Municipal Bond Market – A Critical Funding Source for Airport Capital Projects

Airport capital needs are estimated to exceed $71.3 billion for 2013 through 2017, or approximately $14.3 billion per year, according to the 2012 Airport Capital Development Needs Survey conducted by ACI-NA. The Airport Improvement Program (AIP) administered by FAA currently distributes about $3.35 billion entitlement and discretionary grants to airports, leaving a gap of about $10.95 billion per year to be funded with local sources.

<u>Airports' Use of Bonds</u>

Airports frequently turn to the capital markets to finance long-term construction projects. Bond proceeds are the largest sources of funds for airport capital needs, accounting for approximately 54% of the total funds historically. Total bond issuance including both new money bonds and refunding between 2006 and 2011 ranged from $6.3 billion in 2006 to $12.4 billion in 2010 with an average of $8.8 billion. The ACI-NA survey shows that large hubs are anticipating financing 58% of their planned projects between 2013-17 through bonds, medium hubs at 23% and small hubs at 22%.

<u>Airports in the Municipal Bond Market</u>

Airport operators are major and regular participants in the municipal bond markets and have utilized numerous types of municipal bonds to finance airport capital projects including:

(a) general obligation bonds supported by the overall tax base of the issuing entity (the airport sponsor),
(b) general airport revenue bonds secured by the revenues of the airport and other revenues as defined in the bond indenture,
(c) bonds either backed solely by PFC revenues or by PFC revenues and airport revenues generated by rentals, fees and charges, and
(d) special facility bonds backed solely by revenues from a facility constructed with proceeds of those bonds.

Depending on the nature of the projects being financed by the airport, most bonds are considered a special form of municipal bonds called private activity bonds (PABs). Often times, PABs are subject to the Alternative Minimum Tax, thereby raising the return demanded by the investor and the financing costs for the airport.

<u>Airport Municipal Bonds: Lower Costs, Better Service</u>

Airports are carefully managing operating, financing and capital expenses to maintain their good credit rating which helps lower their borrowing costs. Airport operators constantly monitor the financial markets and respond to changes in market conditions accordingly. For example, bond issuance spiked in 2010 driven by low interest rates and the Alternative Minimum Tax holiday. Lower borrowing costs through municipal bonds allow airports to pass the savings to airlines through lower rates and charges, which help sustain existing and attract new air carrier service, ultimately benefiting passengers with more service choices. Air service also helps generate jobs and economic development in the community.

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