THE BOND BUYER

Minneapolis-St. Paul Airport returns with new money, refunding bond mix

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The Minneapolis-St. Paul Metropolitan Airports Commission heads into the market Tuesday with $295 million of subordinate lien bonds to fund capital projects and to refund outstanding debt for a saving.

The airport plans to use $180 million of new money bond proceeds to fund 15% of its $1.2 billion capital plan and expects a savings of $24.3 million on the refunding bonds, said Bob Schauer, director of finance for the Metropolitan Airports Commission. The issuer was last in the market with refunding subordinate bonds in the 4th quarter of 2016.

Minneapolis-St.Paul Metropolitan Airports Commission returns to the bond market with nearly $300 million in bonds after a three-year hiatus

The bonds, are secured by a pledge of net revenues generated through airport operations. The airport also expects to use passenger facilities charge revenues to pay a portion of the debt service on the series 2019 bonds.

The deal offers two series totaling about $130 million with interest that is not subject to the alternative minimum tax, and $166 million of bonds subject to the AMT.

Piper Jaffray and Citi are co-senior managers on the subordinate revenue bond deal. Barclays, RBS Capital Markets US Bancorp and Wells Fargo Securities are co-managers. Kutak Rock LLP is bond counsel and Samuel A. Ramirez is advising the commission.

Fitch Ratings and S&P Global Ratings rated the bonds A-plus ahead of the sale. The outlook from both is stable.

The airport has $681 million of senior revenue bonds outstanding and $653 outstanding subordinate revenue bonds. The senior lien bonds are rated one notch above the subordinate bonds at AA-minus.

The airport has $71 million of debt outstanding from a facility with Wells Fargo Bank NA. The facility provides for the issuance of up to $150 million of subordinate revolving obligation and expires in October 2020. Some of the proceeds of the bond transaction will be used to repay approximately $20.6 million of the facility.

“The stable outlook reflects our view that MSP's enplanement levels will remain at about 18 million, supporting stable financial metrics even given modest additional debt needs during the next two years,” S&P said.

The airport said it expects to issue another $140 million of airport revenue bonds in 2022 to help fund its 2019-2023 capital improvement plan, which primarily focuses on the expansion and rehabilitation of Terminal 1 Lindbergh. Various improvement and rehabilitation projects, including police and fire, reliever airports, and airfield and runway projects are also included in the plan. The capital program will be funded with bonds and a combination of passenger facility charge revenues, grants, and available cash.

“Declining debt service after 2030 allows for significant future debt capacity and flexibility to address future capital needs,” the airport said during an investor presentation.

The commission's finance team is promoting to investors what it calls the airport's solid underlying credit fundamentals, ranging from a strong local economy and diverse operating revenues to historically strong financial results and an experienced management team.

Passenger levels have been steadily rebounding in the last decade about 1.2% over the last four years with 18.4 million passengers last year. Growth this year is up 2.9% from the same period in 2018.

S&P said it didn't expect to raise the rating during the outlook period due to high airline carrier concentration and exposure to connecting traffic as a Delta hub, along with the airport's additional debt needs. Delta maintains a 71% enplanement market share. This concentration risk is offset by Delta's heavy investment in the airport, a hubbing covenant, and a hybrid use and lease agreement.