
Cincinnati/Northern Kentucky Airport needs to readjust through Delta service reductions – Red Flag Report

By Maria Amante

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An audit blasting the Cincinnati/Northern Kentucky Airport's management, the Kenton County Airport Board, has led one state legislator to push for an overhaul of the board's structure.

Kentucky's Auditor of Public Accounts, Adam H Edelen, called for an overhaul of the airport's board after declaring the airport has suffered from "decades of waste and abuse". Kentucky State Rep. Diane St Onge, a Republican, authored legislation (HB 208) and had seven co-sponsors that adds additional members to the board and changes how the board members are appointed. The bill was introduced in February and approved by both chambers in March.

"It adds increasing oversight with more members and everything has to be run through fiscal court: there's not just one person in charge of appointing members through the board. That's the biggest difference between the last board composition and this one," St. Onge said in an interview with Debtwire Municipals.

Currently, the Kenton County judge-executive appoints all of the board's seven voting members. Cincinnati has worked to find a new normal as Delta makes service reductions, including a 14% reduction in service in March, according to previous reports. In 2013, American, US Airways, United and Frontier shared the remaining 25% of enplanements.

That year, which is the most recent available, the airport had 141 average flights per weekday, with 2.87 million total enplanements. About 75% of those passengers were origin and destination passengers, and 75% of those flights were Delta flights. In 2010, the airport operated 197 daily flights with 3.98 million enplanements, according to the 2010 audited financials.

Cincinnati is among the most expensive airports nationwide, but serves a bustling economic area, said Mike Boyd, president of Boyd Group International, an aviation consulting firm.

"They don't have a choice, one way or another--Delta calls the shots. Delta's pulling numbers down, there's no question about it, it will be the same thing that happened to Memphis and San Jose, Raleigh – nothing new," Boyd said.

"But the Cincinnati/Northern Kentucky Airport is in a powerful economic region. It can be supported without a hub – overall, they have good access to and from the rest of the world. It will never be a low-cost fare (airport) but you can get to any spot in the world from there, with worst case, one connection," Boyd said.

Airports are more resilient than they're given credit for, said Tamara Lowin, director of research at Belle Haven Investments. Airports generally have a closer connection to corporate economic cycles, which is why they are one of the first sectors to weaken, but also among the first to rebound.

"Fewer revenues come directly from airlines than one would initially think. Their main revenue sources include parking, car rentals, and concessions, as well as airlines. Airlines generate gate fees and landing fees. If fewer flights are going through the airport, then the other revenue streams decline as well, but they aren't as airline-specific," Lowin said.

The airport collected USD 98.5m in revenue in FY13, the most recent information available, which was a drop of USD 5m from FY12. Its primary revenue sources include landing fees and concessions. In FY13, it posted USD 69.91m in operating expenses and USD 30.35m in non-operating expenses, for a deficit of USD 1.7m. The facility ended FY13 with a net position of USD 920.73m. It had USD 87.7m in cash, which is a USD 15.4m increase of FY12 levels.

The facility has USD 85.65m in revenue bonds outstanding with maturities of 1 March through 2033 and will pay USD 122.93m in total debt service, as of 2013. In FY14, the facility was scheduled to pay USD 29.2m in debt service.

Debt per enplanement is low and estimated between USD 22.00 and USD 26.00 per origin and destination passenger, according to Standard & Poor's estimates.

The facility contributes to a retirement plan and postretirement benefit plan, the Kentucky Retirement Systems County Employees Retirement System (CERS) and Kentucky Retirement Systems Insurance Fund. CERS has a funded ratio of 60.1%, and the insurance fund has a funded ratio of 66.62%.

A bill to superfund the Kentucky Teachers Retirement System with USD 3.3bn in pension obligation bonds fizzled in the Kentucky legislature last month, according to Pensions and Investments.

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