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## **General Session 4**

# **Paying for It: New Opportunities for Airport Bonds**



**2007 ACI-NA Economics and Finance Conference**

**May 22, 2007**

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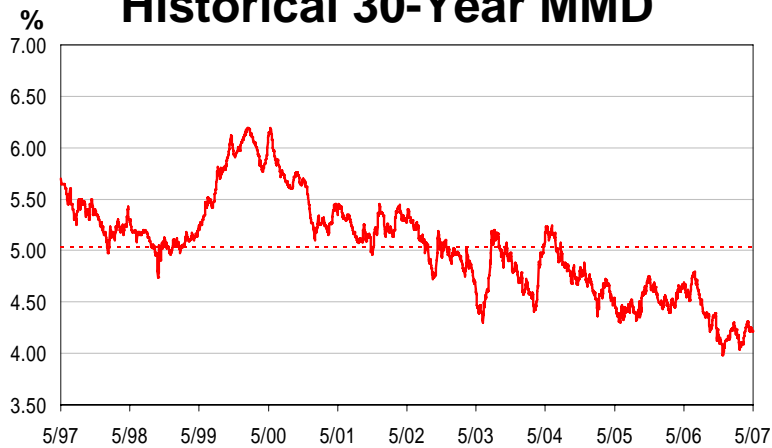
# Discussion Topics

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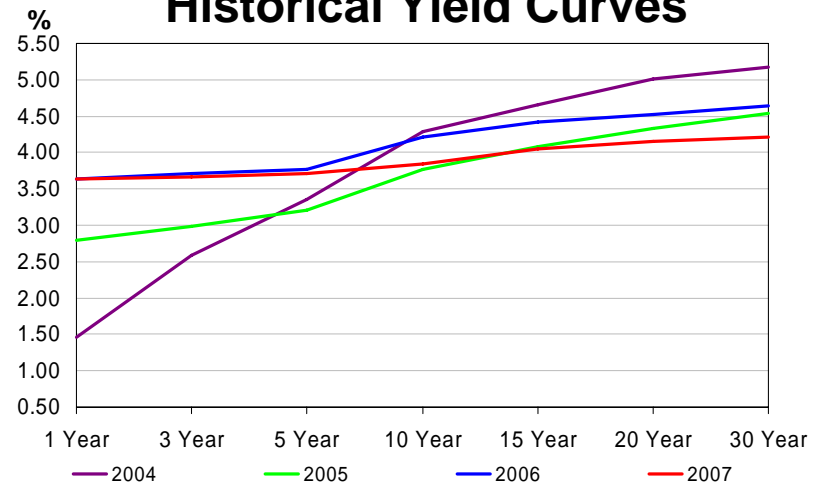
- Prevailing Market Conditions
- Financial Products in Today's Market
- Buyers in Today's Market

# Prevailing Market Conditions

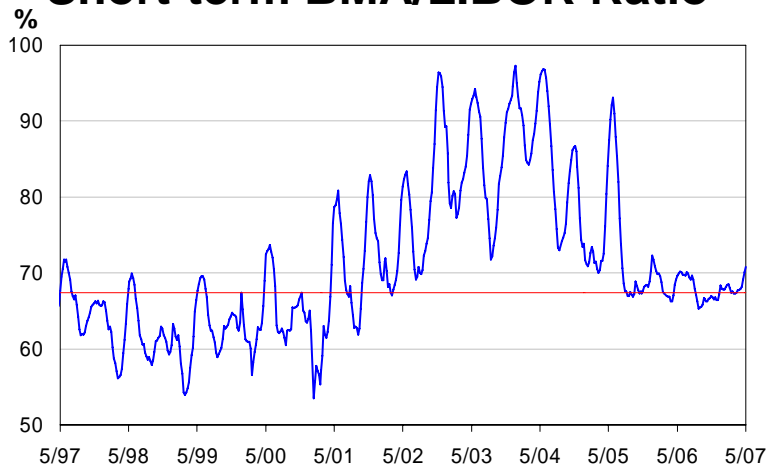
## Historical 30-Year MMD



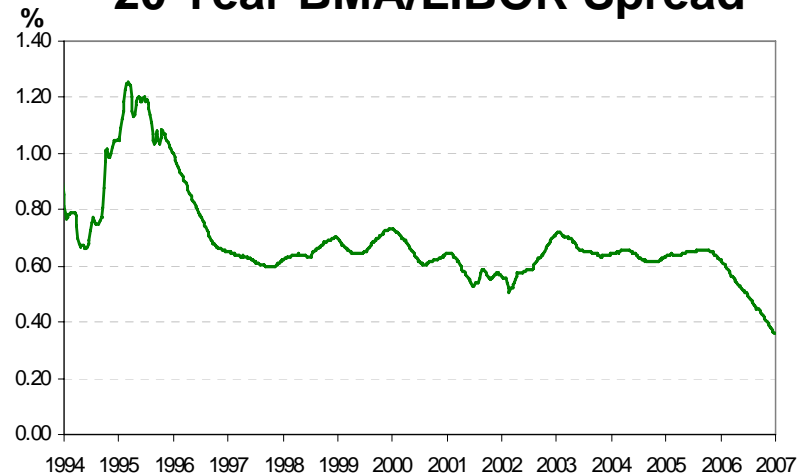
## Historical Yield Curves



## Short-term BMA/LIBOR Ratio



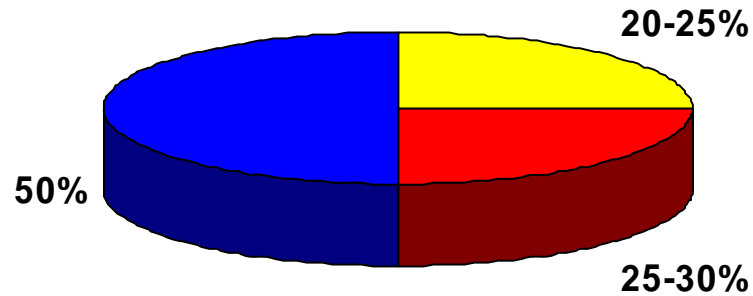
## 20 Year BMA/LIBOR Spread



# “Risk Adjusted Optimal Cost of Capital”

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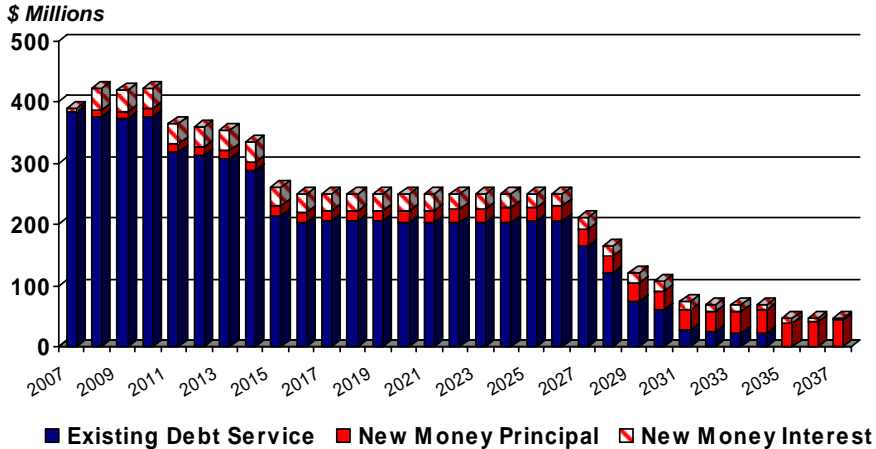
## *Target Debt Composition*



- Traditional Fixed
- Unhedged Variable
- Synthetic Fixed / Basis Swaps

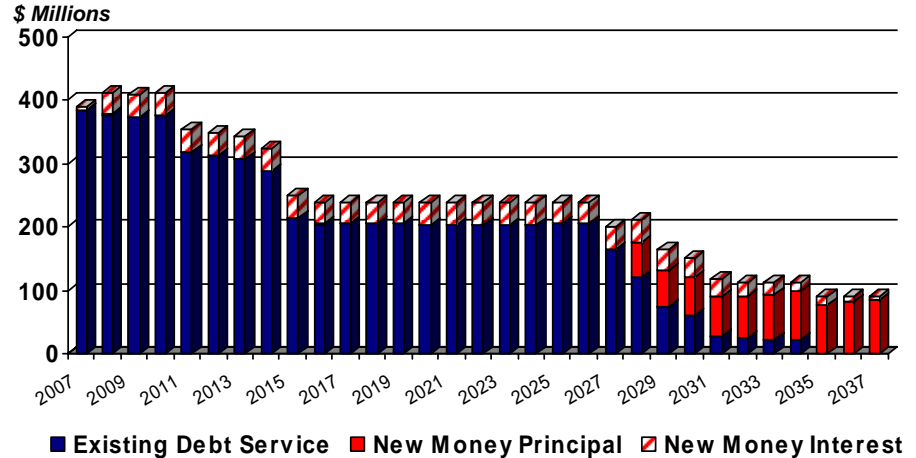
# Traditional Fixed Rate Debt

## \$700 Million: Level Debt Service



All-in TIC	4.565%
Average Life:	19.2 yrs

## \$700 Million: Back Loaded Debt Service



All-in TIC	4.686%
Average Life:	26.0 yrs

The AMT “penalty” is approximately 20 basis points throughout the yield curve

## **Variable Rate Debt**

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- ❑ Competitive bank market for LOC and liquidity facilities
- ❑ Widespread use of commercial paper programs
- ❑ Reduced issuance of unhedged variable rate debt; “shortening” of auction rate periods
- ❑ Issuance of variable rate debt underlying floating-to-fixed interest rate swaps

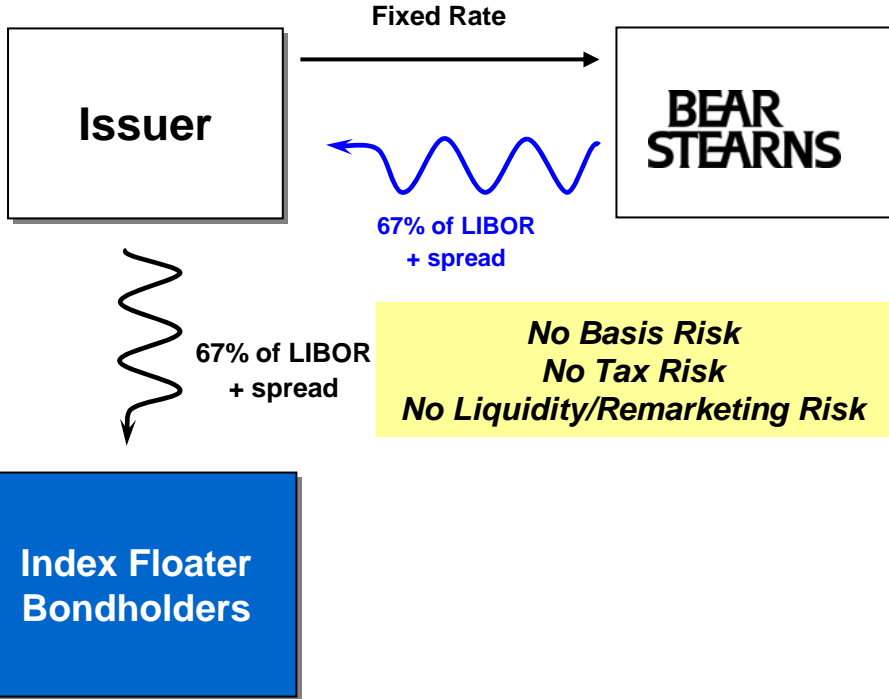
# Interest Rate Swaps

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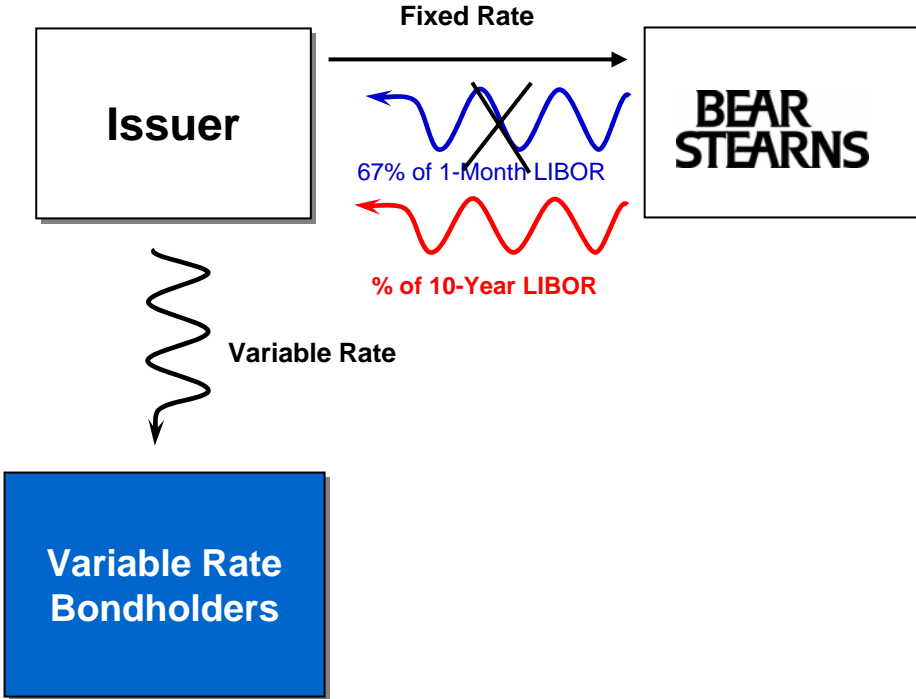
- Hedging interest rate risk for new money requirements
- Hedging interest rate risk for non-advance refundable securities
- Under favorable market conditions, accepting tax risk for lower cost of capital
- Swaps can provide significant flexibility over time

# Current Interest Rate Swap Structures

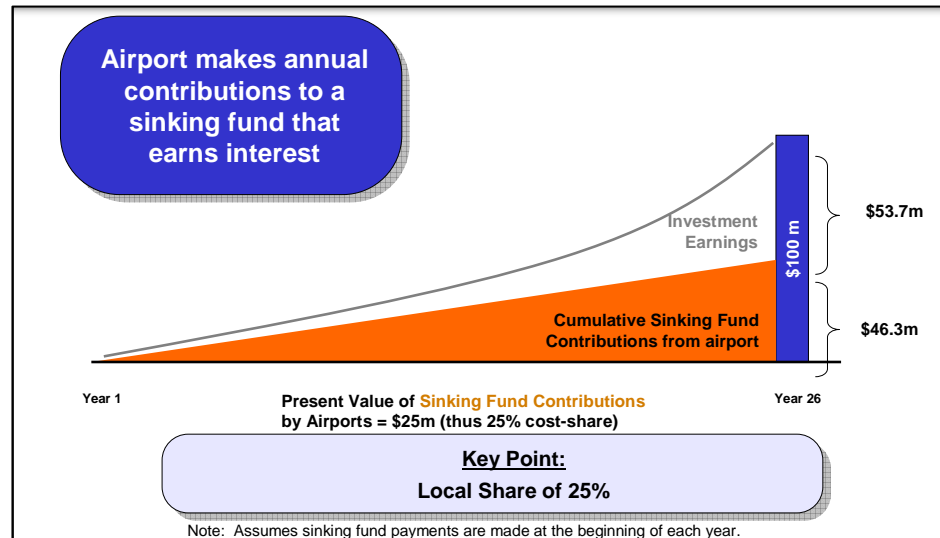
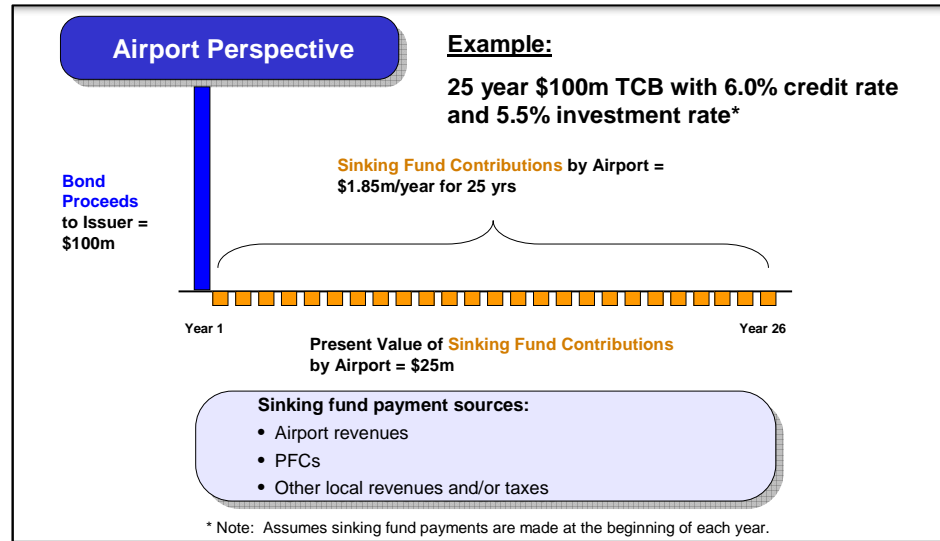
## Index Floaters



## Constant Maturity Swap



# Tax Credit Bonds



# **Broadening Demand for Tax-Exempt Bonds**

- ❑ “Non-traditional” buyers have emerged as important participants in the tax-exempt market
- ❑ Arbitrage accounts, TOB program participants, relative value accounts, derivative product creators, foreign investors
- ❑ Focus on “relative value” in the municipal market vs. other markets
- ❑ Active primarily in the 10-30 year maturity range; buy large blocks of bonds

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