



Embrace What's Next



Financial Impacts of COVID-19

May 18, 2020

Agenda

- Aviation Activity Projections
- Impact on Operating Revenue
- 2020 Budget Reductions
- CARES Act
- Operating Reserves
- Financial Resilience Analysis
- Update on Critical Capital Projects
- Credit Ratings and Debt Service
- Use Agreement Update



COVID-19
RESPONSE

Financial Planning during COVID-19

- Immediate Organizational Response:
 - Focus on safeguarding KCAB workforce
 - Ensure payment of KCAB Obligations (O&M Expenses, Debt Service, Required Transfers)
 - Mitigate financial exposure through budget reductions (OPEX and CAPEX)
 - Enhanced financial reporting tools (Scenario forecasting, daily AR Reporting and Liquidity Analysis)
 - Disclosure to financial markets of COVID Impacts
 - Industry support for delay of GASB 87 implementation
- Preparation for Recovery:
 - Effective deployment of CARES Act Stimulus funds
 - Stakeholder and tenant engagement
 - Maintain CVG's competitive airline cost structure to facilitate air service growth post pandemic
 - Invest in pandemic management capabilities and solutions

COVID 19: Passenger Traffic Recovery Scenarios

Scenario 1 – Summer Recovery

- Pandemic subsides in May.
- Air travel demand recovers to 90% of pre-COVID levels by December 2020.
- Passenger volumes recover to pre-COVID levels by Summer 2021.

Scenario 2 – 18-24 Month Recovery

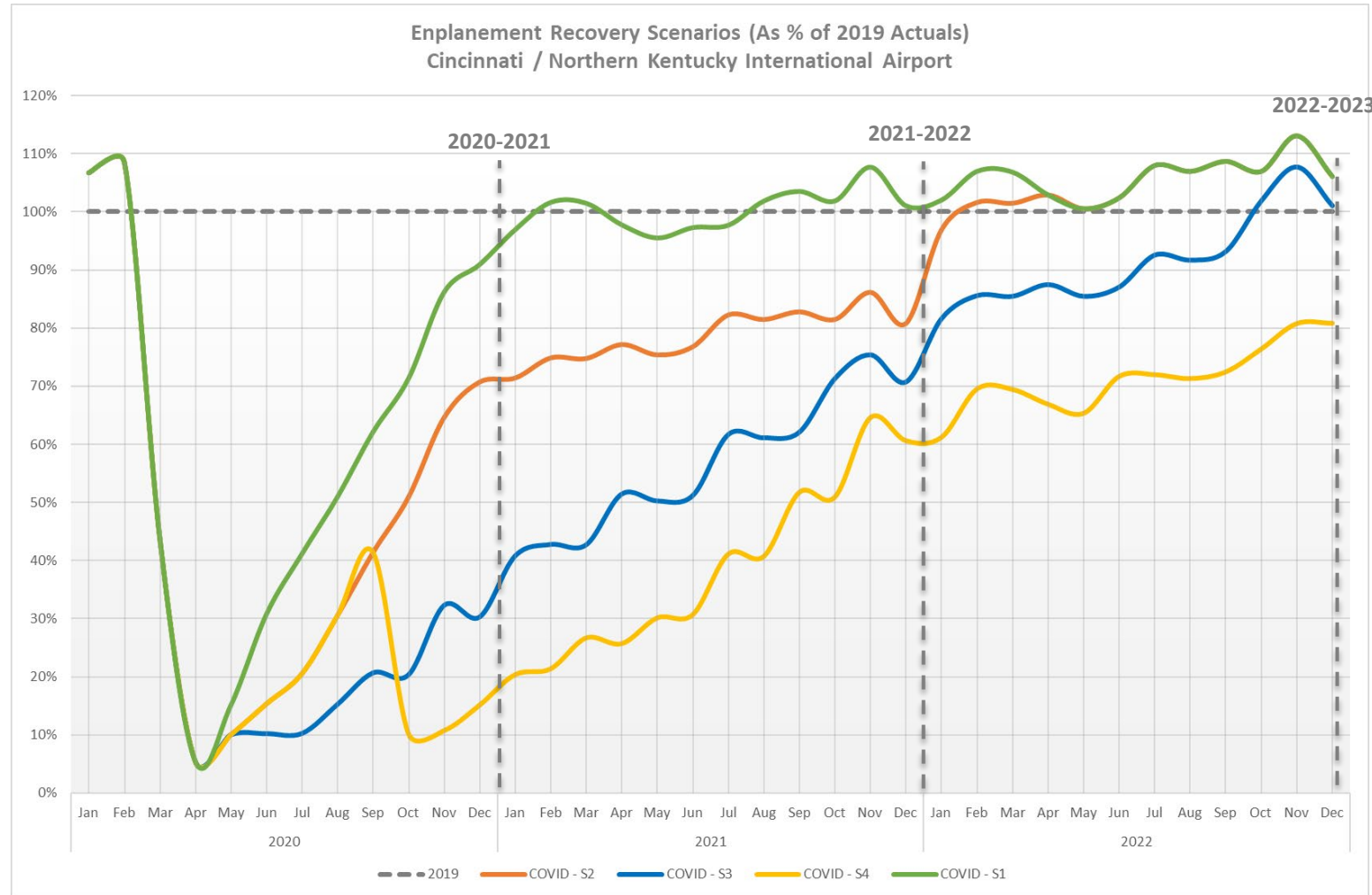
- Passenger volumes remain depressed through mid to late summer.
- Gradual recovery in 2020 as “Stay at Home” restrictions are removed and US Economy Recovers.
- Passenger volumes recover to pre-COVID levels in the first half of 2022.

Scenario 3 – Protracted Economic Recovery

- Passenger volumes down sharply for the remainder of 2020.
- Prolonged weak economic environment and reluctance to initiate travel across customer segments.
- Passenger volumes recover to pre-COVID levels by late 2022 to early 2023.

Scenario 4 – Reinfection Scenario

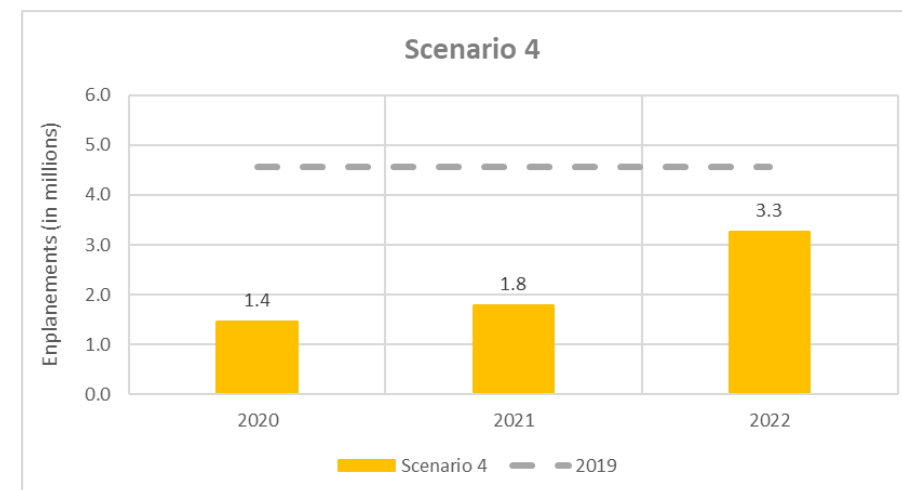
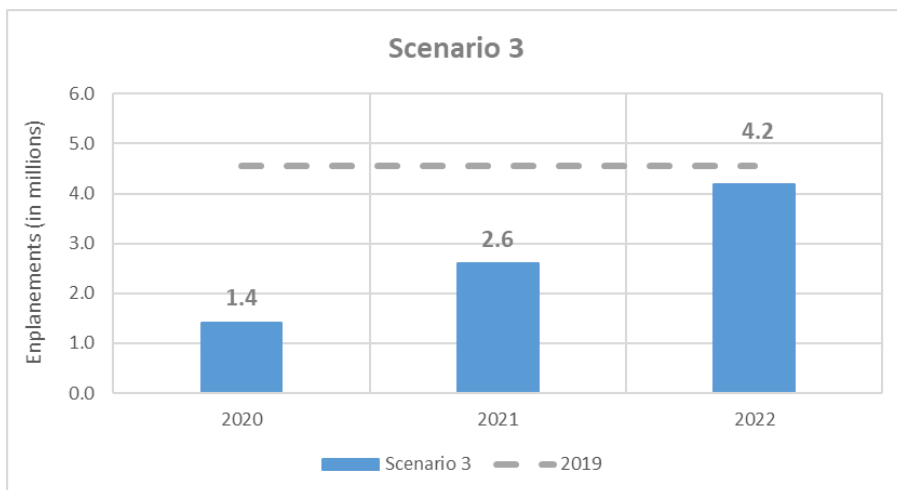
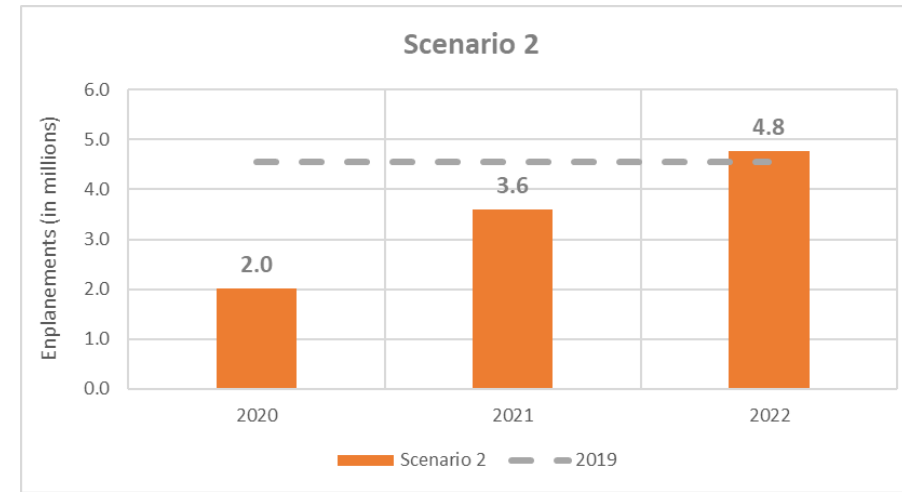
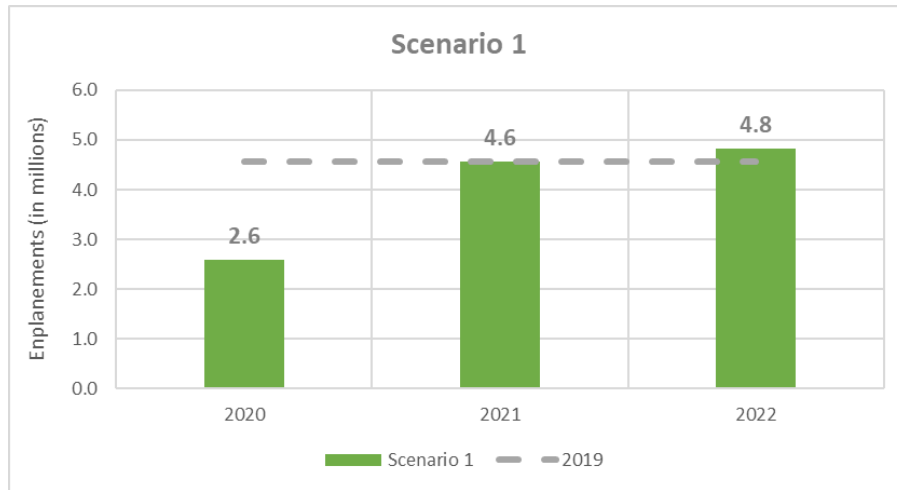
- Second virus cycle leads to reintroduction of “Stay at Home” requirements.
- Negative economic impacts exacerbated.
- Passenger volumes do not recover to pre-COVID levels until mid to late 2023.



Note: Projections presented herein have been developed for purposes of assessing the potential impact of the COVID-19 Pandemic and inform management decision making. Such projections are subject to considerable uncertainty and actual performance may differ materially.

Passenger Traffic Recovery Scenarios

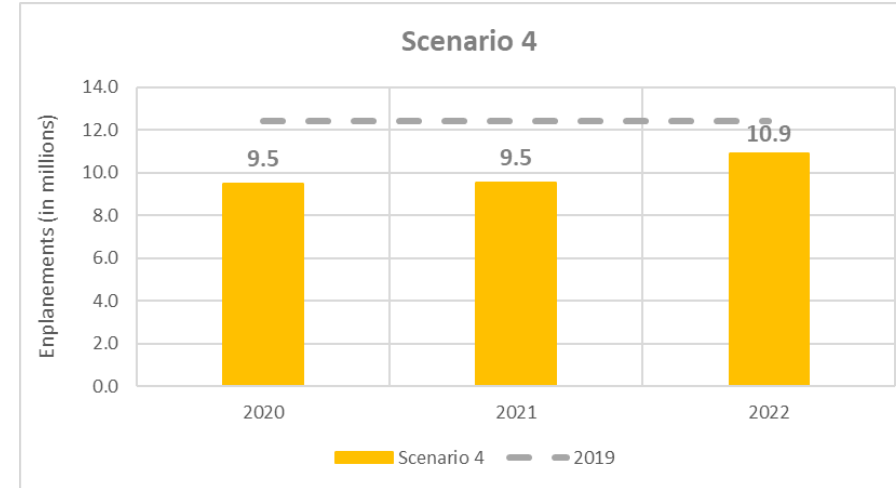
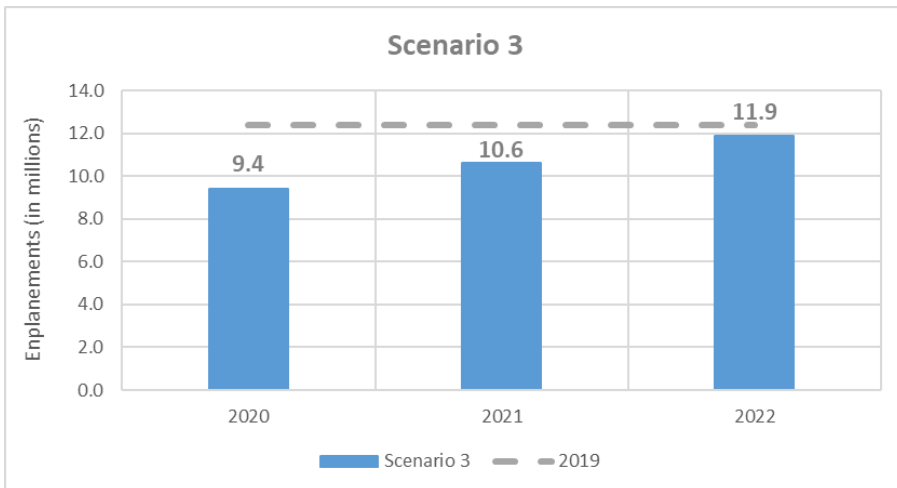
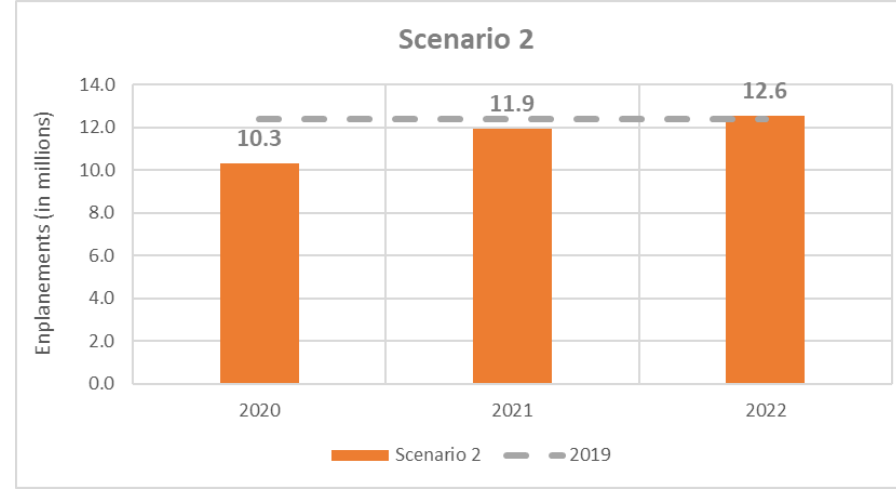
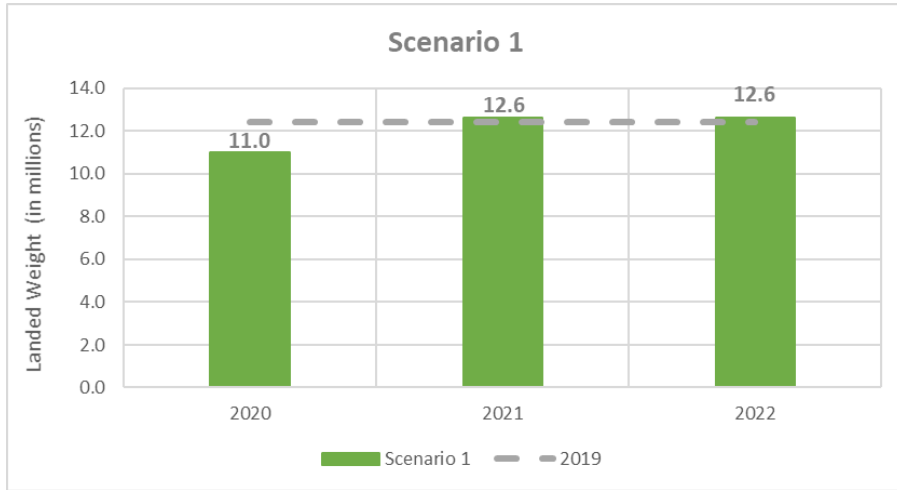
- Passenger traffic volumes have a significant impact on airport revenues such as parking, rental car, and terminal concessions.



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Landed Weight Recovery Scenarios

- Landing fee revenue is a function of the volume of air service.
- Cargo landings and landed weight remain strong and are exceeding expectations.

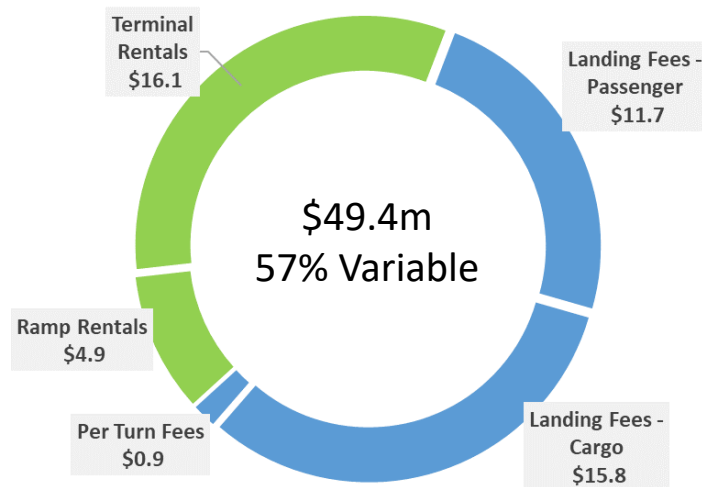


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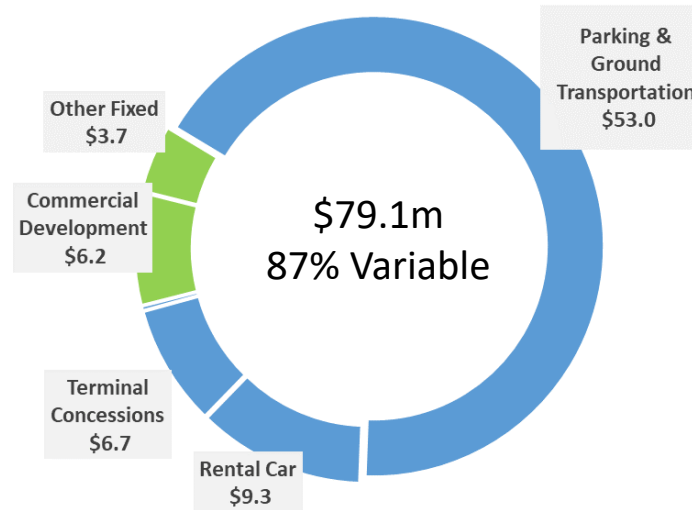
Revenue Impacts of COVID-19

- Significant revenue exposure due to pandemic.
- Over 75% of CVG revenue streams are variable and impacted by the volume of aviation activity.

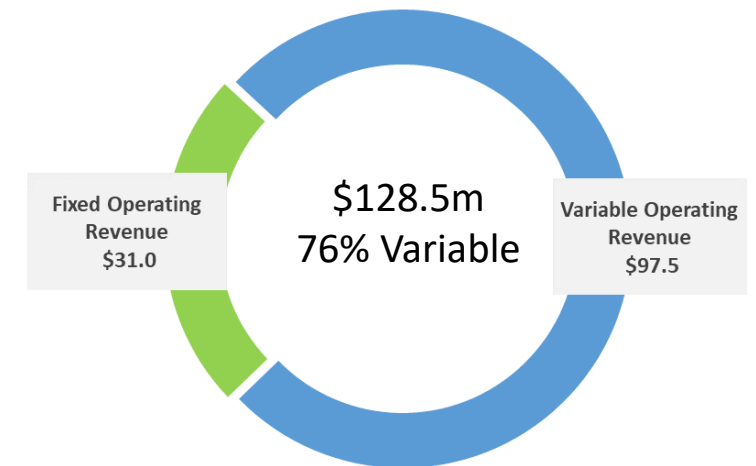
Airline Operating Revenue



Non-Airline Operating Revenue



Total Operating Revenue



Note: Operating revenues reflect 2020 Budget approved at November 2019 Board Meeting.

Revenue Impacts of COVID-19

- Central scenarios indicate potential operating revenue reduction of \$62 to \$91 million through 2021.

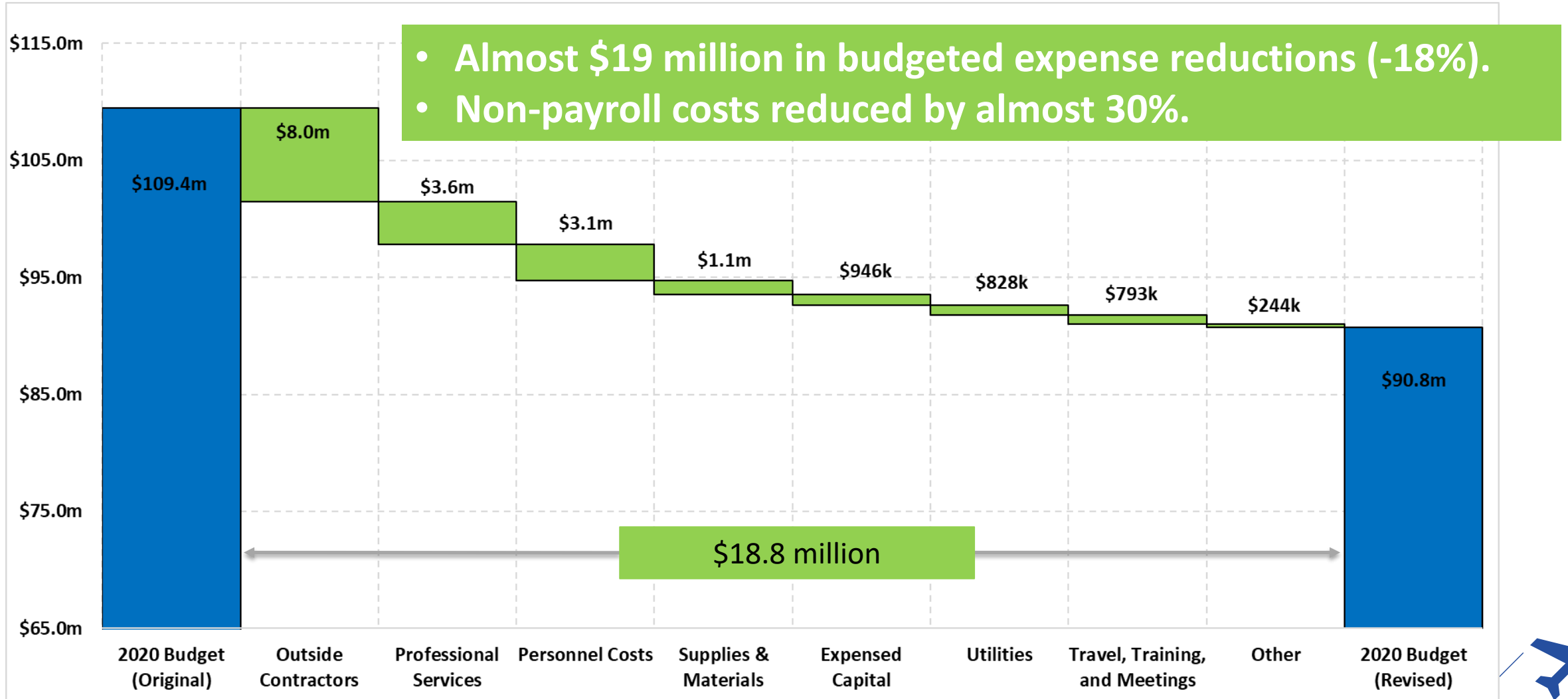
	2020 Budget	Scenario 1		Scenario 2		Scenario 3		Scenario 4	
		2020	2021	2020	2021	2020	2021	2020	2021
Airline Revenue									
Landing Fees	\$ 27.5	\$ 24.0	\$ 27.6	\$ 22.6	\$ 26.1	\$ 20.6	\$ 23.2	\$ 20.7	\$ 20.9
Terminal & Ramp Rents	20.9	20.9	20.9	20.9	20.9	20.9	20.9	20.9	20.9
Per Turn Fees	0.9	0.6	0.9	0.5	0.8	0.4	0.6	0.4	0.4
Other	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
	<u>\$ 49.4</u>	<u>\$ 45.7</u>	<u>\$ 49.6</u>	<u>\$ 44.1</u>	<u>\$ 47.9</u>	<u>\$ 42.0</u>	<u>\$ 44.8</u>	<u>\$ 42.2</u>	<u>\$ 42.3</u>
<i>Versus 2020 Budget</i>		<i>\$ (3.7)</i>	<i>\$ 0.2</i>	<i>\$ (5.3)</i>	<i>\$ (1.5)</i>	<i>\$ (7.4)</i>	<i>\$ (4.6)</i>	<i>\$ (7.3)</i>	<i>\$ (7.1)</i>
Non Airline Revenue									
Parking & Ground Transportation	\$ 53.0	\$ 29.4	\$ 51.4	\$ 23.2	\$ 40.4	\$ 16.8	\$ 29.1	\$ 17.1	\$ 19.7
Rental Car	9.3	5.0	9.0	3.8	7.1	2.7	5.2	2.8	3.5
Terminal Concessions	6.7	3.7	6.5	2.9	5.1	2.0	3.7	2.1	2.5
Other Variable	0.2	0.1	0.2	0.1	0.2	0.1	0.1	0.1	0.1
Commercial Development	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2
Other Fixed	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
	<u>\$ 79.1</u>	<u>\$ 48.2</u>	<u>\$ 77.1</u>	<u>\$ 40.0</u>	<u>\$ 62.7</u>	<u>\$ 31.5</u>	<u>\$ 48.0</u>	<u>\$ 32.0</u>	<u>\$ 35.8</u>
<i>Versus 2020 Budget</i>		<i>\$ (31.0)</i>	<i>\$ (2.0)</i>	<i>\$ (39.1)</i>	<i>\$ (16.4)</i>	<i>\$ (47.6)</i>	<i>\$ (31.1)</i>	<i>\$ (47.1)</i>	<i>\$ (43.3)</i>
Total Operating Revenue	<u>\$ 128.5</u>	<u>\$ 93.8</u>	<u>\$ 126.7</u>	<u>\$ 84.1</u>	<u>\$ 110.7</u>	<u>\$ 73.5</u>	<u>\$ 92.9</u>	<u>\$ 74.2</u>	<u>\$ 78.1</u>
<i>Versus 2020 Budget</i>		<i>\$ (34.7)</i>	<i>\$ (1.9)</i>	<i>\$ (44.4)</i>	<i>\$ (17.8)</i>	<i>\$ (55.1)</i>	<i>\$ (35.6)</i>	<i>\$ (54.4)</i>	<i>\$ (50.4)</i>

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2020 Budget: O&M Expense Reductions

- Personnel: Instituted hiring freeze and reduced budgeted overtime.
- Travel & Training: Frozen for all non-essential travel and training.
- Contractual Services:
 - Consolidated parking operations to terminal garage, all other lots closed until demand recovers.
 - Deferred parking lot pavement rehabs.
 - Reduced non-critical airfield pavement maintenance expense.
 - General reduction in contracted services due to projected lower passenger activity.
- Professional Services:
 - Deferred certain longer term advance planning studies in P&D.
 - Reprogrammed facility and system assessments.
- Supplies & Materials: Reduced snow removal expense due to milder than anticipated year-to-date.
- Expensed Capital: Reduction in vehicle and equipment expense primarily for unordered purchases.
- Utilities:
 - Lower than anticipated costs due to lower passenger activity and temporary shut down of certain systems.
 - Revised estimates of electric riders and rate increases.

2020 Budget O&M Expense Reductions



Coronavirus Aid, Relief, and Economic Security Act (CARES)

- On March 27, 2020, Federal government provided \$10 billion to eligible U.S. airports to prevent, prepare for, and respond to coronavirus impacts.
- Airport sponsor must continue to employ, through December 31, 2020, at least 90% of the number of individuals employed as of March 27, 2020.
- CVG CARES Grants will be administered by FAA Airport District Office in Memphis.
- CVG received \$43 million in CARES Act Airport Grants and can be used for any purpose for which airport revenues may lawfully be used.
- KCAB plans to use CARES Grants to reimburse payroll, operational expenses, and certain debt service costs.
- KCAB will also receive 100% match of FY2020 AIP entitlement and discretionary grants for capital projects (in addition to \$43 million in CARES Grants).

Overview of Funds to Pay Operating Expenses

- Including CARES grants CVG has approximately 600 days cash on hand based on revised 2020 Budget projection.

Fund	Approx. Cash Balance (@ 4/30)	Description
Revenue Account	\$5,700,000	Used to pay operating expenses, debt service, and required transfers.
General Purposes Fund	\$63,100,000	Can be used for any lawful purpose of the Board.
O&M Reserve Fund	\$25,300,000	Board required to make monthly transfers as necessary to make the year-end balance equal 25% of Budgeted O&M Expenses. Can only be used for O&M.
Repair & Replacement Fund	\$10,100,000	Fully funded at \$10 million. Any draws on reserve must be refunded over a two-year period. Can be used for any lawful purpose.
Group Health Coverage Account	\$5,600,000	Established by Resolution of the Board to account and establish reserves for self funded employee health insurance
CARES Funds	<u>\$43,000,000</u>	Can be used for any purpose for which airport revenues may lawfully be used
Total Funds Available	\$152,800,000	

Notes: For purposes of COVID financial analysis, the revenue account excludes 2019 airline settlement and airline sublease credits. 2019 Net Revenues are reflected in the General Purpose Fund balance. Values show are approximate cash balances versus net position reflected in the April financial statements.

Financial Resilience Analysis

- KCAB will need to use CARES Funds and potentially other non-operating KCAB funds in order to:
 - Offset the decline in operating revenues
 - Make required operating expense, debt service, and required transfer obligations
 - Meet GARB Bond Debt Service Coverage requirements
 - Maintain airline rates & charges at or close to 2020 Budget levels

	2020 Budget	Scenario 1		Scenario 2		Scenario 3		Scenario 4	
		2020	2021	2020	2021	2020	2021	2020	2021
Assumed General Fund Deposit	\$ 17.0	\$ 10.0	\$ 10.0	\$ 10.0	\$ 10.0	\$ 10.0	\$ 10.0	\$ 10.0	\$ 10.0
Application of CARES Funds	-	9.7	-	19.5	3.9	30.1	12.9	29.4	13.6
Application of Other Funds	-	-	-	-	-	-	8.8	-	22.9
	-	\$ 9.7	\$ -	\$ 19.5	\$ 3.9	\$ 30.1	\$ 21.7	\$ 29.4	\$ 36.5
Cumulative Application of CARES Grants & Other Funds	-		9.7		23.4		51.8		65.9
Debt Service Coverage Ratio	4.7	3.5	4.7	3.5	2.8	3.5	2.8	3.5	2.8

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Update on Critical Capital Projects



➤ Consolidated Rental Car Facility

- No anticipated impact due to COVID-19 and resulting lower CFC collections
- \$205 million dollar CONRAC program fully funded as of March 2019.
- 40% financially complete as of March 2020.
- CONRAC program on budget and on schedule for Q3 2021 opening.



➤ Airfield Projects

- Taxiway N & S Rehab and Taxiway N Extension
- Runway 9/27 & Associated Taxiway Rehab
- 75% of both projects anticipated to be funded with FAA AIP Entitlement & Discretionary Grants
- Runway 9/27 Rehab Program eligible for 100% Federal Share under CARES Act in FY2020.
- KCAB evaluating entering into a multi-year AIP entitlement grant which potentially allows additional CARES Act funds to be applied to the project



➤ Terminal Projects

- Bag Handling System Design & Construction
- Other Terminal Investments: Concourse Loading Bridge A4, Escalator Replacements, Chiller Replacement, HVAC Replacements.
- Projects to be funded with PFCs pending FAA approval of KCAB's PFC-16 Application.

Airport Credit Rating Update



- Fitch and Moody's rate KCAB's outstanding GARB and CFC debt.
- Summary of Key Rating Agency Actions:
 - March 20th, 2020: Moody's revises U.S. Airport Sector outlook to Negative as expectation of enplanements drops
 - April 6th, 2020: Fitch Takes Rating Actions on Midsize U.S. Regional Airports Amid Coronavirus Disruptions
 - May 1st, 2020: Fitch Takes Rating Actions on U.S. Airport Special Facility Bonds Amid Coronavirus Disruptions
- Fitch put all 13 Midsize U.S. Regional Airports in its portfolio on negative outlook but affirmed all current ratings.
- Fitch put all 7 U.S. Airports with CFC backed Special Facility Bonds in its portfolio on negative outlook but affirmed all current ratings.
- SEC and OMS issued a joint statement 5/8/2020 encouraging COVID-19 disclosure by municipal issuers.
- With April 2020 financial and traffic statistics available, KCAB plans to make a voluntary disclosure related to the impacts of the COVID-19 pandemic the week of May 25th.

KCAB Debt Service

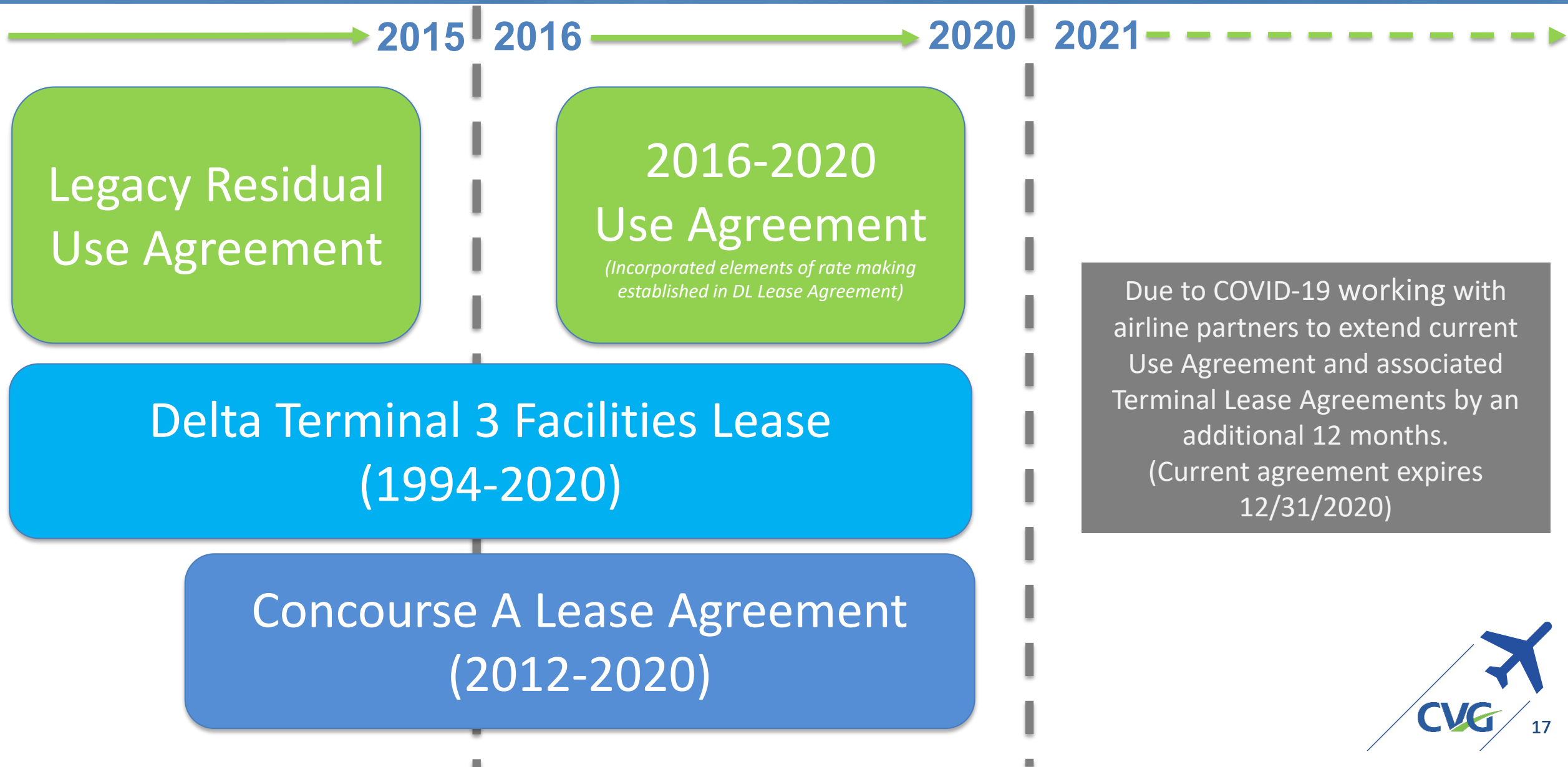
➤ GARB Debt Service

- Fitch affirmed CVG's A+ rating but revised the outlook from Stable to Negative
- 2016 Series GARB Bonds = \$4.3 million annually through 2033. 100% PFC eligible.
- 2019 Series GARB Bonds = \$2.2 million annually through 2048. 80% PFC eligible.
- PFC Balance as of 4/30/2019 = \$89.8 million.

➤ CFC Debt Service (2019 Series CFC Bonds)

- Fitch affirmed CVG's A- rating but revised the outlook from Stable to Negative.
- Making interest only payments through 2021 during CONRAC construction period.
- Anticipate deficiency in CFC collections required to make debt service payments in 2020 and 2021 due to impact of pandemic.
- Unencumbered balances in CFC Project Fund planned to be used to cure any shortfall in CFC collections and pay debt service.

Use Agreement and Related Terminal Agreements



Thank You!

