

Memorandum



CITY OF DALLAS

DATE December 11, 2009

TO Members of the Transportation and Environment Committee: Linda Koop, Chair; Sheffie Kadane, Vice-Chair; Jerry R. Allen; Tennell Atkins; Carolyn R. Davis; Vonciel Jones Hill; Angela Hunt; Delia D. Jasso; Pauline Medrano; Ron Natinsky

SUBJECT Love Field Modernization Program – Bond Financing Update

Attached is the briefing entitled, "Love Field Modernization Program—Bond Financing Update" that will be presented to you on December 14, 2009.

Please contact me if you need additional information.

A handwritten signature in black ink, appearing to read 'A.C. Gonzalez'.

A.C. González
Assistant City Manager

c: Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Thomas P. Perkins, Jr., City Attorney
Deborah Watkins, City Secretary
Craig Kinton, City Auditor
Judge C. Victor Lander, Administrative Judge
Ryan S. Evans, First Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Forest E. Turner, Assistant City Manager
David K. Cook, Chief Financial Officer
Jeanne Chipperfield, Director, Office of Financial Services
Edward Scott, Director, Controller's Office
Helena Stevens-Thompson, Assistant to the City Manager - Council Office
Daniel T. Weber, Director, Department of Aviation



Love Field Modernization Program Bond Financing Update

Briefing to the
Transportation and Environment Committee

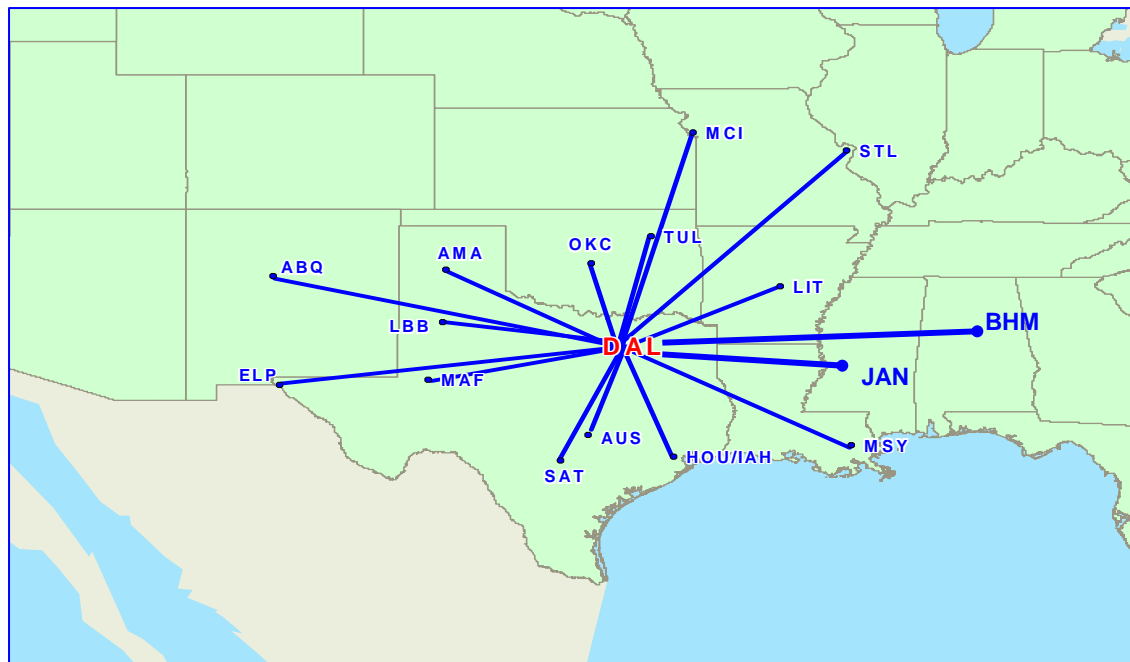
Department of Aviation
December 14, 2009

Purpose

- Review LFMP background and give status update of LFMP bond financing
 - Agreement structure, flow of funds
- Discuss Jan 11, 2010 briefing and timetable for bond closing
- Next Steps
 - City Council Agenda Jan 13, 2010

Love Field Modernization Program

- Background
 - Wright Amendment – 1979 - 2014
 - Commercial flights restricted to 5 states (plus 4 added later)



Love Field Modernization Program



- Background
 - Wright Amendment Reform Act of 2006
 - Based on local 5-Party Agreement to repeal Wright Amendment
 - Flight restrictions phase out over 8 years
 - Love Field capacity limited to 20 gates
 - **Requires City & Southwest Airlines to collaborate** on modernization of Love Field

Love Field Modernization Program

Present



Future

Financing Agreement Structure

- Foundation Agreements

- Term Sheet (June 2008)

- Established LFMP concept & budget
 - Established Local Government Corp structure
 - Established cost recovery method of airline rates & charges
 - Defined roles of the City & Southwest
 - Enabled Inducement Resolution authorizing \$75M Southwest expense

- Program Development Agreement (Nov 2008)

- Established management structure for LFMP
 - Defined financial structure

- Airport Use & Lease Agreement (Dec 2008)

- Terminal space lease, use of airport
 - Sets priority on application of airport revenues
 - Assures revenues to fund airport annual budget

Financing Agreement Structure

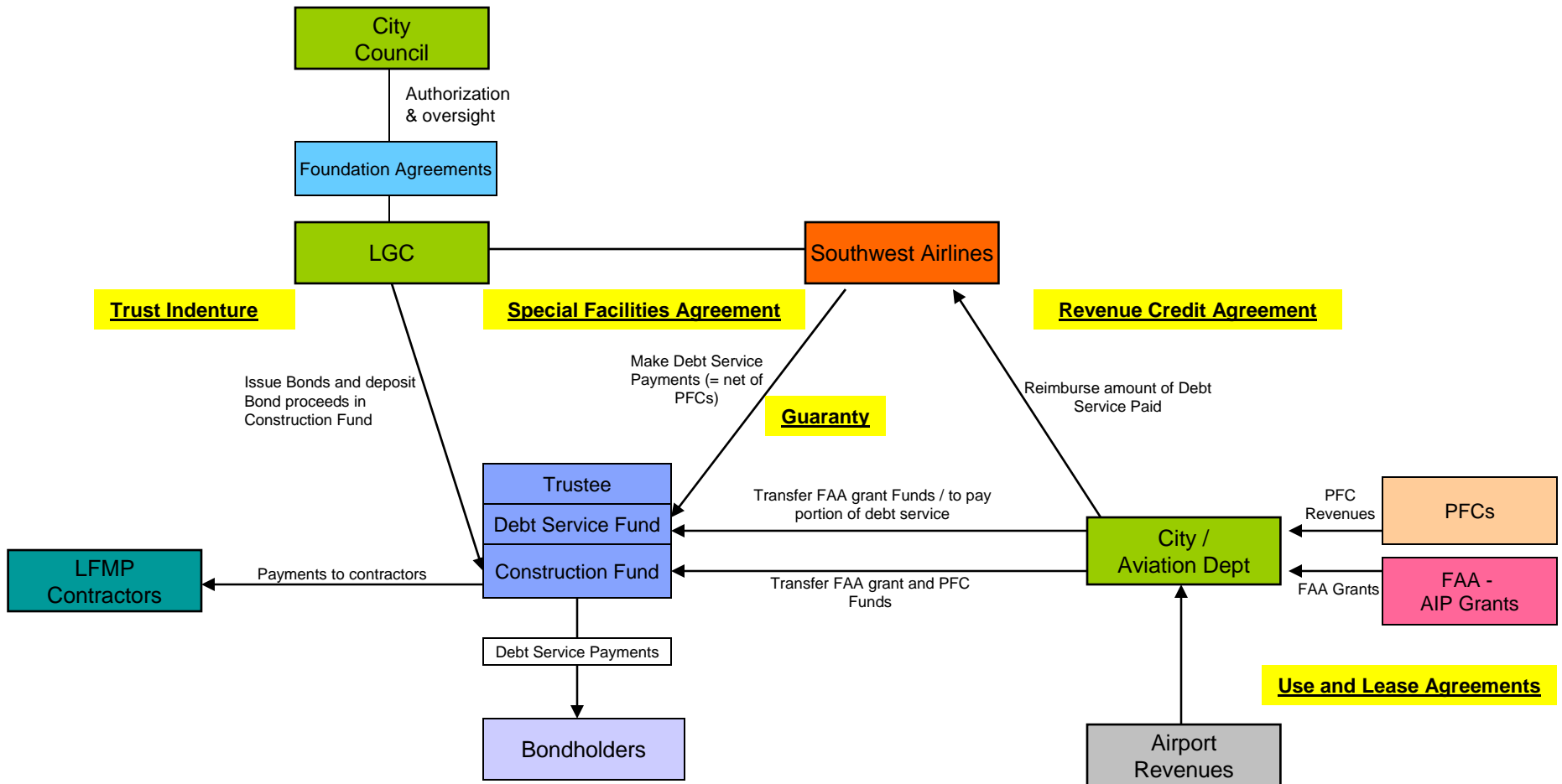
- The Term Sheet (June 2008) and the Program Development Agreement (Nov 2008) are implemented through the following Bond Financing Agreements
 - Special Facility Agreement
 - (City, Local Government Corporation, Southwest)
 - Revenue Credit Agreement
 - (City, Southwest)
 - Trust Indenture
 - (Local Government Corporation, Trustee)
 - Guaranty (Trustee, Southwest)
- The Airport Use & Lease Agreement (Dec 2008) continues through 2028

Financing Agreement Structure

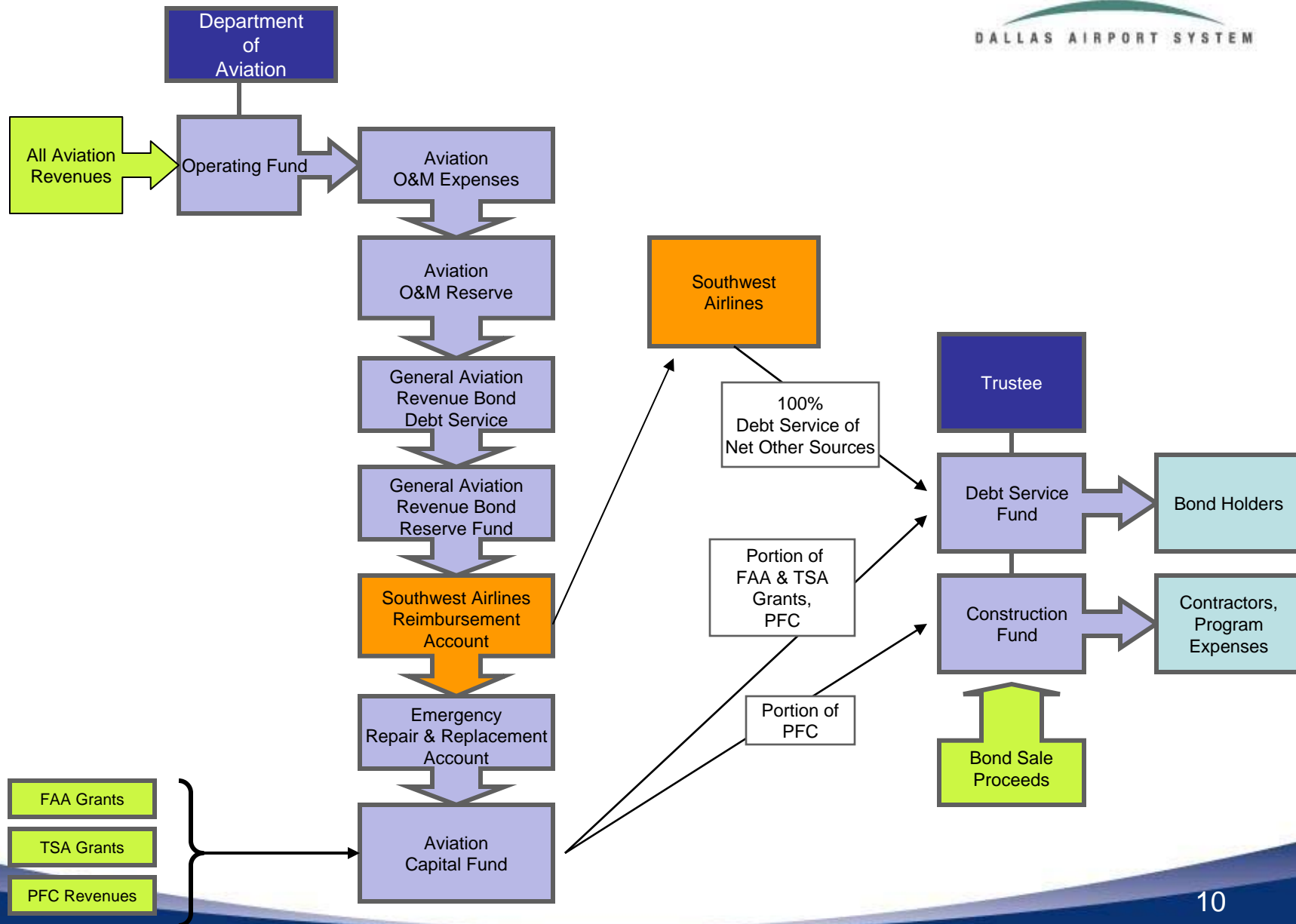


- Bond Financing Agreements (briefed Sept 15, 2009)
 - Special Facility Agreement (City, Local Government Corporation, Southwest)
 - City agrees to operate facilities & authorize Local Gov't Corp to issue bonds
 - Local Gov't Corp issues bonds backed by Southwest credit
 - Southwest agrees to construct facilities and pay debt service
 - Revenue Credit Agreement (City, Southwest)
 - Defines Aviation Fund reimbursement to Southwest for debt service payments received from other sources
 - Provides for transfer to Trustee of certain FAA grant & PFC funds
 - Trust Indenture (Local Government Corporation, Trustee)
 - Trustee management of bond & other funding, pays contractors
 - Trustee receives debt service funds & pays bondholders
 - Guaranty (Trustee, Southwest)
 - Southwest guarantees to the Trustee the repayment of the Bonds

Funding/Financing Structure



Flow of Funds



Financial Risk



Condition	Risk	Mitigation/Effect
Reimbursement to Southwest of debt service paid	If Airport system revenues not sufficient to fully fund Southwest Reimbursement Account, then result would be shortfall	Airport Use & Lease Agrm't: 1) Mid-year rate adjustment 2) Year end settlement process
If PFC collection rates drop from traffic reduction	Planned contribution up to \$10M toward annual debt service amount not met	Amount of Southwest debt service payments increased by amount PFC reduced
Airport Use & Lease Agreement expires 12 years before bonds mature (2028 vs. 2040)	Ability to generate net revenues from new Airport Use & Lease Agreement sufficient to fund Southwest Reimbursement Account	Sec 22.019 & Sec 22.021 of Texas Transportation Code allows City to set reasonable rates & charges which recover cost of facility
If Southwest reimbursement account under funded at end of bond term	Southwest still owed reimbursement after bonds are fully paid	City will remain obligated to reimburse Southwest from available net revenues for one year beyond term of bonds

Bond Sale Preparations

- Finance Team Documents Status
 - Plan of Finance – in progress
 - Bond Feasibility Study – in progress
 - Preliminary Official Statement – in progress
 - Parameters Bond Ordinance – in progress
- To be briefed to Committee 1/11/10

Financing Time Table

- 1/11/10 – Committee briefing on items currently in progress by Finance Team
- 1/13/10 – City Council consideration to approve agreements, Financing Plan, Parameters Resolution
- 1/27/10 – Bond pricing
- 1/28/10 – Love Field Airport Modernization Corp
 - Approval of Bond Resolution, all other related documents
 - Execute Bond Purchase Agreement
- 2/18/10 – Closing

Next Steps

- 1/11/10 Committee Briefing on Plan of Finance, Feasibility Study, Preliminary Official Statement, Parameters Bond Ordinance
- 1/13/10 City Council agenda for consideration on agreements and Bond Parameters Resolution

Appendix



Finance Team

City of Dallas

Department of Aviation

City Attorney's Office

Airport Consultant – Unison Consulting, Inc.

Co-Financial Advisors – First Southwest Company

Co-Financial Advisors – Estrada Hinojosa

Co-Bond Counsel – McCall, Parkhurst & Horton L.L.P.

Co-Bond Counsel – Escamilla Poneck

Trustee – Wells Fargo Bank, N.A.

Trustee Counsel – Haynes and Boone

Southwest Airlines

Airline Consultants – AvAir Pros

Airline Counsel – Winstead PC

Printer - TBD

Underwriters

Senior Managers – Goldman Sachs (Lead)

Co-Senior Mgrs – Bank of America Merrill Lynch

Co-Senior Mgrs – Ramirez & Co.

Co-Managers – Citi

Comerica

Co-Underwriters Counsel – Katten Muchin Roseman LLP

Mahomes Bolden Warren Sigmon PC