FitchRatings

Fitch Upgrades CVG Airport Customer Facility Charge Revs to 'A'; Outlook is Stable

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Fitch Ratings - Toronto - [publication date will be automatically inserted] Fitch Ratings has upgraded to 'A' the rating on Kenton County (KY) Airport Board Cincinnati/Northern Kentucky International Airport's (CVG) approximately $94.4 million of senior customer facility charge (CFC) taxable revenue bonds series 2019 for the airport's consolidated ground transportation center (CONRAC). The Rating Outlook is Stable.

RATING ACTIONS

ENTITY	RATING			PRIOR
Cincinnati/Northern Kentucky International Airport (OH) [Rental Car Facility]				
Cincinnati/Northern Kentucky International Airport (OH) /CFC Revenues - First Lien/1 LT	LT	A	Upgrade	A-

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RATING RATIONALE

The upgrade reflects the CONRAC's strengthening financial profile observed in recent years coupled with successful operations since the facility opened in 2021. Car rental transaction activity provided a strong 2.2x debt service coverage ratio (DSCR) in FY 2024, excluding the coverage account, with the expectation of healthy rental car demand that leads to DSCR metrics stabilizing around or above 2.0x in the Fitch rating case. The robust DSCR and lack of subordinate expenses allow liquidity to build and leverage to evolve downward quickly.

The rating mirrors a mid-sized rental car transaction base with moderate volatility and a higher CFC rate than peers. Credit strengths encompass a fixed-rate debt structure without subordinated expenses, rate-making adaptability supported by a deficiency true-up mechanism for rental car companies to ensure debt payment coverage, robustly growing liquidity to support a new facility, and a diverse rental car operator mix. However, the rating acknowledges long-term risks of demand and volatility stemming from alternative ground transportation and new technology-based services, with mitigants embedded in the project's structure.

KEY RATING DRIVERS

Revenue Risk - Volume - High Midrange

Stable Demand Profile

The rental car demand at CVG (general airport revenue bonds A+/Stable) is sound with more than 1.5 million transaction days, which had been building upon continuing growth of annual visiting O&D deplanements. Airport traffic volumes and destinations have expanded in recent years which is supportive for ground transportation services for deplaned passengers. Diversity among rental car brand providers is favorable with 10 operators serving the market (under four rental car families).

Historical volatility has been moderate relative to peers, with a peak-to trough of just under 10% during the last economic recession due to the discretionary nature of car rental. Fitch expects longer-term transaction growth to continue at a moderate pace due to the airport's service area, but it could decline if ground transportation alternatives expand.

Revenue Risk - Price - Stronger

High Degree of Rate-Making Flexibility

The concession and CONRAC agreements provide a strong relationship between the airport and the rental car operators. Under the agreement terms, the airport maintains the ability to revise rates at its discretion, though management does not anticipate further increases in thefuture. Further increases are also not necessary in the Fitch rating case to maintain strong DSCRs.

The CFC rate was last revised in January 2018 to $7.50 per transaction day which follows earlier upward rate adjustments over the past decade. Should CFC collections be insufficient to meet obligations, the airport is further protected by its ability to levy additional surcharges directly to the rental car companies to ensure sufficient resources to cover all costs.

Infrastructure Dev. & Renewal - Stronger

New Facility

The CONRAC project is favorably located adjacent to the CVG's main terminal. It began operations in October 2021 on-time and was completed in 2022. The CONRAC includes a multilevel parking garage that houses the rental car operations and a customer service center. The facility should only require modest funds for maintenance and lifecycle requirements given its recent completion. The financing structure provides for reserves to be set aside to cover ongoing maintenance costs without additional borrowings.

Debt Structure - Stronger

Limited Pledge, Strong Debt Features

The structure benefits from a first lien on CFC revenues and, if necessary, rental car deficiency payments, with a closed loop of funds and strong reserve levels enhancing the overall debt framework. The reserves include a coverage account, a 12-month debt service reserve, and a renewal and replacement fund. With the completion of the CONRAC project, management has directed all remaining project funds into the CFC Surplus Fund. The CFC Stabilization Fund has met its required level and the project continues to satisfy the conditions of the CFC Renewal and Replacement Fund. It is anticipated that the CFC Surplus Fund will grow with additional surplus cash flow and remains available for debt obligations as needed. Fitch considers the current liquidity levels to be adequate.

Financial Profile

CVG's $7.50 CFC rate, taken together with the growing levels of rental transactions, is forecast to generate sound debt service coverage levels. FY 2024 DSCR rose to 2.2x from 2.0x in 2023 (excluding the coverage fund). Under Fitch's rating case, DSCR averages 2.0x over the 2025-2029 period (excluding coverage fund). This showcases the strengthening profile of the CONRAC as the project does not require any future rate increase to meet its debt obligations.

Leverage is moderate at 3.6x net debt/cash flow available for debt service in 2024. However, Fitch forecasts that it will drop to below1.0x by 2029 as the surplus fund accumulates excess cashflow.

PEER GROUP

Fitch-rated peers include operational CONRAC facilities at Columbus (CMH, 'A'/Stable) and Austin (AUS, 'A'/Stable). CMH and AUS are similarly midsized markets but with lower CFC rates than CVG. CMH has a comparable DSCR profile to Cincinnati, but residual cashflows are subject to covering subordinated obligations that limit surplus revenue accumulation. AUS's similar rating reflects the rapid and robust regional growth coupled with DSCRs above 2x for the life of the debt despite its subordinated obligations. Leverage is favorable and similar for AUS and CVG with both approaching or just below 1x by 2029.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--A persistent deterioration in rental car transactions in line with or worse than the Fitch rating case without sufficient CFC rate increases;

--DSCRs (excluding the coverage account) below 2.0x on a sustained basis.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Longer-term maintenance of liquidity in excess of debt outstanding together with sustained Fitch rating case DSCRs (excluding the coverage account) in excess of 2.3x. Given the franchise strength of the CONRAC, upward migration is limited.

SECURITY

The repayment of the Series 2019 CFC Bonds is secured by a pledge of gross CFC collections by rental car companies (RACs), any annual requirement deficiency paid under the RAC agreements, pledged funds, and pledged revenues.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

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Applicable Criteria

Infrastructure & Project Finance Rating Criteria (pub.08-Jan-2025)(includes rating assumption sensitivity)
Transportation Infrastructure Rating Criteria (pub.07-Jan-2025)(includes rating assumption sensitivity)

Applicable Models

GIG AST Model, v1.4.2 (1)

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