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Gary / Chicago International Airport Receives Bond Rating Increase

Airport's Development Zone Revenue Bonds Upgraded to BBB+

GARY, IN – The Gary / Chicago International Airport (GCIA) received an upgraded bond rating to their $26.4 million airport redevelopment zone revenue bonds, series 2014. The rating on GCIA's 2014 bonds received an upgrade to "BBB+" from "BBB", with the ratings outlook for these bonds listed as "stable."

"This ratings upgrade is welcome news to our airport, and to the larger Northwest Indiana community as we continue to broaden the airport's footprint as a regional economic driver," **said GCIA Authority Chairman Peter J. Visclosky**. "It demonstrates a significant positive market reaction as we continue to emerge from the pandemic."

The Gary-Chicago International Airport is the region's premier mid-sized airport and functions as a critical general aviation and cargo service hub, with easy access to major interstate routes including I-90, I-80, I-94, I-65 and the Chicago Skyway while also located proximate to key rail lines and shipping ports. The improved outlook comes after several years of consistent growth and public and private investments to the region's premier mid-sized airport that serves as the official 3rd airport for the Chicago Metropolitan region.

Among these critical investments have been the 2015 expansion of the airport's main runway to nearly 9,000 feet in length, making it the 2nd longest in the region after O'Hare International Airport, and the 2018 opening of their state-of-the-art U.S. Customs facility, allowing air travelers to visit the airport from any international destination without first needing to clear customs elsewhere. In mid-2020, cargo services giant United Parcel Service (UPS) entered a long-term contract with the airport and began cargo service operations later that year, further solidifying the airport's critical role in the Chicago market.

Fitch Ratings is among the top three global credit ratings services, providing commentary and research on multiple sectors of the capital markets. To learn more about Fitch, visit their website at www.fitchratings.com. The GCIA rating report may provide information and insight for investors interested in financing future developments for the airport.

About Gary/Chicago International Airport

Located minutes from the shores of Lake Michigan and just 25 miles from downtown Chicago, Gary/Chicago International Airport (GYY) is a full-service airport and a premiere destination for corporate and weekend flyers in the Chicago metropolitan region and Northwest Indiana. To learn more, visit the airport's new website at FlyGYY.com

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RATING ACTION COMMENTARY

Fitch Upgrades Gary/Chicago Intl Airport Authority's ADZ Revs to 'BBB+'; Outlook Stable

Fitch Ratings - New York - 24 Jun 2022: Fitch Ratings has upgraded the rating on the Gary/Chicago International Airport Authority, Indiana's $24.6 million airport development zone revenue bonds, series 2014, to 'BBB+' from 'BBB'.

The Rating Outlook for the bonds is Stable.

SECURITY

The bonds are payable from a first lien on tax increment revenues generated within the Airport Development Zone (ADZ) located in and around the Gary-Chicago International Airport Authority (GCIAA). The bonds feature a cash-funded debt service reserve fund sized at maximum annual debt service (MADS).

ANALYTICAL CONCLUSION

The upgrade of the dedicated tax rating on the bonds to 'BBB+' from 'BBB' reflects stable-to-modestly improved debt service coverage levels since issuance, coupled with a high likelihood of improvement in the structure's resiliency in 2022 and beyond as a result of development activity in the ADZ. This activity has boosted ADZ assessed values and is anticipated to strengthen distributed ADZ revenues (i.e. pledged revenues) and coverage. The rating also reflects a low likelihood of future debt issuance.

Pledged revenues could sustain a severe recession-driven contraction that surpasses the deepest historical decline; however, Fitch believes resiliency is likely to remain only adequate through final maturity. The rating also reflects stabilization of the pledged revenue stream following an initial period of volatility.

Pledged revenues had previously demonstrated instability, but improved record-keeping by the county assessor and a decline in tax appeals have resulted in lower volatility over time. The cash-funded debt service reserve sized at maximum annual debt service (MADS) provides additional bondholder security.

KEY RATING DRIVERS

Flat Revenue Projected: The 'BBB+' rating reflects Fitch's expectation that pledged revenue growth will remain slow over the long term as Indiana circuit breaker tax credits offset, to some degree, the effect of rising assessed values spurred by redevelopment activity within the ADZ.

Resilience through Economic Cycles: The pledged revenues demonstrate adequate resilience to revenue declines caused by cyclical downturns. Pledged revenues could tolerate a 49% decline before reaching 1.0x MADS coverage. A 49% revenue decline would equal 1.8x the largest historical decline of 28%. Fitch believes, however, that the latter decline was caused mainly by state-level administrative changes to the collection and remission of local property taxes, rather than to underlying economic factors.

Past Volatility: The rating also factors in the revenue stream's historical volatility given a prior period of weak collections and elevated tax appeals. However, these factors have become less prominent over time as appeals have stabilized and collections have improved. Fitch expects revenue volatility will play a smaller role in its rating considerations in the future.

GCIAA Fundamentals: The rating is also affected by the underlying credit fundamentals of GCIAA. Deterioration in the authority's credit fundamentals could lead to a downgrade of the bond rating if GCIAA's private Issuer Default Rating (IDR) is lowered. Conversely, the rating could be upgraded if GCIAA's credit fundamentals improve.

RATING SENSITIVITIES

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

--Stronger pledged revenue growth that translates into a higher debt service coverage cushion;

--Evidence of further declines in revenue volatility that improves the ADZ revenue bonds' resilience;

--Improved credit quality of the authority to a level that would allow the current security rating to rise within the limits of maximum notching permitted under Fitch's tax-supported criteria.

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

--Declines in the pledged revenue stream that weaken both the growth prospects and resilience assessments;

--Changes to Indiana's tax increment financing (TIF) Neutralization Law that remove provisions that hold TIF revenues harmless if properties are removed from a TIF;

--A decline in the credit quality of the authority below a level that can support the current security rating, given the maximum notching permitted under Fitch's tax-supported criteria.

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.

CURRENT DEVELOPMENTS

ADZ property tax collections fell slightly from 100% in 2019 to 98% in 2020 and further to 92% in 2021, affecting the actual tax increment distributed (ATID). The 2020 ATID was just over $4 million versus estimated collections of $4.1 million, representing a 2.9% drop from 2019. Management cited an uptick in delinquencies related to the economic dislocations of 2020, along with an under-estimation of circuit breaker tax credits. Debt service coverage by pledged revenues equaled nearly 2.0 times in 2021 as the ATID grew to slightly to near $4.2 million.

Management reports that the zone's captured assessment has been revised upward by $32 million to reflect the completion of a major development project in the ADZ: The Hard Rock Casino Northern Indiana. The zone's estimated tax increment, from which the ATID is derived, is poised to rise by $1 million in 2022 as a result. This increase will strengthen coverage through final maturity.

ECONOMIC RESOURCE BASE

The Gary-Chicago International Airport is a joint military-civil airport that focuses primarily on corporate jets and cargo traffic, rather than commercial passenger flights. Gary is a transit hub, with several major roads and rail lines converging on the city. Major highways including I-80, I-90, I-94 and the Chicago Skyway run directly to the airport and ADZ. The airport has two runways. Major development projects within the last several years include new airplane hangars built by B. Coleman Aviation and the Gary Jet Center, Boeing's Midwest corporate fleet hangar, and a U.S. Customs and Border Control Facility that mainly receives international cargo flights.

The ADZ encompasses 4,155 acres along the western edge of Gary, including portions of the airport authority. Gary's economy is weak, but development at the airport and within the ADZ has been active. Gary's population has declined since 2000 and fell 13% from 2010 to 2020. The poverty rate is high, and resident per capita income levels are low. Gary historically benefitted from the presence of U.S. Steel, which still maintains significant operations in the city, albeit on a smaller scale than previously. Lake Michigan sits on the city's northern border.

DEDICATED TAX CREDIT PROFILE

The pledged revenues supporting debt service meet the requirements set out in Fitch criteria for treatment as "pledged special revenues" under section 902(2)(C) of the U.S. bankruptcy code. Fitch treats the debt as somewhat insulated from the operating risk of the related local government (GCIAA). Therefore, the rating on the dedicated tax bonds is linked to, but can be higher than, the rating on the underlying (and in this case, private) IDR of the GCIAA. Indiana municipalities are not presently permitted to file for bankruptcy protection under Chapter 9 of the U.S. Bankruptcy Code. However, Indiana law could be changed to allow this in the future.

Under Indiana law, tax increment revenues collected within an airport development zone have strong statutory protections, as they cannot be used to support airport operations. Indiana's tax increment financing (TIF) Neutralization Law contains provisions to hold TIF revenues harmless if properties are removed from a TIF. The law acts as a key safeguard against future TIF revenue declines; no changes to the law are currently planned, according to management.

The additional bonds test is satisfactory at 1.5x revenues for any 12 of the prior 18 months and for each future year including new bonds. Under Indiana law, the boundaries of the ADZ cannot be reduced if such a contraction would have the effect of reducing tax increment revenues produced within the district (i.e. the ADZ).

ADDITIONAL LEVERAGING OF THE REVENUE STREAM NOT EXPECTED

Fitch does not expect that the airport authority will further leverage the pledged revenue stream, as the bonds were issued to fund a specific capital project (lengthening of the airport's main runway) that was completed in 2015. The airport authority mainly uses cash funding to support its capital improvement plan. New economic projects and redevelopment in the ADZ are funded by private sector funds and authority cash resources.

TAX BASE A MIX OF RESIDENTIAL, COMMERCIAL AND INDUSTRIAL PROPERTIES

The ADZ consists of a mix of industrial, commercial and residential properties. Roughly half the ADZ's net assessed value consists of residential properties; another 30% are industrial. Industrial activities in the ADZ are centered on metals manufacturing, transport and logistics, and wholesale trade. Assessed values for industrial properties have been declining, but could benefit from redevelopment efforts. The largest commercial properties in the ADZ are a shopping center and a large truck stop immediately adjacent to an interstate highway.

The base assessment date for the ADZ was March 1, 2004. On that date, the ADZ had a base assessment of $26 million. For 2022, the captured assessment value is estimated at $131.8 million, reflecting significant growth over the prior year due to completion of the Hard Rock Casino Northern Indiana. The tax increment is calculated as a multiple of tax rates of overlapping municipalities and the captured assessment. The tax increment is limited by Indiana's circuit breaker law, which restricts the tax rate to 1%, 2% or 3% of AV, depending on the type of property. Tax increment revenues collected after netting out circuit breaker credits are distributed to the bond trustee.

PLEDGED REVENUES HAVE STABILIZED SINCE 2013

The ADZ's ATID, net of circuit breaker credits, remained relatively consistent from 2014 through 2021 as declining AV was offset by rising collection rates and a stabilization in the number tax appeals. The ATID was $4.2 million for 2021, up 4.5% from 2020. Pledged revenues provided nearly 2.0x coverage of debt service in fiscal 2021. Results have consistently outperformed projections made at the time of issuance.

COLLECTION RATES HAVE IMPROVED

Stable revenue performance has been supported by a rise in collections and fewer tax appeals. The collection rate was 92% in 2021 versus 78% in 2016. Higher collection rates led management to revise future projections to 96% starting in 2022 from an 86% assumed collection rate three years' prior. Better record-keeping by the Lake County assessor's office and elimination of data errors related to the status of some parcels has resulted in a drop in the number of tax appeals compared to a decade ago.

COVERAGE EXPECTED TO RISE ABOVE 2X

Management has revised its long-term coverage projection to reflect an anticipated bump-up in ATID revenues to $5.35 million beginning in 2022 from roughly $4.1 million for most of the past decade given an assumed 96% collection rate and more stable AV going forward.

The higher ATID, if sustained, would provide approximately 2.5x coverage of debt service by pledged revenues through final maturity. This contrasts with coverage projections made prior to the completion of the Hard Rock Casino, which were typically in the range of 1.6x to 1.8x through final maturity. Management maintains a standard growth assumption that there will be no AV growth during the life of the bonds, which Fitch views as conservative.

Dedicated Tax Analysis - Flat Revenue Projected

Fitch expects pledged revenues to be stable over the long term, as rising assessed values spurred by development in the ADZ are offset by the circuit breaker tax credits; this expectation is consistent with a 'bbb' assessment for pledged revenue growth prospects. The protections offered by Indiana's TIF Neutralization Law are another important factor supporting the current rating.

Adequate Resiliency Through Economic Cycles

The security structure for the bonds has an adequate level of resiliency to the anticipated revenue declines associated with typical economic downturns. The Fitch Analytical Stress Test Model (FAST) currently projects a 6.8% revenue decline under its standard scenario. Based on management's representations, Fitch does not anticipate that the airport authority will issue additional parity debt, keeping assumed leverage at current levels. At current leverage, pledged revenues could withstand a 49% decline before coverage falls below 1.0x, which is equal to 7.2x the scenario decline of 6.8% at the assumed leverage cushion, and is 1.8x the largest historical decline of 28%. These cushions are consistent with an overall resilience assessment of 'a' for the security.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

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.

VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com