

Memorandum



DATE: May 17, 2012

TO: Honorable Members of the Budget, Finance & Audit Committee: Jerry R. Allen (Chair), Tennell Atkins (Vice Chair), Monica R. Alonzo, Scott Griggs, Ann Margolin

SUBJECT: **Resolution of Love Field Airport Modernization Corporation (LFAMC) with respect to the issuance of bonds for the implementation of elements of the Love Field Modernization Program (LFMP)**

The purpose of the memorandum is to provide you information regarding an item that will appear on the May 23, 2012 Council Agenda.

The item allows for the issuance of a second tranche of special facilities revenue bonds to support the Love Field Modernization Program (LFMP). The additional bond issuance by the Love Field Airport Modernization Corporation (LFAMC) is scheduled for June 2012 in an amount not to exceed \$190 million.

On July 11, 2006, the City entered into the Five Party Agreement with the City of Fort Worth, The Dallas-Fort Worth International Airport Board, American Airlines, Inc., and Southwest to support the repeal of Love Field flight restrictions imposed by the Wright Amendment. The Five Party Agreement obligated the City to modernize Love Field, through the LFMP.

In order to successfully complete the LFMP, in June 2008, the City Council authorized the creation of a local government corporation, the LFAMC. The corporation was established to aid, assist, and act on behalf of the City in the performance of its governmental functions to facilitate the LFMP and provide a mechanism for financing its costs.

On January 27, 2010, the City Council approved Resolution No. 10-0360, which authorized the LFAMC to issue bonds, in one or more series, in the principal amount not to exceed \$500 million. The resolution also authorized the City and the LFAMC to enter into a special facilities agreement, authorized the LFAMC to enter into 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. The first series of bonds was issued in November 2010 in the amount of \$310 million.

Under a separate Special Facilities Agreement, Southwest is obligated to make 100% of the debt service payments on the bonds. The Special Facilities Agreement and the trust indenture provide for the issuance of "Additional Bonds" for the purpose of paying the costs of completing the LFMP. Southwest has now requested that the LFAMC issue Additional Bonds, which will be the Love Field Airport Modernization Corporation Special Facilities Revenue Bonds, Series 2012 (Southwest Airlines Co. – Love Field Modernization Project), in an aggregate principal amount not to exceed \$190,000,000 ("Series 2012 Bonds") in order to complete the LFMP.

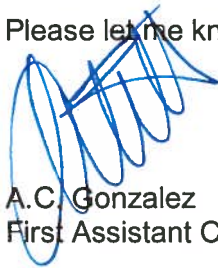
One of the conditions with respect to the issuance of Additional Bonds is that the City, the LFAMC, and Southwest enter into an amendment to the special facilities agreement, in which Southwest agrees to make additional payments in an amount at least sufficient to pay principal, interest, and premium, if any, on the Additional Bonds when due. This proposed action makes Southwest liable for 100% of the debt service payments on these additional bonds.

Concurrent with the delivery of the Series 2010 Bonds, the City and Southwest entered into a revenue credit agreement, whereby the City agreed to reimburse Southwest the amount of debt service that Southwest is required to pay on the bonds, While it was the intent of all parties to permit federal grants to be used for project costs, the current language in the Revenue Credit Agreement only permits grant funds to be used to pay down principal on the LFAMC bonds. As a result, the sizing of the bonds would have to be increased beyond the already approved \$500 million limit. The resolution to be presented to the Council on the May 23, 2012 agenda would authorize the City Manager, with the approval of the City Attorney as to form, to amend the Revenue Credit Agreement in order to permit grant funds to be used to pay both project costs or principal on the LFAMC bonds and thus limit the borrowing necessary to implement the LFMP at the current \$500 million limit.

The LFAMC board of directors is scheduled to meet on May 14, 2012, to consider a resolution to authorize the issuance of the Series 2012 Bonds, and approve a First Amendment to the Special Facilities Agreement, in which Southwest reaffirms its obligation to pay Facilities Payments in an amount sufficient to pay all of the debt service on the Series 2012 Bonds, and a First Supplemental Trust Indenture, which will set forth the terms of the sale of the Series 2012 Bonds.

Finally, it is important to note that these actions have no cost consideration to the City nor does it obligate the City to repay the bonds issued by the LFAMC.

Please let me know if you have any questions.



A.C. Gonzalez
First Assistant City Manager

c: Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Rosa A. Rios, City Secretary
Thomas P. Perkins, Jr., City Attorney
C. Victor Lander, Administrative Judge Municipal Court
Craig D. Kinton, City Auditor
A.C. Gonzalez, First Assistant City Manager

Ryan S. Evans, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Forest E. Turner, Assistant City Manager
Joey Zapata, Assistant City Manager
Jeanne Chipperfield, Chief Financial Officer
Stephanie Pegues-Cooper, Assistant to the City Manager