FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Columbus Airport Customer Facility Charge Rev Bonds at 'A-'; Outlook Negative

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Fitch Ratings - New York - 10 Feb 2021: Fitch Ratings has affirmed the 'A-' rating on Columbus Regional Airport Authority's (CRAA) approximately $95.3 million series 2019 customer facility charge (CFC) taxable revenue bonds for the construction of a consolidated rental car facility (CONRAC). The Rating Outlook is Negative.

The Negative Rating Outlook reflects operational and financial exposure in the current stressed environment in aviation. Severe declines in passenger traffic continue to affect volumes and operating revenues across all CONRACs, which have extremely limited revenue pledges and operate with a high level of dependence on passenger traffic. CRAA has the financial flexibility to weather near-term declines with enough unrestricted cash and reserves alone to completely cover debt service in fiscal 2021. However, the decline in average DSCR to 1.5x from 2021 through 2025 in Fitch's rating case is below the negative sensitivity of 1.6x, warranting the Negative Rating Outlook.

Feedback

RATING RATIONALE

The rating reflects the pre-coronavirus stable underlying traffic base supporting a modest-sized volume for rental car transactions and adequate liquidity to sustain temporary severe revenue declines from the coronavirus. Project strengths include a favorable debt structure, diversity of rental car operators and rate-making flexibility with a backstop of a deficiency true-up mechanism to the participating rental car companies to fully support debt payments. Payments for busing services to the CONRAC, although subordinate to debt service, slow down the accumulation of cash reserves. Potential overruns in busing costs are mitigated by caps on annual payments from CFC revenue and the requirement for the rental car companies to cover shortfalls if there is not adequate CFC revenue.

The outbreak of coronavirus and related government containment measures worldwide create an uncertain global environment for air travel in the near term. Material changes in revenue and cost profile are occurring across the sector and will continue to evolve as economic activity and government restrictions respond to the ongoing situation. Fitch's ratings are forward-looking in nature, and Fitch will continue to monitor developments in the sector as a result of the virus outbreak as it relates to severity and duration and incorporate rating and downside case qualitative and quantitative inputs based on expectations for future performance and assessment of key risks.

KEY RATING DRIVERS

Midsized Market, Some Volatility - Revenue Risk (Volume): Midrange

Rental car demand has been sharply curtailed during the coronavirus pandemic, with total transaction days declining 53% from 1.8 million in fiscal 2019 to 829 thousand in in fiscal 2020. Prior to the pandemic, rental car demand was supported by growing passenger traffic at John Glenn Columbus International Airport (CMH). Market share of the eight car brands operating at CMH is well dispersed with the largest brand accounting for 22% of gross rental revenue. Prior to the pandemic, historical performance has shown moderate volatility with a rental car transaction peak to trough of 17% during the great recession. Longer term increased competition in ground transportation could hamper growth prospects for CRAA and other rental car facilities.

Feedback

Significant Rate-making Flexibility - Revenue Risk (Price): Stronger

CRAA has full flexibility to increase both CFC rates and the seven-day transaction day cap on CFC collections. Fitch views the current $6.50 per day CFC rate as towards the higher end compared to peers but CRAA does not expect to require further increases during the debt term. Since CFC collection began in 2007, CRAA has increased the rate five times without material effects from price elasticity of demand. CRAA can also levy additional charges to the RACs if there is a deficiency in CFC revenues.

New Facility - Infrastructure Development & Renewal: Stronger

The CONRAC facility, expected to open in mid-2021, will provide much needed additional space for rental car operations and public parking. The construction of the project 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 funded by CFC revenues will bring passengers to the facility, which is less than a mile from the passenger terminal. CFC collections also fund annual deposits to a renewal and replacement fund to cover modest capital requirements without the need for additional debt issuances.

Conservative Debt Profile - Debt Structure: Stronger

The debt is fixed rate and fully amortizing with level debt service payments through maturity in 2048. Pledged revenues form a closed loop of funds comprised of CFC revenues and, if needed, rental car contingent payments. Further support is provided by a debt service reserve account and debt service coverage account sized to 100% and 25% of maximum annual debt service (MADS), respectively. The debt service reserves are fully cash funded, and future cash flows will fund a renewal and replacement fund and shuttle busing services.

Financial Summary

DSCR was relatively strong at 1.5x in 2020 despite severe revenue declines because debt service was still in the initial interest-only period. Principal payments begin in 2021, putting greater pressure on coverage while revenues remain depressed due to the pandemic. Under Fitch's rating case, which features steady revenue recovery to the 2019 level by 2024, DSCR without CRAA's coverage fund averages to 1.5x from 2021 through 2025 and 1.8x over the full debt term. The coverage fund enhances these metrics by a factor of approximately 0.25x in each year. Leverage gradually declines from approximately 12x in 2021 when the CONRAC facility is expected to open, to approximately 7x in 2025. No draws on liquidity are necessary under Fitch's cases to achieve these metrics.

PEER GROUP

Fitch-rated peers include CONRACs at the Cincinnati/North Kentucky (A-/Negative) and San Antonio (BBB+/Negative) airports. Cincinnati/North Kentucky is the closest peer to CMH, both with similar market 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

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--A proven operating history with favorable trends in rental car transactions and pledged revenues to support over 2x coverage from current cash flows along with a steady build-up in project cash reserves.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A considerable drop in rental car transactions or volatility in underlying O&D traffic base, which adversely affects pledged revenue and reduces cashflow coverage levels below 1.6x on a sustained basis.

--Poor project delivery during construction or upward adjustments to costs for the new facility.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579].

Feedback

CREDIT UPDATE

Enplanements grew 6% yoy to a record high of 4.3 million in 2019 and continued to grow through the first two months of 2020. Starting in March 2020, CMH experienced significant declines in passenger traffic as air travel plummeted due to the coronavirus pandemic. The most severe yoy monthly decline in passenger traffic was a 96% drop in April 2020. Enplanements have partially recovered to a yoy decline of 65% in December 2020. Rental car transactions grew 4% in 2019 before declining approximately in line with coronavirus-related enplanement traffic losses in 2020. The peak monthly yoy decline in transactions was 91% in April. Growth in transactions has tracked enplanements, improving to a yoy decline of 65% in December 2020. Rental car transactions for the full year declined by 59% to 219,530 in 2020.

Construction of the new CONRAC facility continues and remains on track to open in mid-2021. Of the eight rental car companies operating at the airport, the two with the greatest market share in 2020 were National/Midwest at 22% and a locally owned franchise of Hertz at 17%. The Authority has collected full payments both prior to and following Hertz's filing for Chapter 11 in March 2020.

FINANCIAL ANALYSIS

Given the current economic environment due to the coronavirus, and the unlikeliness of a stable operating environment over the near term, Fitch has developed two scenarios, the coronavirus rating case and severe downside case. The coronavirus rating case and severe downside case both incorporate the concern that the economic impact of the health crisis will be deeper and more prolonged, and the resulting effects on the underlying economy will cause a less robust recovery that may extend beyond 2024. The differences for each case focus on the level and speed of the recovery starting in 2021 and through the next several years. Given the current economic environment due to the coronavirus, and the unlikeliness of a stable operating environment over the near term, Fitch's coronavirus rating case is also considered the base case.

Fitch's coronavirus rating case assumes enplanements in 2021 drop to 65% of the 2019 level. Enplanements gradually improve to 80% and 90% of the 2019 level in fiscal 2022 and 2023 respectively, reaching 2019 levels in 2024. The propensity to rent is held constant at 29%, and CFC rates remain at the current rate of $6.50 per day. Under this scenario, DSCR without the CFC coverage fund averages 1.5x from 2021 through 2025, and 1.8x through the debt term. Leverage declines from approximately 12x in 2021 to approximately 7x in 2025. Surplus cash after deposits to the renewal and replacement fund and the busing fund declines by approximately $3 million from 2021 through 2023. Cash reserves grow in subsequent years, leading to negative net leverage in 2041.

In Fitch's coronavirus severe downside case enplanements in fiscal 2021 decline to 40% of the 2019 level in fiscal 2021, followed by a slower pace of recovery through fiscal 2024. The propensity to rent is again held constant at 29%, and CFC rates remain at the current rate of $6.50 per day. Under this scenario, DSCR without the CFC coverage fund averages 1.3x from 2021 through 2025, and 1.8x through the debt term. Leverage declines from approximately 19x in 2021 to approximately 8x in 2025. Surplus cash after deposits to the renewal and replacement fund and the busing fund declines by approximately $8 million from 2021 through 2023. Cash reserves grow in subsequent years leading to negative net leverage in 2043.

The coronavirus rating case average DSCR of 1.5x from 2021 through 2025 is below the negative sensitivity of 1.6x, warranting the negative outlook. Coverage is the tightest at 1.1x in 2021 but steadily increases to over 1.6x in 2024 in the rating case. Slower recovery than in the rating case or larger pandemic-related declines, such as in the coronavirus severe downside case, would likely result in a downgrade absent mitigating action. Fitch notes favorably that CRAA has the ability to increase the CFC rate (or impose an annual requirement deficiency) at any time, which could counteract downside scenarios.

SECURITY

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. A debt service reserve equal to maximum annual debt service (MADS) and a separate coverage account reserve equal to 25% MADS also secure the CONRAC bonds.

Asset Description

The Columbus Regional Airport Authority (CRAA) owns and operates John Glenn Columbus International Airport, the principal air carrier airport serving central Ohio. Currently the rental car companies operating at the Airport have customer and operating facilities within an authority-owned parking garage located adjacent to the main terminal. In order to alleviate congestion in that existing parking garage, provide more public parking, and coordinate with the authority's mid-field redevelopment plan, the Authority is consolidating the rental car operations into a consolidated rental car facility (CONRAC). The construction of the new CONRAC, scheduled to open in mid-2021, is being funded by the 2019 bond proceeds and surplus CFC revenues.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Columbus Regional Airport Authority (OH)				
• Columbus Regional Airport Authority (OH) /Customer Facility Charge Revenues/1 LT	LT	A- Rating Outlook Negative	Affirmed	A- Rating Outlook Negative

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Infrastructure and Project Finance Rating Criteria (pub. 24 Mar 2020) (including rating assumption sensitivity)

Airports Rating Criteria (pub. 22 Oct 2020) (including rating assumption sensitivity)

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APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG AST Model, v1.2.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Columbus Regional Airport Authority (OH)	EU Endorsed, UK Endorsed

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Industrials and Transportation US Public Finance Infrastructure and Project Finance

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