Columbus Regional Airport Authority

Issuer: Columbus Regional Airport Authority		
Affirmed	**Rating(s)**	**Outlook**
Airport Revenue Bonds	AA-	Stable

Methodology:

U.S. General Airport Revenue Bond Rating Methodology

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Rating Summary: The airport revenue bonds are secured by a pledge of net revenues of John Glenn International Airport (CMH) and Bolton Field, and a lien on the revenue fund, debt service fund and the debt service reserve fund. Operations of Rickenbacker International Airport (LCK) are not within the trust indenture.

KBRA believes that the Columbus Regional Airport Authority ("CRAA") exhibits many favorable credit features, providing strong bondholder security for a modest amount of debt. Rating strengths include a management team that has implemented policies and procedures to support well-maintained operations. An additional strength is the economically diverse service area, which includes being Ohio's largest city, the State capital, and the home of Ohio State University. The regional economy has historically outperformed both the State and the U.S. The government and higher education sector are a stabilizing influence, and added diversification is provided by a sizable financial sector and an array of Fortune 500 companies.

Columbus is the nation's fourteenth largest city and the fastest growing major midwestern city. The Columbus MSA had a strong 12.9% population growth since 2010, far outpacing population growth nationwide.

A mix of airlines serves CMH so there is no carrier concentration. Airport traffic is almost exclusively origin and destination (O&D), and therefore not vulnerable to de-hubbing. Enplanement activity has been growing since 2013 with a CAGR of 5.5%; and in the first nine months of 2019, enplanements increased 6.4% compared to the same period in 2018. Financial operations are historically favorable, with ample debt service coverage levels. CRAA has been able to address the bulk of its capital needs without having to enter the capital markets, and debt levels are extremely low.

Positive financial operations provide ample support for debt service. FY 2018 coverage of 2.45x well exceeds the 1.25x rate covenant. The Authority's signatory airline operating agreement and lease contains a revenue sharing component that necessitates a minimum of 2.0x debt service coverage and, for the final two years of the agreement, reserve levels equal to one year's operating expenses. The five-year agreement began January 1, 2015, and includes compensatory rate-making for the terminal, and a residual for the airfield and apron. A new agreement is expected to be signed by year end, with no substantive changes.

The Authority is sensitive to higher airline costs and has strived to control expenses in its financial planning. Non-airline revenue growth has been generally favorable. The 2013-2018 CAGR for the two primary non-airline operating revenues, parking and concessions is 6.0% and 5.1%, respectively.

CRAA's capital spending is notable for the limited use of debt financing. The Authority has relied extensively on internally generated funds, Airport Improvement Program (AIP) and other grants, and passenger facility charge (PFC) revenues. At FYE 2018, there was $71 million in airport revenue bonds outstanding and a $9.7 million revolving bank loan. Consequently, debt metrics are very low. All of the airport revenue bonds are privately placed.

The Airport's 2020-2024 capital program projects spending of $250 million and includes construction of a consolidated rental car facility. In May 2019, the Authority issued $94 million of Customer Facility Charge Revenue Bonds for financing the facility, to see the KBRA report **click here**. Over the longer term, borrowing for a new passenger terminal may occur, with timing dependent on capacity and existing asset longevity.

All bonds are fixed rate. Debt service is level at approximately $11.5 million through 2021, and thereafter declines. All bonds mature by 2030, allowing ample flexibility for additional debt.

The Stable Outlook reflects KBRA's expectation of stable passenger traffic and continued robust debt service coverage.

Key Rating Strengths

- Diverse, well-performing economic base underpins airport activity.
- Absence of airline concentration and the origin and destination nature of activity aids stability.
- Satisfactory debt service coverage, with extremely low debt, and sufficient financial liquidity.

Key Rating Concerns

- Enplanement activity has been irregular, reflecting national recession impacts and hubbing shifts.
- Relative proximity of competing airports, which may limit potential for increased airline service.

Drivers for Rating Change

Drivers	
• An accelerated passenger traffic growth trend coupled with maintenance of favorable debt metrics and positive financial results	+
• Significant narrowing of debt service coverage margins • Loss of passenger enplanements to competing airports	-

Key Airport Ratios FYE December 31		2017		2018
Airport Activity				
Top carrier by market share (Southwest)		36.3%		35.5%
CMH Enplanements		3,785,000		4,076,000
YOY Change		*3.4%*		*7.7%*
Summary Statement of Income ($ in millions)				
Operating Revenues	$	112.6	$	116.7
YOY Change		*-3.6%*		*3.7%*
Operating Expenses Before Depreciation	$	83.9	$	88.0
YOY Change		*-4.7%*		*4.9%*
Net Income	$	28.7	$	28.8
YOY Change		*-0.2%*		*0.2%*
Operating Margin		25.5%		24.6%
Per Passenger Enplanement (PPE) Operating Ratios				
Airline Revenue PPE	$	9.28	$	8.32
Non-Airline Revenue PPE	$	20.46	$	20.32
Operating Expenditures PPE	$	22.16	$	21.59
Airline Cost PPE	$	7.82	$	7.92
Liquidity				
Days Cash on Hand[1]		210		227
Debt and Leverage Ratios				
Debt to Cash and Investments Available for DS[2]		1.13		0.97
Debt Per Enplanement	$	24.4	$	20.3
Debt Service Coverage				
Calculated Per Trust Indenture		2.46x		2.45x
As Presented in Airport Financials		2.81x		3.20x
Population Growth, 2010-2017				
Columbus MSA			9.0%	
United States			5.3%	

Source: Columbus Regional Airport Authority

[1]Operating expenses per CAFR; calculation uses unrestricted current C&I.

[2]Includes unrestricted fund balance, restricted PFC's, and bond reserves.

Rating Determinants (RD)	
1. Management	Favorable
2. Economics/Demographics of the Service Area	AA-
3. Airport Utilization	A+
4. Airport Debt/Capital Needs	AAA
5. Airport Finances	AA+
6. Legal Mechanics and Security Provisions	AA

RD 1: Management

John Glenn International is the primary passenger airport for central Ohio, and Rickenbacker is the primary cargo airport for the region. It provides limited scheduled passenger service and has a significant military presence. Bolton Field serves corporate and general aviation. Only CMH and Bolton are defined as airports for purposes of the Master Indenture. Revenues from operations at Rickenbacker are not pledged to bond repayment. John Glenn and Bolton Field are located inside the City, while Rickenbacker is situated outside of the City in Franklin County.

The management team has airport and industry experience and has maintained a favorable relationship with airlines that has allowed for seamless renegotiation of a use and lease agreement that ensures ample debt service coverage, and strong liquidity, while sharing revenues with the airlines. Capital needs have been accommodated, while debt levels are extremely low.

Management Experience

Joseph Nardone, the President and Chief Executive Officer, was appointed in January 2018. Prior to joining the Authority, he spent one year as the CEO of the Wayne County Airport Authority (WCAA). There he oversaw the Detroit Metropolitan Airport, as well as Willow Run Airport which like Rickenbacker, offers cargo, corporate and general aviation. Prior to that Nardone spent two years as the WCAA's vice president of business development and real estate. Nardone formerly was a director of Southgate Properties, a real estate nonprofit, and economic development director for the city of Taylor, Michigan.

Randy Bush, CPA, CGMA, CIA is Chief Financial Officer, and has served in that capacity since late 2013. He has been employed by the Authority since 1992. Immediately prior to his present appointment, he was Director of Finance and Administration for five years, and has also served as Director of Parking, Transportation, and Audit Services. He is currently a member of the Airport Council International Finance Committee. Paul Streitenberger, CPA, is Director of Accounting and Finance, and has been at the Authority since 2011 overseeing aspects of accounting, audit and finance.

Key Policies and Procedures

CRAA has enacted various policies to ensure that operations are maintained, and potential risks are accounted for. A variety of risk assessments are undertaken, including Authority-wide enterprise risk management, and succession plans for all critical businesses.

Debt Policy

The debt policy requires the Authority to seek Board of Directors approval, usually on an annual basis, for capital projects planned through its capital improvement plan. The Finance Committee of the Board of Directors is required to review and approve the recommendations of the Authority Chief Financial Officer regarding the issuance of debt obligations. A range of debt instruments may be employed, and the policy precludes bond or note proceeds from being used to fund operating expenses. The duration of bond issues reflects the expected life of the project being financed. Where appropriate, existing cash should be considered for funding capital improvements, but only to the extent it does not weaken necessary cash reserves. The formal policy requires cash reserve levels to be maintained at least equal to one year’s operating expenses and net revenues equal at least 2.00x debt service requirements. The bond indenture specifies a 1.25x rate covenant.

The Authority has a stated goal of minimizing the amount of debt outstanding prior to the design and construction of a new terminal complex that, at present, is not expected before the early-2030s. The use of interest rate swaps or any form of derivatives is prohibited. Outstanding general airport revenue bonds (GARBs) are targeted not to exceed $40 per enplaned passenger. The airline cost per enplanement (CPE) is targeted not to exceed $10.00. The Authority typically avoids leasing costs related equipment, vehicle, and similar assets, choosing instead to fund those costs from reserves. All debt obligations have a maximum maturity of the earlier of: (1) the estimated useful life of the capital improvement being financed; or (2) the estimated useful life of the revenue stream funding the capital improvement; or (3) thirty years; or (4) in the event of refinancing outstanding debt obligations, the final maturity of the debt obligations being refinanced. Debt may be in a fixed or variable rate mode. The preference is to have a level overall debt structure, when issuing additional debt. However, an increasing debt service structure may be considered appropriate, but must be evaluated before proceeding.

Enterprise Risk Management

The CRAA has devoted significant attention to enterprise risk management (ERM) as a core function throughout the organization. A cross-functional risk management team meets quarterly to discuss new risks. Over 325 organizational risks are being managed. The Authority focuses on top risks and considers the following risks to be the most critical: (1) inability to fund capital programs; (2) project management process and communication; (3) aircraft accident or incident on the airfield; (4) training, development, and succession planning; (5) cyber risks; (6) continuity of operations, disaster recovery, and evacuation planning.

Budgetary Process

The budgetary process begins in June of each year with each department manager estimating expected costs for the upcoming year. Revenues are estimated based on history, projected increases and market trends within the aviation industry. The President and CEO holds the responsibility of submitting budgets for operating revenues and expenses and capital improvements to the Board for approval at least 30 days prior to the beginning of each fiscal year. The budget can be amended by the board subsequent to its adoption. There is a monthly look-back, revenues and expenditure performance of each department is reviewed by members of the accounting/finance team, who report back to the Board.

Capital Improvement Program Annual Financial Feasibility Analysis

The Authority undertakes an annual financial feasibility review to determine the affordability of the capital program. The analysis incorporates all projects in the Authority's five-year capital improvement program (CIP). The current year is used as a base year with separate assumed inflation factors for airfield projects and other projects. The analysis is updated annually or more frequently if changing conditions warrant. The current year operating budget is escalated based on various inflation assumptions. The analysis produces detailed financial results that include the amount, timing, and type of debt required. Also generated are pro-forma operating results, including airline rates, cost per enplanement (CPE), cash flow, and liquidity reserves.

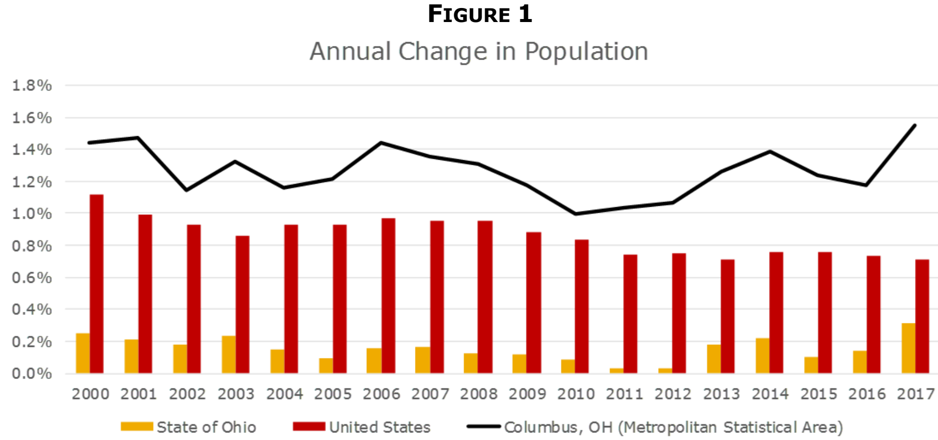
RD 2: Economics/Demographics of the Service Area

KBRA views the Economic Base and Demographic characteristics of CRAA's service area as strong based upon strong population growth and a diverse business environment, which KBRA views as supportive of demand for air travel.

Growing Population Base Supports Air Travel

CRAA's primary service area is the Columbus metropolitan statistical area (the "MSA"), which consists of Franklin County and the adjacent 10 counties encompassing 3,170 square miles. An extended secondary air service area also exists, whose borders are based on the location of air service provided from Akron, Cincinnati, Cleveland, Dayton and Toledo in Ohio as well as Charleston in West Virginia. The level of competition between these air service regions appears marginal, however, each of these cities are located more than 100 miles from Columbus, except for Dayton, which is located 76 miles away. At a minimum, there is some benefit to the airport from the de-hubbing of Delta at Cincinnati and United at Cleveland. The reduction in flights at these airports makes CMH a more attractive option for travelers.

FIGURE 1

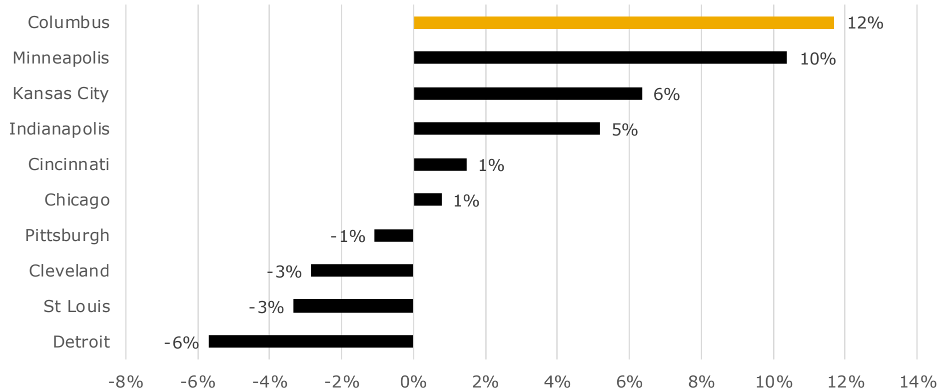


Source: Bureau of Economic Analysis

The MSA has experienced stronger population growth over the last seventeen years compared to the rest of the State and the Nation (see Figure 1). With a population of 2.1 million, it is the second largest MSA in the State behind the Cincinnati MSA and represents approximately 17.8% of the State's total population. The City of Columbus (the "City"), the largest city in Ohio and the State capital, is the fourteenth largest city in the U.S, and since 2010, has grown by approximately 12% to about 882,000. The City is the fastest growing major midwestern city (see Figure 2).

FIGURE 2

Top Midwest Cities
(Population Growth 2017-2010)



Source: U.S. Census Bureau

Personal income per capita exceeds the Ohio and U.S. averages, despite this figure being depressed somewhat by the large student presence in the region. Ohio State University, located in Columbus, is one of the largest universities in the nation with approximately 68,100 students in 2018. In addition, there are more than 50 additional institutions of higher education bringing total area enrollment to more than 134,000 students. This large institutional presence is reflected in the relatively high level of educational attainment (See Figure 3).

FIGURE 3

	2017 Population	Chg from 2010	2017 Age Dependency Ratio[1,2]	Chg from 2010	2017 Population with B.A. Degree of Higher[2]	Chg from 2010	2017 Poverty Level[2]	Chg from 2010	2017 Income Per Capita	Chg from 2010
Columbus MSA	2,078,725	12.9%	57.7%	3.1%	35.9%	3.4%	13.1%	-2.6%	32,887	24.0%
State of Ohio	11,658,609	1.1%	63.8%	3.4%	28.0%	3.4%	14.0%	-1.8%	30,038	25.3%
United States	325,719,178	5.3%	61.8%	3.0%	32.0%	3.8%	13.4%	-1.9%	32,397	24.3%
Columbus MSA as a % of Ohio	N.A.		90.5%		128.2%		93.6%		109.5%	
Columbus MSA as a % of United States	N.A.		93.3%		112.2%		97.8%		101.5%	

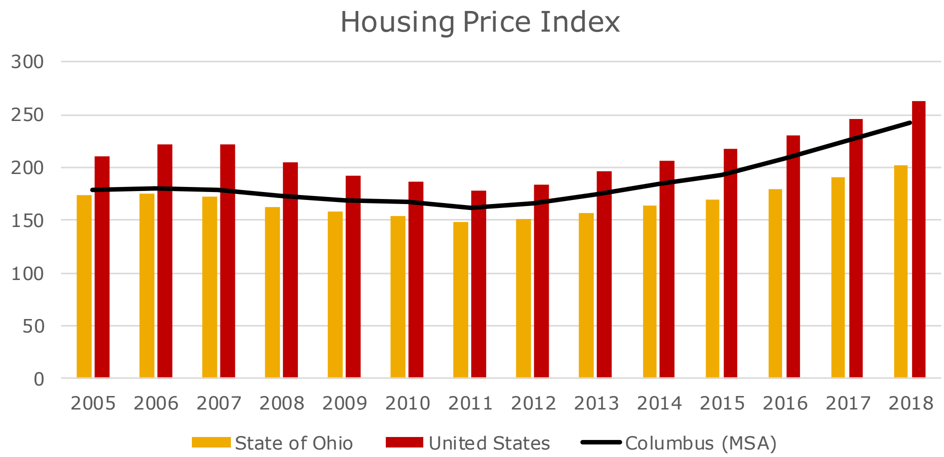
Source: U.S. Census Bureau

1 Age dependency ratio is the sum of the population under 18 yrs and over 65 yrs divided by persons age 18 to 64.

2 Change since 2010 shown as nominal change in percentage points.

The MSA's housing market has performed well since the Great Recession and has historically had a stronger housing price index (HPI) than the State (see Figure 4). In 2011, after four consecutive years of declines, the HPI reached a low of 161.2. However, it has grown by 50% to 243.0 in 2018, which represents 135% of its pre-recession peak of 180.3. This compares favorably to the U.S. and the State recovery, which only represent 115% and 118% of their respective pre-recession peaks.

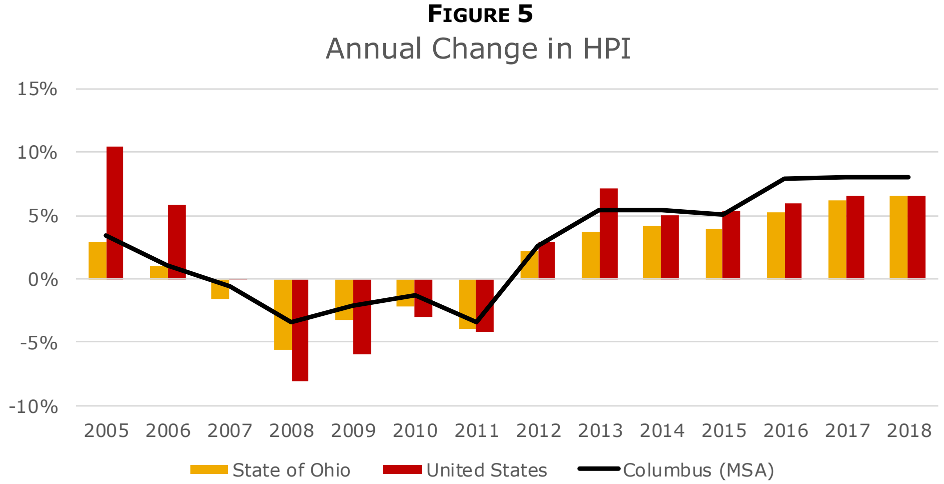
FIGURE 4



Source: Federal Housing Finance Agency

The region historically has had stronger year over year growth when compared to the rest of the State. In addition, as of the last three years, it has experienced better growth than the Nation as well (see Figure 5). This strong comparative performance underscores the strength of the service area economy, which KBRA views as supportive of demand for O&D service.

FIGURE 5



Source: Federal Housing Finance Agency

Diversified Business Environment

The Columbus MSA has a strong and diverse economy, where no one sector accounts for more than 20% of employment. Finance and insurance, technology, health, logistics, and other industries complement the presence of Ohio State University and the State capital.

Fifteen Fortune 1000 companies are headquartered in the region including Abercrombie & Fitch, Big Lots, DSW, and Cardinal Health. The largest private sector employers are JPMorgan Chase & Co., OhioHealth, and Nationwide. Ohio State University and the State of Ohio are the largest public-sector employers. The region's robust employment base is a key driver in support of O&D enplanement activity at CMH. A large educated workforce, combined with strong research capabilities has resulted in the region becoming one of the fastest growing technology hubs in the U.S.

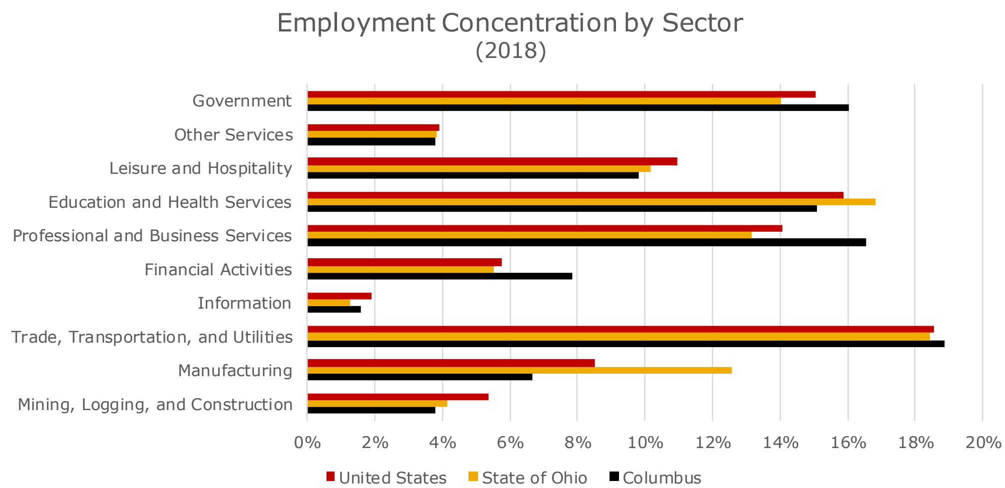
The Columbus MSA is home to 52 college and university campuses. In addition to Ohio State, campuses include Columbus State Community College and Ohio University. Ohio State is a major center for industry-sponsored research, with leading programs in bioengineering, agricultural engineering, computer engineering, and material sciences. The University holds research partnerships with over 300 companies in the State of Ohio, including over 100 in metropolitan Columbus. The University is also home to the third largest college football stadium in the Nation, with a capacity of approximately 104,900, which attracts a large fan-base base during the fall months.

The Columbus area is also a major logistics hub due to its location within 10 hours of 47% of the U.S. population, 33% of the Canadian population and about 47% of all U.S. manufacturing. Enhanced freight rail connections to East Coast ports in Norfolk, VA; Baltimore, MD; and Wilmington, NC bolster the region's role as a vital distribution center. CRAA's Rickenbacker International Airport, with its air and road transport companies, numerous off-airport warehouses, and intermodal rail terminal partnership continues to be one of the busiest air cargo hubs in the U.S. by landed weight.

Employment Base More Resilient Than State/Nation

With a concentration in high skill, high wage-earning jobs, the Columbus MSA employment base differs from both the State and nation overall (see Figure 6). The MSA has a significantly higher concentration of employment in financial activities and professional and business services, occupations which tend to be more skilled, higher paying, and less susceptible to economic downturns. Statewide employment in turn has a greater proportion of employment in manufacturing, a sector that was disproportionately affected by the Great Recession. This dissimilarity in employment base composition may explain historical differences in unemployment rate trends. The Columbus MSA lost relatively fewer jobs when compared the State and U.S. throughout the recession.

FIGURE 6



Source: Bureau of Labor Statistics

The Columbus MSA unemployment rate peaked at 9.0% in 2010 and has generally trended below State and U.S. rates. (see Figure 7) As of September 2019, the MSA unemployment rate was a low 3.7% compared to 4.1% and 3.5% for the State and U.S., respectively.

FIGURE 7

Total Employment									
	Columbus, OH (MSA)			State of Ohio			United States		
Year	Employment	% Change	Unemployment Rate	Employment	% Change	Unemployment Rate	Employment ('000)	% Change	Unemployment Rate
2000	878,809	1.8%	3.4%	5,556,757	0.9%	4.0%	136,901	2.5%	4.0%
2001	892,223	1.5%	3.5%	5,567,130	0.2%	4.3%	136,939	0.0%	4.7%
2002	890,353	-0.2%	5.1%	5,516,645	-0.9%	5.7%	136,481	-0.3%	5.8%
2003	889,990	0.0%	5.6%	5,505,858	-0.2%	6.2%	137,729	0.9%	6.0%
2004	893,877	0.4%	5.8%	5,502,444	-0.1%	6.3%	139,240	1.1%	5.5%
2005	903,745	1.1%	5.5%	5,541,082	0.7%	5.9%	141,710	1.8%	5.1%
2006	926,273	2.5%	4.8%	5,624,435	1.5%	5.4%	144,418	1.9%	4.6%
2007	942,570	1.8%	4.8%	5,657,718	0.6%	5.6%	146,050	1.1%	4.6%
2008	939,377	-0.3%	5.7%	5,580,843	-1.4%	6.4%	145,373	-0.5%	5.8%
2009	907,990	-3.3%	8.7%	5,297,098	-5.1%	10.3%	139,894	-3.8%	9.3%
2010	913,878	0.6%	9.0%	5,247,050	-0.9%	10.3%	139,077	-0.6%	9.6%
2011	925,018	1.2%	7.8%	5,261,238	0.3%	8.8%	139,885	0.6%	8.9%
2012	939,034	1.5%	6.5%	5,284,001	0.4%	7.4%	142,475	1.9%	8.1%
2013	950,181	1.2%	6.5%	5,290,609	0.1%	7.5%	143,941	1.0%	7.4%
2014	977,015	2.8%	4.9%	5,373,053	1.6%	5.8%	146,319	1.7%	6.2%
2015	995,523	1.9%	4.2%	5,416,912	0.8%	4.9%	148,847	1.7%	5.3%
2016	1,013,303	1.8%	4.2%	5,450,622	0.6%	5.0%	151,443	1.7%	4.9%
2017	1,031,591	1.8%	4.1%	5,483,140	0.6%	5.0%	153,337	1.3%	4.4%
2018	1,039,186	0.7%	3.8%	5,491,585	0.2%	4.6%	155,761	1.6%	3.9%
September 2019*	1,058,672	1.9%	3.7%	5,570,574	1.4%	4.1%	158,478	1.7%	3.6%
Employment CAGR 2018-2010	1.6%			0.6%			1.4%		

Source: Bureau of labor Statistics

* September 2019 Preliminary

RD 3: Airport Utilization

CMH is a medium-sized hub, situated six miles east from downtown Columbus. CMH offers 150 peak daily departures to 40 destinations as of 2019.

Diverse Carrier Mix

CMH is almost exclusively origin and destination (O&D), with varied market share among its airlines. In 2018, the three largest carriers were Southwest with 36% of enplanements, American Airlines with 23%, and Delta with 21% (see Figure 8). These three carriers together with United, Air Canada Express, Frontier, and Spirit are signatory airlines. KBRA believes that carrier participation is indicative of a generally stable airline mix.

FIGURE 8

Air Carrier Market Shares at CMH
Years Ended December 31

	2019 First Nine Months	*% Chg.*	2018 First Nine Months	*2018 Market Share*	*2018*	2017	2016	2015	2014
Southwest Airlines (1)	2,107,622	*-1.3%*	2,134,882	*35.5%*	2,890,907	2,752,826	2,645,139	2,377,201	2,033,400
AirTran Airways			-			-	-	-	77,415
American Airlines Group	1,531,889	*9.1%*	1,403,585	*23.0%*	1,872,685	1,844,684	1,859,983	1,853,766	936,617
US Airways			-			-	-	-	935,069
Delta Airlines	1,376,561	*5.6%*	1,304,151	*21.4%*	1,744,491	1,632,707	1,606,157	1,557,554	1,470,983
United Airlines	835,791	*14.7%*	728,483	*12.3%*	1,003,910	947,266	960,786	917,109	835,235
Spirit	339,910	*37.4%*	247,456	*4.3%*	352,647	-	-	-	-
Frontier (2)	87,891	*-32.2%*	129,683	*2.0%*	162,034	288,602	150,504	-	472
Air Canada Express	56,754	*-0.4%*	57,007	*0.9%*	73,466	68,992	65,461	52,704	43,632
Alaska (3)	54,440	*NA*	-	-	-	-	-	-	-
Commercial Total	**6,390,858**	*6.4%*	**6,005,247**	***99.5%***	**8,100,140**	**7,535,077**	**7,288,030**	**6,758,334**	**6,332,823**
Scheduled	Unavailable		Unavailable	*0.1%*	8,634	7,662	6,596	10,414	9,829
Non-Scheduled	Unavailable		Unavailable	*0.4%*	32,882	33,853	29,554	27,466	13,322
Charter Total	**31,382**	*-5.5%*	**33,196**	***0.5%***	**41,516**	**41,515**	**36,150**	**37,880**	**23,151**
Total Passenger	**6,422,240**	*6.4%*	**6,038,443**	***100.0%***	**8,141,656**	**7,576,592**	**7,324,180**	**6,796,214**	**6,355,974**

Source: CRAA FY2018 CAFR |October Board Package

(1) AirTran Airways merged with Southwest in December 2014

(2) Frontier ceased operations in January 2014, and resumed in 2016.

(3) Alaska started operating at CMH in March 2019

Recent Air Service Activity

Recent airline additions as well as additional routes and increasing frequencies have resulted in passenger activity growth in FY 2018 and the first nine months of 2019. Spirit started daily seasonal non-stop flights to seven U.S. cities in February 2018 and Southwest, which serves 19 destinations, added Houston-Hobby and Cancun. American Airlines added an additional daily flight to Los Angeles. The addition of routes continued in 2019 with the addition of Alaska Airlines to the carrier mix, offering nonstop service to Seattle, the number 1 unserved market according to CRAA. United and Delta both added new routes to San Francisco and Salt Lake City, respectively in June 2019. All new routes exhibited strong passenger load factors.

Figure 9

CMH Top Destinations (2018)

Destination	Share of Enplanements
Chicago, IL	13.20%
Atlanta, GA	12.08%
Orlando, FL	5.82%
Dallas/Fort Worth, TX	4.28%
Denver, CO	4.04%
Charlotte, NC	3.99%
New York, NY	3.89%
Washington DC	3.71%
Las Vegas, NV	3.53%
Baltimore, MD	3.41%
All Other	42.05%

Source: Bureau of Transportation Statistics T-100 Database

Frontier was the only carrier with an activity decline in 2018 as well as in the first nine month of 2019 with a contraction of more than 32%. The decline reflects the discontinuation of service to Las Vegas and reduced flights to Denver, although KBRA understands from conversations with airport management that this level of volatility at Frontier reflects its highly dynamic operating model that is optimized to move quickly in and out of markets as perceived opportunities arise.

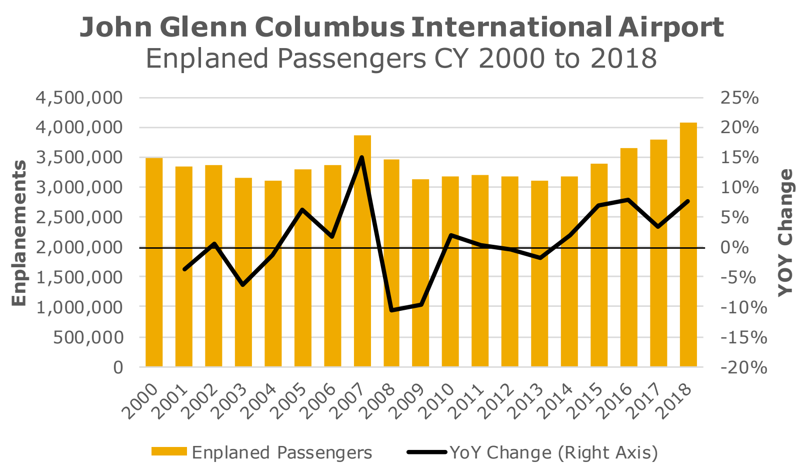
CMH will be one of the first airports to see scheduled service on United's latest aircraft (Bombardier CRJ550), departures to Chicago O'Hare began on Oct. 27, 2019. The newly introduced aircraft has more legroom and several closets for storage of carry-on baggage.

Enplanement Trends

Airport traffic continues to enjoy strong growth with enplanements in 2018 rising to their highest level since 2007 (see Figure 10). Airline passenger traffic increased for almost all airlines in 2018 except for Frontier. Total FY 2018 enplanement growth was 7.7%, up from 3.4% growth in 2017, per the Authority's financial report.

In the first nine months of 2019, Airline passenger traffic at CMH is up 6.4% compared to the same period in 2018, indicating a return to strong growth attributable to new nonstop routes mentioned above, as well as continued strength in the local economy.

Figure 10



Source: Columbus Regional Airport Authority

Growth in available seats across the industry have generally been constrained as airlines have shifted to prioritizing high load factors and profitability over market share. Available seats at CMH increased at a 1.6% CAGR over the last decade versus industry-wide growth at a 2.3% CAGR. While still below the industry level, CMH generated a 14% growth between 2017 and 2018, reaching a peak since 2000. Over the last five years, CMH available seat growth has been strong at 6.2% CAGR versus the industry-wide 6% CAGR, reflecting CMH's strong enplanement trends.

Additional CMH metrics underscore its relative value to its airlines. According to the FAA data, CMH's busiest airline, Southwest, achieved a carrier yield that was 2.5% above its system-wide average while American, CMH's second busiest airline, achieved a carrier yield approximately 3.3% below its system wide average. Offsetting this concern is that load factors for these two airlines were slightly above system-wide averages for 2018.

KBRA notes additional credit strengths of CMH include the extremely low cost for per enplanement and nearly 100% O&D customer base which alleviates any looming risk of dehubbing.

Strong Cargo Trends

CRAA's Rickenbacker International Airport (LCK), located ten miles south of downtown Columbus, is one of the world's few cargo-dedicated airports. LCK is strategically located as a major logistics hub connecting several other major ports on the eastern seaboard to Chicago and the greater Midwest region.

Despite global trade tensions and softening consumer demand, air cargo activity has been strong since 2014. Cargo activity increased 17.6% year over year to 301 million pounds in 2018 due to the continued increase in frequency of scheduled freighter service by major multinational carriers. Cargo activity in the first nine months of 2019 dropped 2.4% year over year as one of LCK's tenants, Trinity Logistics, changed its carriers from Etihad to Western Global Airlines. Despite this change, Etihad advised CRAA that it will continue to serve LCK. Additionally, LCK established a new partnership with Asiana Cargo in August 2019.

LCK also offers limited passenger service through its charter terminal. As of 2019, Allegiant offers services to nine Florida destinations (up from seven last year) and 3 locations in South Carolina. Annual enplanement activity at LCK increased from a nominal 11,000 in 2010 to over 300,000 in 2018, supported mainly by Allegiant Air. Nonetheless, commercial service at LCK remains relatively minor at just 3.9% of that offered at CMH. KBRA understands that facilities at LCK could accommodate commercial enplanement growth of at least 50% above the current level, but that CRAA does not plan to transform LCK into a major facility for commercial air travel.

RD 4: Airport Debt/Capital Needs

Debt Issuance Approach

The Authority's debt issuance adheres to a written debt management policy. KBRA views the Authority's capital planning as comprehensive, with a focus on minimizing borrowing. The analysis is updated annually or more frequently if project changes occur.

Outstanding debt largely includes general airport revenue bonds (GARBs), secured by a lien on net airport revenues of CMH and Bolton Field and Customer Facility Charge Revenue Bonds (issued on May 2, 2019). The last GARB new money issuance was in 1998. In March 2015, the Authority directly placed $40 million of Series 2015A and 2015B Revenue Bonds that are on parity with the Authority's Series 2013 general airport revenue bonds. In 2016 the Authority refunded the Series 2007 Bonds through a direct placement, generating substantial net present value savings. The refunding maintained the level aggregate annual debt service of $11.5 million while significantly shortening the repayment period by applying approximately $7.4 million in debt service reserve fund amounts to reduce required borrowing.

The Authority has funded the majority of its capital needs from internal funds, federal and state grants, and passenger facility charges (PFC). All GARB debt is fixed rate and matures in 2030. There are no swaps, as the use of these instruments and derivatives in general, is prohibited by the Authority's Debt Policy.

Under a Subordinated Obligations Trust Indenture and Credit Facility Agreement dated December 12, 2018, the Authority is authorized via a revolving loan in the form of Credit Facility Bonds to borrow up to $75 million from Bank of America NA. Outstanding principal was $9.7 million at 2018 FYE, and bears interest at a variable rate equal to the sum of LIBOR for that one-month LIBOR period multiplied by 0.80 plus 45 basis points. The commitment fee is 10 basis points (0.1%) on the unused portion of the facility.

Capital Program Overview

The Authority's FY2020 – FY2024 capital budget totals $249.6 million for John Glenn Columbus International Airport and Bolton Field. The primary capital projects are:

- Midfield Development Program at the John Glenn International Airport which includes a Consolidated Rental Car Facility and several enabling projects
- Construction of a second on-airport hotel
- Apron and taxiway rehabilitation

In addition to the CFC Revenue bonds already issued, funding sources are PFCs, CRAA resources and FAA grants. No additional revenue bond financing is anticipated. Some bank loan financing is anticipated during the construction phase to be repaid with a combination of PFCs and airport revenue bonds.

Future Borrowing Plans

No additional GARB borrowing is expected until the early 2030s. A determination may be made to construct a new passenger terminal, and it is likely that additional debt will be issued for the new terminal. However, at the time of such issuance, the Authority is expected to have no general airport debt outstanding, as its outstanding GARB debt matures in 2030. While the amount of future borrowing has not been quantified, KBRA believes the Authority will be well-positioned to take on the additional debt at that juncture.

History of Internal Capital Funding Contributes to Favorable Debt Ratios

The use of system-generated funds and reserves, supplemented by PFC and grant funding, results in low Authority debt ratios. In KBRA's opinion the Authority's operations are well positioned in relation to outstanding debt. At FYE 2018, GARB debt outstanding per 2018 enplanements is a very low $17.

FY 2018 debt service totaled $11.3 million and is essentially flat through 2021, declining thereafter. All outstanding Bonds mature on January 1, 2030. GARB maximum annual debt service per 2018 enplanements was $2.80, which is also extremely low based on KBRA's Airport Methodology.

RD 5: Airport Finances

Cost Center and Account Structure

The Authority's financial operations are largely governed by the master trust indenture adopted July 1994, which establishes the flow of funds and the rate covenant, among its provisions. Operations are also a function of the signatory airline operating agreement and lease which lays out the financial obligations of both the airport and airlines, and determines the airport's rate setting and cost recovery mechanism.

The operating agreement and lease are hybrid in nature, with a compensatory rate-making structure in the terminal based on leasable square footage, and a residual agreement covering the airfield and apron. The new agreement, expected to be signed before the end of the year, establishes the baggage handling system as a cost center recovered using the residual methodology. Direct and indirect cost centers account for revenues and expenses, and related rentals, fees, and charges. The direct cost centers are the airfield, terminal building, apron, parking and ground transportation, other leased properties, and Bolton Field. The indirect cost centers are administration, general support facilities, and cost center additions and subtractions.

Operating Agreement and Lease

The present Agreement's term is January 1, 2015 through December 31, 2019. The agreement connects airline enplanement activity with revenue sharing, to encourage increased passenger activity. The revenue sharing calculation, referred to as the General Airline Credit (GAC) includes an average rate of $1.60 per enplaned passenger, and $250,000 additional sharing for each 0.5% of overall enplanement growth. Revenue sharing is contingent on maintaining at least one year's operating expenses in the general purpose fund in years four and five of the Agreement, and debt service coverage of 2.0x or greater. The revenue sharing component is credited to the landing fee calculation. A new agreement is expected to be signed before the end of the year, and is expected to be substantively the same.

The Agreement provides for preferential leasing of airline space, periodic leased space adjustments to reflect changes in airline activity, and in KBRA's opinion, strong Authority control of capital project approvals. Carriers have limited rights to defer for one-year projects over $2.5 million in the airfield and apron cost centers. Airlines have no input for capital project decisions in the terminal or other cost centers.

Fiscal 2018 Financial Performance

FY 2018 financial position remains satisfactory and cash position strong. FY 2018 net revenues increased modestly to $28.7 million, with debt service coverage a healthy 2.4x per indenture reporting. Coverage is consistent with the longstanding favorable trend.

FIGURE 11

Columbus Regional Airport Authority Debt Service Coverage Calculated per Trust Indenture FY Ending December 31				
($ in thousands)	**2015**	**2016**	**2017**	**2018**
GROSS REVENUES	**$85,332**	**$92,514**	**$99,252**	**$101,630**
DIRECT OPERATING EXPENSES	57,377	64,980	71,566	72,922
Net Revenues Available for DS	27,955	27,534	27,686	28,708
Interest Income on Reserves	-424	-509	-634	-692
Amount Available for DS - Bond Covenant	**$27,531**	**$27,025**	**$27,052**	**$28,016**
Principal	5,266	7,852	9,378	9,966
Interest	2,747	3,463	1,643	1,460
Total Debt Service[1]	**$8,013**	**$11,315**	**$11,021**	**$11,426**
DEBT SERVICE COVERAGE	**3.44**	**2.39**	**2.45**	**2.45**

[1]Senior airport revenue bonds

Source: Columbus Regional Airport Authority

On a GAAP basis, FY 2018 coverage is even stronger at 3.2x. Airport revenues outperformed budget by a healthy $4.4 million due to concession revenue, parking revenue and cargo operations. Favorable operating results have been achieved even during periods of static enplanement. Airline revenues have been consistently below 40% of total operating revenues, which KBRA views as positive.

Non-airline revenue growth has been very favorable, the 2013-2018 CAGR for the two primary non-airline operating revenues, parking revenues and concession revenues, is 6.0% and 5.1%, respectively (per CAFR). In FY 2018, non-airline revenues increased 7.0%. Parking remains the largest component of non-airline revenues. An Authority-owned hotel on airport property opened in August 2014, diversifying the non-airline revenue stream. The hotel facility had a FY 2018 net operating surplus of $2.0 million, consistent with the previous year.

Operating expenses exceeded budget in FY 2018 due to variances on employee wages and benefits, although the added expenses were largely offset by the strong revenue performance. Operating expenses (per CAFR) before depreciation have grown at a 6.2% CAGR over FY 2013-2018. Operating margins, which have been within 20% to 35%, are in an acceptable range.

Passenger Airline Cost Per Enplanement (CPE)

Cost per enplaned passenger increased minimally in FY 2018 (see Figure 12) and remains well below the medium hub average as calculated by the FAA. Over the past five years, CRAA's CPE has averaged a low $7.71 per enplanement. Both enplanement growth and strong cost controls by the Authority contribute to the low CPE.

FIGURE 12

Columbus Regional Airport Authority Airline Cost Per Enplanement (CMH) Fiscal Years Ending December 31							
($ in thousands)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
OPERATING REVENUES							
Airline Cost for the Airfield Area	$16,458	$16,404	$16,400	$16,278	$16,585	$15,813	$17,516
Airline Cost for the Terminal Building	12,014	11,977	12,735	13,464	15,044	16,610	17,803
Airline Cost for the Aircraft Parking Area	3,404	3,732	3,880	3,903	4,156	4,072	4,428
General Airline Credit	-4,431	-4,461	-7,377	-4,804	-5,638	-5,884	-5,722
Supplemental Airline Credit	0	0	0	-3,250	-3,750	-1,000	-1,750
Total Airline Cost	**$27,445**	**$27,652**	**$25,638**	**$25,591**	**$26,397**	**$29,611**	**$32,275**
Enplanements (000)	3,175	3,115	3,173	3,393	3,659	3,785	4,076
Airline Cost per Enplaned Passenger	**$8.64**	**$8.88**	**$8.08**	**$7.55**	**$7.17**	**$7.82**	**$7.92**

Source: Columbus Regional Airport Authority

System Liquidity

The Authority has historically maintained substantial unrestricted cash, which complements its favorable debt service coverage levels. As of December 31, 2018, the current assets unrestricted cash and investments was $33.1 million and $21.5 million, respectively. Unrestricted, noncurrent investments totaled $31.0 million. Thus, total unrestricted C&I was $85.7 million, which is almost one year of GAAP basis operating expenses of $88.0 million.

Restricted cash and investments total $104.2 million and include $59.1 million restricted for customer facility charges and $30.2 million restricted for passenger facility charges.

Fiscal 2019 Estimates and Fiscal 2020 Budget

The FY 2019 budget projects enplanements of 4.22 million, which is 3.5% growth over prior year actual enplanements. Monthly reports through September indicate growth is surpassing budget, with enplanements increasing by 6.4%. Consequently, revenues are outperforming budget by a favorable 4.1%, as reported through the period ending July 31, 2019. The Authority estimates expenditures will be on budget, and net operating income before depreciation is estimated at a healthy $40 million, surpassing budget. The Authority has realigned staffing to gain operating efficiencies, reducing budgeted positions by 10% over 2018 and 2019. Cost per enplaned passenger for FY 2019 is estimated at $7.77, below the FY 2018 actual of $7.92.

Given the region's strong growth in population and employment, the Authority is budgeting 2.5% enplanement growth in FY 2020. Total revenues and expenditures are budgeted to increase by 6.2% and 4.1%, respectively, relative to the FY 2019 estimates. The opening of a new hotel grounds (August 2020) contributes to the strong revenue growth. Landing fees increased, primarily due to a TSA requirement for a policing presence at checkpoints 100% of the time that they are open. Cost per enplaned passenger is budgeted at $8.31 for FY 2020.

Given the authority's practices of conservative budgeting, and the level debt service profile, KBRA does not expect material changes in debt service coverage.

Retirement Benefits

Authority employees participate in the state-wide Ohio Public Employees Retirement System (OPERS) and the authority's proportion of the net pension liability was $26.6 million, as reported in the Authority's FY 2018 annual financial report. The traditional plan was 84.7% funded, and the assumed actuarial rate of return was 7.5%. Employee pension contributions equal 10% of compensation. The Authority has historically contributed a share of employee contributions; however, this subsidy is being gradually be phased out. By 2019 employees will assume the full 10% contribution. Full-time employees hired on April 1, 2011 and thereafter already pay the full employee contribution. Other post-employment benefits (OPEB) for health care costs are provided by OPERS as well.

RD 6: Legal Mechanics and Security Provisions

Bond Security

The GARBs are special obligations of the Authority, payable solely from and secured by a pledge of the net revenues of John Glenn International Airport and Bolton Field, and a lien upon the revenue fund, debt service fund and the debt service reserve fund. Rickenbacker is not designated as an airport for purposes of the trust indenture. No indebtedness of Rickenbacker is secured by the trust indenture, and Rickenbacker's revenues are not pledged to repayment of bonds issued pursuant to the indenture. Neither the revenues or expenses of Rickenbacker are included for purposes of calculating compliance with the rate covenant nor additional bonds test.

Rate Covenant

Amounts available for debt service (net revenues plus debt service fund investment earnings) at least equal to the greater of: (1) 100% of the amounts required to pay GARB debt service, the debt service reserve deficiency, subordinated debt service charges and the repair and replacement ($1 million requirement) deficiency during the fiscal year; or (2) 125% of the GARB debt service requirement. The second component of the two-prong test is currently operative. According to the master indenture, PFCs must be pledged by Authority Board resolution to be included in the amounts available for debt service in the calculation of coverage. No PFCs are currently pledged for this purpose.

If the rate covenant is not met in any fiscal year, the Authority covenants to employ an airport consultant, within 30 days following receipt of the annual financial statements, to make recommendations within 45 days as to a revision in rates, fee and charges or operating expenses, or methods of operation of the Airports, if any, that will result in the rate covenant being met in the current fiscal year. Failure to meet the rate covenant in two consecutive years constitutes an event of default.

Additional Bonds Test

i. A Certificate of an airport consultant that amounts available for debt service will be sufficient to satisfy the rate covenant for (A) each of the five full fiscal years following the issuance of the series of Bonds, or (B) each of the two full fiscal years following the completion of the improvements financed by the issuance of bonds, whichever is later; provided that (1) if the aggregate of the debt service charges for all bonds outstanding (including the proposed series of bonds, all expected series of bonds necessary to complete the improvements) in any fiscal year will be greater than 120% of the aggregate of the debt service charges for all bonds during the test periods described in (A) or (B) above, then the fiscal year with highest aggregate debt service charges for all bonds is deemed to be the last fiscal year of the test period; or (2) if interest on any bonds or any subordinated obligations in the last fiscal year for the test periods described in (A) or (B) above has been or will be capitalized, the projected amounts available for debt service will be sufficient to satisfy the rate covenant for each of the first two succeeding full fiscal years for which no interest on any bonds or any subordinated obligations has been or will be capitalized, or

ii. The certificate of the authority fiscal officer that amounts available for debt service for each of the two full fiscal years preceding the issuance of the series of bonds were not less than 125% of (A) the aggregate of debt service charges for bonds outstanding, plus (B) in any future fiscal year the highest aggregate of debt service charges for the proposed series of bonds and all expected series of bonds necessary to complete such improvements, or

iii. The certificate of the Authority fiscal officer that the aggregate principal amount of all bonds issued or to be issued to finance the improvements will not exceed 115% of the aggregate principal amount of all bonds originally expected to be issued to finance the improvements as determined by the Board in the series resolution authorizing the first series of such bonds.

Debt Service Reserve Fund Requirement

The master trust indenture establishes a debt service reserve fund to be funded at maximum annual debt service. Each series is separately secured. The sixth, seventh and eight supplemental trust indentures, pursuant to which the Series 2013 A and B, Series 2015, and Series 2016 bond are issued, do not require debt service reserve funds and consequently do not have any.

Flow of Funds

All revenues are deposited into the revenue fund, then transferred monthly, on the first business day to in the following order of priority:

(1) operations and maintenance fund, sufficient to pay the Authority's estimated operating expenses for that month;
(2) interest payment account of the debt service fund in an amount equal to one-sixth of the next due interest payment;

(3) principal payment account of debt service fund in amount equal to one-twelfth of next due principal amount;
(4) debt service reserve fund – amounts and deposit times are provided in supplemental trust indenture. Deficiencies are remedied with one-twelfth payment amounts;
(5) operation and maintenance reserve- one twelfth of the budgeted increase in O&M expenses over prior year, plus one-twelfth of the aggregate withdrawn amount, if any, in the preceding 12 months until the account equals the reserve requirement (one-sixth of O&M);
(6) subordinated obligations; debt service fund;
(7) repair and replacement fund – an amount equal to one-twelfth the repair and replacement fund deficiency;
(8) rebate fund;
(9) airport general purpose fund – from time to time at the discretion of the Authority, any amount of the funds remaining in the revenue fund, which the Authority has determined will not be needed to make deposits required in the waterfall above. Funds may be used for any lawful purpose of the Authority.

Bankruptcy Assessment

KBRA has consulted outside counsel and the following represents KBRA's understanding of the relevant bankruptcy process issues for the Authority. To be a debtor under the municipal bankruptcy provisions of the U.S. Bankruptcy Code (Chapter 9), a local governmental entity must, among other things, qualify under the definition of "municipality" in the Bankruptcy Code, and must also be specifically authorized to file a bankruptcy petition by the State in which it is located. It is KBRA's understanding that the Authority is a port authority and political subdivision of the State of Ohio, and thus it is a municipality under the U.S. Bankruptcy Code. As to authorization, KBRA understands that Ohio currently permits local government entities in the State to file for Chapter 9 relief with the permission of the State Tax Commissioner. KBRA also is informed that Ohio law provides, in addition, a fiscal emergency program for municipal corporations, counties, and townships, under which a commission is appointed to develop a plan to remedy a municipality's fiscal distress, and the commission oversees the financial activity of the government until the emergency is terminated. However, it is not entirely clear that this program applies to Ohio port authorities such as the Authority.

A. Statutory and Special Revenues Liens under the Bankruptcy Code
The authorizing statute (Ohio Rev. Code Section 4582.48) for the Authority's revenue bonds, as a port authority, provides for the immediate imposition of a lien on port authority revenues pledged to payment of the Bonds. KBRA understands that such provisions may create a statutory lien under applicable U.S. Bankruptcy law, which would mean that bondholders would likely be treated as secured creditors in a bankruptcy proceeding of the Authority, independently of whether there is a special revenues lien (discussed below). However, to KBRA's knowledge this Ohio statutory lien provision, which is not as clear as more recent statutory lien legislation, has yet to be applied by any reported bankruptcy court decision, and thus this potential result for bondholders in such a case remains uncertain. In addition, unlike a special revenues lien, a statutory lien is not exempted from the automatic stay arising on the filing of a Chapter 9 petition. Accordingly, a statutory lien does not prevent default. Nonetheless, a statutory lien should reduce the ultimate bankruptcy risk of non-recovery on the Bonds if, by having a statutory lien, the owners were treated as secured creditors in a bankruptcy proceeding of the Authority.

Separate from the matter of a statutory lien, because the Net Revenues pledged for payment of the Bonds are generated by the various charges, landing fees, rentals, use charges, concession and other revenues of John Glenn International Airport (CMH) and Bolton Field (collectively the "Airports"), KBRA understands, based on consultation with external counsel, that such Net Revenues should qualify as "special revenues" as that term is defined in the Bankruptcy Code. There are separate protections in Chapter 9 for revenue bonds that fall within those special revenues definitions. Assuming there is no shortfall of funds to make debt service, given that the Bonds are revenue bonds secured by a pledge of special revenues it is KBRA's understanding that, if the Authority were authorized to file for protection under Chapter 9, it should generally be expected that such filing should have little to no effect on the payment of the Bonds during the bankruptcy case.

That stated, there are several additional issues that arise. If the Authority were to become a debtor in a proceeding under Chapter 9 of the Bankruptcy Code, the bankruptcy court could possibly decide that (i) post-bankruptcy revenue bond payments by the Authority are merely optional and not mandatory under the special revenues provisions of the Bankruptcy Code and/or (ii) the automatic stay exception for special revenues in those provisions does not apply (including to possible enforcement action by the Trustee) or is limited to amounts then on hand with the Authority or the Trustee. If the bankruptcy court were to interpret the Bankruptcy Code in that (or a similar) fashion, the parties to the proceedings may be prohibited for an unpredictable amount of time from taking any action to collect any amount from the Authority, or from enforcing any obligation of the Authority, without the bankruptcy court's permission. However, it is KBRA's understanding that such a ruling would be contrary to historical experience in Chapter 9, and the clear intent of Congress regarding the continued payment of municipal revenue bonds post-bankruptcy, as expressed in the legislative history for the special revenues amendments to Chapter 9 and as interpreted in properly-reasoned existing (albeit limited) case precedent under Chapter 9.

Assuming the pledged Revenues are in fact determined to be "special revenues," the Bankruptcy Code provides that, to keep revenue-generating municipal assets operating, special revenues can be applied to necessary operating expenses of the project or system ahead of all other obligations – including bondholder payments. This rule applies regardless of contrary provisions of the transaction documents, if such governing documents do not adequately provide for payment of necessary operating expenses. In determining necessary operating expenses for the Airports, in a Chapter 9 case the bankruptcy court thus may not be limited by the provisions defining Operating Expenses, or otherwise governing the flow of funds, in the Indenture or other bond issuance documents.

One other issue bears mention. While there is no case law from which to make a definitive judgment, assuming the existence of a special revenues lien and/or statutory lien in favor of holders of the Bonds, KBRA understands that it is possible – in the context of confirming a Plan of adjustment in a Chapter 9 case where the Plan has not received the requisite consent of the holders of the Bonds – a bankruptcy court may confirm a plan that adjusts the timing of payments on the Bonds or the interest rate or other terms of the Bonds provided that (i) the bondholders retain their lien on the Net Revenues, and (ii) the payment stream has a present value equal to the value of the revenues subject to the statutory lien or special revenues lien, if applicable, and (iii) the bankruptcy court finds that these and any other adjustments to the Bonds' terms are fair and equitable.

B. Possible effect of an airline bankruptcy

Given that a substantial portion of the Net Revenues to be deposited in accordance with the Indenture is derived from rentals, fees and charges imposed upon the Signatory Airlines pursuant to their Airline Lease Agreements, the bankruptcy of a Signatory Airline could have an effect on the ability of the Authority to make debt service. KBRA understands that in the event a bankruptcy case is filed with respect to an airline operating at the Airports, the Airline Lease Agreements, other leases or permits governing such airline's use of space at the Airports would constitute an executory contract or unexpired lease pursuant to the United States Bankruptcy Code. In Chapter 11 cases, the debtor in possession (or a trustee, if one is appointed) has 120 days from the date of filing of the bankruptcy petition to decide whether to keep ("assume") or jettison ("reject") a nonresidential lease, such as the Airline Lease Agreement. The 120-day period may be extended by court order for an additional 90 days for cause. Any additional extensions are prohibited unless the debtor airline or trustee obtains the Authority's consent and a court order.

KBRA understands that under the Bankruptcy Code, were a bankruptcy trustee or the airline as debtor in possession to elect to reject an executory contract or unexpired lease of non-residential real property, the rejection is deemed to be a default immediately before the date of the filing of the bankruptcy petition. Under the Bankruptcy Code, upon rejection of an unexpired lease the airline debtor must surrender the relevant non-residential real property to the lessor. KBRA understands that as a result, rejection of an unexpired lease by an airline debtor may result in the Authority unexpectedly regaining control of the applicable facilities (including gates and boarding areas). The Authority could then lease or permit such facilities to other airlines. The Authority's ability to lease such facilities to other airlines may of course depend on the state of the airline industry in general, on the nature and extent of the increased capacity at the Airport resulting from the departure of the debtor airline, and on the need for such facilities.

KBRA understands that under the Bankruptcy Code, any rejection of a lease or other agreement could also result in a claim by the Authority for rejection damages against the debtor airline. Such claim would be in addition to all pre-bankruptcy amounts owed by the debtor airline. With respect to leases involving real property, a rejection damages claim for the rent due under a lease is capped under the Bankruptcy Code at the greater of one year, or 15%, not to exceed three years, of the remaining term of the lease. KBRA understands that rejection damages claims are generally treated as a general unsecured claim of the airline debtor, and could be considerably less than the cap. However, the Authority may have rights against any faithful performance bond or letter of credit required of an airline to secure its obligations under the Airline Lease Agreement and/or the right to set off against credits owed to the airline under relevant agreements.

Alternatively, KBRA understands that under the Bankruptcy Code an airline debtor can "assume" its executory contracts and unexpired leases. The Bankruptcy Code further provides for an airline debtor to assume and assign its executory contracts and leases to a third party, subject to certain conditions. KBRA understands that if the bankruptcy trustee or the airline assumes its executory contracts or unexpired leases as part of reorganization, the airline debtor must "cure" or provide adequate assurance that the airline debtor will promptly cure its prepetition defaults, including arrearages in amounts owed. Even if all such amounts owed are eventually paid, the Authority could experience delays of many months or more in collecting them.