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Atlanta Joins Wave of Airports Boosting Capital Spending

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BRADENTON, Fla. – It won't be cheap to protect Hartsfield-Jackson Atlanta International Airport's "world's busiest" title.

Retaining the moniker will require a \$6 billion capital investment over the next 20 years, city and airport officials said at a kick-off announcement in Atlanta March 10.

To keep pace with rising passenger and aircraft demands, the airport will need a new, sixth runway and a new concourse – both estimated to cost nearly \$2 billion – as well as a \$500 million hotel and mixed-use commercial complex.

New cargo, firefighting and parking facilities as well as renewal and replacement projects are also on the to-do list, which has been dubbed "ATLNext."

Hartsfield-Jackson saw a record 100 million passengers last year, paving the way for Atlanta to join a wave of commercial airports that are moving growth-related capital plans forward, while addressing recession-delayed projects.

The improving economy and low energy prices are helping to drive passenger growth domestically and internationally, and creating opportunities for airports to move projects forward, according to Randy Gerardes, senior analyst and director of Municipal Securities Research at Wells Fargo Securities LLC.

"It's certainly a pretty decent time to be in the airport management business and to invest in airports," he said. "If folks are not spending on goods, they are driving more and they are taking more vacations. That's certainly positive for airport numbers."

Across the U.S., passenger growth rose by nearly 5%, according to a March 2 report by Fitch Ratings.

Even a massive snowstorm in January failed to slow the urge to fly as the median traffic growth rate rose 3.7% compared with January 2015, said Fitch analyst Seth Lehman.

The five largest U.S. airlines reported that their January traffic and capacity numbers rose despite a northeast blizzard that cancelled an estimated 10,000 flights and closed airports from the Carolinas through New England.

"In our view, January traffic numbers can be a leading indicator of annual momentum," Lehman said.

Fitch said it expects passenger growth of 3% to 3.5% this year.

That growth is fueling opportunities for airports to spruce up from coast to coast, along with favorable interest rates for borrowing, said Gerardes.

He also expects this year will see some of the first public-private partnerships in the aviation sector.

"Airports, I think, are considering doing some P3s for their projects," he said. "We don't expect to see a fully privatized airport but privatizing certain terminals or operations to move it off the balance sheet of the airport, or to move [projects] faster."

On March 24, the Port Authority of New York and New Jersey approved using a P3 to implement a \$4 billion overhaul of LaGuardia Airport.

At Los Angeles International Airport, several P3s are envisioned to for portions of the \$14 billion, short-term LAX Modernization Project, including an automated people mover and a consolidated rent-a-car center, according to a March 3 report on the P3 market by Squire Patton Boggs LLP.

In Florida, Fort Lauderdale-Hollywood International is in midst of a \$2.4 billion upgrade using traditional financing. An \$826 million runway to ease traffic congestion already is in use after coming in on time and under budget in the fall of 2014.

Orlando International Airport started a \$3 billion expansion and renovation program last year. Tampa International Airport also launched a \$2.5 billion expansion plan last year – its largest CIP in four decades.

New Orleans Louis Armstrong International Airport is advancing an \$826 million capital plan, the centerpiece of which is a state-of-the-art terminal to replace an outdated 55-year-old facility.

At busy Charlotte Douglas International Airport in North Carolina, a 10-year, \$2.5 billion capital program is in full swing.

"It's a better environment for airports to increase charges to pay for these enhancements," Gerardes said. "Generally, we've been pretty bullish on airports and their growth prospects with the economy's improvement overall."

Gerardes also said it is "a pretty decent time" to invest in airports as credit spreads have tightened.

In the current low-interest-rate environment, he said airport bonds can offer a little pickup in incremental yield over high-quality general obligation debt.

"Performance has been reasonably good, although it hasn't been as strong as toll roads," he said. "If interest rates move up significantly, there could be a flight to quality so that may benefit some double-A rated credits in the airport space."

Atlanta likely will benefit from a recent lift in its airport credit ratings as it moves forward financing its \$6 billion capital improvement plan.

On March 8, Moody's raised its ratings to Aa3 from A1 on the airport's outstanding \$856.63 million of passenger facility charge and subordinate lien hybrid bonds.

At the same time, Moody's affirmed its Aa3 ratings on \$1.78 billion of outstanding senior lien general airport revenue bonds.

"Both the senior lien GARB and PFC ratings reflect the strategic importance of Hartsfield-Jackson Atlanta International Airport to the national air transportation system and the economically vibrant and diversified Atlanta economy that provides stable demand for origination and destination traffic with no effective competition," analysts said.

Also underpinning the Atlanta airport's strengths is the fact that it is "the most

traveled airport in the world in both passenger enplanements and operations," the analysts said.

The airport's broad revenue pledge, low-cost structure, and "sound financial operations" are also strong credit factors.

Standard & Poor's rates all of Atlanta's airport bonds AA-minus, while Fitch Ratings assigns A-plus ratings. Both have stable outlooks.

The ultimate aim of the \$6 billion investment plan is "to help the airport retain its position as the world's busiest airport," general manager Miguel Southwell said as the new capital program was announced earlier this month at a kick-off event sponsored by Atlanta-headquartered Delta Air Lines.

"Not only will these projects be transformational for the airport, but they will enable the needed expansion to accommodate the growing demand we have at Hartsfield-Jackson," Southwell said.

In fiscal 2015, enplanements in Atlanta grew by 3.7%, and are up 7.1% in the first seven months of fiscal 2016, Janney Montgomery Scott municipal strategist Alan Schankel said in a March 10 report.

"A concern is single carrier concentration, with Delta accounting for 82% of enplanements in 2015, but this is largely offset by ATL's low-cost structure, which is below U.S. airport medians," he said.

Delta carried 75.6 million passengers in and out of Atlanta last year, according to the airport's statistics. The second-largest carrier was Southwest with more than 9.5 million passengers, Schankel noted.

Hartsfield-Jackson is owned by the city of Atlanta, and operated by its Department of Aviation.

Atlanta wrapped up a 10-year, \$6.5 billion capital improvement plan at ATL about five years ago.



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