Massport, Delta & Terminal A

Presented by Betsy Taylor

May 21, 2007

Topics of the Day

- Overview of Logan Airport
- Logan’s Physical Challenge
- Original Project
- The Revised Lease

Financial Structure

- Logan is a compensatory airport
- Consolidated port authority
- Grandfathered by the 1982 AIP legislation
- Funded by fee for service revenue
- No taxing authority

massport

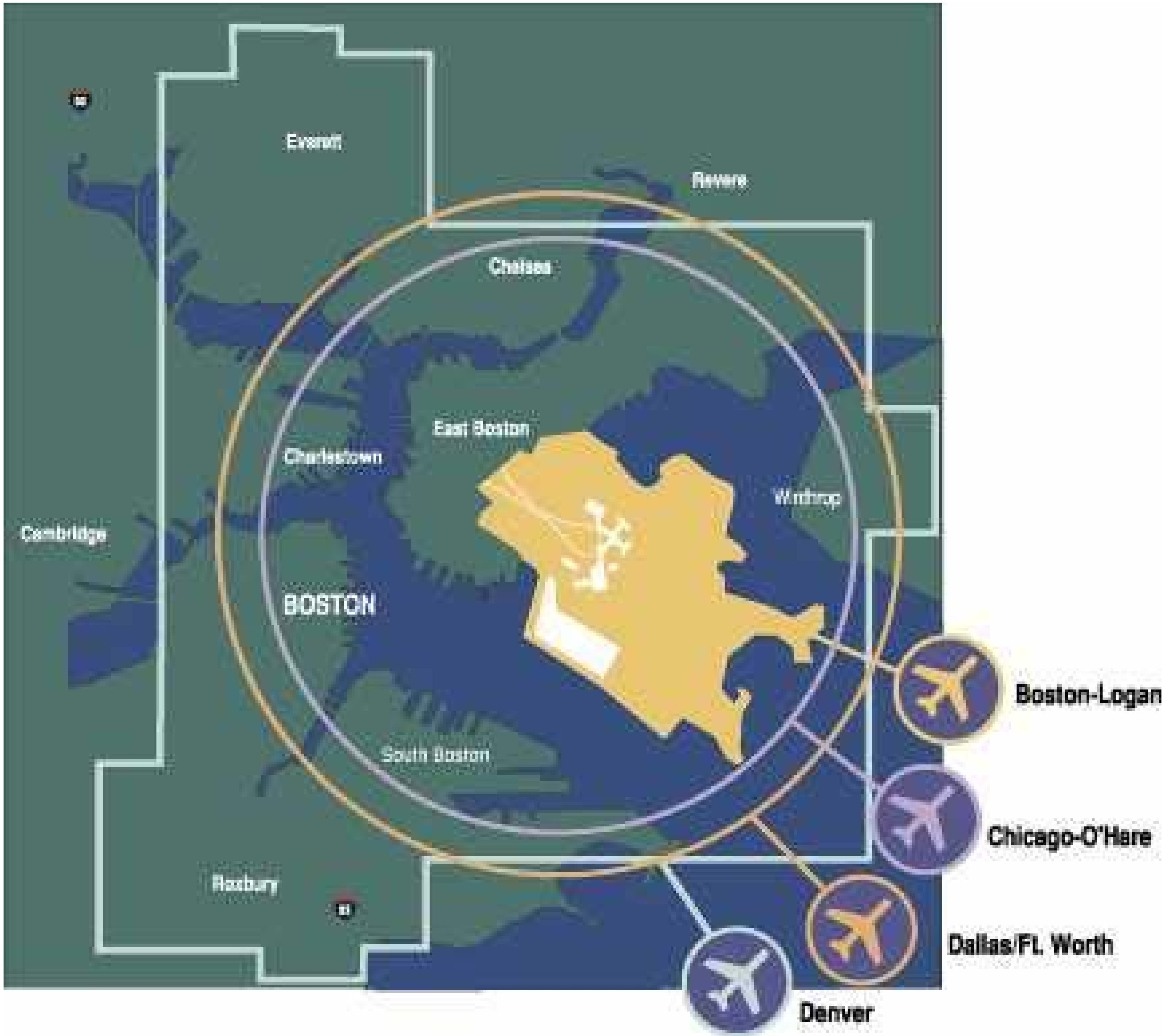
Key Numbers

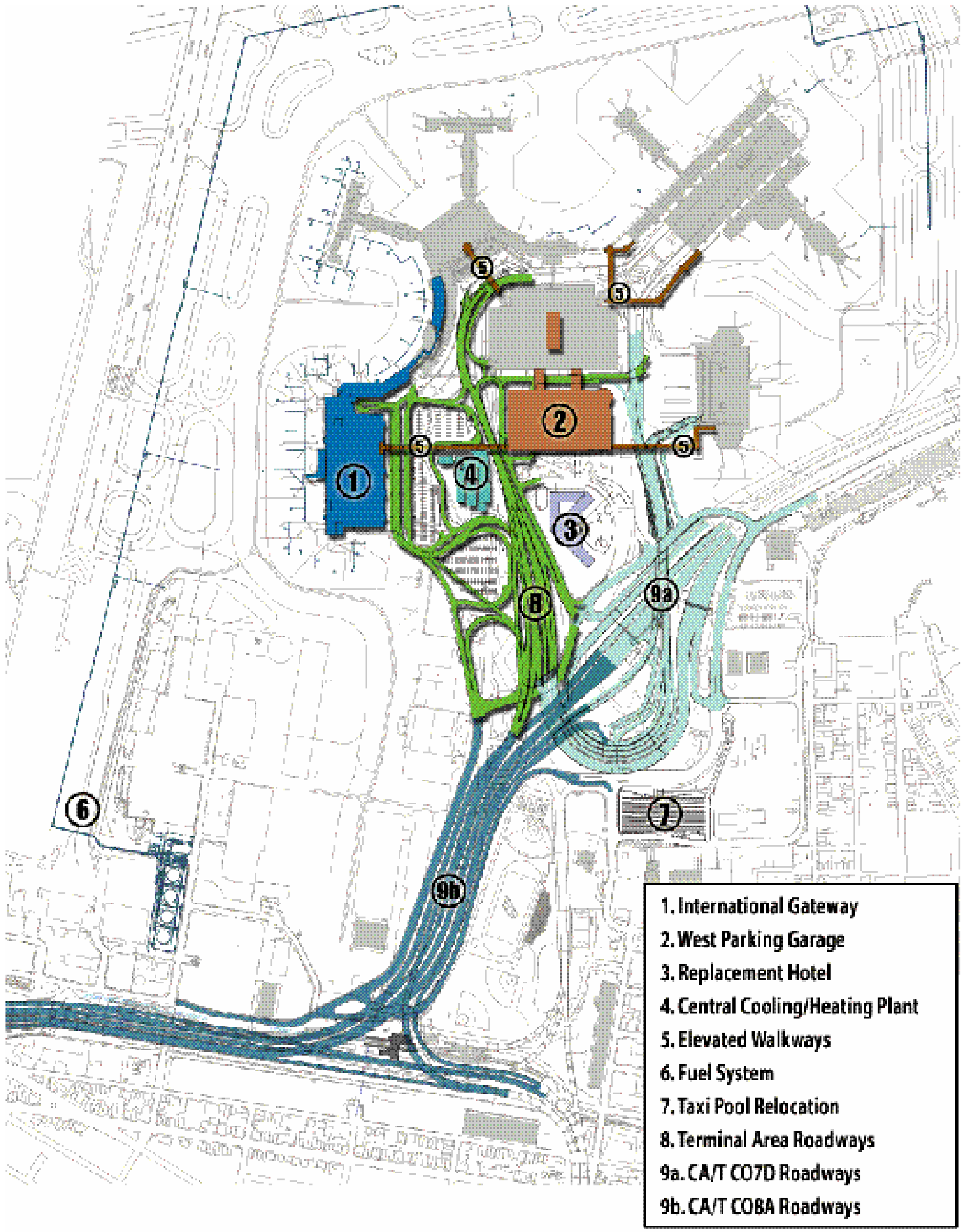
- Outstanding debt - $1,235 million, plus $74 million in subordinate debt, $190 million in PFC debt and $89 million in commercial paper
- Annual ’78 senior debt service of $100 million
- Annual ’78 subordinate debt service of $4.8 million
- FY07 Revenue Budget: $521.7 million plus $53.6 million in PFC’s
- FY07 Operating Expense Budget: $331.2 million
- FY07-FY11 Capital Program: $960 million

Overview of the Boston-Logan Market

- Logan has one of the highest percentages of local O&D traffic of any airport in the US – 88%
- In 2006 Logan was 19^{th} busiest US airport
- As no airline operates a connecting hub at Logan, it is not dominated by a single carrier
- In FY06 top 2 carriers handled 30% of Logan’s 27.4 million passengers
- Boston’s service area economy is large and diversified

Logan is land constrained




1
2
3
4
5
6
7
8
9a
9b
1. International Gateway
2. West Parking Garage
3. Replacement Hotel
4. Central Cooling/Heating Plant
5. Elevated Walkways
6. Fuel System
7. Taxi Pool Relocation
8. Terminal Area Roadways
9a. CA/T C07D Roadways
9b. CA/T C08A Roadways

massport

Overview of Terminal A Project

- Complete redevelopment of Terminal A
- New Terminal A has 340,000 square feet of airline space with 18 contact jet gates and 7 regional jet positions
- Terminal A was to be the only facility in the Delta route system where all Delta brands operated on a consolidated basis:
  - Delta Mainline
  - Song
  - Delta Shuttle
  - Delta Connection

massport

Terminal A Funding Sources

Terminal Components

- Scope
  - Demo existing terminal
  - New main terminal
  - New satellite terminal and underground walkway
  - Elevated connector to existing walkway to West Garage
  - Frontage roads, curb areas and utilities
  - Circulating roads
  - Elevated walkway connector to Terminal B walkways

Airside Improvements

- Scope
  - New Apron
  - Extension of fuel system
  - New taxiway layout, lighting and striping

Heating Plant/Utilities

- Scope
  - CHP improvements (add chiller)
  - Utility lines from CHP to new Terminal A
  - New Electrical substation and feeders

Budgets as of June 2001

- Terminal:
  - $395 million in Delta Special Facility Bonds
- Circulating roads & walkway to B node:
  - $16 million in PFCs

- Apron and taxiway lanes:
  - $41 million in Massport bonds
- Fuel lines:
  - $9 million in Bosfuel bonds

- Utility upgrades:
  - $17 million in Massport bonds

Overview of Security Structure for 2001 Terminal A Bonds

- Massport was conduit issuer; Delta was obligor
- Bonds secured by lease payments made by Delta under a 25 year lease with Massport
- Delta’s facility rent assigned by Massport to the trustee & paid by Delta directly to the trustee
- Bonds also secured by a Delta corporate guaranty
- DSRF fully funded with cash
- Maintenance Reserve Fund: ½% for years 1-10; 1% for years 11-20; and 1.5% for years 21-25
- Bonds insured by AMBAC on the strength of Logan’s reletting and recapture rights

Massport Reletting Obligation

- In the event of a payment default, Massport had right to terminate Delta's possession of Terminal A
- In the event of lease termination, Massport to use reasonable efforts to relet Terminal A to another airline
- Reletting proceeds would be shared with the trustee paid the lesser of
  - Debt service due, or
  - (Net Reletting proceeds) * (Facilities Rent) / (Facilities Rent + Terminal Rent + Additional Rent)

What happened next?

- Bonds closed in August 2001
- September 11, 2001 changed everything
- Delta built the new Terminal
- Terminal A opened March 15, 2005
- Delta declared bankruptcy on September 19, 2005
- Delta asked to renegotiate the lease
- Delta asserted a claim to the DSRF
- Portion of 1/1/2006 debt service paid by Ambac

What drove the negotiations?

- Each of the three parties had different goals & interests
- At times the interests of any two parties may have been aligned
- Massport first had to decide that we should negotiate, as the Authority had not done with United or USAirways or any previous Chapter 11 filing

Delta's goals

- Reduce terminal costs by reducing number of gates & related space
- Obtain flexibility for further reducing or adding gates
- Improve balance sheet by terminating corporate guarantee

Massport's goals

- Insure balanced use of terminal and curb space at Logan
- Protect rental stream to pay for operating and capital costs
- Secure an anchor tenant past the interest only phase of the bonds
- Recognize that Terminal A was most costly terminal at Logan, had the most support space/gate, yet also was new, efficient and in a premier location
- Avoid taking on any additional obligation beyond the existing commitment to use reasonable efforts to relet and to share reletting proceeds

Ambac’s goals

- To be repaid for January 2006 outlay
- To reduce likelihood of any future outlays
- To restrain growth in capital or reserve charges
- To be paid interest on any interest payments made;

  the documents already promised interest paid on any outlays for principal payments

Points of Leverage

- Delta – could reject the existing lease
- Massport
  - understood that a national carrier needed a presence at Logan
  - understood that insurers do not want to operate airports
- Ambac – had the right to approve any changes to the Delta lease

The Revised Lease

- Delta took 12 of 18 contact gates and 4 of 7 regional jet positions for 10 years
- Delta took 180,000 square feet down from 341,000 square feet
- In 5 years, Delta may shed 2 gates & associated square feet
- Massport improved the recapture ability and operational control (relocation & no subleasing)
- Delta's annual cost reduced from $55 million to $34.4 million
- Delta repaid all pre-petition balances by 6/30/07
- Delta rejected the corporate guarantee
- Delta agreed to vacancy sharing rent of $600,000 per year on up to 8 gates in years 1 & 2, and for up to 4 gates in years 3-5.
- Lease approved by bankruptcy court

Massport's conclusion

- Revised deal was better for all parties that what might have occurred if Delta had rejected the lease
- Formula for sharing total rent between Massport and the trustee unchanged from original
- In May, Massport approved a term sheet for the lease of 4 contact gates and 2 regional jet positions at a rate that reflecting the value of the newer space
- Remaining vacancies include 2 contact gates, 1 regional jet gate, and lots of support space