

RATING ACTION COMMENTARY

Fitch Revises Outlook to Stable for Six U.S. Airport Rental Car Facilities Amid Pandemic Recovery

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Fitch Ratings - New York - 27 Jan 2022: Fitch Ratings has affirmed the ratings on the following airport related credits and revised the Rating Outlooks to Stable from Negative:

--Atlanta Hartsfield-Jackson International Airport (GA) 'A' rating on its consolidated rental car facility and automated people mover system project revenue bonds issued by the city of College Park;

--Cincinnati/Northern Kentucky International Airport (KY) 'A-' rating on its senior customer facility charge revenue bonds issued by the Kenton County Airport Board;

--Columbus (John Glenn) International Airport (OH) 'A-' rating on its customer facility charge revenue bonds issued by Columbus Regional Airport Authority (CRAA);

--Hartford-Bradley International Airport (CT) 'BBB' rating on its customer facility charge revenue bonds issued by the Connecticut Airport Authority;

--Portland International Airport (OR) 'A-' rating on its customer facility charge revenue bonds issued by the Port of Portland;

--San Antonio (TX) 'BBB+' rating on its customer facility charge revenue bonds.

RATING RATIONALE

The Rating Outlook revisions to Stable for the consolidated rental car facility (CONRAC) credits cited above reflect the diminished operational and financial risks that have challenged CONRACs since early 2020 due to a combination of improving transaction volumes in recent months and effective management oversight. While exposures remain with regard to transaction and revenue improvement, the progress suggests lessened fiscal strains, with projects better positioned to retain or grow liquidity and to restore metrics to levels consistent with current rating levels.

The outbreak of coronavirus and related government containment measures worldwide created unprecedented disruptions for air travel affecting all airport types. The rapid progress of vaccination deployment across the country has more recently brought U.S. airport traffic levels, using daily reported TSA screenings, to around 80% of 2019 levels, and Fitch believes there are reasonable expectations for a continuation of the current recovery trajectory in 2022 and beyond. The omicron variant of the virus has so far had minimal effects to the performance activity, but can pose demand risks to the industry.

KEY RATING DRIVERS

No key rating drivers were changed as part of this review. See links below to individual issuer Rating Action Commentaries with individual Key Rating Driver assessment scores and analysis.

RATING SENSITIVITIES

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

--A period of material volume declines that presents further challenges to stabilize the finances of the affected airport credits;

--Sustained deterioration in liquidity levels;

--Further credit deterioration of the major rental car companies or payment delinquencies.

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

--Positive rating action is not expected in the near future as forward-looking key metrics are still progressing toward levels anticipated prior to the pandemic.

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>.

CREDIT UPDATE

Atlanta (ATL)

Transaction days and customer facility charge (CFC) collections declined 23.0% and 23.8%, respectively, in fiscal year (FY) 2020, due the onset of the coronavirus pandemic, and continued to fall in FY 2021 by an additional 29.7% and 29.3%, respectively. Total transaction days and CFC revenues fell by 45.9% and 46.1%, respectively, over pre-pandemic levels. ATL expects 2022 transaction days will rebound to approximately 79.5% of FY 2019 levels, which reflects a growth of 47.0% over FY 2021 levels. Management currently has no plans to raise the CFC rate. The 2021 debt service coverage ratio (DSCR) came in at 1.6x including the coverage fund, and 1.3x excluding the coverage fund (CF). FY 2021 total leverage (including the subordinate loan to the airport) increased to 6.2x.

Going forward, rating case DSCR averages 2.7x (with CF) and 2.4x (without CF) over FY 2022-2026. Downside DSCR averages 2.6x (with CF) and 2.3x (without CF) over the same period. Leverage in FY 2026 falls to 1.0x when including the subordinate loan to the airport. In contrast to possibilities under prior forecasts at the peak of the pandemic, Fitch's cases now forecast the surplus fund balance to remain positive and no deferral of the subordinate loan to the airport needed, though that remains an option to the project should revenues underperform.

Cincinnati/Northern Kentucky International Airport (CVG)

The CONRAC opened on Oct. 20, 2021 and is fully operational. As of Nov. 30, 2021, \$189.4 million has been expensed against the program budget of \$205.0 million. The remaining \$15.6 budget balance is anticipated to complete and financially close the project. Several remaining punch list items are expected to be completed by Q2 2022 in order to fully close out the project.

Transaction days and CFC collections both declined 58.3% in FY 2020 due to the onset of the pandemic (enplanements decreased by 59.7%). CVG estimates 2021 to be roughly 61% of 2019 levels, and forecasts 2022 to be about 65% of 2019 levels. The airport's longer-term master plan is expected to accommodate further growth in enplanements, which could positively affect CONRAC transactions and revenues as well.

Management currently has no plans to raise the CFC rate given the pre-pandemic healthy traffic performance. CVG used roughly \$900,000 from the project fund to supplement monthly debt service transfers to the trustee between January and June 2021. Since July 2021, monthly CFC revenues at the current rate has generated coverage above the rate covenant and management forecasts revenues will continue to do so moving forward.

2021 DSCR came in at 1.5x including the coverage fund, and 1.3x when excluding the coverage fund. Rating case DSCR averages 1.9x (with CF) and 1.6x (without CF) over FY 2022-2026. Downside DSCR averages 1.8x (with CF) and 1.5x (without CF) over the same forecast period. Leverage falls from 10.1x in 2021 to 3.7x in 2026 under the rating case.

Columbus (CMH)

Despite the pandemic, the Authority was able to open the new CONRAC facility in September 2021. Traffic activity at CMH recovered significantly in 2021, reaching 67% of 2019 levels, improving from FY 2020's performance of reaching 38% of 2019 levels. Traffic has steadily improved through the year, with December reaching 78% of 2019 levels. Rental car transactions have moderately improved in 2021, reaching 51% of 2019 levels, an increase over 2020's performance of 40% of historical levels. Transactions have steadily increased through the year, with December reaching 60% of 2019 levels. In 2021, 67% of 2019 transactions days were reached, up from 47% of 2019 levels in 2020.

2021's performance led to \$6.3 million in CFC revenues to be collected, up from \$4.7 million in 2020. While the authority was able to pay debt service of \$5.7 million in full, a withdrawal of \$577,481 from the CFC Surplus Fund was required to cover the shortfall in CFC revenues to reach the 1.25x rate covenant. Upon delivery of the series 2019 bonds, \$4 million of previously collected CFC revenues were deposited into the CFC Surplus Fund.

Going forward, rating case DSCR averages 1.9x (with CF) and 1.6x (without CF) over FY 2022-2026. Downside DSCR averages 1.8x (with CF) and 1.5x (without CF) the same forecast period. Leverage reaches 6.1x in FY 2026 under the rating case.

Connecticut

Transaction days and CFC revenues finished FY 2021 (FYE June 30) down 58% and 53%, respectively, when compared with FY 2019. FY 2020 transaction days and CFC revenues declined approximately 21% and 12% relative to FY 2019. YTD transaction days through the first five months of FY 2022 have recovered to 73% of transaction days during the same period in 2019. Management has indicated that rental car companies have been making on-time CFC payments directly to the trustee each month. The CFC rate is currently set at \$8.40 per day, and management does not anticipate an increase to the CFC rate nor to institute contingent rent at this time. Construction of the ground transportation center is currently on time and on budget, with substantial completion planned for February 2022 and final completion slated for May 2022. Leverage is elevated in the near term at over 12x in 2022, though it is expected to decline to below 7x by 2026 as debt principal begins to be paid starting in 2023.

Rating case coverage averages 1.8x when including facility payments (or 2.0x with the coverage fund) through 2026. Downside case coverage over the same period averages 1.7x when including facility payments (or 2.0x with the coverage fund).

Portland

FY 2021 (ending June 30) transaction days were down 52% relative to FY 2019 levels; transaction days in FY 2020 were down 24%. YTD transaction days through the first five months of FY 2022 indicate recovery to 63% of transaction days during the same period in FY 2019. Transaction days in November 2021 recovered to 74% of transaction days in November 2019.

The port revised the CFC rate policy from a rate of \$6.00 per day with a four-day cap to \$6.00 per day with a 10-day cap. To ensure compliance with PDX's 1.5x annual debt service coverage test, the port's executive director has full authority to adjust CFC rates and/or to revise or eliminate the cap on transaction days. The port also strategically applied \$4 million of federal relief funds towards debt service, resulting in FY 2021 debt service coverage of 1.3x (1.7x when including the rolling coverage fund). The port still has \$1 million in federal relief funds available in the CFC Surplus Account that could be used to pay for all or a portion of FY 2022 CFC debt service or debt service in a future year.

Rating case DSCRs from CFC revenues average 2.0x (or 2.2x with the coverage account) through 2026. Downside case DSCRs from CFC revenues over the same period average 1.8x (or 2.1x with the coverage account). The revision of the transaction day cap provides significant flexibility and improves revenue levels.

San Antonio (SAT)

Pre-pandemic, SAT was enjoying strong traffic growth, with the five-year CAGR (up to FY 2019) at 4.4%. Deplanements for FY 2020 and FY 2021 (FYE Sept. 30) declined by 45.4% and 39.9%, respectively, due to the pandemic. FY 2021 deplanements of 3.1 million rebounded to approximately 60.1% of FY 2019 numbers. Transaction days reached 1.7 million in FY 2021, a growth of 5.2% versus FY 2020 and decline of 34.1% versus FY 2019. The decline was partially mitigated by a somewhat higher propensity to rent, with the ratio of transaction days per deplanements at 54.8% for the year, versus an average over 2014-2019 of 49.1%.

For FY 2020 and FY 2021, withdrawals were required from the CFC Surplus Fund and CFC Revenue Fund to cover the shortfall in CFC revenues and provide a portion of GARB debt service payments (\$2.6 and \$1.8 million from the CFC Surplus Fund and \$1.2 million and \$495 thousand from the CFC Revenue Fund for FY 2020 and FY 2021, respectively). Management does not anticipate further draws given transaction day recovery.

Fitch's rating case DSCR averages 1.6x through FY 2026, or 1.8x when including the coverage fund; all-in DSCR, including GABR debt service, averages 1.2x. Fitch's downside case DSCR averages 1.5x through FY 2026, or 1.8x when including the coverage fund; all-in DSCR, including GABR debt service, averages 1.1x. Despite the lower all-in DSCR, SAT retains significant financial flexibility including the ability to raise the CFC rate at the city's discretion, to adjust the routine and major maintenance schedule and expenses, and to change the funding source of the GARB debt service to airport revenues.

FINANCIAL ANALYSIS

Fitch Cases

Given that the facilities have not yet fully returned to normal operations and recovered to historical traffic levels due to the current operating environment, Fitch's rating case is also considered the base case. The differences for each case focus on the level and speed of recovery starting in 2022 and through the next several years.

Fitch conducted a coronavirus rating case and downside case for each of the select CONRAC credits referenced above to assess coverage and liquidity. On July 21, 2021, Fitch issued a report detailing the revisions to the forward-looking U.S. air traffic assumptions due to the strong rebound in domestic air travel driven by increased U.S. vaccinations and a surge in U.S. leisure air traffic. These assumptions formed the starting point for Fitch's analyses and were then adjusted to reflect actual transaction day performance to date as well as the characteristics of the airport (business versus leisure market, franchise strength, etc.).

--The starting point for the coronavirus rating case scenario contemplates airport enplanement recovery of 90%, 95%, and 100% in calendar years 2022, 2023, and 2024, respectively, relative to 2019 actual levels.

--The starting point for the coronavirus downside case assumes a more gradual recovery of 80%, 90% and 95% in calendar years 2022, 2023 and 2024, respectively, relative to 2019 actual levels.

Links to last published issuer RACs with Key Rating Driver assessments covered in the above rating actions:

<https://www.fitchratings.com/research/infrastructure-project-finance/fitch-affirms-hartsfield-jackson-airport-ga-car-rental-facility-bonds-at-a-outlook-stable-19-09-2019>

<https://www.fitchratings.com/entity/cincinnati-northern-kentucky-international-airport-oh-rental-car-facility-credit-summary-96739968>

<https://www.fitchratings.com/research/infrastructure-project-finance/fitch-rates-columbus-airport-customer-facility-charge-rev-bonds-a-outlook-stable-09-04-2019>

<https://www.fitchratings.com/entity/connecticut-airport-authority-ct-airport-customer-facility-charge-credit-summary-96755495>

<https://www.fitchratings.com/research/infrastructure-project-finance/fitch-rates-portland-international-airport-or-customer-facility-charge-revs-a-outlook-stable-20-03-2019>

<https://www.fitchratings.com/entity/san-antonio-tx-airport-customer-facility-charge-credit-summary-96755505>

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.

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APPLICABLE CRITERIA

[Airports Rating Criteria \(pub. 22 Oct 2020\) \(including rating assumption sensitivity\)](#)

[Infrastructure and Project Finance Rating Criteria \(pub. 23 Aug 2021\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

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

GIG AST Model, v1.3.1 ([1](#))

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Columbus Regional Airport Authority (OH)

Connecticut Airport Authority (CT)

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San Antonio (TX)

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