Columbus Regional Airport Authority, Ohio (CRAA)

John Glenn Columbus International Airport

New Issue

Ratings

New Issues

Approximately $95,345,000 CFC Revenue Bonds, Series 2019 (Federally Taxable)	A–

CFC – Customer facility charge.

Rating Outlook

CFC Bonds	Stable

Peer Group

Cincinnati/Northern Kentucky Airport CFC	A–
San Antonio Airport CFC	BBB+

Related Criteria

Rating Criteria for Infrastructure and Project Finance (July 2018)

Airports Rating Criteria (February 2018)

Related Research

Fitch Rates Columbus Airport Customer Facility Charge Rev Bonds 'A-'; Outlook Stable (April 2019)

Peer Review of U.S. Airports (Attribute Assessments, Metrics and Ratings) (October 2018)

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Key Rating Drivers

Summary: The rating reflects a stable traffic base with modest volume for rental car transactions and a strong debt structure, diversity of rental car operators, rate-making flexibility and contingent deficiency payments from the rental car companies. Busing payments, although subordinate to debt service, slow the buildup of cash. Potential overruns in busing costs are mitigated by annual caps and deficiencies covered by the rental car companies.

Debt service coverage ratios (DSCR) average approximately 1.8x over the debt term in Fitch's rating case without customer facility charge (CFC) rate increases (excludes subordinate busing costs). Demand and volatility risks will be ongoing concerns for rental car financing given the current alternative ground transportation options and the potential for new technology-based services in the long term. Absent any severe downturns in rental car transactions and revenue performance, Columbus Regional Airport Authority (CRAA or the authority) should have the flexibility to maintain healthy debt service coverage.

Midsized Market, Some Volatility (Revenue Risk — Volume: Midrange): Growing deplanements support sound rental demand at 1.7 million annual transactions. The eight rental car brands' market shares are well distributed, with the largest at 20% of gross revenue. Transactions show some volatility, with a 17% peak to trough in 2009 and a 5% drop in 2017 from the entry of transportation network companies (TNCs). Growth resumed in 2018, but more competition in ground transportation could curb long-term growth.

Significant Rate-Making Flexibility (Revenue Risk — Price: Stronger): CRAA has full flexibility to increase both CFC rates and the seven transaction day cap on CFCs. Fitch Ratings views the current $6.50 per day CFC rate as near the high end of peers, but CRAA does not expect to need any increases through debt maturity. CRAA increased the rate five times since CFC collection began in 2007 without material effects from price elasticity of demand. CRAA can also levy additional charges to the rental car companies if there is a deficiency.

New Facility (Infrastructure Development and Renewal: Stronger): Construction of a new facility is of relatively low complexity, with design, permitting and preliminary works already completed. The facility will include two three-story garages and a one-story customer service center. Shuttle buses will transport passengers less than one mile from the passenger terminal to the facility. CFCs also fund annual deposits to a renewal and replacement fund for modest capital needs without requiring additional debt issuances.

Conservative Debt Profile (Debt Structure: Stronger): The debt is fixed rate and fully amortizing, with level debt service through maturity in 2048. Pledged revenues include CFCs and rental car contingent payments. Cash-funded debt service reserve and coverage accounts are sized to 100% and 25% of maximum annual debt service (MADS), respectively. Future cash flows will fund a renewal and replacement fund and shuttle busing services.

Financial Profile: Under Fitch's conservative rating case, which applies a 10% reduction in transaction days by the expected project completion and no increase in the CFC rate, the DSCR averages 1.8x over the full debt term, although minimum DSCRs are closer to 1.5x. The coverage fund enhances these metrics by a factor of 0.25x in each year. Leverage gradually declines to under 3.0x 10 years post completion from approximately 7.0x at opening in 2021.

Peer Group

Fitch-rated peers include consolidated rental car facilities (CONRACs) at Cincinnati/Northern Kentucky International Airport (A–/Stable, issuer Kenton County Airport Board) and San Antonio International Airport (BBB+/Stable, issuer San Antonio [TX]). Cincinnati/North Kentucky is the closest peer to John Glenn Columbus International Airport (CMH), both with similar markets and coverage levels. San Antonio also has similar coverage levels to CMH, but requires more CFC revenue growth to maintain a stable DSCR profile, as reflected in its rating level.

Rating Sensitivities

Future Developments that May, Individually or Collectively, Lead to Negative Rating Action:

- A considerable drop in rental car transactions or volatility in underlying O&D traffic base that adversely affects pledged revenue and reduces cash flow coverage below 1.6x on a sustained basis.
- Poor project delivery during construction or upward adjustments to costs for the new facility.

Future Developments that May, Individually or Collectively, Lead to Positive Rating Action:

- A proven operating history with a continuation of favorable trends in rental car transactions and pledged revenues to support over 2.0x coverage from current cash flows, along with a steady buildup in project cash reserves.

Enterprise Summary

Enterprise Summary Data		Financial Summary Data	
Project Type	Airport Car Rental	Rated Debt Terms	$95.3 million CFC taxable revenue bonds.
Project Location	Columbus, OH	Amortization Profile	Fully amortizing, 30-year term, level debt service.
Revenue Basis	Volume	Reserves	Cash-funded DSRF of $6.5 million (100% MADS) and coverage fund of $1.6 million (25% of MADS).
Operator	CRAA and third-party CONRAC manager	Triggers – Rate Covenant	Pledged revenues greater of the sum of all required deposits or 1.25x debt service.
Technical Consultant	Unison Consulting, Inc.	Additional Bonds Test	One year historical or three years projected compliance with the rate covenant and 1.25x pro forma MADS.

CONRAC – Consolidated rental car facility. CFC – Customer facility charge. DSRF – Debt service reserve fund.
MADS – Maximum annual debt service.
Source: Columbus Regional Airport Authority.

Overview

Transaction Summary/Project Description

The CFC bond proceeds will finance the construction of a CONRAC less than a mile from the main passenger terminal. Proceeds will also fund a debt service reserve account, debt service coverage account and costs of issuance. The CFC bonds are fixed rate with a 30-year maturity.

The CFC collections pledged to service the debt are not dependent on completion of the facility, and the project's low complexity and experienced contractor mitigate concerns about construction risk. The construction contract includes a guaranteed maximum price, payment/performance bonds and liquidated damages. The total project is expected to cost $153 million, with 43% of the funding from already-collected CFCs. The project budget includes $7.9 million in owner-controlled contingency.

The current concession agreement will be replaced with a new CONRAC concession agreement for a 30-year term commencing at the start of CONRAC operations. Under the concession agreement, the rental car operators will pay CRAA a privilege fee of a percentage of gross revenues, a land-use fee, project operating costs and collected CFCs. Pledged revenues only include CFC collections and deficiency payments if needed. The rental car operators are collectively responsible for the land-use fee and deficiency payments, both allocated by market share.

The CONRAC, expected to open in mid-2021, will provide much-needed additional space for rental car operations and public parking. The rental car companies (RACs) currently operate within an authority-owned parking garage adjacent to the main terminal with facilities that are undersized by 30% based on current rental car activity. The CONRAC will alleviate congestion in the parking garage, provide more public parking and coordinate with the authority's mid-field redevelopment plan. Moving the RACs to the CONRAC will increase public parking supply in the garage by approximately 40%. The CONRAC will be less than a mile from the present terminal and adjacent to a potential site for a future terminal.

Security

In Fitch's view, the CRAA CONRAC financing is structured with conservative terms and covenants, similar to other CFC-secured bonds. The series 2019 bonds are special limited obligations of the authority, payable solely by pledged revenues collected from CFCs paid by rental car operators and annual requirement deficiency fees, if any, payable by the rental car operators. The deficiency payments are also called contingent rent at other similar bond-financed car rental projects. A debt service reserve equal to MADS and a separate coverage account reserve equal to 25% MADS also secure the CONRAC bonds.

Airport Profile

CMH, owned and operated by CRAA, is the main airport serving central Ohio. CMH is approximately six miles east of Columbus, OH's central business district. Facilities include two parallel east/west runways, a two-level main terminal, two two-level pier concourses and 31 gates. CRAA also owns and operates two smaller airports: Bolton Field, a general aviation airport that does not serve commercial air carriers; and Rickenbacker International Airport, which primarily provides air freight, logistics, warehouse and distribution services. The CONRAC project only serves CMH.

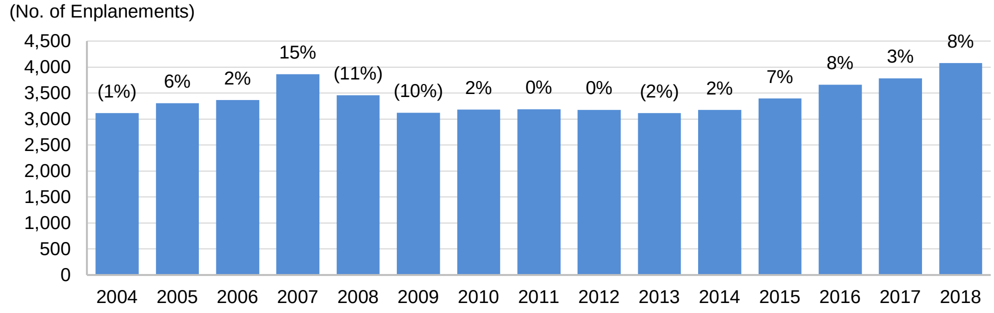
CRAA is a port authority and political subdivision of the state of Ohio originally created in 1991 as a body corporate and politic by the city of Columbus. CRAA was reconstituted as a body corporate and politic in 2003 by the city and the county of Franklin, and given responsibility to operate CMH, Bolton Field and Rickenbacker International Airport. CRAA is governed by a nine-member board of directors in which board members serve for four years. The mayor and county board of commissioners each appoint four members and jointly appoint the ninth member.

Revenue Risk — Volume

Fitch believes the airport has sound demand supported by a growing population and regional economy. CMH primarily serves the Columbus MSA, which is the second-largest MSA in Ohio, with 18% of the state's population (2 million people), just shy of Cincinnati's 19% share. The Columbus MSA grew at a CAGR of over 1% from 2012 to 2017, exceeding growth nationally and in the state of Ohio. Increasing high-skilled employment opportunities spurred population growth. Columbus' GDP CAGR of 2.4% from 2012 to 2017 was one of the highest among large Midwest cities.

Rental car demand is driven by overall traffic at the airport. CMH is a medium-hub airport, accounting for 0.4% of total U.S. enplanements. Almost 100% of CMH's 4 million

CMH Historical Enplanements



Source: Columbus Regional Airport Authority.

enplanements are O&D, eliminating vulnerability to airline route network changes. Before the 2018 peak, the previous record was 3.9 million in 2007. Skybus Airlines Inc. and JetBlue Airways Corp. began service in 2007, but these airlines' tenures were brief, through January 2008 for JetBlue and April 2008 for Skybus. The two airlines' exits and the Great Recession caused enplanements to decline to 3.1 million in 2009. However, growth has been robust in recent years due to traffic gains across the major airlines and the entry of Spirit Airlines in 2018. The largest carrier at CMH is Southwest Airlines Co., accounting for 36% of all passengers in 2018.

Visiting O&D enplanements grew at an over 6% CAGR since 2015, but rental car transactions slightly declined over the same period due to the introduction of TNCs at the airport in 2016. TNCs caused a 5% decline in 2017, but growth resumed in 2018. Visitors, who comprise the addressable market for rentals, account for approximately 42% of CMH's enplanements.

Rental Car Activity and Trends

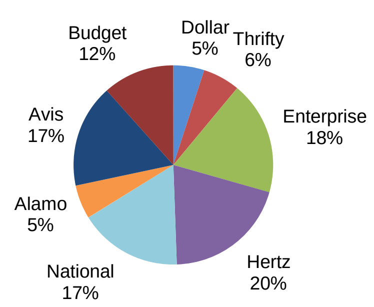
Passenger and Rental Car Trends

Year	Rental Car Transactions (000)	% Change	Days Avg. Rental	Total Transaction Days (000)	% Change	Transaction Days Within Seven-Day Cap (000)	% Change	% Days Within Cap	CFC Revenues (000)	% Change
2015	531	7.5	2.93	1,557	11.3	1,516	8.6	97.4	7,374	17.3
2016	535	0.9	3.13	1,675	7.5	1,622	6.9	96.8	9,205	24.8
2017	509	(5.0)	3.17	1,610	(3.8)	1,544	(4.8)	95.9	10,035	9.0
2018	523	2.8	3.24	1,694	5.2	1,607	4.1	94.8	10,445	4.1
2015–2018 CAGR (%)	(0.5)	—	—	2.9	—	2.0	—	—	12.3	—

CFC – Customer facility charge.
Source: Columbus Regional Airport Authority.

The Columbus rental car market is midsized compared with most other rated stand-alone CONRAC credits. In 2018, approximately 523,000 rental car transactions accounted for 1.7 million transaction days, 95% of which were under the seven-day CFC transaction day cap. Eight car rental brands operate at the airport — the largest share accounting for 20% — mitigating concentration concern.

CMH Rental Car Market Share as of 2018



Source: Columbus Regional Airport Authority.

The propensity to rent — the ratio of rental car transactions to visiting destination passengers — declined to the current approximately 32% from approximately 38% in 2012, reflecting competition from TNCs. The authority believes this ratio is stabilizing. However, the Fitch cases conservatively apply a further reduction in the propensity to rent.

The average length of rental has been roughly three days since 2008, but inched upward above three days for the past three years. TNCs typically siphon off short car rentals of one day, leading to an increase in the average rental length.

Revenue Risk — Price

Project Agreements

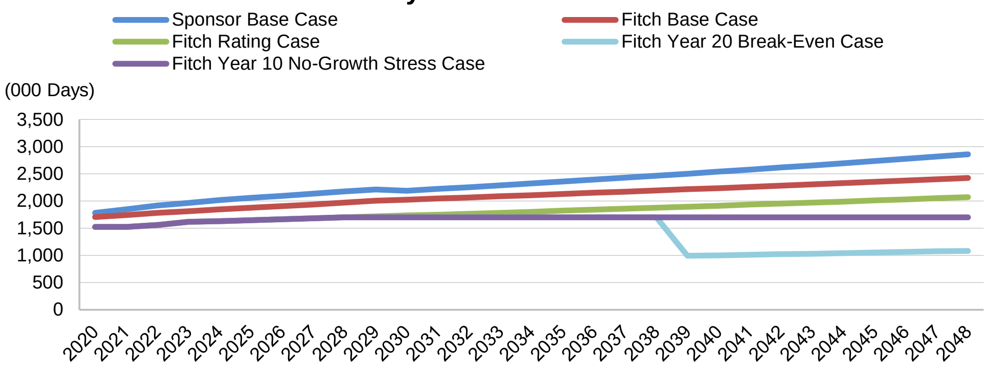
Fitch views the project agreements as supportive of a strong relationship between the airport and the car rental companies. The current concession agreement will be replaced with a new CONRAC concession agreement for a 30-year term commencing at the start of CONRAC operations. Under the concession agreement, the rental car operators will pay CRAA a privilege fee of a percentage of gross revenues, a land-use fee, project operating costs and collected CFCs. Pledged revenues only include CFC collections and deficiency payments if needed. The rental car operators are collectively responsible for the land-use fee and deficiency payments, both allocated by market share. Fitch believes these provisions mitigate some of the risks related to an individual car rental company's ability to make timely payments.

CRAA increased the CFC rate relatively frequently compared with peers, but the initial rate was low and increases have not exhibited material effects from price elasticity of demand. CFC collection began in July 2007 at $2.00 per rental transaction day. The CFC rate was increased five times since then, to the current $6.50 per transaction day, up to a maximum of seven days. The CRAA board has the full right to increase both the CFC rate and the CFC transaction day cap. There are no plans to make any adjustments. The rental car companies are required to pay CFCs to CRAA regardless of whether CFCs are charged to customers.

Fitch Cases

Fitch expects the project to have sound coverage and to be able to withstand relatively severe reductions in demand. Fitch reviewed the sponsor forecast through fiscal 2029 and conducted additional forecast analysis to evaluate the coverage performance that extends through final maturity. Fitch views the longer term analysis as appropriate given the potential for emerging technologies to affect rental car demand in later periods of a 30-year bond term.

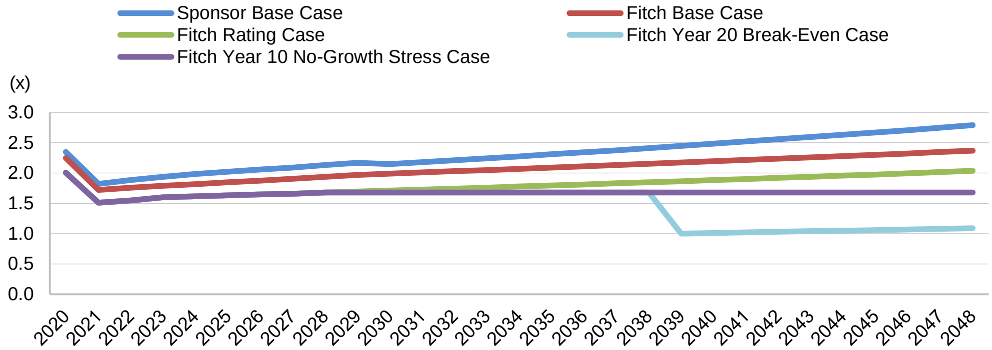
CMH Rental Car Transaction Days — Forecast Cases



Source: Fitch Ratings, Columbus Regional Airport Authority.

Under Fitch's base case scenario, rental car transaction days are assumed to grow at a 1.2% CAGR through debt maturity, and the propensity to rent is held constant at 30%. No adjustments to the current CFC rate schedule were needed to make required payments. In the base case, the minimum DSCR is 1.7x and the average DSCR is 2.1x through final maturity, excluding the first partial year in 2019 and the debt service coverage fund. Cash reserves grow with excess revenues, leading to negative net leverage in year 15 of the bond term.

CMH Rental Car DSCR Results



DSCR – Debt service coverage ratio.
Source: Fitch Ratings, Columbus Regional Airport Authority.

In Fitch's rating case, deplanements are stressed by 7% in 2020 and recover before growing by 1% per year starting in 2024. The propensity to rent is held constant at 29%, and CFC rates remain at the current rate of $6.50 per day. With these assumptions, the CONRAC can generate a minimum and average DSCR of 1.5x and 1.8x, respectively, from CFC receipts alone. Excess cash builds more slowly in this conservative case, leading to negative net leverage in year 19 of the bond term. Rating case conditions also generate adequate coverage to pay for busing costs. CRAA's ability to increase the CFC rate — or impose an annual requirement deficiency — at any time provides room for substantial protection against downside scenarios.

Fitch also applied additional stress and break-even scenarios to test asset strength in severe downside conditions. The stress scenario considers the rating case assumptions and 0% growth in rental car transactions starting in 2029 as a result of technology advancements further impairing rental car demand. Under these combined assumptions, the CONRAC can

CONRAC CFC Bonds: Summary of Assumptions and Results — Forecast Cases

(%) Assumptions	Sponsor Base	Fitch Base	Fitch Rating	Fitch No-Growth Starting in Year 10	Fitch No-Growth Break-Even Scenario in Year 20
Originating Passengers Growth Rate CAGR 2018–2048	1.7	1.3	0.9	0.9	0.9
CAGR 2018–2023	2.2	2.2	0.5	0.5	0.5
Rental Car Transactions Growth Rate CAGR 2018–2048	1.8	1.2	0.7	0.0	(1.4)
CAGR 2018–2023	2.6	1.6	(0.7)	(0.7)	(0.7)
Transaction Days CAGR 2018–2048	1.8	1.2	0.7	0.0	(1.5)
CAGR 2018–2023	3.0	1.4	(1.0)	(1.0)	(1.0)
CFC Revenue Growth CAGR 2018–2048	1.8	1.2	0.7	0.0	(1.5)
CAGR 2018–2023	3.1	1.4	(0.9)	(0.9)	(0.9)
Average DS Coverage Without CFC Coverage Fund (x)	2.3	2.1	1.8	1.7	1.5
Minimum DS Coverage Without CFC Coverage Fund (x)	1.8	1.7	1.5	1.5	1.0
Average DS Coverage with CFC Coverage Fund (x)	2.6	2.3	2.0	1.9	1.7
Minimum DS Coverage with CFC Coverage Fund (x)	2.1	2.0	1.8	1.8	1.3
2021–2048 Average Net Debt/CFADS (x)	(3.1)	(1.8)	0.6	2.1	3.0

CFC – Customer facility charge. DS – Debt service. CFADS – Cash flow available for debt service. Note: Sponsor base scenario applies Fitch assumptions after year 2029.
Source: Fitch Ratings, Columbus Regional Airport Authority.

generate a minimum and average DSCR of 1.5x and 1.7x, respectively, from CFC receipts alone. Fitch also ran a break-even scenario that assumed flat growth in rental car transaction days starting in 2029 and assessed the maximum reduction in transaction days in 2039 to maintain a minimum 1.0x DSCR. This scenario also does not draw on the coverage account or debt service reserve fund. The outputs indicate the CONRAC can withstand an approximately 42% demand loss in rental car transactions to maintain a break-even coverage level without using additional levers, such as rate increases or contingent rent.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.