



Dallas/Fort Worth International Airport Briefing: Variable Rate Auction Bond Program

Presentation to City of Dallas Finance and
Accountability Committee

March 24, 2008



DFW's Variable Rate Auction Bond Program

Background and Summary

- DFW has \$337M of auction bonds outstanding
 - Issued 6 sub-series from FY 2002 through FY 2004
 - New auctions every 7, 28 and 35 day periods
- Multi-modal
 - Multiple short term periods, with ability to convert to fixed rate
- Auction Rate Securities
 - Considered long term securities under Bond Ordinances
 - Lack of a "Put" to DFW
 - No letter of credit renewal risk
- Very successful program
 - Average interest rate since inception - 3.04%
 - Saved \$40 million in interest versus using fixed rate bonds
- All series were insured by AAAs
 - MBIA (5 series; \$281M)
 - XL Capital Assurance (1 series; \$56M)



DFW's Variable Rate Auction Bond Program

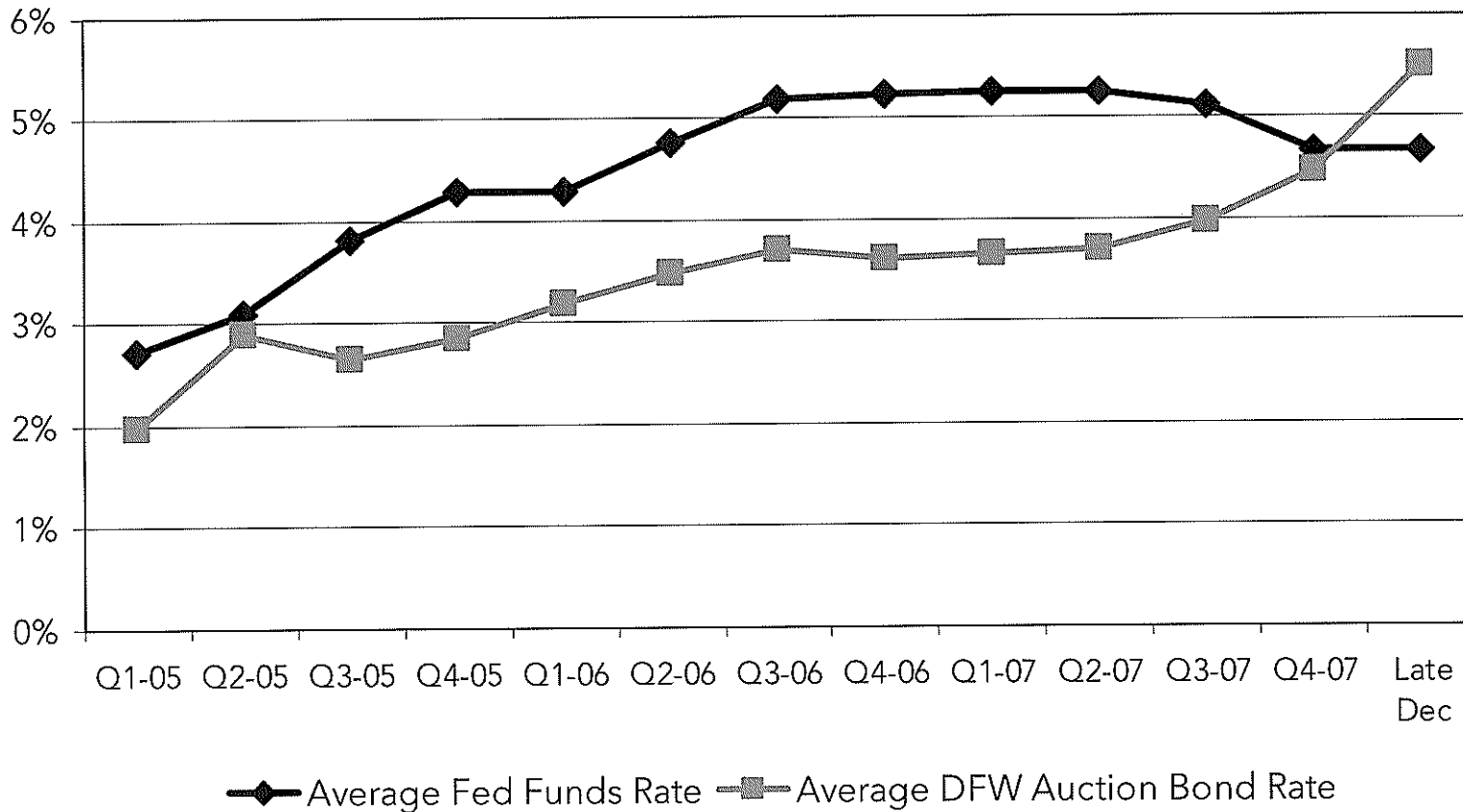
Background and Summary

- City Councils gave DFW Board authority to fix-out bonds at Board's discretion –
 - To quickly fix-out if interest rates increased rapidly
- DFW has monitored interest rates and auction market closely
 - Especially over last three months
- Auction bond market became illiquid in mid-February
- Notified City Councils of intent to fix out - February 26 letter
- DFW Board approved remarketing in fixed rate mode on March 6
- Plan to remarket as fixed rate later this week



Auction Bond Program - Interest Rate Comparison

Historically, interest rates on DFW auction bonds have correlated closely with the Fed Funds rate, until end of 2007.





Why Has Auction Bond Market Deteriorated?

- \$360 Billion Municipal Auction Rate Market
- Operated smoothly for over 25 years*
- Factors for deterioration*
 - Downgrade of 3 AAA insurance companies (sub-prime mortgage exposure)
 - Constrained balance sheets for banks that historically provided liquidity
 - Low maximum reset rates for some issuances
- Market conditions changed rapidly in mid-February*

* See Attachment 1 in Appendix for more information



Why Has Auction Bond Market Deteriorated?

- Insurance company downgrades -
 - 3 of 8 AAA insurance companies downgraded* (includes XL Capital Assurance)
 - 3 on negative outlook/credit watch* (includes MBIA)
 - Only FSA and Assured Guarantee still AAA Stable*
- Market fear –
 - Other AAA Insurance Companies would be downgraded in future
- Issue –
 - Many buyers of auction paper look to insurance company rating, rather than also focusing on underlying financial strength of issuer
 - DFW has split A+/AA- rating
- Future –
 - Insurance companies are attempting to attract new capital
 - New entrants to insurance market (e.g., Berkshire Hathaway)

* See Attachment 2 in Appendix for full listing



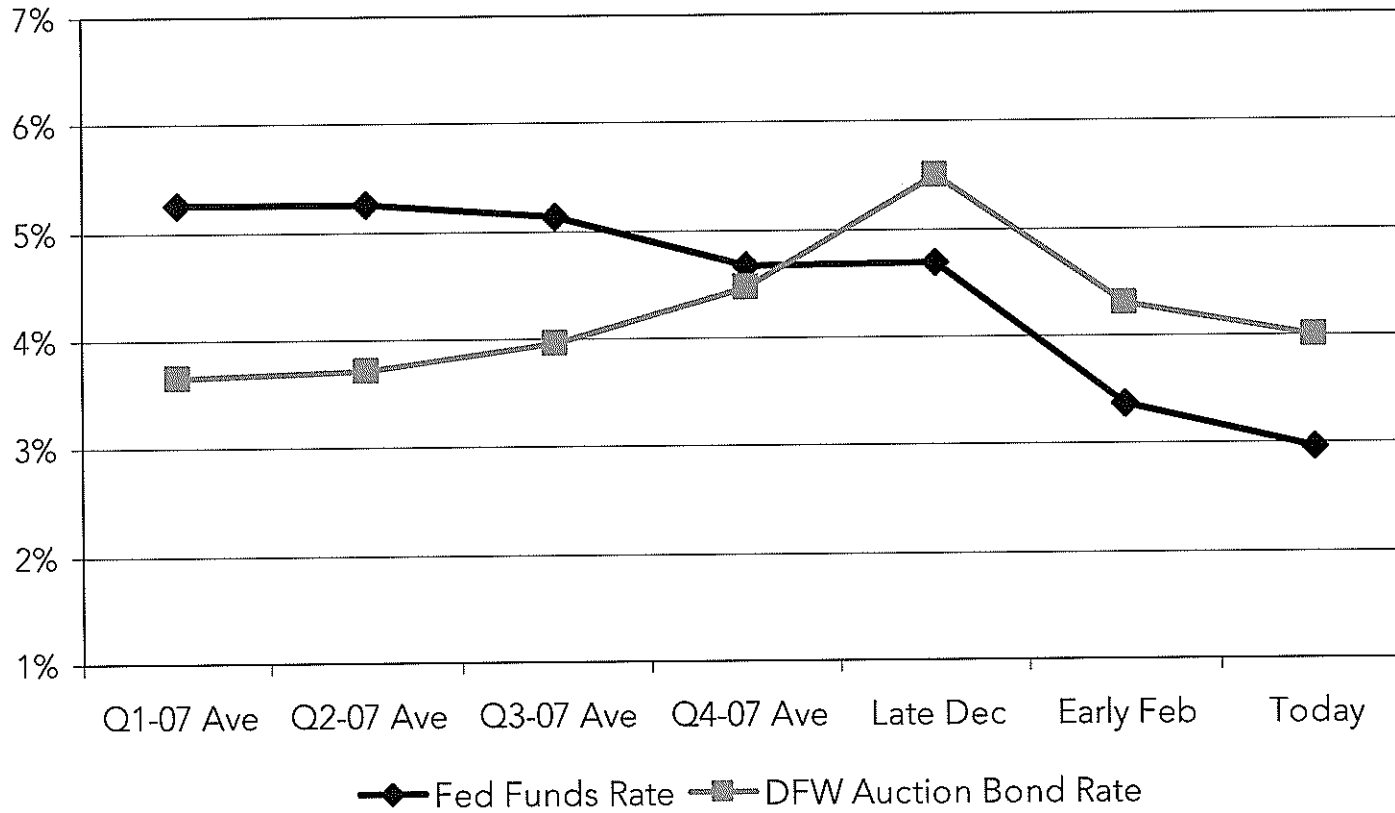
Current Situation

- Auction market may not return as a viable market
- Most municipal auction rate issuances are in “failed” status today.
 - Require holders of bonds to keep until the issuer changes modes
 - Variable rate demand notes or fixed rate bonds
 - Some issuers are paying maximum interest rates of 8%-20%.
- DFW maximum rates – relatively low
 - 125 bps over LIBOR for MBIA (AAA) bonds (3.5% last trade)
 - 2x LIBOR for XL Capital Assurance (A) bonds (5.6% last trade)
 - Low rates are primary reason for inability to sell all of the bonds
- Dealers have taken most of DFW's bonds into their inventory



Auction Bond Program - Interest Rate Comparison

In late December, average rates were exceeding 5%, then fell as Fed Funds rate decreased and auctions began to fail and the maximum allowable rate went into effect (mid Feb).





Remarketing in Fixed Rate Mode

DFW's only real option at this time

- DFW will remarket bonds as fixed rate later this week
- Plan for 18 month call
- Expected average interest rates of 5.5% - 6.0%
- No extension of final maturity dates
- Remarketing versus refunding
 - DFW to pay closing costs (\$1.5M) from annual budget, rather than added to debt.
- Estimated impact to budget = \$6-8 M in FY 2008 and FY 2009
 - DFW will defer some principal from FY 2008 to FY 2013 to mitigate FY 2008 budget impact
 - DFW has saved over \$40M to date on this program
- Long-term –
 - DFW plans to refund these bonds in 18 months to lower impact
 - May consider another short term debt program if market returns



Remarketing Agents, Attorneys and Financial Advisors

- Remarketing Agents
 - Bear Stearns (JP Morgan Chase)
 - M.R. Beal (MWBE)
- Attorneys
 - Vinson and Elkins
 - McCall, Parkhurst and Horton
 - Kelly, Hart and Hallman
 - Simon Mahomes (MWBE)
- Financial Advisors
 - First Southwest
 - Estrada Hinojosa (MWBE)



Appendix

- Attachment 1
 - Assessing the Auction Rate Securities Market from Citi/Smith Barney
- Attachment 2
 - Municipal Bond Insurers Ratings Summary from First Southwest Company.

UNITED STATES

FEBRUARY 29, 2008

PRIVATE CLIENT

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Assessing the Auction Rate Securities Market

- Market conditions in auction rate securities changed dramatically in mid-February as sellers overwhelmed potential buyers, causing widespread auction failures for the first time.
- The magnitude of the liquidity crunch that developed as a result of auction failures was not expected given that the market has operated smoothly for almost 25 years. Despite the relatively strong credit quality of the underlying collateral, the pronounced imbalance of sellers to buyers has overwhelmed all other considerations. Investors should keep in mind that the auction rate market is largely impaired owing to the lack of liquidity, not because of a rise in default risk.
- The factors that led to the unraveling of the market are highly complex and remain in a state of flux. These include: (1) severe pressures on monoline bond insurers, which heightened concerns about the credit strength of issuers; (2) constrained balance sheets at banks that historically provided liquidity during periods of supply/demand imbalances; and (3) concerns that penalty rates on these securities might not be sufficient to allow the auction to clear.
- We expect a degree of rationality to return to the auction rate market over time. It remains to be seen whether this large, time-tested market will resurface in a viable form similar to its previous composition.

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Municipal Bond Insurers Ratings Summary

As of March 13, 2008 7:00 P.M. EST

Legend	
Stable	Negative Outlook
Negative Watch / Review for Possible Downgrade	Outlook Evolving
	Developing Watch

Insurer	Moody's	Standard & Poor's	Fitch
Assured Guaranty	Aaa / Stable (as of 12/14/07)	AAA / Stable (as of 12/19/07)	AAA / Stable (as of 12/12/07)
FSA	Aaa / Stable (as of 3/11/08)	AAA / Stable (as of 12/19/07)	AAA / Stable (as of 1/24/08)
Radian	Aa3 / Stable (as of 12/14/07)	AA / Stable (as of 12/19/07)	A+ / Outlook Evolving (as of 11/02/07)
Ambac	Aaa / Negative Outlook (as of 3/12/08)	AAA / Negative Watch (as of 3/5/08)	AA / Negative Outlook (as of 03/12/08)
MBIA	Aaa / Negative Outlook (as of 2/26/08)	AAA / Negative Outlook (as of 2/25/08)	AAA / Watch Negative (as of 2/5/08)
CIFG	A1 / Stable (as of 3/6/08)	A+ / Negative Outlook (as of 3/12/08)	AA- / Watch Negative (as of 3/7/08)
FGIC	A3 / Review for possible downgrade (as of 2/14/08)	A / Developing Watch (as of 2/25/08)	AA / Watch Negative (as of 1/30/08)
Security Capital Assurance (parent of XL Capital Assurance and XL Financial Assurance)	A3 / Review for possible downgrade (as of 3/4/08)	A- / Negative Watch (as of 2/25/08)	A / Watch Negative (as of 1/24/08)

Disclaimer: This is a summary of the current outstanding ratings and outlooks of monoline bond insurers as reported by Moody's Investors Service (Moody's), Standard and Poor's Corporation (S&P), and Fitch Ratings (Fitch) as of the approximate date and time set forth on this summary. First Southwest Company does not guarantee the accuracy or completeness of the data set forth herein. For the most accurate and current information, contact Moody's, S&P, and Fitch.

