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# Muni monitor series: airports and holiday travel


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*Airport revenue bonds play an essential role in financing the U.S. airport system. Market trends may signal prospects for essential facility upgrades – and ultimately, a better air travel experience – in the coming months and years. The effects of airport upgrades are often under-recognized, including the impact on the cost of air travel for passengers and the economic health of the municipality in which an airport operates.*

**BY THE NUMBERS**

- $175 billion: estimated value of outstanding airport revenue bonds within a $418 billion transportation sector.
- $151 billion: capital needs of U.S. airports from 2023 to 2027.
- $18 billion: muni bond issuance funding airports as of October 2024 YTD, a 25% increase over 2023.
- 90: number of U.S. airports with outstanding muni bonds, representing 65% of commercial hub airports.

## MUNI BONDS CONNECT WITH AMERICANS' LIVED EXPERIENCE

The Nuveen muni monitor series explores the connection between effective muni bond investing and Americans' lived experience. Nuveen's muni credit analyst team – one of the industry's largest and longest tenured – constantly assesses the impact of the trends that influence muni credit quality across all market sectors.

Municipal bonds are a foundational element in Nuveen's proud heritage of investing to support public purpose – and an asset class that touches the everyday lives of all Americans. Munis fund essential infrastructure for state and local government; K-12 schools, colleges and universities; roads and airports; hospitals; water and sewer utilities; housing and more.

Our research identifies what we believe are attractive investment opportunities. It also yields practical insights into what individuals can expect when it comes to the availability, operation and cost of services used daily – things like the price of an airline ticket or a hospital visit, the health of regional transportation options, the quality of local school systems or the dependability of critical utilities.

## AIRPORT UPGRADES ARE REQUIRED AS DEMAND INCREASES

On the Sunday after Thanksgiving Day 2023, the Transportation Security Administration (TSA) screened 2.9 million people at U.S. airports – the highest number of people to go through U.S. security on a single day ever. We have already hit or surpassed that number of travelers more than a dozen times in 2024.

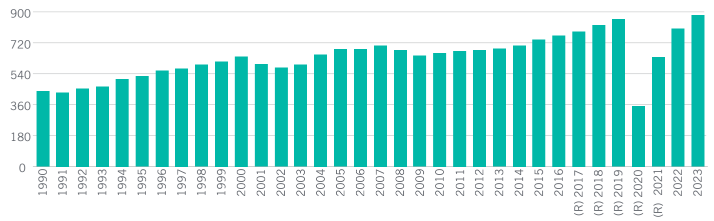
Travel typically spikes during the year-end holiday season in the U.S. For many, this means flying and spending time in airports. According to TSA passenger data, the Sunday after Thanksgiving typically has been the single busiest day of the year at U.S. airports. Other high-volume periods include the Christmas holidays and summer holidays. This trend is set to continue. Peak air travel times will yield larger crowds and longer lines at airports, a familiar airport experience for travelers.

While rates of air travel over the past several decades have steadily increased, the number of airports in the U.S. has stayed constant. No new commercial airports have been built in the U.S. other than replacements of older airports.

Air travel takes longer now than it did decades ago because of increased air traffic leading to airport congestion; schedule padding by airlines to account for potential delays due to weather or air traffic control; and enhanced security checks since 9/11.

**Figure 1: The rate of air travel has steadily increased**

*Number of enplaned revenue passengers (millions)*




Data source: U.S. Department of Transportation, Bureau of Transportation Statistics, 1990 - 2023. The sudden downturn in 2020 was due to the pandemic. R stands for revised.

Increased demand for air travel has led to the need for terminal expansions, with more gates and airport concessions, as well as greater efficiency to accommodate future growth. Airports must devise ways to move greater numbers of passengers through security lines and onto planes without increasing wait times and generating delays.

## MUNICIPAL BONDS HELP WITH FINANCING

The issuance of municipal bonds can help airports finance capital projects to address these constraints. In fact, muni bond issuance for airport projects is up this year. Airports have issued approximately $18.2 billion in revenue bonds through October 2024, which is more than the total amount of airport bonds issued in all of 2023.

### WHAT DO WE LOOK FOR IN AIRPORT DEALS?

- Strong demographic and economic characteristics of the air service area
- Air carrier diversity; percent of non-airline revenue
- Net revenue to debt service coverage ratio
- Significant liquidity and reserves to manage operational disruptions
- Manageable debt burden and cost per enplanement (CPE)
- Future capital plans and funding sources
- Status of airline use and lease agreements

Issuance of airport bonds is expected to remain elevated over the next few years. Capital projects and infrastructure maintenance that were delayed during the pandemic can no longer be postponed.

Large hub airports – such as the Chicago O'Hare International Airport, the Los Angeles International Airport and the Dallas Fort Worth International Airport, which handle 70% of all passenger enplanements in the U.S. – have the largest share of capital needs. But small- and medium-hub airports are also issuing bonds to finance expansion projects. Replacing aging technology, upgrading the customer experience, optimizing passenger flow, mitigating aircraft noise and creating sustainability are central goals for almost every airport improvement program.

Nearly all U.S. airports are owned by state or local governments. However, airports cannot levy taxes, and they receive little or no direct taxpayer support. The Federal Aviation Administration (FAA) requires airports to maintain a fee and rental structure to make the airport as self-sustaining as possible.

Airports can use federal Airport Improvement Program (AIP) grants for airfield improvements, such as runways and taxiways, or for enhancing security around the airport. However, AIP grants are not generally used for terminal projects, which account for most airport infrastructure needs. Airports typically use tax-exempt municipal bonds to finance the construction or renovation of terminal concourses.

Airport infrastructure projects currently underway include reconfiguring checkpoint operations, improving restrooms and hold rooms, adding retail options, upgrading baggage handling systems and improving ground access to ease congestion.

The Bipartisan Infrastructure Law enacted on 15 Nov 2021 appropriated $25 billion over a five-year period (FY22-26) for airport and air traffic control projects. This funding includes $15 billion in grants for airport infrastructure projects that increase safety and expand capacity, $5 billion for replacing aging terminals and $5 billion to improve air traffic control facilities.

### Figure 2: Airports are issuing bonds to finance expansion projects

*Largest airport new money bond issuance in 2024*

| Issuer | Airport code | Deal size |
|---|---|---|
| New York Transportation Development Corp | JFK | $4.5 B |
| Chicago O'Hare International Airport | ORD | $2.7 B |
| San Francisco City & County Airport Comm-San Francisco International Airport | SFO | $925 M |
| County of Miami-Dade FL Aviation Revenue | MIA | $918 M |
| Metropolitan Washington Airports Authority Aviation Revenue | IAD & DCA | $824 M |
| Port of Seattle WA | SEA | $818 M |
| Burbank-Glendale-Pasadena Airport Authority | BUR | $725 M |
| Dallas Fort Worth International Airport | DFW | $724 M |
| Minneapolis-St Paul Metropolitan Airports Commission | MSP | $671 M |
| Port of Portland OR Airport Revenue | PDX | $590 M |
| County of Lee FL Airport Revenue | RSW | $522 M |
| County of Clark Department of Aviation | LAS | $470 M |
| County of Sacramento CA Airport System Revenue | SMF | $467 M |
| Hillsborough County Aviation Authority | TPA | $463 M |

Data source: Bloomberg, L.P., 31 Oct 2024.

### TURNING JFK INTO A WORLD-CLASS AIRPORT

Announced in 2017, the JFK Vision Plan is a $19 billion transformation of one of the nation's busiest airports. A major component includes two new terminals equipped with multiple aircraft ramp system (MARS) gates, a major innovation in aviation infrastructure. MARS gates accommodate multiple aircraft of different sizes, improving boarding and deplaning processes, reducing congestion and minimizing ground time.

In addition, the new terminals will offer an array of amenities to enhance the customer experience, including spacious lounges, indoor green space and shorter walking distances. The projects will integrate sustainably sourced building materials and energy efficient systems and operating practices throughout the terminals.

## AIRPORTS ARE CONSIDERED ESSENTIAL ASSETS

Airports are essential service providers with generally sound credit quality. They often have a monopoly position, especially larger airports that serve major economic areas and provide international travel. The median rating for general airport revenue bonds (GARBs) is A+. The bonds are typically secured by a pledge of net general airport revenues.

Airports derive operating revenue from airline activity, such as terminal rentals and landing fees, and from non-airline activity, such as retail concessions, parking and ground transportation. While airports face a myriad of operating risks – one being adequate capacity, which can affect traffic volume – they all have high fixed costs and expensive infrastructure to maintain.

A key financial metric for assessing the creditworthiness of any borrower is the ability to cover debt obligations. Federal regulations allow airports to set airline rates and charges at a level necessary to cover all operating expenses, including debt service. Airlines typically require a formal role in airports' capital investment decisions since the airlines ultimately pay for those investments. Most airports' business relationships with the airlines are detailed in their use and lease agreements for runway access, airport gates, and terminal facilities.

These agreements are an important source of airport revenue, typically representing 55% to 60% of an airport's total operating revenue.

## AIRLINES ARE OBLIGATED TO PAY AIRPORT FEES

Given the essential role that airports play in airlines' ability to serve their customers, airports are largely insulated from the financial conditions of the airlines. Numerous airlines have filed for Chapter 11 bankruptcy. American Airlines was the last major U.S. airline to file for Chapter 11 in 2011, and Spirit Airlines is currently weighing a Chapter 11 filing.

Even in bankruptcy, airlines are generally obligated to pay airport fees. Airlines in bankruptcy have attempted to modify their contracts with airports or reduce their airport fees as part of the restructuring process. However, if an airline completely stopped paying airport fees, it would likely be barred from operating at the airport. Airlines are a crucial source of revenue for airports, so airports typically try to work with airlines in bankruptcy to avoid disruptions.

Alternative minimum tax (AMT) bonds represent just over half of all airport bonds outstanding. AMT bonds yield more than non-AMT bonds to reflect the risk that they could become taxable to some investors. AMT bond spreads have widened somewhat this year, although the potential expiration of the Tax Cuts and Jobs Act (TCJA) looms large. AMT spreads would likely tighten meaningfully if the AMT provisions of the TCJA are extended.

In the current favorable credit environment, bond spreads across sectors have tightened this year. Consistent supply and investor demand have kept airport bond spreads in a tight band. Not all airport credits are the same and not all deserve tighter spreads. For example, some airports have recovered since the pandemic, while others struggle with weakened or stagnant demand. Thus, careful credit selection remains key.

## INFRASTRUCTURE UPGRADES PROMOTE COMPETITION AND LOWER TICKET PRICES

Investments in airports can be a key driver of enhanced competition among airlines, generally leading to lower airfares. Five major airlines collectively control 75% of the U.S. airline market. Limited access to airport gates makes it difficult for smaller, low-cost airlines to compete. Increasing the number of gates and other airport terminal facilities would promote competition and lower prices for consumers.

Cost per enplanement (CPE) represents the total amount an airline pays to an airport per enplaned passenger. It stands to reason that the more an airline must pay per passenger to operate at an airport, the more likely it is to pass on a portion of that cost to the consumer. However, airport charges constitute only 5% of airline expenses, with the biggest costs being flight crew salaries and expenses, fuel expenses and aircraft depreciation.

## THE BOTTOM LINE

The push is on to rebuild America's airports to meet the demands of a modern era of travel. The Bipartisan Infrastructure Law is providing billions of dollars to support the aviation industry in expanding, optimizing operations and transforming the passenger travel experience.

Municipal bonds pick up where federal grants leave off, since the cost to upgrade the nation's airports well exceeds federal funding. The issuance of airport revenue bonds is elevated, but that will not always be the case. Elevated issuance may lead to spread widening, especially if the demand for AMT paper wanes.

**For more information, please visit nuveen.com.**

**Endnotes**

**Sources**


Bloomberg, L.P.; Federal Register/ Vol. 78, No.175/Tuesday, 10 Sep 2013; "2023 U.S. Airport Infrastructure Needs Report: Growing Needs Heighten Urgency to Modernize America's Airports," Airports Council International; U.S. Department of Transportation, Federal Aviation Administration; TSA.gov/travel; Airports Council International.

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