THE BOND BUYER

O'Hare's billion dollar deal lands smoothly

By

Yvette Shields

Published

August 31, 2022,3:48 p.m. EDT

Chicago O'Hare International Airport's $1.77 billion sale drew about 39 new investors to the table Tuesday as healthy demand for the upgraded bonds made for a soft landing despite market volatility and a flood of airport bonds this year.

With $6.3 billion in orders from 107 investors, the city shaved yields in a repricing that wasn't completed until late Tuesday, given the deal's size and diverse mix of coupons — 4s, a 4.625, 5s, 5.25s and 5.50s — that were designed to appeal to specific buyer interest. Some maturities also carried coverage from Assured Guaranty Municipal Corp.

The deal's spreads tightened from the city's 2020 O'Hare issue and landed in line with market expectations, given its size and the results of other recent airport transactions. Airport bonds have offered some additional spread compared to other revenue bonds amid a surge in airport borrowing this year.

Passengers at O'Hare International Airport in Chicago in 2020. The airport is embarking on a makeover of its passenger terminals. **Bloomberg News**

Ahead of the city's third largest bond sale ever, and the largest airport offering this year, Fitch Ratings and S&P Global Ratings both lifted O'Hare's general airport rating to A-plus from A, which the city promoted along with its successful completion of a runway makeover and the ongoing recovery of traffic from early in the COVID-19 pandemic.

"I think we had good subscription across the board" and "were able to tighten yields by seven or eight basis points in most parts of the curve," Chicago's Chief Financial Officer Jennie Huang Bennett said Wednesday. As many as 39 investors were new to O'Hare. "It was just a great story to tell to investors and ultimately we saw that in the pricing."

The upgrades marked the airport's first since 2016 as borrowing ticked up to fund major expansion and runway and terminal makeover plans. Kroll Bond Rating Agency affirmed its A-plus and stable outlook.

The true interest costs settled at 4.80% with the refunding portion generating $42 million of savings, or 8% net present value, that the city will take upfront without pushing out any maturities. The savings will "help us over the next couple years as we make our way to full recovery post-pandemic," Bennett said.

The sale raised more than $1 billion of new money for O'Hare capital projects. About $13 million of the deal went to retail buyers.

The deal offered a $1.1 billion tranche subject to the alternative minimum tax with a final maturity in 2055 and a $165 million tranche maturing in 2044 also subject to the AMT with a $151 million non-AMT series maturing in 2056, and a $343 million non-AMT series maturing in 2044.

"We offered a number of different coupon structures in order to create diversification for whatever the investor preference might be whether it's for discount bonds, premium bonds, or traditional 5% coupons and the purpose of that was for us to be able to offer that diversification and also be able to market some fairly large maturities in smaller components … to address whatever particular investor appetite," Bennett said.

The deal follows offerings this year from airports in Denver, Dallas-Fort Worth, Atlanta, Orlando and Minneapolis-St. Paul. New money airport borrowing through July of $10.8 billion was up 46% from the same time last year, according to CreditSights. August airport issuance could hit $4.7 billion, the largest single month since 2010.

With just a roughly $6 billion calendar this week, the O'Hare deal stood out, market participants said.

"It did very well. It was oversubscribed in what's been a violent month," Peter Franks, director of municipal analysis at Refinitiv MMD, said referring to market volatility. "There is demand, it's just being cautious waiting on Federal Reserve actions and the O'Hare deal was the bulk of this week's issuance so there was not a lot of competition."

The 10-year in an AMT tranche settled at a 115 basis point spread to the MMD's AAA benchmark and the non-AMT landed at a 37 bp spread for a 78 bp differential. Both offered 5% coupons. On the longer end, an AMT 2055 bond saw a spread of 146 bps and a 2056 saw a 105 bp spread, for a 41-point differential.

The city's last O'Hare issue, in 2020, offered only non-AMT bonds with the 10-year landing at a 1.46% yield, for a 63 bp spread that has more recently traded at a spread of 39 to 43 bps.

Spreads were in line with GARB spreads in the secondary market on non-AMT bonds — 30 to 35 bps — and wide to where AMT bonds have traded — 69 to 75 bps — but primary outings have faced a premium, said market participants.

The Minneapolis-St. Paul Metropolitan Airports Commission, which sold in August, saw spreads of 30 bps on a non-AMT nine-year bond and a 105 bp spread on a 10-year AMT maturity. Those bonds benefitted from an in-state tax exemption, which most Illinois-based paper lacks leading to some penalty.

"The recent surge in airport volume has resulted in the average spread for AMT airport bonds to widen and the spread for non-AMT bonds to tighten," CreditSights said in a report ahead of the O'Hare sale. The August Minnesota airport paper and O'Hare saw differentials in the 70 bp range compared to recent overall trading differentials of 45 bps.

The airport has about $8.5 billion of parity debt. Chicago last year completed on time and on budget its $6 billion O'Hare Modernization Program that revamped the runways.

About $9 billion of borrowing is expected through 2029 with the next deal expected next year to fund $12 billion in escalated dollars of airline-approved capital program that includes the capital improvement program and the initial phase of terminal redevelopment.

JPMorgan, Cabrera Capital Markets, and Citi served as senior managers. Frasca & Associates LLC and Public Alternative Advisors LLC advised. Katten and Neal & Leroy LLC were bond counsel.

The city plans a customer facility charge refunding in the fall and a general obligation issue in the fourth quarter with a water and wastewater issue now expected in 2023, Bennett said.