two eight Aviation Insight

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# Are Airport Slots Valuable as Collateral?: The Spirit Airlines Auction Forces an Uncomfortable Question.

LaGuardia slots have traded for hundreds of millions of dollars over the past fifteen years — used as loan collateral, liquidation assets, and merger currency. The market has largely treated them as owned property rights. The Port Authority of New York and New Jersey just filed a bankruptcy court objection arguing they are not. Despite losing that argument to the FAA before, they may have a stronger case here than the market is pricing in.

## The Asset

Spirit Airlines stopped flying on May 2nd. Its estate is moving to auction 22 slot pairs at LaGuardia — valued at up to $86.7 million — with a July 9 auction target. American, United, JetBlue, and Frontier are widely expected to compete. The implied per-pair value reflects the scarcity economics of one of the most congested airports in the United States.

## There Is Real Precedent

The benchmark is the 2011 Delta / US Airways swap: 132 LGA slot pairs exchanged for 42 Reagan National pairs plus $66.5 million in cash. It required an FAA waiver, DOT and DOJ review, and mandated competitive divestitures. It closed. It defined the modern LGA slot market.

In 2013, as a merger condition, American and US Airways divested LGA slots to Southwest (11 daily flights) and Virgin America (six). The FAA approved. The Port Authority did not formally object.

Slot transfers out of bankruptcy are also precedented — the MBA Aviation RedBook documents multiple such transactions since the 1980s. The consistent working assumption: slots are FAA-regulated rights that can be bought, sold, and transferred, with airport operators playing a coordination role, not a gatekeeping one.

But here is where any honest credit analysis has to pause. Every securities disclosure carries some version of the same warning: past performance is not necessarily indicative of future results. We apply that principle reflexively to returns and recovery rates. We apply it less often to the legal architecture underlying the assets themselves. Prior LGA slot transfers closed under different conditions — operating carriers, cooperative airport authorities, supportive regulators. The fact that they succeeded does not establish that this one will. Precedent informs probability. It does not guarantee outcome.

## The Port Authority Has a Reasonable Argument

Slots are not property. They are rights of use — a privilege granted by the FAA to an operating airline, subject to strict conditions. The most consequential is the use-it-or-lose-it rule: carriers must operate slots at least 80% of the time or forfeit them back to the FAA pool. A non-operating airline does not retain slots under normal regulatory logic.

Spirit stopped flying on May 2nd. The bankruptcy stay has temporarily insulated those slots from reversion — but the Port Authority's objection raises the core question: what exactly is the estate selling? If slots are a privilege of operation rather than a tradeable property right, a bankrupt non-operating carrier may have no transferable interest to auction.

"Landing slots are a privilege that can be withdrawn or cancelled to meet the potential needs of the National Airspace System," the Port Authority said in its filing. That is legally precise, not rhetorical.

They also argue the slots have no operational value without separate airport facility agreements — gate leases, ground access, terminal rights — which cannot be bundled into the auction and sold alongside the FAA slots. Two distinct regulatory relationships; only one is on the block.

## They Have Raised This Before — and Lost

In 2008, the Port Authority went to federal court to block FAA slot auctions at JFK, Newark, and LaGuardia, making nearly identical arguments about proprietary interests and non-transferability. The FAA pushed back hard, warning that interference could jeopardize federal grant eligibility. The FAA prevailed. Western Air Lines v. Port Authority of New York and New Jersey established that FAA slot authority supersedes Port Authority proprietary claims where they conflict.

But the bankruptcy court context is different. The 2008 dispute had the FAA actively supporting slot auctions. Here, the FAA has expressed a preference for low-cost carrier buyers without taking an unambiguous position on the underlying property-rights question. Bankruptcy courts are not bound by FAA administrative precedent the way federal appellate courts are.

## The Debt Holder Problem

The most underappreciated dimension of this dispute is what it implies for secured creditors. Slot-backed lending exists. Lenders have taken slots as collateral assuming that, upon default, they could transfer or liquidate that collateral. The Spirit situation tests that premise directly.

If slots are rights of an operating airline — not assets capable of independent transfer — then a financial creditor enforcing against slot collateral may have no cleaner a claim than Spirit's estate does. The FAA slot rules were written to ensure service is provided, not to accommodate financial default scenarios. A lender or lessor is not an operator.

There are prior instances of slots obtained through creditor default being successfully transferred to new operators — but those succeeded because the FAA exercised discretion in approving them. Discretionary approval is not the same as a perfected security interest. If the Port Authority's argument gains traction here, it introduces real uncertainty into aviation credit structures that have treated slot collateral value as settled.

## What to Watch

The June 10 court hearing is the first signal. If the objection is overruled, the July 9 auction proceeds and the existing framework survives. If the court requires Spirit to separately negotiate facility access — or entertains the argument that the slots are not freely transferable — the timeline and the recovery range both shift.

The slots will likely sell. The Port Authority is unlikely to prevail entirely. But the questions embedded in this filing — what slots are, who can hold them, and whether financial creditors have genuine access to them in distress — deserve serious attention from anyone in aviation finance.

The precedent transactions are real. The historical value is documented. And none of that settles what happens on July 9. Past performance is not indicative of future results — in returns, in recovery rates,

and apparently, in the legal transferability of the assets underlying the deal. Anyone pricing slot collateral today should be reading this filing.

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