

## Columbus Regional Airport Authority

### Issuer: Columbus Regional Airport Authority

Affirmed	Rating	Outlook
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Airport Revenue Bonds	AA-	Stable
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### Methodology

[U.S. General Airport Revenue Bond Rating Methodology](#)  
[ESG Global Rating Methodology](#)

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**Rating Summary:** KBRA affirms its long-term rating on Columbus Regional Airport Authority's ('CRAA' or 'the Authority') Airport Revenue Bonds (GARBs). The airport revenue bonds, issued under a Master Trust Indenture (MTI), are secured by a pledge of net revenues from operations at John Glenn International Airport (CMH) and Bolton Field. Net revenues generated by Rickenbacker International Airport (LCK), the Authority's primary cargo facility, are not pledged to GARBs. The Authority's fiscal year coincides with the calendar year.

The rating continues to reflect CRAA's economically diverse air trade area, which supports CMH's stable O&D traffic levels over time; healthy financial performance, highlighted by solid debt service coverage and liquidity; and a proactive management team that continues to lead CRAA through the ongoing COVID-19 pandemic. Offsetting these strengths is the unknown timing of a sustained recovery in enplanements to pre-pandemic levels and some historic volatility in passenger traffic due to airline routing and business model changes.

For the first two months in CY 2020, enplanements at CMH grew by a healthy 3.9% over the prior year period, to approximately 600 thousand. However, the impact of the

pandemic led to a precipitous decline in passengers, with April 2020 enplanement level down approximately 96.0% from April 2019. CMH enplanements began a modest recovery during the second half of CY 2020, but have yet to recover to pre-pandemic levels. For CY 2021, CMH enplanements totaled 2.9 million, a 78.4% improvement from CY 2020, with the Authority projecting an enplanement level of 3.7 million for CY 2022, approximately 86% of CY 2019 enplanements. CY 2021 cost per enplanement, reflecting the sharp decline in passenger activity in 2020, is estimated at \$10.58.

CRAA's operations rebounded in CY 2021, driven by the increasing demand for air service and travel, with solid (39.6%) YoY growth in total operating revenues from both airline (54.9%) and non-airline sources (13.1%). CRAA's CY 2022 operating revenues (\$126 million with \$97.4 million generated from CMH) are budgeted to increase by 15.2% over CY 2021 estimate, though the ability to achieve such levels is contingent upon realizing the projected recovery in passenger activity. Performance to date, for the period ending April 30, 2022, indicates a favorable operating revenue budget variance of \$4.5 million, although air freight, grounding handling fees and hotel revenues have been lower than expected due to lower cargo volumes, aircraft landed weights and lower occupancy and room rates at the on-airport hotels. Budgeted operating expenses have also experienced a favorable budget variance, coming in \$1.9 million lower than expected, although this is a result of job vacancies and lower hotel costs due to lower occupancy.

Healthy liquidity provides an important source of flexibility for CRAA. Unrestricted cash & investments at CYE 2021 totaled \$188.1 million, approximately 1,214 days cash on hand. As of April 2022, liquidity position has increased to \$212 million including the \$120 million set aside in the New Terminal Reserve Fund but is available if necessary to fund operations. The Authority projects to use \$23.6 million of the eligible \$80.8 million in pandemic-related federal aid in CY 2022 to bolster operations. The remaining \$23.4 million will be used towards CY 2023 and CY 2024 operations.

The Authority's consistently low leverage, relative to similarly sized facilities, reflects its long-standing practice to fund capital needs primarily from internal sources, federal and state grants, and/or PFCs rather than debt. As such, CRAA's Capital Improvement Program (CIP) is notable for its limited reliance on debt financing, with internally generated funds, federal grants, and PFCs typically funding the bulk of CIP projects. CRAA's CY 2022-2027 CIP is no different and includes forecasted spending of \$445.5 million, nearly 31% of which is tied to a consolidated rental car facility (CONRAC) at CMH. KBRA rated the \$94.3 million of customer facility charge (CFC) revenue bonds issued in May 2019 to finance this facility. Please refer to KBRA's [report](#) published March 18, 2020, and surveillance [report](#) published March 29, 2022. CFC bonds are secured by and payable from CFC revenues and have no claim on general airport revenues. Over the longer term, borrowing for a new passenger terminal may occur, with timing dependent on capacity and existing asset longevity.

The Authority benefits from other credit strengths, including a largely O&D passenger base, airline carrier diversity, and historically, pre-pandemic, upward trending enplanement levels, though modest monthly and annual traffic volatility is possible, largely tied to airline scheduling decisions and, more broadly, hub strategy. An additional strength is the economically diverse service area, which features 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 Stable Outlook reflects the continuing recovery to date in passenger traffic, the impact of substantial federal assistance to offset reduced airline and concession activity, and the Authority's strong liquidity position which provides an important buffer against future pandemic related uncertainties including new viral variants. The outlook additionally reflects the expectation that non-airline revenues will recover to pre-pandemic levels proportionate to operating levels.

### Key Credit Considerations

The rating was affirmed because of the following key credit considerations:

#### Credit Positives

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

#### Credit Challenges

- Uncertainty remains for post-pandemic passenger activity recover. A COVID-19 variant that causes recovery to reverse could weigh negatively on financial performance.
- Enplanement activity that has historically been somewhat volatile, largely reflecting air carrier business model shifts and evolving hub strategies.

### Rating Sensitivities

- Rapid and sustained recovery in enplanement growth with accompanying strong performance of aviation and non-aviation revenues, resulting in strengthened operating performance and liquidity growth. **+**
- Prolonged recovery in passenger traffic, potentially leading to a narrowing of operating margin and debt service coverage. **-**
- While not expected, an erosion in liquidity or the issuance of debt leading to reduced financial flexibility and airline costs materially above current levels. **-**

Key Airport Ratios			
FYE December 31			
	2019	2020	2021
<b>Airport Activity</b>			
Top carrier by market share (Southwest)	33.0%	35.0%	33.3%
CMH Enplanements	4,314,619	1,628,255	2,905,442
YOY Change	5.9%		
<b>Summary Statement of Income (\$ in millions)</b>			
Operating Revenues	\$ 129.3	\$ 79.8	\$ 111.4
Operating Expenses Before Depreciation	\$ 93.6	\$ 76.2	\$ 56.5
Net Income	\$ 35.7	\$ 3.6	\$ 54.9
Operating Margin	27.6%	4.5%	49.3%
<b>Per Passenger Enplanement (PPE) Operating Ratios</b>			
Airline Revenue PPE	\$ 8.41	\$ 17.94	\$ 11.37
Non-Airline Revenue PPE	\$ 21.55	\$ 31.07	\$ 26.97
Operating Expenditures PPE	\$ 21.70	\$ 46.80	\$ 19.45
Airline Cost PPE	\$ 7.72	\$ 16.52	\$ 10.58
<b>Liquidity</b>			
Days Cash on Hand <sup>1</sup>	388	748	1214
<b>Debt and Leverage Ratios</b>			
Debt Per Enplanement <sup>2</sup>	\$ 14.1	\$ 31.0	\$ 13.7
Debt Service Coverage <sup>2</sup>			
Calculated Per Trust Indenture	2.74x	1.76x	4.98x
As Presented in Airport Financials	2.15x	2.43x	5.64x

Source: Columbus Regional Airport Authority

<sup>1</sup>Operating expenses per CAFR; calculation uses unrestricted C&I.

<sup>2</sup>Includes GARBs only.



**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

Detailed reviews of the above-referenced Rating Determinants can be found in KBRA’s [report](#) dated January 13, 2021. Updates to CRAA’s ESG Management can be found in KBRA’s [report](#) on the Authority’s CFCs dated March 29, 2022. The following discussion updates Rating Determinants 3 and 5.

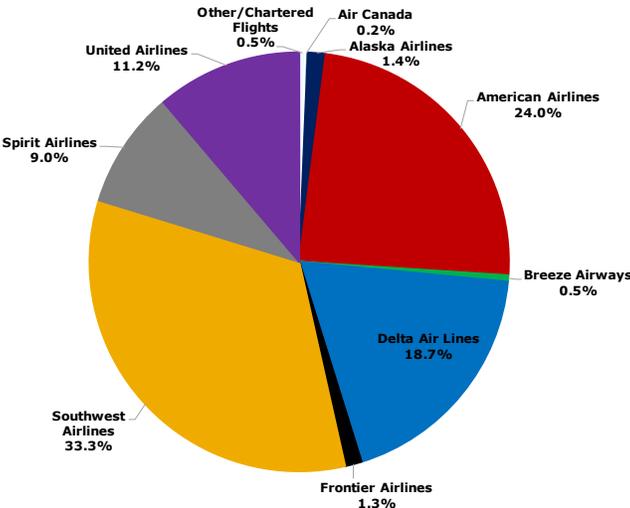
**RD 3 Update: Airport Utilization**

CRAA’s airports include commercial facilities (CMH and LCK) and small general aviation, reliever airport (Bolton Field). Located six miles east of the central business district, CMH is a medium-sized hub airport serving the City and, more broadly, central Ohio. LCK is a major cargo facility located approximately 15 miles from the city’s central business district. Year round and seasonal flights by Allegiant Airlines generate LCK’s only passenger traffic. Operations of LCK are not part of the MTI.

**Air Carrier Concentration**

CMH is almost exclusively origin and destination (O&D), with varied market share among its airlines. In CY 2021, the three largest carriers were Southwest, American and Delta. KBRA believes that such broad carrier participation is indicative of a generally stable airline mix.

**Figure 1**  
Airline Market Share in CY 2021



Source: CRAA

**Enplanements**

Consistent with the experience of many U.S. airports, the onset of the global pandemic materially impacted air travel both domestically and internationally with enplanements declining by a precipitous 42.8% between February 2020 and March 2020, to 161,672, with an even more severe 91.5% decline between March 2020 and April 2020. After bottoming out in April 2020, CMH enplanements began a slow recovery, but have yet to recover to the pre-pandemic 2019 level as passenger volumes experienced volatility coinciding with surges of the COVID-19 variants. For CY 2021, CMH enplanements totaled 2.9 million, a 32.7% decline from CY 2019 but a 78.4% improvement from CY 2020. For the full CY 2022, the Authority projects a 27.8% increase in enplanement, to approximately 3.7 million, which represents 86% of CY 2019 enplanements.

Figure 2

Monthly Airport Enplanement Activity							
	2019	Δ YOY	2020	Δ YOY	2021	Δ YOY	2022
January	283,532	4.4%	296,017	-64.5%	104,967	105.5%	215,750
February	293,744	3.5%	303,880	-63.1%	112,115	109.0%	234,310
March	392,410	-58.8%	161,672	23.2%	199,131	68.4%	335,395
April	345,374	-96.0%	13,693	1334.8%	196,466		
May	391,558	-90.4%	37,494	560.2%	247,549		
June	392,064	-78.5%	84,119	242.0%	287,719		
July	387,964	-69.4%	118,616	167.8%	317,602		
August	362,201	-68.6%	113,705	135.3%	267,507		
September	346,862	-69.5%	105,739	160.9%	275,889		
October	392,111	-65.5%	135,420	122.1%	300,835		
November	350,291	-64.2%	125,388	133.2%	292,374		
December	376,508	-64.8%	132,512	128.9%	303,288		
<b>Total Year</b>	<b>4,314,619</b>		<b>1,628,255</b>		<b>2,905,442</b>		<b>785,455</b>

Source: Columbus Regional Airport Authority

## RD 5 Update: Airport Finances

### CY 2021 Financial Performance

CRAA's operations rebounded in CY 2021, driven by the increasing demand for air service and travel, with solid (39.6%) YoY growth in total operating revenues from both airline (54.9%) and non-airline sources (13.1%). CY 2021 total operating revenues of \$111.4 million yielded a surplus, excluding depreciation, of \$54.8 million, or a margin of 49.2%. Non-airline revenue streams annually contribute a significant 70% or more to CRAA's operations with parking, CRAA's largest non-airline funding source, representing 26% of CY 2021 total operating revenues and concessions representing 17.8%. Net income generated by an on-airport, CRAA owned hotel property increased by \$1.5 million, to \$1.7 million (75.8% of CY 2019 levels), in CY2021, providing some diversification to non-airline revenues. Airline revenues, which account for a much smaller, though still meaningful one third of CRAA's annual operations, grew by 1.8% CAGR between CY 2016 and CY 2021, to \$33 million. Operating Expenses declined by 25.8% YoY despite increases in purchased services, hotel services and materials and supplies. These expenses were offset by the drastic decline in employee wages and benefits (by 66.1% or \$27.7 million) as the Authority recognized a reduction in OPEB expense of \$18.7 million reflecting changes in accounting standards.

Figure 3

Columbus Regional Airport Authority						
Statement of Revenues, Expenses and Changes in Net Position						
CY 12/31 (\$'000's)						
	2016	2017	2018	2019	2020	2021
<b>Operating Revenues</b>						
Parking Revenue	34,821	36,006	38,694	42,944	17,045	28,930
Concession Revenue	21,791	21,800	23,151	26,791	14,548	19,772
Cargo Operations Revenue	5,338	6,488	7,791	7,893	8,206	11,696
Hotel Operations Revenue	4,605	4,492	4,615	4,856	1,579	5,475
General Aviation Revenue	3,276	3,524	3,631	3,919	3,271	3,874
Foreign Trade Zone Fees	326	320	310	308	303	328
Other Revenues	3,846	4,820	5,869	6,258	5,635	8,274
Non-Airline Revenue	74,003	77,451	84,061	92,968	50,587	78,349
Airline Revenue	30,215	35,125	32,676	36,297	29,215	33,042
<b>Total Operating Revenues</b>	<b>104,218</b>	<b>112,575</b>	<b>116,738</b>	<b>129,266</b>	<b>79,802</b>	<b>111,392</b>
<b>Operating Expenses</b>						
Employee Wages & Benefits	37,606	42,287	43,310	48,137	41,911	14,225
Purchased Services	31,137	35,124	36,750	37,064	28,587	33,500
Hotel Services	2,437	2,487	2,576	2,669	1,401	3,818
Other Expenses	4,745	3,990	5,350	5,737	4,318	5,020
<b>Total Operating Expenses</b>	<b>75,926</b>	<b>83,889</b>	<b>87,986</b>	<b>93,607</b>	<b>76,217</b>	<b>56,563</b>
Depreciation Expense	44,160	46,107	47,232	48,800	49,283	50,717
<b>Operating Surplus/Deficit*</b>	<b>28,292</b>	<b>28,686</b>	<b>28,751</b>	<b>35,658</b>	<b>3,585</b>	<b>54,829</b>
Operating Margin*	27.1%	25.5%	24.6%	27.6%	4.5%	49.2%

\*Excluding Depreciation

Source: CRAA CAFR

Per indenture reporting, CY 2021 debt service coverage was a healthy 4.98x. Coverage is above the longstanding favorable trend.

Figure 4

<b>Columbus Regional Airport Authority (CMH &amp; TZR Only)</b>					
<b>Debt Service Coverage Calculated Per Trust Indenture</b>					
<b>CY 12/31</b>					
<i>(\$ in thousands)</i>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Gross Revenues	\$99,252	\$101,630	\$111,080	\$84,184	\$98,522
Total Expenses	71,566	72,922	78,826	63,044	40,713
Net Revenues	27,686	28,708	32,254	21,140	57,809
Interest Income on Reserves	(634)	(692)	(964)	(1,050)	(669)
Amount Available for DS	<b>\$27,052</b>	<b>\$28,016</b>	<b>\$31,290</b>	<b>\$20,089</b>	<b>\$57,140</b>
Principal	9,378	9,966	10,152	10,342	10,595
Interest	1,643	1,460	1,274	1,084	887
<b>Total Debt Service*</b>	<b>\$11,021</b>	<b>\$11,426</b>	<b>\$11,426</b>	<b>\$11,426</b>	<b>\$11,482</b>
<b>DEBT SERVICE COVERAGE</b>	<b>2.45</b>	<b>2.45</b>	<b>2.74</b>	<b>1.76</b>	<b>4.98</b>

\*Airport Revenue Bonds (GARBs)

Source: CRAA

During the five years preceding the COVID-19 pandemic, CRAA's cost per enplaned passenger (CPE) averaged a low \$7.64 per enplanement. The impact of the pandemic-induced reduction in passenger activity in the last two years increased the CPE in CY 2020 to \$16.52 and \$10.58 in CY 2021.

Figure 5

<b>Columbus Regional Airport Authority</b>					
<b>Airline Cost Per Enplanement (CMH)</b>					
<b>CY 12/31</b>					
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
OPERATING REVENUES (\$000's)					
Airline Cost for the Airfield Area	15,813	17,516	19,099	14,602	18,708
Airline Cost for the Terminal Building	16,610	17,803	17,258	14,917	13,609
Airline Cost for the Aircraft Parking Area	4,072	4,428	4,170	3,828	3,318
General Airline Credit	(5,884)	(5,722)	(5,485)	(6,445)	(4,898)
Supplemental Airline Credit	(1,000)	(1,750)	(1,750)	-	-
<b>Total Airline Cost</b>	<b>29,611</b>	<b>32,275</b>	<b>33,292</b>	<b>26,902</b>	<b>30,737</b>
Enplanements (000)	3,785	4,076	4,315	1,628	2,905
<b>Airline Cost per Enplaned Passenger (\$)</b>	<b>7.82</b>	<b>7.92</b>	<b>7.72</b>	<b>16.52</b>	<b>10.58</b>

Source: CRAA CAFR

The Authority maintains healthy levels of liquidity, which provides flexibility to manage unexpected revenue interruptions or costs increases. At CYE 2021, unrestricted cash & investments totaled \$188.1 million, including \$94.8 million of current unrestricted cash and investments. Restricted cash and investments, representing PFC and CFC balances, totaled \$56.1 million at CYE 2021.

The Authority has been allocated \$80.8 million of pandemic-related federal aid: \$33.8 million in funds from the Coronavirus Aid Recovery and Economic Security (CARES) Act, \$11.6 million in funds from the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and \$35.4 million in funds from the American Rescue Plan Act (ARPA). These funds have been used to supplement operations and offset the pandemic-induced activity-based revenue declines. After CY 2022, CRAA expects to have \$23.4 million remaining which will be used towards CY 2023 and CY 2024 operations.

## 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 if such a lien were found by a bankruptcy court 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 that appear to be 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 usually 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 should 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.

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