MOODY'S RATINGS

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

Update affirmation of A3, outlook change to positive

Summary

Kenton County Airport Board Consolidated Ground Transportation Facility's (A3 positive) credit profile reflects a very strong liquidity position which has been bolstered by recovering activity at Cincinnati/Northern Kentucky International Airport (CVG) and corresponding stability in transaction days per O&D enplanements of about 0.36 days. The facility opened in October 2021 and despite pandemic related slowdowns liquidity has strengthened to $43 million across CFC funds (inclusive of $6.6 million in the debt service reserve fund), equivalent to about 6.6x maximum annual debt service (MADS). Debt service coverage on the facility's senior CFC revenue bonds is projected to total 1.8x for 2024. Beginning in 2025 the board expects to designate about $2.6 million in CFCs annually toward the airport's Series 2019 general airport revenue bonds (GARBs), however even with this designation coverage would be 1.3x, allowing for the accumulation of further liquidity. Additional credit strength stems from unilateral and unlimited rate setting authority and the ability to charge deficiency rent.

These strengths are balanced in part by a relatively high CFC rate compared to peers at $7.50 and a 30-year debt term, which could encounter competition from evolving transportation modes or technologies.

On July 12 we affirmed the facility's rating at A3 and assigned a positive outlook.

Credit strengths

» Very strong liquidity across CFC finds equivalent to over 6x MADS

» 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.

» Independent ability to increase the CFC rate without any limit, which applies to on-airport and off-airport RACs.

» 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

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

» The CFC rate of $7.50 is somewhat high.

Rating outlook

The positive outlook primarily reflects the very strong liquidity position and continued improvement in debt service coverage given increasing demand at the facility. Sustained strengthening of coverage and maintenance of strong liquidity over the next 12-18 months could apply potential upward pressure on the rating.

Factors that could lead to an upgrade

» The rating could be upgraded if rental car transactions/transaction days exhibit a sustained debt service coverage above 1.75x MADS and the substantial cash across CFC funds is maintained.

» 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

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

» Limited or no cash balance maintained in the surplus fund

Key indicators

Exhibit 1

	2019	2020	2021	2022	2023
Transactions (000)	464	168	234	333	391
Transaction days (000)	1,617	674	977	1,291	1,493
Transaction days annual change	1%	-58%	45%	32%	16%
O&D enplanements (000)	4,341	1,741	3,024	3,537	4,088
Transaction days/O&D enplanements	0.37	0.39	0.32	0.36	0.37
CFC collections (000)	$12,130	$5,057	$7,328	$9,683	$11,197
Debt Service Coverage Ratio by Net CFC Collections (x)	2.80	1.13	1.14	1.53	1.77

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).

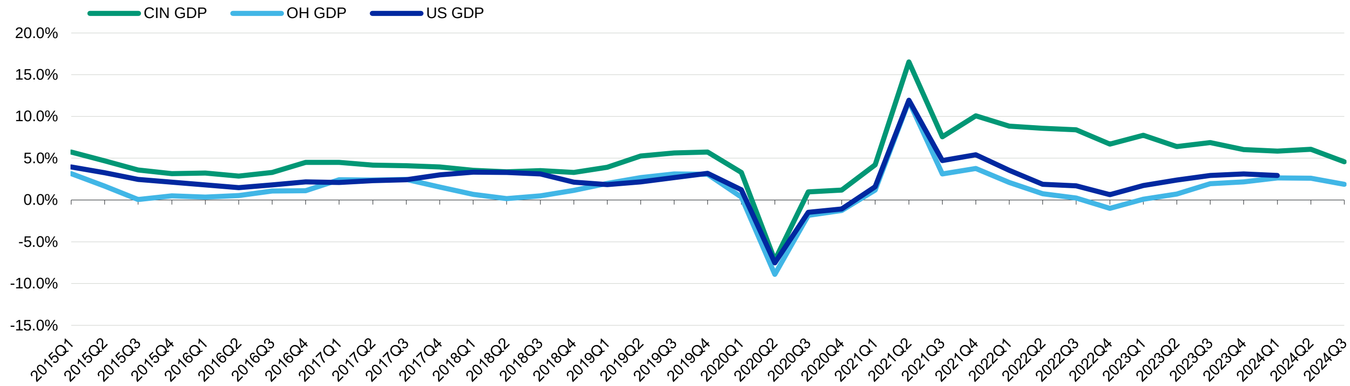
Detailed credit considerations

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 2.3 million.

The economic conditions in the Cincinnati metro are strong with annual GDP growth of the MSA outpacing Ohio and the nation (see Exhibit 3). The economy has good industrial diversity and is a regional economic center with a highly educated and skilled workforce. Population growth has also outpaced the state as a whole, given continue movement from rural areas to population centers seen across the state and the Midwest. Over the long term, income growth will outperform the Ohio average due to a more favorable jobs mix.

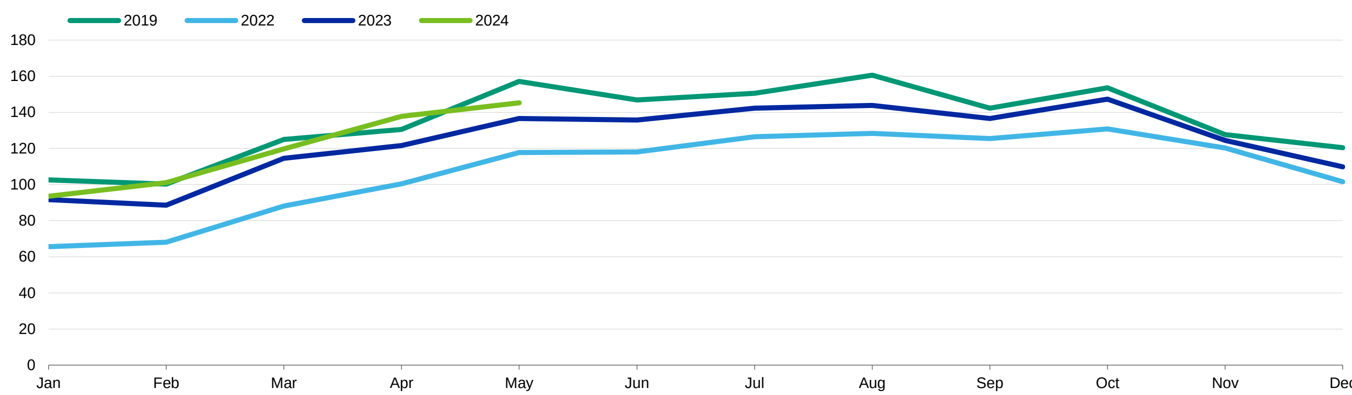
Exhibit 2
The Cincinnati MSA economic growth has surpassed the nation and the state of Ohio in recent quarters



Source: Moody's

The solid economic conditions will support moderate enplanement growth. Total enplanements at CVG are on pace to total 4.6 million in 2024, about 4% above 2023 levels. Passengers eclipsed pre-pandemic levels in November of 2023, just slightly lagging all airports. Airport management has conservatively budgeted for 2% enplanement growth through 2029, though we expect the continued strength of the local economy along with modestly growing population are poised to support higher growth. Parallel to traffic recovery, rental car activity has been recovering, but at a slightly lower rate with 2023 transaction days at 92% of the 2019 level. Slower recover is largely due to slower improvement in business traffic at the airport, which has a higher propensity to rent cars than local leisure traffic. 2024 activity is on pace to beat 2019 levels.

Exhibit 3
2024 transaction days tracking close to pre-pandemic levels



Source: Kenton County Airport Board

Financial operations and position

Debt service coverage will strengthen in hand with growing transactions. The DSCR by net CFC collections increased to 1.72x in 2023 according to preliminary results, up from 1.53x in 2022. We expect coverage to gradually improve to close to 2x over the next few years as transactions continue to grow. Beginning in 2025 the board expects to designate about $2.6 million in CFCs annually toward the Series 2019 general airport revenue bonds (GARBs) which in part funded road projects related to the facility. The board designation of CFC revenues is subordinate to the senior pledge of the Series 2019 CFC bonds. Even with this designation, coverage is projected to be 1.3x allowing CFC funds to build additional liquidity.

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

We expect the facility's very strong liquidity will remain a key credit strength. The project's liquidity has strengthened significantly over the past few years as cash balances accumulated. The project has over $43.3 million of restricted liquidity across all CFC funds, including a debt service reserve fund ($6.6 million) and coverage fund ($1.6 million). Approximately $7.0 million from the CFC surplus fund is budgeted to be used for future capital projects, though strong coverage will further bolster liquidity.

The CFC stabilization fund is designed to trap $10.0 million of surplus cash flow before amounts are released to the surplus fund. Ahead of the stabilization fund in the waterfall, the renewal and replacement fund holds the maximum of $7.0 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 2023, the project had around $98 million in 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. 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 & Replacement Fund, and fourth from the Debt Service Reserve Fund.

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.

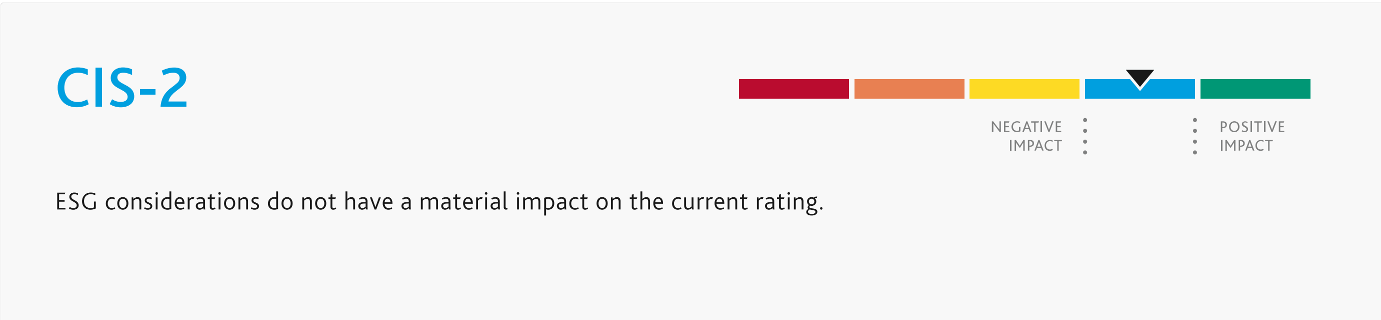
Pensions and OPEB

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 CIS-2

Exhibit 4
ESG credit impact score



Source: Moody's Ratings

Kenton County Airport Board's Consolidated Ground Transportation Facility (ConRac)'s **CIS-2** indicates that ESG considerations are not material to the rating. The facility is exposed to carbon transition risk but exposure to social and governance risks is limited.

Exhibit 5
ESG issuer profile scores

Source: Moody's Ratings

Environmental

E-3. The facility'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.

Social

S-2. Social risks are low. 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

G-2. Governance risks are low. 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.

Rating methodology and scorecard factors

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.

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