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CREDIT OPINION
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Kenton Cnty. Airport Board, KY - Cons. Ground Trans. Fac.

Update to credit analysis

Summary

The credit profile of Kenton County Airport Board Consolidated Ground Transportation Facility (A3 stable) reflects the project's significantly reduced construction risk, as the facility is substantially complete and on budget; an increasingly robust recovery in air travel, which is tracking toward 80% of 2019 levels by the end of 2021; a comfortable liquidity position that will strengthen incrementally over the next several years, in addition to substantial liquidity at the airport sponsor (Kenton County Airport Board, A1 stable); and sound financial flexibility due to minimal direct operating expenses, unilateral and unlimited rate setting, and the ability to charge deficiency rent and recover non-CFC financing costs from rental car operators.

These strengths are balanced in part by significant, albeit temporary, impairment to the revenue generating base, with current transaction days roughly 50% below 2019 levels; a modestly elevated $7.50 CFC rate; and a 30-year debt term that could encounter competition from evolving transportation modes or technologies.

Credit strengths

- 1.25 years of maximum annual debt service currently held in restricted reserves; significant liquidity will accumulate in additional Pledged Funds (Stabilization and Renewal and Replacement)
- Independent ability to increase CFC rate without limit, applies to on-airport and off-airport RACs
- 30-year lease agreement with ability to charge deficiency requirement on joint and several basis to RACs in the event of CFC collection shortfalls
- Good execution of 2019 CONRAC project, which will be completed on budget and on schedule
- Airport is primary provider for origin and destination (O&D) air travel in Greater Cincinnati, which has a strong business sector in addition to multiple higher education and health care institutions

Credit challenges

- Air travel and rental car activity have been significantly impacted by COVID

» Long-term exposure to new technologies/vehicle usage patterns that adversely impact demand for rental cars

» CFC rate of $7.50 is comparatively elevated

Rating outlook

The stable outlook reflects our expectation that construction will be completed on time/on budget and for growing passenger traffic and attendant rental car demand over the next 12-18 months. The expected recovery will produce sufficient, if narrow, debt service coverage ratios and is supported by 1.25 years of restricted cash reserves currently on hand. DSCRs will expand and cash deposits into the Stabilization Fund will increase project liquidity on the back of a recovery in rental car activity over the next several years.

Factors that could lead to an upgrade

» The rating could be upgraded if rental car transactions/transaction days exhibit a sustained period of growth that increases debt service coverage above 2.5x MADS and there is substantial cash accumulated within the project and the Surplus Fund

» Deleveraging and lowering of the CFC rate to a more competitive/flexible level

Factors that could lead to a downgrade

» A sustained period of declining rental car demand resulting in debt service coverage ratios below 1.25x excluding the use of rolling coverage

» Limited or no cash balance maintained in the Surplus Fund

Key indicators

Exhibit 1

Kenton County Airport Board Consolidated Ground Transportation Facility

	2016	2017	2018	2019	2020
Transactions (000)	376	428	461	464	168
Transaction days (000)	1,367	1,461	1,595	1,617	674
Transaction days annual change	6%	7%	9%	1%	-58%
O&D enplanements (000)	3,007	3,652	4,161	4,341	1,741
Transaction days/O&D enplanements	0.45	0.40	0.38	0.37	0.44
CFC collections (000)	$6,726	$8,768	$11,930	$12,130	$5,057
Bond ordinance DSCR	N/A	N/A	N/A	3.99	1.64

Source: Kenton County Airport Board

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 (Aa2 stable). The Consolidated Ground Transportation Facility includes a Consolidated Rental Car Facility (CONRAC) and a Ground Transportation Center (GTC). The project is expected to be completed in September 2021.

Detailed credit considerations

Revenue Generating Base

Project to be completed on budget and open in September 2021

The approximately $205 million program includes the following elements:

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- **Main Terminal Roadway Improvement Project**. With a cost of $35 million, this was completed on budget and opened to the public in September 2019.
- **Consolidated Ground Transportation Facility**, consisting of the CONRAC (Ready Return Garage, Quick Turnaround Area (QTA) and Service Yard) and Customer Service Building. With a combined cost of $170 million, the project was substantially complete in June 2021 and will open to customers in September 2021.

The remaining works are low risk and primarily entail finishes and tenant fit-outs, and the airport owner currently has a $3.5 million contingency remaining within the original $205 million project budget. In aggregate, the program will be completed on budget and on schedule.

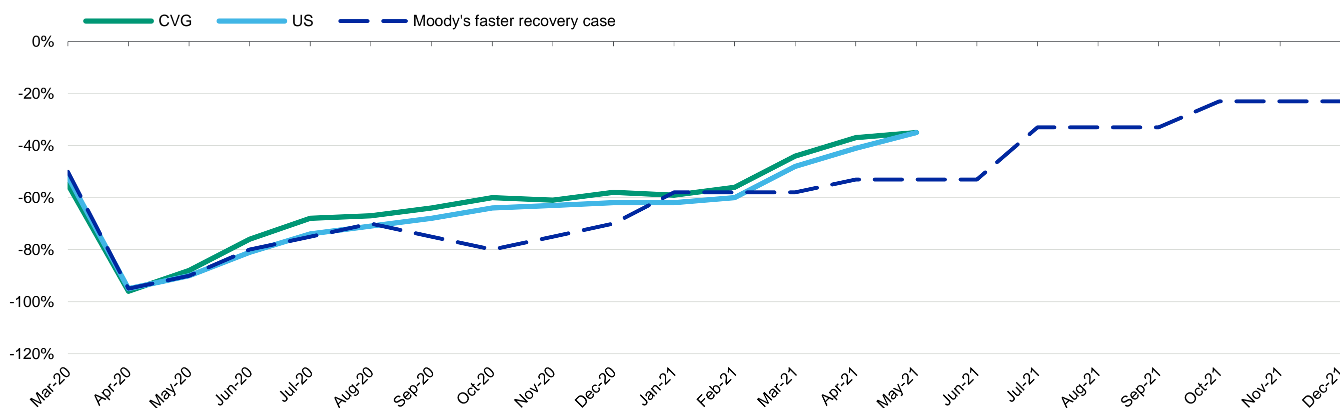
Air travel is recovering in line with the sector

Passenger activity at CVG is mirroring that of the broader sector, reflecting an increasingly robust recovery that is exceeding our faster recovery case forecast.

Exhibit 2

CVG's recovery is tracking the sector, exceeding Moody's faster recovery case

Passenger activity versus prior year, March 2021 onward versus 2019



Source: Kenton County Airport Board, TSA, Moody's Investors Service

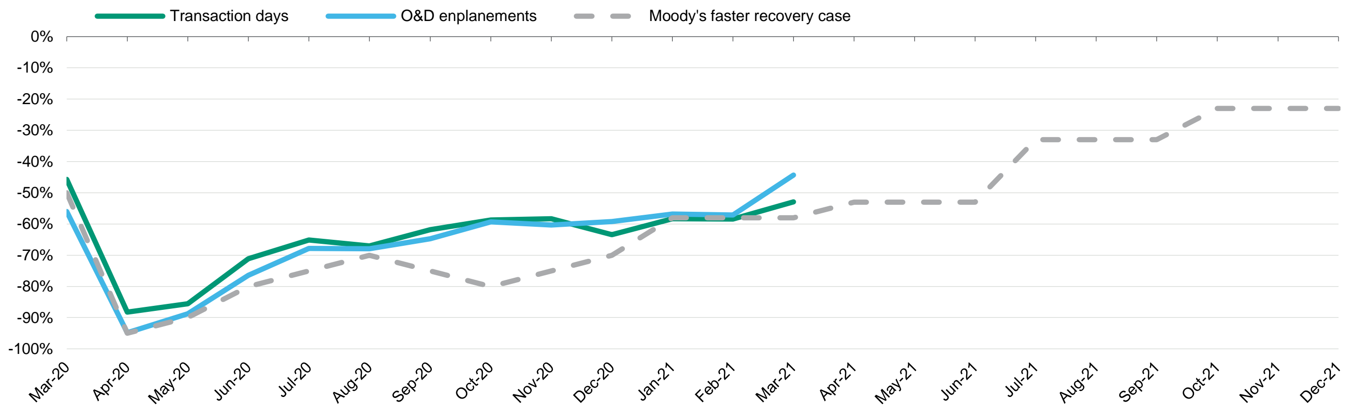
Passenger throughput was at 65% of 2019 levels in May 2021, compared to roughly 40% in January 2021 and 10% in May 2020. We expect enplanements will reach 70% (of 2019 levels) by the end of 2021 and 85% by the end of 2022. The growth reflects a combination of strengthening demand and increasing supply. Airline seat capacity has increased to 80% (of 2019 levels) in June 2021, from 60% in January 2021 and 30% in June 2020, and also exceeds Moody's and industry consensus recovery forecasts.

Rental car activity is significantly influenced by origin and destination (O&D) travel, which accounts for more than 95% of enplanements at CVG. Rental car transaction days have recovered largely in line with O&D enplanements, and are poised to continue growing over the next 12-18 months, bolstered by increased air travel and normalized economic conditions in the service area. The historical relationship of O&D enplanements and transaction days has so far remained intact, although we expect a certain amount of business travel – previously a key pillar of rental car demand – will be replaced by alternatives, which may damp the overall recovery.

Exhibit 3

Transaction days are recovering largely in line with O&D enplanements

Activity versus prior year, March 2021 onward versus 2019



Source: Kenton County Airport Board, Moody's Investors Service

Long-term market position remains strong

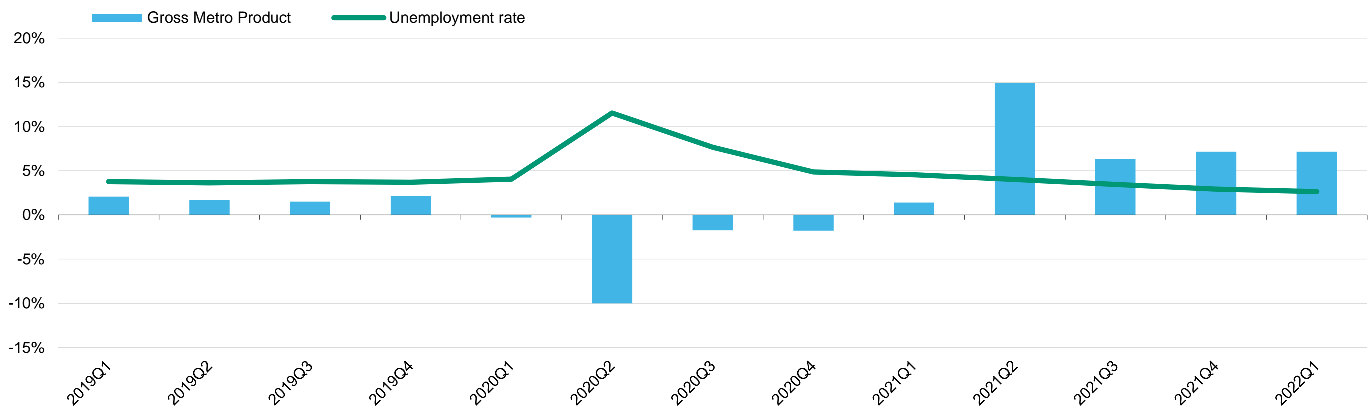
The airport is the dominant provider of commercial air service for O&D passengers in the Greater Cincinnati area.

The service area has a diverse, and stable, economic base and a population of roughly 2.2 million. Conditions within the service area are normalizing and we expect strong economic growth over the next 12-18 months, which will combine with pent-up travel demand to bolster air travel at CVG.

Exhibit 4

Cincinnati metropolitan area economic outlook is strong as activity normalizes

Annual change (GMP) and rate (unemployment), actual and projected



Source: Moody's Analytics

The economy has good industrial diversity and is a regional economic center with a sound demographic profile, which should support long-term travel demand generation even in a post-COVID world. Moody's Analytics expects that "… over the long term, Cincinnati will outpace the rest of the Buckeye State due to robust demographics and a skilled workforce."

Financial Operations and Position

Revenues + current cash balances provide ample support while demand recovers and liquidity builds

The project is well positioned to manage debt service requirements over the next several years. Rental car activity is poised to grow in line with enplanements and CFC collections should increase from roughly $5 million in 2020 to $10 million in 2023. We expect CFC revenue alone will be sufficient to cover scheduled debt service, which is level at $6.6 million. Additionally, the project has $8.2 million of restricted liquidity – between the Debt Service Reserve Fund ($6.6. million) and Coverage Fund ($1.6 million) – to manage

any deficits that may arise. As the project's costs consist substantially of fixed debt service, higher collections will increase surplus cash flow and these amounts will largely be trapped in the Stabilization Fund and Renewal & Replacement Fund, further augmenting the liquidity coverage by pledged funds. The project can also 1) raise the CFC rate to counteract lower volume, 2) charge contingent rent to rental car operators per the terms of the concession and 3) apply other unencumbered or surplus CFC funds toward debt service.

We expect rental car activity will recover in line with but at a lag to air travel, and have conservatively assumed no investment income is used to supplement pledged revenue, in which case we forecast the project will have comfortable, and expanding, headroom – from a combination of growing CFC collections and restricted cash balances – to cover its level annual debt service requirements going forward.

Exhibit 5

CFC collections and cash reserves can comfortably manage debt service as demand recovers

Actual and Moody's activity estimates, in thousands

	2020	2021	2022	2023	2024
Transaction days	674	899	1,132	1,294	1,456
% of 2019	42%	56%	70%	80%	90%
CFCs collected	$5,057	$6,746	$8,491	$9,704	$10,917
Debt service	$4,485	$6,565	$6,566	$6,564	$6,567
Surplus (deficit)	$572	$181	$1,925	$3,140	$4,350
CFC Debt Service Reserve Fund	$6,567	$6,567	$6,567	$6,567	$6,567
CFC Coverage Fund	$1,642	$1,642	$1,642	$1,642	$1,642
Pledged funds/debt service	2.96	2.28	2.54	2.73	2.91

"Pledged funds" includes CFC collections and Debt Service and Coverage fund balances
Source: Moody's Investors Service

More generally, we view the project as having a conservative financial structure that retains significant liquidity to manage financial challenges and is resilient to potential long-term erosion of demand. This is supported by 1) a CFC Stabilization Fund that will accumulate $10 million of cash, or approximately 1.4x maximum annual debt service (MADS), likely within the first five years of operations, in addition to a Debt Service Reserve Fund sized at MADS; 2) 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; 3) the payment of facility operating and maintenance expenses by the RACs, which effectively creates a pledge of gross CFC revenues to the bonds; 4) level debt service, and a plan of finance that does not depend on volume growth; and 5) a CFC rate that can be adjusted without limit and applies to both on-airport and off-airport RACs.

Liquidity

The project's liquidity profile will strengthen materially over the next five years as cash balances build up in the Stabilization Fund and Renewal & Replacement Fund.

The CFC Stabilization Fund is designed to trap $10 million of surplus cash flow prior to amounts being released to the Surplus Fund. While ahead of the Stabilization Fund in the waterfall, the Renewal & Replacement Fund is only required to be funded incrementally over a relatively extended period (initial funding three years post-DBO in maximum annual increments of $1 million up to the total $7 million). The project's stable and predictable cost structure, with level debt service and no material operating expenses, support visibility of cash flow to these pledged funds.

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.

Debt and Other Liabilities

Leverage at the facility is moderate for a newly built asset at roughly 45% debt to capital. This reflects the airport's large cash/pay-go contribution to the project (approximately 37% of total project costs) along with the use of general airport revenue bonds to fund 17% of total project costs.

Legal security

The bonds are secured by pledged CFC revenues and certain funds and accounts included in the trust estate. The bonds are also secured by a Debt Service Reserve Fund sized at maximum annual debt service, which was funded in cash at closing.

Debt structure

The bonds bear interest at a fixed rate and amortize fully over 30 years with level annual debt service and final maturity in 2049.

Debt-related derivatives

None.

Pensions and OPEB

Rental car companies will pay facility operating and maintenance expenses and the airport will likely maintain a low relative allocation of expenses to the project's cost centers, which minimizes the impact of pension and other-post employment benefit (OPEB) liabilities on the project. However, the airport does have a moderately elevated pension liability, which could pressure airport costs.

ESG considerations

Environmental

The primary risk is a reduction in passengers if more stringent air emission and carbon regulations on airlines significantly increase airfares. This would have the greatest impact on airports that have increased leverage to expand capacity. Airports may face more regulation regarding air quality, including noise pollution, in and around airports. Disasters (SARS, Icelandic volcanoes, hurricanes) can temporarily reduce volumes. Airports encounter a manageable level of soil pollution exposure, through fuel leaks, de-icing fluids, and by-products from fire fighting activities. New airports in expanding markets may also face environmental issues depending on the environmental sensitivity of the proposed sites. The sector is generally able to pass along added costs stemming from these exposures. Growth in demand for air travel, particularly long-haul routes, which are most exposed to costs of carbon legislation, will likely remain steady, leading to increasing carbon costs with growing passenger volumes. We do not see any major environmental risk for this issuer.

Social

Airports can be at risk of social factors such as labor agreements and noise issues with communities. The severe traffic disruption to enplanements caused by the COVID-19 outbreak will continue to have an impact on air travel and will reduce demand for rental cars.

Governance

The RACs which are party to the CONRAC Agreement are to create and enter into an Operating Agreement to establish a Consortium which is to provide for, among other things, (i) the assignment of maintenance and repair for the Consortium's areas of responsibility; (ii) the establishment of a Maintenance Operating Manual for the CONRAC; (iii) the hiring of a Manager; (iv) the allocation of responsibility to the Manager for all obligations of the Manager set forth under the CONRAC Agreement; and (v) the allocation and assumption of liability for sums due and payable by the RACs under the CONRAC Agreement. The Operating Agreement requires approval by the airport.

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