FITCH AFFIRMS COLUMBUS REGIONAL AIRPORT AUTH'S (OH) REV BONDS AT 'A+'; OUTLOOK STABLE

Fitch Ratings-New York-29 July 2016: Fitch Ratings has affirmed the 'A+' rating on Columbus Regional Airport Authority's (CRAA) $50.94 million senior lien airport revenue refunding bonds, series 2007. The authority's senior parity indebtedness also includes approximately $50.78 million in unrated, directly-placed bank loans. The Rating Outlook is Stable.

The 'A+' rating reflects John Glenn Columbus International Airport's (Columbus, the airport) growing yet modest O&D traffic base of 3.4 million enplanements which serves a medium-sized metropolitan area of Ohio. The rating further reflects a healthy financial profile featuring robust coverage of 3.77x including passenger facility charges (PFCs) and minimal senior leverage of 1x in 2015. The airport faces some competition risk from nearby Ohio airports, which Fitch considers partially mitigated by the airport's diversified mix of carriers, with Southwest Airlines (rated 'BBB+'/Stable Outlook) holding the largest market share with 35% of enplanements along with competitive airline costs.

KEY RATING DRIVERS

Revenue Risk-Volume: Midrange
Modest Traffic Base, Some Competition: The airport serves a modest O&D traffic base which experienced volatility through the Great Recession and airline consolidation with an enplanement peak-to-trough of approximately -20%. Service reduction risk is partially mitigated by the airport's diversified mix of low cost and legacy carriers, led by Southwest at 35% of total enplanements in 2015. In Fitch's view, the airport faces some competition from neighboring Ohio airports given similar service offerings, average domestic passenger fares, and airline costs among competitors.

Revenue Risk-Price: Stronger
Competitive Costs, Robust Non-Airline Revenues: The airport benefits from a hybrid airline use and lease agreement (AUL), which alongside PFCs, provides for adequate recovery of operating expenses and debt service costs. Airline revenue sharing provisions have allowed cost-per-enplanement (CPE) levels to remain reasonable, which Fitch considers a key credit strength given the competitive Ohio environment. Favourably, CRAA's robust non-airline revenue streams have served as reliable financial cushion, demonstrating moderate stability through periods of traffic turbulence and consistently outpacing enplanement growth.

Infrastructure Development Renewal: Stronger
Minimal Near-Term Capex, Long-Term Capex Uncertain: CRAA's minimal $289 million capital improvement program (CIP) benefits from being 85% cash-funded, solely utilizing a revolving credit facility to finance short term maintenance needs. The five-year plan primarily focuses on construction of a consolidated rental car facility (CONRAC) funded with customer facility charges (CFCs). The airport's long-term plans could involve construction of a new terminal and other ground transportation enhancements to the extent continued traffic growth poses capacity constraints, which could cost upwards of $1 billion and would likely necessitate several rounds of debt issuances.

Debt Structure: Stronger
Conservative Debt Structure: CRAA's debt structure is considered conservative, mostly comprised of fixed-rate, fully amortizing senior debt. Strong historical cash balances are viewed as strong mitigants against short-term variable rate risk associated with the airport's revolving credit

facility as well as the absence of a debt service reserve fund for the Series 2013 and 2015 bonds. Additionally, the progressive de-leveraging of CRAA's debt profile is viewed positively, with unrestricted cash balances expected to completely offset all senior outstanding debt by 2018.

Financial Metrics
Robust Coverage, Low Leverage: Senior debt service coverage ratios (DSCR) have remained robust at above 3x since 2014, and are expected to remain well above 2x in the near term. Additionally, the airport's robust liquidity balances of approximately $73 million, or approximately 464 days cash on hand (395 days including expenses from Rickenbacker Airport), support very low levels of senior financial leverage of 1x net debt-to-cash flow available for debt service.

Peer Group: In comparison to 'A+'-rated peers, such as Milwaukee (WI) and San Antonio (TX), CRAA exhibits stronger coverage and lower leverage levels, though the authority's future capital needs could prove to be greater than peers given recent traffic growth.

RATING SENSITIVITIES

Negative - Pressured Coverage or Uncompetitive CPE: Deterioration in traffic base or significant increases in debt levels which dilute debt service coverage below 2x or limit CRAA's ability to keep airline costs competitive on a sustained basis.

Positive - Volume Risk Constrains Rating: The authority's size and traffic profile restrict the likelihood of a higher rating at this time.

SUMMARY OF CREDIT

Traffic at the airport has continued on an upward trajectory in fiscal 2015 (ended Dec. 31) and for five months through May at 6.9% and 7.6%, respectively, reflecting recovery in the Columbus service area and outpacing Fitch's expectations by roughly 2%. The airport benefitted from the addition of nine routes over the past year, with Southwest adding four routes, Frontier newly serving the airport as of June 2016 with four routes, and Vacation Express adding one seasonal route to Punta Cana. Additionally, Southwest designated Columbus as a focus airport in 2015, though it is uncertain at this time whether any significant increases in passenger traffic will materialize as a result.

Fiscal 2015 financial performance was generally in line with expectations, with non-airline revenues slightly underperforming projections as a result of slower growth through the last six months of the fiscal year, which can be partially attributed to capacity constraints within the airport's parking garage. Operating expenses grew at a far slower rate than expected despite robust traffic growth, reflecting in part lower pension expenses as a result of GASB 68/71, which requires pension contributions to be presented on the statement of net position as deferred outflows rather than as a component of pension expense. Fitch does not expect this accounting change to have a significant impact on financial metrics going forward. Favourably, CPE levels were lower than expected at $7.55 in comparison to $8.53, as a result of higher than expected enplanement growth which also drove increases in airline credits.

The airport's $289 million five-year capital plan has remained substantially the same as last year's plan, focusing primarily on construction of a new CONRAC facility alongside other maintenance-related projects with mostly internal cash and grant funding. To the extent CFC reserve funds are insufficient to cover the entire cost of the CONRAC, Fitch considers a non-parity debt issuance probable in order to cover the difference in cost, though CFC rate increases may offset some need for additional debt. Construction of the CONRAC is expected to alleviate capacity constraints within John Glenn's parking garage as rental car carriers move to a new facility, which may consequently allow the parking garage to reap additional revenue benefit from traffic growth. Opening of the CONRAC is currently expected in 2020.

Beyond 2021, management is separately considering embarking on Phase II of the Midfield Program, which would seek to accommodate traffic growth to the extent Columbus's current terminal begins to face capacity constraints. Should enplanements grow in line with management's base expectations of 1.9% year over year, the need for a new terminal could arise around 2030. However, should traffic significantly underperform, the terminal would likely be deemed unnecessary. Cost estimates, while extremely preliminary, indicate Phase II would cost over $1 billion and likely require several rounds of debt issuances. Fitch expects to review more detailed plans once available and will then determine if financial metrics continue to be commensurate with the current rating level with future additional debt factored in.

Fitch's base case assumes modest enplanement growth of 1.3% which drives overall non-airline revenue growth at a slightly higher average rate of 2.4%. Costs are grown above inflation at roughly 3%, while gross airline revenues are grown at a similar rate, reflecting partial pass-through of costs. The rating case assumes a moderate near-term shock followed by recovery and larger cost increases. Senior DSCRs (including PFCs applied to debt service) average 3.07x and 2.85x in the base and rating case, respectively. CPE migrates to the $8-9 range within the base case, while the rating case CPE reaches the $9-10 level. In both cases, leverage is essentially zero by 2018. Metrics are considered commensurate with the 'A+' rating, in line with relevant criteria.

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Applicable Criteria
Rating Criteria for Airports (pub. 25 Feb 2016)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=877676
Rating Criteria for Infrastructure and Project Finance (pub. 08 Jul 2016)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=882594

Related Research

Fitch Analytical Comparative Tool - U.S. Airports

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=876822