained by the limitations on the number of gates at the terminal and the substantial competition from Dallas-Fort Worth International Airport just 16 miles away. The high concentration in Southwest Airlines Co. (Baa1 positive) also weighs on the rating, but is somewhat lessened by the airline's corporate headquarters adjacent to the airfield and the significant commitment to building the terminal through bonds issued with a pledge of the airline's own credit.

Credit Strengths

» Lowly levered, with debt per O&D passenger expected to be in the mid-$30 level when the bonds begin to amortize

» Strong commitment to the airport from Southwest given the corporate backing of debt to re-build the terminal and the presence of the airline's headquarters adjacent to the airport

» Dallas-Fort Worth MSA is among the fastest growing in the nation and can support two airports

» Limited needs for capital improvements beyond the current parking garage project

Credit Challenges

» At 91%, airline concentration of Southwest is at the top of the range of Moody's rated airports

» Gate constraints and concentration of Southwest forces new entrants to the Dallas market to DFW airport, as evidenced by Spirit Airline's growth at DFW

Rating Outlook

The stable outlook reflects our expectation of steady enplanement growth after the one-time increase in FY 2015 associated with the expiration of operational restrictions imposed by the Wright Amendment as well as strong growth in FY 2016. The stable outlook also reflects the expectation that the parking garage will be constructed without excessive cost overruns.

Factors that Could Lead to an Upgrade

» Given the constraints on growth and the limited ability to increase coverage and liquidity under the use and lease agreement, we do not expect the rating to go up in the near term

Factors that Could Lead to a Downgrade

» Sustained negative enplanement trends or loss of an airline

» A significant deterioration in the credit quality of Southwest Airlines Co. (Baa1 positive)

» Significant cost overruns on the garage project that lead to additional leverage

Key Indicators

Exhibit 1

DALLAS (CITY OF) TX AIRPORT ENTERPRISE

	2011	2012	2013	2014	2015
Enplanement Annual Growth (%)	1.7	1.4	3.2	3.6	54.2
Debt Outstanding ($'000)	307,147	459,039	448,302	451,850	590,792
Debt to Operating Revenues (x)	6.4	9.2	8.0	6.2	6.3
Debt Per O&D Enplaned Passenger ($)	77.8	113.3	115.0	133.7	112.6
Days Cash on Hand ('000)	780	598	849	807	781
Senior Lien Coverage By Net Revenues (x)	1.76	N/A	N/A	1.13	1.76
Total Coverage By Net Revenues (x)	1.76	N/A	N/A	1.13	1.76

Source: Moody's Investors Service and Audited Financial Statements

Recent Developments

In FY 2016 the airport saw strong 16% growth in enplanements following a significant 54% increase in FY 2015 which was a result of the October 2014 lifting of restrictions imposed by the Wright Amendment. This growth prompted the need for additional parking facilities to accommodate the new demand. Further information on enplanement levels and the capital plan are contained below.

Detailed Rating Considerations

Revenue Generating Base

Revenues for the airport enterprise are primarily generated through the operations of Love Field, located just 9.8 miles northwest of Dallas' central business district. While the airport is closer to Dallas than Fort Worth, as the only airport in the Dallas-Fort Worth area with service from Southwest, it draws from the broader DFW “metroplex”. The DFW area remains one of the economically strongest and fastest growing metropolitan areas in the US. The Census Bureau estimates the broader Dallas-Ft. Worth Combined Statistical Area, which approximates the air service area, has added over 650,000 people since 2010. Moody's Analytics predicts that the Dallas-Plano-Irving area will be an above-average performer over the extended forecast horizon.

Air travel, aided by Love Field and service provided by Dallas-Fort Worth International Airport Board (DFW, A1 stable), is expected to lead the regional economy as the easy connectivity provided by both airports supports corporate relocation decisions. Toyota Financial Services provides an excellent example in relocating to the area from Southern California specifically for the ability to reach many of its operations through direct flights. In addition to travel-related services, professional and financial operations support the Dallas economy.

The airport has historically been constrained in its ability to offer air service by the Wright Amendment, a 1974 piece of Federal legislation that limited air service from the airport to destinations within Texas and the states that neighbor it. Subsequent acts and agreements lessened the restrictions, but it wasn't until October 2014 that airlines have been able to serve any airport in the US with direct flights. Under the “Five-Party Agreement” that ended the Wright Amendment restrictions, the airport is limited to only 20 gates, which have all been constructed. The airport has seen enplanement growth of 77% since the restrictions were lifted.

The airport is primarily served by Southwest, with a 91% market share in FY 2016, followed by Virgin and Delta airlines with 7% and 2% share, respectively. Southwest operates on 16 gates at the terminal and shares an additional gate with Delta Airlines. Delta has an additional gate and Virgin America controls two other gates.

The airport faces significant competition from DFW International Airport. DFW is a fortress hub for Fort Worth-based American Airlines and offers non-stop service to more destinations than Love Field. Given the capacity constraints at Love Field, DFW is poised to capture any additional growth in the region through its existing infrastructure and its ability to accommodate a sixth terminal within the existing footprint. We do not expect that Southwest would ever transfer service to DFW given its history and corporate proximity to Love Field, but we do think that the competition from DFW provides some constraints on the ability to back fill any service reductions at Love Field.

Operational and Financial Performance

Historical financial performance by the enterprise is of little value given the recent completion of the terminal renovations and the lack of GARB debt previous to Series 2015 issue. Financial operations are governed by the amended use and lease agreement that runs through 2028. Under the agreement, Southwest agreed to issue the Series 2010 and Series 2012 LFAMC bonds with a backing of its corporate credit. Signatory airlines agreed to a hybrid rate making structure in which the airfield, apron, and terminal cost centers have set rates on a residual rate making methodology. The airlines share in the net revenues from parking and the city keeps a portion of in-terminal concession, portions of the net revenues from parking, and revenues from other buildings on the airport site. Of note, airline cost centers include a cost recovery of the LFAMC bond debt service despite the fact that Southwest makes those payments directly. Under a related agreement, the city credits Southwest amounts equal to the debt service Southwest pays on the LFAMC bonds to the extent they are available after O&M expenses and debt service on GARB bonds. There is no event of default if Southwest is not credited the amount it has paid on LFAMC bonds.

Under the agreement described, the city expects to produce a debt service coverage ratio (DSCR) above 2.4 times in most years on GARB bonds. Leverage, after the Series 2017 issuance of GARBs to fund the parking garage, would peak at around $34.41 using the airport consultant's baseline enplanement forecast and assuming the 75% origination and destination traffic levels hold. Both the high DSCR and low leverage support the A1 rating.

We also included the revenue credit amounts as subordinated debt for coverage calculations and LFAMC debt for leverage metrics. Total coverage is projected to remain above 1.15 times through the forecast period. Leverage would peak at $108.01 debt per O&D passenger. Both metrics are strong for an airport with new facilities.

Given the residual nature of the agreement, the DSCR and leverage will remain within a narrow band in the downside scenario. Airline cost per enplanement was $3.96 in FY 2016 and is expected to increase significantly reaching $9.21 in 2025. Despite the substantial forecasted increase, we think that these levels will remain competitive with DFW, which had CPE of $8.75 in FY 2015 and is expected to increase further as construction of the multi-billion dollar terminal renovation program hits the rate base.

LIQUIDITY

At FYE 2015 the airport had strong liquidity position with around 781 days cash on hand as calculated by Moody's. However, going forward we expect liquidity to decrease as airport continues the construction of the parking garage. Additionally, under the lease agreement, the airport is not able to accumulate more than $30 million in the airport capital fund, which is the fund at the bottom of the flow of funds. Only if CPE falls below $3.00 will the airport be able to retain balances above $30 million in the capital fund. With this restriction, we expect that liquidity will remain at adequate levels in the future.

Debt and Other Liabilities

At FYE 2015 the airport had $590.8 million of debt-like obligations outstanding, comprised of GARBs, pension obligation bonds, and future obligations of revenue credits to Southwest.

DEBT STRUCTURE

The Series 2015 and the Series 2017 are fixed rate bonds with flat 20-year amortization schedules. The Series 2010 and Series 2012 LFAMC bonds are also fixed rate bonds with essentially flat amortization schedule.

The airport has limited capital needs beyond the parking garage. The $428 million, 9-year capital plan is expected to be funded with passenger facility charges (PFC) on a pay-go basis, federal AIP grant funding, and internally generated funds. The major portions of the capital plan include airfield pavement rehabilitation, crossfield geometry reconfiguration and a drainage master plan. Additionally, the airport master plan anticipates a taxiway reconstruction to be funded with a future GARB issuance of $35.6 million in 2022. An increase in the federal PFC level or growth above consultant forecast could obviate the need for additional debt.

DEBT-RELATED DERIVATIVES

There are no debt related derivatives.

PENSIONS AND OPEB

The airport participates in the Dallas Employees' Retirement Fund, a defined benefit, single employer pension plan. For FY 2015 the airport's reported net pension liability, reported under GASB 68, was $14.7 million. On Moody's Adjusted Net Pension Liability (ANPL) basis, total liability was around $70 million. The airport has no direct exposure to the Dallas Police and Fire City Pension Fund.

As with other city owned airports, should the city increase pension funding requirements to address funding shortfalls, the expense would be fully recoverable under the residual rate making methodology. Conversely, FAA regulations limit the ability of the airport to charge the airlines amounts that do not reflect the actual operations of the airport which would limit any attempt by the city to overburden the airport's share of pension expense. As the city is currently contributing levels above Moody's "tread water" analysis, we do not see significant airline cost increases, and the credit impact of pensions is not a leading factor of the rating.

Management and Governance

The city owns and operates Love Field and Dallas Executive airports. The aviation department is managed by a director appointed by the city. Operations at the airport are largely governed by the terms over the use and lease agreement, which runs through 2028, and establishes a residual rate making methodology for the airfield, apron and terminal cost centers while allowing the city to earn surplus coverage on some cost centers.

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, though completion bonds may be issued for the parking garage project up to a total aggregate amount of $250 million.

Use of Proceeds

Proceeds of the bonds will be used to fund portions of the construction of an approximately 5,000 space parking garage, fund a debt service reserve fund, and pay costs of issuance.

Obligor Profile

The primary source of revenues will come from Love Field, which has 20 gates, 3 runways, and approximately 6,000 parking spaces. The current bonds will expand parking by 5,000 spaces.

Scorecard Factors and Other Considerations

The grid is a reference tool that can be used to approximate credit profiles in the airport industry in most cases. However, the grid is a summary that does not include every rating consideration. Please see the Publicly Managed Airports and Related Issuers rating methodology for more information about the limitations inherent to grids.

The grid indicated rating of Aa3 is one notch above the assigned rating of A1. The rating difference is largely due to our expectation that liquidity will decrease going forward as airport continues construction of the parking garage and expectation of lower coverage ratio once GARBs start amortizing and grant funds are not applied against debt service.

Exhibit 2

Regional Position:	**Regional**		
Rate Making Framework:	Compensatory		
Factor	Subfactor	Score	Metric
1. Market Position	a) Size of Service Area (millions)	Aaa	7.5 million
	b) Economic Strength and Diversity of Service Area	Aaa	
	c) Competition for Travel	Baa	
2. Service Offering	a) Total Enplanements (millions)	Aa	7.8 million
	b) Stability of Traffic Performance	Aa	
	c) Stability of Costs	Baa	
	d) Carrier base (Primary Carrier as % of Total Enplanements)	Ba	91.0%
3. Leverage and Coverage	a)Debt Service Coverage by Net Revenues	Aa	1.76x
	b)Debt in USD per O&D Enplaned Passenger	Ba	$112.59
		Notch	**Metric**
4. Liquidity	Days Cash on Hand	1	781 days
5. Connecting Traffic	O&D Traffic	0	
6. Potential for Increased Leverage		0	
7. Debt Service Reserves		0	
Scorecard Indicated Rating:		**Aa3**	

Source: Moody's Investors Service

Methodology

The principal methodology used in this rating was Publicly Managed Airports and Related Issuers published in November 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 3

Dallas (City of) TX Airport Enterprise

Issue	Rating
General Airport Revenue Bonds, Series 2017	A1
Rating Type	Underlying LT
Sale Amount	$115,005,000
Expected Sale Date	11/30/2016
Rating Description	Revenue: Government Enterprise

Source: Moody's Investors Service

REPORT NUMBER 1050413

FitchRatings

Fitch Rates Love Field Airport Modernization Corp (TX) Senior Revs, Series 2017 at 'A'

Fitch Ratings-New York-29 November 2016: Fitch Ratings has assigned its 'A' rating on $115 million of Love Field Airport Modernization Corporation's (LFAMC) senior lien airport revenue bonds, series 2017, and has affirmed its 'A' rating on $110 million of senior lien airport revenue bonds series 2015, issued on behalf of the city of Dallas (city) for the Love Field Airport (DAL). The Rating Outlook remains Stable.

The rating reflects DAL's resilient and growing traffic base within a strong Dallas metropolitan region. The rating also incorporates the continuation of a sharp increase in traffic as the airport transitions to a larger base of enplanements following the October 2014 expiration of the Wright Amendment capacity restrictions. Traffic growth following this transition period of increased growth will be limited given the operational constraints of DAL's terminal. The rating also reflects the risks inherent in Southwest Airlines dominating service with 91% enplanement market share and the proximity of the larger Dallas-Ft. Worth Airport (DFW) airport serving the metroplex; however, these risks are mitigated in part by Southwest's long-term commitment to serving the airport, low costs, and established underlying demand. Furthermore, senior lien leverage is moderate and evolves down relatively quickly given minimal capital needs going forward.

KEY RATING DRIVERS
Revenue Risk: Volume - Midrange
Carrier Concentration Offsets Service Area Strength: DAL is the second major domestic airport serving the economically strong Dallas-Fort Worth metroplex. As of Sept. 30, 2016 (end of FY2016), enplanement levels reached 7.78 million (+76.8% over two years), outperforming last year's 2016 expectation of approximately 7 million. However, longer term growth is still expected to be constrained by the airport's permanent 20-gate terminal capacity. Southwest Airlines (which Fitch recently upgraded to 'BBB+'/Stable Outlook) accounts for over 90% of enplanements and scheduling decisions could impact operational performance. Air service competition with DFW remains an ongoing concern, although Fitch views DAL as a strong complimentary airport for the air-trade service area.

Revenue Risk: Price - Stronger
Solid Cost Recovery Framework: DAL operates under a cost-center residual use and lease agreement (AUL), with a 20-year term lasting through 2028 that provides for sound carrier commitment and stable financial performance, even with the new debt and the expected annual reimbursements for Southwest's non-recourse special facilities bonds. Budgeted fiscal 2016 airline costs are low for a medium-hub airport at approximately $5 per enplanement and are expected to decline to $3.91 in 2016 before rising to $4.90 in 2017, continuing to rise moderately over the forecast period to $9.21 by fiscal 2025 taking into account the new debt and Southwest reimbursement payments. Fitch notes that this cost per enplanement (CPE) level will be competitive at a national level for medium-hub airports and is projected to be below forecasted costs at DFW. DAL is exposed to operating deficits at the city-owned executive airport and heliport; however, surpluses generated from other non-airline revenues are more than sufficient to offset these cashflow shortfalls. Should there be considerable service reductions, or a Southwest cessation of operations, reimbursement payments for the special facility bonds would terminate in full; thus ensuring the airport maintains an attractively low CPE for new entrants.

Infrastructure Development/Renewal - Stronger
Manageable Capital Plan: The airport expects to debt-fund approximately $208 million in costs associated with the construction of a new parking garage with senior lien, parity series 2015 and series 2016 bonds. Separately, its capital improvement plan (CIP) for fiscal 2015-2024 reflects works totalling $428 million expected to be funded with a combination of federal grants (18%), passenger facility charge (PFC) revenues (55%) and internal liquidity (27%). While there are no assumed debt issuances for the 5-year CIP, the airport's longer-term plans include bond proceeds from future issuances in 2022 for airfield related works. Key airport facilities are in good condition following the recent completion of the reconstructed terminal and new concession areas that should well accommodate projected traffic levels.

Debt Structure Risk - Stronger.
Conservative Debt Structure: There is currently $109 million of general airport revenue bonds outstanding. Following the proposed series 2017 bond issuances, the airport system's debt profile will have all fixed-rate debt with level debt service requirements, reaching maximum annual debt service (MADS) of $19.1 million in fiscal 2033 and a final maturity in fiscal 2036. While the system's sum-sufficient rate covenant is more limited than for other airports, all other structural features are satisfactory.

Financial Metrics:
Moderate Leverage and Robust Coverage: The airport system's initial senior lien leverage is estimated at a moderately high 10x in fiscal 2017, evolving down to a low 2.9x in FY2020 after the capitalized interest period ends, debt amortization ramps up and debt service costs start being fully recovered through airline rates and charges. Senior lien debt burden is lower than peers at approximately $29 debt per enplanement ($36 per O&D enplanement). Liquidity is expected to remain modest given the requirements of the airline agreement. Fitch's base case senior coverage averages about 2.5x between fiscal 2017 and 2025. Under Fitch's rating case that incorporates a 20% decline in enplanements in 2018

Peers:
Comparable rated peers include airports with material exposure to a single carrier, including Chicago's Midway Airport (Southwest accounts for more than 90% of enplanements) and Long Beach (Jet Blue at 80% of enplanements). Midway currently has higher overall leverage (14.66x in 2015) and airline costs (CPE of $9.16, versus DAL's $3.75). Long Beach has limitations for service growth and leverage (4.31x) and CPE ($8.92) levels that currently exceed DAL; it also has a narrower operating profile as a small hub airport and somewhat limited ratemaking flexibility.

RATING SENSITIVITIES
Negative: A material downshift or volatility in the traffic profile of greater than 20% could lead to negative rating action given the Southwest concentration;

Negative: If leverage remains over 5x, the DSCR falls below 2x due to revenue underperformance, or operating expenses are materially higher than expected, this could pressure the current ratings.

Positive: Upward credit migration is unlikely given the traffic limitations and the service exposure to Southwest.

SUMMARY OF CREDIT
The series 2017 bonds are expected to be the second of the two new money issuances planned for the airport that, collectively, are expected to fund approximately $208 million in costs associated with the design and construction of a new 5,000-space public parking garage (Garage C) at DAL. Proceeds of the series 2017 bonds will be used to fund approximately $100 million of Garage C costs, issued in a fixed-rate mode amortizing through November 2036. It is anticipated that no additional borrowing will be needed to fund the Garage C project.

DAL is a medium-hub airport located approximately seven miles northwest of the city's business district serving the economically vibrant Dallas metropolitan region and the Dallas Ft Worth metropolitan area. The airport, together with Dallas Executive Airport are managed and operated as an airport system by the city's aviation department. Southwest's headquarters are adjacent to the airport; Southwest has operated at DAL since 1971, capturing more than 90% of the airport's market share since then. DAL has a unique history for a U.S. airport, as Wright Amendment restrictions have been imposed on DAL since 1979, limiting permitted service to destinations within Texas and to four neighboring states. Later amendments allowed four additional states for service as well as one-stop and through-ticketing to other markets. Starting in October 2014, all restrictions for domestic service have been lifted.

PERFORMANCE UPDATE

DAL's enplanements grew at a 1.6% CAGR between fiscal 2000 and 2014. The airport suffered a 20% drop in enplanements in fiscal 2002 following the September 11 terror attacks which negatively impacted air travel throughout the country. Following a period of recovery, enplanements rose significantly (up 20%) in fiscal 2007 driven by elimination of the through-ticketing restriction. The airport's steady growth was interrupted once again in fiscal 2009 when enplanements declined by nearly 5% due to the economic recession, after which they grew at a 2.4% CAGR between fiscal 2009 and 2014 reaching peak enplanement levels of $4.3 million. The pace of connecting traffic growth slightly decreased over this period, resulting in 23% of volumes in fiscal 2014 compared to 25% in fiscal 2010.

With the ending of the Wright Amendment, the number of non-stop destinations at the airport immediately increased to 44 from 14 and the number of daily departures increased to 172 from 130. Increasing seat capacity and destinations by Southwest and new mainline service from Delta Air Lines and Virgin America resulted in growth since 2014 of 77% in two years. While Southwest remains the main air carrier at DAL, operating on 16 of the 20 gates (in addition to the one gate it shares with Delta), its market share decreased to approximately 91% of enplanements in FY2016 from 96.5% in FY2014. Delta has operated at the airport since FY2009 and began mainline service in October 2014, currently operating on two gates (including the one it shares with Southwest) and capturing just about 2% of total enplanements. Virgin America began its operations at DAL in October 2014, operating on two remaining gates and now makes up about 6% of the airport's enplanements. The airport's traffic consultant expects enplanements to remain at 7.8 million through FY2017, growing approximately 0.5% per annum for the next eight years through airline seat capacity only, not through aircraft landings or turns per gate. The airport will have reached its landing capacity by 2017. .

Demonstrating its long-term commitment to DAL, Southwest (and the other signatory carriers) executed a 20-year renewal of the residual AUL in fiscal 2008. This airline agreement approach has provided for stable airline costs and financial performance, and is expected to continue to do so through the forecast period. While Southwest secures the payments on the LFAMC's series 2010 and 2012 special facility bonds, issued for the reconstruction of the terminal building, the city and Southwest also entered into a revenue credit agreement which provides for a mechanism to credit back to Southwest the annual net facility payments subject to Southwest making their payments obligations and maintaining a material presence at DAL. The AUL includes provides rate-setting terms that are sufficient to cover these facility payment reimbursements, net of other eligible revenues. Currently, the airport applies $10 million in PFCs and roughly $7 million in letter of intent (LOI) revenues to facility payments prior to making revenue credit reimbursements payments to Southwest; however, the LOI funds will expire in 2018.

The airport system's 2016-2024 CIP is currently manageable at $438 million and does not require new bond issuances with the exception of future airfield needs for the period between FY2021 and FY2024, which are currently estimated at $181 million. The city contemplates funding approximately $36 million of these costs with future bonds.

The sponsor forecast reasonably considers operational constraints of a reasonable 10 turns per day for each of the 20 gates. Traffic is projected to stay flat at approximately 7.8 million through FY2017 and increase at a 0.5% CAGR thereafter through FY2026. Non-airline revenues track enplanement and inflationary growth, while airline revenues start rising in FY2018 to support the new debt service requirement of the 2015 and 2016 bond issuances after the capitalized interest periods expire. Operating expenses are assumed to grow at inflationary growth rates (2.57% CAGR between FYs 2017 and 2025). Incorporated in the forecast is the issuance of additional debt in 2022 for future airfield projects. These assumptions are consistent with Fitch's view of the airport's medium- to long-term growth and operating environment, and exclude debt service on Southwest's guaranteed debt.

FITCH RATING CASES
Base case airport revenue bond DSCR ranges from a low of 2.36x In FY2022 to a high of 3.92x in FY2017 while the capitalized interest period is still in effect. CPE increases from $4.30 in 2017 to a maximum of $9.21 in FY2025. Base case leverage, calculated as net airport revenue bond debt/cash flow available for debt service, is 10x in FY2016, 6.1x in FY18, 4.7x in FY2019 and 2.9x in 2020, decreasing to 1.7x in FY2025.

Under a Fitch rating case scenario that assumes a 20% decline in enplanement in FY2018, followed by a four-year growth recovery to fiscal 2017 levels, airport revenue bond DSCR ranges from a low of 2.35x In 2025 to a high of 3.63x in FY2017 while the capitalized interest period is still in effect. Leverage, calculated as net airport revenue bond debt/cash flow available for debt service, is 10x in FY2016, 6.3x in FY2018, 4.9x in FY2019 and 3x in 2020, decreasing to 1.7x in FY2025. CPE is projected to reach a still very moderate $9.73 in FY2025. Fitch notes that annual net remaining revenues, after the payment of all operating and debt service costs as well as revenue reimbursements to Southwest, range between $5.6 million and $10.8 million, providing for a buffer in the event that operating costs, including those of the Executive Airport, exceed projections.

SECURITY
The senior lien general airport revenue bonds are secured by a pledge of the net revenues generated at the airport on a senior basis.

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Applicable Criteria
Rating Criteria for Airports (pub. 25 Feb 2016) (https://www.fitchratings.com/site/re/877676)
Rating Criteria for Infrastructure and Project Finance (pub. 08 Jul 2016) (https://www.fitchratings.com/site/re/882594)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?
pr_id=1015516&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiQkhPR1FNUFpTSUhKVFZFUURFSTdWRUFaR0dOTFdQN0lUWUFDOTdXN
Solicitation Status (https://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=1015516)

Endorsement Policy (https://www.fitchratings.com/regulatory)

Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (https://www.fitchratings.com/regulatory) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Memorandum

CITY OF DALLAS

DATE December 2, 2016

TO Honorable Mayor and Members of the City Council

SUBJECT Draft Environmental Assessment and Public Hearing for S.M. Wright Project Phase IIB

The Texas Department of Transportation (TXDOT) is proposing improvements to the interchange between State Highway 310 (SH310) and Interstate Highway 45 (IH45) in Dallas County. TXDOT has prepared a draft Environmental Assessment for the project, referred to as SM Wright Project Phase IIB, along with maps showing project location and design, tentative construction schedules and other information regarding the project. These documents are available for review in the Trinity Watershed Management office, City Hall, 6BS, as well as several other locations throughout the City. A Public Hearing to present the planned improvements and receive comments on the proposed project will be held Thursday, December 15, 2016, at Park South YMCA, 2500 Romine Avenue.

Please feel free to contact me should you have any questions or need additional information. Thank you.

Mark McDaniel
Assistant City Manager

c: Honorable Mayor and Members of the City Council
A.C. Gonzalez, City Manager
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Ryan S. Evans, First Assistant City Manager
Eric D. Campbell, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Joey Zapata, Assistant City Manager
M. Elizabeth Reich, Chief Financial Officer
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager – Mayor & Council

Notice

Draft Environmental Assessment Available for Public Review
and
Public Hearing

S.M. Wright Project Phase IIB

SH 310 from Pennsylvania Avenue to North of Al Lipscomb Way
and
IH 45 from Lenway Street to Good Latimer Expressway

CSJs: 0092-01-059, 0092-14-088

Dallas County, Texas

The Texas Department of Transportation (TxDOT) is proposing improvements to the interchange between State Highway 310 (SH 310) and Interstate Highway 45 (IH 45) in Dallas County, Texas. Project limits for SH 310 extend from Pennsylvania Avenue to north of Al Lipscomb Way, a distance of approximately 0.5 mile. Project limits for IH 45 are from Lenway Street to Good Latimer Expressway, a distance of approximately 1.0 mile. Pursuant to Texas Administrative Code, Title 43, Part 1, Chapter 2, Subchapter E, §2.107 and §2.108, and Code of Federal Regulations, Title 23, Chapter I, Subchapter H, §771.111, and Title 40, Chapter V, §1506, this notice advises the public that a draft environmental assessment (EA) is available for public review and that TxDOT will be conducting a public hearing on the proposed project. The hearing will be held on Thursday, December 15, 2016, at Park South YMCA, 2500 Romine Avenue, Dallas, Texas 75215. Displays will be available for viewing at 6 p.m. with the formal hearing starting at 7 p.m. The purpose of the hearing is to present the planned improvements and to receive public comment on the proposed project.

The proposed project, referred to as the "SM Wright Project Phase IIB", includes the reconfiguration of the existing interchange between IH 45 and SH 310 (S.M. Wright Parkway), Cesar Chavez Boulevard, and Good Latimer Expressway. These changes would convert the existing freeway-to-freeway connections between IH 45 and SH 310 to a diamond-type interchange involving two cross-streets: Martin Luther King Jr. Boulevard (MLK) and Al Lipscomb Way (formerly Grand Avenue). The proposed improvements will extend SH 310 to connect exclusively to Cesar Chavez Boulevard. The existing SH 310 underpass of MLK would be converted to an at-grade signalized intersection. The existing IH 45 frontage roads would be extended to MLK, and the existing ramps connecting MLK and IH 45 would be relocated to the proposed signalized intersections of the proposed frontage roads and MLK. A northbound exit ramp to Al Lipscomb Way from IH 45 as well as a southbound entrance ramp from Al Lipscomb Way to IH 45 would also be constructed. Pedestrian and bicycle improvements would be constructed along SH 310 to create a continuous network between SH 310, MLK, Al Lipscomb Way, and Good Latimer Expressway.

The existing right-of-way (ROW) width along SH 310 is typically 220 to 240 feet, but widens to 360 feet north of MLK. The existing ROW width along IH 45 varies from 240 to 500 feet. Approximately 1.7 acres of additional ROW along both sides of IH 45 would be necessary for the proposed project. The proposed project would displace one former fire station and two commercial businesses. Information about the TxDOT Relocation Assistance Program, benefits and services for displacees, as well as information about the tentative schedules for ROW acquisition and construction can be obtained from the TxDOT District Office at the address listed below. Relocation assistance is available for displaced persons and businesses. Staff from the Workforce Solutions Greater Dallas will be invited to the public hearing to answer questions and present services information. The proposed project is not located within a 100-year floodplain of any water feature.

The draft EA, maps showing the project location and design, tentative construction schedules, and other information regarding the project are on file and available for inspection Monday through Friday between the hours of 8:00 a.m. and 5:00 p.m. at TxDOT Dallas District Office located at 4777 East Highway 80, Mesquite, Texas 75150 and online at www.keepitmovingdallas.com under Upcoming Public Hearing/Meeting. This information is also available for inspection in the City of Dallas City Hall, 1500 Marilla Street, Room 6BS, Dallas, Texas 75201; and the Martin Luther King Branch Library, 2922 Martin Luther King Jr. Boulevard, Dallas, Texas 75215. Additionally, this information will be available for inspection at the hearing. Verbal and written comments from the public regarding the project are requested and may be presented at the hearing, or submitted in person or by mail to Mr. Stephen Endres, P.E., Texas Department of Transportation Dallas District Office, 4777 East Highway 80, Mesquite, TX 75150. Comments must be received on or before Friday, December 30, 2016 to be part of the official hearing record.

The hearing will be conducted in English. Persons interested in attending the hearing who have special communication or accommodation needs, such as the need for an interpreter, are encouraged to contact TxDOT Dallas District Public Information Office at (214) 320-4480. Requests should be made at least two days prior to the hearing. Every reasonable effort will be made to accommodate these needs.

If you have general questions or concerns regarding the proposed project, you may contact Stephen Endres, P.E. at (214) 320-4469 or by e-mail at Stephen.Endres@txdot.gov.

The environmental review, consultation, and other actions required by applicable Federal environmental laws for this project are being, or have been, carried-out by TxDOT pursuant to 23 U.S.C. 327 and a Memorandum of Understanding dated December 16, 2014, and executed by FHWA and TxDOT.

Texas Department of Transportation®

SM Wright Project Phase II-B Public Hearing

Location: Park South YMCA, Dallas

Thursday, December 15, 2016
Open House at 6:00 PM
Formal Presentation at 7:00 PM

Directions:

From South:
head north on US 175,
take exit toward Metropolitan Ave,
merge onto South Central Expy,
turn right onto Romine Ave,
stay on Romine Ave about 0.3 mile,
Park South YMCA is on the right.

From North:
head south on US 175,
take exit toward Metropolitan Ave,
merge onto S Cesar Chavez Blvd,
turn left onto Metropolitan Ave,
turn right onto Latimer St,
take the first left onto Romine Ave,
Park South YMCA is on the right.

Park South YMCA

2500 Romine Ave
Dallas, TX 75215

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Memorandum

CITY OF DALLAS

DATE: December 2, 2016

TO: Honorable Mayor and Members of the City Council

SUBJECT: **City License Applications**

There were no Dance Hall and/or Sexual Oriented Business applications received for the week of November 21-25, 2016 by the Narcotics Bureau Licensing Squad of the Dallas Police Department.

Please have your staff contact Sergeant Lisette Rivera, #7947 at (214) 670-4811 and/or by email at lisette.rivera@dpd.ci.dallas.tx.us should you need further information.

Eric D. Campbell

Eric D. Campbell
Assistant City Manager

cc: A.C. Gonzalez, City Manager
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
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M. Elizabeth Reich, Chief Financial Officer
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager – Mayor & Council
Interim Police Chief David Pughes, Dallas Police Department