MOODY'S
RATINGS

Rating Action: Moody's Ratings revises Kenton Cnty. Airport Board, KY - Cons. Ground Trans. Fac.'s outlook to positive; A3 rating affirmed

12 Jul 2024

New York, July 12, 2024 -- Moody's Ratings (Moody's) has affirmed the A3 rating on Kenton County Airport Board, KY - Consolidated Ground Transportation Facility's customer facility charge (CFC) revenue bonds. The outlook has been revised to positive from stable. The rating action affects approximately $98 million of revenue bonds outstanding.

The change in outlook to positive from stable was driven by the strengthening liquidity position and improving coverage that have been supported by growing activity at the facility.

RATINGS RATIONALE

The A3 CFC revenue rating reflects the solid economic base of the Cincinnati metro area that provides the underlying demand for activity at Cincinnati/Northern Kentucky International Airport (CVG). Growth in Cincinnati's gross domestic product (GDP) has outpaced the state of Ohio and the nation while moderate population growth has supported well recovered and growing O&D passenger activity with relatively stable transaction days per enplanement of 0.36. Recovery of total transaction days has slightly lagged enplanements, which reached pre pandemic levels in Q4 of 2023. Transaction days were 92% of 2019 levels last year, though are on track to reach just over 100% for 2024. Despite slightly slower recovery, CFC collections have led to solid debt service coverage of 1.7x by CFC's net of operating expense in 2023 and are on track to total 1.8x for 2024. The board expects to designate about $2.6 million in CFCs annually toward the Series 2019 general airport revenue bonds (GARBs) beginning in 2025. The board designation of CFC revenues is subordinate to the senior pledge of the Series 2019 CFC bonds and all CFC reserve requirements have been met as of fiscal 2023 including $10 million in the CFC Stabilization fund and $7 million in the renewal and replacement fund. Even with this designation, coverage would be 1.3x which allows CFC funds to build additional liquidity.

The CFC rating additionally reflects the CONRAC's very strong liquidity which totaled $43 million (inclusive of $6.6 million in the debt service reserve fund) according to preliminary 2023 results, equivalent to 6.6x MADS. The conservative financial structure includes 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, the payment of facility operating and maintenance expenses by the RACs, which effectively creates a pledge of gross CFC revenues to the bonds, level debt service, and a plan of finance that does not depend on volume growth and a CFC rate that can be adjusted without limit and applies to both on-airport and off-airport RACs.

These strengths are balanced against the risk posed to rental car demand from emerging automotive trends such as ridesharing, and the uncertain evolution of technologies and travel patterns over the 30-year life of the bonds.

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 OF THE RATING

- 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 OF THE RATING

- 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

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

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).

METHODOLOGY

The principal methodology used in this rating was Publicly Managed Airports and Related Issuers published in February 2023 and available at https://ratings.moodys.com/rmc-documents/398689 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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