

DFW INTERNATIONAL AIRPORT ADMINISTRATIVE POLICY AND PROCEDURE



Title: Debt Policy		Resolution Number:
Functional Category Finance	Issuing Department: Treasury Management	Effective Date: 05/02/2013

1.0 PURPOSE

- 1.1 The purpose of the Dallas/Fort Worth International Airport Board of Director's ("Board") Debt Policy is to establish guidelines for the utilization of Debt Instruments issued jointly by the Cities of Dallas and Fort Worth, Texas ("Cities") payable from the revenues of Dallas/Fort Worth International Airport ("DFW"). Debt Instruments may include joint revenue bonds; subordinate-lien bonds; variable rate bonds such as commercial paper and variable rate demand notes; bond anticipation notes, capitalized leases, and special facility bonds. These Debt Instruments shall only be used to fund or otherwise support expenditures for capital assets, major maintenance items, infrastructure improvements, and additions; to refund or defease existing debt; and/or to fund capitalized interest, costs of issuance, and deposits to reserve funds, coverage accounts, and other funds required or provided for in debt instruments. Debt Instruments will not be used to fund operating expenses. This debt policy does not apply to debt issued by the Facilities Improvement Corporation that will be repaid by third parties (i.e., airlines)
- 1.2 Management will ensure all uses of Debt Instruments are in compliance with these guidelines, outstanding ordinances, existing insurance covenants, and existing agreements; and that the utilization of any Debt Instrument provides the most prudent and cost-effective funding possible taking all material matters into account.

2.0 METHOD OF SALE

- 2.1 Due to the complexities related to credit issues and the size of the debt issues at DFW, the Airport will normally use a negotiated sale process, unless the type or amount of debt warrants either a competitive bidding process or a private placement. A negotiated sale allows Management flexibility to properly structure the amortization of debt, pricing, the offering date, and the terms of the offering.

3.0 PRICING PROCEDURES

- 3.1 Negotiated Sales
 - 3.1.1 In order to ensure that the Airport obtains the lowest interest rates consistent with the terms of the securities sold, at the time of pricing and the underwriter's comply with disclosures as required by the Municipal Securities Rulemaking Board (the "MSRB"), the following procedures will be followed:
 - 3.1.1.1 Prior to pricing, the underwriters must provide the Airport with disclosures concerning the underwriter's role as required by the MSRB, Rule G-17.
 - 3.1.1.2 At least two underwriters will participate in every transaction.
 - 3.1.1.3 A Preliminary Official Statement will be made available to investors at least seven (7) days prior to pricing.

- 3.1.1.4 The Senior Manager (Book Runner) will publish a Notice of Upcoming Sale in at least two publications generally read by investors (i.e. Bloomberg and Bond Buyer), at least seven (7) days prior to pricing.
- 3.1.1.5 The week prior to entering the market, the Senior Manager will propose takedowns and syndicate expenses to the Airport and begin preliminary price talk and discuss with the Airport their marketing plans. Price talk will include identifying comparable transactions, the calendar of economic releases and anticipated other similar transactions to the one contemplated. The Airport will propose to the senior manager a designation policy consistent with the objective of the Airport and market conditions.
- 3.1.1.6 As part of the marketing plan, the Airport may ask the Senior Manager to facilitate and participate in an Internet "Road Show" or other marketing presentation.
- 3.1.1.7 The Senior Manager, prior to the sale (normally the day before pricing), will provide to the Airport a preliminary pricing analysis at least 30 minutes prior to the conference call with the syndicate. This analysis will show, by maturity, the pricing views of each of the participating underwriting firms and a consensus scale. The Airport will participate in a conference call with all the underwriting firms and the financial advisors to review the proposed scale.
- 3.1.1.8 Immediately prior to pricing, the Senior Manager will prepare a pricing wire. The pricing wire will show the proposed structure and scale by maturity, the underwriters' liabilities for the transaction, priority of orders and the designation policy. A conference call will be held with all participating underwriters and the financial advisors. The pricing will be reviewed and approved by the Airport.
- 3.1.1.9 A representative of the Airport will be at the offices of the book running senior manager to approve wires, review the order book and answer investor questions during the order period, as well as review in detail the bond structure. During the order period, the Airport should be given periodic reports and have access to view orders live on-line through IPREO or other equivalent on-line service showing the number of orders received for the various maturities, as well as any investors' concerns or proposed adjustments to coupons and/or maturities.
- 3.1.1.10 Following the close of the order period and prior to submission of a bond purchase offer, the Airport should be given a written report of all orders received, the firm submitting the orders and the type of orders. This will be reviewed and discussed by the Airport and its financial advisors prior to entertaining an offer by the underwriters to purchase the bonds.
- 3.1.1.11 Upon receiving an offer to purchase the bonds the Airport and its financial advisors will review the offer and request any additional adjustments that it feels are appropriate.

- 3.1.1.12 Final numbers will be forwarded to the Airport's bond counsel and to the underwriters' counsel and the Bond Purchase Agreement will be executed as quickly as possible.
- 3.1.1.13 The Airport will have final approval over the allocation of bonds and will use its best efforts to ensure that the available bonds go to investors who are long term investors, as defined in the designation policy, planning to hold the bonds and are not purchasing the bonds for immediate resale in the secondary market.
- 3.1.1.14 Within 30 days following closing, the Senior Manager will prepare for the Airport a post-pricing book. This book shall contain, among other things, an analysis of the market prior, during and immediately after the sale, a copy of the proposed scale, a copy of the pricing wire, list of other similar transactions, if any, a listing of all orders received for the bonds and the type of order, the final allocation of the bonds, the designations received by each of the underwriting firms and the amount of underwriting fees paid each firm. This book shall be supplied in both a hard and electronic format and a copy shall be retained in the Airport's permanent files.

3.2 Competitive Sales

- 3.2.1 Competitive Sales will only be used only in special circumstances, when the size of the issue and/or specific market conditions makes it advantageous versus a negotiated sale. The use of a competitive sale requires approval of the Airport Board. Pricing procedures for a Competitive Sale are as follows:
 - 3.2.1.1 The Airport will publish a Notice of Sale (NOS), in at least two publications generally read by investors (i.e., Bloomberg and Bond Buyer) and on an electronic platform such as iDeal, at least fourteen (14) days prior to the receipt of bids. The NOS will be reviewed, in light of current market conditions, two (2) days prior to the date that bids are scheduled to be received and reposted if necessary.
 - 3.2.1.2 Bids will be received electronically by the Airport or its agent until a designated time, when all bids will be confirmed as to the accurately of such bids.
 - 3.2.1.3 Bids will be evaluated based on the basis of the True Interest Cost (TIC) and the bonds will be awarded to the lowest bidding firm. Only bids that meet the bidding requirements described in the NOS will be considered.
 - 3.2.1.4 The Airport will reserve the right to reject any or all bids.

3.3 Private Placement

- 3.3.1 The private placement of bonds will be used for small issues and/or for bonds with special provisions, such as early calls or puts, the structure of which is not conducive to a negotiated sale. All private placements will be approved by the Airport Board. Pricing procedures for a Private Placement are as follows:
 - 3.3.1.1 The Airport will select, without advice from its Financial Advisors, one or more qualified financial institutions to respond to a term sheet prepared by the Airport.

- 3.3.1.2 Selected firms will be given a specific date to submit their proposals in response to the term sheet.
- 3.3.1.3 The Airport, with consultation from its Financial Advisors and their respective trading desks, will review the proposals to determine if the proposed terms meet the structuring requirements of the Airport and that the rates and any other terms proposed are commensurate with the current market conditions.

4.0 PARTIES INVOLVED IN A DEBT TRANSACTION

4.1 Underwriters and Short Term Debt Instrument Dealers (“Dealers”).

4.1.1 The responsibilities of the Underwriters and/or Dealers are to:

- 4.1.1.1 Adhere to the policies, objectives, and guidelines established for the debt issuance by the Board.
- 4.1.1.2 Achieve the most competitive rates possible for each debt issuance.
- 4.1.1.3 Suggest best practices for underwriting the bonds and for rating agency and investor strategies.
- 4.1.1.4 Comply with applicable laws and regulations. Disclose relationships with third parties with respect to activities related to DFW.
- 4.1.1.5 After pricing and prior to closing, the senior managing Underwriter shall provide DFW and its financial advisors with a post sales analysis of the bond issue, including comparable bond issues, purchasers, and allocation of bonds and takedown.
- 4.1.1.6 Thirty days after the close of a syndicate, the senior book running manager will make a detailed report on overall economic compensation to each syndicate manager. This will include a summary of allocations and designations of each member and a final statement related to settlement of the syndicate.

4.1.2 Management will evaluate the Request for Proposal responses from the Underwriters and Dealers, select the best qualified based on the following criteria, and make recommendations to the Finance/Audit Committee and Board of Directors:

- 4.1.2.1 Capital strength and capital commitment to support DFW financings.
- 4.1.2.2 Sales and distribution capabilities.
- 4.1.2.3 Knowledge of DFW, its debt program, debt strategies and bond ordinances.
- 4.1.2.4 DBE/MBE/WBE certification.
- 4.1.2.5 Local, Metroplex, and State presence.
- 4.1.2.6 Innovative financing ideas.
- 4.1.2.7 Ongoing commitment to make a market in DFW bonds.
- 4.1.2.8 Firm’s and assigned individuals’ experience with airport financings.

- 4.1.2.9 Regulatory issues.
- 4.2 Bond Counsel
 - 4.2.1 DFW shall engage external Bond Counsel for each debt issue to perform all services customarily provided by bond counsel, including preparation or review of debt-authorizing resolutions and related documents and agreements, and providing necessary opinions required for the debt offerings.
- 4.3 Financial Advisors
 - 4.3.1 DFW shall engage external Financial Advisors. The Financial Advisors roll will be to:
 - 4.3.1.1 Provide recommendations (including the type and structure of financing, call, security and credit enhancement features, term, time and manner of sale, reasonableness of costs, and other terms and conditions).
 - 4.3.1.2 Evaluate the reasonableness of interest rates, underwriter fees, financing costs, and other related issues at the time of issuance.
 - 4.3.1.3 Coordinate communication with Rating Agencies Credit Enhancers, Liquidity Providers, and potential Investors as necessary for the benefit of DFW.
 - 4.3.1.4 Participate and assist in the preparation of documents and presentations to Rating Agencies and Investors requested by DFW.
 - 4.3.2 The Financial Advisor shall comply with applicable laws, rules and regulations as well as disclose relationships with third parties with respect to business with DFW.
- 4.4 Rating Agencies
 - 4.4.1 DFW will obtain ratings from at least two nationally recognized statistical rating organizations for each public debt issuance, unless the size and placement of the debt does not indicate the need for a rating. DFW will provide updates to rating agencies, investors and bond insurance companies on developments at DFW, as necessary. Full disclosure and open lines of communication shall be made to the rating agencies.

5.0 DEBT STRUCTURING PROVISIONS

- 5.1 Debt Structure and Maturity
 - 5.1.1 DFW shall not finance any capital assets or projects for a period that exceeds the expected average useful life of the asset(s) or project(s). The final maturity of any Debt Instrument shall not exceed 35 years unless approved by the Cities. There shall be no "balloon" or "bullet" amortization schedules, except for Interim Financing Debt Instruments where DFW plans to refund the Interim Financing with Permanent Financing.
- 5.2 Capitalized Interest
 - 5.2.1 Interest expense may be capitalized only when it is incurred prior to actual operation of the facilities and in the case of non-AMT bonds for a period no greater than one year after the date of beneficial occupancy (DBO). For AMT bonds interest expense may be capitalized only to DBO. Capitalization of

interest shall comply with Federal tax provisions and be subject to the review and approval of Tax Counsel.

5.3 Call Provisions

- 5.3.1 All bond issues should include call provisions for a term as short as possible (preferably at 10 years or less and callable at par) providing the overall financial benefit to the Airport is worth the additional interest cost. Consideration should be given to arranging call terms to coincide near or at the end of the then-current Use Agreement to provide Management with maximum flexibility. Call provisions may not be necessary when refunding bonds that have a maturity less than 10 years.

6.0 DEBT REFUNDING PARAMETERS

- 6.1 If market conditions are favorable, DFW may undertake a current refunding, a forward refunding, or a taxable refunding. Generally, refundings should be considered when the transaction will generate a positive net present value savings, or when there is a need to restructure future debt service payments, or a combination of the two. Extensions of maturity or average life should be avoided unless needed to restructure the debt portfolio or provide financial relief for the Airlines.
- 6.2 The following criteria should be considered when evaluating a refunding transaction for the sole purpose of savings:
- 6.2.1 The transaction should produce an aggregate net present value (NPV) savings and a gross debt service savings, including the costs of issuance.
- 6.2.2 The goal is to achieve a NPV target of at least 3% for average maturities greater than 5 years; 2% for average maturities between 3 and 5 years; and positive NPV savings for refunding of average maturities of less than 3 years. At a minimum, aggregate savings should exceed transaction cost.
- 6.3 A refunding transaction for restructuring purposes is allowable:
- 6.3.1 To avoid large fluctuations in total debt service and estimated airline payments for debt service in any one year.
- 6.3.2 To provide financial relief for Airlines or to match debt service payments with the expected receipt of PFCs.
- 6.3.3 To convert from Interim Financing to Permanent Financing or to convert Variable Rate Debt to Fixed Rate Debt as discussed in Section 8.
- 6.4 Bonds may be refunded to shift debt from Alternative Minimum Tax (AMT) to non-AMT status as allowed by Federal tax law.

7.0 BOND TENDERS

- 7.1 DFW may tender bonds through the issuance of new/refunding bonds or with existing cash. Generally, a tender program is appropriate if it generates an NPV savings or if it allows DFW to convert bonds from AMT to non-AMT status.

8.0 TYPES OF DEBT

- 8.1 Fixed Rate Debt

- 8.1.1 Fixed Rate Debt includes all bonds and notes issued at fixed interest rates for individual maturity dates. These rates are established at the date of sale and will not change during the term of each bond.
- 8.2 Variable Rate Debt
- 8.2.1 Variable Rate Debt (VRD) includes all bonds and notes issued at variable interest rates. Interest rates will reset periodically for a period of up to 364 days (e.g., daily, 7 days, 28 days,) depending on the VRD Instrument. VRD can be used for Permanent or Interim Financing purposes. VRD issued for Permanent Financings will have maturities on specific dates, but may be retired early due to the “rolling” nature of variable rate debt. VRD issued for Interim Financing will not have a specified maturity date, but will have a planned timeframe for converting to Permanent Financing.
- 8.2.2 Other VRD policy guidelines follow:
- 8.2.2.1 Limits on VRD outstanding: DFW shall consider the relationship between the amounts of current and long term assets and the amounts of current and long liabilities when determining the maximum amount of total variable rate at any point in time. However, DFW shall not have more than 20% of total outstanding debt in Permanent VRD Financing (i.e., excludes Interim Financing) at any time.
- 8.2.2.2 Liquidity: For VRD Instruments that include a “soft put,” third party liquidity is not required (i.e., a Letter of Credit or a Line of Credit). For VRD Instruments that include a “hard put” back to DFW if the bonds cannot be remarketed, DFW must obtain third party liquidity or self-liquidity.
- 8.2.2.3 Interim VRD Financing: A variable rate debt program may be implemented for interim construction financing purposes. The variable rate program should be sized to provide sufficient debt capacity to fund the capital program. DFW should plan for the time when the Interim Financing program will be replaced with Permanent Financing or retired with available cash.
- 8.2.2.4 VRD Dealers: A minimum of two dealers shall be used for any variable rate program over \$100 million for diversification purposes.
- 8.2.2.5 Interest Rate Caps and Collars: The Board may explore the use of interest rate caps and collars and utilize if cost-effective, providing the third party institution is rated at least “A” by two nationally recognized statistical rating organizations.
- 8.3 Capitalized Lease Agreements
- 8.3.1 DFW’s Bond Ordinances limit DFW from giving a lien on its assets. Capitalized Leases are only possible if DFW does this through a separate corporation like the Facility Improvement Corporation. Capitalized lease agreements or other equipment financing may be used if the present value of lease payments is less than the present value of debt service payment on Debt Instruments issued for the same time frame in the public market.
- 8.4 Subordinate Lien Obligations

- 8.4.1 Subordinate Lien Obligations would be subordinate to DFW's joint revenue bonds and would typically carry a lower coverage ratio than 1.25x. It may be advantageous for DFW to use Subordinate Lien Obligations to obtain a lower coverage ratio on a particular issuance based on its overall financing structure/strategy at that time. Subordinate Lien Obligations shall not exceed 10% of the Outstanding Debt.

9.0 CONVERSION OF VARIABLE RATE DEBT TO FIXED RATE DEBT

- 9.1 The following is DFW's established methodology to determine when the Board should consider if the conversion of variable rate debt to fixed rate debt is appropriate.
- 9.2 Methodology: When the projection of average variable interest rates for any quarter, for the next six quarters (based on the Bloomberg BN Monthly Survey of Economists for the Overnight Fed Funds Rate), is greater than the current long-term interest rate (based on the 25 year Revenue Bond Index), or greater than the original rates that would have been required at the time of sale of the variable rate bonds (based on the 25 year Revenue Bond Index); then management shall brief the Board on the issue and include the following pertinent information at a minimum:
- 9.2.1 Current variable rate debt outstanding and planned principal reductions by year.
- 9.2.2 History of variable and fixed interest rates and projected variable and fixed rates per the Bloomberg Survey.
- 9.2.3 Conversion options (e.g., fixed rate debt).
- 9.2.4 Impact of the conversion on the current year's and following year's budget and on Signatory Airline landing fees.
- 9.2.5 A recommendation from DFW management and its Financial Advisors whether conversion of all or a part of the VRD is appropriate at that time, including the pros and the cons.
- 9.2.6 A recommended timeframe for conversion, if the Board desires to convert.
- 9.2.7 Other pertinent information, as deemed necessary.
- 9.3 Other reasons to consider a conversion of variable rate to fixed rate are:
- 9.3.1 Market interruption where the VRD is at the maximum rate within the controlling documents and is anticipated to remain for a period of time.
- 9.3.2 If DFW cannot obtain a renewed liquidity facility for the VRD.
- 9.3.3 Change in Federal legislation that would adversely affect the plan of finance with respect to the VRD, reduce DFW future flexibility, increase the risk of utilizing VRD, or other adverse tax consequences.
- 9.4 After reviewing this information, the Board shall consider this information and decide if it wants to convert to fixed rate debt. Management shall report the status of projected variable interest rates and long term rates, as outlined above, to the Board no less than quarterly, and more frequently if the situation warrants.

10.0 BOND INSURANCE AND LIQUIDITY (CREDIT ENHANCEMENT)

- 10.1 Bond insurance may be used on a debt issuance providing the cost of the insurance is less (on a NPV basis) than the difference between the net debt service with and without insurance. Consideration should be given to the current and projected future rating of

the bond insurer(s) and DFW. Bond insurance may be used even with unfavorable cost analysis if it is necessary to sell the bonds.

- 10.2 In addition to the analysis of the cost effectiveness of purchasing credit enhancement, an analysis of the impact of bond covenants and restrictions place on DFW by the credit provider shall be taken into consideration. Insurers may not receive preferential rights in any of the indentures.
- 10.3 In conjunction with the issuance of VRD, DFW may utilize a Line of Credit, Letter of Credit, or liquidity facility to enhance the marketability of the VRD. DFW may also provide self-liquidity assuming it has sufficient available cash and it is determined to be the best use of the cash.

11.0 SURETY BONDS

- 11.1 A surety bond may be used in lieu of fully funding the required Debt Reserve Fund if the cost of the surety bond is less than the present value of the net debt service (i.e., debt service less interest earning on reserve fund) required for funding the reserve fund or reduce the amount of bonds issued. The use of surety bonds shall not exceed more than fifty percent (50%) of the reserve requirement. Restrictions placed on DFW by surety bond providers shall also be taken into consideration.

12.0 ARBITRAGE

- 12.1 In respect to the investment and expenditure of bond proceeds, the Vice President of Treasury Management shall be the responsible party. Those responsibilities shall include:
 - 12.1.1 Monitoring that expenditures of the proceeds from the sale of bonds, proceed with due diligence and in compliance with federal guidelines relating to arbitrage compliance;
 - 12.1.2 Ensuring that the Airport has a qualified third-party, specializing in federal arbitrage calculations, reviewing the expenditures and investments of bond proceeds to determine any liability due the federal government in regards to arbitrage rebates;
 - 12.1.3 Requiring and obtaining an annual report demonstrating compliance with the laws rules and regulations with respect to arbitrage rebate. These reports will be kept with the permanent records of the Airport with respect to bonds. The airport shall keep records of investments and expenditures to support the calculations of the arbitrage rebate consultant;
 - 12.1.4 Ensuring that the Airport files in a timely and accurate manner all applicable reports required in reporting bond sales (8038-G) and arbitrage rebates owed to the Internal Revenue Service; and
 - 12.1.5 Monitoring the actions of any trustees or escrow agents, holding bond funds, to ensure compliance with federal arbitrage rules and regulations.

13.0 MONITORING ASSETS FINANCED WITH BOND PROCEEDS

- 13.1 The Vice President of Treasury Management shall be the person responsible for monitoring the use of assets financed or refinanced with the proceeds from the sale of bonds to ensure that those assets are placed in service and continue in the airport related use for which they were financed. Those responsibilities include:
 - 13.1.1 Monitoring the date on which the asset is put in service (DBO) to ensure that the asset/facility is complete and available to be used for its intended purpose

and that the correct amount of interest is paid from bond proceeds and does not exceed the amount allowed under federal law;

- 13.1.2 Ensuring, during any time that the bonds are outstanding, that no contracts are awarded, in regards to asset/facility, giving any outside (private) party a contractual right in regards to any portion of the asset/facility including any contractual rights granting a special legal entitlement or other special economic benefit that could adversely affect the intended federal tax status of the bonds;
- 13.1.3 Ensuring, during any time the bonds are outstanding, that if the asset/facility is sold or otherwise disposed of that the sale or disposition will not affect the intended federal tax status of the bonds;
- 13.1.4 Consulting with tax counsel to ensure compliance with all federal tax laws relating to use or disposition of assets/facilities financed with bond proceeds.

14.0 DEBT RESERVE REQUIREMENTS

- 14.1 DFW shall maintain appropriate Debt Reserves, Debt Service Reserves, and Coverage Reserves as required by the Bond Ordinances.

15.0 CONTINING DISCLOSURE

- 15.1 DFW shall provide certain updated financial information annually and timely notice of specified material events to each Nationally Recognized Municipal Securities Information Repository (a "NRMSIR") then recognized by the Securities and Exchange Commission ("SEC") and any public or private repository designated by the State of Texas as the State Information Depository (the "SID") in compliance with Rule 15c2-12 or use the Municipal Securities Rulemaking Board's ("MSRB") Electronic Municipal Market Access ("EMMA") as allowed by SEC and MSRB rules or other laws.
- 15.2 DFW shall develop and maintain an "Investor Link" on www.dfwairport.com to make available pertinent financial and operational information for Investors and Rating Organizations.

16.0 PAST POLICY APPROVALS DATES:

- 16.1 12/09/1999 – Original document.
- 16.2 11/04/2004 – Added Section 8.0 Conversion of Variable Rate Debt to Fixed Rate and other minor modifications.
- 16.3 07/02/2009 – Substantial changes.
- 16.4 05/02/2013 – Added Sections 3.0, 12.0 and 13.0