THE BOND BUYER

Boosted by rating upgrades, Salt Lake City airport to sell $429 million of bonds

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Salt Lake City International Airport (SLC) snagged two rating upgrades ahead of its upcoming trip into the municipal bond market to continue financing a $5.135 billion project to replace its facilities.

The $429 million of general airport revenue bonds scheduled to price Wednesday through BofA Securities and J.P. Morgan will mark the fourth debt sale since the once-debt-free airport commenced its New SLC Airport Redevelopment Program in 2014.

“For them to give us an upgrade and validate to investors that ‘hey there’s a lot of positive things happening at the airport,’ I think it definitely helps us," Brian Butler, Salt Lake City International Airport's chief financial officer, said. **Salt Lake City Department of Airports**

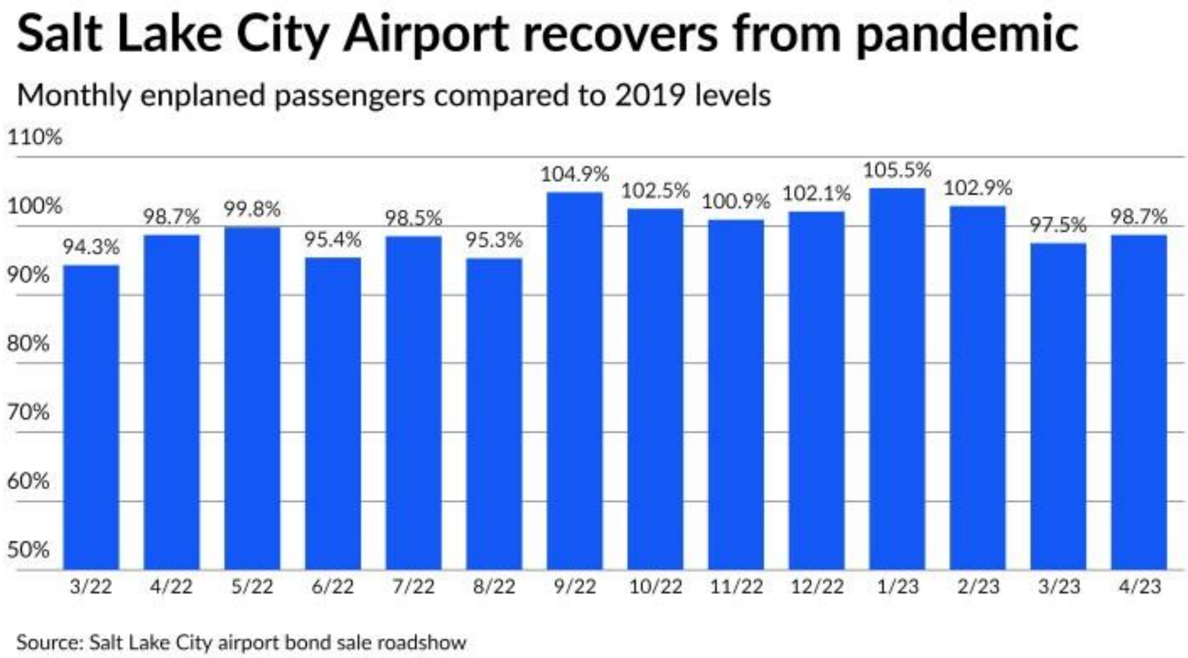
Ahead of the pricing, S&P Global Ratings raised the airport's rating a notch to A-plus, Kroll Bond Rating Agency upgraded the bonds to AA from AA-minus, while Moody's Investors Service affirmed an A2 rating — all with stable outlooks.

"For them to give us an upgrade and validate to investors that 'hey there's a lot of positive things happening at the airport,' I think it definitely helps us," Brian Butler, the airport's chief financial officer, said.

For its rating action, S&P cited "a full recovery in passenger levels; impressive execution and delivery of a large, complex airport redevelopment program ahead of schedule; and recently updated airline operating agreements with business terms that enhance cash flow funding of capital development and improve coverage while keeping financial metrics consistent with a strong financial risk profile."

The upgrade restored the airport's rating to A-plus after an S&P downgrade to A during the COVID-19 pandemic, when people were not taking flights.

SLC's enplanements have recovered to 2019's pre-pandemic levels, with visitors flocking to Utah's national parks and ski facilities, and travel demand generated by large corporations, universities, and the Church of Jesus Christ of Latter-day Saints.



"You have a lot of positive drivers that have led to resilient air travel demand characteristics for this particular airport," said Joe Pezzimenti, an S&P analyst.

Renegotiated use agreements extend through 2044 with airlines representing over 86% of its fiscal 2022 passenger volume. That includes Delta Air Lines, the airport's biggest carrier, which accounted for 73.4% of the airport's fiscal 2022 total volume.

"We have a new business deal that generates the cash flow that we need not just to pay the debt service, but to also generate additional cash flow for capital projects outside of the concourses and the terminal," Butler said, adding the airport plans to use federal funds and cash for airfield improvements and other projects.

KBRA said the agreements "demonstrate continued strong support for the New SLC, along with confidence in department management that projects will continue to be implemented in a fiscally responsible manner."

Another factor was the airport's move to lock in construction costs with contractually guaranteed maximum prices for the remainder of the New SLC program, which replaces substantially all of the airport's terminal complex facilities and is expected to be completed in 2027.

"We've actually taken inflation off the table now that we basically secured all the contracts through the end of phase four," Butler said.

Credit challenges cited by rating agencies include Delta's dominance at the airport. KBRA said the level of Delta enplanement concentration is manageable at the current rating level, noting that SLC serves as Delta's primary connecting complex in the Intermountain West and its fourth largest hub nationally.

Butler pointed to Delta's commitments in Utah. In addition to its long-term SLC use agreement, the airline this year acquired naming rights for the Utah Jazz's arena and is planning its first significant flight operations training center outside of Atlanta in Utah.

Moody's said while remaining construction of the New SLC program is less complex than earlier projects, completion risks persist despite strong management.

"That said, completion risk will lessen quickly over the next couple of years and the rating could see positive improvement if mitigation efforts are successful and no scope additions materialize," the rating agency said in a report.

New SLC began with a $1.8 billion price tag that grew to accommodate Delta's expanded hub operations and to meet other airlines' demand for gates, with 16 to be added in the program's phase four. About 50 of the planned 94 gates are in operation.

The airport ended its debt-free status with bond issues totaling $1 billion in 2017, $850.5 million in 2018, and $904 million in 2021. The Salt Lake City Council approved the upcoming deal in May.

Butler said 75% of the program will be bond financed, with other funding coming from airport cash, customer facility charges on rental cars, and federal grants. Passenger facility charge revenue, which totals $45 million to $50 million annually, will be tapped over the next 10 to 15 years to pay down debt service, he added.

About $726 million of bonds would be issued to complete the program, according to the deal's roadshow. Butler said the remaining debt would be sold next year and in late 2025 or in 2026.

The airport had tapped almost $275 million from a $300 million revolving line of credit with J.P. Morgan that was paid off with some of the 2021 bond proceeds, he said, adding he didn't see any near-term need for the credit line, which has been reduced to $150 million.

New SLC's completion in 2027 will coincide with an opportunity that year to call 2017 bonds.

"If there's cost savings on the debt side we're going to look for those," Butler said.

In the upcoming deal, co-managers are Barclays, Goldman Sachs, Ramirez & Co., Siebert Williams Shank & Co., and Wells Fargo Securities. Kutak Rock is bond counsel, Kaplan Kirsch & Rockwell is disclosure counsel, and PFM is the financial advisor.

The bonds, which are subject to the alternative minimum tax, are structured with serial maturities from 2025 through 2043 and term bonds due in 2048 and 2053, according to the preliminary official statement.

In a July 13 report, CreditSights said AMT bonds have been driving outperformance by the airport bond index, which earned 100 basis points more than the muni index through June 30 this year.

"Based on the strong airline passenger demand and investors' appetite for income, we see room for the airport sector to continue to modestly outperform the broader market," the report said.

While SLC's non-AMT bonds are preferred for core exposure to the sector, there is potential in the near future for spreads on its AMT bonds to tighten, CreditSights added.

Municipal Market Analytics last week upgraded the airport sector to positive.

"Most airports' business and financial operations have been positively impacted by the continuing rebound, if not a crushing surge, in leisure travel, with business travel now improving as well," it said in a report. "National passenger enplanements are only 6.5% below the all-time high just before the pandemic."