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Ratings

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Summary:

Columbus Regional Airport Authority, Ohio; Airport

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Summary:

Columbus Regional Airport Authority, Ohio; Airport

Credit Profile		
Columbus Regional Airport Authority (AGM) (MBIA)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Columbus Regl Arpt Auth arpt		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings has affirmed its 'A+' rating on Columbus Regional Airport Authority (CRAA), Ohio's senior-lien airport revenue bonds. The outlook is stable.

In our opinion, credit strengths include the following:

- Generally stable level of air travel demand as a result of airport's role as an origin-and-destination airport with good carrier diversity serving a regional economy we consider strong;
- Strong historical debt service coverage (DSC) we expect will remain so; and
- A relatively low debt burden, which may increase modestly and remain manageable if the CRAA decides to issue long-term debt to repay amounts outstanding under its revolving credit facility.

These strengths are offset somewhat by airport's history of generally modest fluctuations in demand and that roughly half of airport's debt outstanding lack a debt service reserve (DSR), which is tempered by CRAA's strong liquidity position, which we expect to remain strong.

Net revenues of Port Columbus International Airport and the small Bolton Field Airport secure the bonds. The authority also owns Rickenbacker Airport, which is primarily for cargo. Rickenbacker's revenues are not pledged to the bonds, and its expenses are subordinate to bond debt service payments. Roughly 90% of the CRAA's revenues are from the Port Columbus International Airport, with 9.5% from Rickenbacker and the remainder from Bolton Field.

As a result of Port of Columbus International Airport's strong origin-destination nature, good air carrier diversity, and serving a regional economy we consider strong, we expect the airport's activity levels will remain generally stable. From fiscal years 2011-2015, enplanements have ranged from about 3.1 million to about 3.4 million, increasing 6.9% to nearly 3.4 million in 2015. Before 2015, enplanements were relatively flat, hovering near 3.1 million or 3.2 million for 2011-2014. Management attributes the 6.9% increase in traffic in fiscal 2015 to the entire market expanding. More specifically, Southwest adding new non-stop markets to Dallas Love, Oakland, Boston Logan, and Washington Reagan. Additionally, Delta and United were both up nearly 20% year over year. For the first four months of this year, the airport's activity trends remain positive, with total passengers up 7.2% compared to the same period in 2015.

Nearly all of the airport's enplaned passengers are destined for or begin their trip from the airport. As a result, the economic health of the airport service area is important. The airport, in our opinion, benefits from serving the Columbus metropolitan statistical area (MSA), a region we consider broad and diverse. The region also benefits from a stabilizing institution influence, helping to protect it against economic cycles. More specifically, the Ohio State University (OSU), one of the nation's largest single-campus universities (with about 58,300 students and 30,963 staff, including a hospital system) provides the region with economic stability. As a result of OSU and other higher education institutions in the city, wealth levels are somewhat depressed. The city's role as the state capital also plays a strong role in the economy, as the state employs 23,859 in Columbus. Ohio Health Corp, JPMorgan Chase, Nationwide Mutual Insurance, and Kroger Co. are the other top employers in the city. The Columbus MSA has also exhibited good population growth and has unemployment rates that have historically been lower than state and national averages.

The airport's good air carrier diversity also contributes to its relatively stable demand. Although the airport's passenger airline concentration has increased as a result of airline consolidation, we still consider it good. More specifically, for fiscal 2015, Southwest Airlines accounted for about 35% of total enplanements, followed by American Airlines (27%) and Delta Air Lines (23%).

Roughly half of the airport's $103.7 million of general airport revenue bonds (GARBs) outstanding have been privately placed. More specifically, in October 2013, CRAA privately placed $13.805 million series 2013A and $3.795 million series 2013B airport refunding bonds with First Niagara Bank N.A. Then, in March 2015, it privately placed $40 million series 2015 airport refunding revenue bonds with Huntington Public Capital Corp. As of April 30, 2016, principal outstanding for the series 2013A and B bonds totals approximately $12.4 million and for the series 2015 bonds totals $39.2 million. The privately placed series 2013A and B bonds mature in 2021, while the privately placed series 2015 bonds mature in 2030. Such direct-purchase obligations are on parity with the CRAA's series 2007 senior revenue bonds (for which $50.9 million remain outstanding) and share the same events of default and remedies as the series 2007 bonds, which we publicly rate. As a result, such direct-purchase obligations do not pose any contingent liquidity risk to the issuer, in our view. Additionally, as of June 8, 2016, the CRA has $9.5 million outstanding under a revolving credit facility with PNC Bank. Amounts outstanding under the facility are subordinate to the GARBs and bear interest at a variable rate equal to 72% of the 30-day LIBOR rate plus a spread. As of Jan. 1, 2016, the authorized maximum commitment under the facility is $50 million, dropping to $40 million beginning Jan. 1, 2017, until maturity of the agreement on Dec. 31, 2018. All of CRAA's GARB debt is fixed-rate. The authority has no interest-rate swaps outstanding.

As a result of higher annual debt service requirements, beginning in 2016, we are expecting DSC to be lower than DSC that has exceeded 3x in 2014-2015, but still remain strong and comparable to levels achieved in 2009-2013. More specifically, as a result of annual debt service increasing to about $11.7 million in 2016 from about $8 million in 2015, we expect fiscal 2016 DSC will be roughly 2.6x, including $2.7 million of passenger facility charge (PFC) revenues applied to debt service. Although present projections assume no additional senior debt plans, they show the use of its revolving bank credit facility, which could be repaid with a long-term financing. We consider the overall enplanements assumptions under management's base-case forecast for fiscal years 2016-2021 that show enplanements reaching 3.8 million by 2021 as somewhat aggressive, given that the airport's enplanements have averaged 3.2 million for 2011-2015. A low-enplanement-growth scenario, assuming enplanements ranging from about 3.2 million to nearly 3.6

million, is more achievable, in our view. Under that scenario, airline cost per enplanement is projected to increase to about $12 from a budgeted $8.82 for fiscal 2016, while DSC is no less than roughly 2.6x for 2016-2021. We consider the near-term enplanement assumptions achievable with fiscal 2016 enplanements increasing 3.2% to 3.5 million from fiscal 2015. Total passengers at the airport are up 7.2% for four months ended April 30, 2016 compared to the same period in 2015.

The CRAA has historically maintained a liquidity position we consider strong, which we expect to remain so and is important to the rating given the lack of DSRs for roughly half of its debt outstanding. Based on audited financial statements, the authority's unrestricted cash and short-term investments balance as of Dec. 31, 2015 totaled roughly $25 million, equating to 135 days' cash on hand, or 23% of revenue bond debt. If unrestricted long-term investments of $37.2 million are included, CRAA's unrestricted cash and investments balance increases to $62.2 million (336 days' cash on hand and 58% of debt outstanding). Although this audited year-end unrestricted cash and investment balance is the lowest CRAA has reported from fiscal 2011-2015, we still consider it strong. However, should the CRAA's liquidity position materially erode, it could cause downward rating pressure. As of April 30, 2016, management reported an unaudited unrestricted cash balance of approximately $70.7 million (350 days' worth of estimated operating expenses of roughly $73.6 million for fiscal 2016), consisting of money held in the revenue fund, general purpose fund, operation and maintenance reserve account, and the repair and replacement fund. Financial projections from fiscal years 2016-2021 show CRAA's fiscal year ending cash reserves no lower than $84.9 million (421 days).

CRAA's capital improvement program (CIP) from fiscal years 2016-2020 for Port of Columbus International Airport and Bolton Field totals approximately $298 million, of which $160.4 million will be funded with customer facility charge (CFC) revenues, roughly $31.7 million with FAA grants, nearly $65 million with PFC revenues, and $40.9 million with CRAA cash reserves. Financial projections from fiscal years 2016-2020 show CRAA using the PNC bank revolving credit facility to finance a portion of the CIP. The projections show annual draws under the revolving credit facility of nearly $12.9 million in 2016, $13.6 million in 2017, $14.5 million in 2018, and $4.5 million 2019. Such draws are projected to be repaid with PFC revenues, airport revenues, and money held in CRAA cash reserves. Although the existing credit facility expires at the end of fiscal 2018, the projections assume it will be renewed or replaced under similar financial terms. If the existing credit facility is not renewed or replaced, any balance outstanding we expect could be paid off with the proceeds from a long-term debt financing or authority cash reserves.

The $160.4 million component of the CIP that is expected to be funded with CFC revenues refers to the construction of the consolidated rental car facility, which CRAA officials anticipate will be funded with approximately $50 million of accumulated CFC revenues, CFC pay-as-you-go, and CFC-backed special facility revenue bonds. We expect negotiations with rental cars will begin in the next 12 months and conclude prior to the design and construction period, which will probably not begin until late 2017 or sometime in 2018. As of Dec. 31, 2015, the airport's debt per enplaned passenger is $32.63, a level we consider low.

Rickenbacker's CIP for fiscal years 2016-2020 totals approximately $46.4 million, of which $26.1 million is expected to be paid from FAA grants and nearly $19 million from CRAA cash reserves.

The authority's current airline agreement became effective Jan. 1, 2015, and expires on Dec. 31, 2019. Similar to the prior agreement airside rates (such as landing fees) are adjusted on a residual basis, while landside rates (such as rates for the use of terminal space) are adjusted on a commercial compensatory basis. For the first three years of the agreement, signatory airlines will receive airline credits if DSC (including the Port of Columbus International Airport, Bolton Field, and Rickenbacker) exceeds 2.0x. For the remaining two years of the agreement, one additional condition must be met for signatory airlines to receive airline credits—the ending balance for the authority's general purpose fund (including the Port of Columbus International Airport, Bolton Field, and Rickenbacker) must exceed the current year's budgeted operating expenses.

We expect CRAA's DSC, liquidity position, airline cost structure, and debt burden will be maintained at levels consistent with the rating. More specifically, CRAA has a formal board-adopted policy for debt issuance effective May 1, 2013. Such policy defines parameters and provides guidance governing the issuance of debt and other financing obligations by the CRAA. Some key parameters and guidance included in the policy are ensuring that debt per enplanement does not exceed $40.00; airline cost per enplanement does not exceed $13.00; DSC is no less than 2x; and that cash reserves are maintained at a level equal to one year of operating expenses.

Outlook

The stable outlook reflects our expectation that CRAA's DSC and liquidity position will remain strong in the next two years and that enplanement levels will remain generally stable.

Upside scenario

We could raise the rating in the next two years if CRAA's DSC and liquidity position increase to levels we consider very strong and we believe such elevated levels are sustainable.

Downside scenario

We could lower the rating in the next two years if CRA's DSC or liquidity position materially erodes as a result of increased leverage or cash funding capital needs.

Related Criteria And Research

Related Criteria

- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- Criteria: Airport Revenue Bonds In The U.S. And Canada, Nov. 15, 2013
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.