Chicago Reaps Rewards of Airport Debt Rally in Midway Sale.

Chicago is benefiting from a rally in airport bonds as the junk-rated city sold about $343 million of federally tax-exempt securities for Midway International Airport to refinance debt and pay for projects.

The bonds due in 2046, which have the longest maturity, sold on Wednesday at 3.04 percent yield, according to data compiled by Bloomberg. That's about 0.6 percentage points more than benchmark municipal debt, data compiled by Bloomberg show. The deal generated a present-value savings of $4.3 million, according to Molly Poppe, a city spokeswoman.

Prices of airport bonds are climbing as the improving economy boosts travel. The securities have returned 2.9 percent this year through Tuesday, outperforming the municipal market's 2.8 percent jump, Bank of America Merrill Lynch data show. At this rate, airport debt is headed for a third straight year of gains.

"Some people would say the airports have an extra degree of separation from the city," said Gabe Diederich, a Menomonee Falls, Wisconsin-based portfolio manager at Wells Fargo Asset Management, which manages about $39 billion of munis, including various Chicago bonds. "It almost seems like the positive halo of the airport sector is overwhelming the negative halo of being a Chicago-area issuer."

Pension Woes

Chicago is struggling with a debt-wracked pension system that has a shortfall of more than $20 billion after years of shortchanging its four retirement funds. The increasing stress on its finances from the pension deficit spurred Moody's Investors Service to lower its bond rating last May, leaving Chicago with the lowest credit ranking of any large U.S. city except once-bankrupt Detroit.

Mayor Rahm Emanuel reached an agreement this week with unions whose members participate in the laborers' pension fund. The deal would force the city to pay more into the fund, while allowing employees to retire as early as 65 in exchange for higher pension contributions. The pact still needs state approval.

S&P Global Ratings has the Midway bonds at A, the sixth-highest investment grade rating and two steps higher than its BBB+ rating on the city's general-obligation debt. Fitch Ratings also ranks the Midway bonds at A.

Capital Improvements

The bond are second-lien revenue and revenue refunding securities that are limited obligations of the city and payable by a pledge of revenues from airport operations and other funds, according to bond documents.

Midway, about 10 miles (16 kilometers) southwest of Chicago’s downtown, had a record 11 million enplaned passengers last year, up 4.8 percent from the previous year, bond documents show. That performance is continuing this year: the first quarter of 2016 saw 2.3 million enplaned passengers, a record for the first three months of the year and a 4 percent jump from the same period in 2015. An enplanement is a revenue-generating passenger departing from or arriving at an airport.

The bonds’ proceeds will refinance debt, fund a deposit to the debt service reserve fund and cover projects as part of the capital improvement plan. These funds will help cover the costs of maintenance projects, as well as the expansion of the terminal parking garage and the security checkpoint to make more concession space to increase non-airline revenue, according to an investor presentation.

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