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Fitch Rtgs: St Louis Case Highlights Political Barriers to Airport Privatization

Fitch Ratings-New York-08 January 2020: The decision not to pursue a long-term operational lease of the St Louis Lambert International Airport (Lambert) evidences the difficulty of airport privatization for US airports, says Fitch Ratings. For such essential assets, reaching consensus with key stakeholders and determining the value for both the city and for equity investors under a long-term lease are central challenges in these transactions.

At the end of December, the mayor of St Louis decided not to proceed with the request for proposal for the lease of St Louis Lambert Airport operations, citing the lack of public support. Eighteen companies submitted requests for qualifications, which is indicative of the strong private sector interest to participate when such opportunities arise. A private company would have operated the airport under a public-private partnership (P3) in which the city would retain ownership.

Leasing the airport would have required a city ordinance, as one of many steps, and certain government officials did not back privatization. The lack of private interest was not an issue for Lambert's potential P3. Similar to many other city or county-owned airports, Lambert is a core asset and has strong financials, making it attractive to private investors.

Fitch currently rates Lambert's general airport revenue bonds at 'A' with a Stable Outlook following a rating upgrade in 2019. The rating reflects Lambert's continued favorable trends in enplanement growth, stable financial metrics, limited competition from other airports and modes of transportation, and manageable capital needs in the medium term. The airport's leverage is modest, and the outstanding debt is fixed-rate with a declining amortization profile. Lambert has moderate carrier concentration, with Southwest Airlines representing 60% of traffic. The rating does not consider the benefits or risks of privatization.

One of the attractions of privatization to the city was the property associated with the airport that would be eligible for development and the upfront payment to St Louis. A recent proposal from some counties to buy the airport from the city would place the airport under the control of a regional board that would create a special sales tax district to support the airport. While a future plan for a special sales tax district is uncertain and is unprecedented in the industry for a large-hub airport, Lambert is currently a self-supporting enterprise funded entirely by user fees and federal grants and is not supported by taxpayers.

The Lambert P3 would have been the third full airport privatization under the federal Airport Investment Partnership Program, following Puerto Rico's Luis Munoz Marin International Airport, under a 40-year lease with Aerostar Airport Holdings, and Stewart Airport in New York, which reverted to private ownership after a failed lease. There is historically not a lot of interest in the US for airport privatization. A number of airports, including Chicago's Midway Airport and New Orleans Lakefront Airport considered privatization under this program in the past but did not execute on lease agreements.

P3s on narrower airport assets are more common, with varying degrees of progress. The Los Angeles automated people mover system and car rental facility, and passenger terminal projects at New York City's JFK and LaGuardia Airports are currently in negotiations or in construction phases. The P3 project for terminal redevelopment and concession expansion at Denver Airport was recently terminated by the airport owner, the City and County of Denver, due to construction delays and related disputes that could not be amicably solved.

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Additional information is available on www.fitchratings.com. The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

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