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Summary:

Dallas-Fort Worth, Texas Dallas Fort Worth International Airport; Airport

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Summary:

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Dallas Fort Worth International Airport; Airport

Credit Profile		
Dallas Fort Worth Intl Arpt jt (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Dallas Fort Worth Intl Arpt		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Long Term Rating	A+/Stable	Affirmed
Dallas Fort Worth, Texas		
Dallas Fort Worth Intl Arpt, Texas		
DFW (Dallas Fort Worth Intl Arpt)		
Long Term Rating	A+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has affirmed its 'A+' long-term and underlying ratings on Dallas-Fort Worth, Texas' joint revenue bonds issued on behalf of Dallas Fort Worth International Airport (DFW). The outlook is stable.

The rating reflects our view of DFW's:

- Strong service area economy, which encompasses the highly rated Dallas-Fort Worth consolidated metropolitan area and has a diverse employment base with strong wealth and incomes;
- Solid business position, with its favorable geographic location within the national air transportation system, airfield capacity, and terminal facilities designed for efficient connecting traffic, as well as its critical role as the largest hub of American Airlines Inc.;
- Long record of good liquidity, with 689 days' cash on hand as of March 31, 2014; and
- Experienced and proactive management team.

Partially offsetting the above strengths, in our view, are the airport's:

- Airline concentration, with American as the largest carrier with 85% of total passengers in fiscal 2014 -- and the inherent vulnerabilities associated with a large connecting passenger base (57% of total passenger enplanements in fiscal 2014);
- Large capital improvement program (CIP) with significant additional debt planned, combined with the risk of increases in the cost and scope of the CIP; and
- High projected debt per enplanement at approximately $232 in 2016.

DFW has approximately $6.3 billion in principal outstanding, with a final maturity of Nov. 1, 2050. All airport debt is fixed-rate with no derivative exposure. Management plans to continue funding its CIP through additional debt issuance. DFW is in the middle of a significant, multiyear CIP, which management estimates will result in approximately $7 billion of peak debt outstanding. The CIP's largest component is the terminal renewal and improvement program (TRIP). Airport management and the signatory airlines reached an agreement in July 2014 to increase the budget by approximately $650 million to a revised TRIP budget of $2.7 billion from 2010-2018. The TRIP program budget increases were due to cost increases, schedule changes, and scope changes. We expect that debt will fund the increased costs. The most recent feasibility report associated with the 2014E bonds included a portion of the cost increases associated with terminals A, B, and E. We will continue to evaluate the financial impact of the budget increases and monitor for any additional budget increases. We view the overall program, which includes other infrastructure and maintenance projects, as achievable. However, the plan exposes DFW to additional increases in cost and scope, as well as inflation. Forecast peak debt in 2016 increased approximately $350 million. Management estimates it now at approximately $7 billion, and it could increase further, based on terminal C budget or other cost and scope increases. This will result in a significant increase in overall debt to approximately $221 per enplaned passenger (using 2015 enplanements) from $135 in 2011, and raises airlines' cost per enplaned passenger to approximately $14.22 in 2018 from $7.20 in 2013. Although we already view DFW's debt per enplaned passenger as high, we consider the amount manageable for the airport. Calculated coverage, including transfers, during the forecast period from 2015-2020 ranges from 1.41x-1.44x. Forecast debt service coverage (DSC) by current revenue, per our calculations, during the forecast period -- excluding coverage accounts and transfers -- ranges from 1.17x-1.21x, which we consider adequate.

DFW was the fourth-largest airport in North America based on passengers, according to Airports Council International statistics. Although enplaned passenger traffic levels declined by 2.7% and 3.8% in fiscal years 2008 and 2009, respectively, those decreases were less severe than those seen at other airports, largely because of DFW's smaller reductions in connecting passengers. However, enplaned passenger traffic has increased 1%-4% annually for the past five years. The airport consultant's report forecasts that enplanements will rise to 32 million in 2020 a level DFW is near as of fiscal 2015 at 31.7 million enplanements. We consider the forecast reasonable given the current level of enplanements, assuming American, which accounts for approximately 85% of enplanements at DFW as of September 2014 (including US Airways Inc.), does not change its strategy. With the expiration of certain restrictions for air carriers operating at Dallas Love Field contained in the Wright Amendment in October 2014, DFW airport faces additional competition that could affect traffic, although traffic for the fiscal year 2015 increased approximately 1%. Given the traffic performance after the first fiscal year Standard & Poor's does not think the changes will have a material impact on traffic at DFW.

In our opinion, the airport has an experienced and proactive management team that has managed costs, expanded the revenue base, and implemented policies and guidelines related to debt and investments that we consider prudent. We anticipate that American will continue to use DFW as a key hub airport, but any change in strategy by the airline that significantly reduces its hubbing activities could lead to a lower rating.

Outlook

The stable outlook reflects our expectation that management will likely prudently manage DFW's CIP and finances to meet its forecast financial results and our expectation that enplanements will remain at or above current levels.

Upside scenario

We do not expect to raise the rating during the two year outlook period due to high debt levels and large CIP requirements.

Downside scenario

We could lower the rating in response to project cost increases associated with the current CIP, weaker activity levels or a strategy change by American that lowers traffic at DFW. In addition, significant new CIP programs, depending on funding sources and financial plan could lead to a lower rating.

Related Criteria And Research

Related Criteria

- Criteria: Airport Revenue Bonds In The U.S. And Canada, Nov. 15, 2013
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of December 17, 2015)		
Dallas Fort Worth, Texas		
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DFW (Dallas Fort Worth Intl Arpt)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

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