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CREDIT OPINION
11 September 2023

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Kenton Cnty. Airport Board, KY - Cons. Ground Trans. Fac.

Update to credit analysis

Summary

The credit profile of Kenton County Airport Board Consolidated Ground Transportation Facility (A3 stable) reflects the project's eliminated construction risk, because the facility opened to the public in October 2021 and is substantially complete and on budget; the continued recovery in air travel, which reached 94% of the 2019 level in year to date (YTD) June 2023; a comfortable liquidity position, which will strengthen increasingly over the next several years; sound financial flexibility because of minimal direct operating expenses; unilateral and unlimited rate setting; and the ability to charge deficiency rent.

These strengths are balanced in part by the significant, although temporary, impairment to the revenue-generating base, with the current transaction days at roughly 90% below 2019 levels; a modestly high CFC rate at $7.50; and a 30-year debt term, which could encounter competition from evolving transportation modes or technologies.

Credit strengths

» The airport is the primary provider for origin and destination (O&D) air travel in Greater Cincinnati, which has a strong business sector in addition to multiple higher education and healthcare institutions.

» The facility has an independent ability to increase the CFC rate without any limit, which applies to on-airport and off-airport RACs.

» The 30-year lease agreement includes the ability to charge deficiency requirement on a joint and several basis to RACs in the event of CFC collection shortfalls.

Credit challenges

» Air travel and rental car activity have been significantly affected by the coronavirus pandemic.

» Long-term exposure to new technologies/vehicle usage patterns adversely affect demand for rental cars.

» The CFC rate of $7.50 is modestly high.

Rating outlook

The stable rating outlook reflects our expectation of improving demand at the car facility, as well as level debt service requirements and adequate liquidity, which will provide more than sufficient funds to cover debt service.

Factors that could lead to an upgrade

» The rating could be upgraded if rental car transactions/transaction days exhibit a sustained period of growth that increases the debt service coverage above 2.5x MADS and there is substantial cash accumulated within the project and the surplus fund.

» The rating could be upgraded if leverage declines and the CFC rate drops to a more competitive/flexible level.

Factors that could lead to a downgrade

The rating could be downgraded if there is:

» a sustained period of declining rental car demand, resulting in a debt service coverage ratio below 1.25x, excluding the use of rolling coverage, or

» limited or no cash balance maintained in the surplus fund.

Key indicators

Exhibit 1

Kenton County Airport Board Consolidated Ground Transportation Facility

	2018	2019	2020	2021	2022
Transactions (000)	461	464	168	234	333
Transaction days (000)	1,595	1,617	674	977	1,291
Transaction days annual change	9%	1%	-58%	45%	32%
O&D enplanements (000)	4,161	4,341	1,741	3,024	3,537
Transaction days/O&D enplanements	0.38	0.37	0.44	0.32	0.36
CFC collections (000)	$11,930	$12,130	$5,057	$7,328	$9,683
Debt Service Coverage Ratio by Net CFC Collections (x)	N/A	2.80	1.13	1.14	1.53

Source: Kenton County Airport Board

Profile

The Consolidated Ground Transportation Facility is located immediately adjacent to the main terminal at the Cincinnati/Northern Kentucky International Airport (CVG), a medium hub airport located 13 miles southwest of downtown Cincinnati. The Consolidated Ground Transportation Facility includes a Consolidated Rental Car Facility (ConRAC) and a Ground Transportation Center (GTC).

The around $205 million program includes the following elements:

» **Main Terminal Roadway Improvement Project** - With a cost of $35 million, this was completed on budget and opened to the public in September 2019.

» **Consolidated Ground Transportation Facility** - It consists of the ConRAC (ready return garage, quick turnaround area [QTA] and service yard) and customer service building. With a combined cost of $170 million, the project was substantially complete and opened to the public in October 2021. Management expects the project to achieve final completion within budget this summer.

Detailed credit considerations

Revenue-generating base

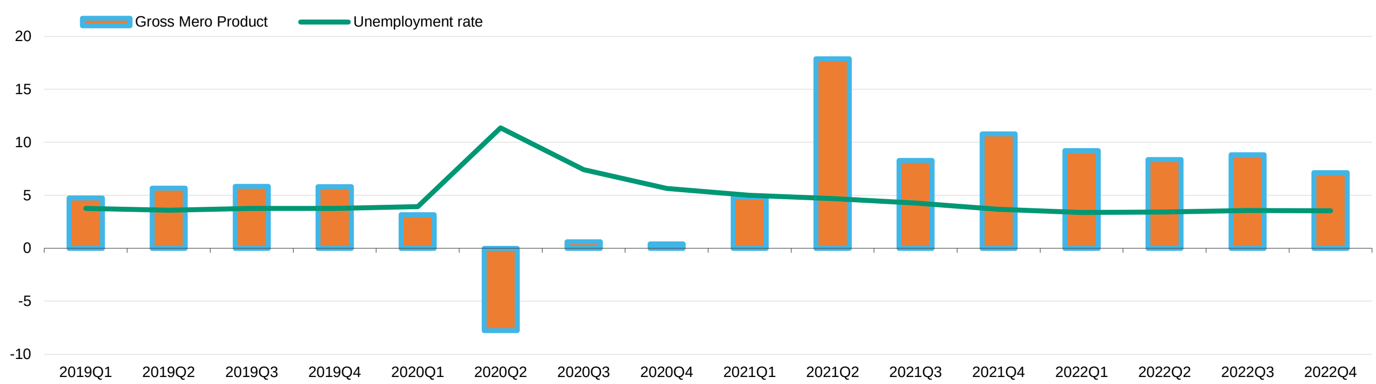
The main driver of revenue at the ConRAC facility is O&D travel, which accounts for almost 95% of the enplanements at CVG. CVG is the dominant provider of commercial air service in the Greater Cincinnati area, which has a diverse economic base and a population of roughly 2.2 million.

The economic conditions in the service area have improved since the start of the pandemic (see Exhibit 3). The economy has good industrial diversity and is a regional economic center with a highly educated and skilled workforce. However, population growth, although firming, is only a quarter of that in Columbus. Over the long term, income growth will outperform the Ohio average due to a more favorable jobs mix, but job growth will slightly lag that of the nation because of below-average demographics.

Exhibit 2

Cincinnati metropolitan area economic indicators

Year-over-year percentage change (GMP) and rate (unemployment), actual

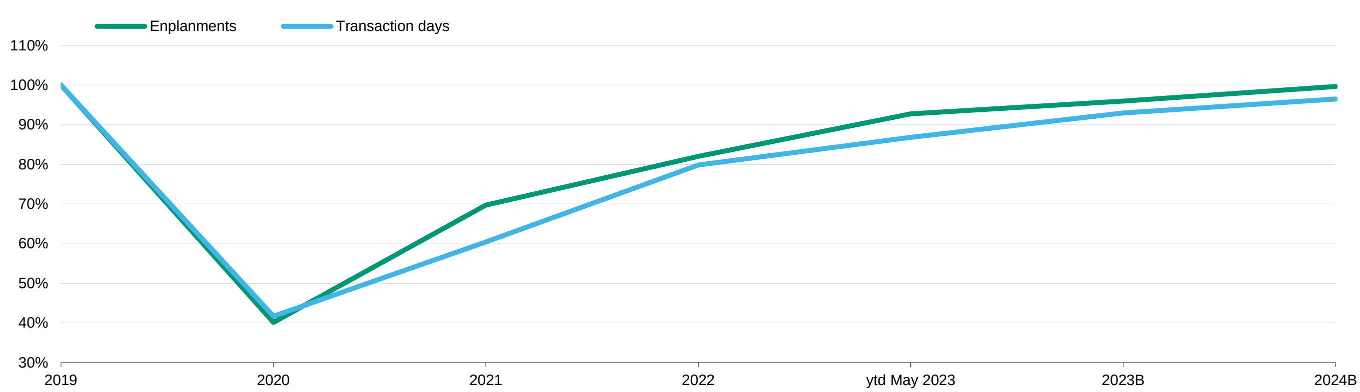


Source: Moody's Analytics

Like at all airports, passenger activity fell significantly during the pandemic, but has been gradually recovering since then, with year-to-date June 2023 enplanements reaching 94% of the 2019 level. Parallel to the traffic recovery, rental car activity has been recovering, but at a slightly lower rate with year-to-date May 2023 transaction days at 90% of the 2019 level. The difference in the recovery was mainly because of a slower improvement in business traffic at the airport, which has a higher propensity to rent cars, than local leisure traffic. Although management expects full traffic recovery by year-end 2024, the budgeted transaction days for 2024 are at around 97% of the 2019 level.

Exhibit 3

Transaction days are recovering slightly slower than O&D enplanements



Sources: Kenton County Airport Board and Moody's Investors Service

Financial operations and position

The project is well positioned to manage debt service requirements over the next several years.

The DSCR by net CFC collections increased to 1.53x in 2022 after hovering around 1.10x in 2020 and 2021. The improvement mainly reflects the increase in transaction days parallel to the traffic recovery at the airport. During 2021 and 2020, CFCs collected were insufficient to fully fund the debt service requirements of the bonds. Therefore, the airport used previously collected CFC revenue to make up for the deficit ($0.8 million in 2021 and $0.5 million in 2020). Per the 2023 budget, we expect the DSCR to continue to improve to 1.7x, reflecting transaction days at 93% of the pre-pandemic levels.

The project has a conservative financial structure that retains significant liquidity to manage financial challenges and is resilient to the potential long-term erosion of demand. This is supported by 1) a CFC Stabilization Fund in addition to a Debt Service Reserve Fund sized at MADS; 2) a lease agreement that is coterminous with the bonds and establishes a rate-making framework that includes the ability to charge an annual requirement deficiency (a form of contingent rent) on a joint and several basis to the RACs in the event of CFC collection shortfalls; 3) the payment of facility operating and maintenance expenses by the RACs, which effectively creates a pledge of gross CFC revenues to the bonds; 4) level debt service, and a plan of finance that does not depend on volume growth; and 5) a CFC rate that can be adjusted without limit and applies to both on-airport and off-airport RACs.

Liquidity

The project's liquidity will strengthen significantly over the next few years as cash balances build up in the stabilization fund, and renewal and replacement fund. The project has $8.2 million of restricted liquidity, including a debt service reserve fund ($6.6. million) and coverage fund ($1.6 million).

The CFC stabilization fund is designed to trap $10 million of surplus cash flow before amounts are released to the surplus fund. Although ahead of the stabilization fund in the waterfall, the renewal and replacement fund is only required to be funded incrementally over a relatively extended period (initial funding three years after the DBO in maximum annual increments of $1 million up to the total $7 million). The project's stable and predictable cost structure, with level debt service and no significant operating expenses, supports the visibility of cash flow to these pledged funds.

If there is a deficiency in the debt service fund, the trustee will draw first from the stabilization fund, second from the coverage fund, third from the renewal and replacement fund, and fourth from the debt service reserve fund.

Debt and other liabilities

As of the end of 2022, the project had around $101 million debt.

Leverage at the facility is moderate for a newly built asset at roughly 45% debt/capital. This reflects the airport's large cash/pay-go contribution to the project (around 37% of the total project costs), as well as the use of general airport revenue bonds to fund 17% of the total project costs.

Legal security

The bonds are secured by pledged CFC revenue, and certain funds and accounts included in the trust estate. The bonds are also secured by a debt service reserve fund sized at MADS, which was funded in cash at closing.

Debt structure

The bonds bear interest at a fixed rate and amortize fully over 30 years with level annual debt service and final maturity in 2049.

Debt-related derivatives

None.

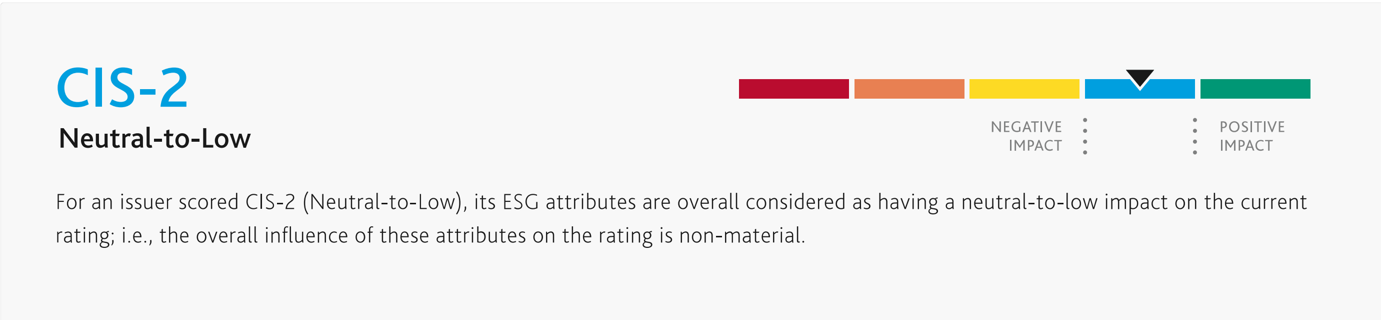
Pensions and OPEB

Rental car companies will pay facility operating and maintenance expenses. The airport is likely to maintain a low relative allocation of expenses to the project's cost centers, which minimizes the impact of pension and other post-employment benefit (OPEB) liabilities on the project. However, the airport has a moderately high pension liability, which could exert pressure on airport costs.

ESG considerations

Kenton Cnty. Airport Board, KY - Cons. Ground Trans. Fac.'s ESG Credit Impact Score is Neutral-to-Low CIS-2

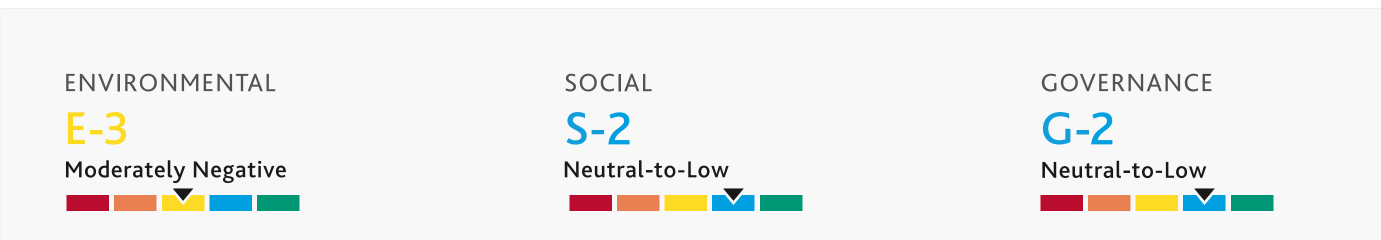
Exhibit 4
ESG Credit Impact Score



Source: Moody's Investors Service

Kenton County Airport Board's Consolidated Ground Transportation Facility (ConRac) ESG credit impact score of **CIS-2** indicates that ESG considerations have a neutral-to-low impact on the rating. The score reflects moderate environmental risk and neutral-to-low social and governance risks.

Exhibit 5
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

The ConRac's environmental risk mirrors that of Kenton County Airport Board and reflects moderate carbon transition risk. Evolving decarbonization policies around the globe and regulations may increase operating costs for airlines and result in higher airfares that reduce the demand for air travel. Further, the desire by some to reduce carbon emissions may lead to reduced travel, in particular, corporations seeking to reduce their carbon footprints. Our consideration of carbon transition risk is balanced by neutral-to-low risk for physical climate risk, water management, natural capital, and waste and pollution.

Social

Levels of social risk related to the linkage between carbon transition and demographic and societal policies appear to be lower in the US than in other regions given the geographically dispersed nature of the country and the lack of viable rail alternatives.

Governance

Federal Aviation Administration regulation of US airports tightly restricts the use of funds generated at US airports to aviation purposes and essentially eliminates the possibility that a municipal owner could extract value from the airport at the expense of bondholders. By indenture, funds in the ConRac accounts are either restricted for debt service or available for operating, maintaining, and improving the ConRac.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Methodology and scorecard

The principal methodology used was the Publicly Managed Airports and Related Issuers Rating Methodology, published in February 2023. Bonds backed by solely by airport rental car charges use considerations described in Appendix B of the methodology.

There is no scorecard for this rating.

REPORT NUMBER 1358650

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