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Detroit Gateway Seizes Chance on Record Airport-Bond Gain.

The agency that runs the main airport serving bankrupt Detroit is set to offer \$107 million of debt as airport bonds extend an unprecedented winning streak relative to the \$3.7 trillion municipal market.

The Wayne County Airport Authority will use proceeds from this week's borrowing to rehabilitate airfields and improve roadways and terminals at the Detroit Metropolitan Wayne County Airport, offering documents show. It will be the first deal for the facility, a Delta Air Lines Inc. (DAL) hub about 22 miles (35 kilometers) southwest of downtown Detroit, since the Motor City filed a record municipal bankruptcy in July 2013.

The issue may avoid the stigma attached to the city. Airport bonds are rallying as a rebounding economy encourages travel. The debt has gained 7.9 percent this year through July, beating the market's 6.8 percent advance, Bank of America Merrill Lynch data show. It would be the fourth straight year of outperformance, a record since the data begin in 1993.

"Airport debt is trading on the moon right now," said Lyle Fitterer, who helps oversee \$34 billion of munis at Wells Capital Management in Menomonee Falls, Wisconsin. "Wayne County is a very large hub for Delta, and it's not going away. I don't think people are really fearful of that credit at all."

Detroit Separation

Detroit's \$18 billion Chapter 9 bankruptcy has increased the focus on bondholder protection as some investors prepare to receive as little as 11 cents on the dollar on the city's debt. Offering documents for the airport deal highlight that the authority is an independent legal entity from Detroit.

The documents specify that the airport, 17th-busiest in the U.S. last year, serves an area beyond Detroit, whose population has declined 60 percent since the 1950s.

The region of 10 Michigan counties "continues to exhibit a strong economic recovery and provide a positive environment for new and growing businesses" even with Detroit's bankruptcy, according to the statement.

Terry Teifer, chief financial officer of the airport agency, said in an interview that he has spoken with investors to offset "a negative perception because of what's going on in Detroit."

"We're well-situated, and the airlines are all doing much better," he said. "We feel really strongly about our game plan for the airport."

Delta Dominant

Through the first six months of the 2014 operating year, which began Oct. 1, enplanements were up 1 percent from the period a year earlier, offering documents show. An enplanement is a revenue-generating passenger departing from or arriving at an airport.

Delta and its connecting carriers account for about 79 percent of the airport's passengers. The Atlanta-based airline on July 23 posted second-quarter profit that beat analysts' estimates, buoyed by U.S. demand.

Delta's profit is one example of how the airline industry is rebounding from the 18-month recession that ended in 2009, said Burt Mulford, who helps oversee \$2 billion of municipal bonds at Eagle Asset Management in St. Petersburg, Florida. It's no coincidence that 2011 marked the start of the four-year rally in airport debt, he said.

Airports Lifted

"There's a pretty high correlation between air travel and the overall health of the economy — more people are traveling and the airlines are becoming more profitable," he said. "When the economy was beaten up in 2007, 2008 and 2009, airports were a risky sector."

U.S. gross domestic product rose at a 4 percent annualized rate in the second quarter, Commerce Department figures showed last week. That exceeded the 3 percent median estimate of 80 economists surveyed by Bloomberg.

The recovering economy is lifting airport debt more than other areas of munis.

Securities backed by airport revenue, with average ratings four steps below AAA, lost less than the market last year amid the worst slump for munis since 2008, Bank of America data show.

The 2014 rally has included debt for the Detroit airport. Some of the agency's most-traded bonds of the past month mature in December 2023, data compiled by Bloomberg show. The average yield fell to a record low 2.11 percent July 30, according to Bloomberg Valuation data.

Investment Grade

Those bonds have a junior lien and ratings four steps above junk from Moody's Investors Service. The debt is insured by National Public Finance Guarantee Corp.

This week's offering of senior-lien securities, with the sixth-highest investment grade, includes a \$73 million tax-free portion and a \$35 million segment that is subject to the alternative minimum tax. The proceeds will fund projects included in a five-year capital improvement plan.

Airfield work, rehabilitation and reconstruction make up almost half the cost of projects financed by the sale, offering documents show.

About \$75 million of the debt matures in 25 or 30 years. Bonds maturing in more than 22 years have gained 12 percent this year, on pace for the best annual return since 2011, according to Bank of America data.

Airports are "still one of the sectors with spread, and the structure on the Wayne County deal is mostly longer paper," Fitterer said. "Anything that has yield to it right now is seeing good demand."

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