Memorandum

CITY OF DALLAS

DATE September 10, 2010

TO Members of the Budget, Finance & Audit Committee: Chair Jerry Allen, Vice-Chair Ann Margolin, Vonciel Jones Hill, Delia Jasso, Ron Natinsky, David Neumann

SUBJECT Dallas/Fort Worth International Airport Briefing

The September 14, 2010 Budget, Finance & Audit meeting agenda includes a briefing from Dallas/Fort Worth International Airport. Jeff Fegan, CEO of DFW Airport and Chris Poinsatte, Executive Vice President for Finance and Information Technology Services, will provide a consolidated briefing on the following issues:

Dallas/Fort Worth International Airport Briefing

- New Use Agreement – Chris Poinsatte
- Terminal Renewal and Improvement Program – Jeff Fegan
- Master Bond Ordinance and Supplemental Bond Issuances – Chris Poinsatte
- FY2011 Budget – Chris Poinsatte

This consolidated briefing will be given to the full City Council on Wednesday, September 15, 2010. The City Council is scheduled to vote on the Master Bond Ordinance, Supplemental Bond Issuances and FY2011 Airport Budget on September 22, 2010.

Attached is a copy of the consolidated briefing. Should you require additional information, please let me know.

Jeanne Chipperfield

Jeanne Chipperfield
Chief Financial Officer

c: Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Deborah A. Watkins, City Secretary
Tom P. Perkins, City Attorney
Craig Kinton, City Auditor
Ryan S. Evans, First Assistant City Manager
A.C. Gonzalez, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Forest Turner, Assistant City Manager
Frank Librio, Public Information Office
Helena Stevens-Thompson, Assistant to the City Manager

DFW International Airport

Presentation to Dallas City Council

* New Use Agreement
* Terminal Renewal and Improvement Program
* Master Bond Ordinance and Supplemental Bond Issuances
* FY 2011 Budget

September 14/15, 2010

Agenda

- New Use Agreement
  - Briefing
- Terminal Renewal and Improvement Program (TRIP)
  - Briefing
- Debt Financing Plan
  - Request approval of Master Bond Ordinance
  - Request approval of 44^{th}, 45^{th}, and 46^{th} Supplemental Bond Ordinances
- FY 2011 Budget
  - Request approval of Budget

New Use Agreement

Current Use Agreement – Background

- 36 years old - expires September 30, 2010
- Residual airport (revenues equal expenses)
- Airlines pay net-operating cost through landing fees and terminal rents
- Significant airline control over capital and debt
- Exclusive gate leases

Revenues

* Landing Fees
* Terminal Rentals
* Non Airline Revenues

FY10B = $588 Million

=

Expenses

* Operating Expenses
* Debt Service & Coverage
* Change in Ops Reserves

FY10B = $588 Million

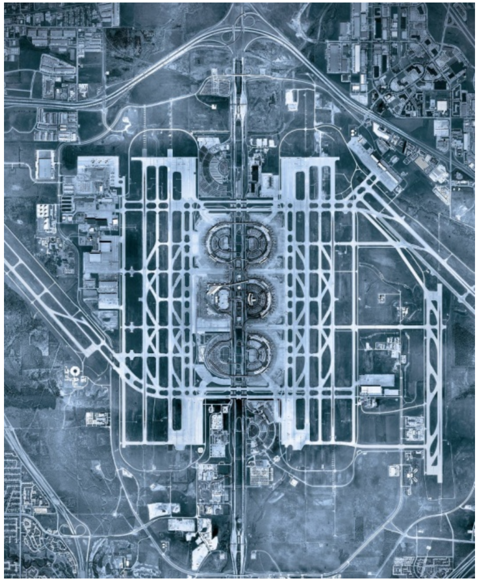
Capital Improvement Fund

Funded from the prior year's coverage amount

FY10B = $52 Million

New Use Agreement

- DFW Airport priorities
  - Preapproval of Terminal Renewal and Improvement Program (TRIP)
  - Sufficient discretionary capital
  - Simplified and fair financial structure
  - DFW to share in non-airline revenues
  - Airport remains strong financially
- Airline priorities
  - Predictable costs over 10 years
  - DFW has significant “skin in the game”
  - Control over major capital program elements
  - Retain maintenance of Terminals A&C



New Use Agreement – Win/Win Arrangement

- 10 year agreement
- “Hybrid” business model
  - Airlines pay landing fees and terminal rents based on DFW’s cost to provide those facilities
  - DFW retains all non-airline revenue up to $60M
  - Airlines provide “downside” protection
  - Fair cost allocations to all cost centers
- Preapproved capital program
  - TRIP
  - Other capital projects
- Preferential gate leases
  - “Use it or lose it”
- No financial liability for Owner Cities (now or in future)

New Use Agreement – New Financial Model

Airlines pay the cost of the airfield and terminals (in purple) less transfers. DFW retains net revenues from non-airline sources in its capital account (in blue). Airlines retain approval rights over Joint Capital Account. Key Airport Metrics are highlighted in yellow .

Airline Cost Centers

Airfield	Terminal
Airfield Costs	**Terminal Costs**
Expenses & Debt Service	Expenses & Debt Service
Less - Misc Airfield Revs.	**Less - Misc Terminal Revs.**
General Aviation	FIS, Turn Fees, TSA rents
Fueling Facility Lease	Transfers - Joint Capital Acct.
	Transfers - DFW Cost Center
= Airline Landing Fees	**= Airline Terminal Rents**

Landing Fees + Terminal Rents = Airline Cost

Divided by: Enplanements

= Airline Cost per Enplanement (CPE)

Joint Capital Account

(+) Natural Gas/Sale of Land

(-) Annual Transfer to Terminal

Requires Airline Approval

DFW Cost Centers

DFW

DFW Revenues

Parking, Concessions, Rental Car, Commercial Development

Less Expenses (plus Skylink)

Expenses & Debt Service

Transfers to Terminal

= Net Revs to DFW Capital

↓

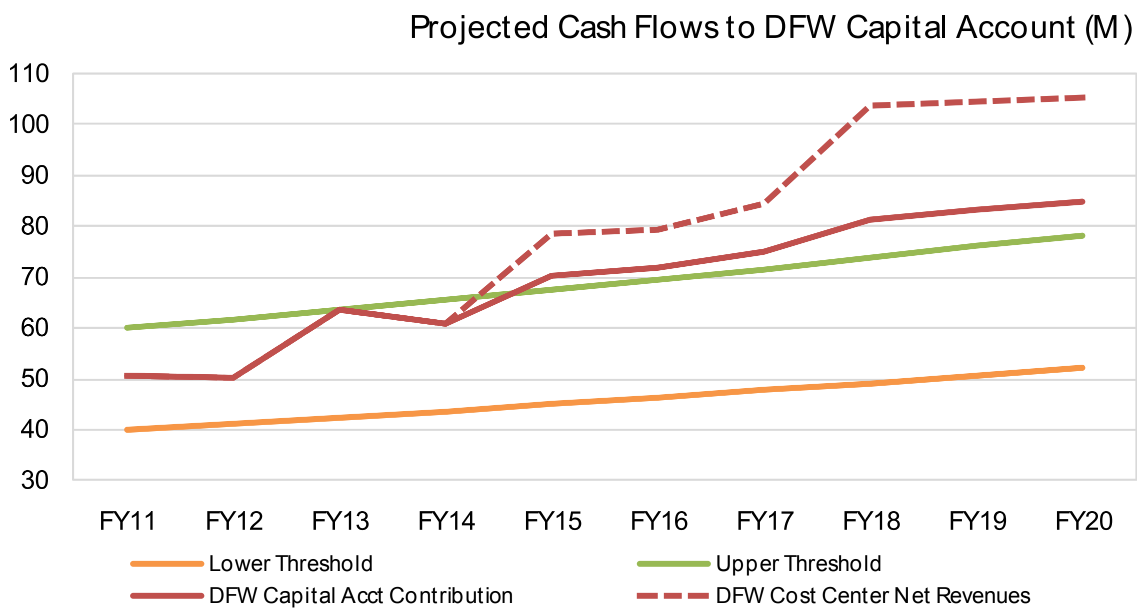
DFW Capital Account

Annual contributions to DFW Capital Account: between $40M and $60M

Discretionary

Projected Cash Flows to DFW Capital Account

The upper and lower thresholds were established to provide DFW sufficient discretionary capital to renew non-terminal capital over ten years.



- DFW has downside protection. If net revenues do not achieve the lower threshold, the Airlines will pay additional landing fees.
- As revenues exceed the upper threshold, DFW shares 75% back with airlines to reduce landing fees.

New Use Agreement Focuses DFW to Achieve Two Goals

1. Keep Airline Cost and CPE low

- CPE is projected to increase each year from $6.93 in FY 2011 to around $12.00 in FY 2020
- DFW currently the lowest cost airport among competitive set (CPE)
- Long range goal:
  - Remain lowest cost airport in FY 2020

2. Grow net revenues from non-airline sources

- DFW will generate $52 million of net revenues in FY 2011 from concessions, rental car, parking, and commercial development
- Long range goal:
  - Double net revenues to over $100 million by FY 2020

Terminal Renewal and Improvement Program

Terminal Renewal and Improvement Program (TRIP) Overview

The four legacy Terminals A, B, C and E will be renovated as part of the TRIP.

- Renovations begin with Terminal A in early 2011.
  - Phased renovations to be completed by early 2014.
  - Only 1/3 of the terminal will be closed for renovations.
- Terminals B, C and E renovations will follow in a phased schedule over several years with completion in 2017.
- Vast majority of gates will remain open and available.

Terminal Renewal and Improvement Program Overview

The renovation of the terminals is a 30-year investment.

- 60% - 70% of work will replace aging infrastructure.
- Balance relates to finishes, passenger amenity improvements, and elements that produce positive business results.
- Concessions revenue will be enhanced through strategic locations and grouping at key passenger circulation points.

Terminal Renewal and Improvement Program Overview

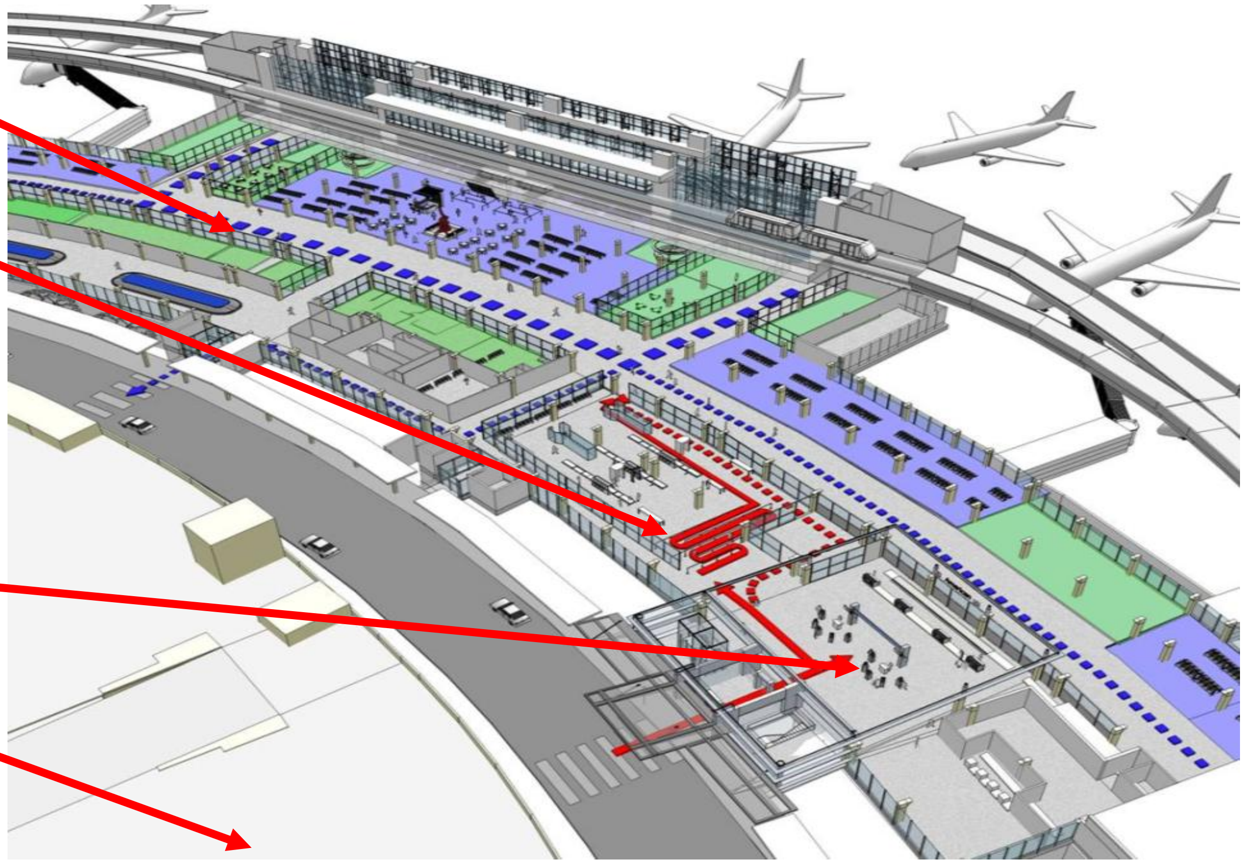
Passengers will enjoy significant improvements in the DFW experience.

Easy-to-locate, more visible shops and restaurants

Expanded, reconfigured security checkpoints

More self check-in options in ticketing areas

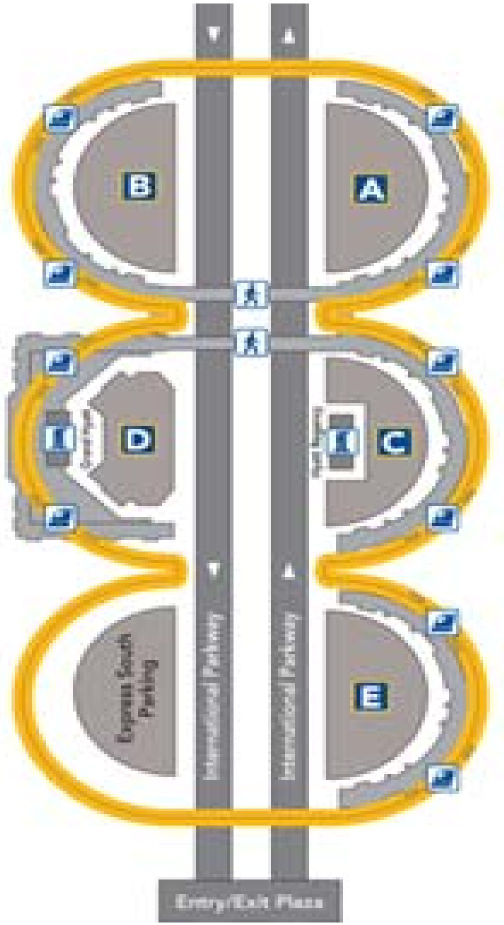
Parking garage improvements



Terminal Renewal and Improvement Program Overview

This renovation will take place between 2011 and 2017.

2013 - 2016



2011 - 2014

2014 - 2017

2011 - 2014

M/WBE Participation and Concessions

DFW remains committed to inclusion in TRIP opportunities.

- DFW will follow its successful M/WBE participation track record.
- M/WBE firms earned 35% of all construction work for Terminal D.
- In the past year alone, M/WBEs earned $150 million in concessions sales at DFW.
- DFW will continue community outreach efforts throughout the TRIP in order to ensure access to opportunities.

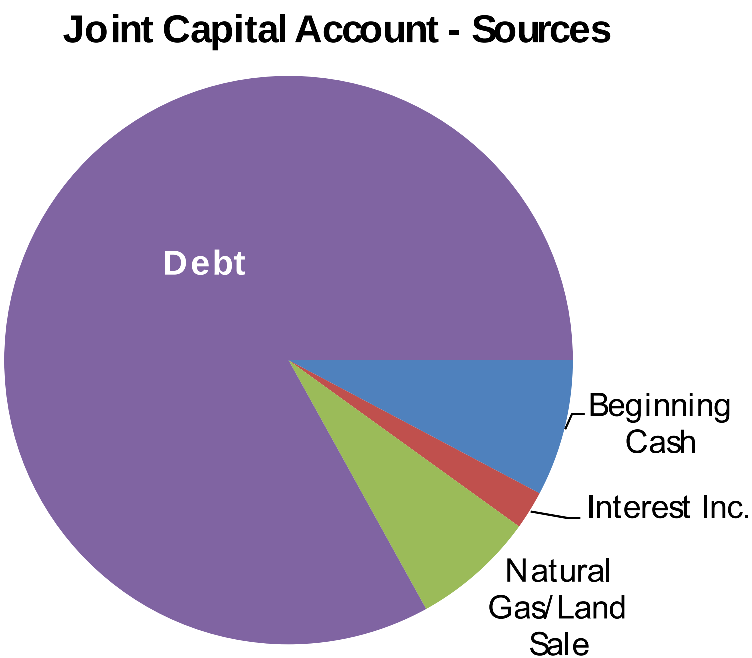
M/WBE Participation and Concessions

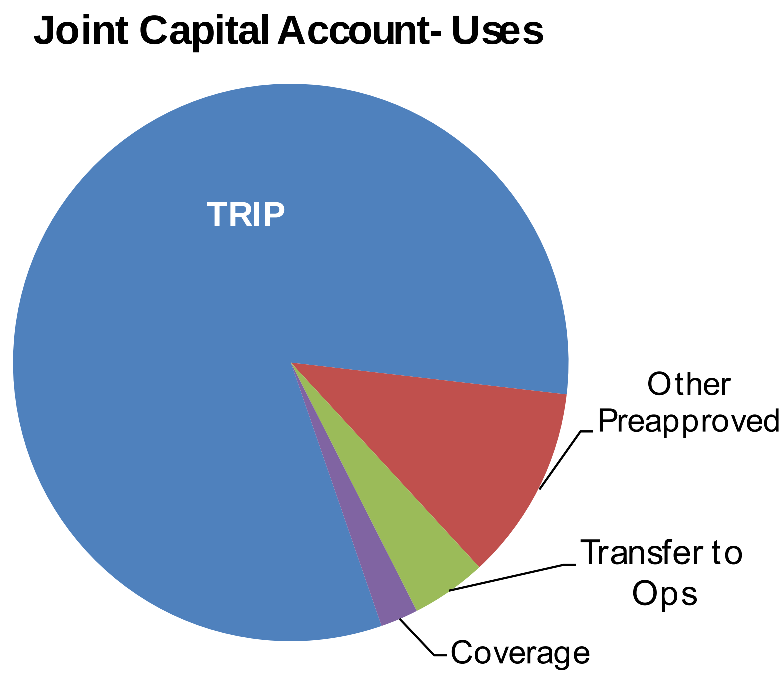
New M/WBE partnership arrangements have been made to support the TRIP.

- Design Firms
  - AECOM/EJES Joint Venture (40% M/WBE)
    - EJES Inc., African-American joint venture partner
    - 40% M/WBE subcontracting commitment on Supplemental Agreements
  - Jacobs Engineering Group, Inc.
    - 42% M/WBE subcontracting commitment on Supplemental Agreements
- Construction Manager-at-Risk Services Firms
  - Balfour Beatty/Azteca/Russell/Carcon (BARC) Joint Venture (40% M/WBE)
    - Russell, African-American joint venture partner
    - Azteca, Hispanic-American joint venture partner
    - Carcon, Hispanic-American joint venture partner
    - 35% M/WBE subcontracting commitment on Supplemental Agreements
  - Manhattan/Byrne/JRT/3i Joint Venture (40% M/WBE)
    - 3i Construction, African-American joint venture partner
    - Byrne, Hispanic-American joint venture partner
    - 35% M/WBE subcontracting commitment on Supplemental Agreements

TRIP – Sources and Uses of Cash

Most of the $1.9B+TRIP budget will be funded from new debt issuances. The final budget is still being negotiated with the Airlines.





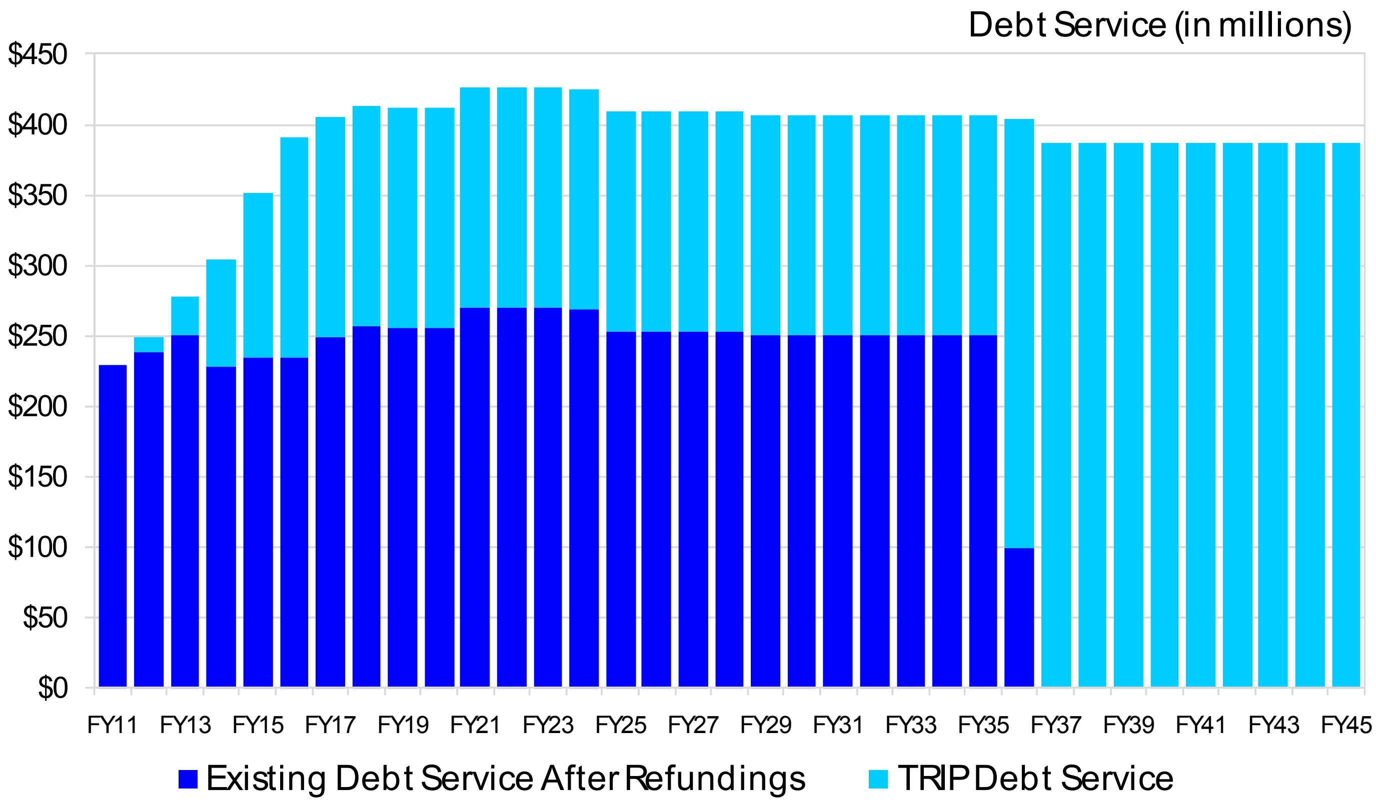
Debt Financing Plan

DFW Debt Profile and Projected Transactions Through FY 2015

- $3.6 billion outstanding today
  - 95% callable through FY 2014
  - Project $2.6 billion to be refunded through FY 2014
- DFW will issue over $2.2 billion of “new money” bonds to fund TRIP and other capital projects through FY 2015
- DFW’s Bond Ratings
  - Expect to maintain or exceed high A rating (currently AA-/A1/A+)
  - DFW must remain cost competitive
  - Coverage ratios to be maintained in 1.40x to1.50x range
  - Sufficient cash reserves

Projected Debt Service

To finance the TRIP, bonds will be sold with maturities that will extend through 2045. Over 50% of debt service is projected to be paid with Passenger Facility Charges and the remainder through the rate base.



FY 2011 Refundings

DFW expects to have seven fixed rate bond sales in FY 2011. Note that the new money bond sales in Phase 2 are preliminary and may change.

Expected Date	Purpose	AMT/Non-AMT	Amount (M)	Series (Supp. Ord.)
Phase 1 (request City Council approval in September, 2010)				
Oct 2010	New Money	Non-AMT	$575	2010A (44th)
Qtr1 2011	Refunding/Savings	AMT	$265	2011A (45th)
Qtr1 2011	Refunding/Savings & $200M New Money	Non-AMT*	$420	2011B (46th)
Phased 2 (request approval in February/March, 2011)			Preliminary	
Q2 2011	Refunding/Savings	Skylink	$160	2011C
Q3 2011	Refunding/Restructure	Non-AMT	$430	2011D
Q3 2011	Refunding/Restructure	AMT	$145	2011E
Q3-4	New Money	Non-AMT*	$600	2011F

* Assumes Congress extends AMT holiday for new money bonds

Refunding Bond Information

	2011A	2011B (Refunding Bonds)
Type of Bond	Fixed rate, AMT	Fixed rate, non-AMT
Assets financed	Terminals	Runways/non-terminals
Bond series to be refunded	2000A, 2002B & C, 2003 C-1 & C-2	2000A, 2002B & C
Estimated NPV Savings	**$24 million**	**$23 million**
Estimated NPV Benefit	**4.6%**	**5.1%**
Extended Maturity	**No**	**No**
Insurance	Possible, not likely	Possible, not likely
Call dates	**5-10 years**	**5-10 years**

Phase 1 Debt Issues for FY 2011 – Parameters

Issuance order may be modified based on financial markets and the timing of final Use Agreement negotiations.

Parameter	2010A	2011A	2011B	
			New Money	Refunding
Bond Ordinance Number	44th	45th	46th	46th
Maximum Deal Size	$620M	$275M	$225M	$225M
Maximum Interest Rate	6.0%	7.0%*	6.0%	6.0%
Maximum Maturity	11/1/2045	11/1/2035	11/1/2045	11/1/2035
Minimum Price per Bond	95%	95%	95%	95%
Underwriter Discount	$6.00	$6.00	$6.00	$6.00
Purpose	New Construction	Refunding Savings	New Construction	Refunding Savings

* Higher rate due to AMT

Underwriters – Phase 1

DFW has selected 15 underwriters (5 M/WBEs) in its pool for next five years and set an overall goal of 30% M/WBE participation for the program. M/WBE participation is projected to total approximately 35.5% for these three transactions.

	2010 A ($575M)	2011A ($265M)	2011B ($420M)
Senior	Jeffries	Citigroup	Cabrera (M/WBE)
Co-Senior	Loop (M/WBE)	Ramirez (M/WBE)	Morgan Stanley
Co- Managers	Barclays		Merrill Lynch
	Morgan Stanley		Morgan Keegan
	Raymond James		Raymond James
	Stifel Nicolaus		

Revised Master Bond Ordinance

DFW desires to update its master bond ordinance before the new program begins

- Background
  - 1968 Concurrent Bond Ordinance was amended in 2000 by the 30th Supplemental Bond Ordinance
  - Revised ordinance effective upon approval from the 2/3rd of bond holders and 100% of bond insurers of outstanding bonds
  - Bond insurers may represent the interest of, and give consent on behalf of, the bondholders they insure
- City Attorneys/Financial Advisors/Outside Bond Counsel have reviewed
- Reasons for Update
  - Consolidate into one document, and simplify
  - Clarifies minor ambiguities and potentially conflicting clauses
  - Removes original Airport construction language and competition clause
  - Allows future ordinance changes to require only 51% approval of holders
  - Removes limitations on permitted uses and valuation of certain funds
  - Extends time period for curing a deficiency in reserve funds

FY 2011 Budget

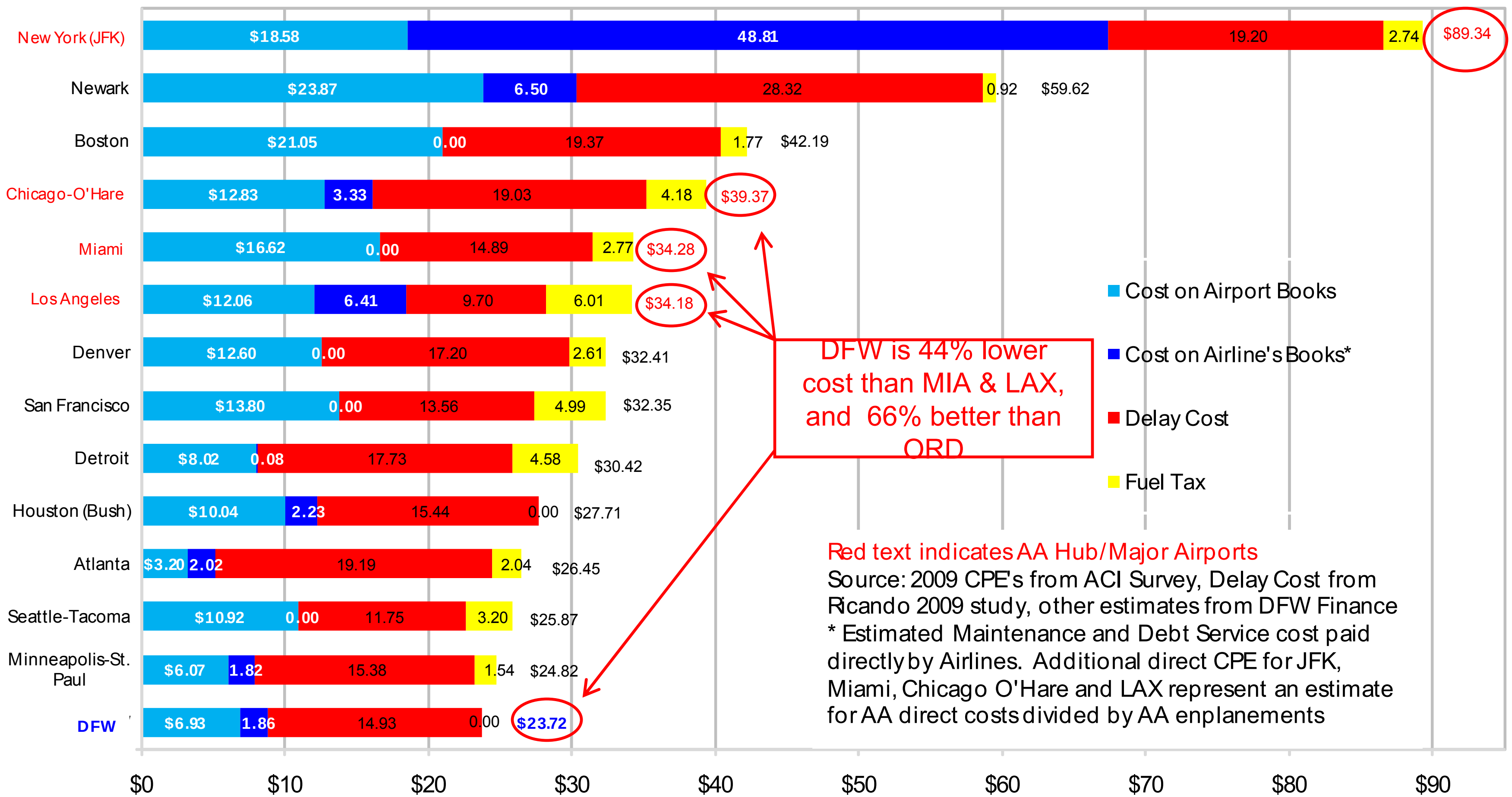
FY 2011 Budget Highlights

Budget is based on the new Use Agreement

- **FY11 Budget is $569.3 million, $22.8 million (3.9%) less than FY10 Budget**
  - Savings primarily due to new Use Agreement model
  - FY10 Budget was $52 million lower than FY09 Budget
    - $75 million (12%) in budget reductions in past two years
  - FY11 Budget includes $3.7 million investment for new fire station and 40 new security officers
- **FY11 Airline Cost is $207 million, $8 million (3.7%) less than FY10 Budget**
  - DFW projects actual FY10 airline costs to be $203 million due to higher non-airline revenues ($7 million) and lower costs ($5 million)
  - DFW has refunded $10-15 million to airlines annually over past 5 years due to better than budget performance
- **DFW remains the lowest cost airport**
  - Among top 14 large hub airports (CPE full cost basis)

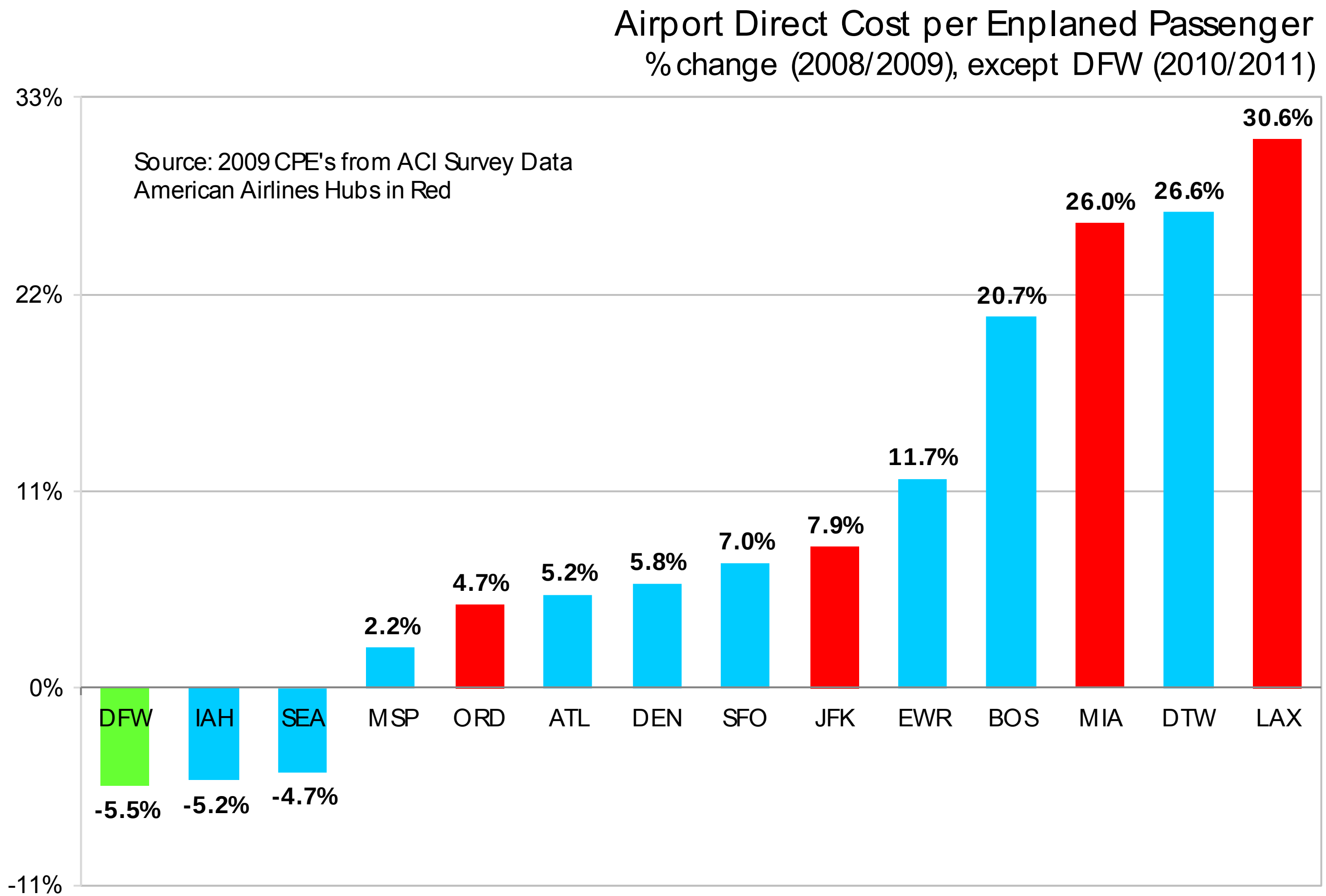
Key Airport Metric: Cost Per Enplanement - DFW is the lowest cost airport in competitive set and significantly lower than other AA hubs

Full Loaded Cost per Enplaned Passenger



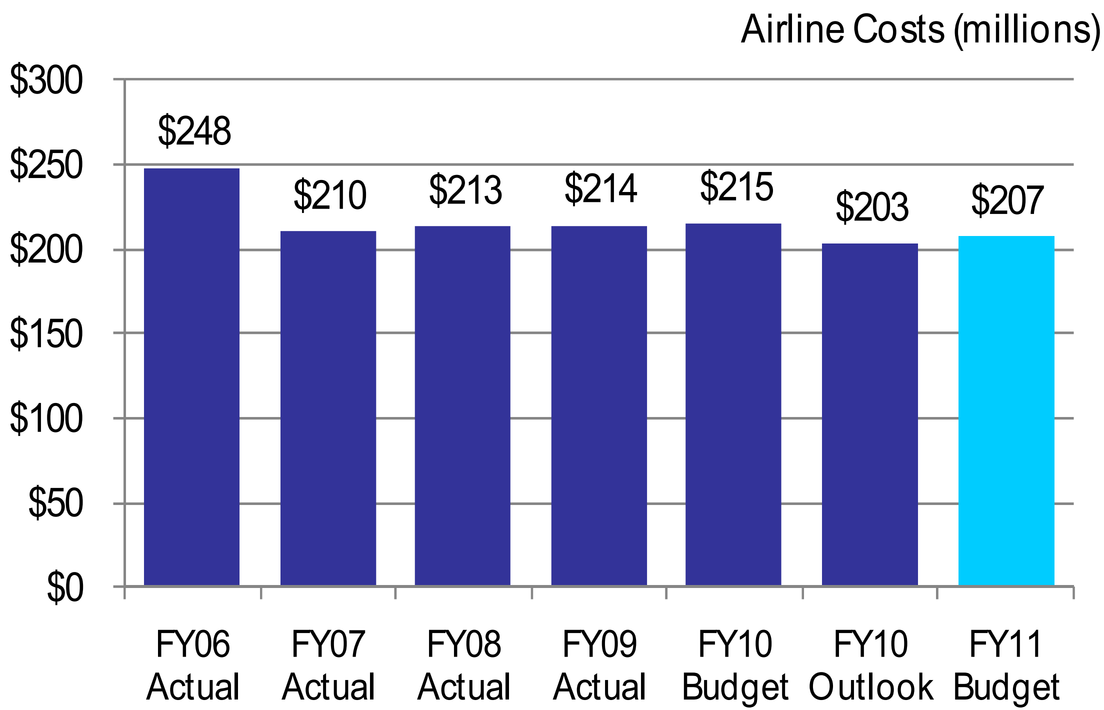
Year over Year Changes in CPE (cost on airport books)

DFW's CPE is falling budget to budget versus increases at most other large hub airports. (American Airlines' hubs shown in red.)



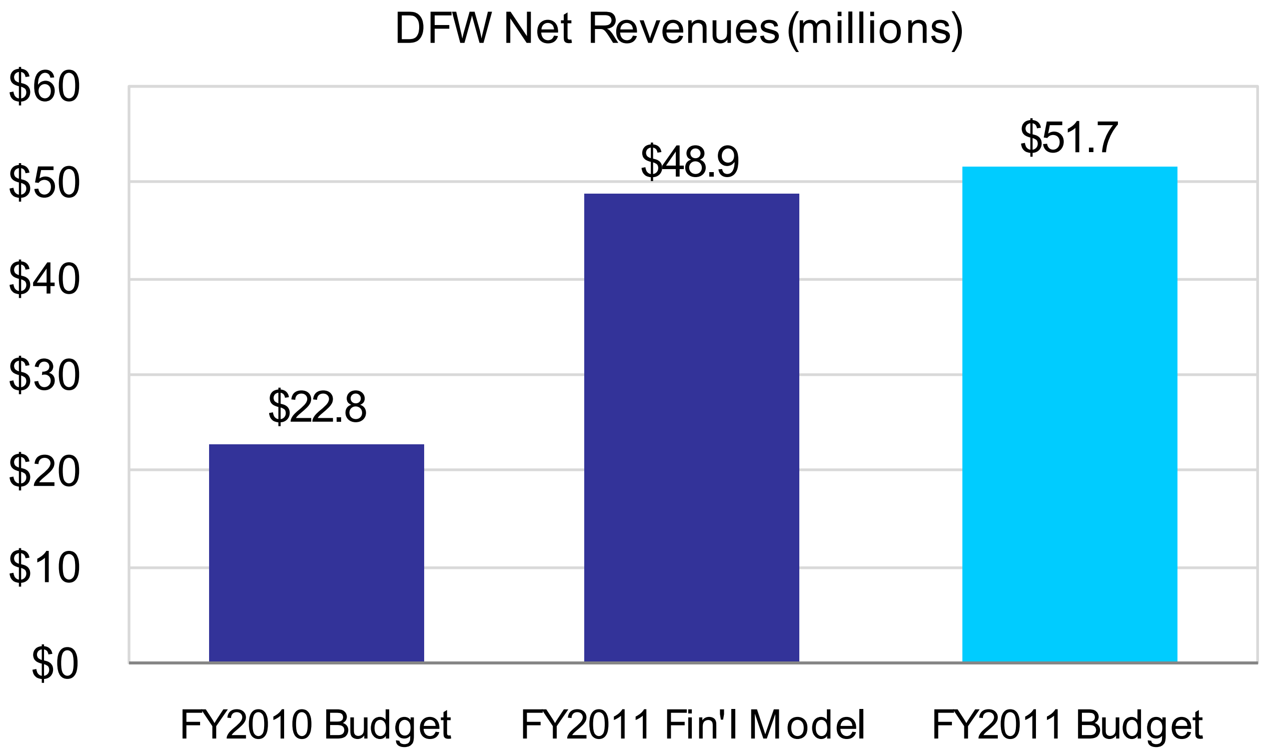
Key Airport Metric: Containment of Airline Cost at DFW

DFW has reduced or held airline cost flat since the opening of Terminal D in FY 2006, offsetting about $100 million of other cost increases. The FY 2011 Budget is $8 million lower than the FY 2010 Budget, but $4 million higher than FY 2010 Outlook, primarily due to new security requirements and a new fire station.



Key Airport Metric - Net Revenues from DFW Cost Center

The new Use Agreement allows DFW to retain all net revenues from the DFW Cost Center in its discretionary capital account. This represents a significant increase from the prior Use Agreement model. DFW will use these funds for renewal and replacement projects.



FY 2011 Budget Comparison - Non Airline Revenues

Non-airline revenues are budgeted to be $15.5 million higher in FY 2011 than the FY 2010 Budget primarily due to a parking rate increase of $2 for terminal parking (without a toll tag) and $1 for terminal parking (with toll tag).

	FY 2009	FY 2010	FY 2010	FY 2011	Inc (Dec) from	
DFW Revenues (millions)	Actual	Budget	Outlook	Budget	10 B	10 OL
Revenue Management						
Parking	$92.7	$89.4	$95.2	$100.5	$11.1	$5.3
Concessions	47.8	45.9	47.4	46.9	1.0	(0.5)
Rental Car Facility	25.7	27.1	25.4	25.6	(1.5)	0.2
Commercial Development	29.5	27.7	28.3	29.6	1.9	1.3
Total Revenue Management	195.7	190.1	196.3	202.6	12.5	6.3
Other DFW Revenues	33.9	31.4	31.3	34.4	3.0	3.1
Total DFW Revenues	$229.6	$221.5	$227.6	$237.0	$15.5	$9.4

Operating Revenue and Expense Fund Budget

Operating expenses are 1% higher than budget due to a new fire station and enhanced security ($3.7M), higher pension contributions ($3.1M), increased health care costs ($2.2M), offset by savings in other areas.

Operating Budget (in millions)	FY 2010 Budget	FY 2011 Budget	Inc (Dec)	% Change
Operating Expenses	$332.0	$335.2	$3.2	1.0%
Increase in Ops Reserve	(3.5)	0.7	4.2	n/a
Debt Service	261.1	228.4	(32.7)	(12.5%)
Total in Rate Base	$589.6	$564.3	($25.3)	(4.3%)
Contingency outside of rate base	$2.5	$5.0	$2.5	100.0%
Total	$592.1	$569.3	($22.8)	(3.9%)

FY 2011 Budget Walkforward

Expense Budget Walkforward (millions)	Ops Exps	Ops Reserve	Debt Service	Total Budget
FY 2010 Budget	$332.0	($3.5)	$261.1	$589.6
Major Cost Increases				
Debt Service increase	-	-	19.5	19.5
Operating Reserve increase	-	3.9	-	3.9
Pension Plan & OPEB contributions	3.1	-	-	3.1
Health Care	2.3	-	-	2.3
Contract increases	2.9	-	-	2.9
Enhanced Security for TSA mandates	2.8	-	-	2.8
Merit pool (2.5%), effective January	1.4	-	-	1.4
Fire Station #6, opens March	0.9	-	-	0.9
Fill vacant positions	0.7	-	-	0.7
Total Cost Increases	14.1	3.9	19.5	37.5
Major Cost Reductions				
Switch to Rolling Coverage	-	-	(52.2)	(52.2)
Asset Mgmt and ITS contracts	(6.7)	-	-	(6.7)
Utilities/fuel contracts reductions	(3.0)	-	-	(3.0)
Bad Debt	(1.0)	-	-	(1.0)
Total Budget Reductions	(10.7)	0.0	(52.2)	(62.9)
Net Increase (Decrease) in Budget	3.4	3.9	(32.7)	(25.4)
FY 2011 Budget	$335.4	$0.4	$228.4	$564.3

Summary of All Presentations

- New Use Agreement establishes a win-win relationship with airlines for next ten years
  - Include approval of the Terminal Renewal and Improvement Program (TRIP) plus other major capital programs
- Approximately $4.8 billion of debt transactions over next five years.
  - $2.2+ billion of "new money" bonds to fund TRIP and other capital projects
  - $2.6 billion for refinancing
- Request approval of Master Bond Ordinance and the 44th, 45th and 46th Bond Issuances
- Request approval of $569.3 million FY 2011 Budget

DFW International Airport

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September 14/15, 2010