Bond Case Briefs

Municipal Finance Law Since 1971

Texas Airport Facility Borrows for First Time Since Covid.

- **Austin refinancing will help ease debt burden through 2023**
- **The $147.4 million taxable offering priced on Tuesday**

For investors betting on air travel's comeback, the municipal-bond-market is ready for you.

A rental car facility at the airport in one of America's biggest boomtowns is selling bonds, the first such debt offering of its kind since the pandemic began.

The Austin, Texas facility refinanced about $147 million of bonds to help ease debt service payments — giving it more than enough breathing room to stay afloat until the pandemic is over. The deal comes as the U.S. is vaccinating nearly 1.5 million Americans a day, and coronavirus cases across the nation are on the decline.

"Now there's more of a consensus that this part of the economy has made it through a challenging time," said Daniel Solender, director of tax-free fixed income for Lord, Abbett & Co., which is looking at the Austin deal. "Now there's an end in sight. Definitely optimism."

Final pricing for the Austin deal came in with yields between 50 basis points and 160 basis points above Treasuries, reflecting stronger demand for the earlier-maturity debt and weaker demand for securities with the longest due dates, according to data compiled by Bloomberg. That's compared with preliminary pricing wires reflecting spreads between 55 basis points and 130 basis points.

The investment-grade-rated facility is joining dozens of cities, hotels, museums, airports and toll roads that have been using the steep drop in borrowing costs to push off debt payments or cut them by refinancing. That's helped keep distress relatively rare in the $3.9 trillion market, despite the myriad stresses issuers have faced.

Doug Benton, a senior municipal credit manager at Cavanal Hill, said the strong market conditions are a "silver lining" for borrowers who can ease the financial burden of the pandemic by refinancing. It also shows how far the state and local debt market has come. Less than a year ago, munis were on the precipice of a deep selloff that sent interest rates skyrocketing and scuttled billions in bond deals.

"Now we're one-hundred and eighty degrees from that," he said.

The offering comes amid strong demand for state and local debt. Investors are pouring money into muni mutual funds. Inflows reached $2.79 billion during one week in January, the second biggest influx ever, and these funds have seen inflows for 13 straight weeks.

The Austin facility is rated A3, four levels above junk, by Moody's Investors Service and an equivalent A- by Fitch Ratings with a negative outlook by Fitch because of the uncertainty around air travel.

U.S. Transportation Security Administration traveler checkpoints have recovered from a low of

87,534 passengers in April, averaging more than 706,000 passengers per day in the first week of February, but the numbers are still far below this period last year, where an average of 2 million passengers passed through airport security.

The lack of travel has had a major impact on the finances of airports and the facilities they run. This includes rental car facilities, which were already facing pre-pandemic challenges from the rise of ride-sharing services operated by Uber Technologies Inc. and Lyft Inc., according to Bloomberg Intelligence analyst Eric Kazatsky.

Over the past year, credit rating companies have downgraded rental car facility bonds for similar projects located at Charlotte Douglas International Airport, the Hartsfield-Jackson Atlanta International Airport and the Phoenix Sky Harbor International Airport. S&P Global Ratings rates 14 consolidated rental car facilities borrowers with about $2.8 billion in outstanding debt, according to analyst Todd Spence. The ratings company downgraded the credit rating on all but one of those borrowers in 2020.

“Despite some of the challenges, or issues people are well aware of, I’d be surprised if there wasn’t extreme demand,” Jeff Timlin, a managing director at Sage Advisory Services, said of the Austin deal. “There’s so much money out there that needs to be put to work.”

Bloomberg Markets

By Fola Akinnibi and Amanda Albright

February 9, 2021, 12:06 PM PST Updated on February 9, 2021, 1:53 PM PST

— With assistance by Natalia Lenkiewicz

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com