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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 airport's diverse revenue base, with substantial growth in cargo volume that is meaningfully offsetting the slower traffic recovery compared to the national average; robust liquidity to manage cost pressures and navigate risks around the ongoing recovery in air travel, and good financial management, demonstrated by a conservative financial position maintained through the coronavirus pandemic-induced shock. While the airport's low leverage provides financial flexibility, the capital spending expected in the next five years and debt issuance to fund the capital plan are significant relative to the airport's current leverage profile and will weaken the airport's financials.

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 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 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 1
Kenton County Airport Board, KY

	2018	2019	2020	2021	2022
Total Enplanements (000)	4,440	4,554	1,803	3,141	3,783
Cargo (Tons) ('000)	1,241	1,249	1,434	1,695	1,978
Adjusted Debt Per O&D Enplaned Passenger ($)	41.99	56.45	162.74	83.69	57.73
CPE ($)	4.49	4.51	14.23	7.93	7.18
Moody's DSCR	11.42	9.38	3.23	3.27	6.05

Source: Moody's Investors Service

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 3.8 million enplanements in 2022, CVG is the largest airport in Kentucky and, although not physically located in Ohio, would be the second-largest airport in Ohio, after Cleveland. With 1.98 million tons of cargo in 2022, CVG ranked as the seventh-largest cargo airport in North America.

Detailed credit considerations

Revenue generating base

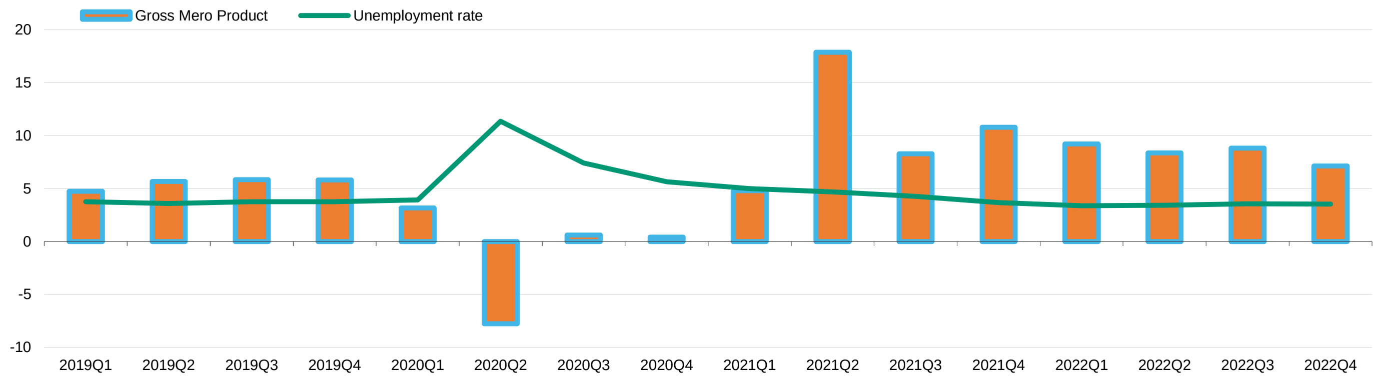
The airport is the dominant provider of commercial air services in the Greater Cincinnati area, which has a diverse economic base and a population of around 2.2 million. The presence of the headquarters of several Fortune 500 companies including The Kroger Co. and The Procter & Gamble Company provides 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 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, though 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 % change (GMP) and rate (unemployment), actual

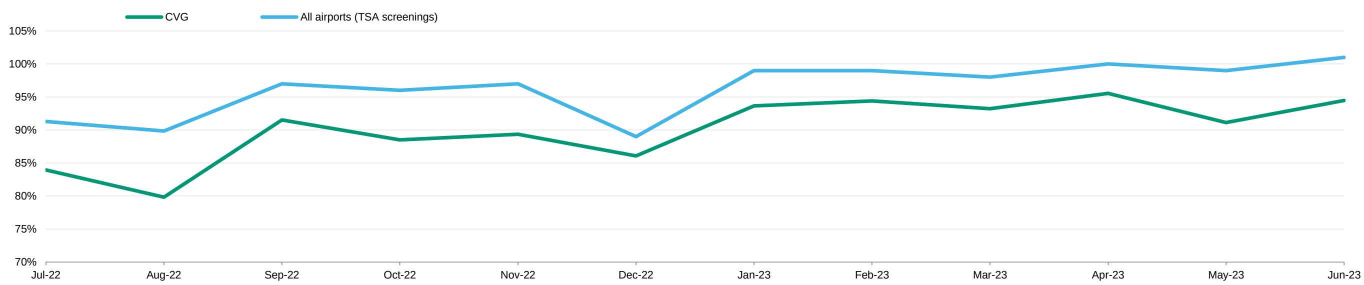


Source: Moody's Analytics

Total enplanements at CVG dropped to 1.8 million in 2020 because of the pandemic, down 60.4% from 2019. Recovery in the last 12 months ended June 30, 2023 was slower than the national average, with total enplanements recovering around 90% of the 2019 level. According to management, slower recovery mainly reflects capacity constraints rather than demand for air travel because the airport's main carrier, Delta (35% market share in 2022), has been slower to recover its capacity at CVG than the overall domestic system.

Exhibit 3

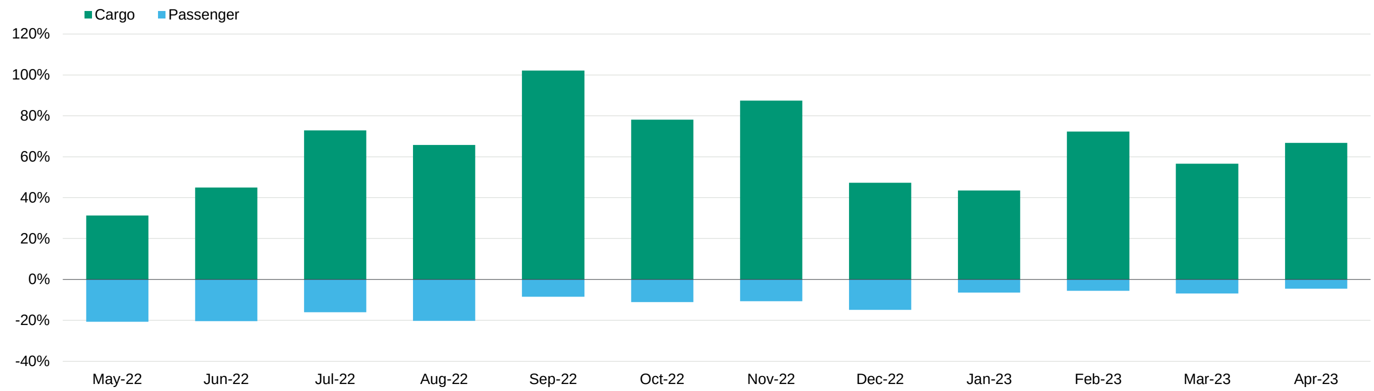
CVG's traffic recovery in the last 12 months compared with that of other airports in the country



Sources: CVG, airport websites and Transportation Security Administration

On the other hand, cargo activity in the airport has been strong. A major air cargo hub for Amazon and DHL — the seventh-largest cargo airport in the US — CVG is being bolstered by a surge in air cargo activity following the onset of the pandemic, which is partially offsetting the loss of passenger traffic. The airport's overall activity is improving, with total landed weight in 2022 8.8% higher than the 2019 levels despite lower passenger enplanements. Air cargo activity at CVG continued to grow in 2023, with total tonnage handled 16.4% higher year over year through June 2023.

Exhibit 4
Double-digit cargo growth has helped balance passenger declines
Cargo tons and passengers, May 2022 onward as a percentage of 2019



Source: Kenton County Airport Board

The new airline use and lease agreement became effective on January 1, 2023, and expires on December 31, 2027, 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

The financial performance has deteriorated in the last three years compared with the historical averages, but still remains at sound levels. Before the pandemic, Moody's net revenue DSCR averaged 9.8x from 2016 to 2019. The DSCR declined to 3.23x in 2020 and 3.27x in 2021, reflecting a decline in non-aeronautical revenue as a result of lower traffic levels and higher debt service obligations because of the issuance of Series 2019 bonds. The DSCR improved to 6.05x in 2022, driven by the traffic recovery and strong cargo activity. Per the airport's budget, we expect the DSCR to improve further to 9.0x, reflecting continued improvement in traffic and planned utilization of $16 million federal grants to reimburse operating expenses.

CPE remained competitive in 2022 at $7.18 in 2022 and $7.93 in 2021 compared with the sector median of $13.50 for medium-hub airports in 2021. We expect CPE to remain lower than $10 in the next couple of years until the new debt issuance to finance the replacement of the airport's Baggage Handling System and its Terminal Modernization Program.

Liquidity

The airport has adequate liquidity, at 590 days cash on hand as of year-end 2022. At the beginning of the second half of 2023, the airport also had a $37.6 million unused federal grant (CARES and ARPA) funding and 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.

Debt and other liabilities

The airport's debt level is very manageable and totaled $65 million as of year-end 2022, or 0.44x operating revenue and $17 per enplaned passenger. We calculate the airport's ANPL at $141 million, which brings the adjusted debt per enplaned passenger to about $54.

The airport's capital improvement plan is significant, with expected spending of $1.0 billion between 2023 and 2028. 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 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%).

Legal security

The 2019 bonds are secured by net general airport revenue, including any PFCs the airport elects to allocate toward eligible debt service on the bonds, although the airport has not expressly committed to allocate eligible PFCs other than to the 2016 bonds. The 2019 bonds and the 2016 bonds 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 Series 2016 bonds amortize with debt service of $4.3 million annually through 2032, representing an annual obligation that is easily covered by PFCs (around $15.1 million collected in 2022) — 100% of debt service is eligible to be paid from PFCs — and represents a modest and predictable charge.

The approximately $2.2 million of debt service on the Series 2019 bonds is paid 80% from PFCs and 20% from airport cost centers.

Debt-related derivatives

None.

Pensions and OPEB

The airport has a relatively large pension liability. The airport reported a 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.

All full-time employees of the airport participate in the Kentucky Retirement Systems' County Employees Retirement System, a cost-sharing multiple-employer defined benefit pension system consisting of two employee plans, Hazardous and Nonhazardous.

ESG considerations

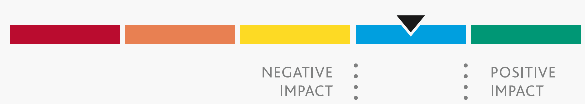
Kenton County Airport Board, KY's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 5

ESG Credit Impact Score

CIS-2

Neutral-to-Low



For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Kenton County Airport Board's 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 6
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-2	G-2
Moderately Negative	Neutral-to-Low	Neutral-to-Low

Source: Moody's Investors Service

Environmental
The airport faces 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.

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. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The scorecard-indicated outcome is A1, in line with the assigned rating on the revenue bonds.

Exhibit 7

Kenton County Airport Board, KY

Fiscal 2022

Regional Position:	**Regional**		
Rate Making Framework:	Compensatory		
Factor	**Subfactor**	**Score**	**Metric**
1. Market Position	a) Size of Service Area (millions)	Aa	2.2
	b) Economic Strength and Diversity of Service Area	A	
	c) Competition for Travel	A	
2. Service Offering	a) Total Enplanements (millions)	A	3.78
	b) Stability of Traffic Performance	A	
	c) Stability of Costs	Baa	
	d) Carrier Base (Primary Carrier as % of Total Enplanements)	A	35.4%
3. Leverage and Coverage	a) Net Revenue Debt Service Coverage	Aaa	6.05
	b) Debt + ANPL (in USD) per O&D Enplaned Passenger	A	$57.73
		Metric	**Notch**
4. Liquidity	Days Cash on Hand	590	0.0
5. Connecting Traffic	O&D Traffic	94.1%	0.0
6. Potential for Increased Leverage			0.0
7. Debt Service Reserves			0.0
Scorecard Indicated Outcome:		**A1**	

Source: Moody's Investors Service

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