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Why Boston Logan Airport Has a Great Credit Rating While LaGuardia's Is Lousy.

Moody's gives its highest airport credit rating to just one major airport, Boston Logan, and its lowest to privately operated Terminal B at New York's LaGuardia.

In Moody's rating of credit at 92 leading U.S. airports, only one — Boston Logan — has the highest rating.

Two hundred miles and seven credit notches separate Logan from New York's LaGuardia Airport, where privately operated Terminal B, home to every airline but Delta (DAL) , is grouped with six small airports that have the lowest rating.

"Our ratings are basically an assessment of the issuer's ability to repay principal and debt obligations on time," said Maria Matesanz, Moody's senior vice president.

"We have the highest current airport ratings for government-owned Massachusetts Port Authority," Matesanz said. "It has credit strengths that we think are important — strong debt service coverage ratios, a strong service area, and a very diverse airline carrier base, with no airline responsible for more than 27% of enplanements."

Boston Logan is a hub for JetBlue (JBLU) , which has about 30% of all domestic passengers, according to Bureau of Transportation statistics for the 12 months ended July 30. American is second with 23%; Delta, which has 12%, said it will grow its Boston presence.

The bonds, issued primarily against revenue for Boston Logan, but also covered by Worcester Regional Airport and Hanscomb Field in Bedford, have an Aa2 rating.

Moody's next highest rating, Aa3, is assigned to 10 leading airports including Atlanta, Charlotte, Los Angeles and the Port Authority of New York and New Jersey.

But the bonds that cover Terminal B at LaGuardia are a special case, not covered by the Port Authority because the terminal is operated and financed by LaGuardia Gateway Partners LLC. Those bonds are rated Baa3.

While the City of New York owns all of the LGA terminals, LaGuardia Gateway Partners won the right to manage the airport's recently started construction project, which could cost as much as $8 billion. The partnership includes Vancouver-based Vantage Airport Group, Swedish construction firm Skanska, and Paris-based Meridiam SAS.

All of the airlines except for Delta operate out of Terminal B. Delta operates out of Terminal D, which is covered by its balance sheet and its credit, which also has a Baa3 rating. Corporate bond ratings are generally lower than municipal bonds or project finance bonds.

Privately managed airports and terminals are rare in the U.S., which partially explains the low ranking. In this country, only the San Juan, Puerto Rico airport, JFK Terminal One and the JFK International Air Terminal are privately managed.

“There’s not a history,” said Earl Heffintrayer, Moody’s lead airport analyst. “From our reading of the documents, they should be able to recover the debt service.”

Globally, privately managed airports are not uncommon. In general, their coverage is 1.5 to 2 times debt. The LGA Gateway Partners is at the low end of that range.

Another rating issue is the ongoing improvement project. “It’s the most complicated construction project we have rated at Moody’s,” Heffintrayer said. “They are building a new terminal beside, above and around an existing facility while trying to maintain the existing facility.

“The methodology we use for construction is informed by our view that it’s an investment grade credit, but it hits every bucket of complexity that we have.”

In its June credit opinion for the Massachusetts Port Authority, Moody’s said, “The Aa2 is based on the credit fundamentals of the authority, which are currently among the strongest of Moody’s rated airports.

“The airport has a strong and improving relative market position in a robust and diverse economy and is expected to maintain above-average financial metrics for the foreseeable future despite substantial additional planned debt to fund its 2016-2020 capital program.

“Massport’s enplanement base remains among the most diversified in the US airport sector and the airport has had above average growth in recent years, which is continuing into 2016. The high rating is tempered by expectations of an additional $1 billion in debt through 2020.”

In its June opinion on LaGuardia Gateway Partners, Moody’s said that during the construction project, which began this summer, “the requirement to build around the existing facility while maintaining operations introduces the potential for schedule delays.

Moreover, “the construction risk is additionally amplified by poor geotechnical conditions, known environmental contamination, and limitations on the ability to access the site by commercial vehicles,” Moody’s said.

Nevertheless, it said, “the high level of air traffic demand at LaGuardia will overcome the high project costs.”

In general, airlines have no place else go to because JFK operates under slot constraints while Newark, where slot constraints are ceasing, “lacks large amounts of gate capacity to accommodate a large scale diversion of operations from LGA,” Moody’s said.

The Street

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