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O'Hare Bonds Avoid Chicago Stain in City's Biggest Offering Ever.

Even as Chicago confronts a fiscal crisis, investors are looking beyond its turbulent finances with anticipation toward the city's biggest bond deal ever.

Chicago sold about $2 billion of securities for O'Hare International Airport, backed by revenue from the nation's busiest airport and sheltered from the mounting pension obligations squeezing the third-most populous U.S. city. Fund managers at Wells Fargo Asset Management and Conning say any yield premium resulting from the city's tainted reputation is likely a buying opportunity given the airport's rising traffic and hub status.

"Just looking at the nuts and bolts of the deal, it's been pretty impressive what's going on there," said Paul Mansour, head of municipal research at Hartford, Connecticut-based Conning, which holds O'Hare debt among its $11 billion of tax-exempt securities and is reviewing the deal. "There will be a certain amount of firms, individuals who say no Chicago under any circumstance. That will add some value for those that look through to the underlying credit."

Chicago has the worst-credit rating of all major U.S. cities except Detroit, and had to pay yields approaching 8 percent for a taxable offering in July. Wednesday's issue is raising $1.6 billion to refinance higher-cost bonds and about $330 million to cover costs of projects such as terminal improvements.

A portion of federally tax-exempt securities due in January 2046 were sold with a yield of 3.9 percent, according to preliminary data compiled by Bloomberg. That's about 0.7 percentage point more than 30-year benchmark municipal bonds.

During the city's last bond sale for O'Hare in November 2013, 20-year securities were issued for yields as high as 5.53 percent, about 1.7 percentage point more than benchmark debt, according to data compiled by Bloomberg. That premium has since narrowed by almost a third, trading for an average yield of 4.1 percent on Sept. 11.

The offering follows sales from the city and related agencies such as the Chicago Park District that have had to pay up to borrow. The O'Hare bonds are rated as much as two levels higher than the city's general-obligation debt. The sale comes as U.S. airport bonds are outperforming the broader $3.7 trillion tax-exempt market for a fifth consecutive year amid an improving economy and falling energy costs.

Mayor Rahm Emanuel is working to ease Chicago's fiscal challenges and convince the city council to pass the biggest property tax increase ever to help cover retirement costs. O'Hare is sheltered from the fallout of the city's $20 billion pension hole because the Federal Aviation Administration limits the use of airport revenue to facility purposes. That prevents the city from taking excess O'Hare monies to fix its finances, Standard & Poor's said in a Sept. 30 report.

Historical Premium

Even so, issuers associated with distressed situations typically have to pay up, and that's what Merritt Research Services expects.

"It's just a historical premium that they'll have to pay because of their association with Chicago," said Richard Ciccarone, Chicago-based chief executive officer of Merritt Research Services, which analyzes municipal finance. "It may end up for a yield investor more attractive than an average airport."

That wasn't the case with Michigan's Wayne County Airport Authority, which runs the airport serving once-bankrupt Detroit. The authority wasn't penalized when it sold about $522 million last month despite the county's fiscal distress. Wayne is in a consent agreement with the state because of its ongoing budget deficit.

Airliner Hub

S&P raised its outlook on O'Hare general revenue bonds last month by one level to A, five steps above junk and two levels higher than its rating on the city's GO debt. The credit rater cited the airport's high traffic. Fitch Ratings assigned an A- ranking to the debt, four steps above junk, and notes the airport general revenue bonds are secured by a first lien on airport net revenues.

O'Hare is a hub for American Airlines Group Inc. and United Continental Holdings Inc., the largest carriers. The airport is the biggest worldwide when measured by operations, according to bond documents. In 2014, O'Hare had the busiest airport measured by flight operations, according to FAA data.

Municipal airport bonds have climbed 2.2 percent this year, compared to a 1.8 percent gain in the broader market, according to Bank of America Merrill Lynch data. Crude-oil prices have tumbled 8.6 percent in 2015, and sliding fuel costs have benefited municipal airports in particular, Janney Fixed Income Strategy said in an Oct. 5 report.

Chicago is expecting more than $150 million in present-value savings from the refinancing with interest rates near generational lows, said Molly Poppe, a city spokeswoman.

O'Hare's capital projects have shown progress and been within budget, according to bond documents. Three of four runways and one runway extension for the O'Hare modernization project are complete as of this month. Airfield improvements funded by the 2015 bonds include installation of runway status lights, maintenance of terminals, and fixes to roadways.

"Airport debt has had a strong bid from investors looking for income, and that should certainly benefit the pricing on this Chicago transaction," said Gabe Diederich, a Menomonee Falls, Wisconsin-based money manager at Wells Fargo Asset Management, which holds some O'Hare's bonds among its $39 billion of munis, and is considering buying the deal. "The essential nature of the airport and the size of it are going to overwhelm any bias against the city of Chicago."

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