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Planes and boats and trains – oh my! (Airport Bonds)

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Airport bonds can take two forms. Standard bonds are paid from general operating revenues , such as landing fees, parking, gate and terminal rents, federal passenger facility charges, and commercial concessions. Smaller airports depend upon local demand for that city. But larger airports, such as Chicago's O'Hare, Atlanta's Hartfield, and the airports of the Port of New York/New Jersey, benefit from pass-through connection flights. These airports are known as "hubs," and are rated as high or higher than the cities and metropolitan areas where they are located frequently in the "AA" category.

I consider these kinds of airport bonds in the low-default risk category. The biggest risks that these bonds pose to investors is mismanagement (which is a rare risk faced by any bond issuer), or the possibility that a new competing airport which could divert planes and passengers away from the original airport. (Of course there's also the risk that we perfect Star Trek's "beam-me-up, Scottie" technology.)

Then there is the riskier sector called "special facility" revenue bonds. These bonds receive no general airport revenue, and are totally dependent on rents or payments from a corporation. As such, these bonds are subject to corporate credit risk, where defaults are much more frequent. As an example, Indianapolis issued more than $1 billion of bonds for a United Airlines major maintenance facility that was to be used for all maintenance and re-fitting operations for United's entire fleet. When United filed for bankruptcy in 2002, they rejected their lease and ended payments. The facility reverted to the airport, which tries to subdivide portions of the facility to generate some kind of report. Those bonds are still in default, and may never repay investors.

About the Author

***RICHARD P. LARKIN, Stoever Glass & Co., Inc*.**

Richard Larkin, a recognized 40 year industry veteran, has joined SG & Co. as Director of Municipal Credit Analysis. Mr. Larkin began his career in credit rating analysis at Standard & Poor's in 1975. After rising through the ranks in various analytical and management positions, Dick left S&P as its Chief Municipal Rating Officer, responsible for municipal rating policy, practices, governance and criteria. In 1998, Mr. Larkin joined Fitch Ratings as Chairman of its Public Finance Criteria Committee. He ultimately left to take leading roles in municipal hi-yield analysis at firms JB Hanauer & HJ Sims.

"Dick will be a unique resource to Stoever Glass' municipal clients. His knowledge in specific issues and areas of the municipal bond industry will aid our representatives and their clients in making educated decisions, in a sector where this type of research is unique," said Roland Stoever of Stoever Glass.