

What are General Airport Revenue bonds?

General Airport Revenue bonds are issued by municipalities or airport authorities to finance construction, expansion and improvements at airports. As with other revenue bonds, General Airport Revenue bonds are backed by airport operating revenue rather than general municipal funds.

How Has This Sector Been Impacted by the Economic Environment?

General Airport Revenue bonds are generally considered to be relatively safe investments under most circumstances given the essentiality of services, steady revenue streams, and lack of pension liabilities. Given today’s dramatic reduction of passenger air travel, tax-exempt investors have been forced to think carefully about near-term credit quality implications.

Air Travel Is Likely to Lag the Broader Economy

While we expect the US economy to gradually begin reopening over the next couple of months, air travel should be slower to revive. Domestic travel will likely start to gain traction well ahead of international routes. We do not anticipate airport volume to return to normal for perhaps 12-18 months and are modeling our analysis accordingly.

Identifying Pockets of Value

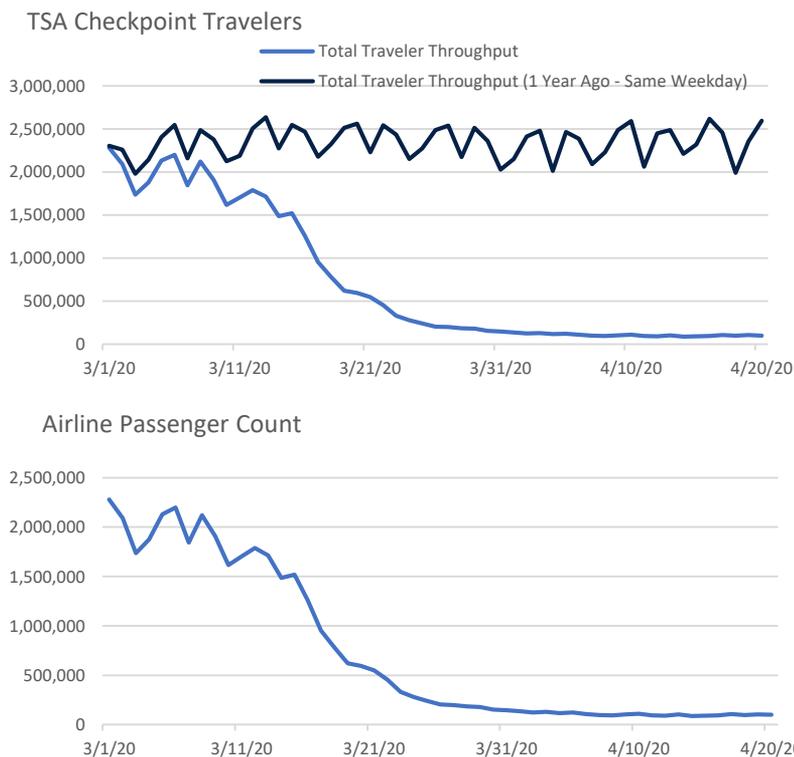
As research-driven active managers, we are constantly searching for compelling value and unsettled market conditions can create opportunity. While we remain cautious on the airport sector and feel that moderate credit downgrade risk exists, certain credits are far better positioned than others. As prices warrant, we are selectively buying General Airport Revenue bonds of issuers we feel retain solid credit standing.

What Credit Factors Do You Emphasize?

Stress testing is essential to our evaluation of credit stability during an indefinite sector downturn. These factors can help differentiate value from undue credit risk. After engaging in this analysis, we feel comfortable that all the General Airport Revenue bonds held in Appleton portfolios are well positioned to manage through this difficult economic cycle.

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| Size and scale | We feel “Large Hub” airports, as classified by the FAA, will fare better than most smaller airports due to more revenue diversity, airport use & lease agreements, higher levels of Federal support, and much greater trade and overall economic essentiality. |
| Days cash on hand | Liquidity is important, particularly should diminished revenues no longer be able to cover debt service and other expenses. Measuring unrestricted cash levels gives us a better sense of the extent to which airport authorities possess an added layer of financial flexibility. |
| Debt service coverage | Higher debt service coverage creates a larger cushion to absorb revenue declines. |
| Carrier concentration | Airline diversity is valuable to airports, as is the relative importance of the airport to the largest carriers’ overall business. These attributes point to greater revenue stability during periods of low passenger traffic. |
| Service area | Our analysis also accounts for the economic health and wealth of the geographic area, population levels, size of enplanement base, and composition of traffic with a preference for a healthy origination and destination component, as opposed to more vulnerable connecting hubs. |
| International component | We feel that international travel will be slower to recover and factor dependence on this source of revenue into our credit modeling. |
| CARES Act grants | Federal funding will be needed to help airports through this acute economic shock. Accordingly, our credit assessment considers CARES Act grants relative to recent annual operating revenue. |

Air travel is a lifeblood of the global economy. Today’s dislocation is temporary, yet it demands a close look at the credit strength of General Airport Revenue bond issuers. Through proprietary research and stress testing, we feel favorable issuer specific conclusions can be drawn.



Source: <https://www.tsa.gov/coronavirus/passenger-throughput>

Accessibility and communication are important in any environment, although these attributes are especially valuable during uncertain and volatile times. Appleton Partners is committed to sharing our market and portfolio management perspectives as developments unfold. We hope these briefs are helpful and also invite you to reach out to us directly and/or visit www.appletonpartners.com/Insights for additional commentary and insights.

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