KBRA LONG-TERM RATING: AA-
OUTLOOK: Stable

Issuance

Ratings			
Issuer: Dallas/Fort Worth International Airport			
Series/Bond	**Rating**	**Outlook**	**Action**
Joint Revenue Improvement Bonds	AA-	Stable	Affirmed

KBRA's long-term ratings do not apply to bonds backed by a letter of credit or liquidity facility, unless otherwise noted.

Security

The Bonds are payable solely from and secured by an irrevocable first lien on and pledge of Pledged Revenues and Pledged Funds. Pledged Revenues include Gross Revenues, the revenues received by the Airport from rentals, fees and charges collected from the airlines, and from other non-airline sources, including capital transfers and special revenues. Pledged Funds include amounts on deposit in the Debt Service Fund and Debt Service Reserve Fund.

Key Rating Strengths

- Strong management team has demonstrated an ability to effectively deal with the complexities of running a major U.S. airport.
- Growing population and economic base support origin and destination (O&D) traffic.
- Geographic location in central U.S. and operational advantages of facilities, along with ample capacity abets connecting activity.
- Significant non-airline activity diversifies revenues and provides source of discretionary capital funding.
- Key Rating Concerns

High debt levels on per enplanement basis.

- High concentration of American Airlines as primary DFW carrier.
- Connecting traffic is a significant component of overall enplanement activity.
- Key Rating Strengths
- Strong management team has demonstrated an ability to effectively deal with the complexities of running a major U.S. airport.
- Growing population and economic base support origin and destination (O&D) traffic.

KBRA believes that DFW exhibits many favorable characteristics that have fostered its status as the fourth busiest airport in the U.S. in terms of enplanements. Its vast size at 17,200 acres (26.9 square miles) provides the needed space for extensive air-related facilities, and substantial non-aeronautical related commercial development. DFW has seven runways, capable of four simultaneous landings, and has 24-hour operation, without slot constraints, or curfews. The Airport has five terminals, with 165 gates. DFW's location in the south-central portion of the U.S., along east-west routes, forms a natural hub. Flight frequency and destinations served is further enhanced by a growing population and diversifying economic base.

KBRA views the siting of the Airport in 1968, followed by its opening in 1974, as a reflection of the foresight of representatives of the cities of Dallas and Fort Worth. Land acquisition of this magnitude would have been impossible several years later. KBRA believes the Cities also showed prudence in creating a management structure through the 1968 Contract and Agreement that provides for professional airport management, with virtually no outside interference. KBRA views DFW's management structure and policies as providing a strong framework for managing its operations. Management has maintained favorable relationships with airline and non-airline entities, including negotiation of the current Lease and Use Agreement, and gaining airline approval for the massive Terminal Renewal and Improvement Program (TRIP), now essentially complete.

KBRA views the DFW regional economy as strong, based on relatively low unemployment rates, a substantial corporate presence that is supportive of travel, above average wealth levels, and a growing population. The airport's service area population in 2016 is estimated at 7.1 million (fourth largest U.S. metropolitan area), a 38% increase since 2000. Housing costs are highly affordable and have rebounded to more than 100% of the pre-fiscal crisis peak. The closest competing large hub airport to DFW is Houston-Bush Intercontinental, approximately 245 miles away. Dallas Love Field

(DAL) is the only other airport in the MSA that provides scheduled passenger airline service. However, DAL is capped at 20 gates, which largely constrains continued growth.

DFW enplanement trends since 2000 have been uneven, with sharp drops recorded during the early 2000s in the aftermath of 9/11, and the more recent financial crisis. Connecting traffic was also affected by Delta's de-hubbing in 2005. Since 2010, there has been a rebound in passenger activity led by increased international enplanements, and the introduction of service by low cost carriers. Growth has exceeded the U.S., and available seats have likewise increased. DFW is characterized by significant American Airlines concentration that now approximates 85% of enplanements. KBRA related concerns are largely mitigated by the geographic and operational advantages of DFW as a hubbing airport. American has an established history at DFW and is in the midst of construction a new corporate headquarters in n Fort Worth. In addition, American's yields at DFW exceed the system-wide average by more than 15%.

DFW has successfully added several major international routes in recent years. International service is provided between the Airport and destinations in Asia, Australia, Canada, the Caribbean, Central America, Europe, Mexico, the Middle East, and South America. The airport currently offers nonstop international service to 57 destinations.

All of DFW's debt is in the form of fixed rate obligations. There are no swaps currently in effect, nor are there any subordinate liens or special facility debt outstanding. The debt service reserve is fully cash funded. Debt service requirements peak at $517 million in FY 2022, and thereafter decline gradually. This structure accommodates future bond issuance, while keeping annual debt service requirements level. Although debt metrics are high on a per enplanement basis, DFW has used all PFC revenues as an offset to debt service requirements, which has moderated airline costs. Officials expect this practice to continue. PFCs paid approximately 33.7% and 36.2% of the total debt service in FY 2017 and FY 2016, respectively. Furthermore, Public Facilities Improvement Corporation (PFIC) revenues, related to development of hotel and rental car facilities, also acts to offset a portion of debt service requirements. DFW shares non-airline net revenues with the airlines under the Use and Lease Agreement, when a revenue threshold is met, which reduces the landing fee.

TRIP funded significant improvements for terminals A, B. and E. The budget for these three terminals was $1.9 billion. DFW expects to achieve approximately $66 million in savings after all the contracts are closed-out. Yet to be resolved is the future of Terminal C, which had been originally included in TRIP, and was budgeted at $816 million. Terminal C was put on hold at the request of American Airlines. DFW and American Airlines are in discussions regarding DFW's future terminal development plans, with the scope and budget for this last phase of TRIP to be jointly developed by DFW and American.

In addition, DFW has developed a 10-year capital plan for maintenance, restoration and enhancement of its t airside and landside infrastructure, which is aging. Total cost is estimated at $3.4 billion, including $2 billion of bond financing. The timing of bond issuance has not been established but will not occur before the conclusion of negotiations for a new Lease and Use Agreement to replace the one that expires September 30, 2020. Near-term borrowing reflects the establishment of a subordinate lien interim taxable financing program in the second or third quarter of FY 2019. Either one or a combination of commercial paper, revolving credit facility, or short-term variable rate bonds would be employed. Initial issuance of between $500 million and $750 million is anticipated to fund immediate gate needs.

Growth in expenditures has been moderate, and with TRIP-related improvements, KBRA expects utility and maintenance savings to be realized going forward. KBRA believes that management is cognizant of the need to maintain ample liquidity to offset high debt levels. The unrestricted cash and investments in FY 2017 are sufficient to cover 628 days of operating expenses as compared to 608 days in FY 2016. Debt service coverage on both a gross revenue and current gross revenue basis is satisfactory at 1.56x and 1.30x, respectively. Please refer to the following link to review **KBRA's copyright** information.

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Cities of Dallas and Fort Worth, Texas
Dallas/Fort Worth International Airport
Joint Revenue Improvement Bonds

Executive Summary

Kroll Bond Rating Agency (KBRA) has taken the following rating actions with respect to the Dallas/Fort Worth International Airport (DFW) Joint Revenue Improvement Bonds.

Ratings			
Issuer: Dallas/Fort Worth International Airport			
Series/Bond	**Rating**	**Outlook**	**Action**
Joint Revenue Improvement Bonds	AA-	Stable	Affirmed

KBRA's long-term ratings do not apply to bonds backed by a letter of credit or liquidity facility, unless otherwise noted.

This affirmation is based on KBRA's **U.S. General Airport Revenue Bond Methodology.** KBRA's rating evaluation of the long-term credit quality of general airport revenue bonds focuses on six key rating determinants summarized below:

- Management: Favorable
- Economics/Demographics of Service Area: AA
- Airport Utilization: A+
- Airport Debt/Capital Needs: A
- Finances: AA-
- Legal Mechanics and Security Provisions: AA

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Outlook: Stable

The Stable Outlook reflects KBRA's expectation that passenger traffic will grow modestly, increases in borrowing remain manageable, and non-airline revenues will continue to support operations at levels achieved in recent years. KBRA also expects DFW's critical importance in American Airline's hubbing network to remain, and debt service coverage ratios to be sustained at existing levels.

In KBRA's view, the following factors may contribute to a rating upgrade:

- Ongoing population growth and strong local economic performance that results in O&D enplanement increases, and elevated rental car, parking, and concession revenues, as debt is amortized.
- Consolidation of the numerous domestic American Airlines hubs that yields augmented connecting activity and acts to further reinforce DFW's status as a fortress hub.
- Further development of commercially available land as an indication of its true revenue potential.

In KBRA's view, the following factors may contribute to a downgrade of the rating:

- Reduced importance of DFW as an American Airlines hub.
- Unanticipated large capital costs that sharply increase debt levels.

Key Rating Determinants

Rating Determinant 1: Governance and Management Structure and Policies

KBRA continues to view DFW's management team as favorable, based on the airport's firm grasp of capital planning, history of financial stability, and demonstrated relationships with airline and non-airline entities. The Airport's forward thinking formalized policies and procedures employ best practices, and along with state of the art operating and training facilities, provide essential tools for operating a major airport. DFW's Strategic Plan 2016-20 focuses on the customer experience, and contains guiding principles of business performance, employee engagement, operational excellence and community engagement. The management team has significant industry experience.

DFW is governed by a semi-autonomous Board of Directors, comprised of 12 members. Seven are appointed by the city council of Dallas, while Fort Worth city council appoints four. The 12th member is non-voting, and represents one of the four other cities (Coppell, Euless, Grapevine and Irving) in which the Airport is physically located, on an annual rotating basis. The Board appoints the Airport's Chief Executive Officer who is responsible for day-to-day operations of the Airport. There are currently six Executive Vice Presidents, with responsibility for finances, operations, administration and diversity, and revenue management, and 21 Vice Presidents. The Airport currently has approximately 1,945 full-time employees.

The Chief Executive Officer, Sean P. Donohue, joined DFW in October 2013, following a 28-year career in the airline industry. He brings an additional perspective to DFW, having spent the prior three years as Chief Operating Officer of Australia's second largest air carrier, and prior to that served for 25 years in a variety of roles at United Airlines. Christopher A. Poinsatte, the Executive Vice President – Chief Financial Officer, has served in this role since September 2003, and earlier was CFO at Dallas Area Rapid Transit (DART). He has had significant involvement with Airports Council International-North America (ACI-NA) and has chaired its finance committee. Michael Phemister, Vice President-Treasury Management has been with DFW since 1999 and is responsible for debt management. Prior to working at DFW, he served for 11 years as CFO for the City of Rockwall, Texas.

DFW's long-range planning and decision-making stem from its Leadership System. Strategic, financial, risk management, capital planning, and employee compensation practices are addressed here. The elements of the system are: (1) Strategic Planning and Management System (strategic plan, financial plan, airport master plan, capital plan, enterprise risk management, and business unit plans); (2) the Annual Work Plan and Annual Budget; (3) cascading goals to employees; and (4) measurement (scorecards and reporting). The resultant system output is employee compensation and alignment.

The Airport's debt policy, which identifies the range of debt instruments that may be employed, prohibits structuring of debt for a period that exceeds the useful life of the asset being financed. Amortization of debt must be no longer than 35 years, unless approval is obtained from the cities of Dallas and Fort Worth. No balloon or bullet maturities are allowed, apart from interim financing. Extensions of maturities are expected to be avoided unless there is a need to restructure outstanding debt or provide financial relief to airlines. According to the Airport's debt policy, DFW will not have more than 20% of total outstanding debt in variable rate debt at any one time, excluding interim financing. At present, there is no variable rate debt or derivatives outstanding. Subordinate lien obligations must not exceed 10% of outstanding debt.

DFW has devoted significant attention to enterprise risk management (ERM) and has established a structure that identifies risks that may affect business processes and strategic objectives and created an enterprise-wide program to manage these risks. Management has categorized these risks in the following categories: (1) financial; (2) human capital; (3) legal and regulatory; (4) operational; (5) reputational; (6) strategic; and (7) technology. A risk council, consisting of representatives from various Airport enterprise functions, and a risk officer are part of the structure. The highest levels of airport administration, including the Chief Executive Officer, and Executive Vice Presidents have responsibility for support, implementation and application of the ERM program.

Airport management has established facilities that coordinate operational response capabilities, and aircraft rescue firefighting. The Airport Operations Center (AOC) centralizes multiple call and dispatch centers to effectively respond to a number of emergency incidents, including but not limited to hostage situations, major vehicle accidents, or severe weather events.

Based on the foregoing, KBRA views the airport's governance and management structure and policies as Favorable.

Bankruptcy Assessment

KBRA has consulted outside counsel on bankruptcy matters and the following represents our understanding of the material bankruptcy issues. To be a debtor under the municipal bankruptcy provisions of the U.S. Bankruptcy Code (Chapter 9), an entity must, among other things, qualify under the definition of "municipality" in the Bankruptcy Code, and must also be specifically authorized to file a municipal bankruptcy petition by the State in which it is located. DFW is owned jointly by the City of Dallas and the City of Fort Worth (collectively, the "Cities"), which jointly have appointed a board to run the Airport, so it is not a separate, stand-alone municipal body. Accordingly, because DFW is not a separate municipality incorporated under Texas state law, KBRA's understanding is that it is not eligible to file a municipal bankruptcy petition under Chapter 9. Each of the Cities, however, is a "municipality" as defined under the Bankruptcy Code. As to specific authorization, Texas state law specifically authorizes any municipality in the state having the power to incur indebtedness to file a Chapter 9 petition through the action of the municipality's governing body. Thus, both the Cities have the authority under Texas state law to incur indebtedness and, hence, both are specifically authorized under Texas state law to file a Chapter 9 petition, subject of course to the further threshold requirements in Federal law (the Bankruptcy Code) for commencement of a Chapter 9 case.

A. Pledged Revenues as Special Revenues under the Bankruptcy Code

Because the Pledged Revenues are generated by DFW, KBRA understands that the Pledged Revenues will qualify as "special revenues" as that term is defined in the Bankruptcy Code. Thus, assuming there is no shortfall of funds to make debt service, given that the Bonds are revenue bonds secured by a pledge of special revenues it is KBRA's understanding that if either or both of the Cities were to file for protection under Chapter 9, such filing(s) should have little to no effect on the payment of the Bonds during a bankruptcy case, since the Bonds are secured by a pledge of special revenues.

That stated, there are several additional issues that arise. If either or both of the Cities were to become a debtor in a proceeding under Chapter 9 of the Bankruptcy Code, the bankruptcy court could possibly find that the automatic stay exception for special revenues does not apply or is limited to amounts then on hand with the Trustee, and the parties to the proceedings may thus be prohibited for an unpredictable amount of time from taking any action to collect any amount from the debtor City, or from enforcing any obligation under the bond documents, without the bankruptcy court's permission. However, it is KBRA's understanding that such a ruling would be contrary to historical experience in Chapter 9, and the intent of Congress regarding the continued payment of municipal revenue bonds post-bankruptcy, as expressed in the legislative history for the special revenues amendments to Chapter 9 and as interpreted in properly-reasoned existing (albeit limited) case precedent under Chapter 9.

Assuming the revenues pledged are in fact determined to be "special revenues," the Bankruptcy Code provides that, to keep revenue-generating municipal assets operating, special revenues can be applied to necessary operating expenses of the project or system ahead of all other obligations – including bondholder payments. This rule applies regardless of contrary provisions of the transaction documents, if such governing documents do not adequately provide for payment of necessary operating expenses. In determining necessary operating expenses for the Airport, in a Chapter 9 case the bankruptcy court thus may not be limited by the provisions governing the flow of funds or that define Operation and Maintenance expenses, in the Master Bond Ordinance or any other Ordinance or bond issuance document. In addition, while there is no case law from which to make a definitive judgment, it is possible that, in the context of confirming a plan of adjustment in a Chapter 9 case where the plan has not received the requisite consent the holders of the Bonds, a bankruptcy court may confirm a plan that adjusts the timing of payments on the Bonds or the interest rate or other terms of the Bonds, provided that (i) the bondholders retain their lien on the special revenues and (ii) the payment stream has a present value equal to the value of the special revenues subject to the lien.

B. Possible effect of an airline bankruptcy

Given that a material portion of the Pledged Revenues are derived from rentals, fees and charges imposed upon the Signatory Airlines pursuant to Use Agreements, the bankruptcy of a Signatory Airline could have an effect on the ability of the Airport to make debt service. In the event a bankruptcy case is filed with respect to an airline operating at the Airport, the lease or permit governing such airline's use of Airport space would constitute an executory contract or unexpired lease pursuant to the Bankruptcy Code. In Chapter 11 cases, the debtor in possession (or a trustee, if one is appointed) has 120 days from the date of filing of the bankruptcy petition to decide whether to keep ("assume") or jettison ("reject") a nonresidential lease, such as a Use Agreement. The 120-day period may be extended by court order for an additional 90 days for cause. Any additional extensions are prohibited unless the debtor airline (or a trustee acting on behalf of the airline) obtains the Airport's consent and a court order.

Under the Bankruptcy Code, if a debtor or its trustee elects to reject an executory contract or unexpired lease, the relevant real property must be surrendered to the lessor. As a result, the rejection of an unexpired lease by an airline debtor may result in the Airport unexpectedly regaining control of the applicable facilities (including gates and boarding areas). The Airport could then lease or permit such facilities to other airlines. The Airport's ability to lease such facilities to other airlines, of course, may depend on the state of the airline industry in general, on the nature and extent of the increased capacity at the Airport resulting from the departure of the debtor airline, and on the need for such facilities.

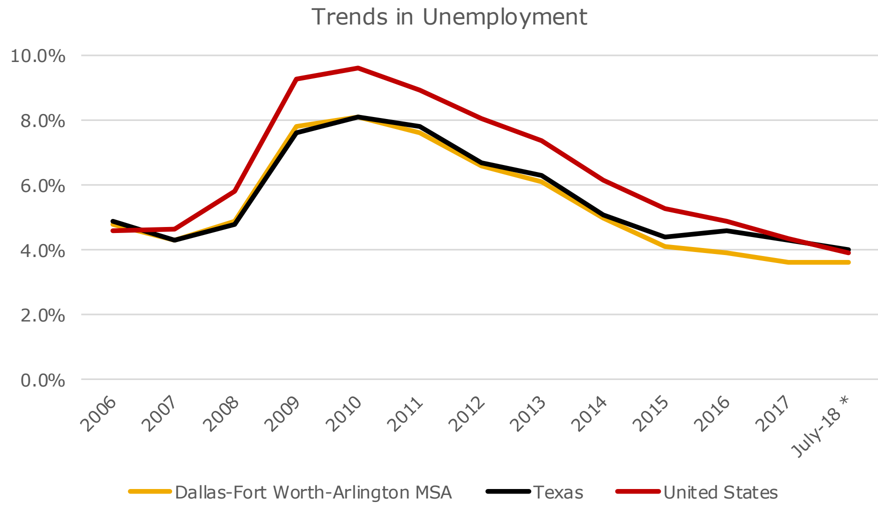
Under the Bankruptcy Code, any rejection of a lease or other agreement could also result in a claim by the Airport for rejection damages against the debtor airline. Such claim would be in addition to all pre-bankruptcy amounts owed by the debtor airline. With respect to leases, a rejection damages claim for the future rent due under a lease is capped under the Bankruptcy Code at the greater of one year, or 15%, not to exceed three years, of the remaining term of the lease. Rejection damages claims are generally treated as a general unsecured claim; however, the amount ultimately received in the event of a rejection of a Use Agreement or other airline agreement could be considerably less than the maximum amounts allowed under the Bankruptcy Code. Nonetheless, the Airport may have rights against any faithful performance bond or letter of credit required of an airline to secure its obligations under the Use Agreements and/or the right to set off against credits owed to the airline under other relevant agreements.

Alternatively, under the Bankruptcy Code an airline debtor can "assume" its executory contracts and unexpired leases. The Bankruptcy Code further permits an airline debtor to assume and assign its executory contracts and leases to a third party, subject to certain conditions, even if the relevant agreement prohibits assignment. If the bankruptcy trustee or the airline assumes its executory contracts or unexpired leases as part of reorganization, the airline debtor must "cure" or provide adequate assurance that the airline debtor (or its assignee) will promptly cure prepetition defaults, including arrearages in amounts owed. Even if all such amounts owed are eventually paid, the Airport could experience delays of many months or more in collecting them.

Rating Determinant 2: Economics/Demographics of the Service Area

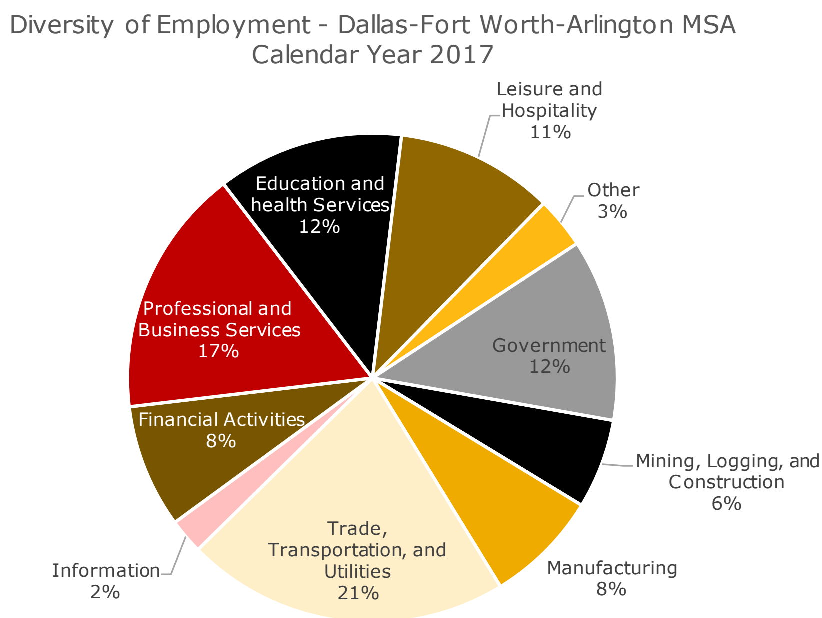
DFW's primary service area is the Dallas-Fort Worth-Arlington Metropolitan Statistical Area (MSA), which includes 13 counties, encompassing 9,300 square miles. Dallas Love Field (DAL) is the only other airport in the MSA that provides scheduled passenger airline service, albeit on a much narrower and limited scale. The estimated population of the MSA, in 2016, was 7.2 million, up from 5.2 million in 2000 and 6.5 million in 2010. MSA population represents 26% of the State's population. The region's large population base forms the basis for significant origin and destination traffic at the airport. The Airport's location in the south-central region of the US, along with a sizable regional population base, contributes to DFW's high level of connecting enplanement activity. The Airport's central location means that it is within a four-hour flight of almost all major cities in the continental U.S., Canada, and Mexico.

The region's non-agricultural employment base is also a key driver in high levels of O&D enplanement activity at DFW. Mirroring the U.S., trade, transportation, and utilities represents the largest sector in the MSA, and has grown at a proportionately faster pace than total non-agricultural employment. Professional and business services, which generate significant air travel, represent a larger employment share component for the MSA than for the U.S. as a whole. The unemployment rate reached a peak of 8.1% in 2010. The preliminary July 2018 MSA unemployment rate was 3.6%, compared to the state and national unemployment rates of 4.0% and 3.9%, respectively.



Source: U.S. Bureau of Labor Statistics
* Preliminary

The metropolitan area has a widely diversified business environment. Among the largest private sector employers are 22 Fortune 500 companies, including American Airlines Group, AT&T, and Exxon. The scope and frequency of airline service between DFW Airport and all regions of the nation and the world are reasons for many companies to locate facilities in the MSA. The MSA is also home to 17 colleges and universities including Southern Methodist University, Texas Christian University, and the University of North Texas.



Source: U.S. Bureau of Labor Statistics

The metropolitan area shows a much greater degree of recovery than the nation in the aftermath of the Great Recession. As of June 2018, area-wide home prices had recovered to 167.9% of their pre-recession peak while the national recovery over the same period was 116.7%. The better performance in housing is attributable, in part, to the fact that home prices in the MSA did not increase as much as those in the nation during the pre-recession residential housing boom. The relatively strong rebound in housing prices

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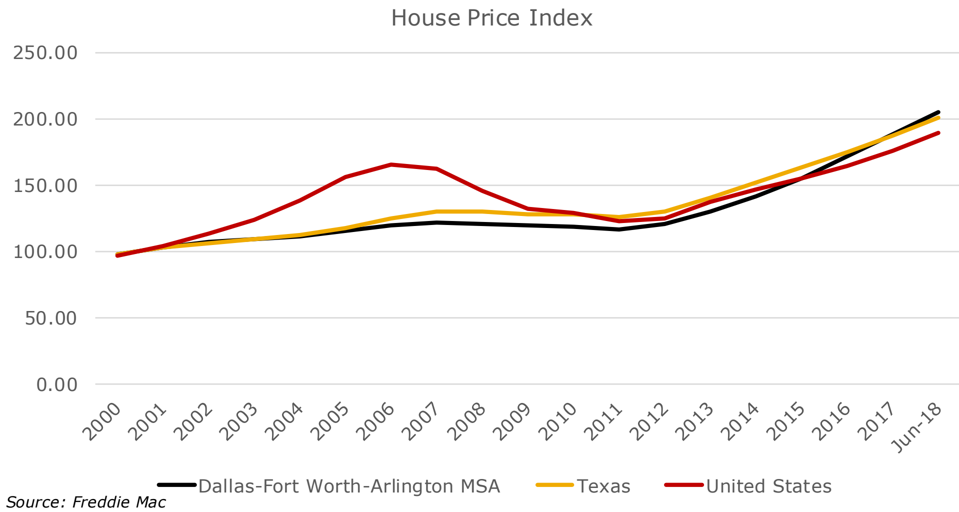
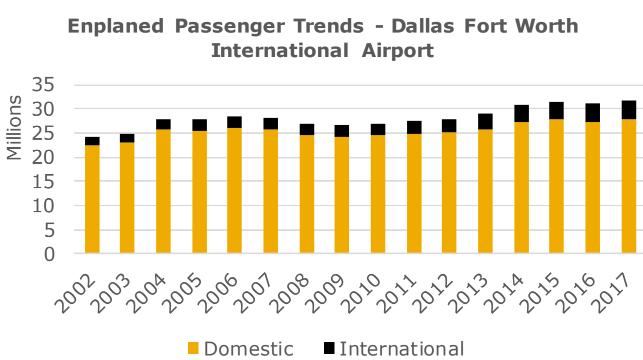
contributes to a sense of wealth that may result in increased expenditures for air travel. Per capita personal income is 110.6% and 103.9% of the State of Texas and the U.S., respectively.

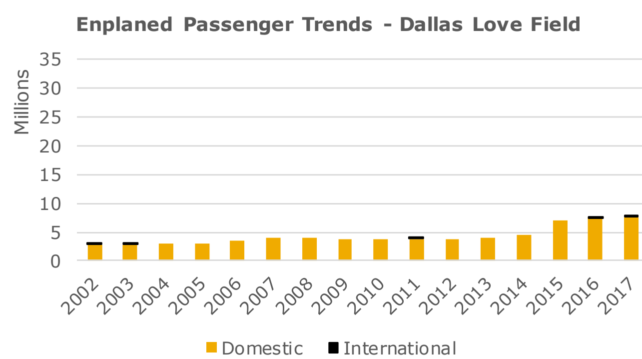


Source: Freddie Mac

Geographically Competing Facilities

There are no airports of similar size nearby. Austin and Oklahoma City, which are medium and small hubs, respectively, are located 195 and 208 miles away. Houston, a large hub, is 245 miles away. Dallas Love Field (DAL) is the only other airport in the MSA that provides scheduled passenger airline service. Southwest Airlines accounts for approximately 90% of total passengers at DAL. Love Field had operated under restrictions known as the Wright Amendment since 1979, which limited airplane size and destination to nearby states. In 2006, an agreement was reached on repeal of the Wright Amendment, effective in October 2014. While resulting competition between the two airports has increased, the magnitude of change has been immaterial in KBRA's opinion. Love Field is capped at 20 gates, and no international flights are permitted. Southwest has added more than 40 new flight destinations from DAL since October 2014 but may have to eventually drop flights to existing closer-in destinations. In airport management's opinion, the potential loss of O&D traffic at DFW could be offset with connecting traffic. In addition, growth of Envoy Air (formerly American Eagle), Spirit Airlines, and/or low-cost carriers at DFW could offset the loss of O&D traffic. In calendar year 2017, overall enplanement activity increased by an estimated 4.3% at DAL while DFW experienced an increase of 1.8%. KBRA will continue to monitor trends in passenger activity at DAL; however, KBRA believes that DFW's strength as a connecting hub coupled with its international activity and significant capacity are substantial strengths.





Source: Bureau of Transportation Statistics

Based on the foregoing, KBRA views the economics/demographics of DFW's service area as consistent with a AA Rating Determinant rating. The service area's vibrant, diverse, and growing business environment, stable housing market, rising wealth levels, and favorable demographic trends support continued growth in enplanement activity and future demand for service.

Rating Determinant 3: Airport Utilization

DFW enjoys many strategic advantages, which in KBRA's opinion, are likely to sustain its prominence. It is the highest capacity airport in the world, with the ability to grow. Its infrastructure includes five terminals, 165 gates, and seven runways. It is the only airport in the world capable of four simultaneous landings in good visibility, and three simultaneous landings in virtually all-weather conditions. Twenty four-hour operation is permitted, and there are no slot constraints nor curfews. Skylink, a dedicated transit system connects the airside areas of all terminals. An extension of the Dallas Area Rapid Transit (DART) light rail system also connects DFW with downtown Dallas, and construction is underway on a rail connection to downtown Fort Worth. DFW's facility and capacity advantages, and its geographical location contribute to its status as a fortress hub. Likewise, the sizable and growing regional population and employment bases support substantial origination and destination traffic. DFW is the seventh largest O&D market in the United States, and excluding connecting passengers, would still rank in the top 20 of U.S. airports in terms of enplaned passengers. In addition, DFW maintains significant cargo activity; as of 2017, the airport was ranked ninth in the U.S. with nearly 1.9 million metric tons of landed cargo weight.

Enplanement Trends

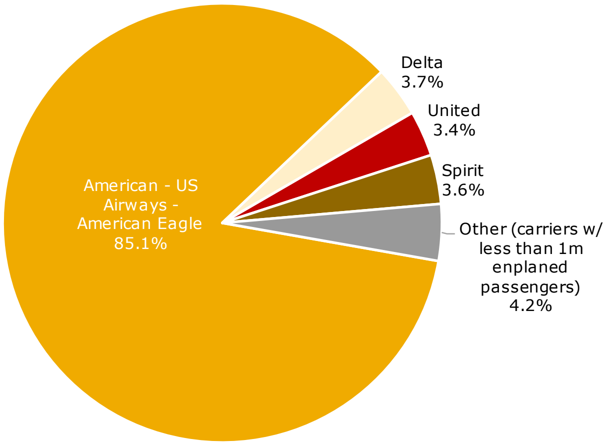
O&D enplanement trends have been favorable apart from declines in the aftermath of the September 11th terrorist attacks, and the Great Recession, which reduced airline seat capacity. Overall connecting activity grew modestly through 2012, with notable ensuing growth. Connecting enplanements have grown from 16.6 million in 2012 to 19.4 million in 2017. For the first 9 months of FY 2018, enplaned passenger activity is up 4.6% compared with the prior year period. DFW's February Outlook projects 4.2% growth in enplaned passengers in the current fiscal year, which equates to a total of approximately 34.5 million, and management has included an additional 6.3% increase in its FY 2019 Budget to a total of more than 36.6 million. DFW currently ranks fourth in the U.S. and twelfth in the world in enplanements.

Historical Originating and Connecting Enplaned Passengers
Dallas/Fort Worth International Airport
Fiscal Years Ending September 30th

Fiscal Year	Enplaned Passengers ('000) Originating	Connecting	Total	Annual Percent Change Originating	Connecting	Total	Percent Originating	Percent Connecting
2007	12,900	17,000	29,900	2.4%	-3.4%	-1.0%	43.1%	56.9%
2008	13,000	16,100	29,100	0.8%	-5.3%	-2.7%	44.7%	55.3%
2009	11,500	16,400	27,900	-11.5%	1.9%	-4.1%	41.2%	58.8%
2010	11,500	16,700	28,200	0.0%	1.8%	1.1%	40.8%	59.2%
2011	12,100	16,800	28,900	5.2%	0.6%	2.5%	41.9%	58.1%
2012	12,500	16,600	29,100	3.3%	-1.2%	0.7%	43.0%	57.0%
2013	12,800	17,300	30,100	2.4%	4.2%	3.4%	42.5%	57.5%
2014	13,500	17,900	31,400	5.5%	3.5%	4.3%	43.0%	57.0%
2015	13,800	18,700	32,500	2.2%	4.5%	3.5%	42.5%	57.5%
2016	13,600	19,200	32,800	-1.4%	2.7%	0.9%	41.5%	58.5%
2017	13,700	19,400	33,100	0.7%	1.0%	0.9%	41.4%	58.6%

Source: Dallas/Fort Worth International Airport

Share of Total Enplaned Passengers by Airline
Fiscal Year 2017



Source: Dallas/Fort/Worth International Airport Finance Department

Strong International Enplanement Growth
DFW has successfully added several major international routes in recent years. International service is provided between the Airport and destinations in Asia, Australia, Canada, the Caribbean, Central America, Europe, Mexico, the Middle East, and South America. Total international enplanements have increased 98.3% since CY 2002, and approximately 44.2% since CY 2010. Since KBRA's last review the Airport added an additional nonstop international destination bringing the total to 57. This reflects the addition of three carriers adding service to Reykjavik, Iceland, and even though DFW lost service to Merida, Mexico, American added service to Rio De Janeiro, Brazil.

American Airlines Concentration
American Airlines represents significant concentration at DFW. Together with the merged U.S. Airways and Envoy Air (formerly American Eagle), the airline accounts for approximately 85% of the Airport's market share, as of FY 2017. However, KBRA continues to believe that the level of concentration is not a critical risk. American emerged from its November 2011 bankruptcy in December 2013 as a stronger airline, with synergies, mainly in the form of increased revenues due to a more extensive network, and a more diverse fleet, allowing capacity to be better matched on a route basis, and decreased expenses. American is the largest airline in the world and is adding service at DFW. KBRA believes American is demonstrating its commitment to the region by constructing a new 300-acre Fort Worth corporate headquarters campus on DFW Airport property, which is set to open in summer 2019. DFW has served for many years as the busiest connecting hub in American's route system.

While the American/U.S. Airways merger created multiple hubs for the consolidated airline, and KBRA believes that several of these hubs may be vulnerable to service reductions, our expectation is that DFW will not be adversely affected since it plays a unique role in American's route system. DFW and American are negotiating terminal expansion options, and American Airlines has new planes on order, and is adding seat capacity to much of its fleet, which will additionally benefit DFW. In recent years, airlines have switched from a market share strategy to an emphasis on profitability. In this environment, load factors and yield have taken on greater importance. American's load factors and yields at DFW are above its system-wide averages, based on data obtained from the U.S. Department of Transportation.

Based on the review of DFW's facilities, level of service, enplanement and available seat trends, and DFW's role as an international and cargo gateway, and the value of DFW routes to carriers, KBRA views the airport utilization of DFW as consistent with an A+ Rating Determinant rating.

Rating Determinant 4: Airport Debt/Capital Needs

Debt Issuance Approach
DFW has taken a conservative approach to debt management. The Airport's debt issuance adheres to a written debt management policy. DFW's debt is in the form of general airport revenue bonds (GARBs), secured by a lien on gross airport revenues. All debt is in the form of fixed rate obligations, and is amortized over not more than 35 years, with generally declining debt service requirements. KBRA views these features as a strong credit characteristic There are no swaps currently in effect, nor are there any subordinate liens or special facility debt outstanding. The debt service reserve is fully cash funded. As of August 31, 2018, the Airport had approximately $6.5 billion in aggregate principal amount of bonds outstanding. Debt levels and annual debt service requirements are high on a per enplanement/per O&D enplanement basis, which significantly impacts the rating determinant rating assigned to Airport Debt/Capital Needs.

TRIP Program

The Airport's most significant recent capital project is TRIP, which is a total renovation and update of three (of four) older DFW terminals, which is now essentially complete. Approximately two-thirds of the TRIP budget was applied to terminal electrical, plumbing, heating and cooling, security, fire safety, conveyances, telecommunications, lighting and information technology systems. The bulk of the remaining TRIP budget was used to upgrade ticket halls, reconfigure TSA security checkpoints, replace certain baggage systems, and re-orient concessions for increased sales activity. Modest improvements to terminal exteriors, entrances and parking structures were also undertaken. The improvements proceeded in phases to avoid disruption of ongoing flight activity.

During FY 2014, DFW incurred higher than expected costs related to TRIP projects, primarily driven by asbestos remediation that was higher than budgeted, and airline scope modifications. As a result, airport management along with airlines approved a budget increase of $652 million, which included an additional $100 million to build-out four additional gates in Terminal C. The total TRIP program budget, as a result, increased to $2.7 billion. However, since that figure was arrived at, a determination was made to suspend the renovation of Terminal C (one of the four terminals) pending a decision of whether to renovate or replace the terminal. The revised TRIP cost is now $1.9 billion. The future of Terminal C is still to be resolved.

In anticipation of TRIP and to provide airline relief, DFW began restructuring its existing debt in 2009, and has issued approximately $3.6 billion in refunding bonds. The restructuring yielded $650 million of debt service savings, and created additional debt incurring capacity in most years. Debt service requirements increase to approximately $517 million in FY 2022, and thereafter decline and remain in the $400 million to $450 million range through 2035. Passenger Facility Charge (PFC) revenues provide significant support, which is expected to continue. DFW's strong liquidity position is also a mitigating factor.

DFW Capital Program

DFW has a significant amount of landside and airside infrastructure that is aging. These include 7 runways, 12 airfield bridges, 75 million square feet of airfield pavement, 1,288 lane-miles of roadways and 133 landside bridges, and a utilities network of 1.1 million linear feet of water and sanitary sewer pipes and 1.4 million linear feet of storm water lines. There are also parking, information technology and terminal projects. Management expects to address the most critical of these needs with its proposed 10-year capital program, which totals $3.4 billion, of which $2 billion is bond financed. The remainder of the Program is expected to be funded with cash and FAA grants. The Program is likely to be adopted in conjunction with airline approval of a new Lease and Use Agreement to replace the Agreement expiring on September 30, 2020. Therefore, borrowing under the Program is not expected before FY 2021.

Longer-term needs revolve around gate capacity, and DFW is considering construction of a Terminal F. There are no current estimates of the timing or associated capital costs. Near-term borrowing reflects the establishment of a subordinate lien interim taxable financing program in the second or third quarter of FY 2019. Either one or a combination of commercial paper, revolving credit facility, or short-term variable rate bonds would be employed. Initial issuance of between $500 million and $750 million is anticipated, with proceeds in part funding a Terminal D stinger project and conversion of gates in the Terminal B/Terminal D connector to international swing gates to address immediate gate needs. DFW's footprint is large enough to accommodate any projected long-term airfield or capacity needs.

Based on the foregoing, KBRA views the Airport's debt and capital planning as consistent with an A Rating Determinant rating.

Rating Determinant 5: Airport Finances

DFW's financial operations are governed in large part by the Master Bond Ordinance (MBO), which was adopted by Dallas and Fort Worth in September 2010 and took effect in July 2013. The MBO establishes the flow of funds, the rate covenant, and the additional bonds test among its provisions. Operations are also a function of the Airport Lease and Use Agreement, in place through FY 2020, which lays out the financial obligations of both the airport and airlines and determines the airport's rate setting and cost recovery mechanism. The Use Agreement is characterized as hybrid. It establishes three cost centers (airfield, terminal, and DFW) to account for revenues and expenses, and related rentals, fees, and charges. For the airfield and terminal, the signatory airlines pay landing fees and terminal rentals based on the net cost to provide those services.

The DFW cost center accounts for parking, concessions, the rental car facility, commercial development, ground transportation and employee transportation. After certain transfers and credits are made to the Airfield and Terminal cost centers, all remaining net revenues are deposited into the DFW Capital Account, one of three accounts (DFW Capital Account, Joint Capital Account, and Rolling Coverage Account) within the Capital Improvement Fund. In FY 2017, amounts deposited into the DFW Capital Account were budgeted with a lower threshold of $43.4 million and an upper threshold of $64.9 million.

Any amount in excess of $64.9 million was deposited such that 75% of the excess was used to offset landing fees either in the current fiscal year or the following fiscal year. At the end of the fiscal year, if the amount deposited into the DFW Capital Account were less than $43.4 million, then an incremental landing fee would have been added in the following fiscal year so that the shortfall was recovered. All dollar amounts are adjusted annually based on the consumer price index (CPI). DFW Capital Account funds can be used at the discretion of the Airport; no majority-in-interest approval is needed. FY 2017 net revenues in the DFW Cost Center were $132.0 million, or $67.1 million higher than the upper threshold. This allowed DFW to share $50.3 million with the airlines to reduce landing fees.

The Joint Capital Account (JCA) is primarily funded from bond proceeds, natural gas royalties, and land sale proceeds. Funds in the JCA require DFW and airline approval before they can be spent. JCA funds are used to fund TRIP and other capital projects, capitalized interest, debt reserves, and annual transfers through 2017 to offset terminal rentals, when it was eliminated.

The Rolling Coverage Account was established as part of the Use Agreement in 2010 to implement rolling coverage. Each year, the entire Coverage Account is rolled into the Operating Revenue and Expense Fund as a source of revenue, and then transferred back into the Coverage Account at the end of the year. If new debt is issued, each cost center must generate the incremental coverage required to fund 25% of the new debt service.

The MBO requires the Airport to set rates at levels sufficient to generate gross revenues equal to 1.25x debt service requirements, after meeting operating expenses. This ratio includes the rolling coverage amount. Prior to FY 2011 when the current Use Agreement was enacted, the coverage ratio was always 1.25x, because the airport was fully residual. Coverage has ranged between 1.56x and 1.68x for each of the past six years.

While debt service coverage is substantial, the Use Agreement limits the airport’s ability to further improve the coverage ratio because management must use 75% of DFW Cost Center net revenues in excess of the Upper Threshold to reduce landing fees. With the advent of the current agreement, DFW committed all PFC revenues, to bond repayment. The Ordinance’s other coverage requirement is 1.00x, without rolling coverage, and transfers from Capital Accounts. Over the past six years, coverage has ranged from 1.30x to 1.37x.

Dallas/Fort Worth International Airport Debt Service Coverage ($ Millions)						
Coverage Calculation - Gross Revenues	2012	2013	2014	2015	2016	2017
Operating Revenues						
Airfield Cost Center	$ 131.00	$ 140.10	$ 146.20	$ 149.40	$ 151.50	$ 166.20
Terminal Cost Center	$ 138.20	$ 164.30	$ 180.00	$ 225.40	$ 272.10	$ 306.40
DFW Cost Center	$ 246.50	$ 252.70	$ 268.30	$ 273.60	$ 289.30	$ 306.30
Total Operating Revenues	**$515.70**	**$557.10**	**$594.50**	**$648.40**	**$ 712.90**	**$ 778.90**
Non-Operating Revenues	$ 144.40	$ 156.70	$ 129.20	$ 141.80	$ 148.70	$ 158.40
Rolling Coverage	$ 61.80	$ 70.20	$ 68.60	$ 78.50	$ 90.00	$ 103.80
Total Gross Revenues	**$721.90**	**$784.00**	**$792.30**	**$868.70**	**$ 951.60**	**$1,041.10**
Less Operating Expenditures	$ (344.00)	$ (352.90)	$ (376.90)	$ (392.10)	$ (416.70)	$ (438.20)
Gross Revenues Available for Debt Service	**$377.90**	**$431.10**	**$415.40**	**$476.60**	**$ 534.90**	**$ 602.90**
Debt Service	$ 247.20	$ 280.90	$ 274.50	$ 314.00	$ 359.90	$ 415.10
Debt Service Coverage - Gross Revenues	**1.53**	**1.53**	**1.51**	**1.52**	**1.49**	**1.45**
Coverage Calculation - Current Gross Revenues						
Gross Revenues Available for Debt Service	$ 377.90	$ 431.10	$ 415.40	$ 476.60	$ 534.90	$ 602.90
Less: Transfers and Rolling Coverage	$ (85.80)	$ (90.20)	$ (84.60)	$ (90.50)	$ (98.00)	$ (107.80)
Current Gross Revenues available for Debt Service	$ 292.10	$ 340.90	$ 330.80	$ 386.10	$ 436.90	$ 495.10
Debt Service	$ 247.20	$ 280.90	$ 274.50	$ 314.00	$ 359.90	$ 415.10
Coverage Ratio - Current Gross Revenues	**1.18**	**1.21**	**1.21**	**1.23**	**1.21**	**1.19**
Coverage Calculation - All Revenue Sources						
Current Gross Revenues Available for Debt Service	$ 292.10	$ 340.90	$ 330.80	$ 386.10	$ 437.00	$ 495.10
Natural Gas Royalties, Land Sales, Interest Income	$ 9.90	$ 13.70	$ 21.60	$ 19.00	$ 14.60	$ 17.90
PFIC	$ 21.20	$ 20.80	$ 24.70	$ 15.50	$ 23.80	$ 25.80
All Current Revenues Available for Debt Service	$ 323.20	$ 375.40	$ 377.10	$ 420.60	$ 475.40	$ 538.80
Debt Service	$ 247.20	$ 280.90	$ 274.50	$ 314.00	$ 359.90	$ 415.10
Coverage Ratio - All Current Revenues	**1.31**	**1.34**	**1.37**	**1.34**	**1.32**	**1.30**
Coverage Ratio - All Current Revenues plus Capital Transfers and Rolling Coverage	**1.65**	**1.66**	**1.68**	**1.63**	**1.59**	**1.56**

Source: Dallas Fort Worth International Airport

FY 2018 Financial Performance

As of June 30, 2018, DFW's financial performance is exceeding budgeted expectations. The DFW Cost Center recognized $98.3 million in net revenues, which was 21.9% higher than budgeted expectations. This is primarily driven by a combination of higher than budgeted parking revenues, concessions, and miscellaneous revenues and lower than budgeted operating expenditures. Total airfield revenue was $160.9 million, which was 9.9% higher than budgeted, mainly due to a large transfer from the DFW Cost Center, due to its better than budgeted performance. Total terminal revenues of $258.7 million approximated the level budgeted Combined net income in the terminal and airfield cost centers was $28.7 million, which exceeded budget by $17.9 million.

Passenger Airline Cost Per Enplanement (CPE)

DFW had historically been among the low cost large hub airports in the country. As recently as FY 2013, CPE was $7.20. However, over the past five years passenger airline payments on a per enplanement basis have risen as TRIP debt service has come on line. Debt service requirements rise through FY 2022. CPE increased from $9.50 in FY 2016 to $11.28 in FY 2017. DFW forecasts cost per enplanement at $13.36 for FY 2018, declining to $13.28 in FY 2019. The FY 2019 decline reflects projected enplaned passenger growth of 6.3% growth in FY 2019.

Stress Case

KBRA undertook stress case to gauge the impact of a sharp decline in enplanement activity coupled with significant planned debt issuance. The stress scenario is event-driven and mirrors the enplaned passenger declines recorded during the Great Recession, when enplanement activity fell by 6.5% over a two-year period.

The model covers the period between 2019 and 2027. It assumes an 8% reduction in enplanements during 2019, followed by a modest 1.0% annual recovery beginning in 2020. The assumed recovery rate is lower than DFW recorded post-recession. Non-airline revenues decline and recover at the same rate over the 2019-2027 period. Operating expenses were assumed to increase at an average annual rate of 2.0%, Debt issuance reflects refinancing of $750 million in interim financing program debt issued in FY 2020 in. Also reflected is the full $2 billion of debt under consideration in the 10-year Capital Plan in four $500 million increments beginning in 2021. The additional debt is amortized over 30-year period, with level annual requirements, at an assumed 5% interest rate. KBRA considers these assumptions to be conservative, since it is unlikely that all of the debt would be issued so quickly, DFW would strive to accommodate debt service within the existing declining annual requirements, and capitalized interest would be utilized. CPE was calculated based on the minimum amounts that the airlines would be required to pay to meet debt service coverage requirements of the Master Bond Ordinance.

KBRA's stress model projected a peak CPE of $22.06 in FY 2025. KBRA believes that while CPE rises sharply under this conservative scenario, it remains manageable.

System Liquidity

DFW has historically maintained substantial levels of unrestricted cash, which serves as an offset to its high debt levels. DFW's goal is to maintain a minimum of 450 days cash on hand. As of September 30, 2017, unrestricted cash and investment were sufficient to cover 628 days of operating expenses, which KBRA considers strong. Despite the high debt levels, the ratio of debt to available resources is favorable, reflecting the favorable liquidity position.

Retirement Benefits

The Airport has two defined-benefit pension plans, the Employee Plan and the Department of Public Safety (DPS) Plan, covering substantially all employees hired before January 1, 2010. As of January 1, 2010, the Employee Plan was closed to new employees. All regular employees hired after January 1, 2010 are enrolled in a defined contribution plan. Per GASB 68 reporting requirements, the Airport recognizes an aggregate net pension liability of $176.0 million in FY 2017. The Airport has historically set annual employer contribution amounts equal to actuarially determined requirements. In FY 2017, the Airport contributed $22.3 million and $8.2 million to the Employee Plan and DPS, respectively.

In addition to pension benefits, the Airport provides certain other post-retirement benefits for retired employees (OPEB). The Airport allows retired employees to participate in the Airport's health insurance plans and provides a premium subsidy to those former employees. The benefits apply only to retired employees ages 65 and younger and provide a maximum benefit per employee of $400 per month.

Based on the foregoing, KBRA views the Airport's finances as consistent with a AA- Rating Determinant rating.

Rating Determinant 6: Legal Mechanics and Security Provisions

Bond Security

The Airport's Joint Revenue Improvement Bonds are secured by a first lien on and pledge of Pledged Revenues and Pledged Funds. Pledged Revenues include as Gross Revenues the revenues received by the Airport from the rentals, fees and charges collected from the Signatory Airlines, and other airlines and from other non-airline sources, including transfers from Capital Funds and Special Revenues. Gross Revenues also include any funds transferred to the Airport's Operating Revenue and Expense Fund, including PFCs.

Rate Covenant

Gross Revenues equal to: (1) operation and maintenance expenses; plus (2) 1.25x debt service; plus (3) 1.00x coverage of Subordinate Lien obligations; (4) any additional amounts required by an additional supplemental ordinance; and Current Gross Revenues (excludes transfers) sufficient to pay amount in (1), (3), and (4) plus 1.00x debt service requirements.

Additional Bonds Test

A Certificate by Authorized Officer that at least one of the following has been met: an Airport Consultant's written report projects Net Revenues for each of three consecutive fiscal years beginning with year debt service is due equals at least 125% of debt service requirements on all outstanding obligations, including the proposed bonds, and the rate covenant, based on current gross revenues is met; or a certificate executed by the Chief Financial Officer of the Board showing that: (1) for either the Board's most recent complete fiscal year; or (2) any 12 consecutive months out of the most recent 18 months, net revenues were at least 125% of maximum annual debt service for all outstanding obligations, including the proposed bonds, and the rate covenant, based on current gross revenues is met.

Debt Service Reserve Fund Requirement

DFW maintains a cash-funded debt service reserve fund equal to average annual debt service. Ordinance permits monthly funding deposits into Reserve Fund over 60 months following bond delivery, and deficiencies are required to be restored over a 60-month period. Transfers to the Capital Improvements Fund are suspended until the deficiency is restored.

Flow of Funds

All gross revenues are deposited into the Operating Revenue and Expense Fund, when received, then transferred monthly, on or before the last business day to the following Funds in the following order of priority: (1) Debt Service Fund; (2) administrative expenses due to a credit provider to the extent required by a supplemental ordinance; (3) Debt Service Reserve Fund; (4) Any other fund or account required by an Additional Supplemental Ordinance; (5) Subordinate Lien obligations; (6) operation and maintenance expenses; (7) operation and maintenance expenses for ensuing 90 day period; (8) Capital Improvements Fund. Gross Revenues remaining unexpended on the last day of each fiscal year, or at the discretion of an Authorized Officer, may be retained in the Operating Revenue and Expense Fund. Authorized Officer may make transfers at time to Capital Improvement Fund, if rate covenant has been met to date, and is likely to be met for balance of fiscal year. Surplus funds must remain in system.

Based on the foregoing, KBRA views the airport's legal mechanics and security provisions consistent with a AA Rating Determinant rating.

Conclusion

KBRA has affirmed the long-term rating of **AA-** with a **Stable Outlook** on the Dallas/Fort Worth International Airport (DFW) Joint Revenue Improvement Bonds.

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Related Publications:

- **Joint Revenue Improvement Bonds, Series 2014C**
- **U.S. General Airport Revenue Bond Rating Methodology**