CREDIT OPINION
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Kenton County Airport Board, KY

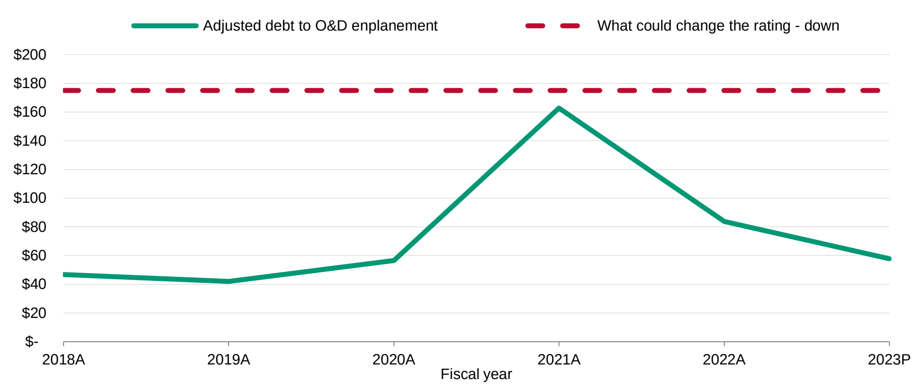
Update to credit analysis

Summary

The Kenton County Airport Board, KY's (A1 stable) credit profile reflects the solid economic base of the Cincinnati metro area characterized by strong growth in gross domestic product (GDP) that has outpaced the state of Ohio (Aaa stable) and the nation, low unemployment and moderate population growth, all of which underpin consistent airport revenue generation. Cargo volume has meaningfully grown, more than doubling since 2017 and has diversified the airport's revenue base. Passenger activity recovered to pre-pandemic levels in November of 2023 and calendar year 2024 enplanements are on pace to exceed 2023 levels by 4.3%.

The airport's financial profile is strong characterized by low leverage, strong debt service coverage and solid liquidity that, coupled with a track record of good financial management, provide the flexibility to add significant debt over the next few years to support the airport's capital plan. Furthermore the recently executed Airline Use and Lease Agreement (AULA) with a more beneficial application of the net revenue-sharing mechanism with the airlines will support the revenue generation needed for the capital program.

Exhibit 1
The airport will increase its debt burden, but its current leverage levels are quite low
Adjusted debt to O&D enplanement ($)



Source: Moody's Ratings, Kenton County Airport Board

Credit strengths

» Low cost burden, reflected in favorable airline cost per enplanement (CPE) and debt per origin and destination (O&D) enplanement

» Increased activity by DHL and the implementation of Amazon Air's hub, which have driven robust growth in cargo

» Diversification and expansion of passenger service offering by ultra-low-cost carriers, resulting in lower airfares and increased connectivity

Credit challenges

» Relatively large adjusted net pension liability (ANPL)

» The planned capital spending and expected increase in debt issuance to finance the plan are significant relative to the airport's current leverage profile

Rating outlook

The rating outlook is stable, reflecting our expectation of steady to growing overall activity based on continued recovery in air travel and robust growth in cargo; and maintenance of adequate liquidity with good cost recovery under the new airline agreement.

Factors that could lead to an upgrade

» Completion of the capital plan with a Moody's net revenue debt service coverage ratio (DSCR) above 2.5x, days cash on hand above 600 days and debt per O&D enplanement below $100

Factors that could lead to a downgrade

» Significant deterioration in key financial metrics (including Moody's net revenue DSCR below 1.5x, days cash on hand below 450 days and debt per O&D enplanement above $175) on a sustained basis

» Significant weakening in air service profile and market position

Key indicators

Exhibit 2

Fiscal year	2018	2019	2020	2021	2022
Total enplanements ('000)	4,440	4,554	1,803	3,141	3,783
Enplanement annual growth (%)	13.1	2.6	(60.4)	74.2	20.5
Cargo (Tons) ('000)	1,241	1,249	1,434	1,695	1,978
Debt outstanding ($ millions)	42	73	71	68	65
Adjusted debt per O&D enplaned passenger ($)	42	56	163	84	58
Total adjusted debt to net revenues	4.48x	5.83x	13.99x	11.22x	4.9x
Total DSCR by net revenues	11.42x	9.38x	3.23x	3.27x	6.05x
Total DSCR (bond ordinance)	6.01x	6.21x	3.14x	2.42x	4.05x
Days cash on hand	826	681	734	622	590

Source: Moody's Ratings

Profile

Kenton County Airport Board, KY owns and operates the Cincinnati/Northern Kentucky International Airport (CVG), a medium-hub commercial airport located around 13 miles southwest of downtown Cincinnati (Aa2 stable). At 4.4 million enplanements in 2023, CVG is the largest airport in Kentucky and, although not physically located in Ohio, would be the second-largest airport in Ohio by passenger volume, after Cleveland. With 2.1 million tons of cargo in 2023, CVG ranked as the seventh-largest cargo airport in North America.

Detailed credit considerations

Revenue generating base

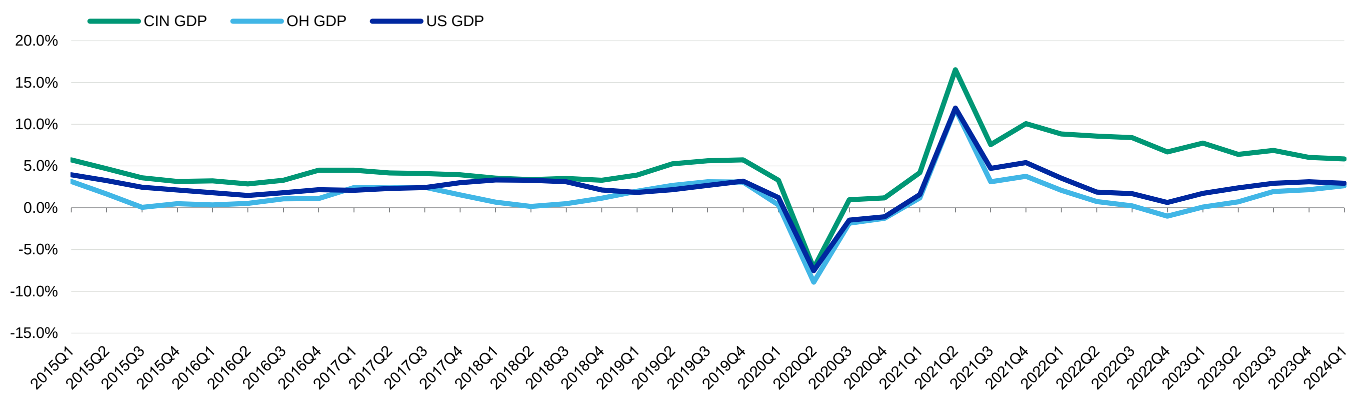
CVG is the dominant provider of commercial air services in the Greater Cincinnati area, which has a diverse economic base and a population of around 2.3 million. The presence of the headquarters of several Fortune 500 companies including The Kroger Co. and The Procter & Gamble Company provides a robust business market and attendant corporate travel demand. Additional stability is provided by a large university cluster that includes the University of Cincinnati with 44,000 students and the Northern Kentucky University with 14,500 students. The economic base is further supported by a large healthcare sector that includes Cincinnati Children's Hospital Medical Center.

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 continued 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 3

Cincinnati MSA's GDP growth has outpaced Ohio and the US

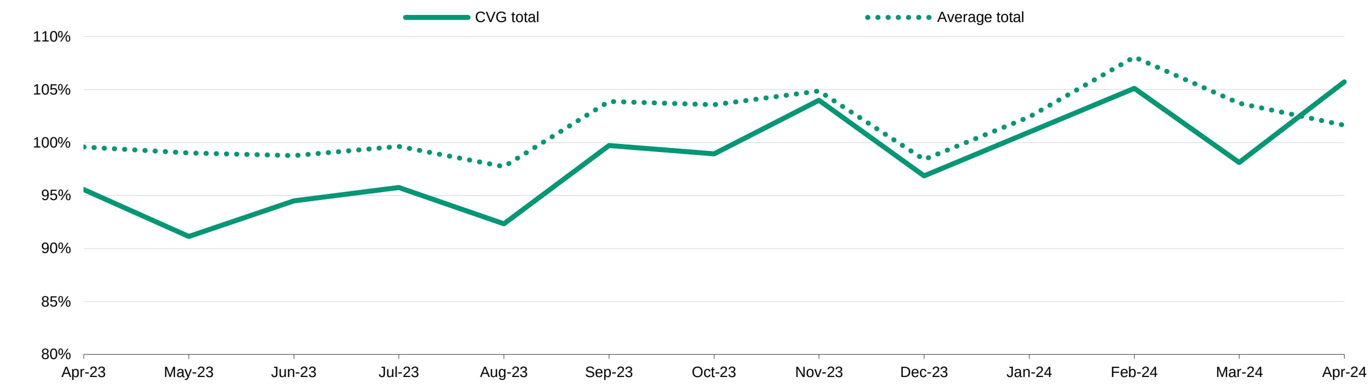
Year-over-year % change (GDP)



Source: Moody's

The solid economic conditions will continue to 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.

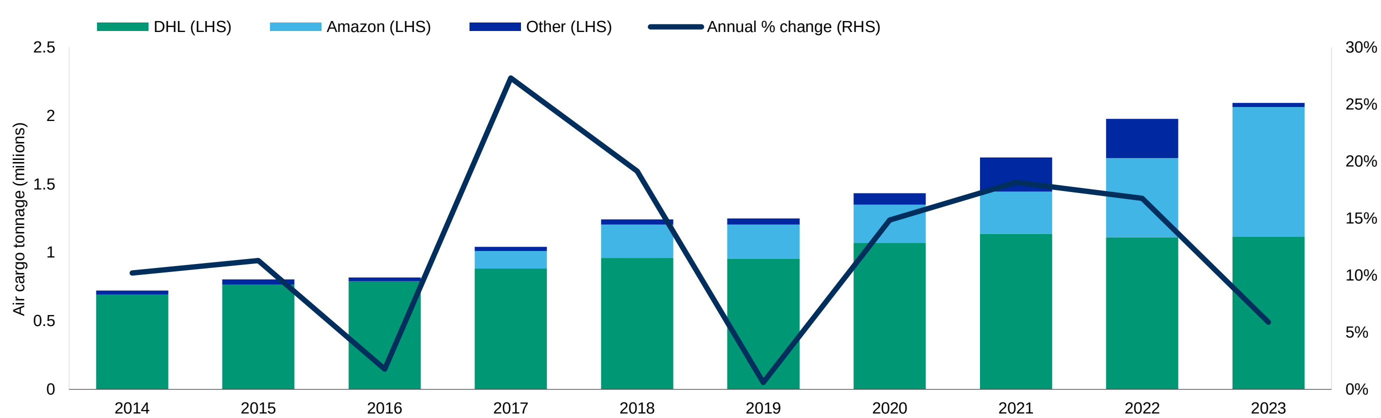
Exhibit 4
Enplanement recovery at CVG is nearing the national recovery after trailing for most of the pandemic



Source: Kenton County Airport Board, Transportation Security Administration

We expect cargo activity to strengthen, providing revenue diversification. The airport serves as the major US air cargo hub for both DHL (Deutsche Post AG, A2 stable) and Amazon.com Inc. (A1 stable) which have propelled CVG to the seventh-largest cargo airport in the US. Both companies have made significant investment in facilities expansion at the airport and have long term facility leases with DHL's going through 2045 with two five-year extension options and Amazon through 2070. Air cargo activity at CVG continued to grow in 2023, with total air cargo tonnage at 2.1 million, 5.9% higher than 2022. Tonnage for 2024 is largely in line with 2023 levels given some changes in consumer spending away from goods toward services.

Exhibit 5
Air cargo tonnage has grown steadily with expansions at DHL and Amazon
Total airport cargo by carrier (tonnage) and annual tonnage growth (%)



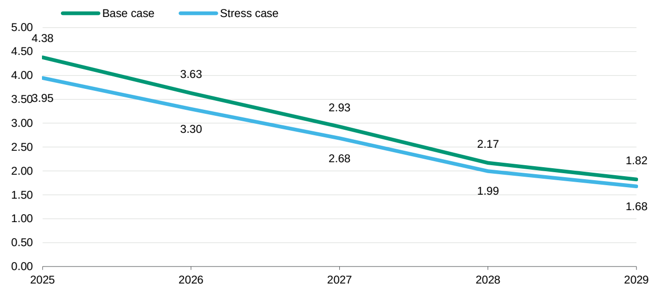
Source: Kenton County Airport Board

A new airline use and lease agreement became effective on January 1, 2023, and expires on December 31, 2027, with up to a five year extension option. The new agreement includes more beneficial application of the net revenue-sharing mechanism with the airlines that will support the airport's liquidity position. Similar to the prior agreement, the airfield uses a cost center residual framework and the terminal a commercial compensatory framework. The agreement also establishes airport/board cost centers. The airport may charge the signatory airlines extraordinary coverage payments, with these payments allocated to the airfield cost center requirement. The agreement also affords the airport control over capital planning, with specified majority-in-interest disapproval in the airfield only.

Financial operations and position

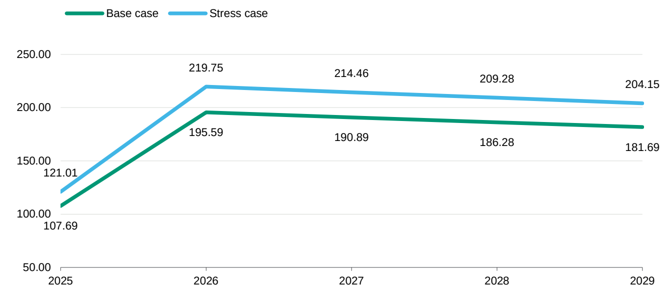
We expect the airport's currently very strong financial profile to deteriorate with planned borrowing. Despite this deterioration, leverage and coverage will remain in line with peers, absent unexpected cost escalations associated with ongoing capital plans. Preliminary fiscal 2023 results show a Moody's net revenue DSCR of 11.58x, including the use of about $25 million in COVID-19 relief funds and is on track for a net revenue DSCR of 7.32x in 2024, inclusive of a remaining $13 million in relief funds. The board currently plans on issuing just under $700 million in airport revenue bonds through 2026 to finance the 2024-2029 capital improvement plan. The significant increase in leverage and associated debt service will result in materially reduced, but still strong debt service coverage ratio of 1.82x once full debt service payments begin in 2029 based on the airport's base case scenario. Likewise projected adjust debt per O&D enplanement will rise to about $180 in 2029 from a currently low will $58. The airport's base case assumes a 2% annual growth in enplanements with 4% annual increase in expenditures while the stressed scenario assumed a 15% reduction in annual enplanements through the forecast period with no change to expenditures.

Exhibit 6
DSCR will deteriorate with debt issuance
Net revenue debt service coverage (x)



Source: Kenton County Airport Board, Moody's Ratings

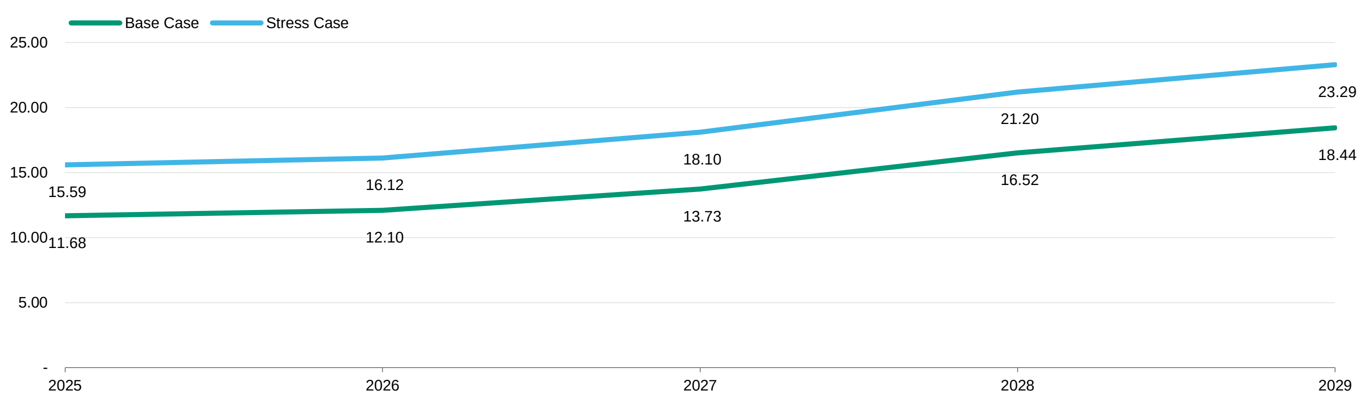
Exhibit 7
... as will leverage
Total adjusted debt per O&D enplanement ($)



Source: Kenton County Airport Board, Moody's Ratings

Likewise the airport's currently competitive CPE at $9.65 according to preliminary 2023 results is expected to increase significantly to $18.44 in the base case scenario, however airlines have been supportive of the capital program and the largely O&D nature of CVG air traffic are expected to support this increase.

Exhibit 8
Airline cost per enplanement will likewise rise
Airline payments per enplanement ($)



Source: Kenton County Airport Board, Moody's Ratings

Liquidity

Liquidity will grow modestly over the forecast period supported by the new AULA and growing activity. Liquidity is expected to total about 620 days according to preliminary fiscal 2023 results. Favorably liquidity is expected to grow modestly over the forecast period. The board plans to cash fund about $210 million of capital projects with airport revenue. Additionally, the airport has a new undrawn $150 million credit facility.

The new credit facility has an initial term of three years with the option to extend up to an additional two years and will mainly be used to provide interim liquidity for the replacement of the airport's Baggage Handling System and its Terminal Modernization Program. The facility has not been drawn to date, though the board expects draws to likely begin in 2025 prior to the issuance of the planned Series 2026 bonds.

Debt and other liabilities

The airport's capital improvement plan is significant, with expected spending of $1.2 billion between 2024 and 2029. The biggest projects in the plan are the replacement of the airport's Baggage Handling System and its Terminal Modernization Program. The Modernization Program will address capacity needs in the main terminal and security checkpoint driven by the increase in the number of O&D passengers in the last 10 years as well as refreshing outdated facilities and upgrading equipment in the main terminal and concourses. The airport currently expects to fund half of the plan with bond proceeds. The remaining half will be financed with government funds (23%), PFCs (14%) and internally generated cash flow (11%). Cost overruns or debt issuance in excess of our current expectations, such that the airport's leverage will exceed our current expectation would weaken the airport's credit profile beyond that of similar peers.

Legal security

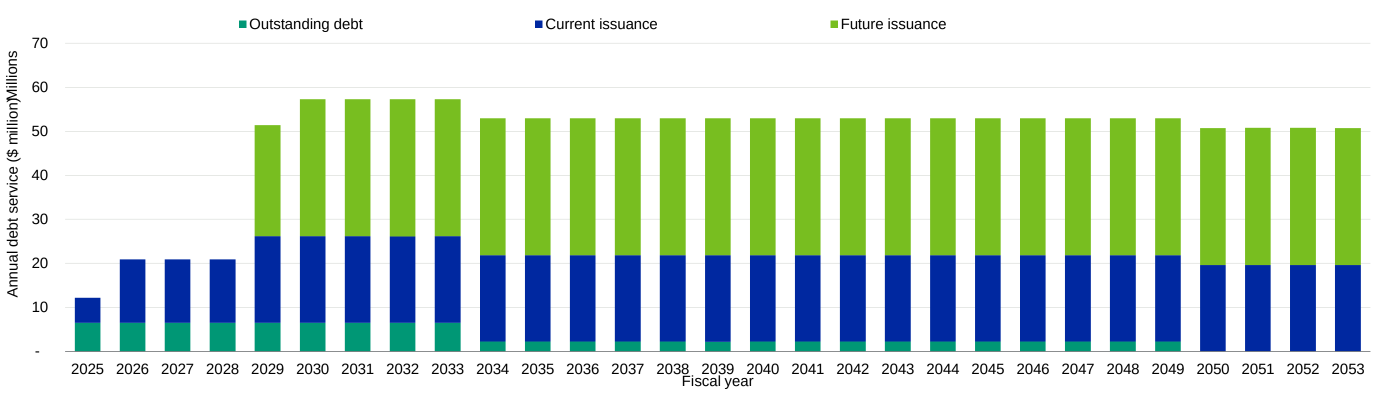
The Series 2024 bond along with the currently outstanding Series 2019 and Series 2016 bonds are secured by net general airport revenue, including any PFCs and CFCs the airport board elects to allocate toward eligible debt service on the bonds. The airport plans to commit eligible PFCs to the Series 2024 bonds, and CFCs are only expected to be allocated to the Series 2019 bonds and represent a subordinate pledge to the airport's outstanding Series 2019 Senior CFC Revenue bonds. All three outstanding series are secured by a common debt service reserve fund sized at the three-prong test and funded in cash. The rate covenant requires that net revenue plus a carryover amount of unrestricted general purpose funds, in an amount not to exceed 25% of debt service requirements in the next fiscal year, amount to at least 1.25x debt service.

Debt structure

The airport's currently outstanding Series 2016 bonds amortize with debt service of $4.3 million annually through 2032 and is 100% eligible to be paid from PFCs. PFC revenues were designated for the Series 2016 bonds in the past, though beginning in 2025 PFCs will shift to covering the upcoming Series 2024 and planned Series 2026 issuances. PFC collections totaled about $17.3 million in 2023. The approximately $2.2 million of debt service on the Series 2019 bonds is expected to be covered by CFC revenue beginning in 2025. Inclusive of the planned 2026 borrowing debt service will rise to $58 million in 2030 before dropping to about $53 million in 2034 (see exhibit 9). Under the current projections PFCs are expected to cover about 25% of total debt service with airline cost centers covering about 71% and the remainder coming from future designation of CFC revenue subject to board commitment.

Exhibit 9

Annual debt service requirements will increase significantly, though remain level through maturity



Source: Kenton County Airport Board

Debt-related derivatives

None.

Pensions and OPEB

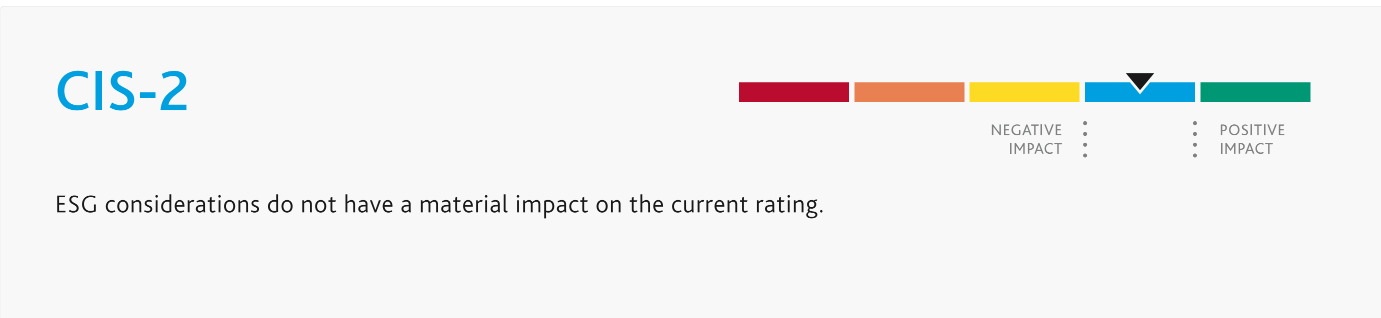
The airport has a relatively large pension liability. The airport participates in Kentucky Public Pensions Authority's (KPPA) County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension system consisting of two employee plans, Hazardous and Nonhazardous. The reported net pension liability associated with these plans of $96 million at year-end 2022. Using our standard adjustments for reported pension data, we calculate an ANPL of $140 million. The main difference between the airport's reported net pension liability and Moody's-calculated ANPL is the rate used to discount the pension liability, which was 6.25% for the airport and 4.48% in our calculation. In May of 2023 KPPA increased the discount rate to 6.5%. While this will not impact our Moody's-calculated ANPL, it is expected to decrease the reported liability in the near term, in turn decreasing the airport's required contributions. However in the long run, this is expected to increase pension liabilities.

ESG considerations

Kenton County Airport Board, KY's ESG credit impact score is CIS-2

Exhibit 10

ESG credit impact score

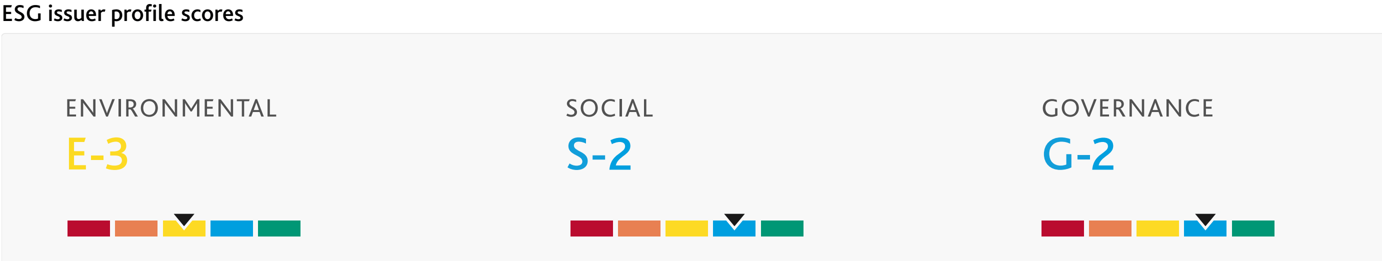


Source: Moody's Ratings

Kenton County Airport Board's ESG credit impact score of **CIS-2** indicates that ESG considerations are not material to the rating. The airport is exposed to carbon transition risk but exposure to social and governance risks is limited.

Exhibit 11

ESG issuer profile scores



Source: Moody's Ratings

Environmental

E-3. The airport is exposed to risks related to carbon transition. 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

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.

Rating methodology and scorecard factors

The principal methodology used was the Publicly Managed Airports and Related Issuers Rating Methodology, published in February 2023. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The scorecard-indicated outcome is A2 one notch under the assigned rating on the revenue bonds of A1. The -0.5 notch for Potential for Increased Leverage is due to the planned borrowing to fund the airport's CIP and the potential for cost overruns that may bus leverage higher than our current expectations..

Exhibit 12

Rating factors

Kenton County Airport Board, KY

Regional Position:	**Regional**		
Rate Making Framework:	**Compensatory**		
Factor	**Subfactor**	**Score**	**Metric**
1. Market Position	a) Size of Service Area (millions)	Aa	2.3 million
	b) Economic Strength and Diversity of Service Area	A	
	c) Competition for Travel	A	
2. Service Offering	a) Total Enplanements (millions)	A	4.37
	b) Stability of Traffic Performance	A	
	c) Stability of Costs	Ba	
	d) Carrier base (Primary Carrier as % of Total Enplanements)	A	35.4%
3. Leverage and Coverage	a) Net Revenue Debt Service Coverage Ratio	Aaa	4.9x
	b)Debt + ANPL per O&D Enplaned Passenger	A	$58
		Notch	Metric
4. Liquidity	Days Cash on Hand	1	590
5. Connecting Traffic	O&D Traffic	0	6%
6. Potential for Increased Leverage		-0.5	
7. Debt Service Reserves		0	
Scorecard Indicated Outcome:		A2	

Source: Moody's Ratings

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454