

THE BOND BUYER

After long wait, Brownsville airport has ticket for a new terminal

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DALLAS – Brownsville, Texas, is preparing a bond deal to subsidize a new airport terminal that's been in the works for more than a decade.

Texas' southernmost city expects to issue \$25 million of certificates of obligation for the Brownsville-South Padre Island International Airport in mid-July, according to Noe Hinojosa Jr., the city's financial adviser and chief executive of Estrada-Hinojosa & Co.

The city chose JPMorgan Securities, led by executive director Doug Hartman and vice president Pedro Ramos, as sole underwriter.

JPMorgan is also a direct lender on another \$26.5 million of tax notes to be used as a revolving note program to help fund the balance of the project.

"The notes are expected to be reimbursed in part by FAA grants," Hinojosa said, referring to the Federal Aviation Administration. "The city received a commitment letter for \$12.7 million from FAA early this year but expects to receive more due to the size of the project and the expected commercial flight activity in years to come."

The certificates, maturing in 25 years, are payable in the first five years by sales tax revenue from the Greater Brownsville Incentives Corp. and the Brownsville Community Improvement Corp.

The approach stands in contrast to typical commercial airport bond financings that are repaid using airport revenue.

The Brownsville City Commission on May 15 approved annual debt service of \$945,000 from the GBIC and \$365,000 from the BCIC.

The Brownsville Public Utilities Board has also dedicated \$1.2 million for utility infrastructure, and the airport itself will contribute about \$250,000 each year to the project, according to airport director Bryant Walker.

The certificates carry ratings of AA from S&P Global Ratings and Aa3 from Moody's Investors Service. Outlooks are stable.

The debt is considered a general obligation of the city, payable from property taxes if necessary. The maximum allowable ad valorem tax rate in Texas is \$2.50 per \$100 of assessed value for all purposes, with the portion dedicated to debt service limited to \$1.50.

"The city's total tax rate is well below the maximum, at 70 cents, 25.1 cents of which is dedicated to debt service," according to S&P analyst Amahad Brown. "The certificates of obligation have an additional pledge of surplus revenue from the city's municipal landfill system or airport, or both. However, we rate the certificates based on the city's ad valorem pledge."

Moody's analyst Ryan Mills said the rating "also reflects weak resident income indices, a solid trend of stable financial performance, a manageable debt profile, and above average but manageable pension burden."

Bids for redevelopment of the airport serving Brownsville and the resort community of South Padre Island came in this month, with the award expected the first week in August, Hinojosa said.

Site work has already begun on the project, which will produce a new 85,000-square-foot terminal near the current terminal built in 1971. The old terminal will then be demolished.

Plans to replace the old terminal have been in the works for more than a decade. The entire project should be complete by mid-2020, officials say, though the new terminal will open a few months earlier.

"We don't have much room in the waiting area," said Shawn Schroeder, assistant director for BRO. "Since 9/11, obviously things have changed in terms of security. We only have two gates and capacity is constrained."

Designed for an easier, breezier era of air travel, the original terminal was a portal that passengers walked through almost freely on their way to and from their airplane.

"The building wasn't designed to accommodate the security restrictions now inherent in all airport operations," according to a 2015 federal study. "As a result, the airport is working within the constraints of an age that has long since passed, leaving them with operational challenges as they seek to grow."

Among the terminal's cited deficiencies was the fact that it is too close to the airfield, limiting operations at the terminal to regional jets as the design aircraft and therefore limiting long-term growth potential.

The ramp serving aircraft is also too small to accommodate commercial aviation beyond regional jet aircraft.

The building is also too small for the passenger demand, forcing the airport to limit access to the hold rooms until just prior to scheduled departure. That places a high demand on security screening over a short period of time, creating crowded conditions in the departures hall.

The Federal Inspection Services area is not designed to Customs and Border Patrol standards and depends on the passenger hold room for passport control processing.

"Any improvements to the present terminal building will provide only enough space to raise current service levels and then meet only near-term growth," the federal study said. "Further, any improvements would not provide sufficient space to market the airport to new entrant carriers nor do they address long-term forecasted growth."

The airport has hosted sporadic international commercial air activity. Between July 2011 and June 2013, Aeromexico provided scheduled service between the industrial city of Monterrey, Mexico and Brownsville with regional jets. While the average load factor in 2012 was about 55%, it dropped to 36% in the first six months of 2013 before the airline discontinued service.

"Brownsville, however, is in a strategic location to attract some of the Mexican travelers going to visit the Rio Grande valley due to its closeness to South Padre Island and businesses in the area as well as its Federal Inspection Service facility, which operates 24 hours per day and seven days per week," the 2015 study noted. "Monterrey and Brownsville are only 166 miles apart, but many travelers prefer to fly rather than drive that distance due to security issues in Mexico."

The BRO site includes 300 acres designated as Foreign Trade Zone 62. Foreign-trade zones are secure areas under U.S. Customs and Border Protection supervision that are generally considered outside CBP territory upon activation. Located in or near CBP ports of entry, they are the United States' version of what are known internationally as free-trade zones.

The airport is also expected to face more demand for air transportation from companies building facilities at the Port of Brownsville and a Space-X launch site on the coast.

"We haven't seen much impact from Space-X yet, but we're looking in the future and they're looking at the future," Schroeder said.

At the moment, service is limited to United Airlines and American Airlines, which send small jets to their hubs in Houston and Dallas-Fort Worth.

In November, United Airlines will begin nonstop service from Brownsville to O'Hare International Airport in Chicago.

The South Padre Island mayor's office and SPI Convention and Visitors Bureau have also pledged marketing dollars to support the flight.

The airport hired consultant Air Service Development to produce the data used to convince United that the route was worth launching from the gate-challenged O'Hare.

The Rio Grande Valley attracts about 100,000 "snowbirds" or "winter Texans" from northern states from October through March.

The Brownsville airport competes with the larger Valley International Airport in Harlingen, 25 miles to the north. VIA, which has more than seven times the traffic of Brownsville, also touts itself as "Gateway to South Padre Island" and has scheduled service from Southwest, United and Delta airlines.

"We're trying to get more of the leisure traffic," Schroeder said. "Obviously, we are closer to the island than VIA."

With a population of about 183,000, Brownsville attracts shoppers from its sister city of Matamoros, Mexico, on the opposite bank of the Rio Grande. The population of Matamoros is estimated at about 500,000.

Brownsville is the seat of Cameron County, population 408,000 per the 2010 census. Cameron is one of four counties that make up the fast-growing Rio Grande Valley, along with Hidalgo, Willacy and Starr counties. The population of the four counties grew from 325,000 to more than 1.3 million by 2014.